

# Guntram Wolff



## Troika must reform to prevent any further clashes over policy

SINCE the start of the financial assistance programme in Greece, there have been conflicting views about the right policy way. The three institutions responsible for the programme, the troika consisting of the IMF, European Commission and ECB, disagreed on a number of central policy issues. This raises the broader question about the future collaboration between the IMF and the European institutions.

The most recent controversy is between Christine Lagarde's IMF and the European Commission - including Economy Commissioner Olli Rehn - on the question of when a debt restructuring in Greece should have been done. The IMF had issued a paper arguing that, in Greece, the debt restructuring should have happened earlier. The European Commission responded two days later, contradicting the IMF.

Similarly, in the case of the Irish programme, there had been significantly different views and the possibility and desirability of a bail-in of bank bonds. The debate in the autumn of 2010 was about the question of whether bank losses should be imposed on the remaining around €19bn worth of senior unsecured bonds or whether instead the taxpayer should step in to avoid losses on those bonds.

Reportedly, the IMF came out in favour while the ECB was against such a move. The IMF eventually appeared to change its position.

So why were such different assessments reached and what does it mean for further collaboration? After all, they both have excellent economists that are using the same data.

The difference is due to the different institutional and political objectives. The IMF has been increasingly critical due to its large exposure to the euro



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EU Economy Commissioner Olli Rehn (far left) and IMF chief Christine Lagarde are at odds over bailout policies

it would have been appropriate to agree upfront on some degree of European burden-sharing for this bailout. However, the major players in the troika could not agree on such a solution.

How should the troika evolve to prevent similar failures from happening? In a recent report, we have argued that the IMF should be less financially involved. As a catalytic lender, it would provide only 10pc of the overall financing of the programme. This would allow it to adhere to its own standards and, in case of disagreement, drop out of the programme.

### Robust

At the same time, a decision by the IMF not to participate in the programme would provide a strong signal that the foundations of the programme may be less robust than desirable.

On the European side, a programme may still be considered desirable, also from the point of view of financial, political and social stability.

To render a programme more easily feasible and more operational, we would consider it useful that the ESM gradually evolves towards a European Monetary Fund with a clearly defined mandate and lower voting thresholds. The European Commission would thereby be relieved of its difficult dual role of being a community institution responsible for the treaty while at the same time implementing tough programmes as an agent of the Eurogroup.

Finally, the ECB should remain present but play a less decisive role in the day-to-day negotiations.

Eventually, this would lead to a dismantling of the troika and a programme designed predominantly by a European Monetary Fund with limited IMF and ECB involvement.

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area - 56pc of IMF lending now goes to the euro area.

While IMF lending enjoys seniority status, important IMF shareholders, in particular from emerging economies, have become increasingly concerned about the supposedly different treatment of Europe compared with the previous crises in Asia and Latin America. And indeed, the IMF had to adapt its own working rules in order to provide loans to Greece.

The European institutions follow different rules and a different logic. Being responsible

for an incomplete and still fragile monetary union, they tended to be more risk averse. They were ready to do so despite the doubtful debt sustainability.

### Fragile

Yet, at the same time, major European creditor countries were not ready to agree on an outright transfer or official sector involvement. The result was a fragile approach that was based on overly optimistic assumptions. These overly optimistic assumptions proved completely wrong.

The troika had predicted a small recession in Greece with GDP falling during 2010-13 by only 3.5pc. Instead, the actual contraction amounted to 21pc.

True, some of the reasons for the collapse of GDP could not be predicted. Who would have thought that the entire euro area would be in crisis?

Yet other factors were clearly too optimistically assessed. For example, it was hoped that Greece would quickly be able to adjust its production structure and be able to export much more to compensate for the

drop in domestic demand. Projected privatisation receipts were increased to unrealistic numbers when the programme derailed.

In the case of Ireland, the troika avoided coming up with an unrealistic programme and, in fact, the basic macroeconomic assumptions of the programme were largely accurate.

Yet, the question about burden-sharing was contentious. It is arguably difficult to assess whether or not the decision to spare senior unsecured bond holders was the right one.

Financial stability concerns in the euro area as a whole were significant. The ECB had made a judgment call that the potential savings of €5-10bn would not be important enough to risk financial stability.

ECB board member Jorg Asmussen confirmed that this judgment call was not just about the stability of the Irish banks but took into account consideration for the stability of banks in the entire euro area.

I am not sure whether this assessment was correct but, given the fact that it prevailed,

## BusinessBrain

Shane Healy



## The upsides of examinership - and why we can't all do it

I wish I could go back to 2005. It was a rocking time to be in Ireland. It really was. What with all the foreign holidays, the champagne flowing like Ballygowan, the endless credit. It seemed like nothing could ever go wrong.

