



BACKGROUND PAPER:

Economic and Financial Committee (ECOFIN) ***Financial Crisis in Ireland***

Introduction:

The 2008–2011 Irish financial crisis is responsible for the country falling into recession for the first time since the 1980s. The Irish government officially announced the recession in September 2008, with a sharp rise in unemployment occurring in the following months. Ireland was the first state in the Eurozone to enter recession as declared by the Central Statistics Office.

The numbers of people claiming unemployment benefit in Ireland rose to 326,000 in January 2009, the highest monthly level since records began in 1967. Amidst the crisis, which has coincided with a series of banking scandals, the ruling Fianna Fáil party fell to third place in an opinion poll conducted by *The Irish Times*. The party placed behind Fine Gael and Labour, the latter rising above Fianna Fáil for the first time.

The weakening conditions drew 100,000 protesters onto the streets of Dublin on 21 February 2009, amidst further threats of protests and industrial action. The country's Irish Stock Exchange (ISE) general index had reached a peak of 10,000 points briefly in April 2007, but by 24 February 2009 it stood at 1,987 points, a 14-year low. The last time it stood under the 2,000 level was the middle of 1995.

Background & History:

Beginning in the early 1980s and continuing into the 2000's, Ireland achieved status as one of the wealthiest countries in the European Union, second in GDP/capita only after Luxembourg, by means of an economic boom (<http://invisibleeconomists.splinder.com/post/23655033/the-irish-crisis-origins-and-developments>). After decades of a declining population and an almost complete economic stagnation, the Irish finally began to feel the affects of a prosperous economy. The 1988-2007 era that experienced the greatest economic growth in Irish history was known as the "Celtic Tiger", a metaphor for the fearsome and unmatched strength of the Irish economy, all but evaporated when the Irish housing bubble burst and banks began to fail. The Irish badly miscalculated the size of the banking losses, and the banks were forced to resort to emergency borrowing from the European Central Bank (ECB). The result was an €85 billion financial assistance program between Ireland, the IMF, and the ECB, announced in late November 2010. The bailout, apparently, is understood by Ireland's creditors and their Euromasters to be a temporary band-aid and a short-term solution to an impending default (<http://www.heritage.org/research/reports/2011/05/president-obama-visits-the-irish-financial-crisis>).

Current Situation:

The financial subprime crisis, which started in 2007 in the mortgage area of the United



States, and had a wide global spreading effect in 2008, had among its multiple consequences the disclosure of unsustainable economic situations in Europe. It is a dominoes-like projection where highly sensible financial markets react with fear and strength to facts which exacerbate the perception of economic risk in various forms.

Ireland's bailout, agreed on Sunday, November 28th, occurred after the Greek one. Currently, Portugal is in a very weak situation and Spain has serious internal deficits.

The precarious situations of all these economies had been already recognized as weak long ago, which perhaps explains the creation of the European Stabilization Fund, with headquarters in Luxemburg, of approximately 500 million Euros, in conjunction with the European Union and the Monetary Fund, which is on standby for new victims and is also a sort of dissuasive element of fears or attack attempts, facing weak economies. It has already been suggested to increase this sovereign rescue fund to 750 thousand million Euros.

http://164.77.202.58/lyd/controls/neochannels/neo_ch3864/deploy/pi994.pdf

The Irish government initiated a four-year austerity plan to cut an additional \$20 billion from its budget. A return to modest growth is expected in 2011. However, many economists fear that these budget cuts will negatively affect the Irish welfare system and the many that rely on it. Further, it is still unclear how high interest rates will affect the impending growth of the Irish economy. Debates continue over whether Ireland will be able to repay bailout debts in full.

<https://www.cia.gov/library/publications/the-world-factbook/geos/ei.html>

Bloc Positions:

The differing opinions regarding Ireland's economic crisis include the connection between the specific member state to Ireland's economy. States such as the United States, the United Kingdom, Belgium, Germany, France, and the Netherlands, have strong trade partnerships with Ireland would benefit from a swift economic recovery. European Union members also need to consider the implications of an Irish default and the inability to repay bailout loans in relation to the weakening of the euro. When considering the position of the UN member state, ECOFIN's ability to resolve Ireland's economic crisis should be considered as a template to resolving the impending economic failures of European outside crises. With the default of Ireland, the effects of a debt-ridden EU must be considered with likely effects on the stability of the global economy.

Committee Mission:

In attempting to resolve the Irish economic crisis, it is imperative for ECOFIN to consider the international ramifications of this committee's decisions. Long-term solutions must be created and implemented, as the bailouts were merely temporary solutions. Every country in the European Union will be affected by this committee's decisions, as they share the Euro as currency. Further, Ireland's trade partners will take serious economic blows if the Irish economy regresses once more.

Delegates must also note the possible ramifications for the Irish people. Political tension is already building within the country and this unrest could theoretically lead to governmental instability. The government's budget cuts to the welfare system will likely hurt those



struggling to make a living throughout the crisis.

Questions to Consider:

1. Is your country a part of the European Union?
2. Does your country trade with Ireland?
3. How closely tied is your country's economy to that of Ireland?
4. What is the current economic state of your country?
5. How politically similar/different is your country to Ireland?

Sources for Further Research:

<http://www.heritage.org/research/reports/2011/05/president-obama-visits-the-irish-financial-crisis>

<http://invisibleeconomists.splinder.com/post/23655033/the-irish-crisis-origins-and-developments>

<http://www.ifo.de/portal/pls/portal/docs/1/1201609.PDF>

http://164.77.202.58/lyd/controls/neochannels/neo_ch3864/deploy/pi994.pdf

<https://www.cia.gov/library/publications/the-world-factbook/geos/ei.html>