



The Irish financial assistance programme – entry, exit and lessons learned

John McCarthy

Chief Economist, Department of Finance

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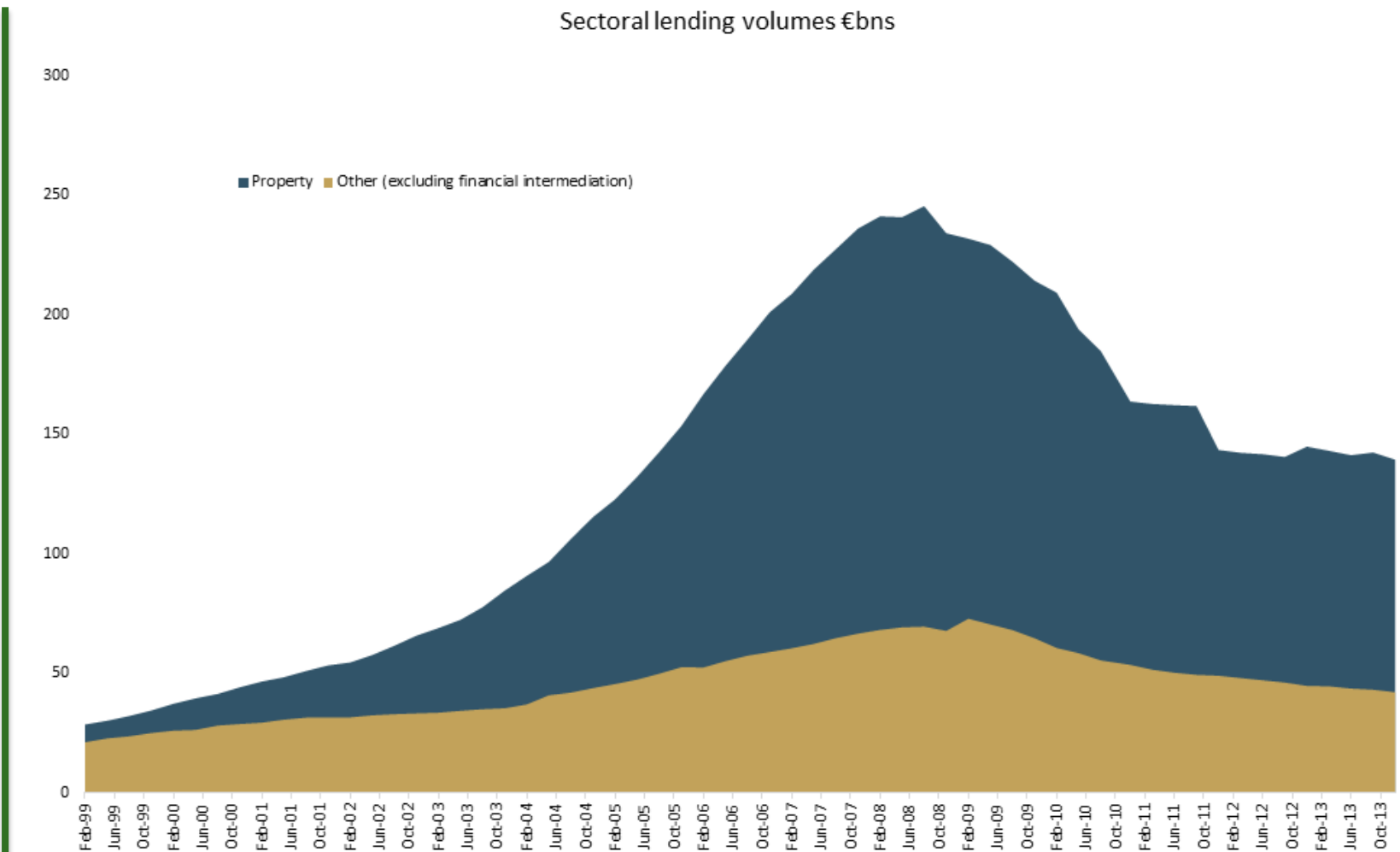
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Birds-eye view

