

Briefing Paper on the IBRC, ELA and Promissory Notes

**Prepared for the Oireachtas Joint Committee on Finance, Public
Expenditure and Reform**

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1. Introduction

It is well known that the Irish state has taken on huge debts by taking over liabilities previously owed by privately-owned banks, with the majority of this cost related to Anglo Irish Bank and Irish Nationwide Building Society, which have been merged to form the Irish Bank Resolution Corporation (IBRC).

The total cost of taking on these liabilities has been about €35 billion or 22 per cent of Ireland's nominal gross domestic product in 2011. Without this cost, Ireland's debt-GDP ratio in 2011 could have been 85 per cent, roughly in line the Eurozone average, rather than the 107 per cent that was recorded. It is possible that without the cost of absorbing the IBRC's liabilities, Ireland may have maintained access to sovereign bond markets and thus avoided an EU-IMF programme.

It is also well known that a significant fraction of the funds provided by the state to the IBRC have gone to pay off unsecured bondholders and, perhaps for this reason, much of the domestic and international commentary has focused on the idea that the Irish government should change its policy in relation to payment of unsecured IBRC bondholders.

It is worth stressing, however, that the amount of IBRC bondholders remaining is small when compared with the total cost of bailing out these institutions. Instead, the major debt burden due to the IBRC relates to promissory notes that the Irish government has provided, which in turn are largely being used to pay off so-called Exceptional Liquidity Assistance (ELA) loans that have been provided by the Central Bank of Ireland.

This paper discusses the fiscal costs of the IBRC bailout. The issues covered are as follows:

- The balance sheet of the IBRC and the crucial role played by its ELA debts.
- The process of granting and repayment of ELA and the role of the ECB in this process.
- The function of the promissory notes and their effect on official debt and deficits.

Unfortunately, there are a lot of complex details associated with various aspects of the IBRC's relationship with the Irish government, the Central Bank of Ireland and the Eurosystem of Central Banks, so this note focuses at length on a number of technicalities. However, I would flag in advance that the key policy implication is a simple one.

There are a number of ways that the burden of the debt incurred in the IBRC bailout could be reduced, both in terms of near-term financing demands and longer-term net present value. The key obstacle to such a restructuring is that any plan of this type can be blocked by a two-thirds majority of the ECB Governing Council. Despite the impression that this is a complex issue requiring technical discussions, the key question is whether the members of the ECB Governing Council are willing to lower the burden on the Irish people due their government's decision to take over the liabilities of Anglo and Irish Nationwide and ensure that its depositors and senior bondholders were repaid.

2. The IBRC's Balance Sheet

To understand the nature of the fiscal burden associated with the IBRC, the best starting point is the institution's balance sheet. The IBRC was formed on July 1st 2011 by a merger of Anglo Irish Bank and Irish Nationwide Building Society both of which were being wound down after horrific losses on property loans. Table 1 on the next page illustrates how the liability side of Anglo's balance sheet evolved over the past few years using information from the bank's annual and mid-year reports.

2.1. *Anglo Irish Bank*

At the end of 2007, prior to the financial crisis that rocked Ireland from late 2008 onwards, Anglo had €58.4 billion in deposits and €23.6 in funding from debt securities. The subsequent years, amid financial crisis and nationalisation of the bank, saw the vast majority of these deposits pulled from the bank and a substantial reduction in funding from debt securities as investors viewed the bank as too big a risk. Combined funding from deposits and debt securities fell from €82 billion at the end of 2007 to €19 billion at the end of 2010.

Some of the funds to pay off depositors and bond-holders came from selling some of the bank's assets and from loan repayments, which saw the total size of the balance sheet fall from €92.6 billion at the end of 2007 to €68.6 billion at the end of 2010. But most of the funds came from borrowing from central banks. At first, most of Anglo's central bank borrowing took the form of participation in standard Eurosystem refinancing operations. However, these operations require counterparties to pledge particular types of collateral in return for borrowing money and Anglo began to run out of eligible collateral as the Irish banking crisis began in late 2008.

In March 2009, the Central Bank of Ireland agreed a "Master Loan Repurchase Agreement" with Anglo Irish Bank, lending €11.5 billion against collateral that did not qualify for standard Eurosystem monetary operations.¹ This was the first of a series of so-called "Exceptional Liquidity Assistance" loans that were made to the bank. (The mechanics and legalities of these loans will be discussed in the next section.) As the banking crisis intensified through 2010, ELA borrowings ramped up significantly. By the end of 2010, Anglo owed €16.9 billion in Eurosystem borrowings and had €28.1 billion in ELA debts to the Central Bank of Ireland.

In February 2011, Anglo was instructed to transfer most of its remaining deposits to Allied Irish Banks along with the Bank's holdings of about €12 billion in senior bonds issued to it by the National Asset Management Agency (NAMA) in return for most of its portfolio of commercial property loans. Because the NAMA bonds had been used as collateral for Eurosystem borrowings, Anglo had to pay off most of its ECB loans, which further increased its dependence on ELA from the Central Bank of Ireland. By the end of June 2011, Anglo owed €38.4 billion in ELA and had Eurosystem borrowings of only €2.4 billion.

¹ See page 102 of Anglo's 2009 annual report.

Table 1: Anglo Irish Bank's Liabilities (Billions of Euros)

	End-2007	End-2010	Mid-2011
Total Liabilities	92.6	68.6	50.7
<i>Of Which:</i>			
Deposits	58.4	12.1	1.2
Debt Securities	23.6	6.9	5.7
Subordinated Debt	5.3	0.5	0.5
Other Liabilities	5.3	3.6	2.6
Eurosystem Borrowings	0.0	16.9	2.4
ELA Debts to CBI	0.0	28.1	38.4

2.2. Irish Nationwide Building Society (INBS)

The smaller Irish Nationwide experienced a similar collapse to Anglo. As with Anglo, an aggressive approach to property lending combined with dubious corporate governance practices combined to produce enormous losses on property loans, most of which were crystallised by the transfer of its commercial property loans to NAMA. From 2008 onwards, the bank saw a collapse in its funding from deposits and bond markets and a huge increase in its reliance on central bank borrowing. Table 2 on the next page shows that the building society lost half of its deposit funding between the end of 2007 and the end of 2010 and also paid off almost all of its outstanding debt securities. By the end of 2010, Eurosystem borrowings accounted for more than half of its liabilities.

INBS did not publish a half-year report in 2011, so there is no publicly available information about how its balance sheet changed in its final six months. However, its 2010 annual report, published in May 2011, reported that the building society transferred “substantially all of its customer deposits” to Irish Life and Permanent, as well as NAMA senior bonds worth €2.9bn and other bonds worth €790m. The transfer of these ECB-eligible assets meant that Irish Nationwide also needed to apply for ELA, so it likely that the bank had ELA debts of approximately €3.7 billion when it was merged with Anglo on July 1, 2011 to form the IBRC.

