Sarah Cremin

From: Martin W Whelan <Martin.W.Whelan@ntma.ie>
Sent: 03 July 2019 12:58
To: Public Accounts Committee
Cc: NTMA Communications
Subject: NTMA Supporting Documentation
Attachments: NTMA CEO - Committee of Public Accounts - Presentation - 04.07.19.pdf

Pat,

Supporting documentation, in slide presentation format, is attached. Below is a copy of the Statement that we published on the 2018 highlights and mid year update.

Kind regards,

Martin

NTMA delivers 2019 midyear update and publishes its 2018 Annual Report

- Elimination of debt “chimneys” over the course of 2018, 2019 and 2020 an important step in stabilising Ireland’s borrowing requirements and delivering a smooth long-term maturity profile

- Favourable yield environment contributing to significant reductions in the State’s interest bill – annual debt servicing costs due to fall to €5 billion this year and likely to fall to €4.5 billion in 2020 resulting in savings for the State of €3 billion per annum versus peak in 2014

- 2018 issuance of Ireland’s first-ever Sovereign Green Bond an important step in achieving greater investor diversification

- However, Ireland’s debt levels remain high, creating significant exposure to rising interest rates in the medium term

- Investor concerns include Brexit, potential changes to the global Corporation Tax regime, and Italy

1 July 2019

The National Treasury Management Agency (NTMA) has today published its 2018 Annual Report and delivered a midyear update for 2019.

Comment by the NTMA Chief Executive, Conor O’Kelly:

“As we look past Ireland’s unusually high refinancing requirements or “chimneys” out to 2020, we must remain conscious of the challenges ahead, including the risks arising from Ireland’s elevated debt levels.

Eliminating these "chimneys" - which at their peak were €60 billion over the period 2018 and 2020 - is an important step in further stabilising Ireland's borrowing patterns and making our long-term maturity profile smoother. Taking a medium term view, once the last of the chimneys is eliminated in 2020 the annual redemption profile will be as smooth as any time in our history.

We will be in this position because Ireland has taken advantage of the low interest rate environment to issue long-term debt, locking in the benefits of this low-cost borrowing for years to come.

Since 2015, we've issued €67 billion of long-term debt with an average maturity of over 14 years. This means that over 50% of Ireland's total outstanding marketable debt has been refinanced in the past four years.

This strategy is delivering substantial savings for the State and we estimate that our annual debt servicing cost will fall to €5 billion this year and is likely to fall to €4.5 billion in 2020, representing an annual saving of €3 billion on peak levels seen in 2014.

As part of our issuance, in 2018, Ireland was one of the first European sovereigns to issue a Green Bond. This was a landmark transaction that raised €3 billion, but, just as importantly, helps diversify and broaden our investor base and further mitigate future funding risks.

However, our debt remains high at over €200 billion, which leaves Ireland exposed to the risk of increased debt service costs in the medium term. It is worth pointing out that this year's interest bill will still be three times the annual average over the period from 2003 to 2008 despite the cost of borrowing being four times lower.

It is also worth pointing out that Ireland is unusual in an international context in that we rely on overseas investors for approximately 90% of our funding – significantly more than other countries.

These investors are conscious of potential risks to Ireland's ability to borrow that include Brexit, international tax changes, and fiscal challenges in Italy".

Comment by the Minister for Finance, Paschal Donohoe TD:

"I welcome today's publication of the NTMA's Annual Report and Accounts for 2018. I commend Conor O'Kelly and his team for the NTMA's performance in 2018 across all its business units and encourage them to continue striving to deliver at the same level, both in 2019 and into the future."

NTMA business units – key points:

- The **Ireland Strategic Investment Fund (ISIF)** had a strong start to 2019 recouping in full the investment losses from global markets that were recorded in 2018. At current market valuations, the Fund has now generated investment gains of €850 million to date since inception in December 2014.

- The Fund has developed and is implementing a revised strategy to align with the Priority Themes identified in the Minister's recent ISIF review – Regional Development, Housing, Indigenous Businesses, Climate Change and investment in sectors adversely affected by Brexit.

- The Fund expects to reduce its pace of capital deployment during 2019, reflecting two factors: its more focused investment strategy and the growing availability of capital from private sector sources for commercial investments in Ireland right now. The Fund's strategy is to continuously adapt its investments to economic conditions to ensure that its capital goes where it is most additional.

- The Fund will continue to reduce its exposure to global markets following Government measures to reallocate a part of ISIF's capital to other initiatives in the Irish economy, including through funding Home Building Finance Ireland and the Land Development Agency and providing capital for the Government's proposed "Rainy Day Fund" to enhance the State's contingency planning.

- The Fund committed €773 million across 21 investments during 2018, bringing ISIF's total investment commitment to date to Irish projects and businesses to €4.4 billion.

- The Fund continued to act as a catalyst for attracting private sector co-investment into Ireland, with the total committed to these projects and businesses growing to €12.5 billion to date since inception (inclusive of ISIF's €4.4 billion). This means ISIF continues to exceed its original co-investment target of €1 for every euro invested by ISIF, generating a current run rate of €1.80 co-investment for every euro invested.

- The **National Development Finance Agency** is supporting delivery of PPP Projects in the education, health, justice and housing sectors with an estimated total capital value of €1.7 billion. It is providing financial advice on PPPs and other infrastructure projects with an estimated total capital value of €6 billion., including the delivery of 1,500 new social housing units. During 2018 it managed the delivery of PPP Schools Bundle 5 while protecting the State and taxpayer from financial risk arising from the liquidation of key market counterparties.

- **NewERA** continues to serve Government departments and State authorities by providing corporate finance and shareholder advisory services to Ministers in respect of commercial enterprises within their remit. The number of assignments on which NewERA has provided analysis and/or recommendations rose to 132 during 2018.

- The **State Claims Agency** was managing over 10,000 active claims against State bodies, with an estimated outstanding liability of €3.15 billion, at the end of 2018. Its remit extended to 146 State bodies or authorities at the end of 2018. The SCA's role includes managing complex and sensitive cases taken against State bodies by individuals and their families and requires the SCA to act in a professional, ethical and compassionate manner in discharging its statutory responsibilities.