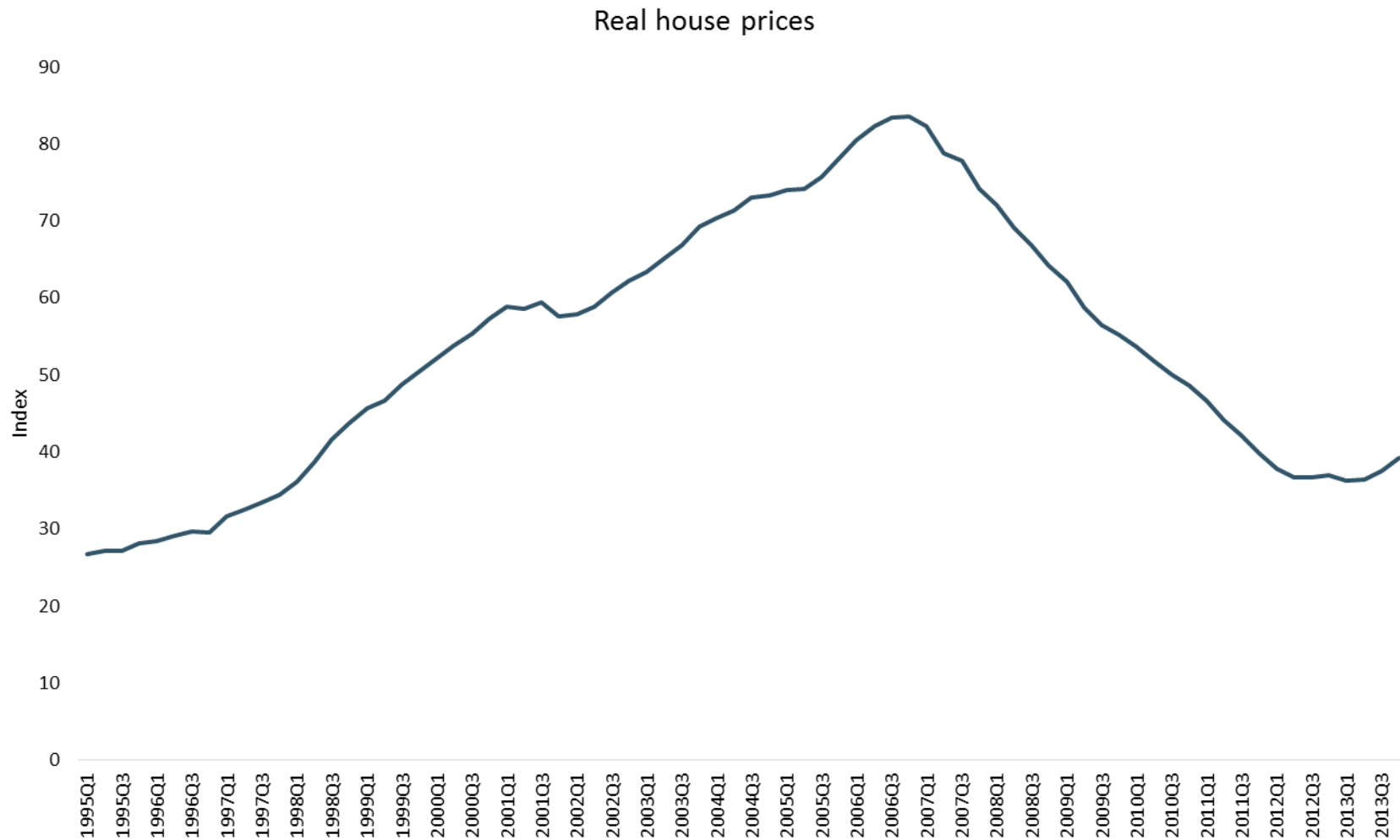
- Programme entry – origins of the Irish crisis
 - (1) accumulating imbalances
 - (2) bursting of property bubble
- Deterioration in public finance and loss of market access
- Programme design and main objectives
- Programme implementation
 - (1) fiscal consolidation
 - (2) enhanced fiscal architecture
 - (3) restoring financial sector stability
 - (4) structural reforms
- Restoration of market access and lessons learned

