

# Anglo uncertainty driving debt costs, says Honohan

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The future of Anglo Irish Bank must be resolved soon because of the impact it is having on investors, Central Bank governor Patrick Honohan said today.

"This is a matter which will need to be finally put to rest very soon," Mr Honohan said. "The uncertainty around it is having a disproportionate impact on international investors."

Supporting Anglo Irish may result in a net cost of about €2 billion to €5 billion to the State, Mr Honohan said earlier this week. He said he expects the government's preferred option for Anglo Irish to be resolved in weeks.

He said he did not have an exact figure for the deficit, but it was possible that it could be in the region of 20 per cent. Spreads on Irish government debt over German government debt were still higher than he would like to see.

"Investors remain concerned at the very high debt to GDP ratio. The points I've been stressing on this trip is that so far the Irish government has adhered to the roadmap for fiscal correction. And correction has remained within the parameters set out in 2009," he said.

"If we were facing this adjustment in a more calm international situation we wouldn't be seeing the scale of investor nervousness or interest rate spreads. The Irish economy is at the bottom after a very steep recession."

The spread between Irish bonds and the benchmark German bund widened to 304 basis points this afternoon.

"In the 1980s for 10 years Ireland experienced excess returns on interest rates – 2.5-3 points per annum," Mr Honohan said. "Investors are right now again expecting a high return, which is hard to justify given the fundamentals."

In a research note today, Glas Securities said Irish banks, which have about €30 billion euros of debt securities maturing in September, don't have "a gun to their head" on funding, according to Glas Securities, which specialises in fixed-income markets.

"But it is also fair to say that they are in the starting blocks awaiting 'the gun to fire' in terms of primary new issuance," the Dublin-based firm said in a note. "However, on this point we note that 'false starts' can be difficult to recover from and issuance may therefore have to wait until market activity picks up as September approaches."

Meanwhile, a deadline for bids for EBS, including private equity groups and bancassurer Irish Life & Permanent, expires today.

The State-run building society set a deadline of August 20th for offers and one source said three private equity groups - US firm JC Flowers, Britain's Doughty Hanson and Dublin-based Cardinal Asset Management - are expected to bid, as well as Irish Life & Permanent.

**Additional reporting: Bloomberg, Reuters**

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