Conclusion of EFSF financial assistance programme for Ireland: an overview

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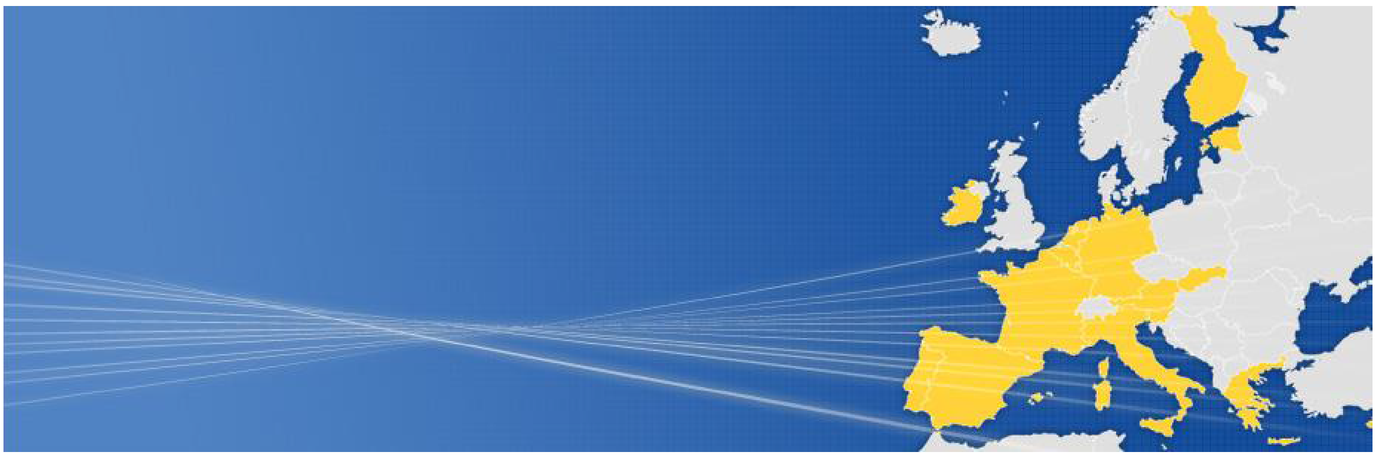
Speeches

EFSF



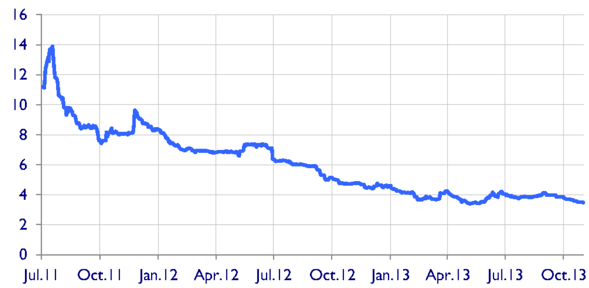
Conclusion of EFSF financial assistance programme for Ireland: an overview

8 December 2013

Ireland's success results from adequate crisis response

- Three years of **sound policies** and **international support have** returned Ireland to a sustainable and credible **growth** path
- **Financial assistance** combined with reforms and fiscal restraint were **effective** in correcting imbalances and repairing the banks
- Irish renewed **credibility** is confirmed by market participants through investment growth and low financing costs

10-year yield on Irish government bond



Unit: %
Source: Datastream

European Financial Stability Facility

The origins of Ireland's debt crisis

- Massive housing bubble (nearly four-fold increase in prices between 1997 and 2007)
- Construction boom fuelled by excessive credit expansion
- External competitiveness deteriorated during credit boom
- Credit crunch in the US markets precipitated the bursting of this bubble
- Bursting of housing bubble and its consequences:
  - Sharp fall in property prices; loan losses for banks
  - Decline of aggregate demand and GDP, surge in unemployment
  - Dramatic deterioration of public finances
  - Yields on Irish government bonds rose to record levels since the inception of EMU

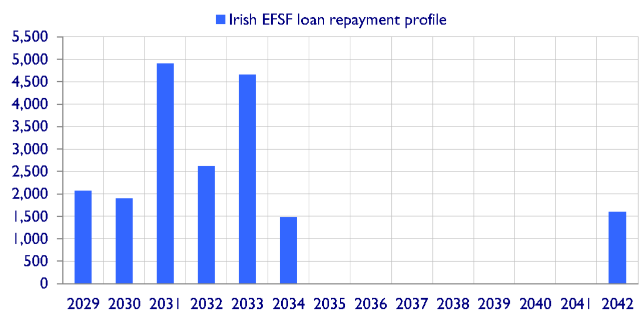
Financial assistance

- Irish authorities requested assistance from the EU and IMF in November 2010
- Reform package agreed in December 2010 by Eurogroup/ECOFIN
- Total financial assistance programme of €85 billion

