

Synnøve Stølen

Resuscitating the Celtic Tiger

The Effects of the Joint EU-IMF Programme on the Irish Economy

Bachelor's project in European Studies w/ Political Science

Supervisor: Michael J. Geary

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Abstract

This dissertation provides a critical analysis of the effects of the EU-IMF Programme in Ireland, a programme which is regarded a huge success by both politicians and scholars. By applying a mixed methods research design of empirical analysis, consisting of a Keynes model to analyse the effects of macroeconomic changes on economic growth, a qualitative analysis of speeches, official documents and statements, press releases and newspaper articles, as well as work of other academics. This forms the basis for a case study of the EU-IMF Programme in Ireland to answer the research question: How, and to what extent, did the EU-IMF Programme affect the recovery of the Irish banking sector and economy? The dissertation argues that the EU-IMF Programme boosted the recovery of the Irish economy and played a pivotal part in the country's return to economic and financial stability. It will also argue that banking mistakes made in the boom-years and the programme's debt continued to weigh on growth despite the astonishing recovery. One of the key findings of the dissertation is that the burden imposed on the people, through higher taxation, unemployment, combined with their own mortgages slowed recovery due to low private consumption.

The dissertation concludes on the note that the EU-IMF Programme to a great extent affected the recovery in Ireland, as the country would not have been able to muddle through on its own due to banking-mistakes made in the boom-years. However, it should be noted that the international economic situation accelerated domestic growth from 2014-15.

Sammendrag

Denne oppgaven gir en kritisk analyse av effektene EU-IMF programmet i Irland, et program som er ansett som en stor suksess av både politikere og akademikere. Oppgaven anvender mixed methods forskningsdesign med empirisk analyse, bestående av en Keynes-modell for å analysere virkningene av makroøkonomiske endringer på økonomisk vekst, en kvalitativ analyse av taler, offisielle dokumenter og uttalelser, pressemeldinger og avisartikler, samt forskning gjort av andre akademikere. Dette danner grunnlaget for en case studie av EU-IMF programmet i Irland for å besvare forskningsspørsmålet: Hvordan, og i hvilken grad, påvirket EU-IMF programmet gjenreisningen av den irske banksektoren og økonomien? Oppgaven argumenterer for at EU-IMF programmet styrket gjenreisningen av den irske økonomien, og spilte en avgjørende rolle i landets retur til økonomisk og finansiell stabilitet. Det vil også argumenteres for at feiltrinn i banksystemet i årene før finanskrisen, samt gjelden fra programmet fortsatte å sinke økonomisk vekst til tross for den formidable gjenreisningen. Et av hovedfunnene i oppgaven er at byrden som ble påført befolkning, gjennom høyere skatter, arbeidsledighet, kombinert med deres egne boliglån sinket gjenreisningen grunnet lavt privat konsum.

Oppgaven konkluderer med at EU-IMF programmet i stor grad påvirket gjenreisningen i Irland, da landet ville vært ute av stand til å klare seg på egen hånd grunnet feiltrinnene i banksystemet før finanskrisen. Det bør imidlertid erkjennes at den internasjonale økonomisk situasjonen akselererte innenlands vekst fra 2014-15.

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1. Introduction

The year 2020 marks a decade since the EU-IMF Programme was put in action to save the Irish banking sector and economy after the financial crisis in 2007-08. Due to its business-friendly environment Ireland became the natural choice for companies like Apple, Dell and Microsoft when establishing themselves in Europe, hence successfully linking Ireland to the technological revolution in Silicon Valley. The tech revolution was one of the factors behind Ireland astonishing economic growth, which was one of the fastest in the world from the mid-1990s and the following decade. This period gave birth to the Celtic Tiger recognised by exceptional export-led growth, moderate wage and price inflation maintaining cost competitiveness and healthy public finances.

The exceptional growth was also a result of the Irish pound being devalued twice in the 80s, increasing exports and investments from abroad. But in 2002 Ireland joined the Eurozone, giving control of their monetary policy to the European Central Bank, ECB. After joining the Eurozone Irish banks got access to almost unlimited liquidity with low interest rates from both the ECB, and banks in the Eurozone, making them heavily reliant, and exposed to risk, on the international money market. Unlike many other countries in the Eurozone, Ireland borrowed immense amounts of money from international markets, in 2007 aggregated lending in Ireland amounted for 250% of GDP, compared to 150% for the entire Eurozone, much of which went into the housing and construction sector, creating a housing bubble (Commission of Investigation into the Banking Sector in Ireland, 2011). Combined with inadequate fiscal policies, amplifying the economic expansion, the Irish economy was in an extremely vulnerable position if international markets started derailing. When the American investment bank Lehman Brothers went bankrupt in September 2008 it sent shockwaves throughout the entire market, erasing investors' confidence, leading the Celtic Tiger to collapse.

The collapse of the Celtic Tiger led to a drop in GDP and the economy which once was the fastest growing in the world, now entered a deep recession with rising unemployment, high indebtedness and unhealthy public finances. Two years after the collapse, the EU-IMF arrived in Dublin in hopes of resuscitating the Celtic Tiger with a €85 billion bailout. The EU-IMF Programme aimed at tightening public finances by cutting government spending and increase taxation, and a massive overhaul of the banking sector, which had outgrown the economy five times during the boom-years, and now suffered from their huge amounts of impaired loans (European Commission, 2011).

The aims and objectives of this dissertation is to examine how the EU-IMF Programme affected the recovery of the Irish Economy. By analysing changes in the economy and banking sector, examining how, and if, these contributed to economic and financial stability. This forms the research question: How, and to what extent, did the EU-IMF programme affect the recovery of the Irish banking sector and economy? The story of the programme in Ireland is regarded as a huge success, by the EU, IMF, Irish government and scholars. Gaining knowledge about the effects of an economic rescue programme, like the EU-IMF, is relevant because it provides insight to what works in a recovery process, knowledge which can be applied when facing a similar situation.

1.1 Literature review

An economic earthquake like the one seen in 2007-08 would naturally create an extensive amount of literature. The same goes for the EU-IMF bailouts in Europe. However, most of the literature concern the origins of the financial crisis in Ireland, the creation and

implementation of the EU-IMF programme. Few assess the effects of the programme, and those who do are usually the work of practicing scholars of economics who had first-hand experience with the programme and its effects from their work at the Central Bank of Ireland, CBI.

Karl Whelan, professor of Economics and former employee of the CBI, wrote an extensive article on the Irish boom and burst, and the role of the EU-IMF Programme. Whelan covers the most central elements in terms of the financial crisis in Ireland and the EU-IMF bailout, and argues that the programme played a central role in Ireland's return to economic growth. However, he argues that the collapse of the banking sector was the main reason why the programme was needed in the first place, and that Ireland probably could have muddled through on its own had it not been for the banking-related costs (Whelan, 2013). Whelan's argument strongly relates to the argument being made here, that the recovery of the banking sector was slower and more difficult due to the magnitude of its non-performing loans, NPLs.

A year after Ireland exited the programme Patrick Honohan, Governor of the CBI from 2009-15, published an article concerning the effects of the program in comparison to its outlines. He argued that "The program helped accelerate progress in the Irish economy, though debt would continue to weigh on growth prospects" (Honohan, 2014, p.7). This is consistent with the argument being made in chapter 3, that the programme helped boost the Irish economy on its return to growth. Honohan argues that "the EU-IMF program delivered what it said, and to a great extent accelerated the reconstruction of the banking sector and economy" (Honohan, 2014).

Like Honohan, John Fitzgerald, member of the CBI Commission, provided an empirical analysis of the Irish economic recovery when the EU-IMF programme ended after the exit. He argues that the recovery was led by the tradable sector, and that the programme's design of achievable fiscal target led to Ireland outperforming the target, hence restoring confidence in the economy (Fitzgerald, 2014). Fitzgerald also supports Whelan's argument that the severity of the banking crisis made it impossible for Ireland to resolve the economic and financial situation without help from the EU and IMF.

