

Government gets approval for extension of bank guarantee

By [Joe Brennan](#)

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Brussels has approved a one-month extension to the second guarantee scheme but the Government is still looking to have it pushed out to the end of the year as banks face refinancing a multi-billion euro wall of bonds falling due in September.

It comes as the Irish banks continue to stand off from tapping the bond markets as the eurozone debt crisis has pushed the interest rate premiums of bank bonds over government debt.

Some €25bn worth of bank bonds from the country's guaranteed institutions fall due in September alone -- as the original two-year guarantee scheme comes to an end. Analysts estimate that up to €50bn of debt securities will mature this year.

The second guarantee scheme -- or Eligible Liabilities Guarantee (ELG), launched in January, which allows banks to issue bonds of up to five years in duration -- had been due to end on Monday. The banks and building societies have so far raised €18bn under the ELG.

The European Commission this week allowed Ireland to extend the ELG by a month to the end of June -- bringing it into line with 13 other EU countries, including Germany, Sweden, Spain, Latvia and Poland.

However, as the Irish Independent recently reported, the Department of Finance is looking for Brussels to allow it to extend the guarantee to the end of the year to align it with a deadline for the country's banks to hit new capital reserves targets.

Irish Life & Permanent was the last Irish lender to tap the debt markets -- raising €1.25bn on April 22 through a sale of bonds that mature in three years' time.

"As contagion from the Greek debt crises spread, with sovereign issuance drying up, the Irish banks have been unable to access government guaranteed term funding in recent weeks," said Ciaran Callaghan, an analyst with NCB Stockbrokers.

"Unless conditions improve dramatically, it is likely that the peripheral European banks will be obliged to wait a while longer before attempting any issuance."

Still, banks do not need to replace the total €50bn of bonds that are due to mature this year as their balance sheets shrink.

Jim Ryan, of bond market specialists Glas Securities, said the country's lenders would be looking to raise €30bn to €35bn at a maximum this year, but would really only need to raise between €20bn and €25bn.

"After all, banks will have €80bn less assets to fund by the end of this year as the NAMA transfers are completed," Mr Ryan said.

He added that participants in NAMA are expected to receive about €43bn of bonds for their risky loans. These can be used as collateral to tap the ECB for funding, if necessary.

- Joe Brennan