Table 2: Irish Nationwide's Liabilities (Billions of Euro)

	End-2007	End-2010
Total Liabilities	14.6	12.2
<i>Of Which:</i>		
Deposits	7.3	3.7
Debt Securities	6.7	0.6
Subordinated Debt	0.4	0.4
Other Liabilities	0.1	0.2
Eurosystem Borrowings	0.0	7.4
ELA Debts to CBI	0.0	0.0

2.3. The IBRC's Balance Sheet

The IBRC has not yet published a balance sheet but Table 3 below provides my estimate of how their balance sheet would have looked on its date of birth, July 1st 2011. This has been calculated by combining the mid-2011 balance sheet of Anglo with the end-2010 balance sheet of INBS and accounting for the shift of deposits and bonds from INBS to Irish Life and Permanent.

As of mid-2011, deposits were only a very small part of the organisation's liabilities, while debt securities outstanding were down to €6.3 billion, about ten percent of total liabilities. The vast majority of the IBRC's debts—€48.2 billion of a total of €58.6 billion—are owed to central banks and the vast majority of these (€42.2 billion by my estimate) take the form of ELA.

There has been a considerable focus in the media and popular discussions on payments to unguaranteed senior IBRC bondholders. However, as of June 2011, only €2.9 billion of the IBRC's debt securities were unguaranteed and unsecured senior bonds. Since June 2011, there have been a series of payments on these bonds, including a \$1 billion bond that was paid out in October 2011 and a €1.25 billion bond that was paid out in January 2012. As a result of these payments, unguaranteed unsecured senior bond now account for less than €1 billion of the IBRC's debts. So, at this point, if there is to be a significant reduction in the burden imposed by the IBRC on the Irish public, it will need to come from somewhere else than defaulting on the remaining unguaranteed

senior bonds. Specifically, it will require a new approach to dealing with the IBRC's debts to central banks.

The left-hand-side of Table 3 explains where the IBRC is to get the resources to pay off its liabilities as it winds down. It has two principal types of assets. First, there are loans to customers. Second, there are a series of promissory notes from the Irish government that were provided to Anglo and INBS during 2010. These promissory notes are currently valued on the IBRC's balance sheet at €28.1 and (as will be discussed later) are currently scheduled to provide a series of payments over the next 20 years.

An important aspect of this balance sheet is that without the promissory notes, the IBRC would have sufficient assets to pay off all of its deposits, its bondholders, its Eurosystem borrowings and all of its other debts apart from ELA. Only €14.1 billion of the €42.2 billion ELA debts could be paid off if the bank did not have the promissory notes. Thus, a key point to understand about the future cost of IBRC to the Irish public is that, effectively, the promissory notes only exist to pay off the ELA debts to the Central Bank of Ireland.

Table 3: Estimated IBRC Balance Sheet at Mid-2011 (Billions of Euros)

<i>Assets</i>		<i>Liabilities</i>	
Promissory Notes	28.1	Deposits	1.1
Loans	27.5	Debt Securities	6.3
Other	3.0	Subordinated Debt	0.7
		Other Liabilities	2.3
		Eurosystem borrowings	6.0
		ELA Debts to Central Bank	42.2
Total	58.6	Total	58.6

3. The ABCs of ELA

This section discusses the process by which Exceptional Liquidity Assistance is issued and moves on to the various legal and accounting issues related to the issuance and repayment of ELA.

3.1. *Money Creation and Central Bank Balance Sheets*

Before describing the specific topic of ELA, it is worth clarifying how the process of money creation works in the Eurosystem. It is common to see media reports stating that the European Central Bank is providing funds to the banking system. Technically, however, this isn't true. The ECB itself does not lend money directly to banks. Rather, the Eurosystem's refinancing operations in which it supplies liquidity to Eurosystem banks are conducted on a decentralised basis by the national central banks of the Eurosystem.

Where do the national central banks (NCBs) get this money from? The answer is that they don't get it from anywhere. The process works as follows. Every bank in the Eurosystem keeps a so-called "reserve account" with its central bank and this account can be used to write cheques to creditors or to request cash from the national central bank to use in ATM machines. When a bank obtains a loan as part of the Eurosystem refinancing operations, it receives the funds via its NCB crediting its reserve account. This is textbook money creation in which money is conjured out of thin air.

Each of the national central banks reports on a monthly basis how much money they have created in this fashion when they release their balance sheet. A highly stylised central bank balance sheet is produced below.

Stylized Central Bank Balance Sheet

<i>Assets</i>	<i>Liabilities</i>
Assets acquired by making loans and buying securities	Money created by making loans and buying securities
Some other assets	Central Bank Capital

On the left-hand-side, the balance sheet describes the assets that the central bank has acquired via money creation in addition to a small amount of additional assets that it may have acquired over time independent of its money creation activities (e.g. transfers from the fiscal authority). While central banks will have holdings of gold and other securities, for most central banks the largest category of assets is the loans that it has made to banks.

The right-hand-side of the balance sheet shows the total amount of money that the central bank has created over time as well as the residual value by which the bank's assets exceed the money created, which is usually termed the central bank's capital. Note that if the assets acquired via money creation rise or fall over time relative to their original value when acquired, then central bank capital need not correspond to the value of assets acquired independent of money creation.

The right-hand-side of the balance sheet is often described as illustrating the central bank's liabilities. However, it is worth stressing that a central bank's liabilities are quite different from those of any private entity. A central bank that prints a fiat currency that people wish to use for transactions can never go out of business.

Suppose, for example, that a central bank prints off money to acquire gold and the price of gold then plunges. In this case, the value of the central bank's assets may well fall below the amount of money that it has created, so the entry for "Central Bank capital" would be negative. One could in this case label the central bank as being "insolvent" in some technical sense. However, this is not an insolvency that corresponds to any private sector version of this concept. As long as the bank can create money that people wish to use, it can pay off any debts that fall due and honour all of its obligations.

3.2. *Collateral and Risk-Sharing for Eurosystem Operations*

By these comments about the lack of importance of central bank capital, I am not intending to argue that central banks should be able to print money for whatever task they wish and not worry about the consequences. The ability to create money is an extremely powerful tool and needs to be carefully monitored. In particular, within a common currency area, it is particularly important that each participating member state is not seen to be particularly responsible for fuelling inflation by abusing its power to create money.

