

DECISIONS

COUNCIL IMPLEMENTING DECISION

of 7 December 2010

on granting Union financial assistance to Ireland

(2011/77/EU)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism ⁽¹⁾, and in particular Article 3(3) thereof,

Whereas:

(1) Ireland has recently come under increasing pressure in financial markets, reflecting rising concerns about the sustainability of the Irish public finances in view of comprehensive public support measures to the weakened financial sector. Due to its excessive exposure to real estate and construction projects, the domestic banking system has experienced large losses in the aftermath of the collapse of those sectors. The current crisis in the economic and banking sectors has also had a dramatic impact on Ireland's public finances, compounding the impact of the recession. Falling tax revenue and an increase in cyclical expenditure, in particular due to rising unemployment, have contributed to a high general government deficit and a steep increase in debt, compared to the favourable pre-crisis positions and despite the implementation of five important fiscal consolidation packages since mid-2008. Support measures for the banking sector, including significant capital injections, have added greatly to the deterioration in the public finance position. Current market concerns primarily reflect the fact that the solvency of the Irish sovereign and the banking system have become inextricably linked in the crisis; they have led to a steep increase in Irish sovereign bond yields, while the domestic banking system is effectively cut off from international market funding.

(2) In view of this severe economic and financial disturbance caused by exceptional occurrences beyond the control of the government, the Irish authorities officially requested financial assistance from the European Union, the

Member States whose currency is the euro and the International Monetary Fund (IMF) on 21 November 2010 with a view to supporting the return of the economy to sustainable growth, ensuring a properly-functioning banking system and safeguarding financial stability in the Union and in the euro zone. On 28 November 2010, an agreement at technical level was reached in respect of a comprehensive policy package for the period 2010-2013.

(3) The draft economic and financial adjustment programme (the 'Programme') submitted to the Council and the Commission aims at restoring financial market confidence in the Irish banking sector and the sovereign, enabling the economy to return to sustainable growth. To achieve these goals, the Programme contains three main elements. First, a financial sector strategy which comprises fundamental downsizing, deleveraging and reorganisation of the banking sector, complemented by appropriate recapitalisation to the extent needed. Second, an ambitious fiscal consolidation strategy, building on the National Recovery Plan 2011-2014 published by the Irish authorities on 24 November 2010. The plan sets out detailed fiscal consolidation measures aiming at putting gross public debt on a firm downward path in the medium term. The authorities are committed to reducing the deficit to below 3 % of GDP by 2015, the revised deadline set by the Council on 7 December 2010. Third, also building on the National Recovery Plan, the Programme sets out an ambitious structural reform agenda, notably in the labour market, with a view to facilitating adjustment and strengthening the economy's growth potential. In support of this ambitious policy package, the Irish authorities are requesting financial assistance from the Union and the Member States whose currency is the euro, and bilateral loans from the United Kingdom, Sweden, Denmark and the IMF.

(4) Under the Commission's current projections for nominal GDP growth (1,4 % in 2011, 2,7 % in 2012 and 3,8 % in 2013), the fiscal adjustment path specified in Council Recommendation of 7 December 2010 with a view to bringing to an end the situation of an excessive deficit

⁽¹⁾ OJ L 118, 12.5.2010, p. 1.

in Ireland is consistent with a path for the debt-to-GDP ratio of 98,9 % in 2010, 113,5 % in 2011, 120,0 % in 2012 and 121,8 % in 2013. The debt-to-GDP ratio would therefore be stabilised in 2013 and be placed on a declining path thereafter, assuming further progress in the reduction of the deficit. Debt dynamics are affected by several below-the-line operations, which are projected to increase the debt-to-GDP ratio by 5,3 percentage points (pps.) of GDP in 2011 and 0,8 pps. of GDP in 2012, and to reduce it by 1,3 pps. of GDP in 2013. These include projected capital injections into banks in 2011, reductions in cash reserves, and differences between accrued and cash interest payments.

