

# **The Irish Story –From Disaster to Recovery?**

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# 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.
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# 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
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# 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
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# 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
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# 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

**Real GDP (growth rate, percent)**













