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Dublin hails eurozone 'game changer'

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By Jamie Smyth in Dublin

Dublin said on Friday the European summit deal, which will allow EU bailout funds to be directly injected into eurozone banks, was a "game changer" for the country and would help it return to international bond markets and escape the need for a second bailout.

Investors welcomed the deal pushing yields on benchmark Irish bonds below that of Spain on hopes Dublin will be able to re-enter bonds markets later this year.

Eamon Gilmore, Ireland's deputy prime minister, said the deal reached in the early hours at the EU summit represented "a major change" in European policy and was a course of action Dublin had been advocating for a long time.

"This is a massive breakthrough for Ireland and it changes the game in terms of our bank debt," he told Irish radio. "This deal will allow the country to recover much faster," he said.

Dublin has pumped €64bn of taxpayers' money into its banks so far in one of the biggest bank rescues in history, following its fateful decision to guarantee all its banks' liabilities in September 2008. It has lobbied intensively for months to have its banking debt burden relieved but without any joy until the deal announced at the summit.

EU leaders agreed to "examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme".

Michael Noonan, Ireland's finance minister, said the government had initially been targeting a refinancing of €30bn-€40bn of the debt used to recapitalise the country's banks, which required a rescue by taxpayers when the property bubble burst.

"Our negotiating position up to now was to put arrangements in place to lessen the burden of bank debts, but it would still remain on the sovereign balance sheet," said Mr Noonan.

"This [deal] takes this further in terms of policy and the intention now is to separate certain bank debt completely from the sovereign balance sheet."

He told journalists Ireland's ratio of debt to gross domestic product was forecast to peak close to the 120 per cent danger level next year. Relief on Ireland's bank debt could push that down to average EU debt levels in the 90-100 per cent range.

Mr Noonan urged caution, however, saying it was impossible to tell how much the deal would benefit Ireland until the details were worked out.

Donal O'Mahony, global strategist at Davy stockbrokers, said the deal would "fast-track the Irish sovereign's return to the markets".

"Irish yields are collapsing. I'd expect Dublin to begin issuing short-term Treasury bills from next week and longer-dated bonds in the second half of the year," he said.

However, Karl Whelan, economist at University College Dublin, urged "serious caution" in a blog post on the deal.

"Ireland's bank debt is a complex *sui generis* issue and its resolution will not fit easily into the tools the EU is now developing to deal with banks elsewhere. There is lots of negotiating still to be done and premature celebrations can be counter-productive," he said.

Enda Kenny, Ireland's prime minister, hailed the move as a seismic shift in EU policy.

"What was deemed to be unachievable has now become a reality and that principle has been established and decided and agreed upon by the council, by the heads of government," Mr Kenny told reporters in Brussels.

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Mr Gilmore said the EU summit deal would apply retrospectively for Ireland by enabling the European Stability Mechanism, the EU's new bailout fund, to take stakes directly in Irish banks. He said this would significantly reduce the country's debt burden, which was due to peak at about 118 per cent of gross domestic product next year.

He said the deal would lift the burden of the bank debt from Irish taxpayers. European taxpayers through the ESM would be taking on that burden, he said.

The deal would also help the country to borrow independently on financial markets, he added, and say goodbye to the troika, which monitors the country's EU-IMF bailout programme.

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