"The Irish Banking Crisis – What Happened?"
Frequently Asked Questions
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Debt and Development Coalition Ireland,
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1. **Why were we made responsible for the Anglo/INBS debts?**

The Anglo/INBS debts were originally guaranteed by the Irish State in September 2008 as part of the **blanket bank guarantee**. The Irish Government made an initial payment of €4 billion to cover Anglo's debts in 2009. This was paid out of the exchequer finances. Over the course of 2009 and 2010 it became increasingly clear that Anglo and INBS (Irish Nationwide Building Society) were **insolvent** (bankrupt). The government renamed Anglo/INBS the **Irish Bank Resolution Corporation** (IBRC).

To prevent these institutions from collapsing the **Irish Government** had to obtain external funding. The **Central Bank** system was the only realistic source of this funding. The Government negotiated a deal with the Central Bank of Ireland which set out the conditions under which the Central Bank would provide Anglo/INBS with the necessary **Emergency Lending Assistance** (ELA). This deal required the permission of the **ECB** (European Central Bank).

The Emergency Lending Assistance from the Central Bank was crucial to prevent Anglo and INBS from collapsing. If the banks were to collapse their debts would have fallen back on the Irish State. This obligation was a consequence of the bank guarantee.

2. **Where did the money go to?**

The ultimate transfer of wealth was primarily from the people living in Ireland (taxpayers and public service users) to the **bondholders** that lent money to Anglo/INBS, as well as *other creditors*. Other creditors might be people that Anglo/INBS owed money to, for example, any bills arising from building maintenance, painters, catering, and so on. The bulk of the money went to bondholders however. The bondholders and other creditors were paid with the **ELA** generated by the **Central Bank**. In the initial arrangement, the **promissory notes** represented our commitment to eventually repay the Central Bank what it lent to Anglo/IBRC.

3. **Who are these bondholders?**

We don't know who the bondholders are. The markets trade annonymously, and there are many rules to keep things annonymous. So we can't know unless transparency provisions are made at EU level. One of the attractions of bonds for investors is their anonymity. Individual bondholders don't know who the other bondholders are. Even the Government doesn't know who they are.

4. **How much of the debt is owed to bondholders? Has it all been paid?**

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Most of the original bondholders have now already been paid. They were private bondholders. The remaining debts to be paid are now owed to the Central Bank of Ireland and exist in the form of Floating Treasury Bonds. The bonds started out being approximately worth €25.4 billion, but the Central Bank has been selling them in small tranches, so the figure would be partially less by now.

5. Are these bondholders different to people who had money invested in Anglo, or who had deposits in the bank?

Yes, bondholders tend to be hedgefunds, or financial actors who lent money to the bank to lend back out again. All shareholders in Anglo were completely wiped out. Shareholders were individuals or entities who owned a stake in the company. They had invested in Anglo, whereas the bondholders had lent Anglo money. However, some junior bondholders did take a hit.

6. Do we have the names of some of the senior Anglo Bondholders?

No. There is a list available online, but it is not verifiable. You can find it at:

http://www.golemxiv.co.uk/2010/10/who-are-the-bond-holders-we-are-bailing-out/

7. Are senior bondholders vulture funds?

Not typically. Vulture funds tend to be what are called ‘junior bondholders’, which mean they are very high risk. Senior bondholders are lower risk, but also take lower rates of interest.

8. What is a promissory note?

A promissory note is a ‘negotiable instrument’. This is where one party (in this case the Government) makes an **unconditional promise** to pay a defined sum of money to the other party (in this case Anglo/INBS), either on specified future dates or on dates to be determined, under specific terms. In this case, the promissory notes were assets of Anglo/INBS which could be used as collateral.

9. Where did that money go?

The promissory note repayments were paid to the IBRC (formerly Anglo/INBS, and in the role-play we just say ‘Anglo’ to keep things simple). The IBRC used the money to repay the Irish Central Bank for its Emergancy Liquidity Assistance (ELA) funding. Once the Central Bank received the money, it deducted it from the value of its ELA liabilities. The money is effectively destroyed.

(The Central Bank created the ELA to the value of €31.6 billion, and passed that money on to Anglo to repay the bondholders. This meant that the Central was *minus* €31.6 billion. When the promissory note repayments came back to the Central Bank, in 2011, and in 2012, the Central Bank took the money out of circulation. This brought up the *deficit* in the Central Bank, but it also meant that huge amounts of money were being taken out of circulation in the Irish economy, and were destroyed.)

10. The €31.6 billion ELA that the Central Bank created was *digital*, it was just a figure typed into a computer. At what point did this money become real?

The Irish Central Bank credited Anglo's account by the **relevant amount (€31.6 billion**) in exchange for **collateral** (the **promissory notes**). The collateral (promissory notes) was given by the Government to the Central Bank to guarantee the repayment of the ELA. *It became real money as soon as Anglo's account was credited.* Anglo could then use those resources to pay its bills as they came due.

