IMF to focus on impact for State of bailout and guarantee

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THE INTERNATIONAL Monetary Fund (IMF) is assessing risk to the Government's borrowing ability from the bank bailout and the banks' ability to borrow after the State guarantee ends this year as part of its annual review of the economy.

A team from the IMF in Washington travelled to Dublin this week for meetings to assess the risks facing the economy, including the impact of the €32 billion recapitalisation of the banks.

The fact-finding visit to assess the health of the economy and the banking sector will inform the IMF's so-called "article IV" report compiled for member countries.

The Department of Finance said IMF economists visit member countries every year to gather information and hold talks with officials, social partners, academics and banking officials.

The team, led by assistant director of the IMF's European department Ashoka Mody, met officials from the Department of Finance, the Central Bank and executives at Allied Irish Banks, Bank of Ireland and Ulster Bank.

The department said the report would be presented to the IMF executive board in July and published shortly afterwards.

Among the IMF team members are financial experts analysing the impact of the transfer of risk from the financial sector to the State through bank recapitalisations and the National Asset Management Agency (Nama).

This year, the team is assessing the banks' loan loss assumptions, including the impact of the retention of land and development loans of less than €5 million following the Nama transfers.

On a broader level, the IMF raised queries on house prices, wage, inflation and productivity trends. It is also assessing the Government's fiscal policy and the additional burden facing the State and the banks from the Nama discounts, as well as the capital adequacy of the financial institutions.

AIB and Bank of Ireland outlined plans to raise €11 billion in additional capital to meet the new requirements set by the Financial Regulator by the end of this year.

The IMF team is trying to assess the level of bank debt that must be refinanced this year in the crucial period before the end of the bank guarantee scheme in September.

The Government is seeking to push out the guarantee to the end of the year to coincide with the regulator’s recapitalisation deadline.

The domestic banks have to refinance €25 billion in debt in September covered under the guarantee and have raised €19 billion this year under the extended guarantee, according to fixed-income bond specialists, Glas Securities.

The IMF predicted last month the Irish economy would shrink by 1.5 per cent this year and grow by 1.9 per cent in 2011. Mr Ashoka, who led the fact-finding mission last year, was shot at his home in Bethesda outside Washington DC last October. His visit to Ireland is one of his first foreign assessments for the IMF since his recovery.

South African-born Mohau Mercy Mathibe, an intern on an entry-level programme for economists at the IMF, was charged with the attempted murder of Mr Ashoka but later fled the US.