For example, for countries faced with the problem of failing banks suffering a deposit run, it may be tempting to provide such banks with loans from the central bank so that private creditors and depositors can be paid off and then allow for slow (or no) repayment of these loans. However, such a policy could be inflationary and would be open to accusations of corruption and abuse of the money creation power.

To prevent such abuses, the Eurosystem's refinancing operations take the form of repurchase agreements that are handled in a way that is designed to prevent losses on money creating operations of the type just described above.

The Eurosystem's repurchase agreements involve banks temporarily supplying financial assets to their local NCB as collateral in return for loans, with the terms of these loans set by the ECB's Governing Council (consisting of the seventeen national country governors and the six members of the ECB Executive Board) at its monthly monetary policy meeting. Haircuts are applied to the collateral so that the amount that is loaned to the borrowing bank is less than the value of the asset,

with the amount that can be loaned increasing with the quality of the collateral.² Should a bank default on its loans from an NCB, the collateral framework is intended to see the NCB still left with an asset that has the same value as the loan.

That said, no risk-control framework can completely rule out the possibility of losses on monetary operations. For example, Lehman Brothers had borrowed €8.5 billion from Eurosystem central banks when it entered bankruptcy and it was thought at first that there could be large losses on these loans. (In fact, recent media reports suggest the gradual sale of the pledged collateral will come close to recouping the full amount of money loaned.)³ More seriously, the Eurosystem has now loaned large amounts to banks that have used European sovereign bonds with low credit ratings as collateral and has also engaged in large direct purchases of these bonds on the secondary market.

The official legal statute governing the Eurosystem is quite vague about the implications for an NCB of losses incurred in monetary operations. Article 32.4 simply states *“The Governing Council may decide that national central banks shall be indemnified against costs incurred in connection with the issue of banknotes or in exceptional circumstances for specific losses arising from monetary policy operations undertaken for the ESCB.”* In practice, the Governing Council of the ECB used the defaults by Lehmans and other banks in 2008 to clarify in a statement in March 2009 that losses should be shared in full by the Eurosystem NCBs in proportion to their ECB capital key shares.⁴

Note that despite regular commentary pointing to the relatively small size of the ECB’s capital base of less than €10 billion, the actual amount available to the Eurosystem to absorb losses on monetary operations is significantly larger: As of February 2012, the Eurosystem has a combined €81 billion in capital and reserves and an additional €394 billion in “revaluation accounts” that can also be used to absorb losses.

Still, this does raise the question of what would happen should one or more Eurosystem central banks have their capital eliminated by losses on operations. Perhaps surprisingly, as far as I can tell, the legal structures underpinning the Eurosystem don’t discuss this eventuality. Article 27.1 of the ECB Statute requires each NCB to have its accounts audited by independent external auditors recommended by the Governing Council and approved by the Council but it does not state what should happen if the Governing Council is unhappy with the accounts. Still, it is generally understood that NCBs would need to be “recapitalised” by fiscal transfers from their national government.

3.3. ELA, Monetary Financing Prohibition and the ECB Governing Council

The Eurosystem allows for a broad range of assets to be pledged as collateral in its refinancing operations. However, from 2009 onwards, each of the Irish banks covered by state guarantees exhausted their stock of eligible collateral and would have defaulted on bonds or failed to honour

² See European Central Bank (2011) for a detailed discussion of the operational framework for monetary policy in the Euro area.

³ See this report from the Financial Times, dated January 20, 2012.
www.ft.com/cms/s/0/30d1a26e-42b8-11e1-93ea-00144feab49a.html.

⁴ See press release here www.ecb.int/press/pr/date/2009/html/pr090305_2.en.html.

deposit withdrawals without additional help. That help took the form of something the Central Bank of Ireland terms “Exceptional Liquidity Assistance” but which the rest of the world calls “Emergency Liquidity Assistance”—either way it’s ELA. This assistance takes the form of loans that are provided to banks who pledge collateral that it is not acceptable for Eurosystem operations.

To understand the legal basis for ELA, one has to start with the observation that all of the national central banks in the Euro area were founded prior to the start of EMU and thus each have pre-existing legal powers and obligations. Some are given various regulatory and supervisory powers while some are not. More importantly, it is common for national central banks to be given an explicit set of powers related to financial stability.

The Act currently governing the Central Bank of Ireland gives it a general power to lend against security to credit institutions and also provides it with an explicit financial security objective. Thus, the original legal basis for the Bank’s power to provide banks with ELA to prevent a bank from failing and triggering financial stability problems comes from Irish law.

This does not mean, however, that the Bank has complete freedom to operate its ELA programs however it wishes. A number of different layers of Eurosystem involvement are worth flagging.

First, in 2005, the banking supervisory authorities, the central banks and the Finance Ministries of the European Union (EU) have agreed on a Memorandum of Understanding on co-operation in financial crisis situations. This MoU, which is not a public document nor legally binding, consists of a set of principles and procedures for cross-border co-operation and likely includes agreement about the use of ELA.

Second, the 2008 ECB Convergence Report offers the opinion that *“National legislation foreseeing the financing by NCBs of credit institutions other than in connection with central banking tasks (such as monetary policy, payment systems or temporary liquidity support operations), in particular to support insolvent credit and/or other financial institutions, is incompatible with the monetary financing prohibition.”*⁵ How exactly the ECB’s defines of “temporary operations” is unclear.

Third, an article in the ECB’s February 2007 Monthly Bulletin states that *“the Eurosystem also has procedures in place regarding the provision of ELA to individual credit institutions in the euro area, which are under the responsibility of the national central banks (NCBs). These procedures are aimed at ensuring an adequate flow of information within the Eurosystem to the decision-making bodies of the ECB. In this way, the impact of an ELA intervention on aggregate liquidity conditions in the euro area can be managed in a manner consistent with the maintenance of the appropriate single monetary policy stance.”*⁶

Finally, and most crucially, Article 14.4 of the “Protocol on the Statute of the European System of Central Banks and of the European Central Bank” states *“National central banks may perform functions other than those specified in this Statute unless the Governing Council finds, by a majority of two thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB.”*⁷

⁵ See www.ecb.int/pub/pdf/conrep/cr200805en.pdf

⁶ See www.ecb.int/pub/pdf/mobu/mb200702en.pdf

⁷ See www.ecb.int/ecb/legal/pdf/en_statute_2.pdf

To summarise, the ECB must be consulted when ELA is issued and it will assess whether the issuance of ELA interferes with its monetary policy stance. The ECB also views loans to insolvent credit institutions and non-temporary liquidity support programmes as illegal. And the Governing Council can vote at any time by a two-thirds majority to stop any ELA programme.