Programme entry – origins of the Irish crisis

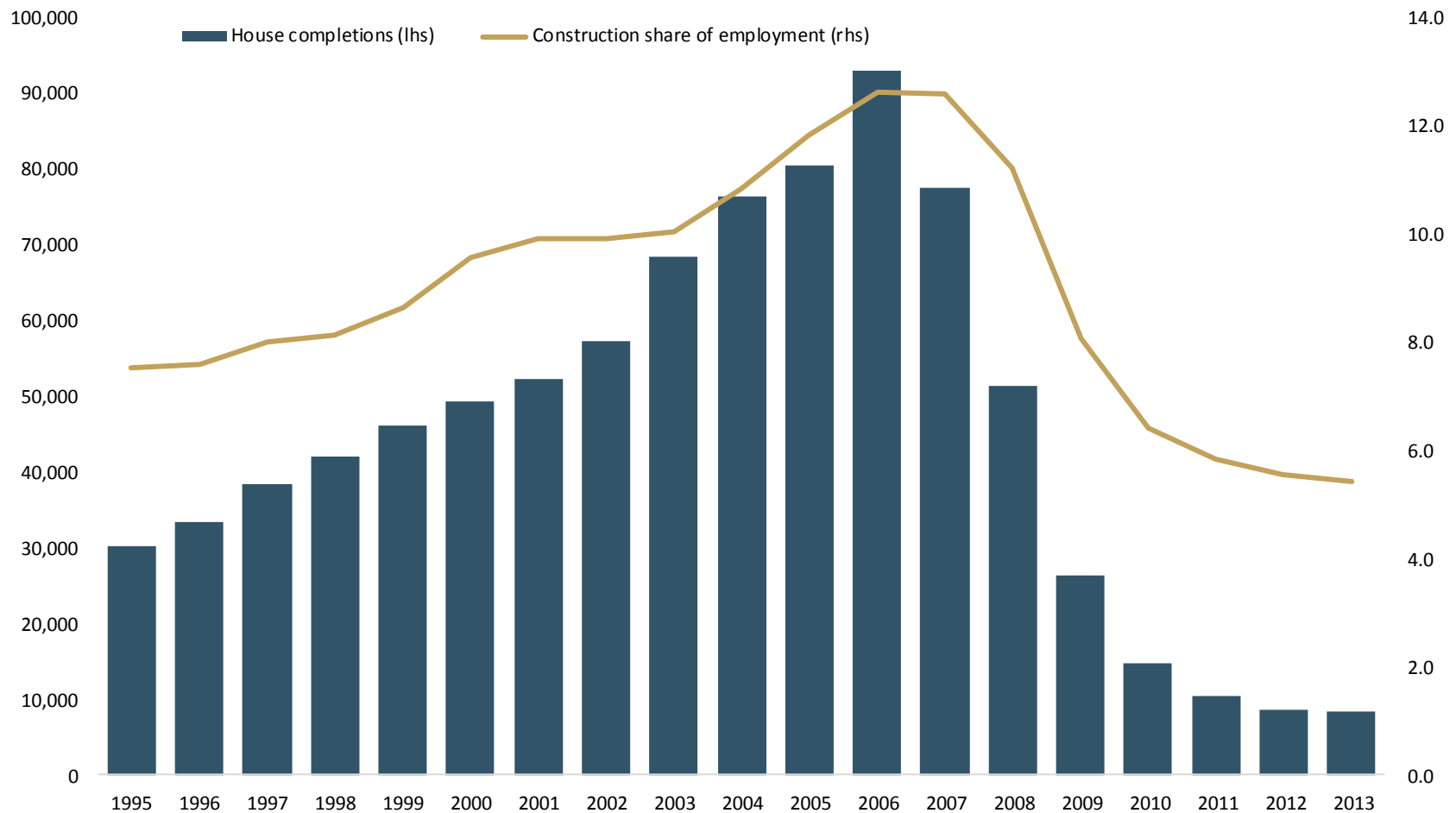
Massive increase in credit



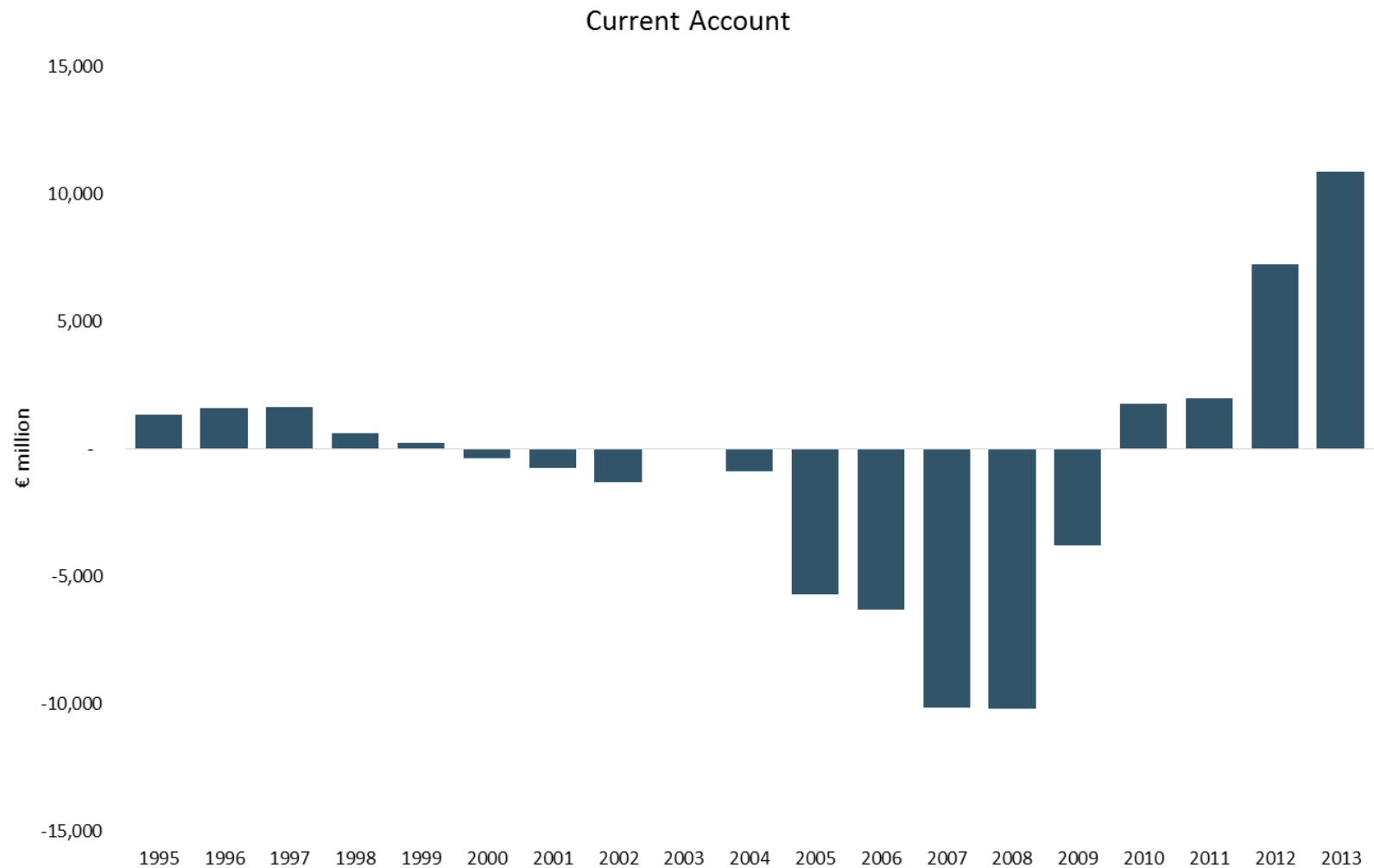
