Euro Plus Pact Commitments made by Ireland in May 2011

Update as of April 2013

1. Fostering Competitiveness

- An independent review of Employment Regulation Order (ERO) and Registered Employment Agreement (REA) mechanisms to be completed shortly.

Progress: This review was carried out and published in Q2 2011. Consequently, the *Industrial Relations (Amendment) Act 2012* was enacted in Q3 2012. The Act implemented the programme of reforms proposed in the review and also strengthened the legal framework for EROs and REAs in the light of the 2011 High Court judgment that struck down all EROs as being unconstitutional.

- Considering a potential programme of asset disposals based on the Programme for Government and the Review Group on State Assets and Liabilities.

Progress: The Government agreed an asset disposal programme which is currently being implemented. The Government also secured agreement that half of the proceeds will go into reinvestment in the economy, with the other half, while destined eventually for debt reduction, also being available in the short term, to be constituted as a fund to underpin additional lending into Ireland, for example by the EIB, in support of further investment in job-creating initiatives.

- Legislative changes to remove restrictions in the legal profession, medical services and the pharmacy profession, and to enhance competition in open markets.

Progress: The *Legal Services Regulation Bill* is expected to commence Committee Stage in Parliament in early July and it is expected that its enactment will take place before the year's end.

The Health (Provision of General Practitioner Services) Act 2012, which came into effect on 12th March 2012, eliminates restrictions on fully qualified and trained GPs wishing to obtain contracts to treat public patients under the GMS contract. This legislation will encourage more young GPs to remain in Ireland and to establish their practice here and will make it more attractive for GPs to move here from overseas. It will also encourage competition among GPs at a time when many fee paying patients have less money at their disposal.

The EU/IMF Programme for Financial Support referred to a requirement for legislative change to ensure that the elimination of the 50% mark-up paid for medicines under the Drugs Payments Scheme is enforced. Regulations reducing the mark-up to 20% for pharmaceuticals dispensed under the Community Drug Schemes were made in 2009 under the Financial Emergency Measures in the Public

Interest Act, 2009 (FEMPI). In June 2011, the retail mark-up on non-drug items was also reduced from 50% to 20%. These regulations are enforced and no further legislation is required in this regard.

2. Fostering Employment

Policy measures introduced this year include the *Action Plan for Jobs* and *Pathways to Work* aimed at activating the labour market and supporting and creating jobs. The Action Plan for Jobs contains 270 specific measures.

- A 50% reduction until the end of 2013 in employers' social insurance contributions for low income earners (on a weekly wage of up to €356).

Progress: This has been progressively simplified and the eligibility criteria have been expanded to include, *inter alia*, time spent on the Work Placement Programme and JobBridge.

- A capital works programme concentrated upon "shovel-ready" labour intensive projects.

Progress: While the capital programme has been scaled back in recent years in order to make a substantial contribution to fiscal consolidation, no further reductions were made to the programme in Budget 2013. The overall Capital Allocation for 2013 has been set at €3.4 billion with additional funding provided in REV 2013 for a number of projects.

The Government announced plans for an additional €2.25bn investment in public infrastructure projects in Ireland in July 2012. The stimulus package included €1.4bn to fund the proposed new Public Private Partnerships (PPP) programme. The investment is directed towards projects that are designed to stimulate economic growth and create employment.

- A large increase in the number of places for the unemployed across a range of education and employment programmes.

Progress: Further to the measures identified in the 2012 update, the 2013 Budget has made provision for an additional 10,000 places on programmes operated by the Department of Social Protection. These include the temporary work programmes, Community Employment and Tús, the national internship programme JobBridge, and a new social employment scheme with Local Authorities.

A new Labour Market Education & Training Fund, known as *Momentum* was launched in December 2012. It will provide a range of quality, relevant education & training interventions for up to 6,500 individuals who are long-term unemployed including young people. Training will be co-financed by the European Social Fund

(ESF) and will be provided within the context of four themes. Three of the themes will support occupational clusters where demand and vacancies exist within identified Labour Market sectors. A fourth theme will focus on the specific needs of people under 25 who are unemployed, assisting them to access and/or return to the Labour Market.

The Springboard programme strategically targets funding of free part time higher education courses for unemployed people in areas of identified skills needs, such as ICT, Pharmachem and International Financial Services. More than 10,000 unemployed or previously self-employed people have been provided places under the two rounds of Springboard since 2011 that have issued to date and a further 5,000 places are expected to be delivered in 2013.

The joint Government-Industry ICT Action Plan has been developed as a direct response to identified ICT skills shortages and contains a comprehensive range of short medium and long term measures to build the domestic supply of ICT graduates. As part of the Plan, in February 2013 more than 760 new places were made available on the second phase of ICT graduate conversion courses, designed and delivered in partnership with industry. This is in addition to the more than 700 places that were provided in 2012

- New taxation and sectoral measures to promote job creation.