Both as an academic and practitioner Honohan did a lot of work on the EU-IMF Programme, his most extensive work on the topic is his book about Central Banking in Ireland and Europe which focuses on how Ireland handled the financial crisis in 2008. Honohan gives an empirical analysis of the EU-IMF bailout, its effects and consequences, a design similar to this thesis. However, his research is solely based on quantitative data and his own experiences as Governor. Honohan's main argument is that even if the program wasn't promising in its first months, in the long run it provided financing to allow the remaining fiscal adjustments to be gradual and more orderly than what would have been possible without help from the EU and IMF (Honohan, 2019). The book also addresses some of the long-term effects which older literature were unable to assess.

This dissertation will provide a more holistic answer to the question by analysing the Irish economy from the boom-years in 2005-07 up until the economy returned to growth, all in relation to the EU-IMF Programme. The dissertation aims at filling the existing gap in the literature on the effects, especially non-numeric, experienced a few years after Ireland exited the programme. It is a qualitative addition to the literature, as most of what is written on the topic concerns the quantitative effects of the programme, while qualitative data from the period will give better insight to how the programme and its effects were experienced in the population, and how this affected the economy. The dissertation will to a great extent agree with the arguments made by Whelan, Honohan and Fitzgerald.

However, it will argue that high numbers of NPLs and high unemployment suggest that the programme did not deliver on all it said, and that certain aspects of its design, like the heavy tax burden and huge government cuts, ended up weighing down growth.

1.2 Methodology

There are several ways to address the research question in terms of methodology, but for this dissertation a mixed methods research design of empirical analysis will be applied. By applying empirical analysis, the effects will be examined based on data and information on the experiences of the programme (Empirical analysis, 2018). The research is a case study of the EU-IMF Programme in Ireland and will be examining the Irish banking sector and economy from 2005 to 2016, to provide insight as to why the program was needed and the outcomes of such a drastic economic overhaul. Case studies can use all forms of qualitative and quantitative data, making it the most applicable methodology to answer the research question as qualitative data would be able to explain quantitative effects in more depth and provide a comprehensive understanding of the effects (Tjora, 2017). The case being explored is part of the wider phenomena economic rescue programmes, which there has been many of throughout history, they are recognised by huge loans to finance restructuring of some kind in countries hit by a crisis or war, and they leave the country with a huge debt. This methodology is chosen because the financial crisis Ireland, and the Irish recovery, diverge from many other countries in the Eurozone, over the course of seven years GDP for Ireland went from collapse to full recovery (Tjora, 2017, p.41; Holden, 2016, p.23).

To analyse the macroeconomic effects of the EU-IMF Programme Keynes model for an open economy with a public sector will be applied throughout the dissertation to analyse quantitative data of economic output. The model, which is built on economist John M. Keynes' theory of Employment, Interests and Money, is chosen because it addresses central economic mechanism, and is therefore helpful when analysing the effects of an economic crisis and rescue programme (Begg, Vernasca, Fischer & Dornbusch, 2014; Holden, 2016). Variables as private consumption, fixed capital formation, public consumption and exports are all central when examining the effects of the EU-IMF Programme in Ireland.

Table 1.2.1: Keynes model for an open economy with a public sector

(1) $Y = C + I + G + NX$	
(2) $C = A + c(Y - NT)$	$A > 0, 0 < c < 1$
(3) $NT = tY$	$0 < t < 1$
(4) $NX = X - Z = X - zY$	$0 < z < 1$
Y= Income/ Gross domestic product	c = Marginal propensity to consume
C= Private consumption	NT= Net taxes
I= Gross domestic fixed capital formation	t = Net tax rate
G= Public consumption of goods and services	X= Export
NX= Net export	Z= import
A= Autonomous consumption	z = Marginal import propensity

This dissertation rests on a conceptual framework of two main concepts of economic recovery who are central to the analysis. Economic and financial stability refers to a situation of economic growth where public finances are healthy and creating wealth through jobs and government spending. It also includes a profitable banking sector which is resistant to economic shocks and capable of fulfilling its basic functions of providing capital, managing risks and arranging payments. Export-led recovery refers to a way of growing out of economic recession where exports contribute significantly to GDP creating growth when domestic factors are slowed by recession. The dissertation consists of three empirical chapters, following a chronological order from the boom and burst in 2005-2008, the EU-IMF programme in 2010 and up until Ireland returned to high economic growth in 2016.

The first chapter builds around two arguments, that an unchecked, self-governed banking sector caused relentless lending from international markets to housing and construction, and that the government failed to develop sustainable fiscal policies leading to a fatal collapse when international markets derailed. By analysing quantitative data of the amount of money borrowed through the Eurozone, and how this affected GDP, along with changes in tax revenues and loans to Irish citizens. The qualitative data includes speeches and the RTÉ documentary *How We Blew the Boom*.

The second chapter emerge from two arguments, the first being that the programme boosted recovery in public finances, and the second arguing that large number of mortgages obtained in the boom-years made recovery in the banking sector slow and difficult. To do this the chapter starts from the Letter of intent, forming the basis for analysis, before examining newspaper articles, press releases, speeches, quarterly bulletins, statements, and the ex-post Evaluation of the Programme. The chapter applies Keynes model to analyse quantitative data.

After exiting the programme, the Irish economy experienced massive growth, resembling the period of the Celtic Tiger. The final chapter builds upon two main arguments, that the cost of returning the economy to health were imposed on the people, and without the international pick-up this burden would have slowed growth. Second, the amounts of unresolved NPLs dragged on recovery for banks, people and the economy. To strengthen the arguments the chapter will analyse speeches, newspapers, quarterly bulletins, official reports and statements, as well as quantitative data on GDP.

Following the empirical chapters is a summary of the most significant arguments, giving grounds to conclude that the EU-IMF Programme to a great extent affected the recovery in Ireland, as the country would not have been able to muddle through on its own due to banking-mistakes made in the boom-years. However, it should be acknowledged that the programme did not resuscitate the Celtic Tiger on its own.

2. The collapse of the Celtic Tiger 2005-09

By mid-decade, the financial and property boom presented features which should have had financial stability analysis sound the alarm bells loudly (Regling & Watson, 2010). The financial crisis in Ireland was largely a home-grown crisis born from immense interbank lending and triggered by an international collapse. This chapter builds around two main arguments, that an unchecked, self-governed banking sector caused relentless lending from international markets to housing and construction, and that the government failed to develop sustainable fiscal policies, resulting in a fatal collapse when international markets derailed. The chapter will mainly be concerned with domestic causes of the crisis, because the EU-IMF programme, due to the domestic collapse, aimed at overhauling the banking sector and installing stricter, more sustainable fiscal policies.

2.1 Borrowing the banking crisis

From 2003, until the crash in 2008, banks played a central role in creating the Irish housing bubble. The Irish banking crisis emerged from extensive borrowing from international markets, especially the Eurozone (Honohan, 2009, p. 210). Traditional bank lending founded from customer deposits were exchanged with an over-reliance on wholesale markets, where banks borrowed short term to lend long term (Joint Committee of Inquiry into the Banking Crisis, 2016). Firstly, this led to an explosion in mortgages in Ireland from €16 billion in the first quarter of 2003, to €106 billion in 2008 (Whelan, 2013, p. 430-431). Secondly, as a result of these changes, aggregated lending for Ireland exceeded 250% of GDP in 2007, while aggregated lending for the Eurozone amounted for 150% of GDP (Commission of Investigation into the Banking Sector in Ireland, 2011, p.3). Lastly, in Ireland the financial institutions' lending was equivalent of over 50% of GDP in 2005, before rising to 100% in 2006-07 (Commission of Investigation into the Banking Sector in Ireland, 2011, p.3). The extensive lending from international markets put the Irish economy in a vulnerable position if a global recession were to happen, where banks stop lending to each other. As Irish banks relied heavily on capital from abroad to finance their own lending, a stop in foreign capital inflow would halter domestic capital flow. For the housing market this meant that fewer people could acquire mortgages resulting in higher supply than demand for residences, hence reducing prices and bursting the bubble.