For these reasons, the ECB has been heavily involved in the design of the ELA programme from the start. For example, it is likely that the ECB approval was required in relation to the payment structure of the promissory notes that IBRC is using as collateral for ELA loans and which provides the funds with which ELA will be repaid. In addition, the ECB likely sought various assurances that ELA would be repaid such as the (apparently legally non-binding) “letters of comfort” sent from the Minister for Finance to the Governor of the Central Bank on each occasion a new ELA programme was initiated indicating the intention that the ELA would be repaid and the provision of so-called “facility deeds” which the Central Bank annual report as providing a government guarantee in relation to repayment of ELA.⁸

In practice, it appears that ELA credit is provided to banks for a very short period of time (a couple of weeks) and the ECB’s Governing Council regularly considers whether to stop the programme. In addition, the ECB’s view on the need for solvency of institutions in receipt of ELA means that most likely they must approve of any restructuring of the assets of such a bank, such as a change in the terms of the IBRC’s promissory note.

3.4. Target2 and Intra-Eurosystem Assets and Liabilities

Before describing the mechanics of how exactly ELA works and how it affects the balance sheet of the Central Bank of Ireland, it helps to describe one aspect its balance sheet in a bit more detail.

Intra-Eurosystem Balances

On the next page, I’ve produced a slightly less stylised central bank balance sheet than the one described before. It is less stylised in that it itemises the different sub-components that correspond to where the money created by a central bank ends up.

The three sub-components listed here are: Reserve accounts, bank notes and Intra-Eurosystem liabilities. The first two of these components are simple enough; the last one, unfortunately, is often misunderstood.

- When a central bank creates money via a loan to a financial institution, it credits that bank’s reserve account. This shows up as increased liabilities on the central bank’s balance sheet, with the loan showing up as a corresponding entry on the asset side.
- If the borrowing financial institution requests a delivery of bank notes, their reserve account is deducted by the amount delivered and the “bank notes” entry on liability side of the

⁸ Copies of most of the letters of comfort, which were obtained via a Freedom of Information request by RTE, are available at www.rte.ie/news/2011/0718/centralbank-business.htm. I

central bank balance sheet is credited. There is no change to the asset side of the central bank balance sheet.

A Slightly Less Stylized Eurosystem Central Bank Balance Sheet

<i>Assets</i>	<i>Liabilities</i>
Assets acquired by making loans and buying securities	"Central Bank Capital"
Some other assets	Money created by making loans and buying securities
	<i>Of which:</i>
	Reserve Accounts
	Bank Notes
	Intra-Eurosystem Liabilities

That brings us to Intra-Eurosystem liabilities. This item is best explained via a transaction in which a depositor (call him Jean) with an Irish bank (call them "Anglo") requests that €100 be transferred from their account to a deposit account with a French bank (call them "SocGen"). This works as follows:

- Jean's bank account is deducted, reducing Anglo's liabilities by €100.
- At the same time, Anglo instructs the Central Bank of Ireland to deduct €100 from its reserve account to send the funds to SocGen.
- The reduction in Anglo's deposit account with the Central Bank of Ireland reduces this component of the Bank's liabilities by €100. However, the Central Bank of Ireland immediately increases an entry labelled "Intra-Eurosystem Liabilities".
- Via the Eurosystem's real-time payments system, Target2, the Banque de France then receives either a €100 credit to its "Intra-Eurosystem Assets" or a €100 reduction in its "Intra-Eurosystem Liabilities" depending on whether it is an Intra-Eurosystem creditor or debtor.
- Offsetting this €100 improvement in its balance sheet, the Banque de France credits SocGen's reserve account, thus increasing SocGen's assets.
- SocGen then credits Jean's deposit account with that bank.

Note that from Jean's point of view, all that has happened is that his €100 has gone from his Irish bank account to his French bank account. However, the way payments systems actually operate, there have been six different offsetting transactions that have occurred along the way. Most

importantly for the purposes of this paper, the asset side of the Central Bank of Ireland's balance sheet has not changed but the liability side shows €100 less in reserve accounts and €100 more in Intra-Eurosystem liabilities. A similar change would have occurred if Anglo had written a cheque to pay off a bondholder with a deposit account outside Ireland.

These Intra-Eurosystem balances average to zero. Those countries with Intra-Eurosystem liabilities pay interest on these liabilities at the rate of the Eurosystem's main refinancing rate (currently 1 per cent). This interest is accumulated at the ECB and redistributed to those countries with Intra-Eurosystem credits.

An Aside: The "Target2 Debate"

As has now been well documented (e.g. pages 34 and 35 of the Bundesbank's March 2011 Monthly report) the movements of deposits associated with the banking and sovereign crises of recent years have generated very large Intra-Eurosystem liabilities in countries such as Ireland and a particularly large Intra-Eurosystem credit for the Bundesbank.

It is beyond the scope of this paper to discuss the various technical issues that have arisen in relation to the Intra-Eurosystem flows that have been generated by the capital flight from the periphery to the core. However, I would note that a number of economists have received substantial media attention for misleading claims relating to the Bundesbank's Intra-Eurosystem credits.

In a number of contributions (of which Sinn and Wollmershäuser, 2011, is the most comprehensive) Hans-Werner Sinn of the Ifo Institute has characterised the Bundesbank's Intra-Eurosystem credits as "Target Loans". This characterisation is unhelpful in relation to both words employed.

- As described above, the purpose of the Target system is to see that Jean can transfer his €100 from his Irish account to his French account. Sinn has proposed a number of ways to restrict the operation of the Target system. By restricting the free movement of capital with the Eurozone, these proposals are effectively a call to end the common currency.
- These credits have none of the characteristics of loans. They are not instigated by the Bundesbank supplying its own funds to the Central Bank of Ireland. Rather, they represent a transfer of funds out of Ireland towards Germany.

More recently, a number of media commentators have focused on the idea that Germany is subject to an enormous credit risk in relation to a possible "default" on its Intra-Eurosystem credits in the event of a Euro break-up and consequent large fiscal costs of a Bundesbank insolvency. These fears are unfounded for two reasons. First, the various Eurosystem central banks retain sufficient assets to allow for a full and final settlement of the Intra-Eurosystem balances if such were required. Second, as noted above, concerns about insolvency of central banks are unfounded provided it prints a fiat currency that people wish to hold. One can be sure that in the event of a complete Euro breakup, the Bundesbank will find plenty of demand for its currency.

3.5. Issuance and Repayment of ELA

Here I want to describe the mechanics of how ELA issuance works as well as what happens afterwards in relation to interest and principal repayments on ELA.

Issuance

The reason I have described Intra-Eurosystem transactions in such detail is that there has been some confusion in media and political circles in relation to the nature of the ELA issuance. A number of media stories have reported that “the ELA money was borrowed from the ECB”. This is not the case. The ECB does not issue money at all as this task is delegated in the Eurosystem to national central banks.