11. How much were the repayments?

The Irish Government was scheduled to make €47.9 billion of promissory note related payments between March 2011 and March 2031. This was composed of €30.6 billion capital reduction – the €30.6 billion owed – and €16.8 billion in interest repayments. (In the role-play we don't include the interest payment on the promissory note to keep the story simple.)

This was the original schedule:

Date:	**Amount:**	**Running total:**
March 31st 2010	€0.2bn	€0.2bn
March 31st 2011 - 2023	€3.06bn/annum (13 yrs)	€39.78bn
March 31st 2024	€2.1bn	€2.1bn
March 31st 2025 – 2030	€0.9bn/annum (6 yrs)	€5.4bn
March 31st 2031	€0.1bn	€0.1bn
		€47.58 bn

The total promissory note repayment figure adds up to €47.58 billion including interest, repaid by 2031. In the role-play, we don't include the interest, we generally refer to the original €31.6 billion. Also, a lot of the interest was staying inside the Irish economy.

To put these repayments into context, €30.6 billion was equivalent, at the time, to just under 20% of Ireland's GDP or €17,000 for each working person working for pay or profit in the State. €47.9 billion is 30% of Ireland's current GDP.

We no longer have the promissory note arrangement. The following question explains how the promissory notes were turned into floating rate treasury bonds.

12. What happened to the promissory note, when it got changed into bonds?

On **February 6th 2013**, during a night-time sitting, the government passed the IBRC Act 2013. This was emergency legislation which wound up IBRC (formerly Anglo/INBS). Plans to wind up IBRC had been leaked to the media, and David Hall, of the Irish Mortgage Holders Organisation (IMHO) had challenged the legality of the promissory note. This created an urgency under which the Dáil held an emergency session which has become known as '**Prom Night**'. This night is now infamous, because the Dáil bar sold over 200 drinks, to the value of approximately €1,700 and a number of TDs appear to be drunk in video footage from the chamber.

What happened:

a. The government wound up IBRC, which means it closed down.
b. The Central Bank still has in its possession the promissory note, and an enormous debt, but now Anglo has ceased to exist.
c. The government negotiated with the Central Bank to *take back* the promissory note, and exchange it for **floating rate treasury bonds**.
d. The government took back the promissory notes and destroyed them. They then created €25.4 billion worth of legal government (floating rate treasury) bonds, which they gave to the Central Bank to replace the promissory note.
e. The government completely changed the form of debt in the possession of the Central Bank.
f. The Central Bank is now selling the bonds periodically on the international bond markets, through the NTMA. (National Treasury Management Agency.)

13. Is what the government did legal?

Yes. The original promissory note arrangement was legally dubious, as it could be interpreted as monetary financing. But the swap for the bonds was legal. It was simply exchanging one asset for another.

14. What is a bond?

A bond is a financial asset. One side loans money to (*buys the bond from*) another, in exchange for the other getting the money (*selling the bond*). Both parties sign a contract. The contract could have any terms written into it. The contract will include a coupon, which will determine the percentage of interest to be paid every year. The contract is the terms and conditions of the loan. The person who buys the bond, is looking to make a return on their assets (profit) in the longer-term.

15. How can you sell bonds?

In this situation, the governments auctions off the bonds on a bond market. The government uses the NTMA to sell the bonds. The NTMA is a state body established to manage the goernment's debt.

The Central Bank owns the bonds, because it is owed the money. But the Central Bank isn't set up to function on the markets, so the NTMA fulfills this role. The Central Bank is obliged by the ECB to sell off a minimum amount of bonds every year. Via the Department of Finance, the Central Bank orders the NTMA to sell the bonds on their behalf, and to then make a payment to the Central Bank.

The NTMA is the actor. It announces to the markets that will be an auction of a particular value of bonds on a specific date. Lots of different parties will make a bid for the bonds; so for example, a bank like BoI or AIB could make a bid, or financial entities like hedgefunds will make a bid. The best bidder wins the contract. The NTMA is trying to make a profit by selling the bonds, but it might make a profit or a loss, as once the bonds go on the market, they have to be sold.

The NTMA might know who the original buyer is. But the bond can be continuously bought and sold on the market as an investment. The terms and references can never be changed from the original contract, however. Also, the government could buy these bonds back themselves.

The Central Bank and the NTMA are completely separate institutions. The NTMA is doing the selling. The Central Bank is acting as a lender of last resort. It is the single most important actor in a country's financial system, it guarantees the system and props the rest of the system up. The Central Bank acts as the regulator. It makes sure that the minimum standards are being applied.

16. Why does it matter how quickly the CB sells the bonds?

The rate of sale of the bonds has an impact on the percentage of interest we pay on the loans. The slower we sell the bonds, the lower the rate of interest.

If the Central Bank sells the bonds, it might make a profit in the short-term. However, increasing the amount of government bonds on the market reduces the value of the bond. This drives up the interest rates for future borrowing. This will have a knock-on effect for people in Ireland in the future. It will mean that the interest rates in the future will be higher.

