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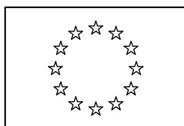

EUROPEAN COMMISSION

Brussels, 10.5.2011
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2011/0118 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland

EXPLANATORY MEMORANDUM

Upon a request by Ireland, the Council granted financial assistance to Ireland on 7 December 2010 (Council Implementing Decision 2011/77/EU) 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 EU.

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

Taking into account the revised economic outlook, as well as intervened information (including that generated by the Prudential Capital Assessment Review and Prudential Liquidity Assessment Review exercises, completed by the Central Bank of Ireland on 31 March 2011), and policy priorities of the government elected on 25 February 2011, the Commission proposes to modify the economic policy conditions underpinning the assistance as explained below. The Commission views the proposed changes to the economic policy conditions as necessary to ensure the smooth implementation of the programme and secure the programme's objectives.

2011/0118 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

amending Implementing Decision 2011/77/EU of 7 December 2010 on granting Union financial assistance to Ireland

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) 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:

(1) Upon a request by Ireland, the Council granted financial assistance to Ireland (Council Implementing Decision 2011/77/EU) in support of a strong economic and fiancial 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 EU.

(2) In line with Article 3(9) of Implementing Decision 2011/77/EU, the Commission, together with the IMF and in liaison with the 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 the agreed 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 in line with the 7 December 2010 Council Recommendation to Ireland under Article 126(7) of the Treaty and is consistent with a 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 pps of GDP, an assumption to maintain high cash reserves, and differences between accrued and cash interest payments.

(4) The recapitalization of Allied Irish Bank, Bank of Ireland, and EBS Building Society to a 12% core tier 1 capital ratio (based on the 2010 PCAR), which was to be done by

[1] OJ L 118, 12.5.2010, p. 1.

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 Prudential Capital Assessment Review (PCAR) and 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 €3 billion, to remain adequately capitalised under a stress scenario.

(6) On 31 March 2011 the new government, which was formed following the 25 February 2011 elections, announced its strategy to strengthen and reform the domestic banks, including by ensuring that the capitalization 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 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 in the programme for government for national recovery 2011-16 announced on 7 March 2011.

(9) In light of these developments, Council Implementing Decision 2011/77/EU should be amended.

HAS ADOPTED THIS DECISION:

Article 1

Article 3 of Council 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 length of the EU financial assistance programme, while deleveraging towards the target loan-to-deposits ratio of 122.5% by end-2013.'

(2) in paragraph 7:

(a) in point (b) 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 2012 yields a fiscal consolidation of at least EUR 3.6 bn.'

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

'(e) Adoption of measures reinforcing a credible budgetary strategy and to strengthen 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 EU level and build on reforms already in place.'

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

'(g) 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) To enhance competition in open markets, 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 on the Functioning of the European Union 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 (n), (o) and (p) are added:

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

(o) 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) Submission of legislation to the Oireachtas to assist the credit unions with a strengthened regulatory framework including more effective governance and regulatory requirements.'

(3) In paragraph 8:

(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 bn.'

(b) the following point (c) is added:

'(c) Deleveraging of the domestic banks towards the loan-to-deposit ratio targets established under the 2011 PLAR.'

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,

For the Council
The President