

â,−24 billion is not it - so Ireland should brace i...

Published: January 13, 2026, 7:37 am

There's widespread coverage of the fact that [Ireland's had a fifth go at estimating how but its banks are](#), and has upped the estimate to â,−70bn, a cool â,−24bn increase on the last time.

This time they say that's it.

Well, I have a message for Ireland - I think you said that last time too. And you were wrong. And you may be again.

The fact is that this is just an exercise. And like all accounting exercises it only has meaning at a point in time. The loss is â,−70bn now - it could be more (and conceivably, but on current form improbably) less in the future.

Why more? Well, the more you say that Irish, and more generally, recently constructed real estate on a wider horizon is worthless - then the easier it is for markets to believe that's true. And moral hazard comes into play - why bother to repay an Irish bank when it doesn't expect you to do so?

That's what's happening, I'm sure. So, the losses just mount. It's a vicious and endless circle. One way to stop it is to say that these banks are quite simply no longer viable, that they are in state control, and that as such the absurd accounting logic of International Financial Reporting Standard should no longer apply to them.

Now let's talk about what this means. Mark to market accounting makes no sense in this environment when all that matters is future debt servicing. The rest is of no consequence.

So having to borrow to restore capital lost when actually the capital has not been lost - the property is still there and can be taken under the control of the bank and in at least a majority of cases can be turned to generate a cash flow for it is meaningless. That's compounding the burden of the crisis. Of course these banks are bust on an asset basis - we all know that. But to force a nation to borrow to make that good is more than adding insult to injury. It's providing other banks with the opportunity to lend money at

profit to the ECB for them to lend on at high cost to Ireland so the bust banks can then repay the banks who lent to Ireland recklessly in the first place at cost to the Irish people. That's a double burden on the Irish people - they lost the capital, now they're losing the income and the reckless banks win both from them.

And all of that is done to comply with, firstly, an insane set of International Accounting Standards - rightly condemned by the House of Lords this week for encouraging this mess in the first place. Second, it's done to meet banking regulations that assume a country has a functioning banking system. Well Ireland doesn't enjoy that any more. It's banks are bust. So let's account for them on that basis.

That means that like it or not the loans to these banks can only be accounted for on the basis of the capacity of the Irish banks, and to limited degree, that nation to service them. And that means the only real measure of the worth of these loans is their cash generation ability. This is a long term view. It is one that might well suggest the loans have considerable worth - the value of real estate goes up, generally, in the long term. The markets may well recover from the current mess. It's only International Accounting Standards that say we must only take the short term view - which is why they are fundamentally dangerous economic tools. In other words, different accounting would make Ireland's plight look very different.

And actually different accounting would make the plight of the banks that lent to Ireland look very different if prudence dominated accounting thinking rather than the corrupt mark to market view of the International Accounting Standards Board. If a prudent view were taken then the loans to Ireland would have to be written down by the banks that lent them recklessly to Ireland in the first place - because any prudent auditor (not that we have any in the Big 4 any more) would immediately see that Ireland has no capacity to service this debt - whatever the contracts say and however the markets are naively valuing the debt right now. So with a decent accounting system in place the problem would cease to be Ireland's and would move on to be the problem of the banks that lent to Ireland - as it should be.

What does all this mean? Simply that Ireland is being screwed (there's no better word for it) by poor accounting. And it can only get worse. Change the rules of accounting though and the horizon would look a lot better.