The Irish Story – From Disaster to Recovery?

Donal Donovan Athens April 2016

OVERVIEW

A The Causes of the Crash

• B The Bail Out and Afterwards

• C Why Has Ireland Emerged (Reasonably) Successfully?

A The Causes of the Crash

• **Pre-2002** – the success of the Celtic Tiger

2002-2007 - property boom , turned into bubble

- financed by massive bank lending, financed by unlimited wholesale borrowing from abroad
- budget in cash balance but soaring expenditure on salaries and benefits financed by artificial revenue(transactions taxes) from property bubble.

B The Bail Out and Afterwards

- 2010 Huge size of "hole" in budget and banking system became apparent
 - Bond spreads rose dramatically
- After Greece bail out in May, Ireland was "next"
- Troika Bail Out in November 2010

The Bail Out and Afterwards cont

- Bail out ended as scheduled end-2013
- All reviews completed and drawings on schedule
- Results/Outcomes?
- - macro financial (deficit and bond spreads down sharply (from mid-2012 onwards), debt stabilised and falling
- macro real (growth restarted at end 2012, unemployment down from 15% at peak to 9%)
- banking system restructured, now showing profitability, mortgage arrears/NPLs now – finally- on downward trend

C Why (Relative) Success?

• 1 Socio – Political Factors

- The Irish crisis was the result of a short lived (but highly enjoyable for most) "party" between 2000 and 2007. It was not the result of deep rooted, longstanding problems.
- Many people knew that the party couldn't last for ever, but no wanted to be the one to shout "stop"
- - As a byproduct, general (implicit) acceptance that the bill for the party had to be paid (but argument over "sharing the bill")
- Irish people historically pragmatic no one owes us a living . Small, vulnerable, no point in "defying" the troika etc
- Given massive dependence on MNCs, exports etc , "reputation" crucial

Why Relative Success?

• 1 Socio –political factors cont

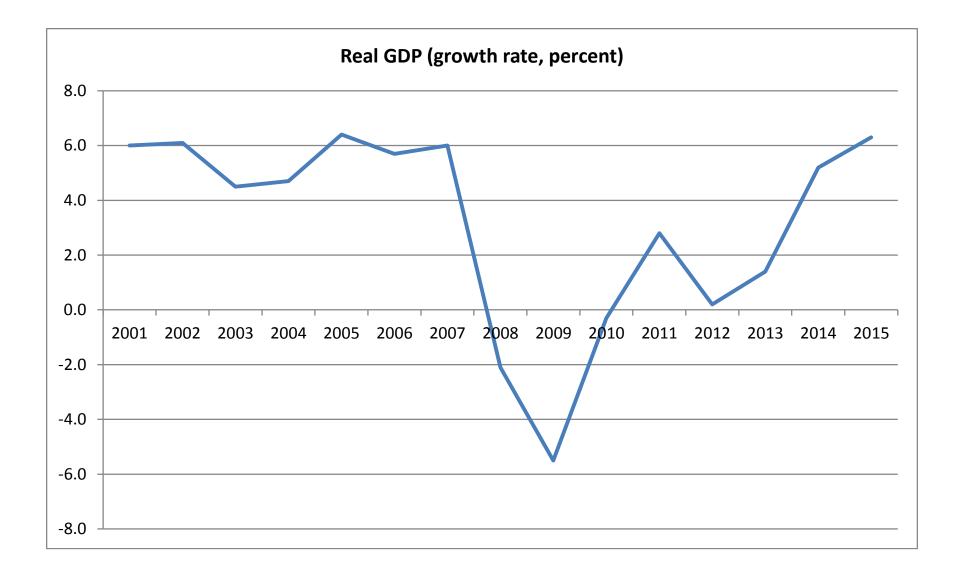
- all parties (including quite far "left") supported staying in euro area.
- troika sought (and got) support from opposition parties in advance of coming early 2011 general election. Agreement re budgetary targets, banking system reforms etc (though room left for differences re composition of fiscal measures).
- The two governments during this period composed of mildly centre right and mildly centre left parties – further left parties – small minority.
- Basic level of benefits (though not salaries) left untouched.

