Calls for debt restructuring grow as Ireland faces recession

Jordan Shilton
30 June 2012

Each passing week brings with it new figures showing the rapid deterioration in Ireland's economic outlook. With the vast intensification of the euro crisis over the last month, it is increasingly likely that Dublin will require additional support from the European Union (EU) if it is to avert state bankruptcy.

The EU has publicly denied that any such discussions have taken place. EU Commission and German government officials claimed that restructuring Irish debt would send the wrong signal to the markets, with Dublin considered a "model pupil" in the implementation of its bailout programme. As Spain moves closer to being forced out of the markets, and with the Greek crisis continuing to deepen, the EU is seeking to avoid any public discussion of Ireland's need for additional financial aid.

The latest grim assessment on Ireland was delivered by the International Monetary Fund (IMF) in its quarterly report on the implementation of the 2010 bailout it extended to Dublin, along with the EU. The IMF raised the concern that the continuation of the austerity measures that have seen more than €25 billion in spending cuts and tax hikes since 2008 would not be "politically sustainable" without debt restructuring.

As well as the repayment of the €85 billion loan to the EU/IMF, Dublin also has a bill of €47 billion in "promissory notes" to cover its bailout of the failed Anglo-Irish Bank. It is this sum that the IMF urges must be restructured, calling in its report for "a more durable extension of the debt service schedule on promissory notes."

Without such a deal, the IMF fears that Ireland will not be able to access the markets in time before its current bailout programme expires in autumn 2013, which would result in the need for a second bailout from the newly established European Stability Mechanism (ESM).

The government in Dublin had hoped that its ability to pass the fiscal treaty referendum last month would strengthen its hand in negotiations with the EU. Deputy Prime Minister Eamon Gilmore had said that the yes vote had given the government "added authority in talking to the European institutions and the other European member states. We are going to continue doing that to secure a deal in relation to our bank debt which is satisfactory for the point of the Irish taxpayers."

The implementation of the savage cuts contained within Ireland's current bailout agreement has worsened economic and social conditions in Ireland. In a report published last week, the professional services firm Ernst & Young predicted that the economy would enter a recession again in 2012, after minimal growth of 0.7 percent last year. Looking ahead, the report saw no prospect of growth in the years to come, with minimal growth predicted until 2017. It also demonstrated the complete dependence of the economy on broader European and global developments, with exports representing the only source of economic expansion.

But a report from the Economic and Social Research Institute warned the government against attempting to stimulate the economy with any form of public spending. Instead, it urged that funds be spent to increase "competitiveness"—i.e., by providing subventions and incentives to big business whilst launching labour market "reforms" to reduce wages and the overall cost of employing workers.

The slowing economy will mean that the spending cuts that have been outlined for the coming period will have to be intensified if Ireland is to meet its targets under the bailout. The Labour-Fine Gael coalition was aiming at imposing around €12 billion of austerity

measures between now and 2015, which would aim to reduce Ireland's budget deficit to 3 percent of GDP. Further cuts will have to be subsequently drawn up to meet the new target for states to have a budget deficit of 0.5 per cent of GDP under the fiscal treaty.

Instead of such policies reducing state debt, the level is likely to rise in the coming years. Because of the slowing economy, the IMF's latest report suggested that total state debt as a percentage of GDP could rise to over 130 percent by 2017, up from the current level of 120 percent. Even if the most optimistic projections of the IMF are used, the full implementation of the austerity programme and a return to economic growth will only see the debt cut to 111 percent of GDP over the next four years.

Renewed attacks on workers' pay and jobs are being prepared, with media reports that the Fine Gael-Labour coalition are considering income tax hikes and cuts to jobless benefits and other social welfare payments. These will be part of a €3.5 billion package of cuts that will be presented in the budget in December.

Under these conditions, both the IMF and Ernst & Young reports caution that the Croke Park agreement—a corporatist no-strike deal signed between the government, employers and the trade unions—will have to be revised so as to allow wage cuts and compulsory redundancies.

Croke Park has facilitated deep attacks on the living standards and working conditions of public sector workers, but the ruling elite is no longer satisfied. There is a desire to expand the cuts beyond the €1.5 billion that have been saved by the government in the two years since Croke Park was agreed on with the trade unions.

These savings have been achieved by a so-called "voluntary" redundancy programme that has reduced the public sector workforce by more than 10 percent, a recruitment freeze and the elimination of several allowances formerly paid to workers. The main purpose of any reform of the deal would be to create provisions for compulsory redundancies and allow salaries to be slashed.

The unions have already indicated that negotiating over a new agreement would be possible. Impact, one of the largest unions of the Irish Congress of Trade Unions, called for talks on a new agreement to begin soon at its conference in May, at which government representatives including Prime Minister Enda Kenny spoke. None of the unions have done anything to warn their members of the dangers posed by the intensification of austerity measures, but are rather preparing to assist the ruling elite in their implementation.