Ireland may need second bailout as state default looms

Jordan Shilton
1 June 2011

Even as the European Union and International Monetary Fund seek to impose another round of austerity measures on Greece to avert a second bailout package, the situation in Ireland is developing along similar lines. A €67 billion bailout was extended by the EU and IMF last November to prop up Dublin's bankrupt financial institutions, but further loans could be required as soon as 2012 to prevent state insolvency.

Market fears have seen the interest rates on Irish government bonds pushed to record heights. The spread between Irish and German government bonds rose above 8 percentage points, with Irish three-year bonds trading at over 13 percent. This is approaching the level of Greece, whose bonds are trading at an interest rate of over 16 percent. On Tuesday, a Fitch report stated that the EU and IMF would have to provide Athens with "substantially more" aid beyond 2013.

Such exorbitant rates will make it virtually impossible for the Irish government to raise funds from private investment any time soon. With the EU-IMF loan due to expire in 2013, the intention had been for Dublin to raise capital from the markets next year. According to Transport Minister Leo Varadkar however, this is now "unlikely".

He told the *Sunday Times*, "I think it might take a bit longer. … 2013 might be possible but who knows."

Taoiseach (prime minister) Enda Kenny and Finance Minister Michael Noonan were quick to deny Varadkar's claim, stating that the government was on course to meet the demands set out in the loan agreement last year. The Fine Gael-Labour coalition, which assumed power after elections in February, has intensified the severe austerity drive begun under the previous Fianna Fáil government while extending additional billions to bail out the banks.

The drastic budget-cutting has further undermined Ireland's already weak economy. Retail sales were down sharply in April, as many consumers struggle to make ends meet. It is generally accepted that a projected growth rate of 1.6 percent in 2011 will not be achieved and that the economy will stagnate at best. The reality is that far worse is likely. Accountancy firm Ernst & Young predicted Tuesday that Ireland's economy would contract by 2.3 percent this year, meaning a fourth year of recession.

An editorial in the *Irish Independent* denounced Varadkar's comments, complaining, "Government ministers are bound by collective responsibility. They also have a duty to think of the possible consequences of their words and actions. Yesterday the Transport Minister's words flew around the world, carrying to nervous markets the exaggerated but potentially fateful message that the Irish Cabinet is divided."

The editorial continued that dissent could not be tolerated under the current circumstances: "The discontents within the coalition could revive a nightmare that we thought we had killed off. The general election of February 25, followed by the formation of the Fine Gael-Labour Government on March 9, should have given us a guarantee of political stability—something the markets value almost as much as they value fiscal health."

The prospect of a second bailout for Ireland will intensify the already sharp divisions within Europe over how to deal with the debt crisis. The conflicts over the need to provide further finance to Greece illustrate how EU member states have increasingly divergent views. Germany has voiced opposition to a second bailout for Athens, and, along with the Netherlands and Finland, is believed to be pushing for some form of debt restructuring. France, together with the European Central Bank (ECB), has come out strongly in opposition to such a proposal, fearing that it would trigger another round of bank failures throughout Europe.

Similar questions would be raised in the case of Ireland, with hundreds of billions of euros invested in its banks prior to the economic crisis in 2008. The exposure to a default would stretch across the continent. According to figures supplied by so-called “stress tests” performed on banks in July 2010, European banks have at least €450 billion invested in Ireland.

Working people have been made responsible for repaying this massive sum, worth roughly twice Ireland’s GDP. The new government has implemented close to €6 billion in cost-cutting this year alone as part of a €15 billion programme of budget cuts stretching over four years.

The latest austerity measures unveiled include a pay cut for approximately 200,000 workers employed in the tourist and hospitality industries. Other proposals are the removal of overtime bonuses and an end to increased wages paid to those who work on Sunday. The vast majority of those affected will be workers on the lowest incomes, who have already felt the impact of an increase in VAT on top of the deep cuts to vital public services.

A proposal to sharply increase tuition fees for students in further education is expected to be revealed soon. This is only the beginning.

The trade unions have played a key role in imposing the full range of austerity measures, collaborating with the previous and current governments to hold widespread anger in the working class in check. The unions remain committed to the Croak Park agreement, a deal struck with the previous government banning strikes for four years.