The NTMA's role in managing the alleged **Apple** State Aid recovery process is a complex, high-value project that carries significant financial and operational risks. It is critical work on behalf of the State and the NTMA has been in a position to perform this role using its existing skill base and infrastructure, avoiding substantial costs that would have arisen for the State if alternative avenues involving the private sector had been used.

Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

NTMA FINANCIAL STATEMENTS 2018

PRESENTATION TO THE COMMITTEE OF PUBLIC ACCOUNTS

Chief Executive: Conor O'Kelly

4 July 2019

Midyear Business Update & Annual Report 2018

ISIF
Ireland Strategic Investment Fund

Funding and Debt Management

NDFA
National Development Finance Agency

NewERA

SCA
State Claims Agency

The ISIF had a strong start to 2019 recouping in full the investment losses that were recorded in 2018 following exceptional volatility in the global equity markets

Midyear Business Update & Annual Report 2018

ISIF
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Elimination of debt "chimneys" in 2018, 2019 and 2020 an important step in stabilising Ireland's long-term borrowing requirements and returning to a normalised maturity profile

Midyear Business Update & Annual Report 2018

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Managed the delivery of PPP Schools Bundle 5 while protecting the State – PPP model stood up to the test of Carillion fallout

Midyear Business Update & Annual Report 2018

ISIF
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Continues to provide a dedicated centre of corporate finance expertise for the State - number of assignments rose to 132 during 2018

Midyear Business Update & Annual Report 2018

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Ireland Apple Escrow Fund

- Over the course of Q2 & Q3 2018, Apple paid the Recovery Amount of €14.285bn into escrow.

- The Fund is invested in **low risk, highly rated euro dominated fixed income securities** (predominately short to medium-term sovereign and quasi-sovereign bonds).

- The investment objective is to **preserve capital to the greatest extent** possible in light of prevailing market conditions.

Ireland Strategic Investment Fund

Challenging market conditions in 2018 but ISIF performance resilient

Performance Summary

€850m

Added to the total value of the Fund

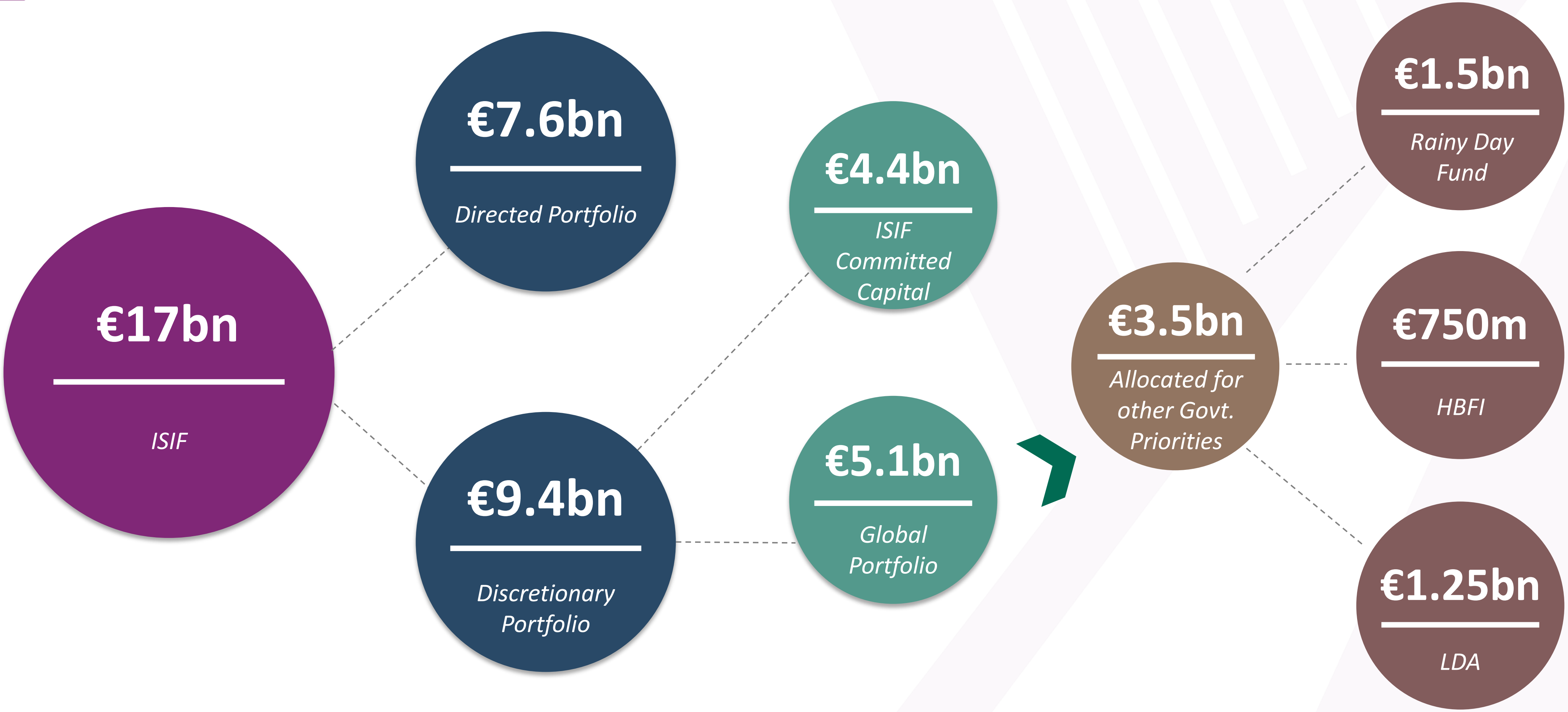
+2.3%

Annualised return since inception

-1.0%

2018

ISIF – Projected flow of funds



ISIFs capital unlocks a further €8bn of capital

Leveraging capital for maximum Economic Impact from ISIF resources

ISIF Committed Capital

€4.4bn

Co-Investors

€8.1bn

=

ISIF + Co-Investors

€12.5bn

Majority of co-investment is international capital

Examples of 2018 Investment Highlights

Scaling existing investments

MilkFlex

AMCS

China Ireland Growth Technology Fund II

New investments

ENCAVIS

VECTRA

Investment Strategy - 5 Priority Themes

Pace of deployment to reduce

Funding and Debt Management

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National Treasury Management Agency