Accumulating imbalances



Mis-allocation of resources

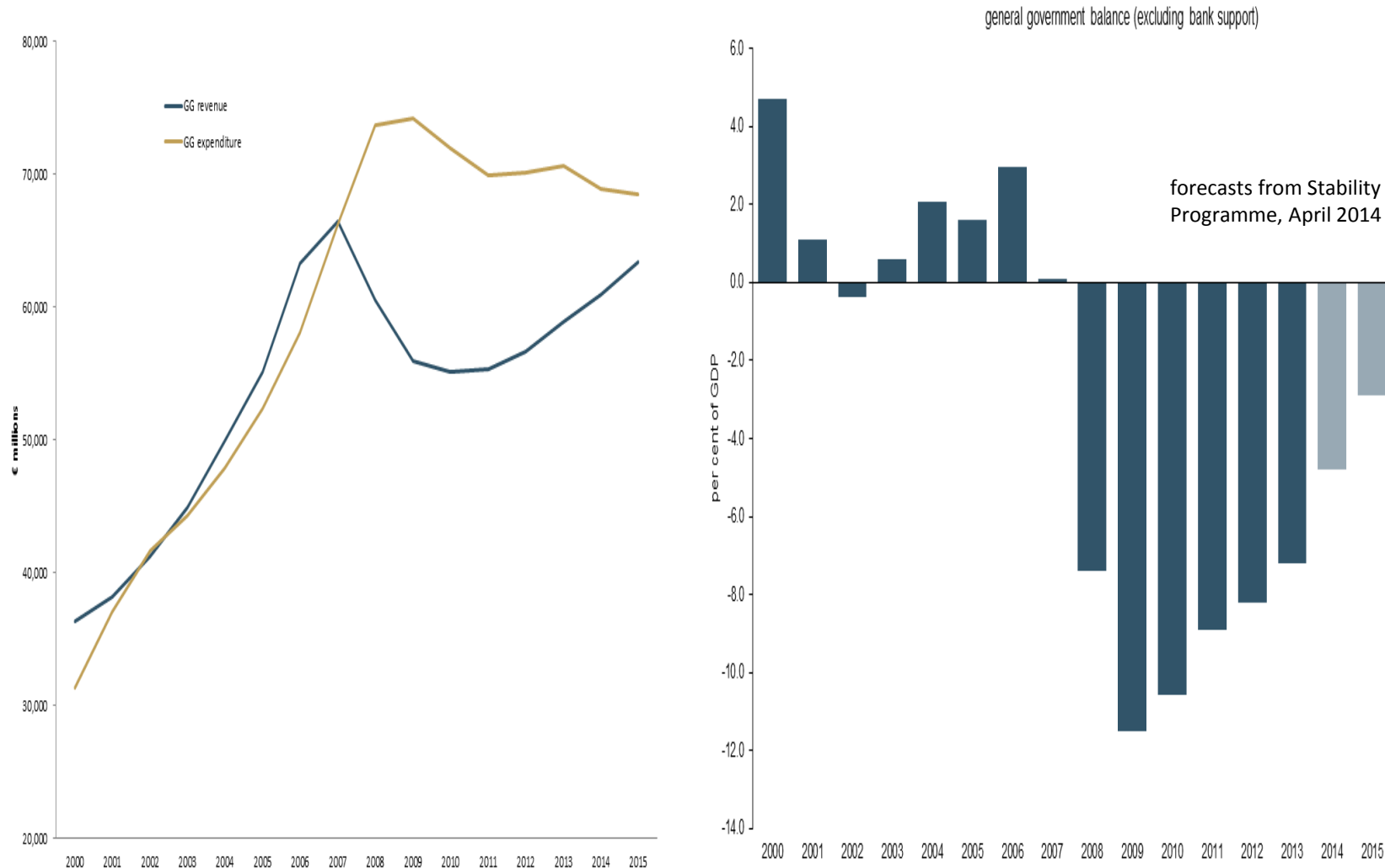


...and reflected in a widening S-I gap

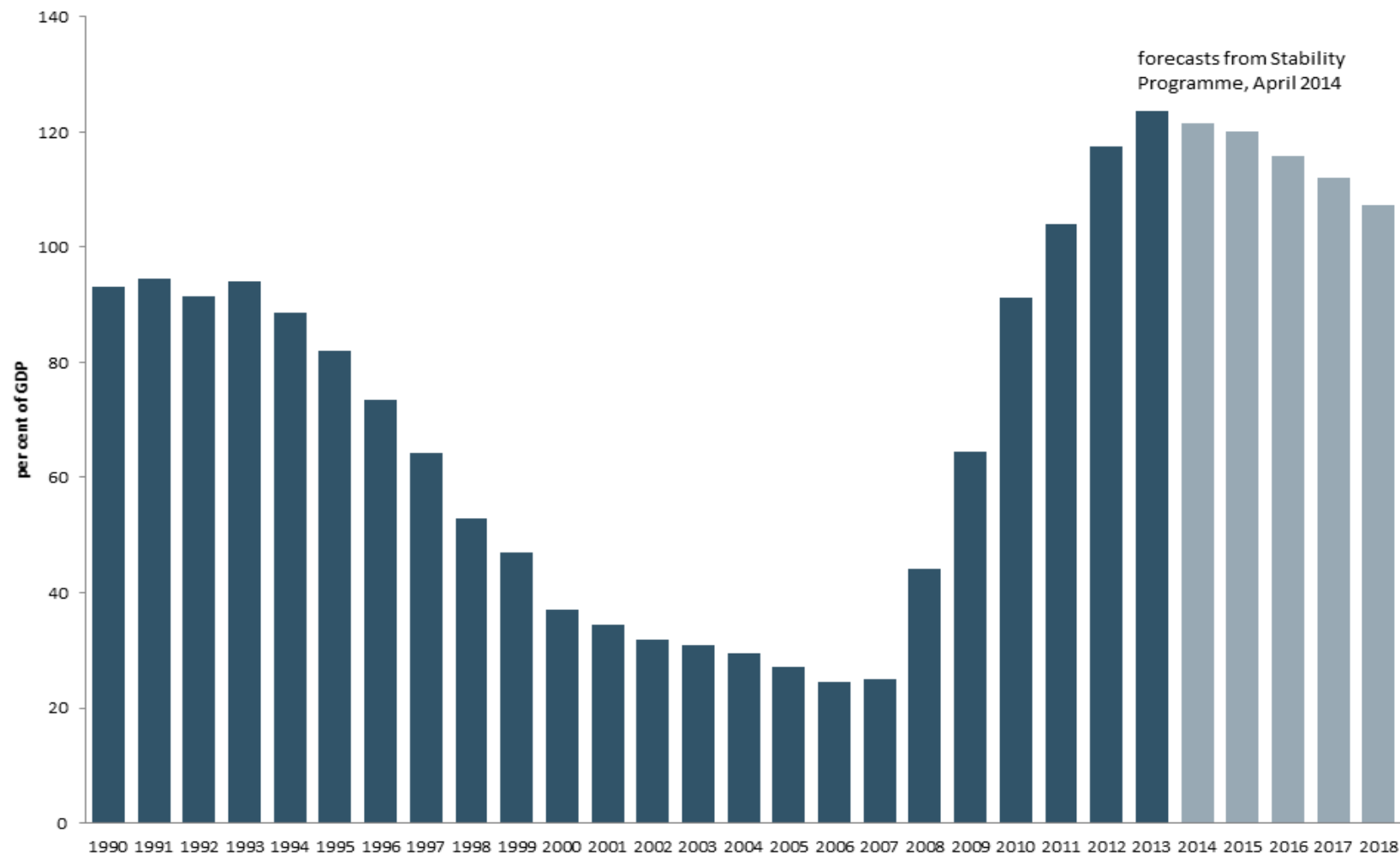