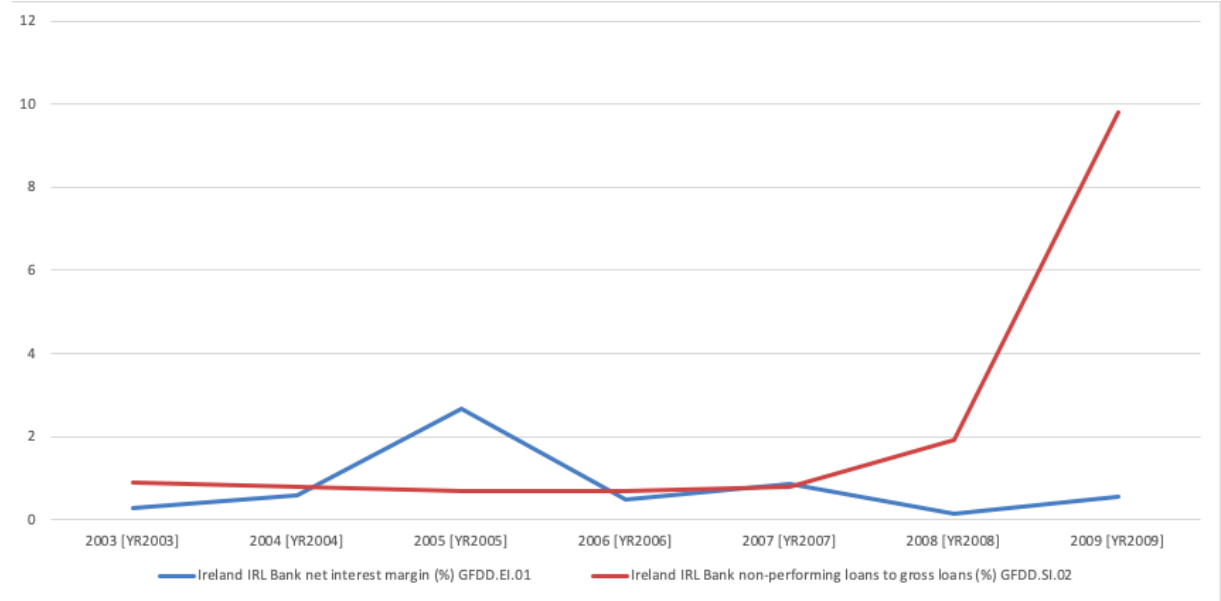
In the early 2000s the loan-to-value ratio, LTV, for Ireland was below 65%, significantly lower than countries like France, Belgium and the Netherlands, but from late 2002 it expanded rapidly. In the course of four years the rate increased with 15%, reaching 78% before the crash, exceeding aggregated ratio for Belgium, Spain, France, Ireland, Italy, the Netherlands and Portugal (Gaudêncio, Mazany, & Schwarz, 2019, p.15). Given that LTV shows how the volume of a loan relates to the value of the property, the increase also indicated that Irish banks were easing their lending standards as a result of rising residential prices (Honohan, Donovan, Gorecki & Mottiar, 2010). By fuelling the Irish housing market with high-risk loans, banks expanded demand for self-owned housing, thus increasing prices and enlarging the bubble. The housing market has been a factor in destabilising economies several times throughout history, mainly due to residences being viewed as safe investments because there always will be some demand, and compared to investments in machinery, which lose value each year, it is easier to profit from housing investments.

From early 2005, there was a significant easing in credit standards in Ireland as the largest banks became anxious to protect market shares from the competitive inroads of Anglo

Irish and UK-based retail lenders, this lowered the amount of equity required to obtain loans (Honohan et al., 2010, p.8). Combined with high LTV loans and higher loan-to-income ratio this resulted in more people getting access to loans they could not afford. The loan-to-income ratio for Ireland increased from 2.5 to 4.7 between 2000-07, a direct result of easings in lending standards (Gaudêncio et al., 2019, p.16-17). Increased lending, despite higher income, resulted in massive indebtedness for the Irish population when the bubble burst, and banks were left with loans their borrowers could not repay. This fatal combination proved that the Irish banking sector was not sufficiently regulated, and the inroads of more competitive banks had derailed the whole sector.

There is little doubt that the Irish crisis originated from an uncontrolled housing market, and Peter Bacon, Economic Consultant, said in *How We Blew the Boom* that "People believed prices were going to rise continuously, so they went in and bought houses they did not really want for housing purposes. They became investors, speculators in what they believed was a market that was going to rise forever" (Lee, 2009). The extensive lending to housing and construction resulted in one of the highest loan default rates in the Eurozone for loans to this purpose in Ireland. The loan default rates for house purchase came close to 20% and construction to 15%, both exceeding the aggregated rate of 6% for house purchase and 5% for construction (Gaudêncio et al., 2019, p.27). High default rates proved that both banks and borrowers were taking high risks when the market was rising, as stated by Bacon this resulted in people acquiring risky loans to invest in property, rather than borrowing for housing purposes. John Hurley, former Governor of CBI, said in his opening statement at the launch of the Annual Report 2008, just months before the collapse, that "Irish banks have substantial exposure to land and development loans, which creates uncertainty about their capital position, and ultimately affects their ability to provide credit to the real economy" (Hurley, 2009). The bank's relentless lending did not just fuel the housing market with risk, it also made it difficult for them to fulfil their other functions in the economy, moving Ireland away from a state of economic and financial stability. Graph 2.1.1 displays how the housing boom affected banks through the net interest margin, banks gross profit, and NPLs. The easing in lending standards from early 2005 led to a rapid increase in the number of loans, hence the high net interest margin in 2005. In 2006 the number stabilized in 2007 before the crisis hit, leaving the net interest margin at 1.12%. The number of NPLs clearly indicates that low interest rates resulted in people not being able to afford the loans they had obtained. After the bubble burst in 2007-08 the number of NPLs increased rapidly from 0.8% in 2007 to 9.8% in 2009.

Graph 2.1.1: Bank net interest margin and Bank non-performing loans to gross loans 2003-09



Percentage change in Bank net interest margin and Bank non-performing loans to gross loans leading up to the burst of the housing bubble in 2008. Source: World Bank Global Financial Development Databank.

Irish banks would have been unable to access such amounts of cheap money had it not been for the ECB and its low interest rates. The Eurozone is a diverse area with uneven economic growth, and while Ireland was experiencing astonishing growth Germany, the largest economy in the Eurozone, had significantly lower growth. In order to increase German growth, the ECB started slowly decreasing its marginal lending facility, as seen in table 2.1.2. Table 2.1.2 shows that when lending in the Eurozone escalated from 2005 the Marginal lending facility increased by 0.25%, before increasing with another 1% during 2006. The marginal lending facility is the interest rate banks pay when they borrow from the ECB and give good indications of how expensive borrowing from the ECB is. It is often an effective tool to control how much money is in circulation, as seen in table 2.1.2, when banks borrowed more money the ECB increased the marginal lending facility to reduce lending and economic activity. Had it not been for the wish to boost German growth, the ECB could have kept a higher rate, this could have prevented Ireland from borrowing unsustainable amounts, reducing the damage of the crisis.