NTMA as the State's debt manager

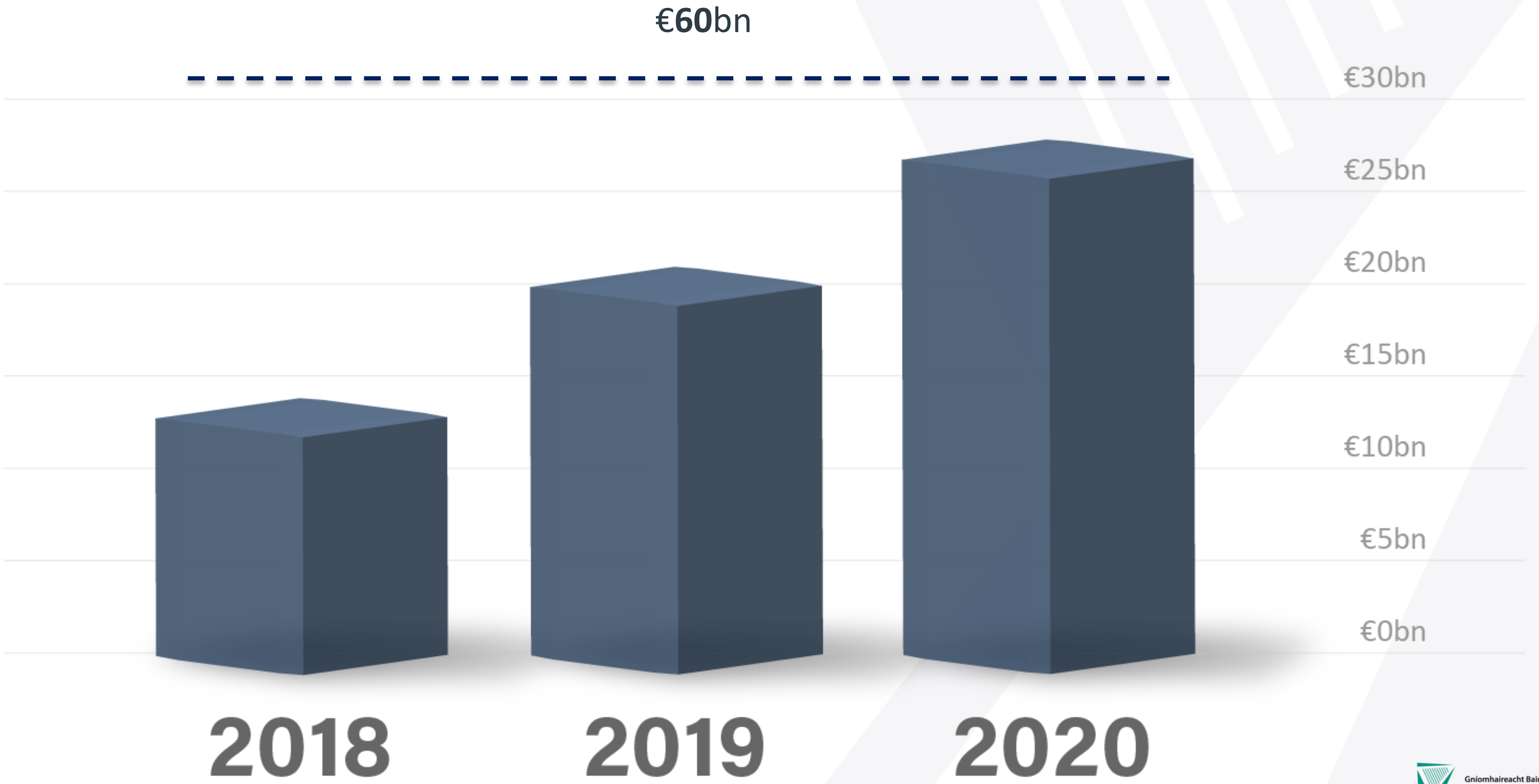
POSITIVES

1. **Chimneys** – heavy lifting complete
2. **Profile Smoothening**
3. **Interest Savings** – interest bill continues to fall
4. **Diversification** – green and inflation

CHALLENGES

1. **Debt €200bn** – still elevated
2. **Paid €33bn in interest** – over the past 5 years
3. **Rely on Foreign Capital** – 90% of borrowings
4. **External Risks** – Brexit, corporate tax changes and Italy