A more subtle version of the “ELA was borrowed from the ECB” claim was provided in an answer to a parliamentary question by the Irish Minister for Finance, Michael Noonan, on January 31, 2012.⁹ Mr. Noonan stated that “*ELA is itself funded by the CBI through Intra-Eurosystem liabilities*”.

The word “funded” can have an elastic meaning. However, this answer suggests an interpretation in which the appearance of an ELA asset on the Central Bank of Ireland’s balance sheet is accompanied by an increase in Intra-Eurosystem liabilities. It is my understanding that this is not the case. At the moment of “conception”, so to speak, of the ELA, the corresponding increase in liabilities is a credit to the reserve account of the bank receiving the ELA loans. Only if that bank then uses its ELA funds to transfer money to bank accounts outside Ireland does the Central Bank of Ireland’s balance sheet start to show an increase in Intra-Eurosystem liabilities.

Because the IBRC appears to have used the vast majority of its ELA loans to pay off foreign bondholders and people moving their deposits outside of Ireland, there is little doubt that the issuance of ELA has led to a significant increase in the Central Bank’s Intra-Eurosystem liabilities. However, it is not accurate to describe the ELA as having been either “borrowed from the ECB” or to describe an increase in “Intra-Eurosystem Liabilities” as the source of the funds.

I should emphasise that in pointing out that ELA funds were not borrowed from the ECB or the rest of the Eurosystem, it remains the case that the ECB Governing Council can insist on an end to the ELA programme at any point and is also likely to require consultation in relation to any proposals that would involve changes to the nature of the IBRC’s assets.

Interest Payments on ELA

Turning from ELA issuance, to its repayment, a first question relates to the interest rates that the Central Bank of Ireland charges on its ELA loans. The Bank has never commented publicly on this interest rate. Given that ELA is normally issued at times of financial crisis and its mere existence may be a very sensitive matter, it is likely that they are following Eurosystem guidelines to adopt the Fight Club approach to communications on ELA (“The first rule of ELA is: You do not talk about ELA”).

⁹ See www.kildarestreet.com/wrans/?id=2012-01-31.767.0&s=mathews#g774.0.g

Despite this official approach, Anglo Irish Bank's recent reports have noted that the interest rate on its ELA loans is linked to the ECB marginal lending facility, which is currently 1.75 per cent. In addition, the Central Bank of Ireland reported €510 million in ELA interest in 2010 in its annual report, while the entry for "Other assets" averaged €21.3 billion in 2010. Dividing the interest by the average value of other assets suggests an interest rate of 2.4 per cent. Given that the marginal lending facility rate was 1.75 per cent throughout 2010, my guess is that the formula used to determine the ELA interest rate is something like "marginal lending facility plus 75 basis points."

Given that the Central Bank is currently paying out interest of 1 percent on both money held in reserve accounts and on Intra-Eurosystem liabilities, this raises the question of what happens to the profits incurred via the estimated 75 basis point spread charged on ELA.

Profits relating to Eurosystem monetary policy operations are shared among the various national central banks. However, as far as I can tell, this is not the case for profits associated with ELA operations. If this is case, then the 75 basis point margin can be remitted at some point by the Central Bank of Ireland back to the Exchequer.

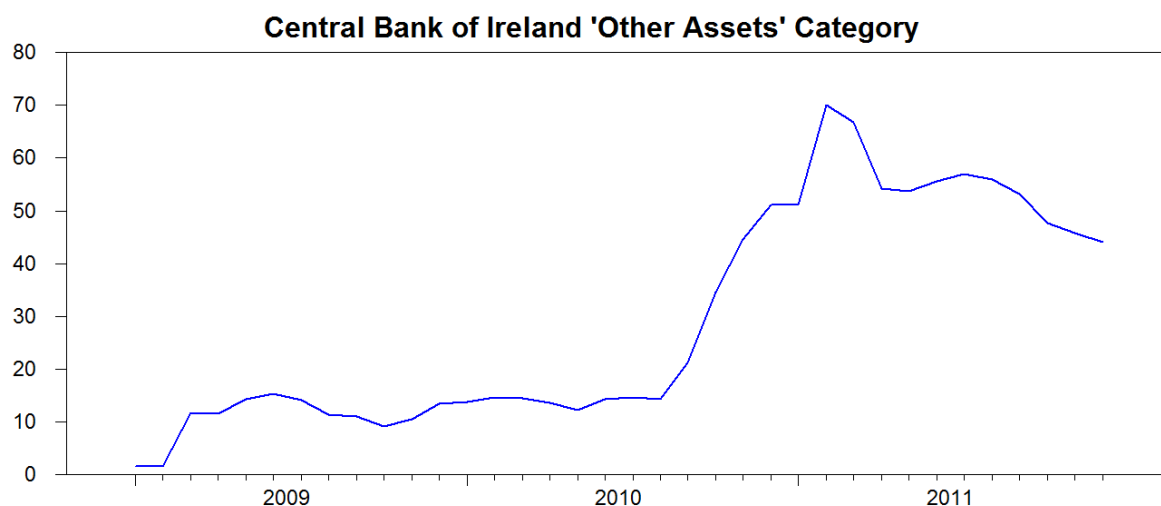
This means that the ultimate interest cost to the Irish state of the ELA funding that is supplied to the IBRC is the main ECB refinancing rate, which is currently one per cent.

ELA Repayments

What occurs when ELA principal is repaid by the IBRC? There are two potential scenarios. In the first, the Central Bank of Ireland maintains its balance sheet size exactly as before and simply adds to its stock of assets; for example, they could purchase gold or securities. Profits from these investments could eventually be returned to the Irish state.

In the second scenario, the Central Bank does not acquire any new assets but simply reduces the size of its balance sheet, marking down both the value of its ELA asset and the value of its liabilities. This is the scenario that actually occurs.

The graph below shows what has happened over the past few years with the "Other Assets" category on the Central Bank balance sheet, which primarily consists of ELA. After reaching a peak of €70 billion in February 2011, the deleveraging programmes of the Irish banks (selling assets and taking in loan proceeds and then not lending them out again) have allowed them to repay ELA so that by December 2011, "Other Assets" had declined to €44 billion (see chart below). It appears now that almost all of the outstanding ELA is owed by the IBRC.



