Taoiseach Brian Cowen's Statement to the Dáil

Financial stability developments in Ireland & elsewhere

16th November 2010

Introduction
We are all well aware that there has been much comment and speculation in recent days on developments within the euro area and especially with regard to Ireland. We are living in a very fragile time and we need to be careful about what we say so that we don't add to the turbulence.

Response to public finance deterioration
As this House is well aware, we have since the middle of 2008 taken significant steps in response to the rapid deterioration in our public finances in order to stabilise the situation and begin the process of returning this country to a sustainable fiscal position.

Stabilisation of the public finances
In total, adjustments amounting to close to €15 billion have been implemented over the course of the past two and half years. The measures we have taken are working.

Our deficit for 2010 is estimated on an underlying basis at 11.9 per cent of GDP this year. This is broadly in line with our Budget day forecast and provides further evidence that the public finances are under control. We will therefore achieve our aim of stabilising the underlying deficit this year at the 2009 level.

Fully funded into first half of 2011
Those that are now commenting on Ireland's financial situation should also remember that the Exchequer is fully funded into the first half of 2011, so the impending sense of crisis that some wish to suggest the Irish State faces is not a fair reflection of the facts.

Our gross level of General Government debt will increase this year, to around 98½ per cent of GDP but, a large part of that is due to the statistical accounting treatment of the capital support being provided to some of our financial institutions. Statistically, we are taking the hit upfront but in reality we are borrowing the money over a much longer period.

Taking account of the substantial assets of the National Pensions Reserve Fund, our net debt to GDP ratio is better, estimated at around 83 per cent at end-2010.

Further consolidation required
While substantial progress has been made in tackling and stabilising the deficit, this Government is acutely aware that further measures will be required to restore sustainability to the public finances. That is vital to underpin future economic growth.

Despite the weaker economic outlook we remain fully committed to reducing the General

Government deficit to below 3 per cent of GDP by the end of 2014. This means budgetary adjustments of some €15 billion must be implemented over the course of the next four years, a significant amount by any measure. But let us not forget that we have already implemented measures worth close to €15 billion since mid-2008, at a time of economic decline.

The €15 billion in adjustments can be delivered and delivered in a way that will allow the economy to return to growth.

Our revenues and our spending are out of line to the tune of €19 billion and this is a gap that is presently being filled by borrowing. This cannot continue. We must continue along the road of budgetary consolidation which we first embarked upon in 2008.

With a significant frontloading of consolidation into 2011, we will have completed two-thirds of the overall adjustment by the end of next year.

This will demonstrate clearly to all that we take our commitments seriously and that we will take the necessary actions to return this country to a sustainable fiscal position. We will stabilise our gross debt to GDP ratio over the 2012/2013 period.

Four-Year Budgetary Plan

As you know a Four-Year Budgetary Plan is currently being prepared and will be published shortly.

The Plan will be clear and workable and will map out a way forward to national recovery.

The Plan is not just about cutting the budget deficit, as important as that is.

The Plan is also about setting out the key reform measures that the Government has decided to take to restore competitiveness, boost employment and return us to a sustainable medium-term economic growth path.

Increase in spreads

The recent increase in our bond spreads is of course a concern. However, it is important to remember that we are not presently active in the market so we are not borrowing at the current elevated levels. The NTMA decided to withdraw from the market until early next year to allow markets digest the end-September Statement on Banking and the upcoming Four-Year Plan and Budget 2011.

As I have already mentioned we are fully funded into the first half of next year and so there is no immediate funding pressure on the Sovereign.

Clearly there is a need to bring stability to markets, here and elsewhere, as the current costs of borrowing are very high and are at a level that would make it difficult for banks here to operate as engines of recovery.

It is important to point out that the European Central Bank continues to meet the liquidity requirements of the banking system. In addition, this Government’s priority throughout the banking crisis has been to safeguard deposits and this is a concern shared by Government’s across Europe and the European Commission.

I want to take this opportunity to reiterate the strength of the Government's commitment to safeguarding deposits in the Irish banking system in view of the recent ill-informed and inaccurate speculation by a small number of external analysts and commentators on this issue.

Tomorrow this House will consider a motion to extend the current Bank Guarantee Scheme - the ELG Scheme - for a further year.

As the House will be aware, this Scheme guarantees the security of all deposits in the participating institutions in the Scheme, along with that of other bank liabilities guaranteed under it.

The Scheme complements the protection afforded to all depositors up to €100,000 under the permanent Deposit Guarantee Scheme (DGS) which has no expiry date.

The protection of depositors has been and remains one of the over-arching priorities of the Government in responding to the difficulties in the Irish banking system.

Response to speculation regarding financial assistance
Let me reiterate what I have been saying in response to speculation over the last number of days that Ireland is seeking financial assistance.

Ireland has made no application for external support.

The EU Commission has stressed this point as have other Member States. Given the current market conditions, there have been on going contacts at official level with our international partners. The Department of Finance is continuously in contact with these bodies. The engagement has been particularly intense in the run up to the Budget and the Four-Year Plan.

The Minister for Finance has not been involved in these discussions.

However, Minister Lenihan is in Brussels this evening to discuss these issues with his Eurozone counterparts at their usual monthly Eurogroup meeting and he will also attend the usual monthly meeting of all EU Finance Ministers tomorrow. It is in all of our interests that we find a credible, efficient and above all workable solution that will provide assurance to the markets and thereby restore confidence and stability.

There is no doubt that financial markets have been extremely volatile over recent weeks and we need to provide them with a level of reassurance.

However, this is not an insurmountable challenge and, through working together with our partners in a calm and rational manner, we can resolve these issues and underpin financial stability in the medium and longer term.

Concluding remarks

The strategy being pursued by Government has addressed the difficulties facing the banking system, is bringing sustainability to the public finances and is resulting in ongoing improvements in competitiveness. Pursuing these policies is essential for a return to growth, the evidence of which we are already beginning to see.

I am also encouraged by the broad consensus amongst the main political parties on the need to reduce the deficit to 3% of GDP by 2014. Delaying taking action will only make the task more difficult and will add to our debt burden, so it is simply not an option. In his recent visit, Commissioner Rehn noted that our assessment was correct and agreed that significant front-loading – amounting to €6 billion for next year – was appropriate.

Growth is returning to the Irish economy, so that the environment in which future adjustments must be made is different to that which prevailed in recent years. Our exports are performing very well, as confirmed by figures this week, which show that industrial production rose by 12 per cent in annual terms in the third quarter. Our strong export performance reflects the significant price and wage adjustments that have taken place, which is testament to the flexibility of the Irish economy.

Another key fact is that Ireland remains an attractive place in which to do business. We continue to attract inward investment, notably in knowledge-intensive sectors. Ireland remains open for business and is still the destination of choice for many of the world's leading firms.

We have taken measures to ensure that the banking system can continue to function as a vital element of our economy. These measures have been approved by the appropriate European authorities and supported by the European Central Bank.

The turbulence in the markets over recent weeks has been about issues of wider concern than Ireland's situation. It is appropriate therefore that we discuss with our partners, as we are, how these issues should best be addressed.

Through the clarity and determination of the Government's position on stabilising the public finances and restoring growth, we are creating the conditions through which confidence in the Irish economy will be maintained on the part of citizens, investors and our international partners.