

## **Government Statement**

### **Announcement of joint EU - IMF Programme for Ireland**

The Government today agreed in principle to the provision of €85 billion of financial support to Ireland by Member States of the European Union through the European Financial Stability Fund (EFSF) and the European Financial Stability Mechanism; bilateral loans from the UK, Sweden and Denmark; and the International Monetary Fund's (IMF) Extended Fund Facility (EFF) on the basis of specified conditions.

The State's contribution to the €85 billion facility will be €17½ billion, which will come from the National Pension Reserve Fund (NPRF) and other domestic cash resources. This means that the extent of the external assistance will be reduced to €67½ billion.

The purpose of the external financial support is to return our economy to sustainable growth and to ensure that we have a properly functioning healthy banking system.

The external support will be broken down as follows: €22½ billion from the European Financial Stability Mechanism (EFSM); €22½ billion from the International Monetary Fund (IMF); and €22½ billion from the European Financial Stability Fund (EFSF) and bilateral loans. The bilateral loans will be subject to the same conditionality as provided by the programme.

The facility will include up to €35 billion to support the banking system; €10 billion for the immediate recapitalisation and the remaining €25 billion will be provided on a contingency basis. Up to €50 billion to cover the financing of the State. The funds in the facility will be drawn down as necessary, although the amount will depend on the capital requirements of the financial system and NTMA bond issuances during the programme period.

If drawn down in total today, the combined annual average interest rate would be of the order of 5.8% per annum. The rate will vary according to the timing of the drawdown and market conditions.

The assistance of our EU partners and the IMF has been required because of the present high yields on Irish bonds, which have curtailed the State's ability to borrow. Without this external support, the State would not be able to raise the funds required to pay for key public services for our citizens and to provide a functioning banking system to support economic activity. This support is also needed to safeguard financial stability in the euro area and the EU as a whole.

#### **Programme for Support**

The Programme for Support has been agreed with the EU Commission and the International Monetary Fund, in liaison with the European Central Bank. The Programme builds on the bank rescue policies that have been implemented by the Irish Government over the past two and a half years and on the recently announced National Recovery Plan. Details of the measures are set out in the accompanying Notes for Editors.

The Programme lays out a detailed timetable for the implementation of the measures contained in the National Recovery Plan.

The conditions governing the Programme will be set out in the Memorandum of Understanding and the Government will work closely with the various bodies to ensure that these conditions are met. The funding will be provided in quarterly tranches on the achievement of agreed quarterly targets.

The Programme has two parts – the first part deals with bank restructuring and reorganisation and the second part deals with fiscal policy and structural reform. The requirement for quarterly progress reports covers both parts of the programme. When the documentation on the Programme is finalised, it will be laid before the Houses of the Oireachtas.

### **Bank Restructuring and Reorganisation**

The Programme for the Recovery of the Banking System will be an intensification of the measures already adopted by the Government. The programme provides for a fundamental downsizing and reorganisation of the banking sector so it is proportionate to the size of the economy. It will be capitalised to the highest international standards, and in a position to return to normal market sources of funding.

### **Fiscal Policy and Structural Reform**

The Ecofin has acknowledged the EU Commission's analysis that a further year may be required to achieve the 3% deficit target. This analysis is based on a more cautious growth outlook in 2011 and 2012 and the need to service the cost of additional bank recapitalisations envisaged under the programme. The Council has today extended the time frame by 1 year to 2015.

The Programme endorses the Irish Government's budgetary adjustment Plan of €15 billion over the next four years, and the commitment for a substantial €6 billion frontloading of this plan in 2011. The details of the Programme closely reflects the key objectives set out in the National Recovery Plan published last week. The adjustment will be made up of €10 billion in expenditure savings and €5 billion in taxes.

The Programme endorses the structural reforms contained in the Plan which will underpin a return to sustainable economic growth over the coming years.

The Government welcomes the support shown to Ireland by our Eurozone partners and in particular by the United Kingdom, Sweden and Denmark who have expressed their willingness to offer bilateral assistance. The Government also welcomes the assistance of the IMF.

As part of the Programme, Ireland will discontinue its financial assistance to the Loan Facility to Greece. This commitment would have amounted to approximately €1 billion up to the period to mid-2013.

28<sup>th</sup> November 2010

## **Notes for Editors – Programme Measures**

### **Fiscal Measures in the Programme**

#### **Taxation**

- Lowering of personal income tax bands and credits or equivalent measures
- A reduction in pension tax relief and pension related deductions
- A reduction in general tax expenditures
- Excise and other tax increases
- A reduction in private pension tax reliefs
- A reduction in general tax expenditures
- Site Valuation Tax to fund local services
- A reform of capital gains tax and acquisitions tax
- An increase in the carbon tax

#### **Programme Expenditure**

- Savings in Social Protection expenditure through enhanced control measures, structural reform measures, a fall in the live register and if necessary, further rate reductions.
- Increase the state pension age to 66 years in 2014, 67 in 2021 and 68 in 2028.

#### **Public Service Costs**

- Reduction of public service costs through a reduction in numbers and reform of work practices as agreed in the Croke Park Agreement.
- A reduction of existing public service pensions on a progressive basis averaging over 4% will be introduced.
- New public service entrants will also see a 10% pay reduction.
- Reform of Pension entitlements for new entrants to the public service
  - o including a review of accelerated retirement for certain categories of public servants and an indexation of pensions to consumer prices.
  - o Pensions will be based on career average earnings.
  - o New entrants' retirement age will also be linked to the state pension retirement age.

