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Ireland to Cut Spending by EU6 Billion to Cap Deficit (Update1)
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By Colm Heatley

Dec. 9 (Bloomberg) -- Irish Finance Minister Brian Lenihan said the economy is on the "road to recovery," as he laid out plans to tackle a soaring budget deficit and restore investor confidence.

The government will cut current spending by a combined 6 billion euros (\$8.8 billion) in 2010 and 2011, Lenihan said in parliament in Dublin today. He sees the economy shrinking 1.25 percent next year after a 7.5 percent contraction this year.

"Borrowing hundreds of millions a week to pay for day-to-day spending is just not on," he said. "Stabilizing the deficit is the next key milestone in our plan to deliver economic recovery for this country."

Ireland is mired in the worst recession in its modern history and Lenihan has spent the year grappling with the loss of the country's top credit rating, soaring borrowing costs and the near collapse of the banking system. The budget comes amid continued concerns about debt-laden nations after Fitch Ratings cut Greece by one step to the third-lowest investment grade and Standard & Poor's today revised Spain's outlook to negative.

"They passed the test," said Dermot O'Leary, chief economist at Goodbody Stockbrokers in Dublin. "The heavy lifting of the sensitive areas has been done."

Yields Widen

The difference in yield, or spread, between 10-year Irish bonds and equivalent German bunds widened to 190 basis points today from 170 basis points yesterday after the S&P announcement on Spain. The gap between Spain and Germany widened to the most in five months and the Greece spread reached 225 basis points, the most since April.

"Developments in the Greek government bond market have overshadowed today's speech," said Jim Ryan of Dublin-based Glas Securities, which specializes in fixed-income markets.

"Our initial reaction is that the details should support the growing view that Ireland is now addressing its fiscal and economic challenges."

Lenihan, describing the budget as the "last big push of the crisis," said 1 billion euros will be cut from the public services bill. Prime Minister Brian Cowen will take a 20 percent pay cut and ministers will have their salaries reduced by 15 percent, so "those at the top lead by example," Lenihan said.

Ireland will cut public workers pay by as much as 10 percent. It will also reduce welfare payments for some unemployed and will cut child benefit by 16 euros per month, leading to a reduction of 760 million euros in the welfare bill next year.

"This is a jobless and joyless budget. It offers no vision that will rebuild confidence," said Richard Bruton, finance spokesman for the opposition Fine Gael party. "The thinking behind this is short-sighted."

Fitch's decision yesterday to cut Greece's rating, combined with the Dubai debt crisis, which pushed up the risk premiums of debt-laden countries such as Ireland, has increased pressure on Lenihan to deliver on his budget savings.

“We have taken bold, decisive and innovative steps to manage our way through this crisis,” Lenihan said. “By taking the difficult but necessary measures now, we will rebuild our nation’s self confidence here at home and our reputation abroad.”

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