Anglo: Not Our Debt Q&A

Debt Justice Action

Produced with technical assistance from Tom McDonnell, TASC

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Why are we 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 were insolvent.

Preventing the Anglo/INBS Collapse

- 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 CBI (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). Any changes to this deal also require the permission of the ECB.

Obligations on the State – the Promissory Note

- The ELA 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.
- Anglo did not have sufficient eligible (i.e. good quality) collateral to obtain the required amount of ELA from the Central Bank.
- The Irish Government negotiated with the ECB governing council to create a 'promissory note' as a liability owed to Anglo. The promissory note is therefore

an asset of Anglo. This asset was then used by Anglo as collateral to obtain the necessary ELA from the Central Bank.

- A promissory note is a negotiable instrument - this is where one party (in this case the Government) makes an unconditional promise in writing to pay a defined sum of money to the other party (in this case Anglo/INBS – now known as the IBRC), either on specified future dates or on dates to be determined, under specific terms.
- The State's current obligation is to pay down €30.6 billion worth of promissory notes over the next 20 years. See Table 1 below:

How does it work?

- The Central Bank's Emergency Lending Assistance (ELA) to the former Anglo/INBS (IBRC) is what enables the IBRC to pay-off its obligations - including obligations to bondholders, other creditors and depositors.
- Most of these bondholders have now already been paid – using the ELA from the Central Bank. The estimated bondholder debt still to be repaid on Anglo's bondholder debt is approximately €5 billion.
- The ELA is also used to pay-off depositors and to enable the IBRC to retain its banking license.
- Eventually this ELA funding has to be paid back to the Central Bank. The mechanism for doing so is the promissory note.
- Therefore the Irish government has this promissory note obligation to the IBRC (which we own) so that the IBRC is able to repay the Central Bank for its ELA funding.
- The promissory note repayments are paid to the IBRC – the IBRC then reduces its ELA obligations to the CBI. In practical terms the Irish Government has received a loan from the CBI to pay off the bondholders.
- The ultimate transfer of wealth is primarily from the people living in Ireland to the bondholders that lent to Anglo/INBS. The bondholders and other creditors continue to be paid using the Emergency Lending Assistance from the Central Bank (all bar circa €5 billion have been paid so far) – the promissory notes represent our commitment to eventually repay the Central Bank.

How much are the repayments?

- The Irish Government is scheduled to make €47.9 billion of promissory note related payments between March 2011 and March 2031 – this is composed of €30.6 billion capital reduction – the €30.6 billion owed - and €16.8 billion in interest repayments (see Table 1).
- Much of this €47.9 billion of repayments will need to be borrowed unless the State is running substantial fiscal surpluses – very unlikely in the medium-term.
- These borrowings will also have to be financed somehow – it has been estimated that the total cost to the State will reach €85 billion by 2031 (assumes a 4.7% interest rate on borrowings).

Table 1 – Promissory Note Repayments (€bn)

Date	Total Interest	**Repayments**	Total Capital Reduction
31/3/2011	0.6	**3.1**	2.5
31/3/2012	-	**3.1**	3.1
31/3/2013	0.5	**3.1**	2.6
31/3/2014	1.8	**3.1**	1.2
31/3/2015	1.7	**3.1**	1.3
31/3/2016	1.7	**3.1**	1.4
31/3/2017	1.5	**3.1**	1.5
31/3/2018	1.4	**3.1**	1.6
31/3/2019	1.3	**3.1**	1.7
31/3/2020	1.2	**3.1**	1.9
31/3/2021	1.1	**3.1**	2.0
31/3/2022	0.9	**3.1**	2.2
31/3/2023	0.7	**3.1**	2.3
31/3/2024	0.6	**2.1**	1.5
31/3/2025	0.4	**0.9**	0.5
31/3/2026	0.4	**0.9**	0.5
31/3/2027	0.3	**0.9**	0.6
31/3/2028	0.3	**0.9**	0.6
31/3/2029	0.2	**0.9**	0.7
31/3/2030	0.1	**0.9**	0.8
31/3/2031	0.0	**0.1**	0.0
	16.8	**47.9**	30.6

The social implications of repaying the Anglo debt

- Over 2% of GDP will be drained out of the State each year up to 2023 to make the promissory note repayments – this will be through an additional €3 billion to €4 billion of fiscal tightening (tax increases/spending cuts).
- IMF research indicates that each 1% of fiscal tightening reduces GDP by 0.5% to 1%.
- €30.6 billion is equivalent to just under 20% of Ireland's current 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.
- The €3.1 billion promissory note payment due to be made by the state on behalf of the former Anglo on March 31 2012 would be more than sufficient to fund the total cost of running Ireland's entire primary school system for an entire year – it is also more than the estimated cost for a next generation broadband network for all of Ireland.

What options do people in Ireland have regarding Anglo?

1. The status quo – keep paying the promissory notes.
2. Alternatively the Irish government could suspend the promissory note payments in order to allow for meaningful negotiations. Without suspension, there can be no such discussion. The crucial element of this is the €30.6 capital repayments.

What are the risks in suspension?

- There are risks. However, the main risk cited - that the ECB would 'cut off funding to our pillar banks' - is not plausible. The pillar banks are being maintained to avoid contagion; a contagion that would spread to the core-EU economies if the ECB precipitated their collapse (and they would collapse without ECB funding). Why would the ECB take action to precipitate the very outcome they have been desperately trying to avoid since 2008?
- Another risk cited would be to investor confidence. However, with Government bonds rated as junk, and given that we are not in the international market, this risk is in many respects academic. Would suspension mean we couldn't re-enter the international market in 2013? If

anything, it would probably help since we would need less funding and would have less of a debt/interest payment burden. This is likely to impress the 'markets' more.

- The main issue is one between public agencies (Government, ECB, and CBI) and would have little direct impact on the European banking system. Promissory note repayment is not a condition of the EU/IMF Memorandum of Understanding agreed with the troika.