- (5) The assessment by the Commission, in liaison with the European Central Bank (ECB), is that Ireland needs financing of a total amount of EUR 85 billion (85 000 million) over the period from December 2010 to the end of 2013. Notwithstanding the significant fiscal adjustment, the financing gap for the sovereign may amount to EUR 50 billion over the period of the Programme. This assumes roll-over rates for maturing long-term debt of 0 % until the end of 2011, 20 % in 2012, and 80 % in 2013. Conservative roll-over assumptions are also made regarding short-term debt. The financial sector strategy contained in the Programme to restore confidence in the Irish banking system on a sustainable basis contains a banking support scheme of up to EUR 35 billion. This comprises an immediate capital injection of up to EUR 10 billion into selected banks to bring their core tier 1 capital ratio to 12 %, while also funding early measures to support deleveraging and taking account of haircuts on the additional loans to be transferred to the National Asset Management Agency (NAMA). Further provisions of contingency capital of EUR 25 billion should provide assurance that banks are able to meet current and future capital requirements. Actual funding needs may, however, be substantially lower, in particular if market conditions improve significantly and no severe unexpected banking losses materialise during the period of the Programme.
- (6) The Programme would be financed through contributions from external sources and the use of Irish financial buffers. The Union's assistance to Ireland would reach up to EUR 22,5 billion under the European financial stabilisation mechanism (EFSM) established by Regulation (EU) No 407/2010. This would be part of total support provided by Ireland's European partners amounting to EUR 45 billion. Further to the support from the EFSM, loans from Ireland's partner countries in the Union would include contributions from the European Financial Stability Facility (EUR 17,7 billion), and bilateral lending support from the United Kingdom, Sweden, and Denmark (EUR 4,8 billion in total). In addition, Ireland has requested a loan from the IMF of 19,5 billion Special Drawing Rights (equivalent to around EUR 22,5 billion) under an Extended Fund Facility. The Irish contribution would be EUR 17,5 billion, and would

come from the use of the existing Treasury cash reserve and contributions from the National Pensions Reserve Fund. The support from the EFSM needs to be supplied on terms and conditions similar to those of the IMF.

- (7) The Council should review on a regular basis the economic policies implemented by Ireland, in particular in the context of the annual reviews of Ireland's update of the stability programme and implementation of the National Reform Programme, as well as under the excessive deficit procedure.
- (8) The Union financial assistance should be managed by the Commission. The specific economic policy conditions agreed with Ireland should be laid down in a Memorandum of Understanding on Specific Economic Conditionality (the 'Memorandum of Understanding'). The detailed financial terms should be laid down in a Loan Facility Agreement.
- (9) The Commission, in consultation with the ECB, should verify at regular intervals that the economic policy conditions attached to the assistance are fulfilled, through missions and regular reporting by the Irish authorities, on a quarterly basis.
- (10) Throughout the implementation of the Programme, the Commission should provide additional policy advice and technical assistance in specific areas.
- (11) The operations which the Union financial assistance helps to finance must be compatible with Union policies and comply with the law of the Union. Interventions in support of financial institutions must be carried out in accordance with the Union's rules on competition. The Commission, working together with the ECB and the IMF, intends to involve Member States as appropriate in the design and implementation of the prudential liquidity assessment (PLAR) and in the development of the strategy for the future structure, functioning and viability of Irish credit institutions.
- (12) The assistance should be provided with a view to supporting the successful implementation of the Programme,

HAS ADOPTED THIS DECISION:

Article 1

1. The Union shall make available to Ireland a loan amounting to a maximum of EUR 22,5 billion, with a maximum average maturity of 7½ years.

2. The financial assistance shall be made available during 3 years starting from the first day after the entry into force of this Decision.

3. The Union financial assistance shall be made available by the Commission to Ireland in a maximum of 13 instalments. An instalment may be disbursed in one or several tranches. The maturities of the tranches under the first instalment may be longer than the maximum average maturity referred to in paragraph 1. In such cases, the maturities of further tranches shall be set so that the maximum average maturity referred to in paragraph 1 be achieved once all instalments have been disbursed.

4. The first instalment shall be released subject to the entry into force of the Loan Agreement and the Memorandum of Understanding. Any subsequent loan releases shall be conditional upon a favourable quarterly assessment by the Commission, in consultation with the ECB, of Ireland's compliance with the general economic policy conditions as defined by this Decision and the Memorandum of Understanding.