Deterioration in public finances and loss of market access

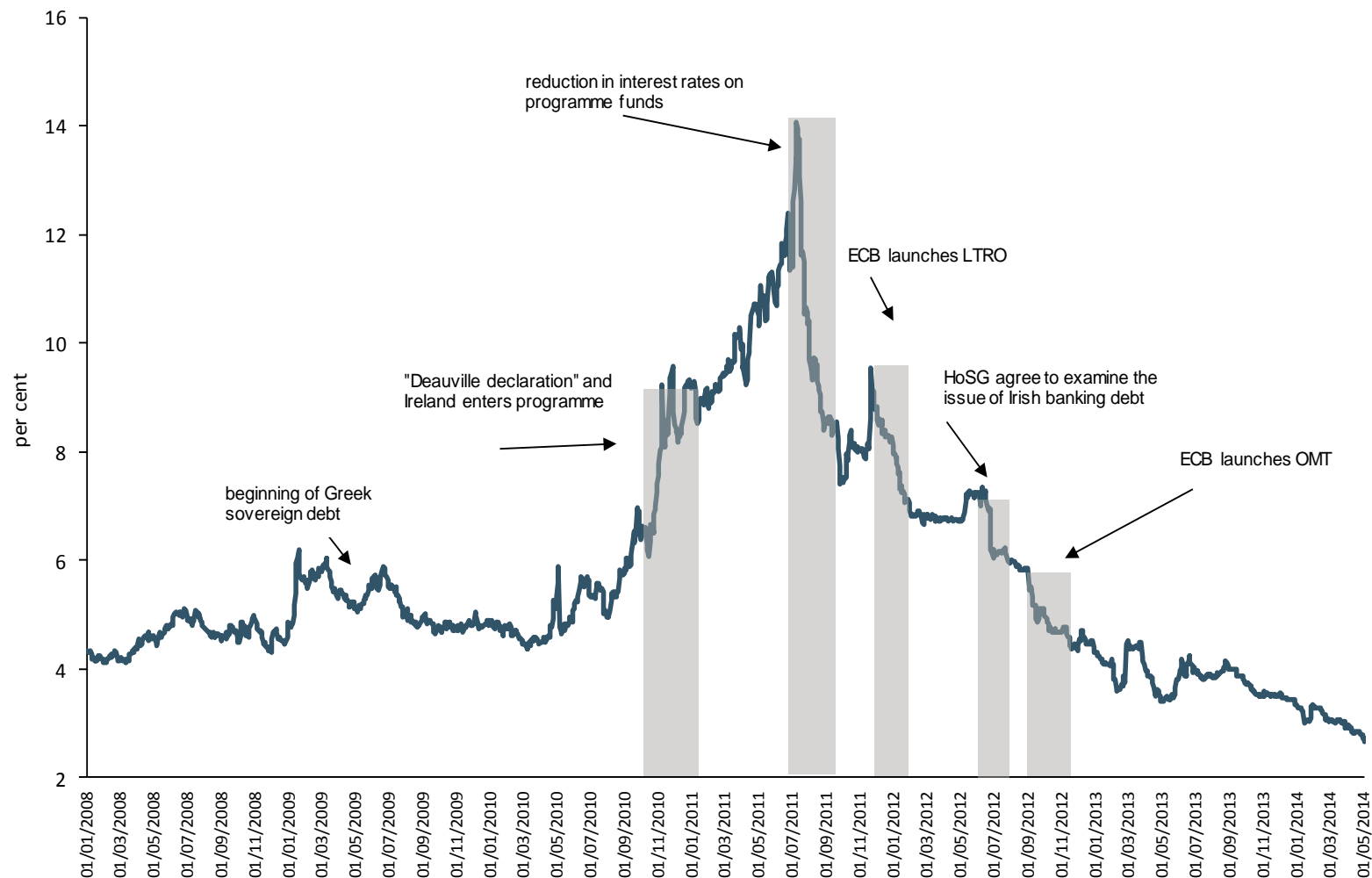
Bursting of bubble exposed unsustainable fiscal (revenue-side) base



