

## What would happen to your money if Ireland defaulted?

**If Ireland were to default, we could see pensions and savings wiped out -- and mortgage bills at sky-high levels, says Louise McBride**

WITH uber economist Morgan Kelly forecasting that the national debt could hit €270bn, it's becoming increasingly clear that Ireland can't afford to pay back all its borrowings. Defaulting on this debt is a common call. Even taxi drivers are at it. But the impact of a default or exit from the euro could blast a hole in your pocket.

Some of the countries that have defaulted on foreign debt in the past include Argentina, Peru, Mexico and Liberia.

If Ireland defaults on the IMF-EU debt, it could find itself thrown out of the eurozone -- if indeed, it hasn't decided to leave of its own accord. Default doesn't necessarily mean we'll leave the eurozone -- but nations that have defaulted in the past have usually had their own local currency.

The Irish punt could then be reintroduced -- but over time that punt would most likely plummet. And if that happened, the country would find itself in the middle of a currency crisis.

This happened to Argentina when it defaulted on its foreign debt in 2001. Before they defaulted, the Argentine peso was pegged at a par to the US dollar. After the country defaulted, the peso lost about 70 per cent of its value. So how exactly could a default eat into your pockets?

### Your savings

A default would probably wipe out the value of your savings -- and it could also make it impossible for you to get your hands on them.

"If Ireland defaulted on its foreign debt and reintroduced the punt, the money in most bank accounts would be in punts rather than euro," said Kevin O'Doherty, director of the regulatory consultants Compliance Ireland.

"Because of the economic situation the country would be in, the value of the punt would plummet. The value of your savings would go down as the currency depreciated.

"If you have your life savings squirrelled away in the credit union, you'd find the value of those savings diminished as the price of foreign goods and services becomes more expensive."

Cian Twomey, a lecturer in financial economics at NUI Galway, said the value of people's savings would be at the very least halved if Ireland defaulted and left the eurozone.

"Our savings would be worth between 50 and 70 per cent less in punts than they would have been worth in euro," said Mr Twomey.

You might also find yourself locked out of your savings accounts. When Argentina defaulted in 2001, the Argentine government froze deposits to prevent savers converting their deposits into a more valuable foreign currency.

They also restricted the amount of money that Argentinians could withdraw from their accounts to about 250 pesos a week (worth about €134 in the wake of the default). Not long after the default, it was a common sight for Argentinians to be searching for ATMs that weren't empty.

You could lose your savings if your bank or credit union went bust. The Government guarantees savings of up to €100,000 held in Irish banks. In some cases, savings of more than €100,000 are also protected.

"If Ireland defaults, how would the Government continue to guarantee deposits?" said Mr Twomey. "The Government can only continue to guarantee deposits if it can continue to borrow."

If, however, Ireland defaults on its IMF-EU loans, the chances of finding anyone to lend us money at non-prohibitive interest rates are slim.

More than €100bn worth of savings were withdrawn from Irish banks last year amid fears of our banks collapsing.

If Ireland defaults and the Government clamps down on savings like the Argentines did, billions could leave the country. People would take desperate measures. "People with a bit of money would fly off to France and other European countries and open a euro bank account," said Mr O'Doherty.

#### Your mortgage

If you're lucky enough to have a cheap tracker mortgage, some believe you might have to kiss goodbye to it if Ireland leaves the eurozone. "The interest rates on your mortgage would be set to the Irish punt," said Mr O'Doherty. "That means your ECB tracker would disappear."

Your tracker mortgage is a contract which you have with your bank, so whether or not you would lose it if Ireland left the eurozone remains to be seen. However, if the interest rates on mortgages were tied to the Irish punt after an Irish exit of the eurozone, interest rates could soar.

Less than 20 years ago, a currency crisis hit Ireland. The Irish punt was devalued by about 10 per cent at the time and Irish interest rates reached unprecedented levels. Mortgage interest rates in Ireland climbed as high as 16 per cent in 1993.

Those who had taken out a loan from a European bank would also be walloped. An Irish citizen would find it much harder to pay back a mortgage in euro if he is being paid in punts -- as the punt would very rapidly be worth a lot less than the euro.

#### Your pension

If you're put out by the Government's move to raid pension funds so it can finance its latest jobs plan, you'll be even more put out if Ireland followed in the footsteps of other countries that have defaulted. When Argentina defaulted, it expropriated pension funds, transforming them into government-backed loans to service debt.

#### Your shopping trolley

The price of foreign goods has exploded in countries that have found themselves embroiled in currency crises. In Argentina, inflation hit 30 per cent just a few months after the default. The same would probably happen here.

Domestic prices, such as for your newspaper or pint of milk, would remain the same. "The prices of things made outside of Ireland would become much more unaffordable," said Mr O'Doherty.

"That would include things like foreign holidays, Japanese or German cars or bottles of wine. The foreign goods you put into your supermarket trolley each week could double or treble in price."

Chances are that at least half of the goods in your supermarket trolley come from abroad.

Tourists would be one of the few to benefit from an Irish currency crisis. As their foreign dollars or euro could be twice or triple the value of the Irish punt, they'd get more bang for their buck here.

#### Your child benefit and dole

If Ireland defaults on its EU-IMF loan, it would no longer have the financial support that it needs to plug its massive budget deficit. The Government could have to unleash spending cuts of €18bn to fund itself. To achieve that, the Cabinet could slash child benefit, dole payments, state pensions and public sector wages by about a third, the Department of Finance warned last week.

#### Your jobs

Ireland's international reputation has already been hammered by the banking crisis and recession. If we were to default on top of this, our reputation might never recover.

Multinationals could pull out of Ireland, leading to major job losses. Foreign companies eyeing up Ireland as a possible base could pull back from their plans. "If Ireland suddenly defaulted, it would damage future investment in the country and dissuade people from doing business with us," said Mr Twomey.

#### The way you pay

Paying by credit card could be impossible if Ireland defaults. In Argentina in 2002, many stores wouldn't accept them.

Millions of Argentinians were also forced to barter for food and petrol that year because they were not allowed to spend the money in their bank accounts.

The very least we can expect is a thriving black economy. By 2005 -- only four years after Argentina defaulted -- it was believed about half of its population worked in the black economy which can lead to a big drop in the government's tax take.

This would lead to less money for public services -- in essence, we'd become a third-world country.

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