



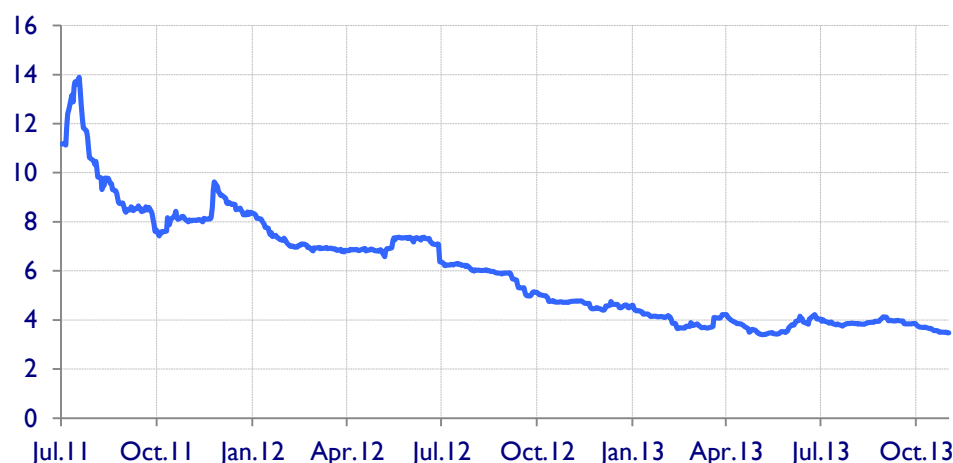
Conclusion of EFSF financial assistance programme for Ireland: an overview

