Anglo Irish Bank fails

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The Anglo Irish Bank was nationalised in early 2009 to prevent its immediate collapse. The Irish Fianna Fail/Green coalition government is now planning to split the bank into a deposit bank and a "recovery" bank or "bad bank", as its losses continue to grow because of the decline of the property market. They hope that this will prevent an Irish sovereign debt crisis.

Ten-year Irish bonds are currently 380 basis points above German bonds, reflecting market fears that Ireland is in increasing danger of default. The pressure on Ireland is now greater than it was in May, when the European sovereign debt crisis first reached its peak.

An editorial in the *Financial Times* called on the government to let Anglo Irish fail and warned, "Irish leaders are prolonging the uncertainty in the hope that zombie banks will, Lazarus-like, come back to life."

Economist Simon Johnson of Baseline Scenario suggests that the country is actually insolvent. "Ireland, simply put, appears insolvent under plausible scenarios with current policies" he said.

The "current policies" include some of the most severe austerity measures in Europe. Implicit in the new plan to divide the bank is another round of attacks on the working class, which is being forced to shoulder the cost of a speculative fiasco.

When Anglo Irish was nationalised, the government pumped some €1.5 billion into its property-oriented operations, as part of €5.5 billion package to prop up all of Ireland's ruinously indebted banks. Nationalisation followed the government's unlimited guarantee to depositors in Irish banks, which was offered in the immediate aftermath of the collapse of Lehman Brothers in September 2008.

That guarantee is still in place. Were it to be withdrawn, the entire Irish financial system would disintegrate overnight, as all the major Irish banks remain technically insolvent.

In the intervening two years, however, the position of Anglo Irish has degenerated spectacularly, while the Irish property market has collapsed along with the huge speculative bubble on which much of it was based. Government cash handouts of €4 billion in 2009, €10.4 billion in March 2010, and a further €8.6 billion in August 2010 have been turned over to enable the bank to continue functioning until the end of this year.

Anglo Irish's losses are gargantuan, and even now its real position is not at all clear. From the start of the year to March 2010, the bank lost €12.7 billion, the worst losses in Irish corporate history. According to the *Banker* magazine, Anglo Irish lost the most of any bank in the world in 2009, while its losses for the first half of 2010 are already €8.3 billion. Total estimates of the final sum needed to cover its debts range between €24.5 billion and €35 billion.

The bank's chairman, Alan Dukes, made the following extraordinary statement on RTE Radio in August. Asked if €24 billion would be the total capital requirement, Dukes breezily remarked, "I think that anybody today who says that they can put a total figure on what the total losses are going to be is taking a pure punt. Nobody knows". Underlying the uncertainty is the ongoing fall in commercial real estate prices, which are down 58 percent since 2007 and are continuing to decline.

Anglo Irish has itself become a major factor in the decaying financial position of the Irish state. Last month, credit rating agency Standard & Poor's reduced the country's credit rating to AA minus, in part because of its own estimate of the scale of Anglo Irish costs. Standard & Poor's put the total cost of the banking bailouts at €90 billion—42 percent of gross domestic product.

Over the subsequent weeks, the Irish government faced steadily increasing charges when trying to raise money. On September 6, the yield on a 10-year

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government bond was more than 6 percent. This was three times more than the cost of similar German government bonds, and the level flagged by a number of economists earlier in the year as a marker en route to state bankruptcy. Ireland pays seven times the amount paid by Germany for short-term bonds. The cost of credit default swaps to both the government and all the Irish banks soared to levels not seen since early 2009.

A Dublin economist with Bloxham Stockbrokers, Alan McQuaid, summed up the situation facing the Irish government. "You are trying to juggle too many balls, you're weighed down by Anglo and you are not going to be able to generate enough economic growth and implement fiscal austerity and meet budget targets by 2014, 'it's just impossible', that's what the market is telling you."

Finance Minister Brian Lenihan himself acknowledged the dead weight of Anglo Irish losses. Asked on RTE television if one bank could bring down a country, Lenihan replied, "Yes, it's an entirely reasonable question, and we've had to live with this danger since September 2008."

The deepening crisis over Anglo Irish has forced the European Union (EU) to intervene repeatedly. The EU is just as anxious as the Irish government to avoid the collapse of the bank, which would likely trigger a wave of banking collapses across Europe. Earlier this year, the European Commission rejected the Irish government's initial plan to break up Anglo Irish on the basis that the new organisation would remain too exposed to the property market.

Events over the last weeks following the credit downgrade, along with reports of increased requests from Portugal to the European Central Bank, have forced the matter, however. Head of the European Central Bank Jean Claude Trichet insisted, under conditions of deepening alarm, that "it is the responsibility of the Irish government and the Irish authorities to deal with their banks."

This week, the Irish government finally announced its proposals to break up Anglo Irish, following consultations with the European Commission. Anglo Irish will be split in two. One part will serve as an asset recovery agency, holding all Anglo Irish loans that have not been transferred to the other state "bad bank", the National Asset Management Agency (NAMA). The other part will hold assets for the banks depositors—some €54 billion—but it will not seek new business.

In this way, the government hopes over a period of up to 20 years to recover as much of the badly performing loan book as possible, to ensure that the bank's wealthy depositors are not impacted and to guarantee that Ireland remains a centre of financial parasitism.

The cost, as with the government's other vastly expensive financial rescue operations—including NAMA itself, and the ongoing operations to prop up Allied Irish Bank, the Bank of Ireland, Irish Nationwide, and others—will be passed onto the working class. It was recently estimated in the *Irish Times* that Ireland's three "viable" banks themselves require another €17 billion.

To this end, the government is preparing to increase taxes levied in the upcoming budget, due in December. Some €3 billion worth of cuts in next year's budget have already been announced as part of the austerity measures introduced in 2009. The government, however, is rapidly coming to the conclusion that yet more is required. A further €500 to €750 million worth of tax increases are being prepared this year. These are expected to target the lowest earning sections of workers. Further cuts in capital expenditure are also expected.

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