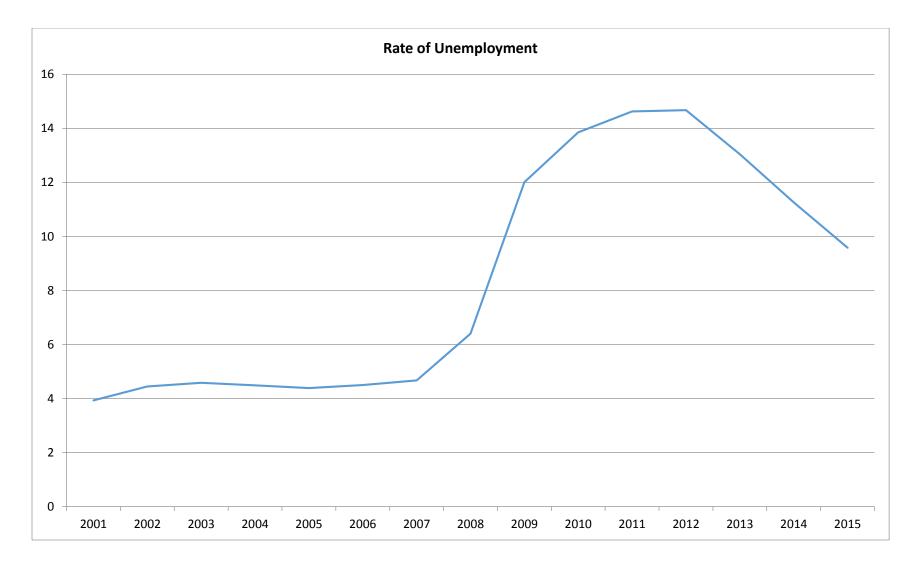
Why Relative Success?

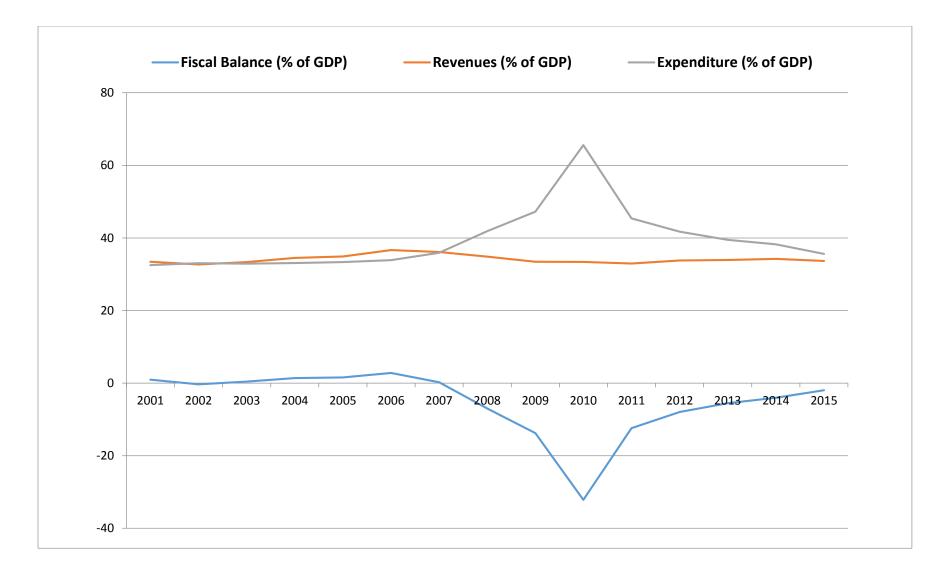
- 2. Economic factors
- Irish economy very deregulated, open (X and M around 140% of GDP)
- MNCs critical. Did not "abandon " Ireland during crisis .
- Extent of recession tempered by continued export (MNC) growth that partly offset austerity- driven fall in consumption/investment.
- Labour mkt pretty flexible (unionised private sector very small ,while public sector unions accepted the inevitable – salaries going back to pre- bubble levels)

