

Honohan defends bailout decision

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Governor of the Central Bank Patrick Honohan has strongly defended his decision not to reverse the bank guarantee when he took up office, arguing that a reversal would have led the country into immediate bankruptcy.

Prof Honohan was responding to an article by economist Morgan Kelly in Saturday's *Irish Times*, which said the governor's "miscalculation of the bank losses" was the "costliest mistake ever made by an Irish person".

Prof Honohan said he had taken extensive legal advice on the issue of the bank guarantee.

"There was no way of the Government walking away from that very formal guarantee, endorsed by the Oireachtas," he said, arguing that the Government would have been treated as "a bankrupt" immediately if the guarantee had been reversed.

Prof Honohan's comments came as focus increasingly turned to Greece over the weekend.

Amid growing anxiety about the fiscal situation in Greece the EU is bracing itself for a new bailout for the country. Any revised plan for Greece is expected to inform further negotiations on the terms of Ireland's EU-International Monetary Fund deal.

European officials are increasingly expecting the Government may reach a deal to cut the interest rate on Ireland's bailout loans without raising corporate tax.

Although a well-placed European source said definitive agreement has not yet been reached, they said it was "not impossible" that ongoing talks could reach their conclusion at next Monday's meeting of finance minister in Brussels.

The source said the EU institutions believe France is no longer directing its focus at Ireland's 12.5 per cent corporate tax rate and has instead turned its attention to plans for a common consolidated corporate tax base (CCCTB). Such a position would bring France closer to that of Germany, which has indicated its willingness to accept any appreciable concession on corporate tax in return for a rate cut.

The Government has been steadfast in its refusal to yield to pressure to increase the rate, but Dublin is now expected to provide an unambiguous signal of its willingness to engage constructively in the development of EU legislation to create a CCCTB. However, any such signal would be in direct conflict with Taoiseach Enda Kenny's view that the CCCTB is a "back

door” route to tax harmonisation.

“From Dublin, what is expected – from France especially – is to show support for some opening on the common consolidated corporate tax base,” said a senior European source. The talks are said to be at a highly sensitive stage and the Government offered no insight into the current state of play.

Next Monday’s meeting of euro zone finance ministers is likely to be dominated by mounting concern about a possible new bailout deal for Greece if it is to restructure its debt.

The country’s precarious financial situation was discussed at a meeting of a select group of finance ministers on Friday night in Luxembourg.

Minister for Energy, Communications and Natural Resources Pat Rabbitte yesterday expressed his hope that any concessions given to Greece could lead to better terms for Ireland.

“I hope that the next meeting of Ecofin on the 16th and 17th of this month will be able to sign off on a reduced interest rate for Ireland.” He added that he believed that the debt should also be rescheduled.

British chancellor of the exchequer George Osborne said yesterday that, while Greece may receive additional euro-region funding, the UK is not willing to give direct support to the troubled economy.

Britain’s support for Ireland was “a special case” that won’t be repeated in Greece or Portugal, he said. “We certainly don’t want to be part of a second bailout of Greece.”

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