Irish government raids pensions to give banks €24 billion

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5 April 2011

A further €24 billion should be injected into four leading Irish banks, according to the results of "stress tests" announced by the Irish Central Bank (ICB) late last week. The sum, on top of €46 billion already paid in four previous transfers, will bring the total amount of government funds transferred to the country's banks to €70 billion, around 45 percent of the country's annual gross domestic product.

A majority of the sum to finance the bailout will be taken from the government pension fund. The remainder will come from asset sales and external sources.

The tests and associated measures, approved by the "troika" of the European Union (EU), European Central Bank (ECB) and the International Monetary Fund (IMF), were a requirement of the punitive emergency package the same organisations imposed on Ireland last year. They are intended to ensure that the European and international banks, and asset funds holding billions of euros in Irish bonds, continue to be protected.

The tests, carried out by financial services company Blackrock for the ICB examined the loan books of those Irish banks that are still standing and concluded they remain vulnerable.

Previous cash injections to the banks were triggered by the collapse of the Irish property market following four years of frenzied speculation in commercial and housing developments. Irish banks borrowed extraordinary sums of cash on the international markets that were passed on to local property speculators, many associated with official political parties.

The global financial crisis of 2008 left Ireland's banks ruined, European financial institutions saddled with bad Irish debt, and the island littered with thousands of partially built office complexes and housing estates.

Anglo Irish Bank and Irish Nationwide Building Society were the most exposed. Both are now fully nationalised, with the Irish state responsible for all their debts. Anglo Irish Bank lost a staggering €17.7 billion last year, the largest loss in Irish corporate history. In total Anglo Irish alone is expected to cost the Irish taxpayer somewhere between €29 billion and €35 billion, including the €974,000 handed over to CEO Mike Aynsley as remuneration last year.

Stress tests of Allied Irish Bank (AIB), Bank of Ireland, EBS and Irish Life and Permanent were done by measuring the potential impact of a 60 percent decline in peak housing prices on the banks' property and mortgage books. Scenarios included a 17.4 percent fall this year, and 18.6 percent in 2012. Blackrock also assumed a contraction in the economy this year, minimal growth beyond, and unemployment rising to 15.9 percent.

On this basis, Blackrock suggested that some €16.9 billion of bad mortgage debts would emerge, of which €10 billion was held currently by owner-occupiers, along with further bad property development loans. The ICB also insisted that in future the banks be required to hold 12.5 percent of their total assets in capital. This compares with 8 percent for UK banks.

This prognosis led to the conclusion that €24 billion was necessary to stabilise and rebuild investor confidence in the Irish banks. Of this, AIB will take some €13.3 billion, Bank of Ireland €5.2 billion, EBS €1.5 billion and Irish Life & Permanent €4 billion.

Simultaneous with the stress test results, Finance Minister for the newly installed Fine Gael/Labour Party government, Michael Noonan of Fine Gael, announced troika approved plans to reorganise the banks. The four remaining bailed out institutions are to be merged into two led by AIB and Bank of Ireland. The new banks would, according to former Fianna Fáil Finance Minister Brian Lenihan, who supported the plan, be “stuffed with capital”.

Cash for the new bailout will be pilfered from reserves set aside for workers’ pensions in the National Pension Reserve Fund. €17.5 billion, including €7 billion already transferred to the institutions, will be seized. The rest will come from asset sales, and by drawing on external funds made available by the troika last December. In the short term, all the banks are expected to rely heavily on the ECB, as no one else will lend money to the Irish banks. According to the BBC’s Robert Peston, the ECB has already leant the banks an additional €117 billion.

Noonan refused to countenance measures to “burn the bond-holders”. The phrase, much repeated by most parties in the recent general election campaign, refers to measures to impose the cost of recapitalising the banks on the financial institutions holding bank debts. During the campaign Fine Gael leader Enda Kenny postured that he was going to seek renegotiation of Ireland’s EU/IMF loan. Labour’s Eamon Gilmore similarly blustered, “It’s Frankfurt’s way or Labour’s way”.

With the election over, all such talk has been abandoned. Noonan explained, “Burden-sharing is not the majority opinion so we’re not going to go there until we go with our European colleagues.” Gilmore, now Deputy Prime Minister (*Tanaiste*), claimed absurdly that the bailout “will be done at a minimal cost to the taxpayer”.

Klaus Regling, head of the European Financial Stability Facility warned of the dangers of any weakness from the Irish government. “If one government in the euro area breaks a promise, a legal commitment, then of course some people might say this can also happen in other countries.”

A London-based analyst at CreditSights Inc. explained to the Bloomberg news agency the implications of continued talk about “burning” bondholders. “The fallout would be big and it would be bad. The senior unsecured market would shut down. Right now, the bigger and better Spanish and Italian banks can still access the market. That would end.”

These comments show that Ireland is a test case for much of Europe, particularly its weaker economies such as Spain and Portugal. With the backing of the troika, the Irish government, like its predecessor, is setting a benchmark for the looting of social assets on behalf of the entire European financial and corporate elite.

Spain in particular is still gripped by the collapse of a property bubble that has, like Ireland, left ghost estates and villages across the landscape. Unemployment is near 20 percent and Spanish government bonds were recently downgraded by the credit ratings agency Moody’s. Likewise Portugal is mired in a similar level of debt, with €216 billion of outstanding loans from Spanish, German, French and British banks. The country is on the brink of negotiating a socially devastating financial package with the troika.