Government Statement on the announcement of joint EU - IMF Programme for Ireland

November 28, 2010

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 €17.5 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 €67.5 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: €22.5 billion from the European Financial Stability Mechanism (EFSM); €22.5 billion from the International Monetary Fund (IMF); and €22.5 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.

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.