2018-2020 Refinancing: €60bn → €16bn



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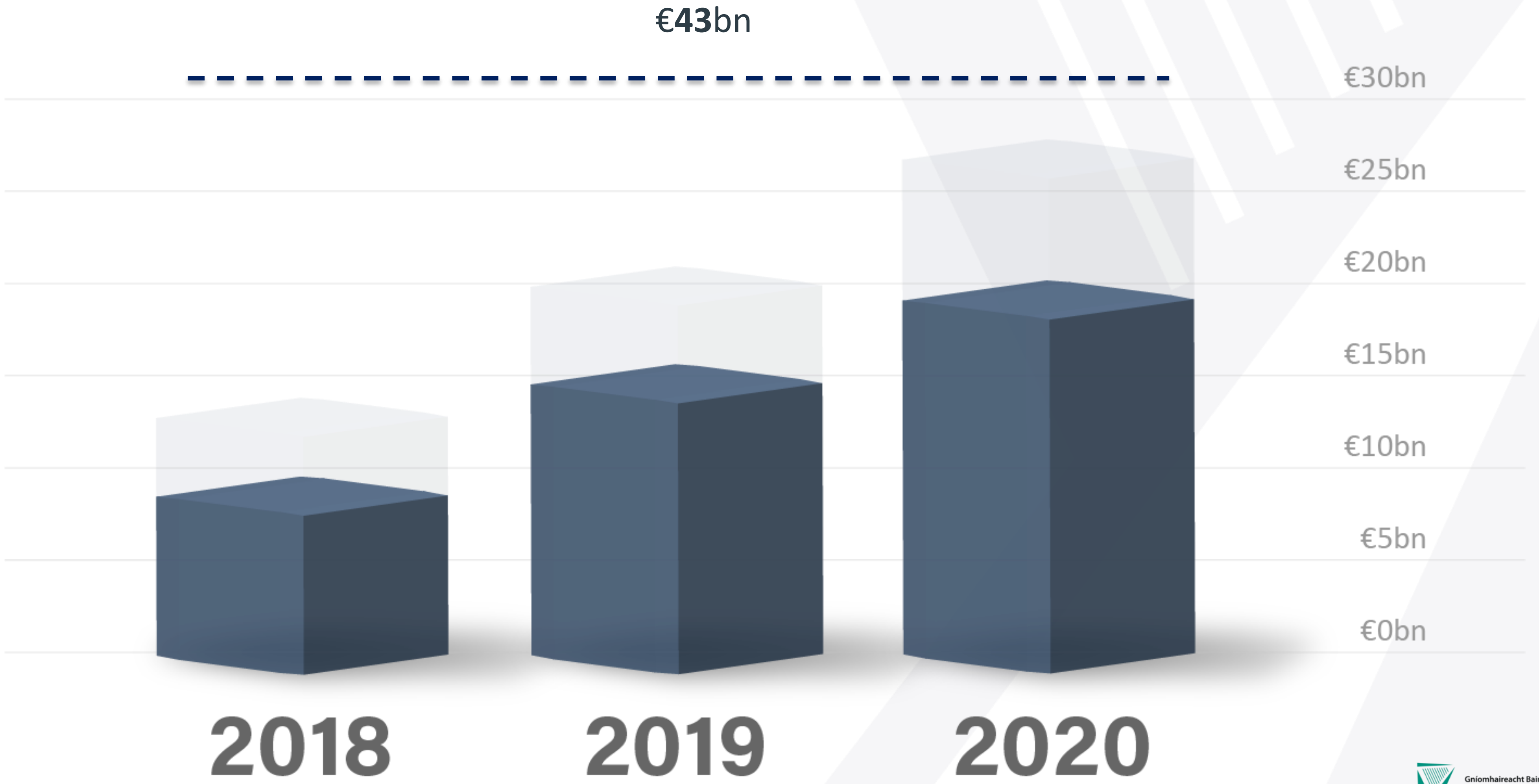

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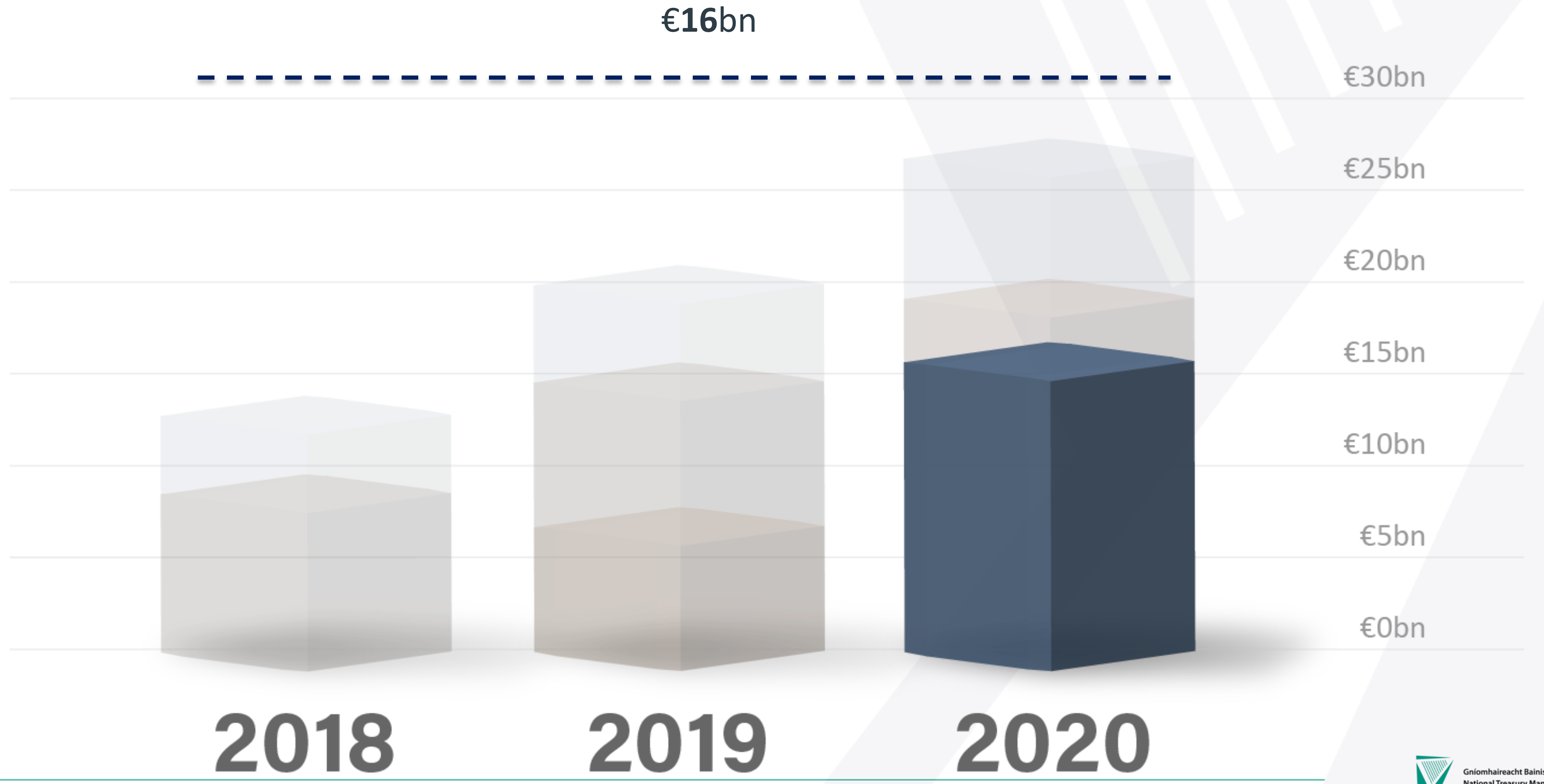

