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Promissory Note Arrangement an Exercise in Political Optics

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From a public relations point of view, the revised promissory note arrangement has been a great success for the Irish government. [This](#) editorial in the Sunday Independent declared

In the staring match between Ireland and the EU and the ECB, the other guys blinked first.

The Irish Times, only slightly more restrained, headlines the new promissory note arrangement as a “[coup](#)” for Michael Noonan.

What is supposed to have been achieved? Apparently, the Irish state has saved having to make a cash payment to IBRC with the burden of the payment being delayed until 2025.

In reality, a quick inspection of the [announcement](#) makes clear that neither of these claims are true.

The Irish state has not been saved making a cash payment: NAMA, an arm of the state, has provided €3.06 billion in cash to the IBRC, which IBRC is using to repay Emergency Liquidity Assistance loans, just as the ECB (the blinking guys) had always insisted.

In a separate arrangement, the government are planning to have Bank of Ireland provide a one-year loan to IBRC so that NAMA can be repaid and the state's cash levels (including NAMA) can be restored to what they were prior to the ELA payment. IBRC will need to repay this loan next year.

Because the state is providing cash to IBRC to make its promissory note payment, the only thing added to what was already supposed to happen is that the state has arranged a one-year loan from Bank of Ireland.

Is arranging short-term loans from [Bank of Ireland](#)—a bank that has limited access to capital markets and is looking to shrink fast to meet troika-imposed deleveraging targets—a route to putting Ireland's debt on a more sustainable path? Clearly not.

So the deal does literally nothing to improve debt sustainability. It also compromises the supposed operational independence of NAMA and raises questions about state interference with the majority-private-owned Bank of Ireland.

For these reasons alone, this arrangement is an unwelcome development. However, in addition, it appears that the shenanigans surrounding this arrangement have seriously upset European officials who are better able to see what is going on than the Irish media.

[This](#) story from Arthur Beesley of the Irish Times likely illustrates the attitude of our EU colleagues. In relation to Minister Noonan's comments that he now wants a wider deal to replace the promissory notes altogether, the story reports:

"This risks further antagonising the ECB governing council," said a euro zone source.

"His remarks were not helpful, particularly on the day after the bank agreed to facilitate an operation designed purely to give him an opportunity to make a statement saying that the payment of the promissory notes was settled with bonds."

The Euro zone source is making clear that, as far as they are concerned, this deal was purely about optics.

I suspect that pennies may start to drop in Ireland about what has been arranged when Bank of Ireland have their shareholder meeting. For now, though, I'll let it drop.

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