Allied to costs of bank support, debt ratio increased by c.100 pp



Bursting of bubble led to loss of market access

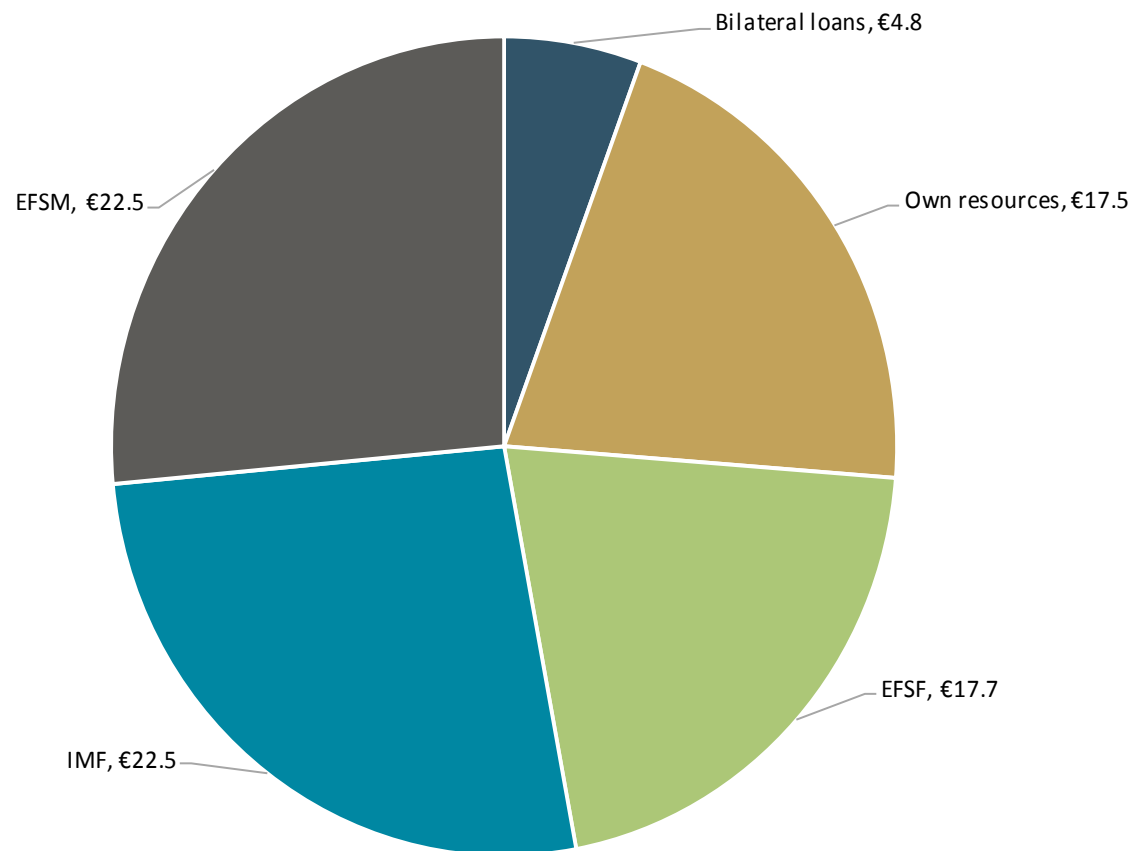


Programme design and main objectives

Programme design and objectives

- Key programme objective = restore market access
- Main elements of programme:
 - addressing fiscal imbalances
 - : consolidation
 - : enhancing fiscal architecture
 - restructuring the financial sector
 - microeconomic reforms to boost the potential growth rate
- Programme design
 - three-year programme (end-2010 through end-2013)
 - built upon 'national recovery plan', implying strong ownership
 - as in all programmes, strong conditionality to avoid moral hazard
 - : quarterly drawdowns subject to meeting various targets
 - external financial assistance of €67.5 billion (c. 40 per cent GDP)
 - : in addition to €17.5 bn own resources

Financial programme amounting to €85 bn (including own resources)

