IHT. 17/11/2010 N 13

Dublin confirms talks on rescue package

LONDON

Facing loud Parliament, premier blames market for crisis as yields spike

BY LANDON THOMAS JR. AND JAMES KANTER

With its political survival at stake, the Irish government was locked in discussions with European partners and the International Monetary Fund over a financial rescue package intended to support Ireland's failed banks, a top official from the European Union said Tuesday.

As Irish bond market yields spiked once again, Prime Minister Brian Cowen addressed Parliament late in the day, responding to a round of accusations that he had not been forthcoming in updating the country on the status of the talks.

"We are working with our European counterparts to normalize market conditions," Mr. Cowen said, doing his best to raise his voice above hoots and catcalls from increasingly emboldened opposition parties. "We have done everything transparently and above board but it is the market position that is not normal — we should not be enslaved to the market."

Mr. Cowen said that Ireland had made no formal application for aid and again insisted that Ireland had sufficient cash resources to tide it through next spring.

But, as his finance minister held discussions late into the night in Brussels with his counterparts from the euro zone, it was becoming evident that Ireland would have to accept a rescue package to calm investor nerves and provide added ballast to the country's devastated banking sector.

The European Commission, the European Central Bank, the International Monetary Fund and the Irish authorities were "working in order to resolve

EURO, PAGE 18

Dublin confirms talks on rescue package

EURO, FROM PAGE 1

the problems of the Irish banking sector," Olli Rehn, the E.U. commissioner for economic and monetary affairs, said in Brussels.

Mr. Rehn said he expected finance ministers meeting on Tuesday evening "to support this objective."

Mr. Rehn added: "The real problems are in the banking sector, but there are interconnections, so we are discussing the overall situation with a strong focus on the banking sector."

In Dublin, Mr. Cowen, who presides over a shaky political coalition, is trying desperately to prevent Ireland from having to accept the loss of sovereignty implicit in a Greek-style package requiring close supervision by the International Monetary Fund and the European Commission.

The high drama in recent days surrounding the discussions and a plunge in global stock markets Tuesday brought a new level of tension and anxiety to the normally placid halls of Brussels.

"We are in a survival crisis," said Herman Van Rompuy, the president of the European Council. A failure to preserve the euro zone would mean that "we will not survive with the European Union," he said. Europeans "now need to restore the sense of unity and determination and work in order to ensure financial stability of the euro area."

Finance ministers from Ireland, Portugal and Greece — which have three of the Union's most troubled economies — were expected to present their latest austerity plans to fellow ministers of euro-zone countries in a closed session that could continue well into Wednesday morning.

The goal of the meeting was "to listen to our colleagues from Ireland, like from Greece, like from Portugal, to know the exact situation," said Didier Reynders, the finance minister of Belgium, which holds the rotating E.U. presidency.

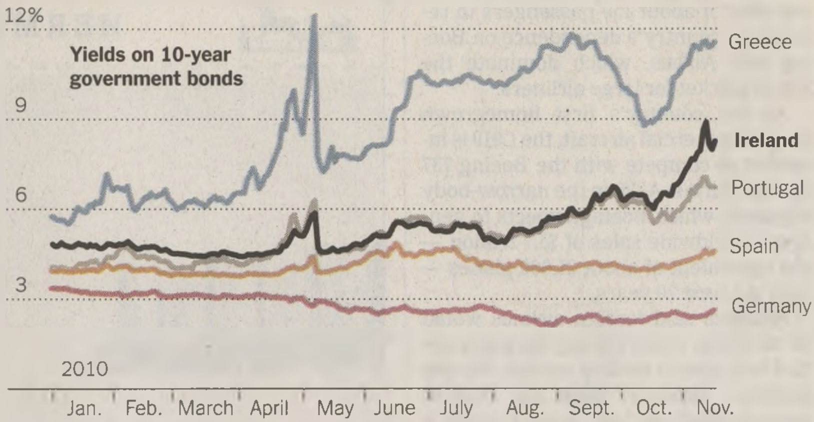
Only then would ministers "see if it is necessary to do something," he said.

Any aid package intended to stabilize the situation in Ireland would require at least €85 billion, according to Barclays Capital, with some experts talking of the need for €100 billion, or $136 billion.

Portugal, which, like Ireland, has not formally sought a bailout, could tap European funds for an additional amount, officials said.

Euro-zone jitters

Yields on government bonds rose in European countries still struggling with high deficits, like Spain, Portugal and Greece, as E.U. officials met to discuss the difficulties in Ireland's banking sector.



Source: Bloomberg

The crisis in the euro zone was set off by Greece, where years of lying by the government about the true state of the country's finances risked a breakdown of the euro zone this year.

Months of agonizing over how to help Greece, before E.U. governments finally decided on a bailout in May, led to the creation of a "shock and awe" package worth $1 trillion that was meant to fend off further crises.

But Dublin has been resisting calls to use the funds, blaming market speculators for higher borrowing costs and saying that only its banks may need help.

"We should not be enslaved to the market."

While the government is hoping to work out a face-saving way of funneling funds to its banks, which lost billions when Ireland's housing boom collapsed, any bailout would have far-reaching consequences for Ireland.

E.U. governments are only likely to grant emergency funds in exchange for conditions set and enforced by the European Commission and the International Monetary Fund.

That might require Ireland to raise its ultralow corporate tax rate, a magnet for foreign investment, to help cut its debt. The tax has long been seen as a form of unfair competition by countries with higher taxes.

Some members of the European Central Bank, officials said, have urged a bailout for Ireland to ensure that the country can handle the increase in borrowing costs for supporting its banks.

But E.U. officials on Tuesday signaled serious divisions within the euro zone over how to proceed. The Union cannot simply "throw money from helicopters," the German economy minister, Rainer Brüderle, told Reuters on Tuesday during a visit to Rome, referring to a famous phrase by the Federal Reserve chairman, Ben S. Bernanke, about preventing a depression. "You have to create confidence in institutions, in the state, in public authorities."

Even as Ireland sought an alternative to the bailout system set up by the Union this spring, countries like Finland and Austria suggested that they were reluctant to help Ireland or advance further funds to Greece until it was clear there was no other choice.

James Kanter reported from Brussels. Additional reporting was contributed by Stephen Castle in Brussels.