5. Ireland shall pay the actual cost of funding of the Union for each tranche plus a margin of 292,5 basis points, which results in conditions similar to those of the IMF support.

6. In addition, costs referred to in Article 7 of Regulation (EU) No 407/2010 shall be charged to Ireland.

7. If required in order to finance the loan, the prudent use of interest rate swaps with counterparties of the highest credit quality shall be permitted.

8. The Commission shall decide on the size and release of further instalments. The Commission shall decide on the size of the tranches.

Article 2

1. The assistance shall be managed by the Commission in a manner consistent with Ireland's undertakings and with recommendations by the Council, in particular the Recommendations addressed to Ireland in the context of the implementation of its National Reform Programme as well as in the context of the implementation of the Stability and Growth Pact.

2. The Commission, in consultation with the ECB, shall agree with the Irish authorities the specific economic policy conditions attached to the financial assistance as set out in Article 3. Those conditions shall be laid down in a

Memorandum of Understanding to be signed by the Commission and the Irish authorities consistent with the undertakings and recommendations referred to in paragraph 1. The detailed financial terms shall be laid down in a Loan Facility Agreement to be concluded with the Commission.

3. The Commission, in consultation with the ECB, shall verify at regular intervals that the economic policy conditions attached to the assistance are fulfilled, and report to the Economic and Financial Committee before disbursement of each instalment. To this end, the Irish authorities shall cooperate in full with the Commission and the ECB, and shall place all the necessary information at their disposal. The Commission shall keep the Economic and Financial Committee informed of possible refinancing of the borrowings, or restructuring of the financial conditions.

4. Ireland shall adopt and implement additional consolidation measures to ensure macro-financial stability, in case such measures will be necessary during the programme of assistance. The Irish authorities shall consult the Commission and the ECB in advance of the adoption of any such additional measures.

Article 3

1. The economic and financial adjustment programme (the 'Programme') prepared by the Irish authorities is hereby approved.

2. The disbursement of each further instalment shall be made on the basis of a satisfactory implementation of the Programme to be included in the Stability Programme of Ireland, in the National Reform Programme and, more particularly, the specific economic policy conditions laid down in the Memorandum of Understanding. These shall include, inter alia, the measures provided for in paragraphs 4 to 9 of this Article.

3. The general government deficit shall not exceed 10,6 % of projected GDP in 2011, 8,6 % of GDP in 2012 and 7,5 % of GDP in 2013, in order to place Ireland on track to reduce the deficit to below 3 % of GDP by 2015. The projected annual deficit path does not incorporate the possible direct effect of potential bank support measures in the context of the government's financial sector strategy as set out in the Memorandum of Economic and Financial Policies and specified in the Memorandum of Understanding. Further, this path is consistent with the preliminary view of the Commission (Eurostat) on the ESA95 accounting treatment of time of recording of interest payments on promissory notes payable to Anglo Irish Bank⁽¹⁾, such that a revision of that view would result in a revision of the deficit path.

⁽¹⁾ See http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/methodology/advice_member_states

4. Ireland shall adopt the measures specified in paragraphs 7 to 9 before the end of the indicated year, with exact deadlines for the years 2011-2013 being specified in the Memorandum of Understanding. Ireland shall stand ready to take additional consolidation measures to reduce the deficit to below 3 % of GDP by 2015 in case downside risks to the deficit targets specified in paragraph 3 of this Article materialise.

