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2011/0224 (NLE)

Proposal for a

**COUNCIL IMPLEMENTING DECISION**

**amending Implementing Decision 2011/77/EU 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 third 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 the need to launch a further liability management exercise to further secure private sector contribution to the envisaged recapitalization of Bank of Ireland), 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.

Proposal for a

**COUNCIL IMPLEMENTING DECISION**

**amending Implementing Decision 2011/77/EU 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 (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism<sup>1</sup>, 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 it (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.
- (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 third 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 (1.1% in 2011, 2.8% in 2012 and 3.8% in 2013), the fiscal adjustment path is in line with the Council Recommendation to Ireland of 7 December 2010<sup>2</sup> pursuant to Article 126(7) of the Treaty and is consistent with a path for the debt-to-GDP ratio of 109.9% in 2011, 116.2% in 2012 and 119.4% in 2013. The debt to GDP ratio would peak 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.

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<sup>1</sup> OJ L 118, 12.5.2010, p. 1.

<sup>2</sup> SEC(2010) 1515 final.

- (4) The authorities have indicated that there are very realistic prospects, based on the results of the Liability Management Exercises (LME) conducted thus far, to secure a further EUR 0.5 billion private sector contribution to the recapitalisation of Bank of Ireland by December 31 2011. In light of the already large public cost of the bank recapitalization, and given the conservative approach used to determine Bank of Ireland's recapitalisation need, it is now deemed unnecessary and indeed inappropriate to inject this EUR 0.5 billion in advance of the completion of the LME in order to meet the programme deadline, as doing so would result in higher than needed fiscal cost and an unnecessarily high capital adequacy ratio for Bank of Ireland once the proceeds from the LME become available. The deadline for the completion of this part of the recapitalization of Bank of Ireland has been reset to end-2011.
- (5) In light of these developments, Council Implementing Decision 2011/77/EU should be amended,

HAS ADOPTED THIS DECISION:

*Article 1*

In Article 3 of Implementing Decision 2011/77/EU, paragraph 7 is amended as follows:

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

"the recapitalisation of the domestic banks by end July 2011 (subject to appropriate adjustment for expected asset sales and liquidity management exercises in the cases of Irish Life & Permanent and Bank of Ireland) in line with the findings of the 2011 Prudential Liquidity Assessment Review (PLAR) and Prudential Capital Assessment Review (PCAR), as announced by the Central Bank of Ireland on 31 March 2011. Ireland shall by end-2011 ensure the recapitalisation of the remaining EUR 1.1 billion for Irish Life & Permanent, and EUR 0.5 billion for Bank of Ireland, including by providing public funds in the event that proceeds from asset sales and liquidity management exercises fall short of these amounts.

(2) the following points are added:

"(q) the submission to the Dáil, by end October, of a Pre Budget Outlook setting out a medium-term fiscal consolidation plan for 2012 – 2015 outlining the overall composition of revenue and expenditure adjustments for each year, consistent with the targets set out in the Council Recommendation of 7 December 2010.

(r) the announcement, by 2012 Budget day (early December 2011), of binding medium-term expenditure cash ceilings and set out revenue and expenditure measures to deliver the needed adjustment over 2012-2015.

(s) the issuance by the Central Bank of Ireland, by end December 2011, of guidance to banks for the recognition of accounting losses incurred in their loan book.

(t) the publication by the Central Bank of Ireland, by end December 2011, of new guidelines for the valuation of collateral for bank loans.

(u) the preparation and discussion, by end December 2011, of a draft programme of asset disposals, including the identification of the potential assets to be disposed, any necessary regulatory changes, and a timetable for implementation."

*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*