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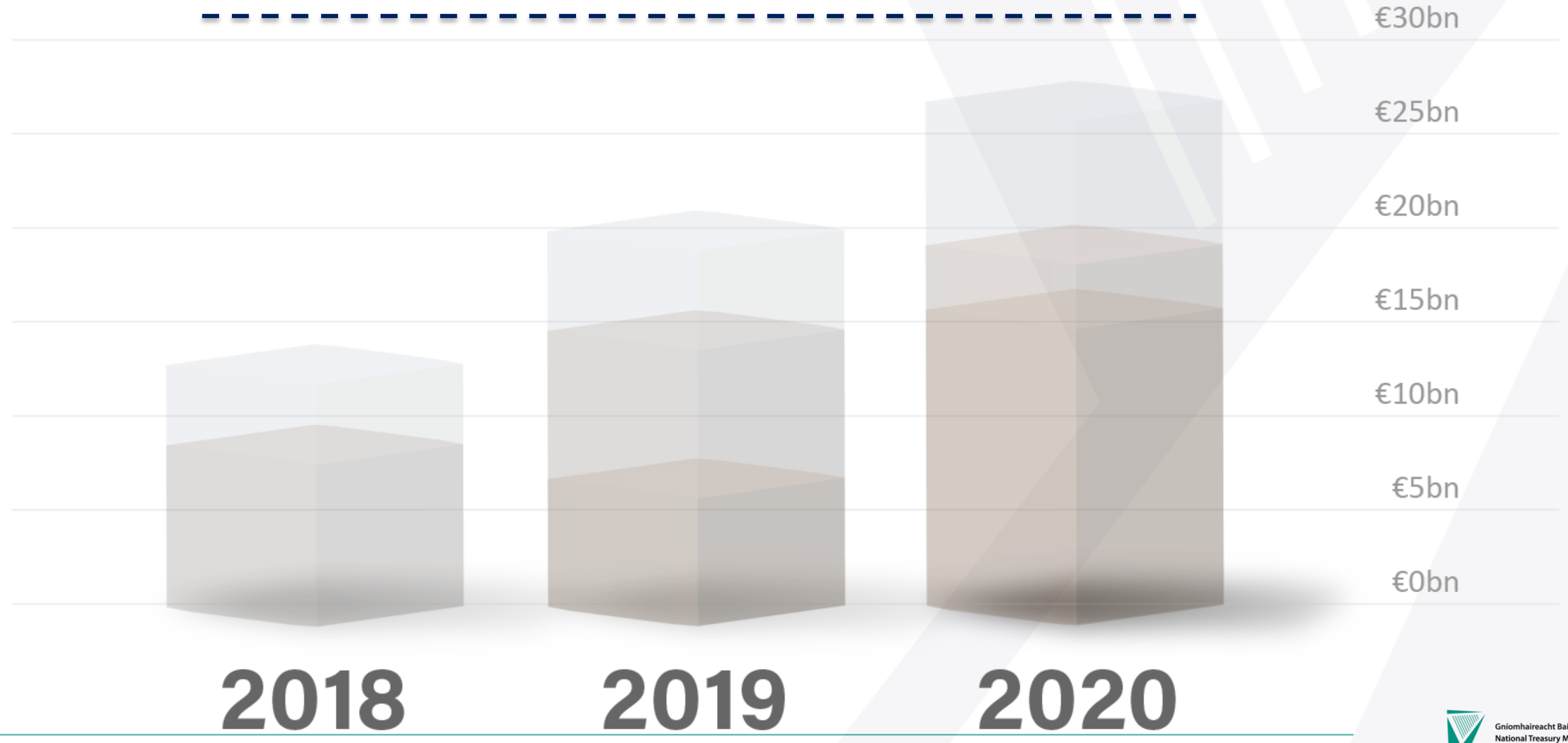
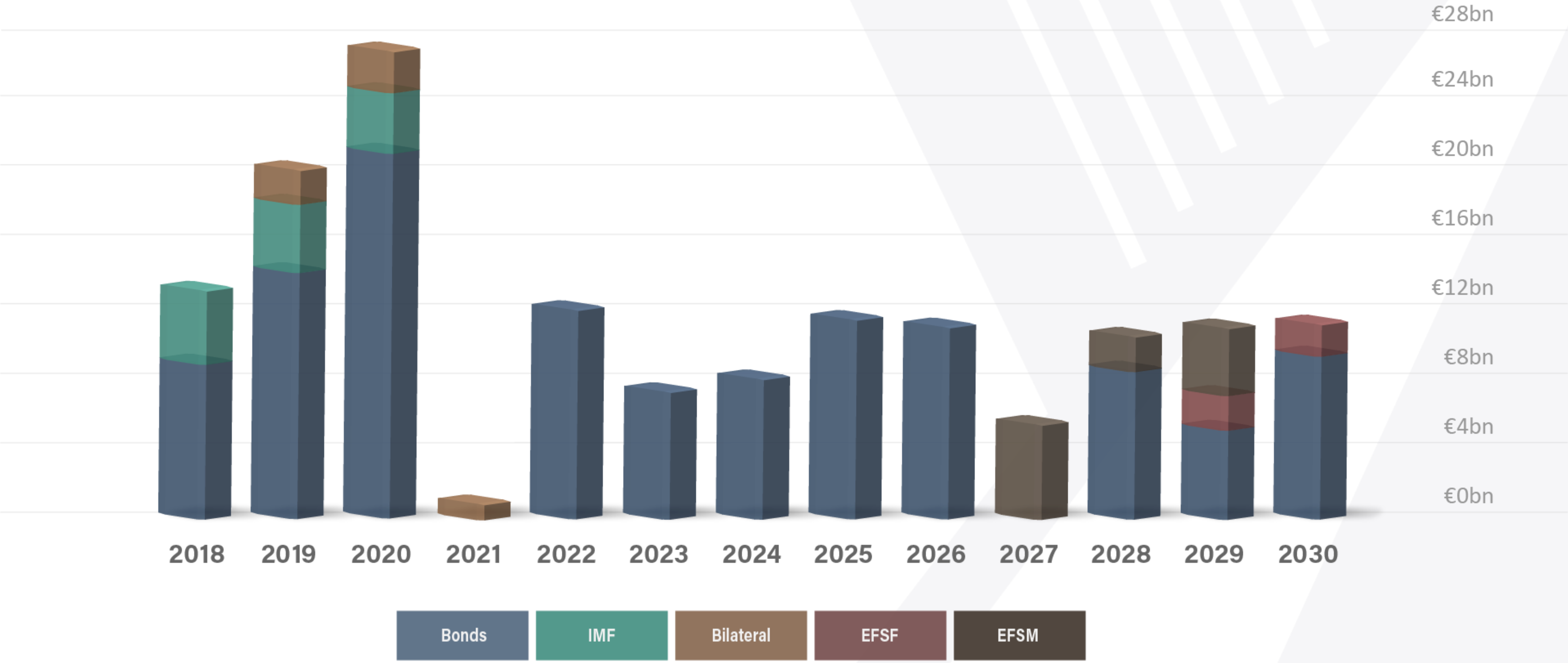


