

Any port in a storm. According to the Government, the decision to introduce unlimited State guarantees of Irish banks' deposits and debts last Tuesday morning was prompted by a marked deterioration in banks' ability to access liquidity. It has been reported that at least one Irish bank faced imminent collapse.

The usual rule is that a solvent bank facing a liquidity crisis should be rescued by the authorities. A bank is solvent if the value of its assets (when held to maturity) is enough to cover the bank's deposits and debt obligations. A solvent bank can encounter liquidity problems because banks by their nature are prone to instability. They borrow for short terms and lend for long terms, thereby creating a maturity mismatch between assets and liabilities.

An insolvent bank normally should be allowed to fail. The authorities here have assured us many times that all Irish banks are solvent. But some observers are sceptical -- and suspect that at least one Irish financial institution has negative net assets as a result of bad property loans. This reality does not show up in the published accounts because banks may be using inflated values for assets.

Of course, these are not normal times. Perhaps last week, amid the battle to keep the banking system afloat, was not the time to call a spade a spade and bring down the axe on a rotten bank. But if not last week, then when?

Surely it is now time to force the banks to face up to the reality of their bad debts. It's hard to see how the property market can recover unless banks deal aggressively with impaired assets. With public guarantees in place, we no longer need to worry about spooking depositors or bondholders. Isn't it time for action?