Table 2.1.2: Marginal lending facility for the ECB 2003-09

Time	Level	Change	Time	Level	Change
2003 Mar.	3.50	- 0.25	2008 July	5.25	0.25
2003 June	3.00	- 0.50	2008 Oct. ¹	4.75	- 0.50
2005 Dec.	3.25	0.25	2008 Oct. ²	4.25	- 0.50
2006 Mar.	3.50	0.25	2008 Oct. ³	4.25	
2006 June.	3.75	0.25	2008 Nov.	3.75	- 0.50
2006 Aug.	4.00	0.25	2008 Dec.	3.00	- 0.75
2006 Oct.	4.25	0.25	2009 Jan.	3.00	
2006 Dec.	4.50	0.25	2009 Mar.	2.50	- 0.50
2007 Mar.	4.75	0.25	2009 Apr.	2.25	- 0.25
2007 June.	5.00	0.25	2009 May	1.75	- 0.50

Marginal lending facility for the ECB from 2003 to 2009, levels in percentages per annum, changes in percentage points. Source: Statistical Data Warehouse

When the bubble burst it left the banks with a significant amount of NPLs. In September 2008 the Government provided the banking guarantee of €440 billion worth of bank debt and the banks most severely hit by the crisis were nationalized within a year (Slattery, 2010). There is no doubt that the financial regulations for the banking sector was the pivotal error causing the crisis, and if the financial regulators had acted reasonably rational during the period leading up to the crisis it would not have hit Ireland as hard as it did (Connor & O’Kelly, 2010). The nationalization of the banks was the final proof that the widespread belief in self-regulating, efficient markets, was only a belief and diverged from the reality in the Irish banking sector (Commission of Investigation into the Banking Sector in Ireland, 2011, p.99). If the sector had been better regulated it is likely that banks would not have eased their lending standards due to higher competitiveness. More regulation would have made it possible to impose measures which could have reduced lending, hence minimising the sectors vulnerability in the international market.

2.2 Boom and burst through fiscal policies

Due to the bubble, construction and housing contributed significantly to the rise in GDP between 2005-08 through higher investments and taxation (Honohan et al., 2010). Robert Watt, Secretary General for the Department of Public Expenditure and Reform in Ireland, stated in a speech from 2019 that “Fiscal policy was the primary cause of these imbalances [...]. Permanent commitments were based on unsustainable revenue sources – policies were pursued based on an overly optimistic view that improvements in output were permanent” (Watt, 2019). The Irish economy became over-reliant on its construction sector as it contributed to the largest part of Ireland’s tax revenue in the boom-years, and

significantly to GDP through capital formation. This, together with the technological revolution taking place due to a business-friendly environment with low corporate taxes, led to the creation of fiscal policies contradicting economic assumptions about growth. Table 2.2.1 shows how the construction sector contributed to GDP, reaching its peak right before the crisis at €50 billion, which was more than 1,5 times of government contribution.

The fiscal policies in place to regulate the Irish economy were inadequate and incapable of balancing economic growth. Tables 2.2.1 and 2.2.2 indicates that Ireland, in the period from mid-2000s, followed an expansionary fiscal policy instead of a contractionary one. Expansionary fiscal policies give higher government spending and lower taxes, this policy aims at increasing economic activity. Vice versa, contractionary fiscal policy gives lower government spending and higher taxes, applied to avoid overheating and save money for times with lower growth (Begg et al., 2014, p.388-389). Fiscal policies are aimed at counteracting economic fluctuations, but the application of expansionary policies during an economic expansion amplified the fluctuation, resulting in unsustainable growth. The spending during the good years also meant that the Irish government had little capital saved for the day fluctuations turned, which would make it harder to get out of an economic recession.

Instead of reducing government spending and increase taxes the Irish government increased their spending by almost €9 billion from 2005-08. By applying equation (1), (2) and (3) it is possible to analyse how this policy contributed to the economic boom and burst. Firstly, an increase in G gives a direct increase in Y as seen in (1). Secondly, through (3) an increase in Y and lower t, seen in table 2.2.2, leads to reduced net taxes. Lastly, the full effect is seen in (2) where an increase in Y and reduction in NT gives higher consumption, this again leads to higher GDP through a multiplier-effect, eventually resulting in an overheating of the economy if policies are not put in place to control growth.

Table 2.2.1: Changes in aggregated demand 2005-09

	2005	2006	2007	2008	2009
C	74.0	82.1 (9.3)	90.2 (9.9)	91.2 (1.5)	80.9 (-11.1)
I	43.1	48.1 (12.7)	50.1 (4.0)	39.8 (-22.5)	24.7 (-44.0)
G	24.9	27.4 (10.4)	30.5 (11.3)	32.8 (6.9)	31.1 (-5.1)
NX	19.0	17.4 (-8.4)	17.2 (-1.2)	16.3 (-5.2)	24.4 (49.7)
X	132.5	141.0 (6.2)	152.5 (8.3)	150.2 (-1.4)	144.8 (-3.6)
Z	113.5	123.6 (8.9)	135.3 (9.5)	133.9 (-1.1)	120.4 (-10.1)
Y	162.3	177.3 (9.3)	189.3 (6.8)	179.9 (-5.0)	159.6 (-11.3)

Changes in aggregated demand (€ billion) and GDP for Ireland during financial boom and crash in current market prices for 2009 (percentage change from previous year in parentheses), based on Keynes model. Source: Authors calculations based on data from Central Statistics Office: Annual results for 2009.

The taxation policies emerging in the mid-2000s contributed to a revenue collapse for the government, as they turned away from the reliable tax source of personal income towards corporate taxes, stamp duties and capital gains, displayed in table 2.2.2 (Honohan et al., 2010, p.29). The most significant change occurred in capital taxes and stamp duty, taxes on single property purchases and construction, which doubled between 2000-06, displaying the Irish economy's dependency on construction and housing taxes. These changes in taxation made the economy, and government income, particularly vulnerable if a financial crisis occurred.

In 2007, gross domestic capital formation amounted for €50.1 billion, out of this building and constructing contributed to €39.1 billion. The remaining €11 billion was made up by machinery and equipment, most of which went into the constructing sector (Central Bank of Ireland, 2008). Considering the level of value the construction and housing sectors created during this period, the increased taxation on the sectors was a reasonable move to make. However, as Watt addressed in his speech, permanent policies were based on the beliefs that temporarily high growth would last forever. If the government had left income taxes almost untouched, while increasing taxes on the construction sector, they would have created a more sustainable taxation policy.

When the crisis hit, the government were forced to change their taxation policies, relying more on private income and less on capital taxes, to help the construction sector survive, and keep their revenue. As seen through equation (2) lowering income taxes led to increased private consumption, this fuelled the housing market in the period it experienced most growth. Table 2.2.2 shows that from 2006-09 the share of income taxes increased by almost 10%, this during a time when huge amounts of the Irish people had obtained massive mortgages to purchase homes that lost much of its value when the bubble burst. It is reasonable to assume that the changes in taxation policies after the crash was part of the reason for the rapid increase in NPLs from 2009.

Table 2.2.2: Share of tax revenue 2000, 2006 & 2009

Type of tax	2000	2006	2009
Income tax	33.5	27.2	36.4
Corporation tax	14.3	14.7	12.9
Taxes on capital	7.6	15.6	4.6
<i>Of which: Stamp duty</i>	4.0	8.0	2.5
VAT	27.5	29.5	33.7
Excises and other	17.1	13.0	12.5

Share of tax revenue, per cent. Source: OECD Economic Surveys: Ireland 2009; Authors calculations based on Revenue Commissioners: Statistical Report 2009.

While the financial crash in Ireland was a result of a banking crisis, it can in also be seen as a result of failed and insufficient fiscal policies to regulate the banking sector and public

finances. On one hand, banks fuelled Irish markets with cheap capital from the Eurozone, setting the scene. On the other, the government and financial regulators failed to see the warnings and adopted instead policies which only made things worse. Also, the Financial Regulator viewed the crisis entirely as a result of the global situation (Honohan, 2009). The evidence presented indicates that the global collapse simply pulled the trigger on a gun which was already heavily loaded due to domestic factors. It is reasonable to assume that unwillingness to acknowledge the importance of domestic factors in the creation of the crisis resulted, to some degree, in the wrong response being chosen right after the crash, making the economic situation even worse. This lethal combination had severe consequences for Ireland who, after three decades of astonishing growth, now had to watch the Celtic Tiger crumble to a wounded kitten.