Tables 4 and 5 show how these developments altered the Central Bank's balance sheet, describing it of February 2011 and December 2011 respectively. There was a small uptick in the Bank's holdings of securities, gold and other claims and very little change in bank notes or the amount held in reserve accounts. Thus, the decline of €26 billion in ELA has translated into a decline in Other Liabilities, the category that includes Intra-Eurosystem liabilities: This category fell by €30 billion. Indeed, in the same parliamentary answer noted above, Michael Noonan has said that repayments of ELA end up reducing Intra-Eurosystem liabilities.¹⁰

That the ELA goes towards reducing the Central Bank's liabilities—effectively reducing the amount of money that it has created—is important because it corrects a misconception that has appeared in some public discussion of this issue. Because the payment of money by the Irish Exchequer to IBRC and the passing of this money on the Central Bank are both transactions involving arms of the Irish states, some have concluded that these transactions are completely circular and have no net cost to the state. The reality is that the when IBRC repay its ELA debts, that money is simply taken out of circulation. Effectively, it is as if it is being burned: There is no hidden benefit to the Irish state from these repayments.

¹⁰ See www.kildarestreet.com/wrans/?id=2012-01-31.767.0&s=mathews#g774.0.q

Table 4: Central Bank of Ireland Balance Sheet, February 2011 (Billions of Euros)

<i>Assets</i>		<i>“Liabilities”</i>	
Eurosystem Lending	117	Bank notes	12
Securities, gold, other claims	21	Reserve accounts	9
Other assets (mainly ELA)	70	Other Liabilities	185
		Capital and Reserves	2
Total	208	Total	208

Table 5: Central Bank of Ireland Balance Sheet, December 2011 (Billions of Euros)

<i>Assets</i>		<i>“Liabilities”</i>	
Eurosystem Lending	107	Bank notes	13
Securities, gold, other claims	25	Reserve accounts	6
Other assets (mainly ELA)	44	Other Liabilities	155
		Capital and Reserves	2
Total	176	Total	176

4. Promissory Notes

There has been considerable public discussion in Ireland about the idea of restructuring the IBRC's promissory notes. However, I think it is important that the prior issues relating to the IBRC's balance sheet, the nature of its ELA debts and the role played by the ECB Governing Council are established before one can address the key issues relating to any potential restructuring of the notes.

4.1. *Payment Structure*

During 2010, it became apparent that Anglo and Irish Nationwide had two serious problems. The first was a liquidity problem; both institutions were losing deposits and had no access to international bond markets. In addition, there was a solvency problem, as it became clear that both institutions had suffered enormous losses on property-related loans.

The liquidity problem was largely solved by issuing the Anglo and INBS larger and larger amounts of ELA. The solvency problem was trickier. If the state was going to see that depositors, bondholders and ELA debts were all repaid, where was it going to get the money from? As confidence in the Irish state finances waned during 2010, it was clear that there was no way that the government could obtain the enormous sum required to restore the IBRC organisations to solvency—€31 billion or 20 percent of GDP—by borrowing from financial markets.

Thus the decision was taken to supply the IBRC institution with assets worth €31 billion in the form of promissory notes. These are effectively IOUs from the State to the IBRC that promise to pay money according to an agreed schedule.

Table 6 reports the full schedule of total payments on the notes that have been issued as described in an answer to a parliamentary question in September 2011 by Minister Noonan.¹¹ The first thing to note about the schedule is that it differs from, for example, a fixed-rate mortgage in that the annual payments change over time:

- The payments are €3.1 billion per year every year on March 31 through to 2023 (the first payment was made without much fanfare on March 31, 2011).
- A payment of €2.1 billion is due in 2024.
- Payments of €0.9 billion a year are due from 2025-2030.
- A final payment of €0.1 billion is due in 2031.

In relation to the interest payments, these are dealt with somewhat like a fixed-rate mortgage. An annual interest charge is applied to the outstanding principal and the reduction in the principal outstanding equals the annual payment minus the calculated interest. An exception is the treatment of interest in the years 2011-2013, where a lower rate of interest was applied (none at all in 2012).

The notes were issued gradually over the course of 2010 and were given interest rates that were similar to the rates then prevailing on Irish government bonds. (These rates rose sharply over the

¹¹ Available here <http://www.kildarestreet.com/wrans/?id=2011-09-27.896.0&s=promissory+notes#g897.0.q>

course of 2010.) The deferral of interest over 2011-2013 then meant that for the bonds to still pay out the interest totals originally agreed, the interest rate applied for the remainder of the payment schedule would be approximately 8 percent. Thus, once interest on the notes is applied at this level in 2014, there will be an interest charge of €1.8 billion, which will gradually decline in later years.

It is clear that this payment structure was tacitly agreed to by the ECB Governing Council, who are therefore aware that IBRC will not be able to pay back its ELA for many years. Indeed, the promissory note could be said to represent an implicit long-term timetable for ELA repayment.

Table 6: Promissory Note Payment Schedule

	<i>Total Interest</i>	<i>Repayments</i>	<i>Total Capital Reduction</i>	<i>Total Amount Outstanding</i>
31/3/2011	0.6	3.1	2.5	28.1
31/3/2012	-	3.1	3.1	25.0
31/3/2013	0.5	3.1	2.6	22.4
31/3/2014	1.8	3.1	1.2	21.2
31/3/2015	1.7	3.1	1.3	19.9
31/3/2016	1.7	3.1	1.4	18.5
31/3/2017	1.5	3.1	1.5	17.0
31/3/2018	1.4	3.1	1.6	15.4
31/3/2019	1.3	3.1	1.7	13.7
31/3/2020	1.2	3.1	1.9	11.8
31/3/2021	1.1	3.1	2.0	9.8
31/3/2022	0.9	3.1	2.2	7.6
31/3/2023	0.7	3.1	2.3	5.3
31/3/2024	0.6	2.1	1.5	3.8
31/3/2025	0.4	0.9	0.5	3.3
31/3/2026	0.4	0.9	0.5	2.8
31/3/2027	0.3	0.9	0.6	2.2
31/3/2028	0.3	0.9	0.6	1.6
31/3/2029	0.2	0.9	0.7	0.9
31/3/2030	0.1	0.9	0.8	0.1
31/3/2031	0.0	0.1	0.0	0.0
TOTALS	16.8	47.9	30.6	

4.2. *The Long-Run Irrelevance of the Interest Rate on the Notes*

Much of the media commentary on the promissory notes has focused on their high interest rate and suggested that a reduction in this rate should be the focus of any efforts to reduce the burden of IBRC debt on the taxpayer. In particular, there has been considerable focus on the fact that the full total of scheduled payments on the notes is €48 billion once interest payments are added to the €31 billion principal.

It should be stressed, however, that lowering of the interest rate on the notes will do little to reduce the long-run burden of the IBRC debt on the Irish state. Indeed, very little of the €17 billion difference between the payments total of €48 billion and the principal of €31 billion represents a net cost to the state.