Issued €67bn since 2015 | 50% marketable debt
Maturity profile has been de-risked



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National Treasury Management Agency

Interest Bill likely to fall to €4.5bn in 2020 – resulting in €3bn savings vs. 2014 peak

Diversification – increases the pool of investors

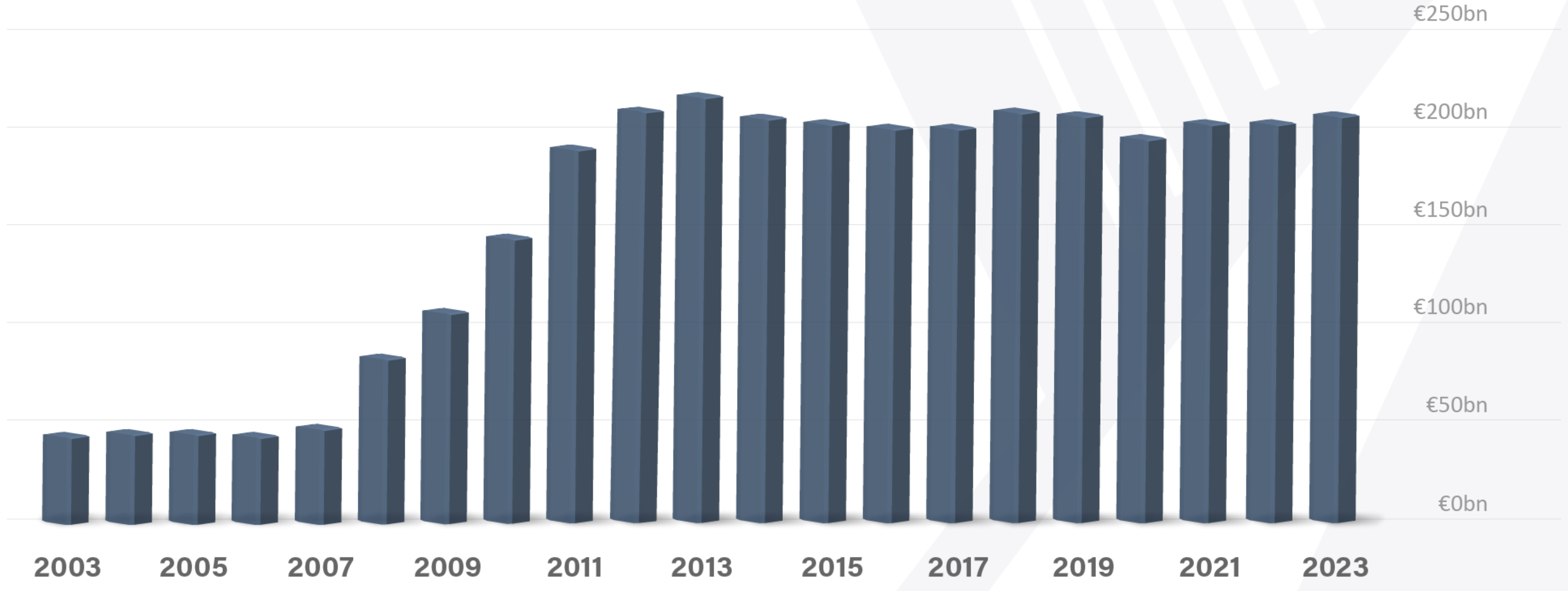
Green

- €3bn @ 1.4% in Oct 2018
- Matures in 2031
- Allocation report published 25 June
- An important step in achieving greater diversification of issuance and investor base

Inflation

- Private Placements
- €0.6bn @ 0.25%; matures in 2040
- €0.3bn @ -0.05%; matures in 2045
- Eurostat (HICP) for Ireland, excl. tobacco

Gross Debt largely unchanged since 2011
- And expected to remain at €200bn for foreseeable future



