Frank O'Connor, NTMA Director of Funding and Debt Management

Opening remarks to the Oireachtas Special Committee on Covid-19 Response

7 July 2020

Chair, Deputies and Senators,

Thank you for inviting me here today.

The State is in a strong position to meet its borrowing requirements. The most important fundamentals for investors, in deciding whether to lend to Ireland and on what terms, have not changed: these are the country's growth potential and its fiscal policy over the long run. In addition, there are a number of other factors that are supporting our ability to borrow.

The first of these is the turnaround in the public finances. Ireland has run a primary surplus – that is excluding interest costs – each year since 2014 and an overall surplus for each of the last two years. This has contributed to a steady pattern of improvements in our credit ratings in recent years.

This is best illustrated by the Standard and Poor's upgrade from A plus to double A minus last November, returning Ireland to the double A category for the first time since entering the Troika programme in 2010.

In doing so, this put Ireland closer to core Eurozone issuers including France and Belgium, both double A.

To put that in context, just five years ago Ireland was rated sub-investment grade by Moodys (7 notches lower on the rating scale).

That trend of improving credit ratings has increased the pool of potential buyers of Irish Government bonds. This, in turn, is positive for demand and further enhances our ability to diversify our investor base. We have done this in a number of ways including being one of the first European sovereigns to issue Green bonds.

The second supportive factor is the extent to which Ireland's debt position has improved over the past 5 years.

Irelands stock of debt is high, a legacy of the financial crisis. However our debt profile and the cost of servicing the debt is much more favourable than the recent past.

By way of example, five years ago the average cost of our debt was close to 4%, but today it is less than 2%. Five years ago our annual interest bill was over €7.5 billion, but today it is close to €4 billion; a saving of €3.5 billion annually. That saving gives options to policy makers that wouldn't have otherwise existed.

Five years ago we were facing into a period of very significant debt refinancing, what we called a series of debt "chimneys", with a total refinancing requirement of €70 billion over the four year period 2017 to 2020. These chimneys are gone.

By contrast, having used the favourable interest rate environment to smoothen and lengthen our maturity profile, we have much lower refinancing due in the next four years. Total maturities over that period - 2021 to 2024 - will be just over €27 billion, a little over a third of the requirement from 2017 to 2020.

Next year, there are no bond maturities, as we had previously taken a strategic decision to leave 2021 as a so-called "gap" year. With no borrowing required for the purposes of refinancing this increases our flexibility and gives us more options.

All told, we have a smooth maturity profile ahead and at over 10 years we have one of the longest average debt maturities in Europe.

Our stock of debt remains high, but it presents a much lower risk to our economy than was the case in recent years.

The third supportive factor is the current low interest rate environment and the accommodative monetary policy stance being taken by the European Central Bank (ECB).

The ECB has increased the size of its bond buying programme to well over €1 trillion this year. With the introduction of its Pandemic Emergency Purchase Programme (PEPP), the ECB waived its previously self-imposed 33% limit on the purchase of any Euro Area (EA) member's stock of Government bonds.

This and other policy actions increase the probability that borrowing rates for sovereigns in the EA will remain low for the foreseeable future.

What gives us additional confidence is the fact that, while our absolute position is strong, our relative position has improved enormously. Unlike the last crisis, when Ireland was perceived as a peripheral credit by lenders, in today's environment investors consider Ireland as a semi-core borrower, reflecting our credit ratings relative to other Eurozone issuers.

Notwithstanding the support that low interest rates provide, we have to remain alert to the risks in the medium to long term posed by possible rising interest rates.