#### **Other**

- Other programme expenditure and reductions in public capital investment

#### **Structural fiscal reforms**

- a Fiscal Responsibility Law will be introduced including a medium-term expenditure framework with binding multi-annual ceilings on expenditure in each area
- Additional unplanned revenues must be allocated to debt reduction.
- The government will establish a budgetary advisory council to provide an independent assessment of the Government's budgetary position and forecasts.

- the voluntary 15 day rule for prompt payments is extended to the health service executive, local authorities and state agencies
- measures to be put in place to cap the contribution of the local government sector to general government borrowing at an acceptable level.

## **Structural reforms in the Programme**

### **Labour market adjustment**

Minimum wage:

- Reduce national minimum wage by €1.00 per hour to foster job creation for categories at higher risk of unemployment and to prevent distortions associated with sectoral minimum wages
- Enlarge the scope for the "inability to pay clause"
- An independent review of the Registered Employment Agreements and Employment Regulation Orders. Terms of Reference to be agreed with European Commission Services.
- Reform of the unemployment benefit system to incentivise early exit from unemployment.
- Steps to tackle unemployment and poverty traps including reducing replacement rates for individuals receiving more than one type of benefit (including housing allowance).
- Streamline administration of unemployment benefits, social assistance and active labour market policies, to reduce the overlapping of competencies among different departments;
- Enhanced conditionality on work and training availability;
- Reform of activation policies:
  - improved job profiling and increased engagement;
  - a more effective monitoring of jobseekers' activities with regular evidence-based reports;
  - the application of sanction mechanisms for beneficiaries not complying with job-search conditionality and recommendations for participation in labour market programmes

### **Review of the personal debt regime:**

- New legislation to be prepared which will balance the interests of both creditors and debtors.

### **Competition**

Removal of restrictions to competition in sheltered sectors including:

*Legal profession:*

- establish an independent regulator;
- implement the recommendations of the Legal Costs Working Group and outstanding Competition Authority recommendations.

*Medical Profession:*

- eliminate restrictions on the number of GPs qualifying, remove restrictions on GPs wishing to treat public patients and restrictions on advertising.

*Pharmacy Profession:*

- ensure the recent elimination of the 50% mark-up paid for medicines under the State's Drugs Payments Scheme is enforced.

**Enhanced competition in open markets**

- empower judges to impose fines and other sanctions in competition cases in order to generate more credible deterrence
- require the competition authorities to list restrictions in competition law which exclude certain sectors from its scope and to identify processes to address them.
- Examination of the impact of eliminating the cap on the size of retail premises

## **Bank Recapitalisation and Restructuring Measures**

The Programme for the recovery of the banking system will be an intensification of the measures already adopted by the Government. The programme provides for a recapitalisation, fundamental downsizing, restructuring and reorganisation of the banking sector. The outcome will lead to a smaller banking system more proportionate to the size of the economy, capitalised to the highest international standards, with renewed access to normal market sources of funding and focused on strongly supporting the recovery of the economy.

The proposed programme has been developed with the assistance of, and is endorsed by, our international partners.

The main elements of the programme are as follows:-

Building on the results of the Central Bank of Ireland's Prudential Capital Assessment Review (PCAR) carried out earlier this year additional capital requirements have been set.

The domestic banking system will benefit from a substantial and immediate recapitalisation raising Core Tier 1 capital ratios to at least 12%.

This action, along with early measures to support deleveraging set out below will result in an immediate injection of €10bn of fresh capital into the banking system, above and beyond that already committed.

Further recapitalisations will take place in the first half of 2011 as necessary based on the results of a detailed review and updating of the banks' capital needs following a revised PCAR exercise undertaken by the Central Bank of Ireland and involving stringent stress testing.

A Prudential Liquidity Assessment Review (PLAR) will be implemented by the Central Bank of Ireland for the domestic banks to identify deleveraging actions necessary to significantly reduce their reliance on short term funding.

A substantial downsizing of the banking system will be achieved through early and decisive actions including:-

- Banks will be required to run down non-core assets, securitize and or sell portfolios or divisions with credit enhancement provided by the State, if needed.
- The NAMA Scheme will be extended to remove remaining vulnerable land and development loans from Bank of Ireland and Allied Irish Bank by end-Q1 2011
- This process will be carried out in a carefully balanced and controlled manner with the benefit of the substantial resources available to the banks for their funding and capital needs.

- Banks will be required to promptly and fully provide for all nonperforming assets.
- The restructuring of Anglo Irish Bank and Irish Nationwide Building Society will be swiftly completed and submitted for EU State aid approval.

A significant strengthening of the regulation and stability of the credit union sector will be carried out by end-2011

- A special legislative regime to resolve distressed credit institutions will be introduced early in 2011.
- Specific legislation to support immediate restructuring actions is in preparation.

The credibility and implementation of the programme is underpinned by the availability of a very substantial capital pool comprised of both national and international resources.

The programme builds on and complements the broad set of actions taken by the Government over the past two years to resolve the difficulties of the banking sector including the provision of guarantees, recapitalisation of the banks and NAMA.

The primary objective of this far-reaching programme is to rebuild international market confidence in the Irish banking system to enable the banks to revert to normal market funding in due course and reduce progressively their reliance on funding from the Eurosystem and guarantees and other financial support from the Exchequer.

The programme provides a strong foundation for a reformed and restructured banking system. The programme is underpinned by the large commitment of financial resources to recovery of the banking system and the support and endorsement of the programme by the IMF and the EU.

This will be crucial to ensuring that the banks play a full and vital role in underpinning economic recovery and the achievement of the Government's objectives detailed in the National Recovery Plan.