	EFSF	European Commission (EFSM)	IMF	Bilateral loans (UK, SWE, DK	Irish contribution	**Total**
€ billion	17.7	22.5	22.5	4.8	17.5	**85**

Financial assistance provided by EFSF

- EFSF disbursed a total of **€17.7 billion** from February 2011 to December 2013
- **Repayment** of loan principal by Ireland starts in 2029, ends in 2042
- **Average maturity of** loan tranches was initially nearly 14 years
- In April 2013 the Eurogroup decided to **extend** the average maturity by up to 7 years



Unit: Thousands EUR
Source: ESM

Key objectives of macroeconomic adjustment programme

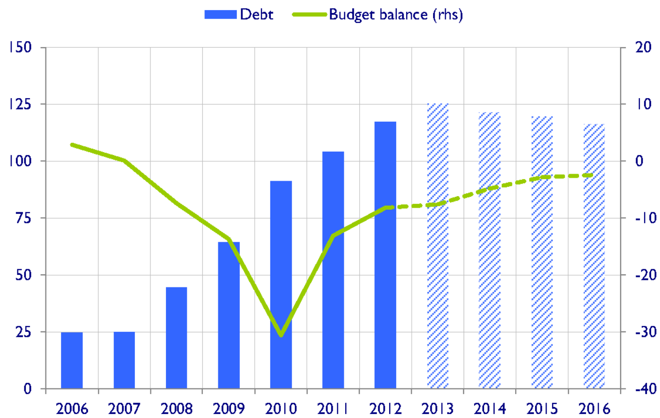
- A financial sector strategy comprising fundamental downsizing and reorganisation of the banking sector (including **recapitalisation and deleveraging**)
- A strategy to restore **fiscal sustainability** (consolidation through expenditure restraint, tax system reform, generation of additional revenue)
- A structural reform package to underpin growth, focusing on **competitiveness** and **job creation**

Programme success: ‘clean’ exit

- 11 successful reviews by European Commission, ECB and IMF with no delays or setbacks
- Troika findings during 12th review (Nov. 2013) confirm achievements
  - Growth prospects for Ireland are strengthening
  - Unemployment has been declining
  - Situation of financial sector is improving
  - Long-term sovereign bonds yields down to 3.5%
  - Fiscal deficit targets met: from 30.4% in 2010 down to 7.4% in 2013
  - €20bn cash buffer covers fiscal needs for more than a year
- Irish decision of a ‘clean’ exit supported by troika institutions

Fiscal adjustment helped to rebuild confidence

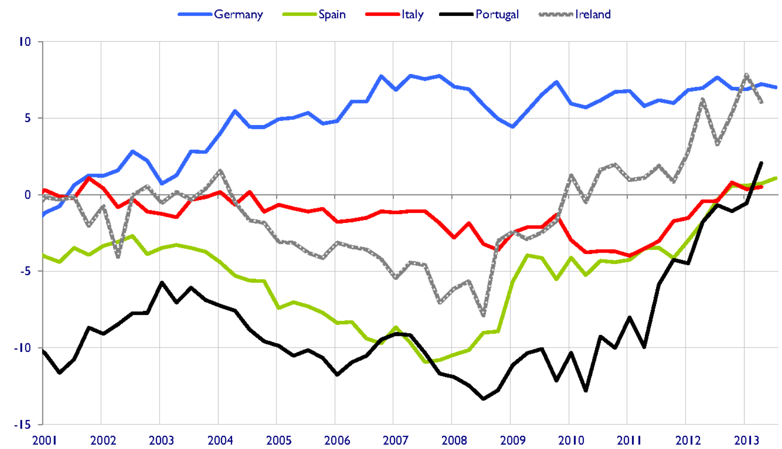
- After reaching more than 10% of GDP in 2011, the budget deficit is expected to fall to less than 5% of GDP in 2014. Moreover, during this adjustment, Ireland regained the confidence of investors as it permanently overachieved its fiscal targets.
- Government debt remains high but it is now expected to start to decline for the first time since 2007.