Progress: Budget 2013 specifically contained a ten point tax reform plan to support small businesses, including start-up corporation tax credits, use of the cash receipts basis for VAT and a more attractive system of credits and expenditure on research and development. The measures contained in the Budget are intended to assist small businesses in a number of ways, including:

- Helping their cash flow position,
- Helping them access funding more easily,
- Reducing the costs associated with the administrative burden of tax compliance,
- Boosting demand for their products in new markets abroad,
- Incentivising firms to create jobs.

A wide suite of measures has also been implemented to ensure an adequate pool of credit is available to support the SME sector and, thereby, employment growth. These measures include SME lending targets for the two domestic pillar banks, the establishment of a Credit Review Office, the establishment of a State Bodies Group with responsibility for developing policy initiatives to support SME access to credit, a credit guarantee scheme, a microfinance loan fund scheme, an SME equity fund, an SME turnaround fund, an SME credit fund and the establishment of local enterprise offices to support micro-enterprises through local authorities. The Action Plan for Jobs 2013 includes 24 specific measures to be undertaken in 2013 by various organisations aimed at improving access to finance for micro, small and medium enterprises.

In addition, a range of measures were included in the 2012 Action Plan for Jobs, following on commitments in the Government's earlier Jobs Initiative of May 2011.

In particular, two targeted schemes were introduced to support additional lending to SMEs - Microfinance Ireland and the Credit Guarantee Scheme.

- Microfinance Ireland (MFI) began operating in October 2012. MFI provides support in the form of loans for up to €25,000, available to start-up, newly established, or growing microenterprises employing less than 10 people, with viable business propositions, that do not meet the conventional risk criteria applied by banks.

- The Credit Guarantee Scheme was launched in October 2012. The Scheme will facilitate up to €150 million of additional lending to eligible SMEs per annum. The Guarantee Scheme is intended to address specific market failures that inhibit bank lending to some commercially viable micro, small and medium enterprises, by providing a 75% State guarantee to banks against losses on qualifying loans to firms with growth and job creation potential.

The Innovation Fund Ireland has been created to increase the availability of risk capital for early-stage and high-growth companies, and is central to the Irish Government's strategy for economic recovery. Both Enterprise Ireland and the NPRF bring approximately €125m each to the table and make commitments to international Venture Fund Managers. These commit to establishing a presence in the Irish market and agree to invest, at a minimum, the equivalent of EI's contribution in Irish companies or companies with significant operations in Ireland.

3. Contributing further to the sustainability of the public finances

We are delivering key institutional reforms including:

- A Comprehensive Spending Review that will underpin the fiscal consolidation process.

Progress: The *Ministers and Secretaries (Amendment) Bill* was published in 2012 and will shortly be considered by the Oireachtas. This Bill, when enacted, will put in place multi-annual binding ceilings on both the aggregate level of gross expenditure and also on expenditure at a Departmental level. This will effectively operationalise the 'Expenditure Benchmark' an upper limit on General Government expenditure introduced as part of the so-called "six-pack" of measures introduced at a European level to improve economic governance across the EU. Once the Bill has been enacted, departments will be provided with the detailed rules that will apply with regard to the implementation of the new medium-term expenditure framework centered upon the principles of transparency and openness and the necessity for

clear medium-term planning so that available resources are deployed, managed and re-allocated (as appropriate) to best effect.

- A Fiscal Advisory Council which will be established shortly.

Progress: The Irish Fiscal Advisory Council was placed on a statutory footing at the end of December 2012, following the enactment of the *Fiscal Responsibility Act 2012*, and assigned the monitoring and assessment functions required of an independent national institution under the Treaty on Stability, Co-ordination and Governance in the EMU. The functions already assigned to the Council on an administrative basis were also included in the Act. These functions include assessing the official spring and autumn macroeconomic and budgetary forecasts produced by the Department of Finance and, in relation to annual budgets and stability programme updates, the fiscal stance for the year or years concerned.

- Reform of the Budgetary Framework by way of a Fiscal Responsibility Bill which is expected to be published by end-May 2012.

Progress: A constitutional referendum to ratify the Treaty on Stability, Co-ordination and Governance in the EMU was passed by the Irish electorate on 31 May 2012. Subsequently, the *Fiscal Responsibility Act 2012* was signed into law on 27 November 2012. The Act provides for, *inter alia*, the implementation of Articles 3 and 4 of the Fiscal Compact into domestic Irish law. The Act imposes a duty on the Government to endeavour to secure that the budgetary rule and the debt rule, which are provided for in the Act, are complied with.

- Proactive measures through the Social Welfare and Pensions Bill to reduce long-term pension liabilities.