I'm not the only one who would like a bit of time travel. B&Q's sales in 2009 hit €124m before slumping to €94m in 2009. That's still a lot of Shaker-style kitchens, mind you. Xtra-vision would most likely want to zip back to the '80s, when it was trying to open 10 new stores a week at one point.

Back then the only people who had heard of examinerships were stuffy corporate lawyers and insolvency experts plying their trade in those dark arts. How different to now, where it is front page news.

So why would any company go into examinership - and why can't I go ahead and do the same with my business?

First of all, the process of examinership only passed into law in 1990, while most of us were tuned into David O'Leary and friends in Italy. So, for the first time in Ireland, an insolvent company could get the protection of the courts from pesky litigation and eager receivers for a specified period of time.

While initially the law said that a company had to have "some chance of survival", this was later amended to the more realistic "a reasonable chance of survival" and crucially the court would now look at an independent accountant's report which would outline the finances, prospect of investment and whether it would be more advantageous to trade than to wind up.

Even so, the judge retains discretionary powers to appoint an examiner - something Liam Carroll of Zoe Developments learned all about. Justice Peter Kelly found the assumptions behind his accountant's report to



Xtra-vision's boom time was probably the 1980s, when at its height it aimed to open 10 new stores a week. It entered receivership last April

be somewhat lacking. The judge did not accept the threat to jobs either and the application failed.

In another case, the same judge said that he was unwilling to grant protection to companies, as

investment was becoming as "scarce as hen's teeth". He was also unimpressed with the formulaic accountants' reports coming before him. Finally, he highlighted that examinerships should not be

entered into lightly because of the expense.

Ah yes, the expense. It may not have escaped you that most of the companies applying for examinerships are not your typical mom-and-pop enterprises. For instance, B&Q has a very strong parent company that is investing €2.4m in its Irish entity. Xtra-vision - bought by Hilco Capital after going into receivership in April - exited examinership in 2011 only after its then parent company, Birchall Investments, injected €8m into it.

And what about directors of insolvent companies? Remember the Residence case? The Stokes brothers were heavily criticised for the way in which their company was managed prior to the examinership. The company had retained employees' PAYE payments to fund the business, which Justice Kelly likened to a form of "thieving". Are you shivering yet?

You see, the thing is, once a

company becomes insolvent, your duties as a director change. Rather than having an obligation to protect shareholders, you are now legally obliged to protect the company's creditors. If you don't know this, you are at a real risk of being disqualified or restricted.

But if you can afford it and you can satisfy the judge's expectations, then the upside to examinership can be great. You can renegotiate those costly leases you signed up to or even close loss-making outlets, like B&Q did in Waterford. You can pay 10 cents on the euro to wipe the slate clean with your unsecured creditors and start afresh like Aer Arann.

Mind you, it doesn't always work out. Successfully exiting examinership may afford another roll of the dice, but in this tough business climate, nothing is a given.

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## PostScript Inside the world of media & marketing

### Annual radio campaign aims to make itself heard

THE fifth annual "Choose Radio" marketing campaign aims to encourage advertising on radio. It is a joint project between the Independent Broadcasters of Ireland and RTE Radio and will broadcast for the next two weeks, three times a day, on all 36 radio stations across Ireland. Its theme this year is "If you want to be heard".

The campaign was developed by McCann Dublin, whose chief executive Orlaith Blaney said: "Radio advertising is phenomenally powerful in Ireland, where almost three million people tune in every day. We wanted to tell that truth and tell it well."

"Our 2013 Choose Radio campaign, written by creative directors Emma Sharkey and Ray Swan, captures that idea simply and in an entertaining way. A combination of excellent copywriting, great voiceover talent and editing talent by the production team at Mutiny demonstrates clearly why Irish brands and businesses

must advertise on Irish radio. The campaign's creators say Irish people have a unique relationship with radio, with research showing 85pc of people aged 15 or over listen on the average weekday.

### Samsung backs festival

SAMSUNG has been named as the official sponsor of this year's Dublin Fashion Festival, the three-day September event that showcases the best of Irish design.

Drawing on the current social media "selfie" trend (self-taken photos), this year will see the creation of a Samsung selfie street photo booth supported by spontaneous flash mobs. Other new events include the Samsung Young Designer Fashion Event, a convention and competition for young Irish designers. A "Beauty Bus" will also tour the city, with an on-board beauty team offering makeovers, hair styling and goodie bags.

