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Speech

Statement by the Chancellor of the Exchequer, Rt Hon George Osborne MP, statement on financial assistance for Ireland

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From:

[HM Treasury \(/government/organisations/hm-treasury\)](/government/organisations/hm-treasury) and [The Rt Hon George Osborne \(/government/people/george-osborne\)](/government/people/george-osborne)

Published

22 November 2010

This was published under the 2010 to 2015 Conservative and Liberal Democrat coalition government



[Check against delivery]

Mr Speaker, I would like to make a statement regarding financial assistance for Ireland.

I hope Members will understand that an announcement had to be made at the weekend, ahead of markets opening this morning.

Last night I spoke to the Chair of the Treasury Select Committee and the Shadow Chancellor to keep them informed of the latest developments.

The United Kingdom, alongside the International Monetary Fund, the European Union, the euro zone and other member states, is participating in the international financial assistance package for Ireland announced last night.

We are doing this because it is overwhelmingly in Britain's national interest that we have a stable Irish economy and banking system.

The current Irish situation has become unsustainable.

Their sovereign debt markets had effectively closed and had little prospect of re-opening.

While Britain's market interest rates had fallen over the past six months, theirs had risen to record levels.

And Ireland's banks had become completely reliant on central bank funding to maintain their operations.

Mr Speaker, in the judgement of the Irish government, as well as the IMF and others, this situation could not go on.

Members will understand that it wouldn't have been appropriate for us in recent weeks to engage in public speculation about whether Ireland's should request assistance from the international community.

I can now report that we have been engaged in intensive private discussions with the G7, the IMF, the EU and the Irish government on plans for the eventuality that Ireland would request support.

At the G20 meeting in South Korea two weeks ago, I was one of the European Finance Ministers who issued a joint statement that provided a brief respite.

At the ECOFIN meeting last Wednesday, my colleagues and I discussed the Irish situation with Finance Minister Brian Lenihan, with whom I have also kept in touch directly.

Following meetings in Brussels, the Irish government committed to engage in a short and focused consultation with the IMF and the EU.

On Thursday a joint mission arrived in Dublin.

And in the last few days I engaged with my counterparts in the G7, the euro area and the EU about the way forward.

Mr Speaker, following intense work over the weekend between the Irish and international authorities, last night Ireland's Prime Minister Brian Cowen made a formal request for assistance.

This was followed by statements from the G7, the IMF, the Eurogroup and European finance ministers, to "provide the necessary financial resources for Ireland to implement its fiscal reform plans and stabilise its banking system".

The statements made clear that there were two components to the rescue package.

The first puts beyond doubt Ireland's ability to fund itself.

The international assistance package will support an ambitious four-year fiscal strategy which the Irish government will set out later this week.

This will see a fiscal consolidation of €15 billion by 2014, of which €6 billion will be implemented next year, as part of a strategy leading to a target budget deficit of 3% of GDP in four years' time.

The second part of the assistance package is a fund for potential future capital needs of the banking sector.

This will support measures to promote deleveraging and ensure restructuring of their banks, so that Ireland's banking system can perform its role supporting the economy.

Mr Speaker, let me turn to how the package will be financed.

This is a joint programme with funding from both the IMF and the EU.

The amount of money involved will in part depend on the IMF analysis of what is needed, and Prime Minister Cowen has said he expects it to be less than €100 billion.

The international community is working on the rough assumption that the IMF will contribute around one-third of the total.

The total European package will provide the other two thirds.

Based on the significant reform of the IMF agreed by G20 Finance Ministers last month, the IMF is well-placed to play a leading role in this international effort.

The UK, of course, is an important shareholder of the IMF and we will meet these multilateral obligations.

I would like to reassure the House that the IMF is currently well-resourced and able to meet the cost of the package for Ireland.

The European element of this package will primarily come from two sources of funding agreed in May before this Government came into office - the €60 billion European Financial Stabilisation Mechanism and the €440 billion European Financial Stability Facility.

The balance between the European mechanism and the eurozone facility will be determined in the coming days.

The United Kingdom is not a member of the euro - and will not be a member of the euro while we're in government - and so we will not participate in the eurozone stability fund.

However, the previous Chancellor of the Exchequer agreed to UK involvement in the European mechanism two days before I took office.

I made it clear at the time that I did not believe he should make that commitment.

But it operates according to Qualified Majority Voting and so we can't stop it being used, and to exercise that vote at a time like this I judge would be very disruptive.

So the EU will lend money to Ireland on behalf of all 27 member states.

And the UK must accept its share of this contingent liability, which would arise in the unlikely scenario that Ireland should default on its obligations to the EU.

On top of this, I have agreed the UK should consider offering a bilateral loan to Ireland, as part of the IMF and European package.

I judge this to be in Britain's national interest.

Let me explain why.

We have strong economic relations with Ireland.

Ireland accounts for five percent of Britain's total exports abroad.

Indeed, we export more to Ireland than to Brazil, Russia, India and China put together.

Ireland is the only country with which we share a land border, and in Northern Ireland our economies are particularly linked, with two-fifths of their exports going to the Republic.

And just as our two economies are connected, our two banking sectors are also interconnected.

I should stress that the resilience of our own banks, which is now well capitalised, means that they are well placed to manage any impact from the situation in Ireland.

But two of the four largest high street banks operating in Northern Ireland are Irish-owned, accounting for almost a quarter of personal accounts.

The Irish banks have an importance presence in the UK.

What's more two Irish banks are actual issuers of sterling notes in Northern Ireland.

So it is clearly in Britain's interest that we have a growing Irish economy and a stable Irish banking system.

By considering a bilateral loan we are recognising these deep connections between our two countries.

And crucially, it has helped us be at the centre of the discussions that have shaped the conditions of an international assistance package that is of huge importance to our economy.

Of course, this is a loan and we can expect to be repaid.

In fact, Sweden has also deemed it in their national interest to consider a bilateral loan to Ireland.

Mr Speaker, now that the Irish Government has requested assistance, a lot of the detailed work of putting together the package can take place.

I understand members are keen to hear the specifics, like the rate of interest on the loans, the repayment periods and the contribution from each of the various elements of this package.

I will keep the House informed.

Later this week the Secretary of State for Northern Ireland and my HF the Financial Secretary will be in Northern Ireland to discuss the situation there.

And I will ensure there is a specific discussion in the House if there is a bilateral loan, as we will need to take primary powers.

Finally, let me say something about the future of the various European support funds, which are being discussed later this year.

Both the Prime Minister and I are very clear that when it comes to putting in place a permanent eurozone bail-out mechanism, the UK will not be part of that.

Mr Speaker, this is a situation of great difficulty for Ireland, and it is a tragedy when they did so much to improve their competitiveness with low taxes and flexible labour markets.

But the truth is that they had hugely leveraged banks and a badly regulated financial sector - a pattern that we have had to deal with in our own country.

In addition, because Ireland is a member of the euro, exchange rate flexibility and independent monetary policy were not tools available to them when the financial crisis took hold.

The arguments against Britain joining the euro are well-rehearsed, no least by me.

But while "I told you so" may be correct, it does not amount to an economic policy.

Mr Speaker, when this coalition Government came into office Britain was in the financial danger zone.

We have taken action to put our own house in order.

Whereas we were once seen as part of the problem, we are now part of the solution.

Ireland is a friend in need, and it is in our national interest that we should be prepared to help them at this difficult time.

And I commend this statement to the House.

[Ends]

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