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

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

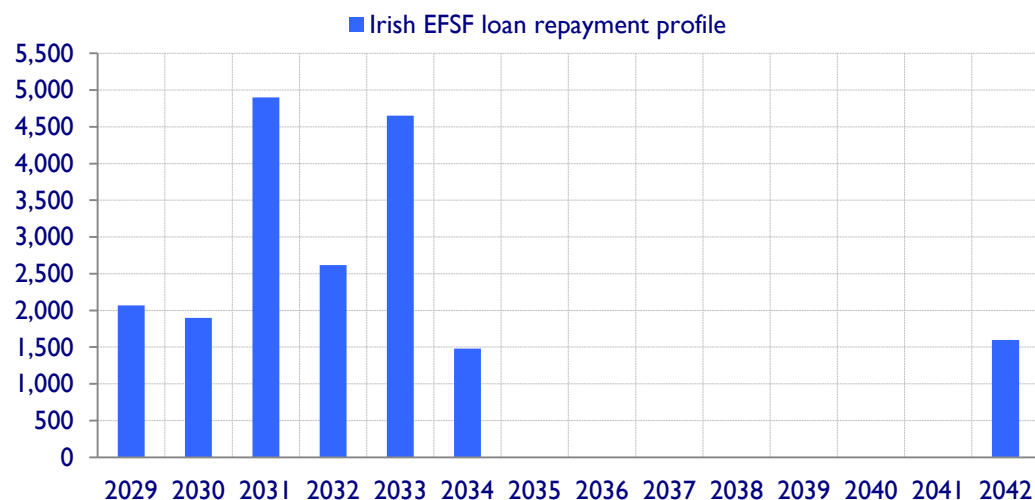
Financial assistance

- ❑ 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

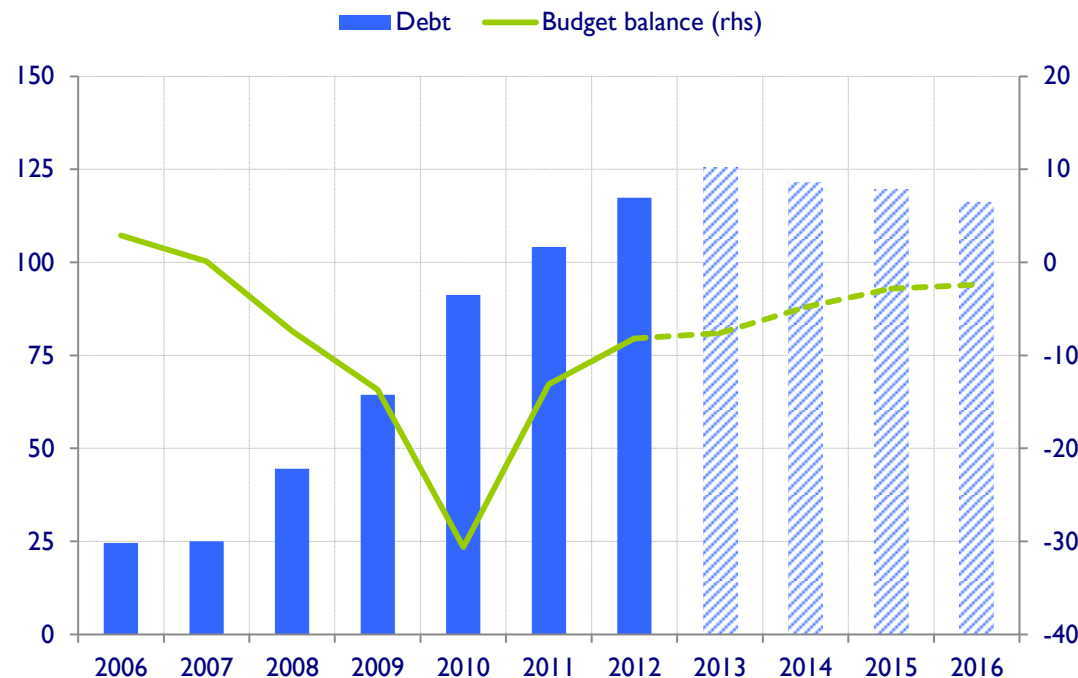
- ❑ A financial sector strategy comprising fundamental downsizing and reorganisation of the banking sector (including **recapitalisation and deleveraging**)
- ❑ A strategy to restore **fiscal sustainability** (consolidation through expenditure restraint, tax system reform, generation of additional revenue)
- ❑ 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.