"The festival is a celebration of

Irish style, innovative design and creativity which epitomises the Samsung brand," said Samsung IT & Mobile Ireland general manager Gary Twohig.

It will run from September 5 to 8, and is organised by the Dublin City Improvement District (BID) and promoted through DublinTown.ie. Dublin City BID was recently voted in for a second term by the city centre business community, guaranteeing the future of the festival for another five years.

"We are delighted to have Samsung as sponsor of Dublin Fashion Festival 2013. Samsung is the perfect innovative brand to partner Dublin Fashion Festival," said Clyde Carroll, Dublin City BID's marketing director as well as the festival director.

"It complements our events and activities which have endless sharable content and are so pictorially led, and provides a perfect fit for our audience who would have a presence across all social media channels. The possibilities of the

partnership are limitless. With our new message of "Celebrating your City in Style," we're excited to see what Dublin Fashion Festival 2013 holds."

### Meteor tells it straight

THE message behind Meteor's latest campaign is straightforward: "If your smartphone doesn't come with a smart plan, it's not smart - it's thick!"

The company's latest advertising drive has launched across TV, radio and online platforms. It stars "Smartphone Don", the human personification of a smartphone without a smart plan. He is dapper but dim, all style but no substance. In two 30-second TV ads that will run this month and next, he lets leading lady Anna down in his ability to give her what she wants - directions, and answers at a pub quiz. There will also be a series of shorter TV and radio ads. Advertising will focus on the company's bill pay offer in July and its pre-pay in August.

## BOOK REVIEW

### WHY THE WEST STILL REFUSES TO FACE THE TRUTH

WHEN THE MONEY RUNS OUT



Stephen D King

Charles Moore

OFTEN the obvious is the hardest thing for people to accept. For example, it is obvious that we shall all die, but most of us spend the great bulk of our lives acting as if this were not so. In the first decade of the 21st Century, it was obvious that the governments and citizens of the Western world were borrowing too much money, yet almost all the finest minds in banking, central banking, economics and politics devoted their energies to proving the opposite.

Stephen King is group chief economist and global head of economics and asset allocation at HSBC, so he is painfully conscious of this fact. He is not the same person as Stephen King, the novelist, but he tells a good horror story.

He has harsh words for his own trade. Economists, with their "precision-engineered mathematical models", "thought they had finally solved the world's economic problems". So they disregarded the dangers of systemic collapse.

This book, therefore, contains no mathematical models whatever, and not even a single graph. It is written in clear, lively English, and it constantly draws on history to trace cause, effect and likely catastrophe. You could accuse it of being wise after the event, but can history be anything else? It is certainly better than being foolish.

To King, the obvious thing now staring the West so fiercely in the face and that we refuse to look at it is that we might not recover. He does not mean that the whole of our civilisation will suddenly collapse (although the "dull" years of stagnation are tempting people to fight over the diminished spoils).

He means that our basic expectation, since 1945, that the West will always bounce back may now be false.

Our financial crisis has now been going on for longer than the Second World War. Real wages have fallen for a longer period than any since the twenties. Neither austerity nor its opposite seems to have won us victory. As King points out, you might think that low interest rates would encourage more risk-taking, and therefore more economic activity, but our persistently rock-bottom rates make everyone realise how bad things are. They "corroborate our collective gloom".

This gloom feels justified by factors that are longer-term than current policy errors. Perhaps the most important of these is the refusal of the West to breed. The baby boomers - reacting to the fact that there were (as their name suggests) so many of them - convinced themselves that over-population threatened the health and wealth of the world. Almost the opposite is the case. By failing to reproduce themselves in adequate numbers, the baby boomers have laid enormous burdens on those few children whom they have produced.

You can borrow and spend hugely if you know that the generation that will end up with the bill is much larger than your own. If it is much smaller, you can't; but we have.

I would pursue King's point. For 50 years now, European culture has developed the idea that the problem is too many people. Without quite realising, it has developed attitudes that work against the future of the human race. In cultural terms, the celebration of contraception, homosexuality and euthanasia all represent this trend.

The whole of electoral politics in the West still revolves around the idea of promising voters more public services.

This is why our current politics feels so unreal. It is the peddling of illusion to people who, though not yet ready to face the whole truth, know that they are being lied to.

It is it alarmingly difficult to disagree with Stephen King. All one can say, perhaps, is that one of the great errors of human nature - strongly displayed before the credit crunch - is the belief that a prevailing trend will continue indefinitely.

The crunch is surely a reminder that what goes up must come down. It presumably follows that what comes down will one day go up. Meanwhile, get breeding.

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