



**Statement by John Corrigan, Chief Executive NTMA, to the Committee of Public
Accounts**

22 November 2012

Chairman, Deputies,

On my own behalf and on behalf of the NPRF Commission Chairman, Paul Carty, I welcome the opportunity to meet with the Committee today.

We have already forwarded you a briefing note to update you on recent developments relating to the NTMA and the NPRF. I propose to make a few short opening remarks highlighting some of the main issues dealt with in the brief.

I would firstly like to refer to the debt management area. It is a little over a year since I and members of my team last appeared before this Committee and we have made very considerable progress in our re-engagement with the markets over the year.

The NTMA's funding goal is to achieve a sustainable re-entry to the markets. Our working plan throughout 2012 has been to begin to return to the markets on a phased basis, mainly through shorter-term issuance but also by taking advantage of suitable opportunities to issue long-term debt, as and when they arise.

During 2012, our engagements with the debt markets have included bond switches; the issuing of conventional bonds; the issuing of a completely new debt instrument, Irish Amortising Bonds, tailored to meet the needs of the domestic pensions industry; and a return to the short-term debt markets through the regular holding of 3-month Treasury Bill auctions.

We began these T-Bill auctions in July and have conducted four in total this year, the most recent of which took place only last week. It is illustrative of improving market sentiment that while the yield on the July bill was 1.8% and the cover was 2.8, the yield on last week's bill had fallen to 0.55% and the cover had risen to 4.1.

Our re-engagement with the markets needs to be viewed in the context of the EU/IMF programme, which provides funding to the end of 2013. A smooth exit from the programme requires a parallel programme of market funding alongside funding under the programme.

A key concern for investors had been the fact that in mid-January 2014 and just after the end of the programme Ireland was faced with a maturing bond of €11.9 billion. Addressing this so-called "funding cliff" has been a priority for the NTMA.

The successful long-term capital market operations we have undertaken during the course of the year have effectively reduced this funding cliff to just €2.4 billion – a reduction of €9.5 billion. This has been viewed very positively within the investment community and has given many investors greater confidence to lend money to us. Addressing the funding cliff and demonstrating that we can raise funds in the market have been factors in the continuing fall in Irish bond yields.

The amortising bond that we issued for the first time in August aims to meet investor demand for products that enable pension funds match their pensions in payment and also that could help with the construction of sovereign annuities. These annuities, based on Irish Government bond yields, will be less expensive to purchase than annuities based on French and German government bond yields which have been the norm for pension annuities up to now.

In response to investor demand, particularly from the Irish pensions industry, the NTMA is also planning its first issue of an inflation-linked Irish Government bond.

Between amortising bonds and inflation-linked bonds we estimate there is potential demand for combined issuance in these categories of some €3 billion to €5 billion over the medium term.

There has been some public discussion about domestic investment in our bonds. In keeping with every country issuing bonds, we need a diversified investor base which includes both domestic and international investors. An active and stable domestic investor base is not only important in its own right, but is also an important signal to overseas investors considering investment in Irish bonds. From our experience, it can make our job to persuade some foreign investors to buy Irish paper more difficult if they do not see Irish investors doing so.

During the Celtic Tiger years, some investors in Irish debt were not “natural holders” of the product and sold when the crisis hit. It is in our interest to have as deep a pool of buyers of our bonds as we can – the more diversified the better.

Of course, there are risks to achieving sustainable market re-entry. Some are within our control, such as the country continuing to meet its commitments to the Troika. Others, particularly those affecting the wider eurozone area, are not.

That said, we have made enormous progress since July 2011, when Moody’s downgraded Ireland to sub-investment grade. Indeed the announcement by Fitch Ratings last week that it was revising Ireland’s Outlook from Negative to Stable was the first positive action by a ratings agency on Ireland since the start of the financial crisis.

We will continue to engage with investors at home and abroad, presenting the case for investing in Irish paper in an open and upfront manner, and act as flexibly and imaginatively as we can to achieve our goal of a sustainable market re-entry at the earliest possible opportunity.

Turning to the NPRF, the Discretionary Portfolio (the Fund excluding the public policy investments in Bank of Ireland and Allied Irish Banks) was valued at €6.0 billion at 31 October 2012.

In light of the Government’s stated intention to refocus the Fund’s investment towards Ireland, in mid-2011 the NPRF Commission determined that management of the Fund should become more focused on capital preservation while still having the capacity to participate in gains if markets performed well. This de-risking strategy is being implemented through the purchase of options.

From the Fund’s inception in April 2001 to 31 October 2012, the annualised performance of the Discretionary Portfolio was +3.6% per annum. This compares over the same period with the performance of the average Irish pension fund (as published by Mercer) of +2.0% per annum and with Irish inflation of +2.3% per annum.

The NPRF has taken a lead role in the development and implementation of a number of investment initiatives in Ireland. These include the Irish Infrastructure Fund, Innovation Fund Ireland, the Silicon Valley Bank transaction, a commitment to the financing of water meters and the provision of a standby facility to enable the recently announced Schools Bundle 3 PPP project to proceed with EIB financing. The Minister for Finance has announced that he

will propose amendments to the NPRF's statutory investment mandate to enable it focus its investments in Ireland.

With regard to the State Claims Agency, a significant recent development is the decision by the Government to establish a Legal Costs Unit within the Agency. The purpose of the Unit will be to deal with third party costs arising from the Mahon and Moriarty Tribunals with a view to ultimately extending the Unit's remit to the Smithwick Tribunal. Recruitment for the Unit is under way.

NewERA has been operating on a non-statutory basis within the NTMA for just over a year now. It is providing advice to Government Departments in relation to a range of financial activities in the commercial State companies within its remit including investment proposals, corporate plans, capital expenditure projects and funding proposals.

NewERA is also assisting in the development and implementation of Government plans for investment in energy, water and next-generation telecommunications. In addition, it is carrying out advisory and oversight roles in relation to the possible restructuring or disposal of commercial State company assets. Its role in disposal processes is to represent the Government's financial interests and ensure that Government agreed timelines and financial objectives are clearly communicated to the relevant parties and achieved.

While the NDFA is appearing separately before the Committee on 13 December, I would note that it recently awarded the contract for the Schools Bundle 3 PPP. When completed, the eight schools in Schools Bundle 3 will provide accommodation for approximately 5,700 students and the project is expected to provide employment for up to 1,100 people.

The NDFA was also instrumental in securing the €100 million loan from the EIB for the traditional schools capital programme which was drawn down in August 2012. It is currently active preparing to procure PPPs announced under the Government's stimulus package.

Again, while it is not the subject of this morning's meeting, the NTMA continues to provide staff and business support services to NAMA. Indeed, out of overall staff numbers of 500 at end October, 227 were assigned to NAMA.

I trust that my remarks and the more extensive briefing note which we forwarded to the Committee last week have given you an overview of developments and the range of activities at the NTMA. I look forward to answering the Committee's questions.