To see this point, it is worth working through the structure of payments that we have outlined:

- Promissory note payments are ultimately being used by the IBRC to pay off ELA to the Central Bank of Ireland. IBRC thus needs an additional €28 billion to repay the principal on its ELA debts.
- IBRC also needs to pay interest on its ELA. However, the ELA interest rate is approximately 2.5 percent, so any additional interest payments above this rate will represent a profit for IBRC which can ultimately be returned to the state.
- The Central Bank, in turn, currently pays an interest rate of one percent on its reserve and Intra-Eurosystem liabilities, so it is also making a profit of an estimated 150 basis points on its ELA loans which can also be returned to the state.

Putting these points together, it turns out that only a small fraction of the interest payments on the promissory notes represent a net cost to the state.

Another way to see this point is to consider how long it will take the promissory note payments to clear €28.1 billion in ELA debt (effectively, I'm assuming that the IBRC's other assets will be used to pay off all other liabilities and the additional ELA estimated above at €14.1 billion at mid-2011).

Table 7 provides a schedule for how the IBRC can use the annual payments on its promissory notes to reduce the amount of ELA outstanding. I have assumed that the ELA interest rate, which is ultimately linked to the ECB's main policy rate, will not remain as low as 2.5% forever and have set out a schedule in which it will move up towards 4.5% and then stay there.

According to these calculations, the current schedule would mean that IBRC will be able to pay off its ELA debts (with presumably all other debts long gone) in 2022. At that point, the government could wind up the IBRC and simply cancel the remaining payments. Note here that the total amount of promissory note payments in this example would be €37 billion. The additional €11 billion in payments scheduled after 2022 just wouldn't happen.

Thus, the intense focus on the total repayments figure of €48 billion is misplaced and any restructuring of the promissory notes that is sold as having the benefit of reducing the €48 billion figure to something lower will actually be doing very little to reduce the long-term burden of the IBRC.

Table 7: A Notional Schedule for Repaying €28.1 Billion in ELA Using Promissory Note Payments

	<i>ELA Interest Rate</i>	<i>Repayments</i>	<i>Interest Payments</i>	<i>Total Amount Outstanding</i>
31/3/2011	0.025	3.1	0.78	28.1
31/3/2012	0.025	3.1	0.70	25.7
31/3/2013	0.025	3.1	0.64	23.3
31/3/2014	0.030	3.1	0.70	20.7
31/3/2015	0.035	3.1	0.73	18.3
31/3/2016	0.045	3.1	0.82	15.8
31/3/2017	0.045	3.1	0.71	13.4
31/3/2018	0.045	3.1	0.60	10.9
31/3/2019	0.045	3.1	0.49	8.3
31/3/2020	0.045	3.1	0.37	5.6
31/3/2021	0.045	3.1	0.25	2.7
31/3/2022	0.045	2.8	0.12	0.0

4.3. The Shorter-Term Relevance of the Interest Rate on the Notes

While the amount of interest paid on the promissory notes has little long-run impact, these interest payments are set to have an unfortunate impact on the Irish budgetary process over the next few years. This impact relates to Eurostat's accounting treatment of the promissory notes.

Eurostat's accruals-based accounting for budget deficits counted the full €31 billion principal of the promissory notes on Ireland's general government budget deficit in 2010. The interest payments on the promissory notes are then counted on the general government deficit (GGD) in the years that they occur. However, Eurostat's rules allow for debt instruments to have "interest holidays" in which no interest is charged and the promissory notes were designed with such a holiday period over 2011-2013.¹²

When this period is scheduled to end, the interest payments on the note will go from having no impact on the GGD this year to a €500 million impact in 2013 and a €1.8 billion impact in 2014. Even though the cash flow impact of the notes will not change during these years, the government will need to find an additional €1.8 billion in spending cuts and tax increases over the next two years if it is to stick to its official targets for this measure of the deficit.

¹² See this Department of Finance information note released in November 2010: www.finance.gov.ie/documents/publications/reports/2010/notepromissory2010.pdf

5. Potential Policy Options

This section discusses the reasons in favour of restructuring the promissory notes, outlining my preferred options for restructuring as well as the potential arguments that are likely to levelled against this approach by members of the ECB Governing Council. I also provide some arguments for changing the IBRC's accounting treatment of the notes.

5.1. *Why Restructure the Promissory Notes?*

Before considering policy options for changing the structure of the promissory notes, it is worth emphasising why such a restructuring is desirable.

The European Commission's latest report on Ireland projects that the Irish debt-GDP ratio will peak at 119 per cent at the end of 2013, just as the state is set to run out of its EU-IMF funding. This debt ratio is well beyond levels that have traditionally been considered dangerous, even prior to the recent example of private sector sovereign debt restructuring within the Eurozone set by Greece. As currently structured, there is little doubt that the IBRC's promissory notes will represent a significant negative factor in relation to financial market's assessment of the sustainability of Ireland's debt burden at that time.

I have projected above that, based on the current schedule and the nature of IBRC's ELA debts, Ireland is set to make its twelfth and last promissory note payment in 2022. Effectively, the promissory notes act like twelve different zero-coupon bonds with maturities ranging from one to twelve years. Thus, the effective average maturity of what is left of this debt, which accounts for twenty percent of GDP, is about five years.

Combined with an average maturity as of March 2012 on Ireland's existing private debt of about €80 billion of about six and a half years, this means that Ireland will have very significant funding requirements over the next few years, even before one considers the incremental borrowing associated with budget deficits.¹³

It is the firm hope of Ireland's Eurozone partners that Ireland, which is widely praised for its willingness to implement austerity measures, be able to access sovereign debt markets by 2013. Any steps that can be taken to hasten Ireland's departure from the EU-IMF programme are in the interests of both the Eurozone member states and the Irish people. A reduction in the funding burden associated with the promissory notes represents a relatively simple way to take such a step.

¹³ Calculations based on information in www.ntma.ie/GovernmentBonds/Daily_Bonds_Outstanding.pdf

5.2. What the Irish Government Should Look For: Payment Deferral

Any successful negotiating strategy requires a clear goal. In the case of the promissory notes, the Irish government should be proposing to restructure the notes so there is no €3.1 payment to IBRC on March 31, 2012 or for a number of years after that. This would reduce the state's funding requirements over the next few years and, by reducing the net present value burden of this debt, help to convince investors that Ireland's 120 per cent debt-GDP ratio is not as onerous as it looks.