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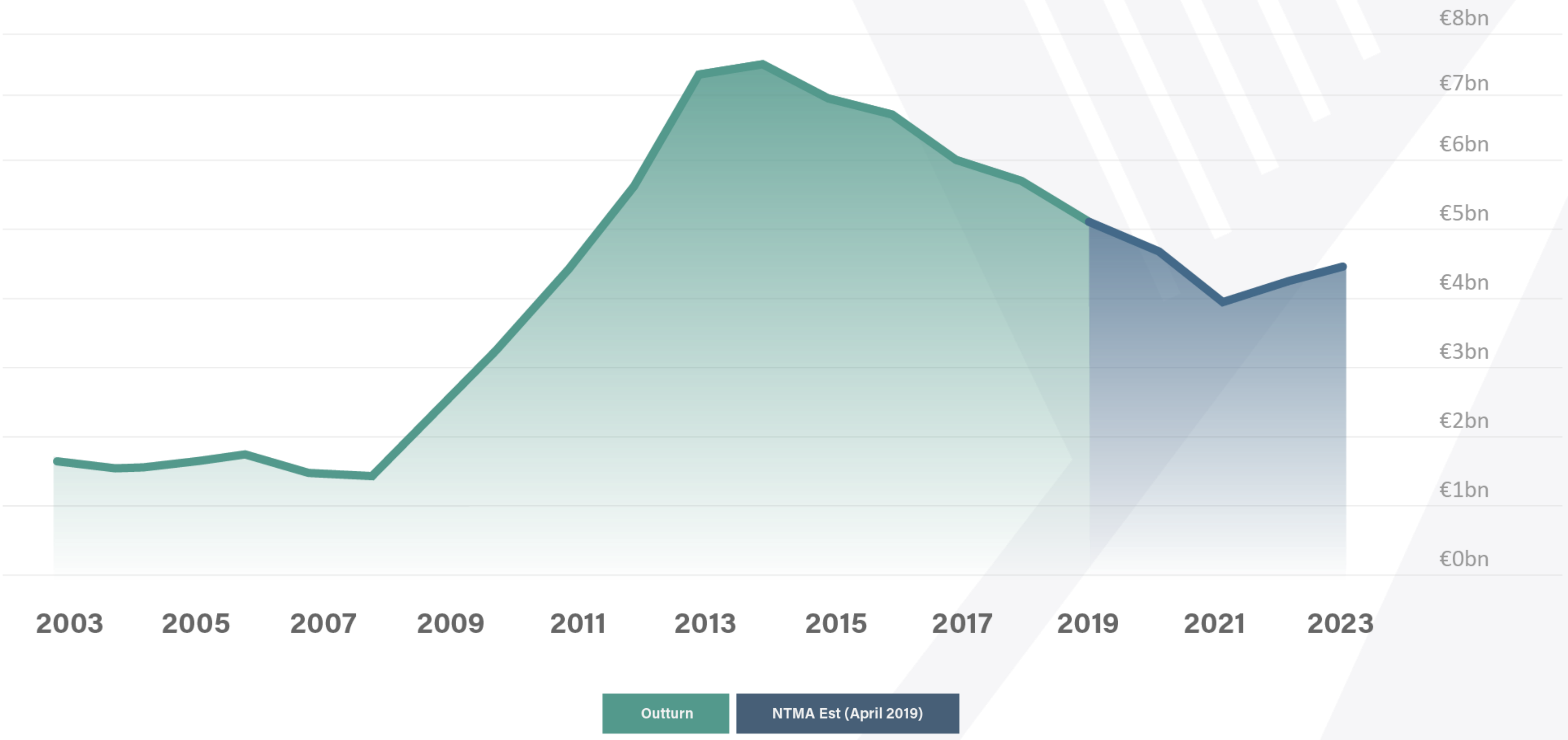
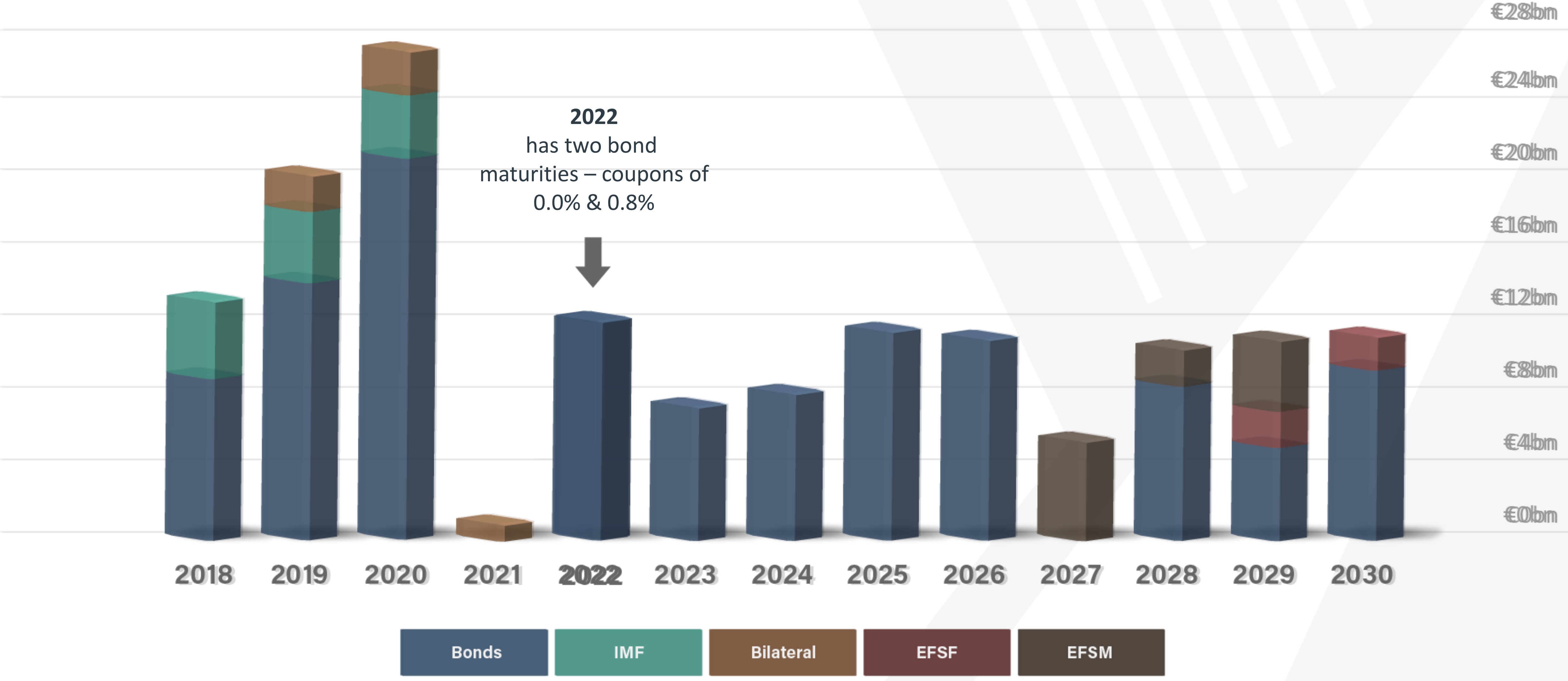
Despite progress, debt & interest remain elevated
- League table of peers

