EUROPEAN COMMISSION

Brussels, 7.6.2012
COM(2012) 291 final

2012/0153 (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 (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 sixth 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, 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.

2012/0153 (NLE)

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[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 it (Implementing Decision 2011/77/EU[2]) 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 Union.

(2) In line with Article 3(9) of Implementing Decision 2011/77/EU, the Commission, together with the IMF and in liaison with the European Central Bank (ECB), has conducted the sixth 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.

(3) The Irish authorities had presented to Parliament legislation to enhance the long-term sustainability of the public finances in September 2011, as envisaged under the programme. Some elements of the envisaged reform were not adopted by Parliament by the end of the above-mentioned sixth quarterly review (in particular, as regards pension entitlements for new entrants to the public service, including a review of accelerated retirement for certain categories of public servants and an indexation of pensions to consumer prices, the linking of pension benefits to career average earnings and of retirement age to state pension retirement age). The authorities have committed to secure the approval of these provisions by end 2012.

(4) In light of the postponement of the EU-wide stress test exercise carried out under the auspices of the European Banking Authority to 2013, it is considered appropriate that

[1] OJ L 118, 12.5.2010, p. 1.
[2] OJ L 30, 4.2.2011, p. 34.

the next stress test of the domestically-owned Irish banks is postponed to 2013. In the meantime, the authorities have identified key preparatory work-streams, which will be completed during 2012.

(5) The Irish authorities have identified additional measures that they will undertake during 2012 to reduce unemployment and underpin the attainment of the programme objectives. In particular, they will take steps to increase the effectiveness of their labor market activation and training policies and reduce any potential for social payments to provide disincentives for able people to take up work while protecting the most vulnarable.

(6) In light of these developments and considerations, Implementing Decision 2011/77/EU should be amended.

HAS ADOPTED THIS DECISION:

Article 1

Article 3 of Implementing Decision 2011/77/EU is amended as follows:

(1) in paragraph 7, point (d) is replaced by the following:

"(d) the adoption of legislation to increase the state pension age to 66 years in 2014, 67 in 2021, and 68 in 2028, with a view to enhancing the long-term sustainability of the public finances.

(2) in paragraph 8, the following points are added:

"(f) the completion of the following work-streams in the domestically-owned Irish banks, on whose results the Irish authorities will report to the European Commission, the ECB and the IMF: (i) an independent asset quality review to assess the quality of aggregate and individual loan portfolios and the processes employed for establishing and monitoring asset quality; (ii) a distressed credit operations review to assess the operational capability and effectiveness of distressed loan portfolio management in the banks including arrears management and workout practices in curing NPLs and reducing loan losses; (iii) a data integrity validation exercise to assess the reliability of banks' data; and (iv) an income recognition and re-ageing project to review existing practices against IFRS and relevant regulatory guidance;

(g) the assessment of banks' progress with the work-out of their non-performing portfolios;

(h) the provision to the European Commission, the ECB and the IMF of an evaluation of the actions taken in respect of jobseekers payments recipients who do not attend employment activation interviews;

(i) the completion of a cross-departmental report to explore the scope for attenuating any adverse employment incentives arising from the structure of social payments;

(j) the adoption of legislation reforming pension entitlements for new entrants to the public service. This shall include a review of accelerated retirement for certain

categories of public servants and an indexation of pensions to consumer prices. Pensions shall be based on career average earnings. New entrants' retirement age shall be linked to the state pension retirement age."

The following paragraph is added:

"9. Ireland shall, during 2013 and in line with specifications in the Memorandum of Understanding, complete stress tests of the banks that were included in the PCAR 2011. The stress test will be aligned to the EBA exercise, and build on the outcomes from PCAR 2011 and the Financial Measures Programme 2012. The stress test will be rigorous and continue to be based on robust loan-loss forecasts and a high level of transparency. The publication of the results will be aligned with the timing of the next EBA exercise."

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