EU loan is no bailout, it`s financial bullying

2011-05-16 11:06:39 by webmaster

16 MAY 2011

Should we be taking our case on the EC's extortionate profit margin to the Court of Justice, asks Peter Mathews

Irish Independent

SOME members of the European Council are exploiting our crisis in order to profit at our expense. If the interest rates on the EU loans are not reduced, the Irish public will suffer unnecessarily while our European partners profit from these loans.

Last January, the European Financial Stabilisation Mechanism charged Ireland an interest rate of 5.51 per cent for money that it borrowed at 2.59 per cent. A month later, the European Financial Stabilisation Fund charged Ireland an interest rate of 5.9 per cent for money that it borrowed at 2.89 per cent. On this basis, the EFSF earns a profit margin of 3.01 per cent and the EFSM earns a profit margin of 2.93 per cent.

These margins are draconian. The majority of the interest that Ireland pays is not used to pay for the EU's borrowing costs. It is excessive profit for the countries that are lending us money. For every â‚¬1m that Ireland pays in interest costs, Ireland must pay another â‚¬1.08m so that our EU partners make a profit. This, clearly, is not a bailout. It is exploiting our vulnerability. It is financial bullying.

The IMF is dreaded because of its reputation of treating countries harshly. Nevertheless, the IMF is charging Ireland an interest rate of 4.34 per cent. This rate is far lower than that being charged by our European partners.

The IMF loans are partially in euro, sterling, dollars and yen. The cost of hedging against exchange rate risks has brought the effective interest rate up to 5.2 per cent but there are no such costs associated with loans from the EU as all loans are in euro.

Therefore, the interest rate on the loans from the EU should be compared with the 4.34 per cent rate being charged by the IMF.

Read entire article