

Euro Plus Pact Commitments made by Ireland in May 2011

Update as of April 2012

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. Consequently, the Industrial Relations (Amendment) Bill was published in Q1 2012.

- 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 has agreed the shape and scale of the asset disposal programme and has secured agreement that 1/3 of the proceeds will go into reinvestment in the economy.

- 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 has been published and enactment is expected in Q3 2012. The Health (Provision of General Practitioner Services) Act 2012 will be commenced in March. Regulations were enforced to reduce the mark-up to 20% for pharmaceuticals dispensed under the Community Drug Schemes. The retail mark-up on non-drug items was also reduced to 20%.

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 measure was announced on 10 May and implemented with effect from 1 July. The scheme covers the first 18 months of employment.

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

Progress: The *Jobs Initiative* launched in May 2011 provided an additional €30 million for labour intensive school works and associated works in 2011 over the existing allocation. The Initiative also provided for an additional €60 million to be reallocated from within the Minister for Transport, Tourism and Sport's overall allocation. In addition, the *Infrastructure and Capital Investment Programme 2012-2016*, published in November 2011, allocates funding for the construction of a new Children's Hospital, 40 new schools and the expansion and renovation of 180 existing schools.

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

Progress: The Government's *Jobs Initiative* created an extra 20,900 training, education and work placements as follows: 6,000 places in the FÁS Specific Skills Training programme, 5,900 places in the Higher Education Springboard programme, 3,000 places in the Back to Education Initiative programme, 1,000 places in Post Leaving Cert Courses, and 5,000 work experience places in a new *JobBridge* National Internship Scheme. *Pathways to Work* committed to supporting over 85,000 beneficiaries of jobs placement, work experience and back to education schemes in 2012.

- New taxation and sectoral measures to promote job creation.

Progress: A range of measures were included in the *Jobs Initiative*. Furthermore, on 24 November, the Government announced a number of measures to increase the availability of credit for business including the establishment of a Micro finance fund worth up to €100m, the establishment of a Temporary Partial Loan Guarantee Scheme, and a second call under Innovation Fund Ireland. Further tax-based measures included in *Budget 2012* and the *Action Plan for Jobs* launched in January contain specific time bound commitments.

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 Comprehensive Review of Expenditure has been completed and its outcome has been reflected in the *Comprehensive Expenditure Report 2012-2014*, published on 5 December 2011.

- A Fiscal Advisory Council which will be established shortly.

Progress: The Fiscal Advisory Council was established in June 2011 on a non-statutory basis. Legislation to put the Council on a statutory footing is expected to be published by end-May 2012.

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

Progress: Under the *EU/IMF Programme of Financial Support for Ireland*, the Fiscal Responsibility Bill is due to be published by end-June 2012. However, it is envisaged that the preparation of this legislation will be accelerated in the light of developments at EU level and in particular the Inter-Governmental Treaty. It is now intended to publish the legislation ahead of the referendum on the Treaty, which is scheduled for 31 May 2012.

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

Progress: A sizeable increase in the social welfare pension age from 65 to 68 years—to be introduced in three steps over 2014 to 2028—was legislated for at end-June. A comprehensive public service pension reform bill for new entrants is now being considered by parliament.

- The introduction of measures to broaden the tax base.

Progress: *Budget 2012* includes a range of measures to enhance tax yield and broaden the tax base. The measures included changes to the property-based 'legacy' reliefs, betting duty, capital taxes, domicile levy and the tax treatment of certain social welfare benefits. A household charge has also been introduced.

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. This Bill involves a careful overhaul of the statutory basis for the Central Bank's regulatory powers.

- 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).

- 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: The Banks will deleverage to loan-to-deposit ratios of 122.5%. 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 2011. The two pillar banks met the 2011 deleveraging targets with almost €15 billion of assets sold at significantly better pricing than anticipated in the PCAR/PLAR 2011 exercise. Total deleveraging (including €8.5 billion of IBRC loans) achieved across government supported banks was €41.8 billion at year end 2011 against expected deleveraging of €36.1 billion.

- 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 €46.3 billion 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 €24 billion. This means that the expected total capital needs in March 2011 amounted to €70.3 billion.

The cost of recapitalisation has been reduced as a result of Liability Management Exercise (LME) exercises with subordinated bondholders and private sector investment in Bank of Ireland. Out of the total identified capital of €70.3 billion, actual capital investment was circa €63 billion, though a further €1.3bn will be required to complete the final tranche of the recapitalisation of Irish Life & Permanent.