5. With a view to restoring confidence in the financial sector, Ireland shall adequately recapitalise, rapidly deleverage and thoroughly restructure the banking system as set out in the Memorandum of Understanding. In that regard, Ireland shall develop and agree with the European Commission, the ECB and the IMF a strategy for the future structure, functioning and viability of the Irish credit institutions which will identify how to ensure that they are able to operate without further state support. In particular, Ireland shall:

- (a) take action to ensure that Allied Irish Banks, Bank of Ireland, Educational Building Society and Irish Life and Permanent are recapitalised in the form of equity, if needed, so as to ensure that the minimum capital requirement of 10,5 % core tier 1 capital will be maintained, depending on the results of the Prudential Capital Adequacy Review for 2011;
- (b) implement the divestiture of participations in banks acquired during the crisis within the shortest timeframe possible, in a manner compatible with financial stability and public finance considerations;
- (c) implement a specific plan for the resolution of Anglo Irish Bank and Irish Nationwide Building Society, which will seek to minimise capital losses arising from the working out of these non-viable credit institutions;
- (d) by the end of 2010, submit draft legislation to the *Oireachtas* (Parliament) on financial stabilisation and restructuring of credit institutions which will, inter alia, address burden sharing by subordinated debt bond holders;
- (e) by the end of March 2011, submit draft legislation to the *Oireachtas* on a special resolution regime for banks and building societies, and improved procedures for early intervention in distressed banks by the Central Bank of Ireland.

6. Ireland shall adopt the following measures before the end of 2010:

Adoption of a budget for 2011 including fiscal consolidation measures in a total amount of EUR 6 billion aiming at a reduction of the general government deficit within the timeframe referred to in paragraph 3. The budget shall include revenue measures to raise at least EUR 1,4 billion in 2011, including a lowering of personal income tax bands and credits or equivalent measures to yield EUR 945 000 000 in 2011; a reduction in pension tax relief and pension related deductions to yield EUR 155 000 000 in 2011; a reduction in general tax expenditures to yield EUR 220 000 000 in 2011; increases in excises and miscellaneous tax measures to raise EUR 80 000 000 in 2011. In addition, the budget shall specify that the government will outline methods to raise at least EUR 700 000 000 in one-off and other measures in 2011. The budget shall also include a reduction of current expenditure in 2011 of at least EUR 2,09 billion, including: social protection expenditure reductions; a reduction of public service employment; a reduction of existing public service pensions on a progressive basis averaging over 4 %; other expenditure savings, including cuts in goods and services spending and in other transfer payments; a reduction of at least EUR 1,8 billion in public capital expenditure against existing plans for 2011. In exceptional circumstances, other measures yielding comparable savings shall be considered, in close consultation with the Commission.

7. Ireland shall adopt the following measures during 2011, in line with specifications in the Memorandum of Understanding:

- (a) a 10 % pay reduction for new entrants to the public service. The Irish government shall also consider an appropriate adjustment, including in relation to the public service wage bill, to compensate for potential shortfalls from projected savings from administrative efficiencies and public service numbers reductions;
- (b) the adoption of a budget for 2012 including fiscal consolidation measures amounting to at least EUR 3,6 billion and aiming at a reduction of the general government deficit within the timeframe referred to in Article 3(3). The draft budget shall, in particular, include revenue measures to yield EUR 1,5 billion in a full year including, inter alia: a lowering of personal income tax bands and credits; a reduction in private pension tax relief; a reduction in general tax expenditure; a new property tax; a reform of capital gains tax and capital acquisitions tax; and, an increase in the carbon tax. The budget shall provide for a reduction of expenditure in 2012 of EUR 2,1 billion including social expenditure reductions; cuts in public sector employment; adjustments in public sector pensions and in other expenditure set out in the Programme; and reductions in capital expenditure;