3. The EU and IMF to the rescue 2010-13

After the crash, the Celtic Tiger entered a state resembling a kitten more than a tiger and was in desperate need of help to return to its former glory. External help, and an economic adjustment programme were now inevitable. A bailout from the EU-IMF had already been offered to Greece, and it seemed natural that Ireland, also a member of the Eurozone, should enter a similar programme. The contrasts could hardly have been greater. From Ireland being the fastest growing economy in the world in the mid-2000s, to Ajai Chropra, IMF mission chief to Ireland, striding past a beggar in the streets of Dublin on 17. November 2010, life in Ireland was about to be changed drastically (Beesley, 2011). In a parliamentary debate about the EU-IMF Programme on 30. November 2010 Brian Cowen, The Taoiseach, stated that: "This agreement ensures that Ireland has secure access to the funding it needs as it sets about stabilising its finances and building confidence that the banks are well capitalized and able to meet the economy's needs" (Houses of the Oireachtas, 2010). As stated by Cowen, the EU-IMF Programme would play a central role in Ireland's recovery from the financial crisis. This chapter examines that programme, its contents and effects, building around two main arguments. First, that the programme played a crucial part in the export-led recovery in Ireland, and that cuts imposed were pivotal to recovery. Second, through a critical examination of the banking recovery, it argues that the amounts of mortgages, due to extensive lending in the boom-years, made recovery slow and difficult.

3.1 A plan for economic austerity

A letter sent on 19. November 2010 from Jean Claude Trichet, head of the ECB, to Brian Lenihan, the Minister of Finance, was pivotal for Ireland's entry into the programme. Trichet demanded that the Irish government entered a bailout in order for the ECB to keep the banks alive (O'Donovan, 2015). The ECB feared that Anglo's heavy reliance on emergency liquidity would cause it to collapse, sending shockwaves throughout Europe (Carswell, 2010). The letter indicates that Lenihan was under immense pressure in the weeks leading up to the announcement of the programme, and that Ireland had no other choice than entering the bailout if they wanted to save their economy. On 3. December 2010 Lenihan, and Patrick Honohan, Governor of CBI, sent their letter of intent to the IMF, outlining the plan to save the Irish economy, creating the fundament for the EU-IMF Programme between Ireland and the EU, ECB and IMF, known as the Troika (Lenihan & Honohan, 2010).

Downsizing the banking sector was the most significant aim of the programme, and would ensure that Ireland had a banking system which could access funds on the open market (Collins, 2010). The overhaul consisted of several elements, those central to the analysis are outlined here. First, land and development loans that were not already transferred to the newly created National Asset Management Agency (NAMA), established to deal with non-performing property loans, would also be transferred, to relieve banks of their heaviest burden of bad loans. Second, banks were required to immediately and fully provide for non-performing assets, to stabilize and regain sustainable finances (Lenihan & Honohan, 2010). Third, the position of Anglo and the Irish Nationwide Building Society, INBS, were to be resolved in a way which protected depositors and strengthen the banking system (Carswell, 2010)

In terms of the public finances, the Letter of Intent set out several policies to reduce expenditure (Barrett, 2011). This involved cuts in government spending, affecting public

services like welfare benefits significantly (Fitzgerald, 2014). The government was pursuing public service number reduction, this included lowering the minimum wage. Unemployment rose significantly after the collapse, and the programme detailed appropriate sectoral policies to encourage exports and a recovery of domestic demand, supporting growth and promoting jobs to reduce long-term unemployment and increasing competitiveness (Lenihan & Honohan, 2010). The turn away from taxation on private income, towards the housing and construction sector, resulted in a narrow and unsustainable tax base where 45% of the citizens were exempt from income taxes. To bring the tax base to sustainable levels the programme aimed at lowering income tax bands and credits by 10% and reducing various pension-related tax reliefs (Lenihan & Honohan, 2010). The pension age would also be increased, to 66 years in 2014, and 68 by 2028, to increase the number of working taxpayers (Barrett, 2011).

3.2 The return to economic stability

The EU-IMF Programme aimed at an export-driven recovery for the Irish economy, and stated that "Driven by exports, Ireland is projected to return to positive growth in 2011" (European Commission, 2011). Table 3.2.1 shows that from 2011 GDP returned to growth with an increase of 3.7% from the previous year. The greatest contribution to growth came from the tradable sector through exports, and in the first year of the EU-IMF Programme the net export for Ireland increased by 20%. By applying equation (1), (2) and (4) it is possible to analyse how changes in the tradeable sector affected the Irish economy. Equation (4) shows that the balance of trade for Ireland is positive as X is higher than Z . It is reasonable to assume that the reductions in income, due to increased taxes, and high private debt, increasing savings, resulted in a reduced marginal import propensity, hence increasing net exports. This gives ground to argue that export played a central role in the recovery of the economy (Fitzgerald, 2014). The export-led recovery of the whole economy can be analysed through equation (1), and (2). First, an increase in NX directly increases Y , as seen in (1). Second, equation (2) shows that this increases C , however the programme introduced new taxation policies giving lower disposable income, $Y-NT$, hence the slow but steady increase seen in table 3.2.1. The slow increase is a clear result of reductions in I and G , due to cuts in public expenditure and the collapse of the construction sector and housing bubble, which contributed significantly to gross domestic capital formation in previous years. However, amidst decline in both I and G the Irish economy saw a return to growth only a year after the EU-IMF Programme was implemented, mainly due to the significant increase in export (Whelan, 2013, p. 435).

Table 3.2.1: Changes in aggregated demand 2010-13

	2010	2011	2012	2013
C	82.4	82.97 (0.6)	82.5 (-0.6)	83.3 (1.1)
I	26.1	24.8 (-4.8)	26.9 (8.4)	26.5 (-1.4)
G	26.43	26.11 (-1.2)	25.92 (-0.7)	25.95 (0.1)
NX	28.7	34.7 (20.9)	35.4 (2.1)	36.4 (2.82)
X	157.8	167.1 (5.9)	182.5 (9.2)	184.1 (0.8)
Z	129.1	132.4 (2.6)	147.1 (11.1)	147.7 (0.4)
Y	164.92	171.1 (3.7)	172.8 (1.0)	174.8 (1.2)

Changes in aggregated demand (€ billion) and GDP for Ireland during the EU-IMF Programme in current market prices for 2013 (percentage change from previous year in parentheses), based on Keynes model. Source: Central Statistics Office: Annual results for 2013.

The programme did not aim at a rapid job creation, in the belief that higher economic activity and increased competitiveness, after a few years, would result in more jobs. When the budget for 2011 was launched, the first year of the EU-IMF Programme in Ireland, Michael Noonan, Fine Gale's spokesman on Finance, said he was disappointed that it did not contain a direct jobs and growth plan. "I had expected a series of initiatives would have been brought in, it is not possible to cut and tax the way out, you've got to grow your way out of recession" (Minihan, 2010). The broad focus on cuts in the first year, and not on job creation, led to an increase in unemployment during the first two years of the programme from 14% in 2010 to 16% in 2012 (Trading Economics, n.d.). This resulted in lower income for those who lost their jobs and turned to social support, many who had obtained huge mortgages, which reduced their consumption, hence slowing recovery.

Ireland has been, and is still, one of the most business-friendly environments in the world due to its low corporate tax, and the EU-IMF Programme aimed at keeping it that way, while increasing competitiveness and creating jobs. The growth in export after the financial crash was a result of improvements in competitiveness after years of driving domestic prices up at non-competitive levels in the international market (Whelan, 2013). Increased competitiveness accelerated demand for Irish goods and services as they were returned to affordable prices in the international market, hence contributing to the export-led recovery.

The increased competitiveness had effects in other parts of the economy and created jobs in the long run. As the programme entered its last year, unemployment started declining at a steady rate, and both full time and part time employment grew significantly for months (Trading Economics, u.d.; Honohan, 2014). This makes it reasonable to assume that the cuts imposed through the programme stimulated economic growth and competitiveness, and by doing so, increased demand for labour, reducing unemployment.

The Irish citizens had to take on much of the burden for the economic restructuring. Income taxes amounted for less than 30% of the governments total tax revenue in the years of the construction boom, this changed completely with the EU-IMF Programme. In 2011

income tax amounted for 40.5% of the total tax revenue in Ireland, and in 2012 it made up 41.2 % (Revenue Commissioners, 2011; 2012). In late November 2013 Eamon Gilmore, Tánaiste, stated that he hoped the government could “relieve somewhat the burden of taxation on working people” (Carroll & O'Halloran, 2013). While these taxation changes were positive for the state's income it had negative effects for the population who were left with less disposable income to pay off their mortgages and spend on consumption (O'Brien, 2013; Donovan & Murphy, 2013, p.255). The population contribute to a significant amount of GDP through C, and by imposing policies which reduce disposable income, the government contributed to reducing C which potentially could drag on growth.

The overall effects on the Irish economy were positive due to the conservative nature of the original plan for recovery, and the Irish government was able to outperform its fiscal target every year of the programme due to its restrictive design, and the government's commitment to following its exact outline (Fitzgerald, 2014, p.10). Fitzgerald (2014) stated that the overperformance “helped restore confidence in the Irish economy for external actors and helped reassuring the population suffering under the programme”, proving that the programme had significant effects on the economy, and that the reassurance it brought to the people made it possible to go through with the programme, and is part of the reasons why Ireland outperformed its goals. However, the debt acquired when bailing out the banks gather clouds on the future of Irish economy as high taxation could reduce consumption and drag on growth.

3.3 Resolving the banking crisis

Saving the banks was one of the top priorities of the programme, and €35 billion was injected into the banks to deal with their distorted balance sheets (Honohan, 2014). Emergency liquidity assistance, ELA, were provided to several of the Irish banks even before the programme began, but by the end of 2010 ELA had reached unprecedented levels throughout the system (Noonan L. , 2011). One of the programme's stages for the banking sector concerned the two failed banks, Anglo and INBS. This proved to be difficult, even with more capital, and drastic measures were needed. The two banks merged in 2011, and their remaining deposit liabilities, along with eligible assets, sold to the highest bidding continuing bank. This concentrated all the ELA into one bank which would be free of the complications of deposit liabilities (Taylor, 2011: Honohan, 2019). Even if the banks were merged, it could take up to 10 years to run down their loans (Carswell, 2011). This suggest that even if the banking sector was slimming down, it would require years to fully recover.

In 2012, when the programme had been in effect for over a year optimism was high in the banking sector. Honohan, declared that “The slimming-down of the banks' balance sheets is progressing [...]. The process will reduce their need for wholesale funding, but in any case, access of the banks and the Sovereign to funding is now closely interlinked” (Honohan, 2012). The same progress was addressed in the fourth quarterly bulletin for 2012. The bulletin pointed out that the domestic banks saw deposit inflows which helped gradually reduce their dependence on central bank funding, as the banks were continuing to adjust their balance sheets through deleveraging, with around two-thirds by the end of 2013 (Central Bank of Ireland, 2012). The slimming down helped create a more sustainable sector, and it is reasonable to assume that the increased capital inflows banks were experiencing happened due to increased confidence from both the population and investors. Increased confidence was a direct effect of the will demonstrated by banks, and the government, to fix the collapsed sector.

Despite the progress, the banking sector was still facing challenges in terms of funding and high rates of NPLs. Funding challenges, combined with pressure from asset quality and returns, strained profitability for banks who were struggling with resolving distressed residential mortgages under the programme (Central Bank of Ireland, 2012; Honohan, 2012). While the programme had some positive effects and paved the way for renewed optimism in 2012, the realization that recovery would become weaker than programmed began to dawn upon everyone as the programme was coming to an end in 2013 (European Commission, 2015b). The last quarterly bulletin under the programme declared that if the system were to return to sustainability and help recovery, further progress to deal with asset quality and profitability was needed (Central Bank of Ireland, 2013). The CBI also stated that banks were lacking progress in dealing with resolutions of bad loans, which prolonged uncertainty about the quality of assets, hence delaying sustainable solutions for distressed borrowers. After the twelfth review mission by the Troika, they also found that “the share of non-performing loans remains high and lending sluggish. Durable resolution of mortgages in arrears is needed to reduce uncertainties that weigh on economic recovery” (International Monetary Fund, 2013). This proves that while the programme was able to downsize parts of the banking sector, as seen with Anglo and INBS, it was not able to slim-down the sector in accordance with its outlines.

While the public finances returned to the path of economic growth, the recovery of the banking sector was far from complete when Ireland exited the programme in 2013. The ex post evaluation of the programme stated that this would continue to weigh on domestic demand (European Commission, 2015b). Deleveraging and balance-sheet adjustment had been substantial, but debt levels remained high due to the extensive lending from banks in pre-crisis-years. Overall the recovery was weaker than programmed, the government was able to reduce net borrowing over the programme, but the rescue of the banks forced them to take on a substantial debt burden.

4. Resuscitation of the Celtic Tiger? 2013/14-16

On 14. November 2013 the final review of the adjustment programme in Ireland claimed that "Ireland is the living example that EU-IMF adjustment programmes are successful provided there is a strong ownership and genuine commitment to reforms." (Eurogroup, 2013). The programme is often presented as a success by politicians and scholars, but was the EU-IMF Programme in Ireland only a story of success, and was the Celtic Tiger returning to its glory days? This chapter aims at exploring the long-term effects of the bailout by examining data from the three years after Ireland exited the programme. This chapter is built around two main arguments. First, that the costs of returning to economic and financial stability, were imposed on the Irish people, and that without the international economic pick-up, the social burden would have dragged on the Irish economy. Second, the amounts of unresolved NPLs made recovery difficult for banks, people and the economy.

4.1 The social burden of economic stability

Two years after Ireland exited the programme, the EC stated in its third post programme surveillance mission that "In 2014, Ireland became the fastest growing EU country as real GDP surged by 4.8%. [...] The property market continued to recover, with residential prices rising by 16.3% in 2014" (European Commission, 2015a). As seen in table 4.1.1 the Irish economy experienced a rapid growth in 2014/15, and mid-decade they had exceeded their pre-crisis levels of GDP (Holden, 2016, p.23). The astonishing growth was a result of the global economic recovery, as the domestic economy was being weighed down by debt acquired saving the banks, as seen by the slow increase in C in table 4.1.1. "While the domestic economy here was being flattened by spending cuts and tax hikes, resilience among our exporters helped to support things – and then allowed us to benefit from some pick-up in international growth in the last couple of years" (Taylor, 2015b). As seen in chapter three, export was the main factor driving the Irish recovery, and since it exceeded import significantly, net exports contributed more to economic growth than the government. This saw a shift in 2016 when NX declined with 30%, there are two explanatory factors behind this. First, as seen in equation (4) it is reasonable to assume that the marginal import propensity increased as the Irish economy recovered, together with the high increase in Y this resulted in a higher increase in Z than in X. Second, the construction sector, I, blossomed again, requiring factor input from abroad, hence increasing import.

Table 4.1.1: Changes in aggregated demand 2013-16

	2013	2014	2015	2016
C	85.8	88.5 (3.2)	92.7 (4.7)	96.6 (4.2)
I	33.6	40.4 (20.2)	53.2 (31.5)	87.7 (64.9)
G	25.5	26.2 (3.0)	26.9 (2.7)	28.3 (5.2)
NX	33.9	34.6 (2.1)	86.7 (150.6)	60.6 (-30.1)
X	191.2	219.8 (15.0)	326.6 (48.6)	335.0 (2.6)
Z	157.3	185.2 (17.7)	239.9 (29.5)	274.4 (14.4)
Y	180.3	194.5 (7.9)	262.0 (34.7)	275.6 (5.2)

Changes in aggregated demand (€ billion) and GDP for Ireland after the EU-IMF Programme in current market prices for 2016 (percentage change from previous year in parentheses), based on Keynes model. Source: Central Statistics Office: Annual results for 2016.

While the economic growth witnessed after the programme was astonishing, the austerity it had imposed in the country left the burden of recovery on the Irish people. As stated by *The Irish Times* "The pace of economic recovery has been stronger and faster than the Government had first estimated. The Coalition's problem, however, is that few people have felt in their pockets the benefits of the economic turnaround" (The Irish Times view, 2014). In a speech in September 2018 Ed Sibley, Deputy Governor at the CBI, addressed the consequences of the financial crisis, he argued that the crisis had immense human costs, and that due to high personal debt, and lingering dysfunctions in the housing market, many people felt the effects of the crisis a decade after (Sibley, 2018). The programme might have reached its overarching goal of economic growth and stability; however, the recovery was unable to wholly undo the relative gains and losses that had been generated by the boom and burst.

Donald O'Donovan (2013) pointed out that "Out of the bailout does not mean out of the woods. [...]. Progress is being made, but mortgages remain a major issue – financially and socially. [...]. We went into the bailout bloodied three years ago and we are coming out bruised". The debt acquired by the Irish population in the boom-years, and the government when saving the banks, continued to burden Irish citizens. Not only were they left with their own mortgages, and negative equity after the bubble burst, the people also had to repay the billions used to save banks through higher taxes. These two debt-burdens weighed heavily on consumers disposable income, and as seen in table 4.1.1, from 2015 C amounted for only 35% of GDP, while in the past decade it amounted for 45-50%, leaving no doubt that the formidable situation in the economy was far from that which the people experienced. Had it not been for the international pick-up the Irish recovery would not have happened at the same speed, as the burden imposed on the taxpaying consumers would drag on the rest of the economy.

On one hand, the bailout left some unfortunate consequences for the people in terms of disposable income when the EU-IMF departed Ireland. On the other, the programme led the labour market to recovery. Honohan (2014) found that the huge debt acquired would slow the Irish economy for a long time, but the work being made to activate the labour market would make the weight easier to carry. As seen, the programme received heavy critique for huge cuts and few job-creating measures, resulting in rising unemployment. However, as the economy started to recover, so did the labour market, and as the programme came to an end in 2013 unemployment began decreasing. Three years after Ireland exited the programme unemployment had decreased to 9%, mainly due to the pick-up in the economy resulting in higher demand for labour (Trading Economics, n.d.). It is reasonable to assume that the slight increase in C in table 4.1.1 was due to higher employment, resulting in higher income hence increased consumption.

The Celtic Tiger went into the EU-IMF programme bleeding and came out bruised, the programme healed the financial crisis' wounds, however, it left scars of its own. While the programme addressed the issues in the banking sector and public finances, it seemed to have forgotten that the population contribute significantly to the economy. Instead of helping distressed borrowers with high mortgages, many of who lost their job, the programme left the burden of fixing the banks on them, gathering clouds on the success story of Irelands EU-IMF Programme.

4.2 The bad loans linger on

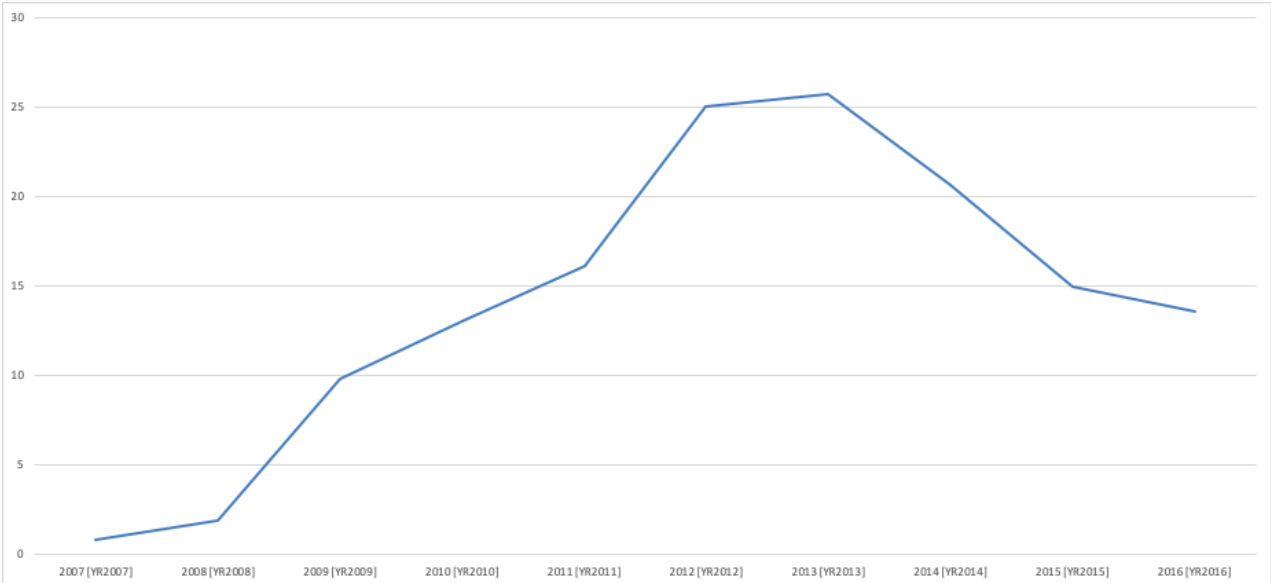
While the programme left some unfortunate consequences for the Irish people and economy, it managed to help the banking system back to a more sustainable path. In the third post-programme evaluation the EC noted that "[...] Financial sector repair is advancing as well. Two of the three main domestic banks became profitable in 2014" (European Commission, 2015a). This improvement in the banking sector happened due to improved liquidity and funding positions which helped the return to a more sustainable profile (Central Bank of Ireland, 2014). Five years after Ireland entered the programme, Michael Noonan, former minister of finance, said that the Irish strategy for dealing with the banking sector was working. "We now have two strong universal banks, AIB and Bank of Ireland [...]. The relationship between the banks and their costumers is improving and the taxpayers' shareholding in the banks are now valuable assets. The Irish banking system is now in a much stronger position" (Noonan M. , 2015). The CBI also declared that the financial market conditions were healing in the third quarterly bulletin in 2015, and that the improving economic environment helped reduce banking costs and impaired charges, returning the sector to probability (Central Bank of Ireland, 2015). The downsizing imposed on Irish banks helped return the sector to the sustainable path with fewer and stronger banks. This resulted in restored confidence from both the population and external investors, which again helped the sector to further improvements through increasing capital inflows, due to higher investments and lending (McConnell, 2013). It is clear that the huge focus on fixing the banking sector payed off for both Ireland and the EU, and that increased profitability can be seen as evidence of Ireland returning to economic and financial stability after seven years, something which would have been almost impossible without the programme.

However, even if the banking sector was returning to profitability the problems acquired after the burst brought on a number of risks, threatening recovery. In 2016 the EC found that there were several factors that would continue to drag on bank profitability. This included high numbers of NPLs, mortgages, low demand for credit, difficulties accessing collateral, and a risk of declining net interest margins (European Commission, 2016). The

consequences of the reckless lending that caused the banking crisis continued to weigh on the sectors profitability, even after the banks and economy started to recover. This shows that even if extensive measures were put in place to deal with NPLs and bad assets, the banks were unable to resolve them. This posed a risk to their net interest margins and became a drag on their profitability, as costumers would have less confidence in the banks due to their lacking efforts to fix their bad assets and helping costumers out with the distress concerning their loans.