2018	Debt/GDP	Debt/Revenue	Interest/Revenue
Netherlands	52%	120%	2%
Finland	59%	112%	2%
Germany	61%	134%	2%
Austria	74%	152%	3%
Spain	97%	250%	6%
France	98%	184%	3%
Belgium	102%	197%	4%
Ireland (Debt/GNI*)	**107%**	**251%**	**6%**
Portugal	121%	279%	8%
Italy	132%	285%	8%
EU	**80%**	**178%**	**4%**

Interest bill now far > than in mid-2000s despite lower rates (1% vs. 4%) - Reflects scale of increase in debt



Very likely refinancing costs going to rise in the future



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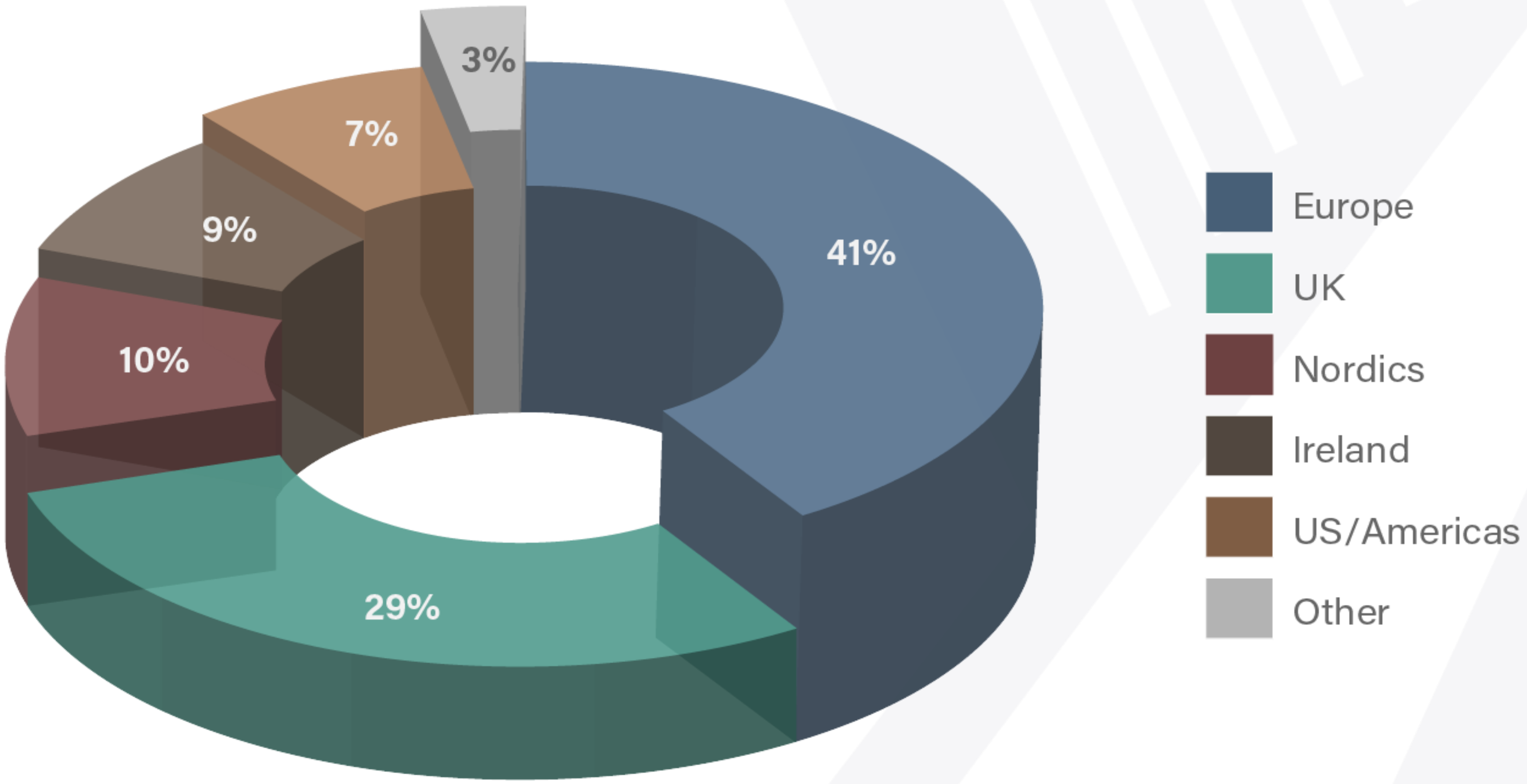
Foreign capital = 90% borrowings
- Geographic breakdown; average over last 8 syndications



External Risks – investor concerns

1. Brexit
2. Corporate Tax changes
3. Italy

Irish spreads vs. selected EU countries – no BREXIT impact (yet)
- Traded in relatively narrow 40bps range over GER past 2 years

Spreads vs. Germany
- Relative stability of Ireland vs. volatility of Italy

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