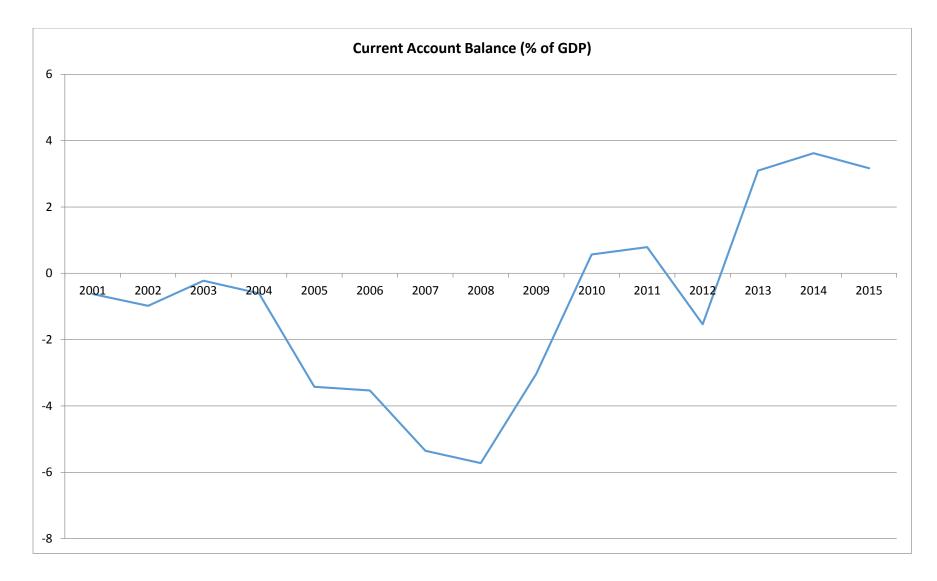
Why Relative Success?

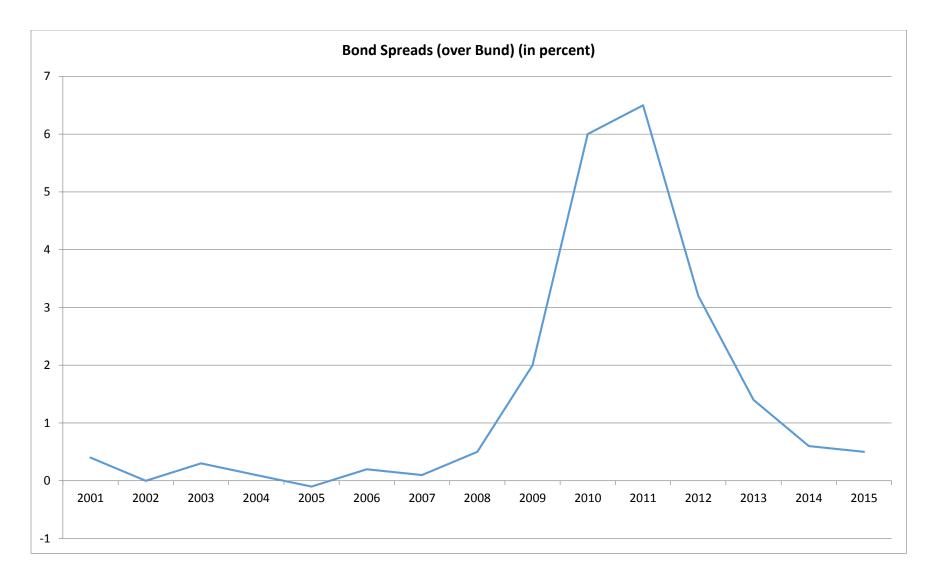
- 3. Exogenous /"Luck " factors
- the Draghi/ECB initiatives pushed all bond spreads sharply down from mid-2012 onwards
- The US recession was over by 2010 boosted Irish MNC exports.
- Ireland "piggybacked "on EU financing terms.concessions granted to Greece
- Partly because Ireland did not "burn senior bondholders", concessions later given by ECB on bank debt











Exports (% of GDP) 40 – 20 —