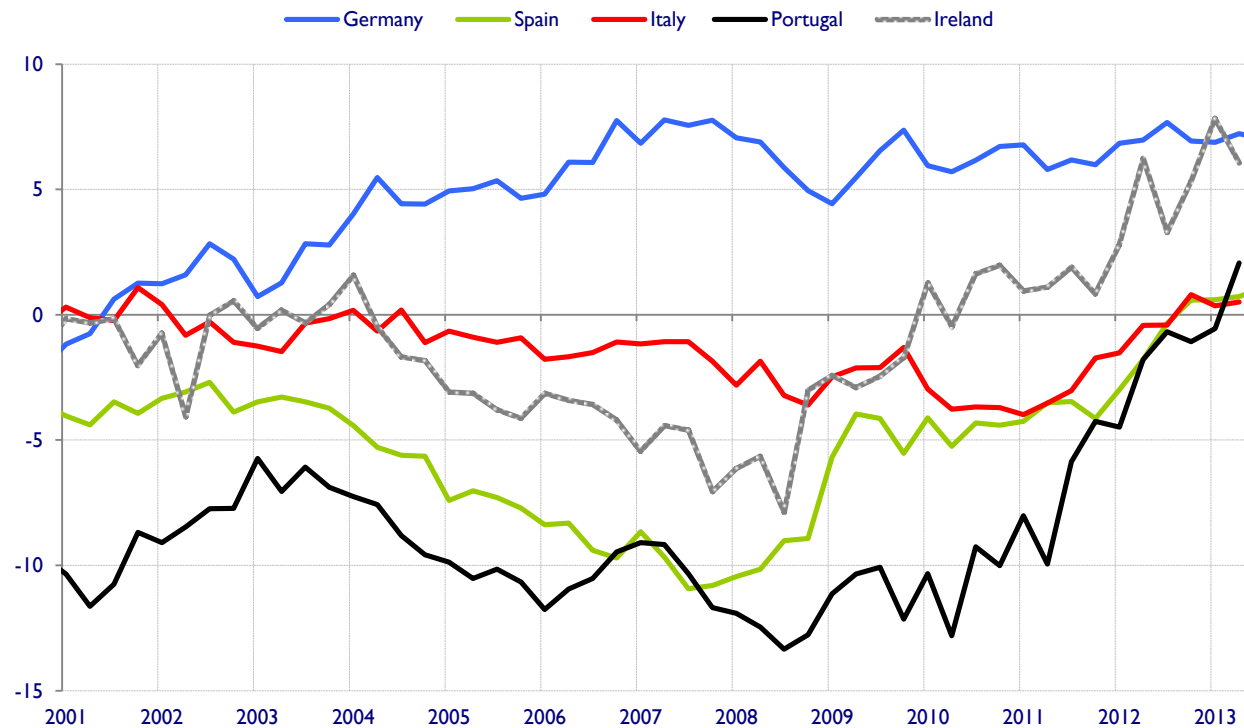
Unit: % of GDP

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



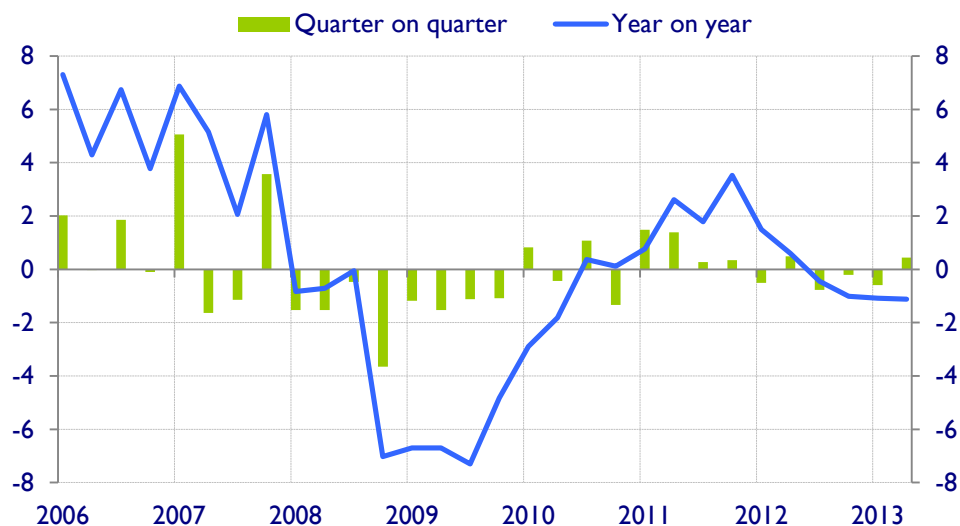
Unit: % of GDP

Source: Bundesbank, Banco de Espana, Banca d'Italia and central statistical offices