For how many years should the promissory note payments be deferred? Clearly, from an Irish perspective, the ideal answer would be to defer the payments as long as possible but, given the need for agreement from the ECB Governing Council, this is unlikely to be obtained. A slightly less strong approach would be to link the beginning of promissory note payments to quantitative benchmarks in relation to the performance of the economy: For example, that payments would begin when nominal GDP has recovered its pre-crisis peak and unemployment has fallen below ten percent. An even weaker approach would be to suspend repayments until IBRC has used up all its non-promissory assets. As noted above, the IBRC would be able to repay approximately €14 billion over time in ELA even if it was never received any promissory note payments.

What are the obstacles to the goal of payment deferral? Anyone who has taken a passing interest in this issue will know by now that the Irish government is "having technical discussions with the troika" about this issue. The truth is that the ECB Governing Council is the only body that really matters for this question. If a plan to restructure the promissory notes was accepted by the Governing Council, then it is very unlikely that either the Commission or the IMF would object.

What objections might Governing Council members have to restructuring the promissory notes? In reality, members of the Council have by and large avoided commenting on this issue (partly because they are rarely asked.) But it is likely that objections take the following form:

- *The Moral Hazard/Slippery Slope Argument:* If promissory note restructuring leads to a slower pace of repayment of ELA, then other countries may also seek to use ELA to bail out their banking systems and the consequences may be inflationary, violating the ECB's primary policy objective of price stability.
- *The Legalistic Argument:* It is likely that various lawyers and central bankers at the ECB and national central banks believe that the existing ELA programme for the IBRC comes close to violating their understanding of the monetary financing prohibition article in the Treaty. For these individuals, any change to the current arrangement should not be considered because it may run into legal difficulties.
- *The "What's Your Problem?" Argument:* Many European politicians and central bankers are fond of praising Ireland's EU-IMF programme as a great success. For these individuals, they would prefer to wait to see firm evidence that the programme has gone off track before accepting the need to change any of its key aspects.

Each of these arguments are worth responding to:

- ELA programmes need the acquiescence and co-operation of the Governing Council. The ECB was strongly supportive of providing funds to pay off bondholders and depositors at failing Irish financial institutions on the grounds that these decisions promoted Euro-area financial stability. However, the Irish ELA programme does not represent a slippery slope to frivolous ELA programmes across the Eurozone because the Governing Council can simply choose to say no to future requests that it does not support.
- Slow repayment of ELA does not cause inflation. The ELA money has already been printed and did little to stoke Eurozone inflation. Choosing to repay the money more slowly will only contribute to Euro-area inflationary pressures if the monetary aggregates are expanding more rapidly than the ECB is comfortable with. At present, growth in Euro area M3 is very slow. If inflation becomes a concern, the Governing Council could make deferred repayment of ELA conditional on continued slow growth in the Euro area money supply.
- The legalistic arguments against restructuring the notes are relatively weak. IBRC is a solvent institution that is being provided with sufficient funds to repay all of its debts over time. A deferral of ELA does not change that situation and so it does not bring us closer to monetary financing of an insolvent institution. And any programme to pay back the ELA eventually technically counts as a temporary programme.
- In relation to the “What’s Your Problem?” approach, it could be argued that now is the time to look to build on whatever positive momentum is there in relation to the success of the Irish programme. With the Euro area economy apparently entering recession and Irish exports weakening, Ireland is likely to need an improved deal from the EU if the programme is to truly succeed.

5.3. Accounting Treatment of Promissory Notes

A separate issue from the key goal of achieving a significant deferral of promissory note payments is the accounting treatment of the promissory notes.

There has never been an official explanation of why the promissory notes needed to carry a similar yield as was prevailing on Irish government bonds in 2010. A November 2010 Department of Finance note reported that *“For capital adequacy purposes the Promissory Notes must be valued at par in the institutions’ accounts. Accordingly, interest must accrue on any amount due until it is paid. The interest rate charged is based on the long term Government bond yield appropriate to when the amounts will be paid.”*

Effectively, the approach taken in 2010 was to value the promissory notes according to a “mark-to-market” approach similar to how banks value bonds that are kept in their “trading books”. However, most European banks allocate the majority of their sovereign bonds to their so-called “banking books” which is intended for assets that are held to maturity. As the European Banking Authority

explained in a note discussing last year's EU banking stress tests "The reality is that shocks to sovereign bonds only impact the regulatory capital position via the trading book."¹⁴

The promissory notes are not intended to be traded on the open market and are intended to be held to maturity. Thus a "banking book" accounting treatment is appropriate. In addition, the risk profile of the promissory notes can be distinguished from those of regular sovereign bonds due to the additional letters of comfort and facility deeds that have been provided.

Even if the greater goal of deferring promissory note payments cannot be achieved, the government should at least seek agreement with the ECB Governing Council to issue new notes with an interest rate equal to the rate on the IBRC's ELA loans and to value these notes at par on a hold-to-maturity basis. Such an approach would provide IBRC with sufficient funds to repay its ELA debts as outlined in Table 7 in this paper with the interest counting against the general government deficit being the much lower amounts reported there. For instance, the interest charge on the GGD under this accounting method in 2014 would be about €700 million instead of €1.8 billion.

6. Conclusion

To those who have experienced the Irish banking and fiscal crisis at first hand, the moral and practical arguments for easing the burden on the Irish taxpayer of the IBRC's debt may seem obvious. Much of this debt was incurred by the Irish state so that unsecured and unguaranteed senior bondholders in the notorious Anglo Irish Bank and Irish Nationwide Building Society would be paid back. This was a policy that the European Central Bank repeatedly urged the Irish government to adopt in the interests of European financial stability but which led Ireland to the verge of national bankruptcy. Today, Ireland is again touted as the poster child for austerity and reform and an easing of the burden of this dubiously-assumed debt would greatly improve the chances of a successful outcome from this process.

In reality, the understanding of Ireland's economic woes from European policy authorities tends to be less sympathetic and moralising arguments tend to have little impact. The ECB Governing Council is extremely focused on its price stability goal and many of its members view repayment of the IBRC's ELA debts as quickly as possible as essential to avoid setting inflationary precedents in the conduct of monetary policy.

In theory, Ireland needs only to get a "blocking" one-third minority on the ECB Governing Council to alter the terms of its ELA programme, which would allow for a restructuring of the IBRC's promissory notes. In practice, the Governing Council does not operate in this way, preferring unanimous or near-unanimous decisions. While hopes have been raised that an agreement may soon be reached to reduce the burden of the promissory notes, I expect any progress to be slow and incremental.

Anglo and Irish Nationwide are likely to continue to pose a burden on the Irish state for a long time to come. Making progress on reducing this burden is likely to require a sustained campaign from Irish politicians to explain the relevant issues to their European counterparts and the wider European public and to put the case for restructuring as clearly as possible.

¹⁴ See www.eba.europa.eu/EU-wide-stress-testing/2011/Questions-and-Answers.aspx

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