

Foreign ownership could yet cure our hangover from a heady fiscal cocktail

Former top banker **Harry Slowey** suggests how the banking system can be fixed to serve us again



MUCH has been written about how we got into this 'mess'. I don't propose to detail again these factors other than to say it was the unprecedented convergence of cheap credit, poor regulation and poor banking.

Unfortunately, consumers and borrowers reacted to this fiscal cocktail as it was presented as a mixture of export-led growth, the impact of the internet and Ireland's economic coming of age.

The solutions will be incremental, varied, and grounded in sentiment and politics as well as good economics.

We are in a vicious cycle, with little bank credit available driving asset prices down, which in itself reinforces the negative lending appetite. Consumers are saving more and thus GDP is falling, which fuels the negative consumer mindset. We need to break the circuit of this negativity.

Possible solutions

First, the scale of damage to

the Irish banks' balance sheets is such that it will require an EU-level assisted initiative to remedy this situation.

This could involve government-guaranteed loan schemes, assisted entry of a strong foreign bank and sovereign debt restructuring.

Banks will not get anywhere close to operating at a level we deem normal until the deposit market is restored.

There has been a significant flight of deposits out of the jurisdiction. How do we get deposits back into the Irish market? Foreign ownership of the remaining Irish banks will provide some way forward here. The Irish banks are unsaleable, so credit guarantees and insurance will be required from the State to facilitate foreign ownership.

The return of deposits by Irish savers and corporates will be the first step towards weaning our banks off the EU credit lines and will give confidence back to this market.

It is difficult to argue

against a higher level of regulation when its absence played a significant part in this calamity. However, it needs to be tempered so that bankers can lend again and the wheels of commerce can turn without an unduly big burden of regulatory oversight.

We need to get transactions flowing again in the property market to address the existing gridlock. Thus, let the market decide the prices of assets and let's engage more with foreign investors who are looking for value through the banks and Nama. They will not invest if they don't see a possible return, and it will bring some much-needed liquidity into Ireland Inc.

The SME sector and the export sector have to be protected from the banking meltdown as they will be the engines that generate national prosperity. The work of Enterprise Ireland needs to be extended and a State-sponsored bank operating on market norms would be beneficial.

Stigmatising the banking profession and accelerating a brain-drain out of the industry is not to be encouraged. Huge mistakes were made, but a functioning economy needs a functioning banking system. Banks are symbols of our

national pride, and we need these symbols restored.

As for the future...

What will "normal" look like?

Banks will be fewer and smaller and their appetites for lending will be significantly diminished alongside a sizeable increase in credit pricing. Banks will be asking for more information for much less credit at higher prices.

All firms must focus as much on their capital structure and balance sheet as their profitability. The task to wean companies off excess credit has begun, which has put greater focus on cash management. This had been relaxed in the last 10 years.

Banking customers will seek to limit their credit appetite as they take more control of their futures. Companies and personal investors will never again be so trusting of the finance community and will take more responsibility for their financial matters.

The direct and indirect consequences of this credit shift are becoming apparent.

Harry Slowey is a director of FinanceOne Limited. He was a director of Bank of Scotland Ireland up to 2005