

DECISIONS

COUNCIL IMPLEMENTING DECISION

of 30 May 2011

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

(2011/326/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(2) thereof,

Having regard to the proposal from the European Commission,

Whereas:

path for the debt-to-GDP ratio of 96,2 % in 2010, 112,0 % in 2011, 117,9 % in 2012 and 120,3 % 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, including capital injection into banks in 2011 with net debt-increasing effect of around 6 percentage points of GDP, an assumption to maintain high cash reserves, and differences between accrued and cash interest payments.

(1) Upon a request by Ireland, the Council granted it financial assistance (Implementing Decision 2011/77/EU ⁽²⁾) in support of a strong economic and financial reform programme aiming at restoring confidence, enabling the return of the economy to sustainable growth, and safeguarding financial stability in Ireland, the euro area and the Union.

(2) In line with Article 3(9) of Implementing Decision 2011/77/EU, the Commission, together with the International Monetary Fund (IMF) and in liaison with the European Central Bank (ECB), has conducted the first review of the authorities' progress on the implementation of the agreed measures as well as of the effectiveness and economic and social impact of those measures.

(3) Under the Commission's current projections for nominal GDP growth (– 3,6 % in 2010, 1,3 % in 2011, 2,8 % in 2012 and 4,0 % in 2013), the fiscal adjustment path is broadly in line with the Council Recommendation of 7 December 2010 with a view to bringing to an end the situation of an excessive deficit in Ireland, pursuant to Article 126(7) of the Treaty, and is consistent with a

(4) The recapitalisation of Allied Irish Bank, Bank of Ireland, and EBS Building Society to a 12 % core tier 1 capital ratio (based on the 2010 Prudential Capital Assessment Review (PCAR)), which was to be done by February 2011, was postponed by the outgoing government due to the impending general elections.

(5) On 31 March 2011, the Central Bank of Ireland announced the results of the PCAR and the Prudential Liquidity Assessment Review (PLAR). On the basis of these assessments, the four participating domestic banks (Allied Irish Bank, Bank of Ireland, EBS Building Society and Irish Life & Permanent) were found to need a total of EUR 24 billion in additional capital, including contingent capital of EUR 3 billion, to remain adequately capitalised under a stress scenario.

(6) On 31 March 2011 the new government, which was formed following the elections held on 25 February 2011, announced its strategy to strengthen and reform the domestic banks, including by ensuring that the capitalisation need identified by the PCAR/PLAR exercise be met. This would bring domestic banks' core tier 1 capital ratio by end July 2011 (subject to appropriate adjustment for expected asset sales in the case of Irish Life & Permanent) well above the level that had been envisaged to be reached by February 2011.

(7) The Central Bank of Ireland should require Allied Irish Bank, Bank of Ireland, EBS Building Society and Irish Life & Permanent to meet a target loan-to-deposit ratio (LDR) of 122,5 % by end-2013, while avoiding the fire sale

⁽¹⁾ OJ L 118, 12.5.2010, p. 1.

⁽²⁾ OJ L 30, 4.2.2011, p. 34.

of assets. In addition, the Irish authorities should closely monitor the evolution of the Net Stable Funding ratio and the Liquidity Coverage ratio of the banks so as to ensure convergence with the standards emerging within the Basel III framework. The authorities should ensure that targets are achieved by establishing a credible framework for monitoring progress based on interim targets and appropriately incentivised governance arrangements within the banks.

- (8) Upon taking office, the new government launched a comprehensive review of expenditure to identify efficiency savings and to closely align the priorities underpinning the fiscal consolidation to those for national recovery set out in the Programme for Government (2011-2016) announced on 7 March 2011.
- (9) In light of these developments, Implementing Decision 2011/77/EU should be amended,

HAS ADOPTED THIS DECISION:

Article 1

Article 3 of Implementing Decision 2011/77/EU is amended as follows:

- (1) in paragraph 5, point (a) is replaced by the following:

‘(a) take action to ensure that domestic banks are adequately capitalised in the form of equity, if needed, so as to ensure that they respect the minimum regulatory requirement of a 10,5 % core tier 1 capital ratio for the entire duration of the EU financial assistance programme, while deleveraging towards the target loan-to-deposits ratio of 122,5 % by end-2013;’

- (2) paragraph 7 is amended as follows:

- (a) in point (b) the following sentence is added:

‘In consultation with the Commission, the IMF and the ECB, Ireland may introduce budgetary changes to the above specified measures to fully realise efficiencies that are to be identified by the ongoing Comprehensive Review of Expenditure and the priorities of the Programme for Government, consistent with the overall objective of ensuring that the budget for 2012 yields a fiscal consolidation of at least EUR 3,6 billion;’

- (b) point (e) is replaced by the following:

‘(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 2011-2015 will be

allocated to deficit and debt reduction. Ireland shall establish a fiscal 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 made taking into account any revised economic governance reforms at Union level and build on reforms already in place;’

- (c) point (g) is replaced by the following:

‘(g) the recapitalisation of the domestic banks by end July 2011 (subject to appropriate adjustment for expected asset sales in the case of Irish Life & Permanent) in line with the findings of the 2011 PLAR and PCAR, as announced by the Central Bank of Ireland on 31 March 2011;’

- (d) point (l) is replaced by the following:

‘(l) enhancing competition in open markets. To this end, legislation shall be reformed to generate more credible deterrence by ensuring the availability of effective sanctions for infringements of Irish competition law and Articles 101 and 102 of the Treaty as well as ensuring the effective functioning of the Competition Authority. In addition, for the duration of the programme, the authorities will ensure that no further exemptions to the competition law framework will be granted unless they are entirely consistent with the goals of the Union financial assistance programme and the needs of the economy;’

- (e) the following points are added:

‘(n) the deleveraging of the domestic banks towards the target for loan-to-deposit ratios established under the 2011 PLAR;

(o) the preparation of a plan to underpin the solvency and viability of undercapitalised institutions in the credit union sector, including by granting the Central Bank of Ireland the necessary powers to promote a higher degree of consolidation of the sector through mergers where appropriate, with government financial support if warranted;

(p) the submission of legislation to the Oireachtas to assist the credit unions with a strengthened regulatory framework including more effective governance and regulatory requirements;’

(3) paragraph 8 is amended as follows:

‘(c) the deleveraging of the domestic banks towards the loan-to-deposit ratio targets established under the 2011 PLAR.’.

(a) in point (a), the following sentence is added:

‘In consultation with the European Commission, the IMF and the ECB, Ireland may introduce budgetary changes to the above specified measures to fully realise efficiencies that are to be identified by the ongoing Comprehensive Review of Expenditure and the priorities of the Programme for Government, consistent with the overall objective to ensure that the budget for 2013 yields a fiscal consolidation of at least EUR 3,1 billion;’.

Article 2

This Decision is addressed to Ireland.

Article 3

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

Done at Brussels, 30 May 2011.

For the Council

The President

CSÉFALVAY Z.

(b) the following point is added:
