

Bill allows State to take stake in any financial institution given aid

Wed, Oct 1, 2008, 01:00



THE GOVERNMENT'S emergency legislation to guarantee the Irish banking system will allow the State to take a stake in any financial institution that receives financial support from the exchequer.

The Bill gives the Minister for Finance wide-ranging powers to protect financial institutions and allows for competition law to be set aside to allow bank mergers, if deemed necessary to protect the stability of the financial system.

In an unprecedented move, the Government pledged early yesterday to guarantee deposits and debts totalling €400 billion at six Irish-owned lenders in a move to protect the country's financial system after Irish bank shares suffered their greatest fall in more than a quarter of a century on Monday. The liabilities amount to almost 10 times the value of the national debt of about €45 billion.

The aim of the move, which guarantees the banking system for two years, is to improve the banks' access to international funds frozen by the global credit crunch.

Introducing the Credit Institutions (Financial Support) Bill 2008, the Minister for Finance, Brian Lenihan, told the Dáil last night that it was not about protecting the interests of the banks but about safeguarding the economy and everyone who lived and worked in this country.

He added that the guarantee to the banks was not "free" and taxpayers would be remunerated for the value of the support provided.

"There is understandable concern that the Exchequer is potentially significantly exposed by this measure. I want to reassure the House and the Irish people that this is not the case. The risk of any potential financial exposure from this decision is significantly mitigated by a very substantial buffer made up of the equity and other risk capital," said Mr Lenihan.

He added that total assets of the six Irish financial institutions concerned exceed their guaranteed liabilities by approximately €80 billion - half of Ireland's total GNP.

"By any measure there is, therefore, a very significant buffer before there is any question of the guarantee being called upon," he said.

The Bill enables the Minister to set a higher charge for the State guarantee on financial institutions which have been engaged in higher risk lending. This is designed to counter the "moral hazard" argument of the Government being seen to support banks that take higher risks.

AIB, Bank of Ireland, Anglo Irish Bank, Irish Life Permanent, Irish Nationwide Building Society and EBS building society, as well as their subsidiaries, are all covered. Stock markets

responded positively to the guarantee, as Irish financials rose 28 per cent. Anglo Irish Bank, the third-largest Irish publicly-quoted bank, rose 67 per cent, recovering all of the ground lost on Monday.

Foreign-owned banks operating in Ireland, including UK-owned Ulster Bank Group, Bank of Scotland (Ireland) and the Danish-owned National Irish Bank, have asked the Government to be covered by the guarantee, claiming the scheme will put them at a competitive disadvantage.

Today's talks in Paris between the Taoiseach and French president Nicolas Sarkozy will be dominated by the global financial crisis, and, in particular, the Irish Government's bank guarantee. Last night, the president's spokesman said Mr Sarkozy "has followed and discussed" with Mr Cowen the Government's move.

A similar guarantee will be offered by the French government, with measures announced at the end of the week, the spokesman said.

The European Commission has said it will investigate whether the Government bank guarantee breaches EU law, but it has also signalled that it would continue to adopt a flexible approach to implementing EU state aid rules.

The emergency Dáil debate only began at 10 pm last night having being deferred on four occasions during the evening. Instead of passing all stages in the Dáil and Seanad last night as planned, the committee and report stages of the Bill will be taken today, as will the Seanad debate.

Fine Gael leader Enda Kenny described the continued adjournments of the Dáil as "high farce" while Labour chief whip Emmet Stagg said he had never witnessed such chaos.

The Bill specifies that all financial support provided shall, so far as possible, ultimately be recouped from any bank that receives support. It also allows the Minister for Finance to regulate the competitive behaviour and commercial conduct of banks that receive such support.

Where financial support is provided to banks it will be reviewed by the Minister to establish when it is no longer necessary. He will also report to the Dáil on the level of any support provided and the payments made in return.

The decision to proceed by way of a Bill to support banks in difficulty was taken by the Taoiseach and the Minister for Finance in the early hours of yesterday morning after meetings at Government Buildings involving the Attorney General Paul Gallagher SC, senior officials, Central Bank governor John Hurley, and the chairman and chief executives of AIB and Bank of Ireland, the country's two biggest banks.

The decision was approved by an "incorporeal" Cabinet meeting at which Ministers were consulted on the phone through the Cabinet secretary, Dermot McCarthy.

The option of allowing one particular bank to fail and then moving to nationalise it was seriously considered, but it was decided that legislation to protect the entire banking system would had a better prospect of achieving long-term stability.