- (c) the finalisation of an independent assessment of transfer of responsibility for water services provision from local authorities to a water utility, and preparation of proposals for implementation with a view to starting charging in 2012-2013;
- (d) the adoption of legislation to increase the state pension age to 66 years in 2014, 67 in 2021, and 68 in 2028, with a view to enhancing the long-term sustainability of the public finances. Further, pension entitlements for new entrants to the public service shall be reformed with effect from 2011. This shall include a review of accelerated retirement for certain categories of public servants and an indexation of pensions to consumer prices. Pensions shall be based on career average earnings. New entrants' retirement age shall be linked to the state pension retirement age;
- (e) the adoption of measures reinforcing a credible budgetary strategy and strengthening the budgetary framework. Ireland shall adopt and implement the fiscal rule that any additional unplanned revenues in the period 2011-2015 will be allocated to deficit and debt reduction. In accordance with the proposal set out in the National Recovery Plan 2011-2014, Ireland shall establish a budgetary advisory council to provide an independent assessment of the government's budgetary position and forecasts. Ireland shall adopt a fiscal responsibility law introducing a medium-term expenditure framework with binding multi-annual ceilings on expenditure in each area. This shall be adopted taking into account any revised economic governance reforms at the level of the Union and shall build on reforms already in place;
- (f) Ireland shall adopt legislative changes to remove restrictions to trade and competition in sheltered sectors including the legal profession, medical services and the pharmacy profession;
- (g) the recapitalisation of Irish domestic banks to an initial level of 12 % core tier 1 capital, taking account of haircuts on the additional loans to be transferred to NAMA, and funding of early deleveraging by making available EUR 10 billion in the system. The recapitalisation shall take the form of equity shares (or equivalent instruments for the Educational Building Society);
- (h) the introduction of legislation to reform the minimum wage in such a way to foster job creation and act to prevent distortions caused by sectoral minimum wages, and undertaking, in agreement with the Commission, an independent review of the framework Registered Employment Agreements and Employment Regulation Orders;
- (i) a reform of the unemployment benefit system to enhance incentives for an early exit from unemployment. Activation measures shall be strengthened by better identifying job seekers' needs, enhancing engagement, and developing sanctions to ensure job search or training by beneficiaries; this shall be underpinned by more effective monitoring. The sanctions mechanism shall be set to cause an effective loss of income without being excessively penal;
- (j) the publication of an in-depth review of the personal debt regime, and start of work on a reform of legislation which will balance the interests of both creditors and debtors;
- (k) the preparation of a report providing an independent assessment of the electricity and gas sectors to assist with public financing needs, as well as to increase competition. The Irish authorities shall consult with the Commission on the results of this assessment with a view to setting appropriate targets;
- (l) enhancing competition in open markets; legislation shall be reformed to generate more credible deterrence by providing for the possible imposition of fines and other sanctions in competition cases. In addition, the competition authorities will be required to identify sectors which are effectively outside the scope of competition law and identify processes to address those exclusions;
- (m) encouraging growth in the retail sector; the government will conduct a study to examine the economic impact of eliminating the current cap on the size of retail premises with a view to enhancing competition and lowering prices for consumers. Implementation of the policy of the study will be discussed with the Commission.
8. Ireland shall adopt the following measures during 2012, in line with specifications in the Memorandum of Understanding:
- (a) the adoption of a budget for 2013 including fiscal consolidation measures amounting to at least EUR 3,1 billion aiming at a reduction of the general government deficit within the timeframe referred to in Article 3(3). In particular, the budget shall include revenue measures to raise at least EUR 1,1 billion (inclusive of carryover from 2012), including: a lowering of personal income tax bands and credits; a reduction in private pension tax relief; a reduction in general tax expenditures and an introduction of property tax. The budget shall also provide for a reduction in expenditure in 2013 of at least EUR 2 billion, including: social expenditure reductions; a reduction of public service employment; public service pension adjustments; cuts in other expenditure set out in the Programme; and reductions in capital expenditure;

(b) the submission of legislation to the *Oireachtas* to reform the personal debt regime with a view to ensuring a better balance of the interests of both creditors and debtors.

9. In order to ensure the smooth implementation of the Programme's conditionality, and to help to correct imbalances in a sustainable way, the Commission shall provide continued advice and guidance on fiscal, financial market and structural reforms. Within the framework of the assistance to be provided to Ireland, together with the IMF and in liaison with the ECB, it shall periodically review the effectiveness and economic and social impact of the agreed measures, and shall recommend necessary corrections with a view to enhancing growth and job creation, securing the necessary fiscal consolidation and minimising harmful social impacts, particularly regarding the most vulnerable members of Irish society.

Article 4

Ireland shall open a special account with the Central Bank of Ireland for the management of the Union financial assistance.

Article 5

This Decision is addressed to Ireland.

Article 6

This Decision shall be published in the *Official Journal of the European Union*.

Done at Brussels, 7 December 2010.

For the Council

The President

D. REYNERS
