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Davy Research

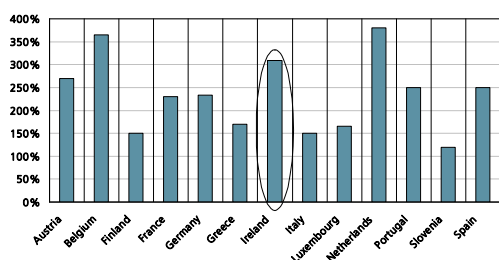
February 17, 2009

Research Report: Irish economy

Irish banking liabilities

True figure is just over 300% of GDP, one-third of bogus ratio being quoted

Comparable banking liabilities % of GDP



Source: BIS; Davy; National Statistics Institute of Luxembourg

Liabilities of six Irish-owned banks is what matters

- The true banking liabilities of the Irish system, i.e. the Irish-owned banks, total €575bn, or 309% of GDP: the third-highest in the euro area. That compares with a euro area ratio (excluding Cyprus, Malta and Slovakia) of 232%.
- But the Irish government has only guaranteed €440bn (or 237% of GDP) of the total liabilities.

Ireland is an unusual case, like Luxembourg, because of huge presence of foreign-owned bank subsidiaries

- We keep seeing a figure for Irish bank liabilities of almost 900% of GDP. This is bogus.
- The liabilities of all credit institutions *resident in Ireland* total €1,424bn, or 839% of Irish GDP. But €849bn of that (the difference between the €1,424bn total and €575bn pertaining to Irish-owned banks) is not in any way a liability of the Irish government.
- The reasons for such a large presence of foreign credit institutions present in Ireland are myriad. But they include the low corporation tax rate of 12.5%; lighter-touch regulation; English as a first language; and the presence of a large foreign-owned multinational manufacturing sector, which is serviced by complementary Irish-based treasury operations.

Saying Ireland's liabilities are 839% of GDP is equivalent to Luxembourg's being 2,000% of its GDP

- Luxembourg is a useful comparator for Ireland as it is a similar treasury/fund administration hub. Its total banking liabilities were €733bn at end-2007 or more than 2,000% of GDP. But it is nonsense to suggest that is the liability of the Luxembourg state.
- The meaningful figure for Luxembourg (i.e. its liabilities to domestic residents) is about 166% of its GDP.

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