Unit: % of GDP
Source: Eurostat and European Commission
Note: Dashed line/area indicate forecast

Ireland achieved a remarkable external adjustment

- Ireland's current account surplus now stands at close to 7% of GDP, one of the highest in the euro area



Unit: % of GDP
Source: Bundesbank, Banco de Espana, Banca d'Italia and central statistical offices

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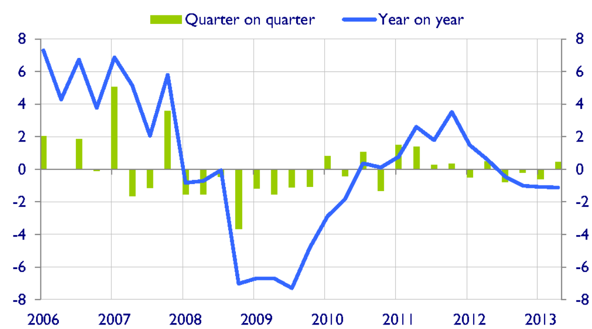
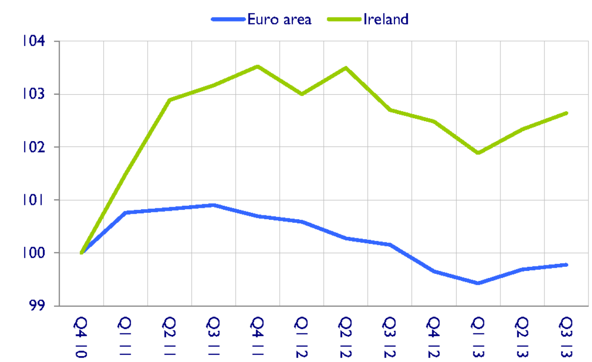
Growth was better than in the euro area

- **GDP is expanding again:** real GDP expanded now for two quarters in a row and leading indicators point to a continuation of the recovery
- Thanks to a solid performance of exports, Irish GDP is now above its pre-programme levels

Real GDP growth



Unit: %-change
Source: Eurostat



Unit: Rebased to 100 in Q4 2010
Source: Eurostat

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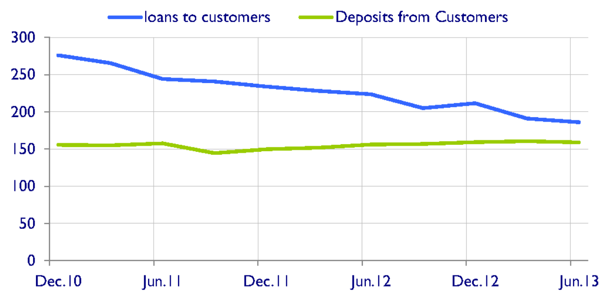
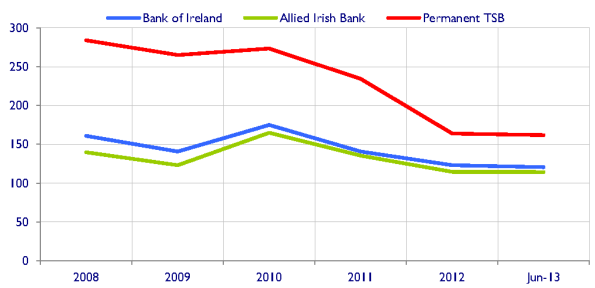
The banking sector corrected significantly

Trends in lending and deposits



Loans to deposit ratio



Unit: Upper chart, bn EUR. Lower chart, %
Source: Bankscope and Central Bank of Ireland

- Banks are in line with their restructuring plans
- Deleveraging has been proceeding

Summary: the makings of a success story

- Ireland's successful fiscal consolidation efforts have been **positively assessed by financial markets**.
- At the end of the programme, Ireland has been able to return to funding from private debt markets.
- The example of Ireland confirms the experience of many other countries under IMF programmes: financial assistance combined with the implementation of necessary policy reforms is effective and allows countries to **return to economic growth**
- Despite certain **challenges** Ireland has the potential to make a sound and lasting economic recovery

Next steps: Post-programme monitoring

- Euro area Member States exiting financial assistance fall under **post-programme monitoring** (based on EU's Two-Pack Regulation)
- Countries will remain subject to monitoring until they have paid back a **minimum of 75%** of the assistance received
- Post-programme missions foreseen **twice a year** by the European Commission with the ECB
- The Commission will assess **whether corrective measures are needed**
- It reports to the Council (EFC), European Parliament and national parliaments concerned
- EFSF is one of Ireland's important creditors; it has to monitor repayment capacity by monitoring its economic and budgetary developments

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