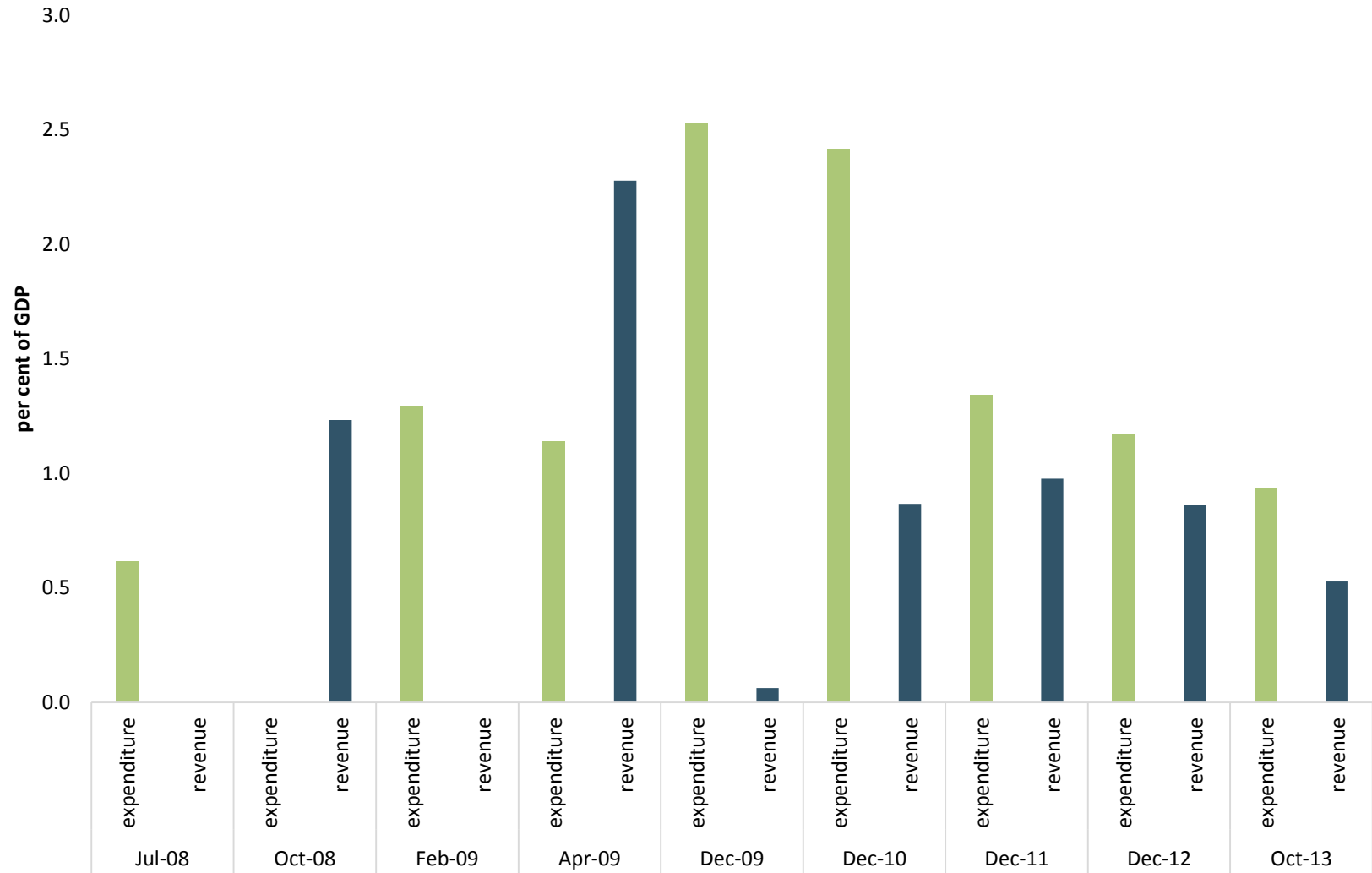


Programme implementation

Fiscal consolidation

- ***Ex ante* consolidation of c. 19 per cent of GDP (2008-2014)**
 - frontloaded
 - unavoidably pro-cyclical
- **Quality of consolidation generally good (reduce the ‘multiplier’)**
 - expenditure vs. revenue = c. 2:1
 - no ‘sacred cow’ on expenditure side
 - revenue increases geared towards base-broadening
- **Numerical fiscal rules (SGP) = important medium-term anchor**
 - objective is to correct the ‘excessive deficit’ by 2015
 - : appropriate timeframe given growth / consolidation trade-off
 - move towards balanced budget in structural terms thereafter
- **Regaining credibility**
 - get ahead of the curve

Fiscal consolidation



Fiscal architecture has been strengthened

- **Objectives**
 - enhance credibility
 - improve fiscal governance
- **Three-pronged approach**
 - better fiscal oversight
 - : establishment of independent fiscal council (IFAC)
 - improved budgetary processes
 - : Fiscal Responsibility Act
 - : introduction of multi-annual ceilings on expenditure
 - : comprehensive review of expenditure
 - fiscal rules (not part of programme – “fiscal compact”)
 - : balanced budget rule
 - : debt correction rule