The key issue for the sector revolved around banks making further progress to resolve impaired loans, which, as the sector deleveraged, continued to cloud its future (Central Bank of Ireland, 2014). By 2011 banks had received sufficient capital to start dealing with their bad loans, however, as seen in graph 4.2.1 it took two years from the banks were recapitalised until the NPLs started declining. While several banks became profitable again, they did not manage to bring NPLs to a lower level than they were before the programme. Most of the big debts in the banking system were dealt with within seven years, while the debt for small borrowers, mainly mortgages, remained high, and banks were more reluctant to resolve their debt (Taylor, 2015a). The resolution of NPLs were left with the banks with too few instructions and regulations, proving again that they were incapable of taking the tough measures needed to stabilise the sector, leaving a heavier burden than intended in the programme on the people.

Graph 4.2.1 Bank non-performing loans to gross loans 2007-16



Percentage change in Bank non-performing loans to gross loans from the financial crisis in 2007 to the years after the conclusion of the EU-IMF Programme in Ireland. Source: World Bank Global Financial Development Databank.

As seen in graph 4.2.1, NPL remained a big issue for the Irish banks, and in the EC’s report of fall 2016 it stated that rules to derecognize or write-off could be explored to facilitate timely removal of NPLs from the banks’ balance sheets. “High indebtedness remains a source of vulnerability for segments of the private sector” (European Commission, 2017). High NPL rates were lingering on in Ireland, and the Commission’s wish to explore more extensive measures to deal with NPLs suggest that the effects of the programme were far from what was hoped. The high numbers of NPLs posed a risk both to the economy and the banking sector, and it is reasonable to assume that economic growth would have been higher if the banks had managed to resolve NPLs. The effects of this was addressed by

Sibley in his speech from 2018 “10 years from the onset of the crisis, and five years since their peak, non-performing loans in Ireland are still a cause of considerable distress to borrowers and vulnerabilities in the banking system.” (Sibley, 2018). Resolving the NPLs faster would firstly make banks stronger, as their balance sheets would not be weighed down by bad loans. Secondly, it would help borrowers with their mortgages, which could bring their consumption higher, hence contributing to higher economic growth.

The EU-IMF Programme helped return the Irish banking sector to a sustainable and profitable path through a massive downsizing, which resulted in few, but strong banks. Four years after entering the programme two of the three main domestic banks became profitable, showing that the drastic measures imposed on the sector had positive effects. However, the relentless lending in the boom-years caused problems which proved difficult to deal with, even after economic and financial stability was restored. Even if the programme set out to deal with NPLs, banks were reluctant to make realistic deals with their borrowers to resolve the NPLs, which caused the bad loans to linger on, and drag on both bank profitability, and economic growth. The problems in the banking sector were severe, and the programme managed to resolve some of them. However, the effects of the programme were not as hoped for the sector, and even a decade after the collapse of the Celtic Tiger there were still obstacles it had to overcome in order to restore its former glory.

5. Conclusion: The Irish story of success?

The starting point of this dissertation was rooted in a wish of gaining greater insight into how, and if, the economic rescue programme from the EU-IMF affected the Irish economic recovery. The EU-IMF Programme for Ireland is regarded as a huge success by the EU, IMF and Irish government, this dissertation, however, aimed at exploring to what extent the astonishing recovery of the Irish economy could be assigned the programme and its design. By applying a mixed methods approach to conduct a case study of the programme, consisting of a Keynes model to analyse the quantitative macroeconomic changes in Ireland, and a qualitative analysis of speeches, official documents and statements, newspaper articles and opinions to examine the effects of the programme in light of what was actually happening in Ireland at the time, the dissertation has placed a critical lens on the programme and its story of success.

The dissertation has followed a chronological order from the boom in 2005, the burst in 2007-08 up until the resuscitation of the Celtic Tiger in mid-2010s and has been built around several arguments. First, it was argued that the crisis was home-grown due to an unchecked, self-governed banking sector causing relentless lending from international markets, and that the government failed to develop fiscal policies to control growth, leading to the collapse of the tiger. Second, recovery was believed to be export-led and government cuts pivotal, however, the high number of mortgages due to relentless lending by banks were argued to be the reason for a slow and difficult recovery during the programme. Last, it was argued that the cost of returning the economy to growth, and creating a sustainable banking sector, were imposed on the Irish people, and that without the international economic pick-up this burden would have dragged severely on the Irish economy.

The programme returned the banking sector to a sustainable path through capital injections and downsizing. However, it did not manage to resolve NPLs, which lingered on and remained a drag on the economy. For the economy, on an overarching level the effects seemed only positive, as increasing net exports sparked economic recovery resulting in Ireland becoming the fastest growing country in the EU after exiting the programme. When examining the effects closer it becomes evident that the programme had negative effects as well. The population were left with the burden of economic stability as they had to repay the cost of bailing out banks and cuts in government costs, had it not been for the exceptional growth in exports, the Irish economy would have needed more than five years to heal. Lastly, it can be concluded that the EU-IMF Programme to a great extent affected the recovery in Ireland, as the country would not have been able to muddle through on its own due to banking-mistakes made in the boom-years. However, it should be acknowledged that the programme did not resuscitate the Celtic Tiger on its own, and further research on the subject should assess which mechanisms played the most significant part in the recovery.

In hindsight, there are elements of the programme which could have been changed to make growth more even throughout the economy. This firstly concerns the measures to create jobs after the collapse. Unemployment was rising rapidly from 2008, coming close to the highest rate recorded in Ireland after 1983, and was becoming a serious problem for the economy. Had the programme aimed at creating jobs from the very moment it was implemented it could have helped the Irish economy in several ways. First, this would have increased the governments tax revenue as more people would pay higher income taxes, as people would earn more from a job than social support. Second, higher employment

would result in fewer people requiring social support from the state, hence reducing government spending. Last, more people in work would boost private consumption, which in turn accelerates economic growth. Job creation would have increased the Irish people's contribution to growth, unlike the situation Ireland faced from 2015, where the population's contribution to GDP slowed economic growth.

Another issue which lingered on after Ireland completed the EU-IMF Programme was the immense amounts of NPLs. The programme did in fact set out to resolve NPLs, in order to fix the banking crisis, however, the measures taken were too slack to make the change which was needed. Stricter regimes towards the banks could have resulted in NPLs being resolved faster. The EU and IMF could have demanded a detailed plan of how the banks were to deal with their bad loans, in order for them to be recapitalised. This would require evaluation and surveillance to make sure the banks delivered what they said, but it would to a greater extent make sure NPLs were resolved, compared to how it was done under the programme. The Irish people had to pay for their immense borrowing, even if the crisis in many ways was the fault of the banks, it would therefore be fair to demand this from the banks. Due to their economic expertise, banks should have known better than lending such amounts to building and construction, and to people who normally were not qualified for the high loans they got.

Other options than a bailout was proposed to get Ireland out of the crisis, the most drastic one being an exit from the Eurozone and reinstating the Irish pound. Ireland's membership in the common currency certainly made recovery more difficult, as they had no control over the monetary policy, a more powerful tool to counteract economic fluctuations. With a monetary policy of their own, Ireland could have devalued their currency, like they did twice in the 80's, in order to attract foreign investments and boost exports. This would also mean that they were able to control their own interest rates, which could have been used to help resolve bad loans and easing the burden of high mortgages for the Irish population. However, returning to the Irish pound would have been extremely difficult, and it would be hard to regain confidence in the currency. In this scenario, trading with countries in the Eurozone would be more difficult due to high transaction costs, which was one of the main reasons for implementing a common currency to begin with.

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