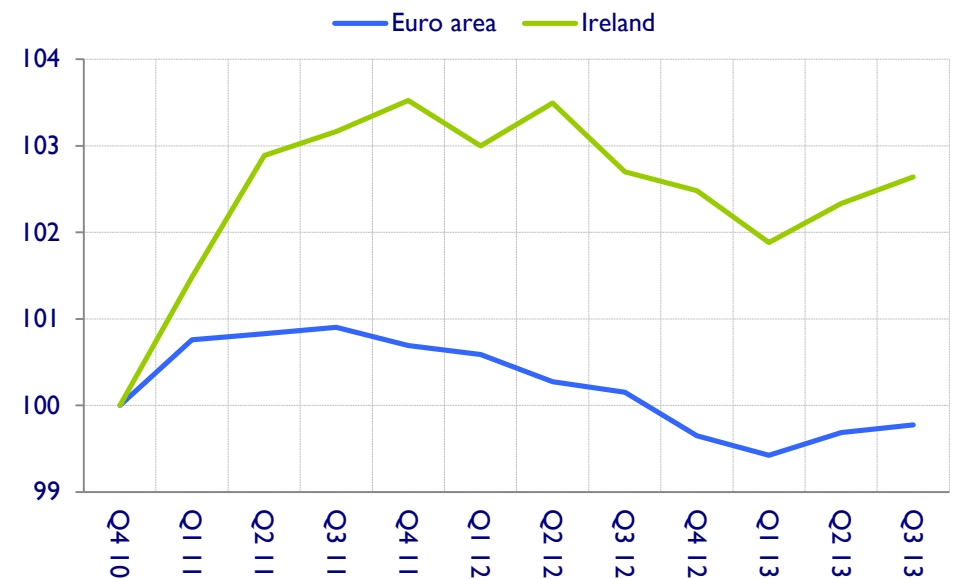
Growth was better than in the euro area

- ❑ **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



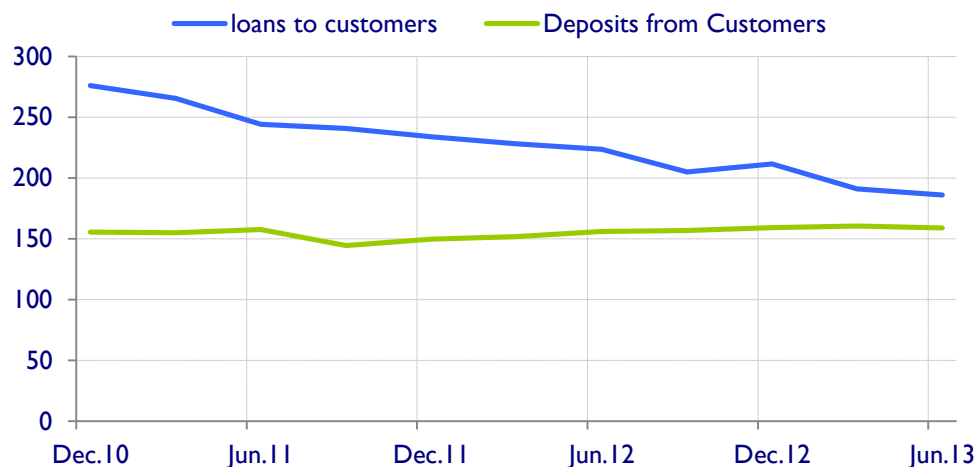
Unit: %-change
Source: Eurostat



Unit: Rebased to 100 in Q4 2010
Source: Eurostat

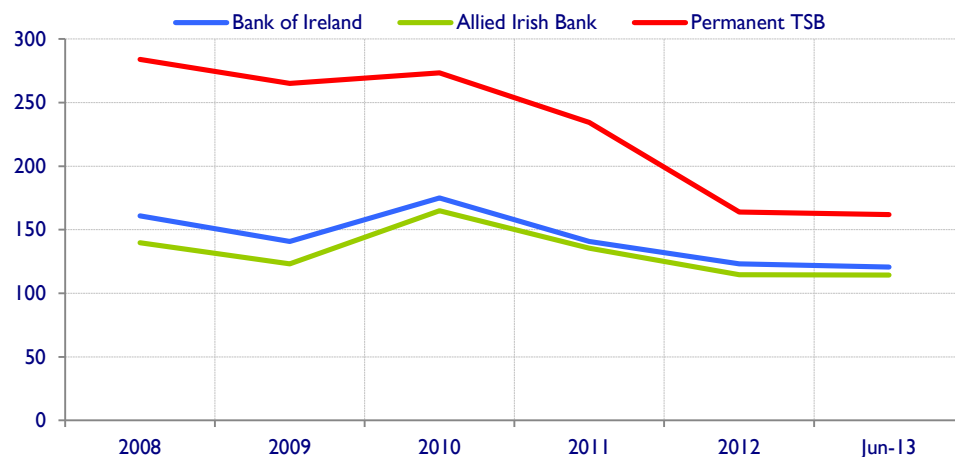
The banking sector corrected significantly

Trends in lending and deposits



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

Loans to deposit ratio



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

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

Media Enquiries

Wolfgang Proissl

Chief Spokesperson

Phone: +352 260 962 230

Mobile: +352 621 239 454

w.proissl@esm.europa.eu

Luis Rego

Deputy Spokesperson

Phone: +352 260 962 235

Mobile: +352 621 136 935

l.rego@esm.europa.eu

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