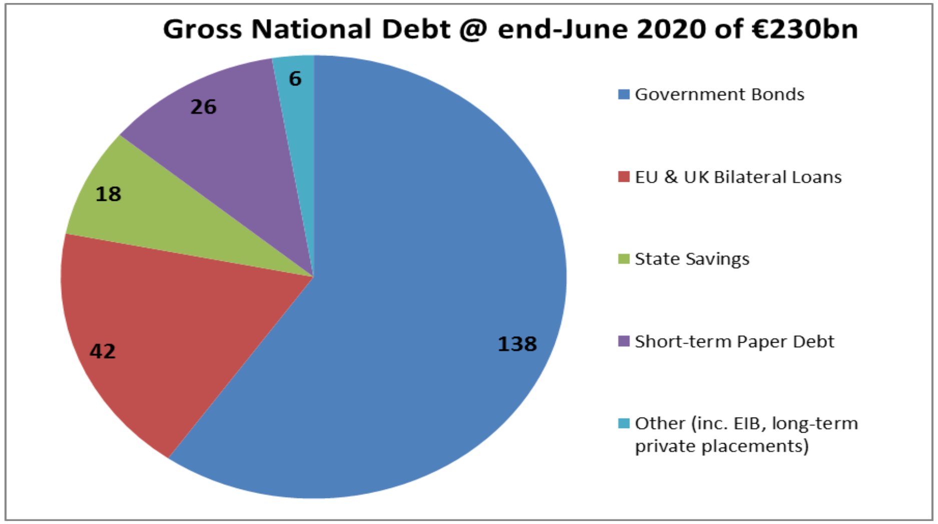
As the NTMA Chief Executive, Conor O'Kelly, said at the publication of our Annual Report last month, current borrowing conditions are exceptionally favourable but these conditions are unlikely to last forever; and debt taken on at near-zero rates today will eventually need to be refinanced in the future and potentially at a higher cost.

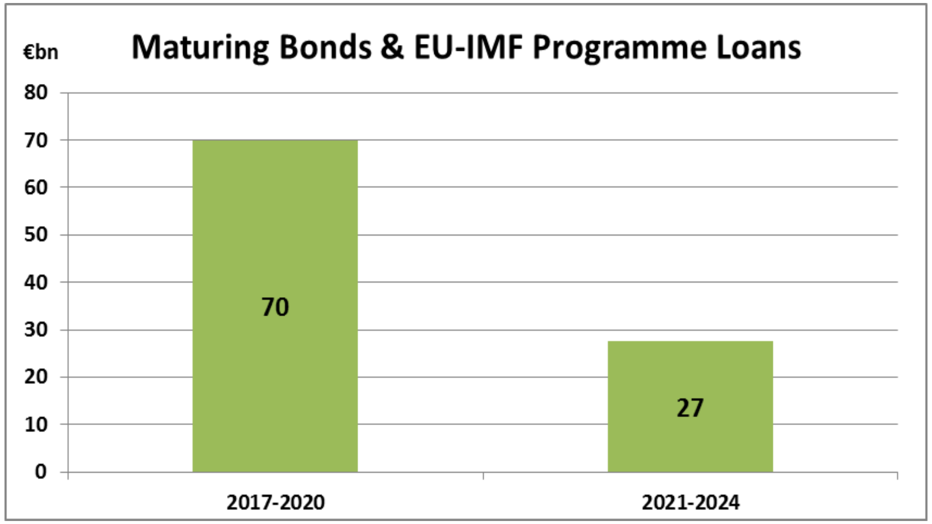
Covid-19 is undoubtedly today's urgent priority, but the higher debt burden that is necessary to deal with this challenge brings risks. We are comfortable with the outlook for the next four years or so but we are mindful of the 10 years after that and the need to plan for that period well in advance.

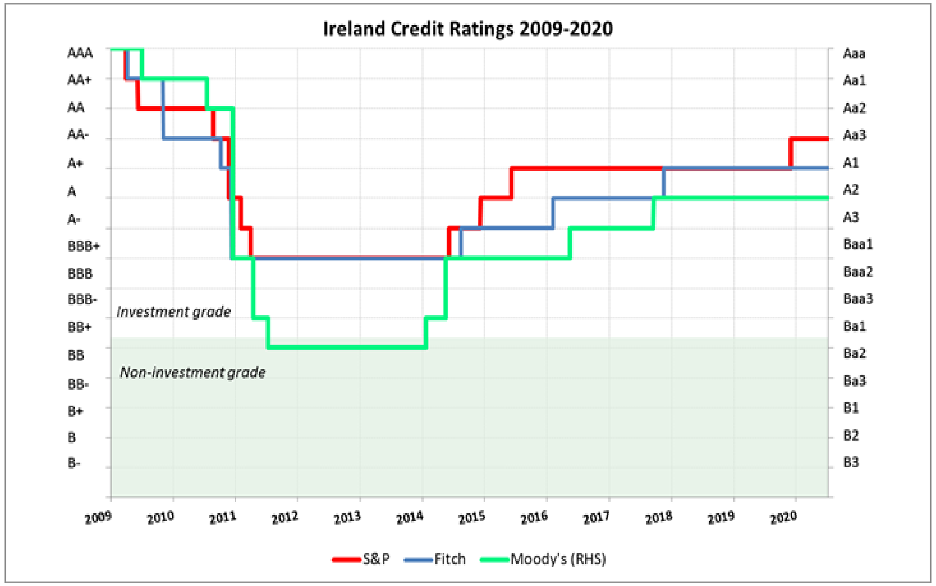
I will conclude by updating the Committee on how the NTMA has stepped up borrowing activity in recent months in response to the change to the Exchequer's budgetary position. In April, we told the market that we were increasing our guidance for our expected bond issuance during 2020 from a range of €10-€14 billion to a range of €20-€24 billion.

