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# Ireland lives in interest-ing times. [1]

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I?ve already written at length on the Irish bailout, but now that it?s been finalized, it?s worth reflecting on just what it means for Ireland and the UK. The final sum was around €85bn ? €35bn for the banks, €50bn for the Irish government (though much of that was to fill the Irish coffers that had already gone towards the banks). The Irish government was forced to put up their €15bn sovereign wealth fund ? the National Pension Reserve Fund ? as collateral against the loan, so that if they default they lose that money. This was canny on the part of the EU and IMF, and very stupid on the part of the Irish government, but it is unlikely to be enough to prevent an Irish default.

Worst of all for the Irish, the bailout will have to be repaid at an average annual rate of 5.8%, which is hardly better than what the Irish could have borrowed at conventionally before the current conflagration, without having to stake their sovereign wealth fund on the borrowings. The interest rate is so high because the EU wants to put other countries off resorting to it, but it will cripple Ireland. The cost of the bailout will be nearly €60,000 per household, but on top of this, each household will have to pay an extra €2,000 in tax to pay for the interest alone ? every year. The huge interest rate repayments will cripple the country. Unsurprisingly, bond markets haven?t been calmed by the bailout.

The important point about all this is that it is now exceedingly likely that the next Irish government will default on its borrowings, even if it loses the National Pension Reserve Fund. If that happens, the £7bn gambled by the British government will be gone ? and with it, £300 per British household. The bailout means that the Irish banks are likely to become solvent, but it might cost the Irish government its solvency ? which, in turn, would be far more destabilizing to Europe?s banks than senior bondholders of Anglo-Irish being burned. An Irish default is probably now the best option for Ireland, but the bailout has significantly upped the stakes for the rest of the EU.

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