Progress: Changes to State pensions have been provided for in the *Social Welfare and Pensions Act 2011*, including the age at which persons will qualify for State Pension. In addition, legislation has been enacted to provide for State Pension (Transition) to be abolished from 2014. This will also standardise State Pension Age at 66 for all and provide for further changes to the State Pension Age – it will increase to 67 in 2021 and to 68 in 2028.

Other measures taken to reduce long-term pension liabilities include changes to eligibility requirements and strengthening the link between the rate of pension and contributions paid.

- The introduction of measures to broaden the tax base.

Progress: *Budget 2013* includes a range of measures to enhance the tax yield and broaden the tax base, including the introduction of a local property tax. It is levied at 0.18% of property value up to €1 million and at 0.25% above that level and is designed to be a stable and predictable source of revenue, to raise €500 million in a

full year. Ireland has not had a system of recurrent property taxation since the mid-1990s. The LPT will come into effect from 1 July 2013. Limited and carefully designed deferrals and exemptions have been included, with the aim of ensuring the social equity of the tax. In addition, Budget 2013 announced a number of other measures to raise revenues and broaden the tax base, including changes to social insurance allowances, capital taxes, excise duties, the taxation of pension contributions and changes to the taxation of maternity benefit.

4. Reinforcing financial stability

We are addressing underlying weaknesses that led to the banking crisis. This will involve:

- Reforming and enhancing the supervisory framework for Irish banks.

Progress: The Government published the *Central Bank (Supervision and Enforcement) Bill* on October 2011. The Bill was designed to enhance the regulatory and supervisory powers of the Central Bank. The Bill completed Committee stage on 24 April with Report stage provisionally scheduled for end May.

- The radical reorganisation and downsizing of the Irish banking system to more appropriately serve the needs of the Irish economy.

Progress: The Minister for Finance's Statement on Banking on 31 March 2011 announced that the future of Ireland's banking landscape will be built around the two Pillar Banks, Bank of Ireland (BoI) and Allied Irish Bank (AIB). Each of these banks has already begun to reorganise their operations into core and non-core functions and to implement a carefully managed programme of deleveraging. The operations of AIB and the Educational Building Society (EBS) were merged to build a second Pillar bank from the strengths of both institutions. The merger of Anglo Irish Bank and Irish Nationwide Building Society took place on 1 July 2011 to form the Irish Banking Resolution Corporation (IBRC). Legislation was introduced in February to liquidate IBRC and allow for the appointment of Special Liquidators to manage the winding–up of IBRC.

- Deleveraging of the banking system to reduce lending in areas that will not support our economic recovery and also decrease the system's reliance on ECB/Central Bank funding.

Progress: Non-core deleveraging units have been set up in each bank. Deleveraging committees are also in place in each bank. A Department of Finance Review Committee monitors system wide progress.

Major progress in downsizing our banking system was made in 2012. During the year the CBI recalibrated the deleveraging targets to a quantum of deleveraging

away from loan to deposit ratio targets of 122.5%, with the intended result of enhancing stability of the deposit market and avoiding the risk of excessive deleveraging of core portfolios so as not to impair the flow of credit to the domestic economy.

Bank of Ireland and AIB are well progressed toward completion of the full-year 2013 deleveraging targets. Including contracted sales at year-end 2012, AIB have achieved a loan-to-deposit ratio (LDR) of 115 per cent, a 23% reduction from December 2011 and within the original LDR target of 122.5%, through over €18bn of non-core loan reduction, or approximately 90 per cent of its year-end 2013 target with a capital impact within projected targets.

Bank of Ireland has concluded the active disposal component of its deleveraging programme and has achieved over €20bn of non-core net loan reduction, or over 84% of its year-end 2013 target with the loan-to-deposit ratio reducing to 123% from 144% at 31 December 2011.

Total deleveraging has contributed to a reduced reliance on non-standard funding, including an elimination of ELA, to which the IBRC liquidation was also a key contributor. IBRC deleveraging is now being accomplished in the context of that liquidation.

- The return of the banks to profitability by rationalising their cost base and fully recapitalising them based on stringent stress tests carried out by independent experts.

Progress: The Central Bank extended its capital buffer of €5.3bn across the four banks to arrive at a stress loan-loss assessment that is fully credible to the international markets.

Under the previous Government, some €46.3bn was injected into the Irish banks by the end of 2010. The Prudential Capital Assessment Review (PCAR), which was carried out by the Central Bank (and BlackRock, see above) and reported in March 2011, identified an additional capital requirement of €24bn. This means that the total capital needs identified in March 2011 amounted to €70.3bn.

The cost of recapitalisation has been reduced as a result of Liability Management Exercises involving subordinated bondholders, and private sector investment in Bank of Ireland. Out of the total identified capital of €70.3bn, actual capital investment was circa €63bn, though a further €1.3bn was required to complete the final tranche of the recapitalisation of Irish Life & Permanent. This capital will revert to the State upon completion of the sale of Irish Life to Great-West Lifeco.