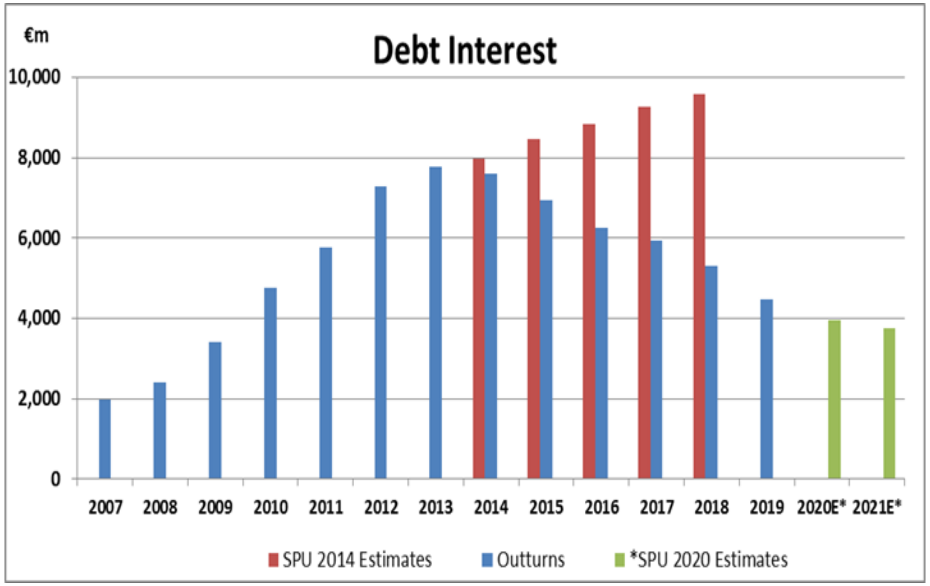
Following a successful €6 billion syndicated transaction last month we have now raised €18.5 billion from the bond markets this year. This represents 84% of the mid-point of the €20-€24 billion full-year range. It gives us significant flexibility and leaves us in a healthy position to meet our remaining requirements over the second half of 2020.

Chairman, I have included four graphs in the Opening Statement that we circulated to the Committee to illustrate some of these points. That concludes my opening remarks and I would welcome your questions.


Gross National Debt @ end-June 2020 of €230bn
6
26
18
42
138
Government Bonds
EU & UK Bilateral Loans
State Savings
Short-term Paper Debt
Other (inc. EIB, long-term private placements)


€bn
Maturing Bonds & EU-IMF Programme Loans
80
70
60
50
40
30
20
10
0
70
27
2017-2020
2021-2024


Ireland Credit Ratings 2009-2020
AAA
AA+
AA
AA-
A+
A
A-
BBB+
BBB
BBB-
BB+
BB
BB-
B+
B
B-
Aaa
Aa1
Aa2
Aa3
A1
A2
A3
Baa1
Baa2
Baa3
Ba1
Ba2
Ba3
B1
B2
B3
Investment grade
Non-investment grade
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
S&P
Fitch
Moody's (RHS)


€m
Debt Interest
10,000
8,000
6,000
4,000
2,000
0
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020E*
2021E*
SPU 2014 Estimates
Outturns
*SPU 2020 Estimates