Irish economy remains fragile

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Ireland's economy remains mired in crisis, with all signs pointing to a further downturn as the European Union (EU) enters recession.

Notwithstanding the optimism of the financial and political elite after a successful auctioning of medium term government bonds last month, the first such sale since September 2010, Ireland will almost certainly require further bailout assistance to avoid state bankruptcy.

The government on July 27 successfully sold 4.2 billion euro in five-year government bonds, somewhat more than market expectations. It raised a further 1 billion euro in a swap agreement, whereby investors whose debts were due for repayment in 2013-14 agreed to a lengthening of the agreements, so that the debts will now be paid in 2020. Ireland had been locked out of the financial markets since accepting an 85-billion-euro bailout from the European Union (EU) and International Monetary Fund (IMF) in November 2010.

The auction exposed the precarious situation in Dublin and across Europe. As Stephen Kinsella, Professor of Economics at the University of Limerick, told Reuters, "Most of the numbers are pretty bad, there's a depression in domestic demand and the banks' balance sheets are still damaged. But if you look at our yield performance next to Italy and Spain, you start to see Ireland in a more favourable light."

The auction took place as yields on Spanish government bonds rose well above the 7 percent level, which is seen as unsustainable and has been the point at which other states have been forced to accept a bailout. European Central Bank (ECB) governor Mario Draghi attempted to reassure markets, declaring that the ECB would take any action necessary to save the euro, which will mean an intensification of the attacks on the working class across the continent. In the weeks that followed, data emerged showing the likelihood of the eurozone entering recession after a sharp slowdown in Germany.

Credit rating agencies responded coolly to Dublin's bond auction. Fitch declared that market confidence in Ireland remained "extremely fragile", while Standard and Poor's did not change Ireland's credit rating but maintained its outlook as negative.

Fitch identified the threat of a deterioration across Europe as adversely affecting Ireland, commenting: "The 'BBB+'/Negative rating on Ireland reflects a fiscal deficit which is still large; and the fact that as an open, export-driven economy with an EU/IMF programme, it is susceptible to contagion from an intensification of the euro zone crisis. This contagion could come through worsening economic growth and falling demand for its debt."

The government had to pay interest of close to 6 percent to borrow funds over five years, and around 6.1 percent to borrow over eight years. Although somewhat lower than the 7 percent rates currently paid by Spain and Italy, it remains considerably higher than the rates Dublin is charged under the EU/IMF bailout. Having approved the EU's fiscal compact treaty, Dublin can access further support through the European Stability Mechanism (ESM) after its current bailout expires in autumn 2013. Yet even with this guarantee of further support, investors remain wary of Irish state debt.

One way in which the government was able to raise more money was by opening up the auction to pension funds. Reuters reported that a legal change in October 2011 allowed Irish-based pension funds to invest directly in government debt. Figures confirmed that at least 34 percent of investors in the auction were Irish-based. Given the financial position of Irish banks, it is reasonable to assume that the vast majority of this investment was drawn from pension funds, meaning that those who have made provisions for their retirement will see their savings used to cover the debts of the financial elite.

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Investors were encouraged by a verbal agreement reached at an EU summit in June to restructure some of Ireland's bank debt, allowing it to be paid back more gradually and at lower interest rates. The bulk of this debt is to the failed Anglo Irish Bank, which is due 48 billion euro from the state. Details of how this agreement will work in practice are yet to be decided, and will only be negotiated in the autumn.

Deepening tensions within the EU are fuelling doubts that any such agreement can be achieved. As a recent *Irish Times* article noted, "The possibility of German, Finnish or Dutch MPs disputing a new debt deal for Ireland is emerging as a prime concern among European negotiators as preparations advance for a review of the Irish bank bailout."

The article cited a senior EU official who complained about the "political risk" posed by parliamentary oversight of the proposal in some countries. He bluntly declared, "Ministers for finance, if they have to, go to parliament. They'd prefer not to go."

Such views are in line with recent comments of Italian Prime Minister Mario Monti that the EU would split "if governments are completely bound by the decisions of their parliaments." They confirm that any deal on Irish debt will be a mechanism through which the country would fall more openly and directly under the dictates of international finance capital.

An agreement will only be reached by implementing austerity measures that would make the cuts imposed since 2008 appear mild in comparison. As EU monetary affairs commissioner Olli Rehn wrote in the *Wall Street Journal*, "Countries under intense market pressure have little breathing space to adopt the game-changing reforms ... To ensure that such interventions help to bring down bond yields in a lasting way, they will only be available for member states that pursue sound budgetary policies, adopt structural reforms for growth, and address macroeconomic imbalances."

A precondition for any EU deal for Ireland will be the intensification of the policies which have produced widespread social and economic misery since 2008. The impact of more than 30 billion euro of austerity measures on a population of just 4.5 million was shown in a recent report which noted that only in Greece had deeper cuts been made.

The Irish Central Bank's report, "Fiscal Consolidation: Does it deliver?", said that spending cuts and tax rises would be twice as much in Ireland as they would be in Spain, Portugal and Cyprus by 2014. The report also showed that Ireland will continue to have the highest budget deficit in Europe by 2015, while its debt-to-GDP ratio would be second only to Greece. The report still insisted on further spending cuts, claiming they "appear more successful at reducing deficits in a sustainable and structural manner that is least damaging to growth."

Unemployment is approaching 15 percent, with no sign of declining. Ireland's economy shrank 1.1 percent in the first quarter of this year. Any economic decline will exacerbate the problem of state debt, which is currently projected to rise to over 130 percent of GDP in the coming years.

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