Restoring financial sector stability

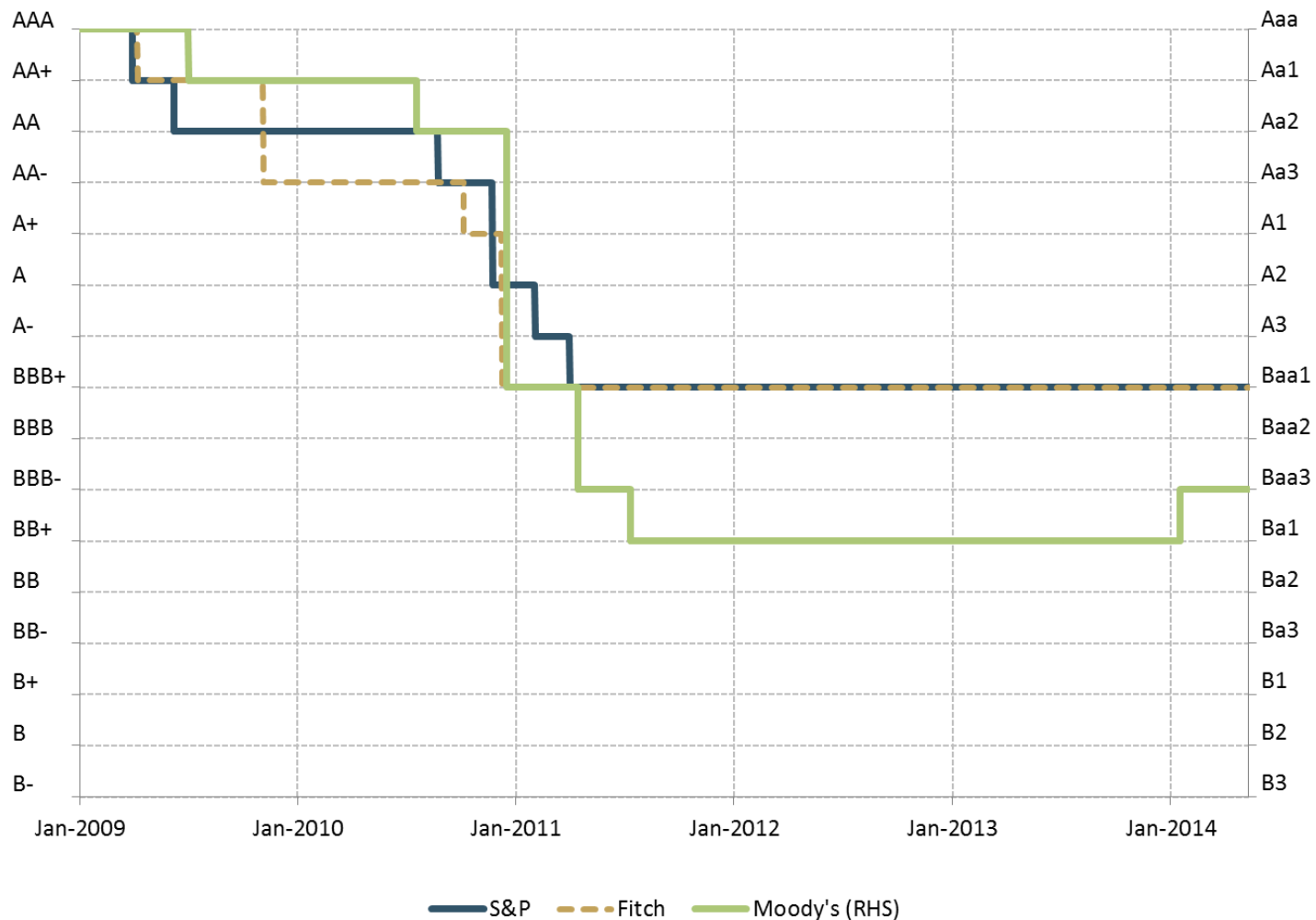
- more robust banking sector (to address solvency issues)
 - stress test and subsequent recapitalisation (€24 bn) of banks in 2011
 - : 10.5% CT1 in base case / 6% CT1 in stress case
 - restructuring around two universal banks and a smaller consumer bank
 - resolution of unviable institutions
 - address institutional weaknesses
 - : enhanced regulation
 - : bank resolution framework
- smaller banking sector (to address liquidity issues)
 - unwind non-core assets (focus on core activities)
 - : reducing LDR from 180 per cent (2010) to c.122 per cent (2013)
- Remaining challenges
 - resolution of NPLs
 - restore profitability : well underway (ultimate goal = return to private ownership)

Microeconomic reforms

- **Objective = boost growth potential**
 - enhancing competition and increasing flexibility
 - though economy already fairly flexible
- **Main reform areas**
 - product market reforms
 - : personal insolvency framework
 - : legislation for greater competition
 - : reforms of public sector (inc. health sector)
 - factor markets reforms
 - : sectoral wage reforms
 - : labour market activation measures
- **Over 290 actions completed**

Restoration of market access and key lessons

Market access – now rated investment grade by all major CRAs



Key lessons

- Competitiveness matters, especially for a small open economy
 - the BoP is an important indicator in a monetary union
- National ownership is key
 - communication
 - transparency
 - distributional aspects
- Credibility is vital
 - frontloading
 - avoid overpromising
 - a medium term plan is crucial
- Markets care about growth (short- and medium-term)
 - speed and quality of consolidation are important considerations
- Within a monetary union, response of other MS is important
- Important to plan post-programme (Medium-Term Economic Strategy)