



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

( November 2017

The Rt Hon Nicky Morgan MP  
Chair of the Treasury Committee  
House of Commons  
London  
SW1A 0AA

Dear Nicky

I am writing to update the Committee on developments regarding the international financial assistance programme for Ireland, and provide further detail on the announcement I made in a Written Ministerial Statement regarding the UK's bilateral loan to Ireland laid in both Houses on the 7 November.

As you will recall, the UK provided a £3.2 billion bilateral loan to Ireland as part of a €67.5 billion international assistance package with contributions from the International Monetary Fund (€22.5bn), the European Union (€22.5bn), euro area Member States (€17.7bn) and other bilateral lenders; Sweden (€0.6bn) and Denmark (€0.4bn). In 2014, Ireland chose to repay the majority of their loans from the IMF ahead of schedule, leaving an outstanding balance of around €4.5 billion as of 2017.

The UK provided this bilateral loan in order to help put Ireland back on a sustainable path, ensure economic stability and because Ireland is a key trading partner and ally. I regard Ireland's stability to be a key component of the stability of the UK economy and the banking sector, particularly in Northern Ireland.

On 07 September 2017 the Irish Finance Minister Paschal Donohoe wrote to all EU Finance Ministers, setting out his intention to repay early and in full Ireland's outstanding loans of €4.5 billion to the IMF, €0.4 billion to Denmark, and €0.6 billion to Sweden. Ireland intend to replace these loans with Irish Sovereign Debt, which currently carry substantially lower interest costs than these official loans.

Where Ireland chooses to make early repayments to one of the lenders under the programme, the loan agreements of all other assistance providers, including the UK and EU, contain a clause requiring that Ireland make proportional early repayments to all the other assistance providers.

In the letter of 07 September 2017, Ireland formally requested a waiver of this clause from the United Kingdom alongside similar requests to the EU and the euro-area Member States. Ireland published a concurrent press release available on the Department of Finance website:

<http://www.finance.gov.ie/updates/minister-donohoe-announces-intention-for-early-repayment-of-imf-loans/>.

A waiver of this kind was previously agreed by all creditors, including the UK, in 2014 to allow the early repayment of a substantial portion of the IMF loans.

I have today issued a waiver under clause 19.3 of the UK Credit Facility Agreement (Amended 4 October 2012) enabling Ireland to repay the outstanding IMF loans, as well as the bilateral loans from Denmark and Sweden. The waiver I have agreed is conditional upon the other remaining creditors - the EU and euro area Member States - issuing similar waivers. This decision does not amend the amount or timing of interest and principle repayments originally foreseen in the Amended Credit Facility Agreement.

I can confirm that all Member States have agreed to provide a waiver to Ireland on the outstanding loans.

As set out in the Department of Finance press release, Ireland's National Treasury Management Agency (NTMA) estimates the interest savings to the Irish Exchequer to be of the order of €150 million over the remaining life of the loans. This is relative to a scenario in which the loans are not repaid early, with a corresponding positive impact on debt sustainability and the Irish public finances.

By repaying the outstanding amount owed to the IMF, Ireland will no longer automatically be eligible for post-programme monitoring. This has been a crucial part of ensuring the Ireland loan provides value for money for the UK taxpayer, and the IMF have given assurances that they will continue to conduct staff visits up until the end of the originally envisaged post-programme period in 2021. This coincides with the scheduled repayment of the final tranche of the UK loan.

It is clear to me that, conditional upon all other lenders providing similar waivers, granting a waiver for the UK bilateral loan delivers material benefits to Ireland's fiscal position and debt sustainability in the coming years. However, the benefits of these actions are not exclusive to Ireland, as the removal of a senior creditor (the IMF), as well as creditors ranking *pari passu* with the UK (Sweden and Denmark) will improve the relative seniority of the UK's loan. The resulting improvements to Irish debt sustainability in the years leading up to repayment of the UK's bilateral loan further enhances the likelihood of repayment whilst maximising the benefits to Ireland. In my view, this was the best Value for Money outcome for the British taxpayer.

To refuse the request, and to therefore demand pro-rata early repayment, would have significantly reduced the benefit to Ireland of conducting the early repayment operation. Rather than agree to repay the UK early, in these circumstances Ireland would have chosen not to repay any of the loans ahead of schedule. The Irish Exchequer would therefore not have availed of the interest savings detailed above. I believe it would have been short sighted and not in the UK's national interest if it had stepped aside from this coordinated



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action and would not have been in line with the original purpose and principles of providing a loan.

I am writing in similar terms to Meg Hillier MP, Chair of the Committee of Public Accounts, Chair of the European Scrutiny Committee, and to The Lord Boswell of Aynho, Chair of the European Union Committee.

A handwritten signature in blue ink, appearing to read 'Philip Hammond'.

PHILIP HAMMOND