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Irish referendum key to bond sale hopes

By Robin Wigglesworth in London and Jamie Smyth in Dublin

Ireland's referendum on Europe's fiscal compact this week will be pivotal if Dublin wants to return to debt markets later this year.

Renewed fears over contagion from a possible Greek exit from the eurozone has pushed nine-year Irish bond yields above 7 per cent for the first time since late January. The corporate bond market shut down after the referendum was announced.

"A No vote would erode confidence in our financial system and make it more difficult to attract the investment we need to generate growth and meet the targets in our bailout programme," Lucinda Creighton, Ireland's minister for European affairs, told the Financial Times.

Most investors expect the vote to pass and point out that, despite yields creeping up recently, Ireland seems to have decoupled to a degree from the rest of the eurozone periphery. Indeed, Dublin's stock exchange is one of the few in Europe that has not given up all its early-year gains.

"A pragmatic but unhappy Yes vote is the likely outcome for the referendum," says Paul Griffiths, head of fixed income at Aberdeen Asset Management.

A successful vote is needed to allow Dublin to tap the European Stability Mechanism, Europe's permanent rescue fund and successor to the European Financial Stability Facility. Although Ireland says it does not need a second international bailout, the government has argued that having the ESM as a backstop will reassure investors.

"It is like a catch-22 situation. A No vote would remove access to the ESM and without this backstop investors are less likely to invest here," says Ms Creighton.

Ireland last raised money in a regular bond auction in September 2010, just two months before the country was forced to seek an emergency rescue.

But the National Treasury Management Agency says it wants to sell Treasury bills this summer, and later issue longer-dated annuity bonds to domestic pension funds. It could also launch a bond exchange to ease the country's funding requirements in 2014 when it is scheduled to exit the international bailout programme.

Donal O'Mahony, global strategist at Davy stockbrokers, says the NTMA would probably have issued Treasury bills or taken part in another debt exchange by now if the referendum had not been called.

He said Ireland faced a funding cliff in 2014, when it needs to raise about €18bn to cover the cost of a maturing sovereign bond, fund its budget deficit and raise money to repay part of the cost of its bank bailout.

A successful referendum could set the stage for short-term debt sales at the very least, investors say.

"The market perception of Ireland is quite favourable compared to the other eurozone periphery countries," says Alan Wilde, head of fixed income and currencies at Barings. "The austerity drive has given them some credibility, and the banking system problems appear to have been largely addressed."

However, fund managers and bankers cautioned that selling longer term debt to international investors could prove more problematic – at least as long as the wider eurozone turbulence continues.

"Ireland will need a period of stability, both in Ireland and more widely in Europe," said Arif Husain, a fund manager at AllianceBernstein "They shouldn't try to come to the market when there is this much volatility."