The faster the Central Bank sells the bonds, the faster you lessen the value of the bonds and increase the interest rates. It also increases the speed at which you are leaking money out of Ireland onto the international markets.

So, Mmoney stops being circular within the state, as it is leaking out of the state. If we don’t sell the bonds, this money does not leave the state, it keeps circulating and going back to the exchequer. Selling the bonds is bad for the economy.

If we freeze the sale of the bonds, and never sell them on the market, it will mean that the money stays in the state, and that we won’t have to pay interest on the loan, or repay the loan at all, in the future. The best solution would be to cancel the bonds entirely.

17. The €1billion per year in interest can change over time can’t it?

Yes. The bonds have ‘floating interest rates’ which means they don’t have a fixed rate of interest. The rates of interest are published by a particular margin called *Euribor.*

At time of writing (May 2015) interest rates are low, but we expect them to rise in the future. The rates can fluctuate widely because of the *floating rate* aspect of the bonds. This is more dangerous over the long-term.

Financially, this arrangement is better than the promissory note deal. Under the old arrangement, there was €3.1 billion leaving the exchequer every year, plus interest in the future. Under the new arrangement, the annual figure is approximately €1 billion per year until 2038, at which point the repayments will increase as we start to repay the principal.

18. Who appoints Central Bank staff?

The governor of the Central Bank is appointed by the government. The decision is taken by the Minister for Finance, and ultimately the cabinet. The governor serves a 7 year term, and is completely independent from the government. The government cannot tell the CB what to do.

The Central Bank has its own board of governors. The governor of the CB, currently Patrick Honohan, is invoved with senior appointments, but this would not go far down the line. Patrick Honohan was appointed in 2009, and his term will be up in 2016.

19. What about the IMF – how come the IMF doesn’t come into this story?

The IMF have pubclicly stated that there should be more leniency for Ireland. The IMF takes a neutral role in sovereign debt situations. It is a lender, but is not supposed to get involved in the political dyanmics in a country. While the IMF did lend money to the Irish government, it was not related to the Anglo/INBS debt crisis, that we are looking at in this workshop or scenario. The IMF loan was not tied to anything.

The IMF has publicly stated that Ireland should have been given a deal on the promissory notes. They have also said that Greece should have been given a debt write-down. The IMF holds the European Commission and European Central Bank responsible for the Greek debt crisis. We can assume that it is similar in the case of Ireland.

20. The government tells us that the debt repayments are not related to the recession, to austerity, and to cuts to the community sector? Is this true?

Of course they are. Increases in debt repayments of the Central Bank have a relation to the implementation of austerity. The level of austerity is related to the size of the deficit in public finances.

Another way of putting it is that the the amount of austerity that was enacted is related to the bank bailouts. The recession was occurring anyway, so there would have been some austerity. However the severity of the increase in taxes and cuts (to the community and public sectors) was caused due to the banking debts.

Additionally, austerity makes GDP smaller, because people are less able to spend money, and have less disposable income. Austerity actually frustrates the recession itself: there is less money moving around, and small businesses are more likely to go bust. Some businesses would have collapsed regardless, like within the construction industry, for example.

The Eurozone was established in a way that it cannot respond well to recessions or crises. Austerity in Europeans countries has made the recession worse.

All of this comes down to choices; every tax increase has a consequence, every cut has a consequence. They have to be weighed up.

21. What are the links to the water tax?

There are no direct links between the bank debts and the implrementation of water taxes. It could be argued that the austerity program made the push for water charges.

As an aside, the implementation of water charges allow the government to push a lot of investment off the books. This allows us to increase public spending in other areas. Irish Water has been very poorly constructed, and the water tax is extremely regressive.

22. What else could we do with this money?

It’s up to you… what could you do with a billion euro? You could reduce child poverty, invest in social housing (you could build thousands of houses in a year), you could invest in healthcare, in education, mental health services. You could get rid of the TV license. The list is endless.

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23. What other option do we have?

The alternative, progressive option is the **freeze the sale of the bonds, and write-down the debt entirely.**

24. What are the risks in debt suspension?

a. **Loss of investor confidence**. Given that we are not in the international market, this risk is in many respects theoretical. If anything, it would probably improve investor confidence because we would need less funding and would have less of a debt/interest payment burden. This is likely to impress the markets more.

b. **Potential retaliation by the Troika.** Only the ECB could retaliate, and this is a reality whether we sell the bonds or not. Legally, the promissory note repayment is not a condition of the EU/IMF Memorandum of Understanding that Ireland agreed with the Troika and would therefore not directly affect those loan agreements. The ECB is now encouraging ‘**quantative easing**’. Selling the bonds is in fact the reverse of quantitiative easing.

25. What is the schedule for the bond sales?

2014 – 2018:	€0.5bn/annum (5 yrs)	€2.5bn
2019 – 2023:	€1.0bn/annum (5 yrs)	€5.0bn
2024 – 2030	€2.0bn/annum (8 yrs)	€16.0bn
2031	€1.5bn	€1.5bn
	Total:	**€25b**

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