

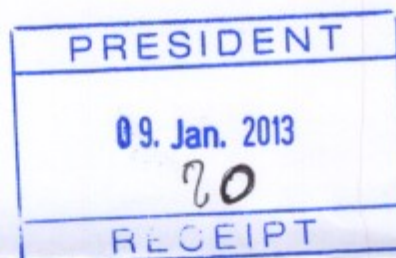


MICHAEL McGRATH T.D.  
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***Strictly Private and Confidential***

Mario Draghi  
President  
European Central Bank  
Eurotower (Main building)  
Kaiserstrasse 29  
60311 Frankfurt am Main  
Germany



7 January 2013

***Re: Negotiations between the Irish Government and ECB concerning the IBRC promissory note***

Dear President Draghi,

I write to you as the Finance Spokesperson of the largest opposition party in Ireland - Fianna Fáil - concerning the ongoing negotiations between the Irish government and the ECB regarding the IBRC promissory note arrangement. As you know, the next instalment of €3.1bn falls due for repayment on March 31st 2013.

As we are all acutely aware, the Irish State is currently undergoing a difficult adjustment process to bring down our budget deficit to 3% by 2015. Over €28bn in tax rises and expenditure cuts have taken place to date and this has led to a considerable reduction in living standards for citizens. Pressure on public services is increasing and severe hardship is being felt by wide sections of the population, including those suffering from unemployment and householders in arrears with their mortgage. In truth, life is pretty miserable for a great many Irish people at present and I think it is important you are under no illusions about this.

To date the Irish people have displayed a remarkable level of resilience in the face of extremely painful measures. As a public representative, I detect a growing sense that this resilience is waning. There is a wide-spread view that, while Irish people have done all that is asked of them to bring about an economic recovery, this is not being reciprocated by action from our European partners to underpin what has been achieved to date.

In particular, there is acute frustration at the apparent lack of progress at giving practical effect to the commitment at the Heads of State and Government summit in June 2012 to break the vicious circle between banks and the sovereign and the commitment that "*The Eurogroup will examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme.*"

We are now into 2013. The Irish people are bearing the brunt of another tough austerity budget announced in December 2012 and yet there has been no discernible progress on dealing with the enormous financial burden imposed as a result of our banking collapse. Despite an improvement in the exchequer finances, Ireland's debt / GDP ratio will exceed 120% in 2013 unless action is taken in respect of the banking related portion of the debt.

In particular, I concur with the sentiments expressed in the IMF recent country report on Ireland which stated:

*"Given Ireland's high public and private debt levels and uncertain growth prospects, inadequate or delayed delivery on these commitments poses a significant risk that recently started market access could be curtailed, potentially hindering an exit from official financing at end 2013."*

If a country follows – to the letter- IMF /EU conditions but fails to emerge from the crisis successfully and restore its creditworthiness, this would have significant implications well beyond Ireland itself.

While consumer confidence has recovered in recent times it is still fragile. Uncertainty in the run-up the December budget had a sharp negative impact on consumer outlook. I am concerned that a prolonged negotiation concerning the March 31<sup>st</sup> instalment of the promissory note issued to IBRC will dampen expectations as to Ireland's future economic prospects.

The issues in relation to the promissory note are well established and have been under consideration for some considerable time. I believe it should be possible to take the necessary action in respect of the promissory note to give effect to the summit commitment within a relatively short space of time. This would have the dual benefit of improving the public finances and reassuring consumers that we have the full support of our European partners in our efforts to return to economic health. I would like to make it clear that Fianna Fáil supports the Irish government's efforts to reduce the burden on the Irish state of bailing out the Irish banks (and by extension the European banking system and the euro itself). Indeed, it is my view that Ireland should not have to repay this promissory note on March 31<sup>st</sup>. It makes no logical sense for the Irish government to pay over €3.1bn in cash to IBRC who will in turn pay it on to the Irish Central who will in turn take the money out of existence. Ireland needs and deserves a very good deal as an outcome to the current negotiations.

While you may argue that the €64bn (circa. 40% of Irish GDP) incurred in bailing out Irish banks was the result of decisions made in Ireland, the truth is far more nuanced. Indeed, the pressure exerted by your predecessor on the previous Irish government in relation to bailing out banks and repaying all senior bondholders in fully directly contributed to this bill being put on the shoulders of ordinary Irish people.

In relation to the possibility of the ESM investing directly in Irish banks, I accept that there is considerable work that needs to be done in respect of furthering banking union before this can be undertaken. However, it should be possible at this juncture to clarify whether such investment in the case of Ireland would be undertaken consistent with a valuation of the banks based on their profitability under normalised conditions. This in itself would be a significant

signal of future intent.

We all agree that Ireland is close to a successful exit from its programme. However, this is not guaranteed and action is clearly required in relation to the bank debt to ensure that the gains made to date are not lost.

The IMF have signalled its clear views in this regard and I believe now is the appropriate time for the ECB to facilitate the necessary steps to bring this matter to expeditious conclusion.

I trust you will consider these matters.

I look forward to your reply.

Yours sincerely,

A handwritten signature in black ink that reads "Michael McGrath". The signature is written in a cursive, slightly slanted style.

Michael McGrath T.D.

*Fianna Fáil Spokesperson on Finance*