

Nama, its role in managing the financial crisis and underpinning the conditions for economic recovery.

John FitzGerald, October 6th 2025

Executive Summary

The financial crisis that hit Ireland in 2008 caused huge economic and social damage, putting the State's finances under intolerable pressure. Early in the crisis, in September 2009, the State had to intervene to guarantee the assets of the domestic banking system. Resolving the banking crisis and returning the State's finances to a sustainable footing took huge efforts over the subsequent 4 years.

From its establishment at the end of 2009, NAMA played a key role in resolving the banking crisis. Its task, set out in legislation, was to take over the bulk of the distressed assets of the Irish banks and, in disposing of these assets, to realise the maximum possible value for the State, minimising the ultimate cost of the banking crisis.

Fifteen years after its establishment, as NAMA completes its allotted task, this paper looks at the original decision to establish NAMA, its intended role in supporting an economic recovery, and how it has performed this task over its life.

When NAMA acquired the assets from the banks in 2010 and 2011, the steep discount it applied to them made clear the huge financing requirement for the State to make the banks secure. The losses crystallised in the transfer of assets to NAMA were losses that the banks had already incurred. The size of the banks' losses necessitated a huge capital injection by the State. In turn, this required a "bail-out" by the EU and the IMF at the end of 2010.

In assessing NAMA's role in helping to resolve the crisis the first important question to be answered is:

- **Did NAMA pay too little or too much for the distressed assets of the Irish banking system?**

If it had turned out that the distressed assets purchased by NAMA had been more valuable than the price paid by NAMA, this could eventually have resulted in a large profit for NAMA. However, the counterpart to such "excessive" profits would have been that the capital injection by the State into the banks would have proved to be unnecessarily large, and the "bail-out" possibly unnecessary.

On the other hand, if NAMA had overvalued the distressed assets it acquired, it would have made a significant loss on disposing of the assets. As the funding of NAMA was government guaranteed, NAMA's own losses would have come back to haunt the State, prolonging the crisis, possibly preventing Ireland's re-entry into the bond markets from 2014. At the height of the financial crisis an overvaluation would have lacked credibility.

As NAMA winds down after fifteen years, it is clear that the original valuation of the distressed assets, in terms of their long-run value was reasonable, and that the eventual profit of over €5 billion made by NAMA is appropriate on a risk return basis.

Even marginal additional adverse shocks to the economy over that period could have wiped out that profit.

The second important question to be answered in this paper is:

- **Did NAMA manage the disposal of these assets in line with its legal remit and deliver value for the State?**

One of the benefits of NAMA was that it had specialist staff with relevant expertise. It created an effective centralised platform to manage 800 debtor connections and the 12,000 loans (secured on 60,000 properties) that it acquired. The banks did not have the expertise needed to deal with this huge portfolio of problem assets, especially where many of the debtors had loans from multiple banks. In addition, NAMA's funding model meant that it could borrow indirectly from the ECB at a low interest rate, minimising the long-term costs for the State.

In the early years, the government was under heavy pressure from the Troika to persuade NAMA to rapidly sell its assets. The government, in resisting these pressures, and NAMA, in sticking to its preferred disposal strategy and taking adequate time to realise the full value of the assets, made the right decision. It did not make sense for NAMA to begin a substantial programme of assets sales in Ireland in 2011- 2012 while the economy was in recession. The rapid recovery in the economy from 2013 allowed NAMA to obtain what it had judged to be the long-term value of the assets it acquired.

The conclusion of this paper is that, having purchased the distressed assets, NAMA's strategy for managing, developing and disposing of these assets was broadly successful. While the disposal of the assets took somewhat longer than originally anticipated, the revised time scale allowed NAMA to maximise the full benefit for the State of the assets, helping offset some of the costs of the financial crisis. This approach aligned with its primary legal remit, to maximise the return on the assets for the benefit of Irish taxpayers.

As NAMA comes to the end of its mission its financial performance is clear. Over its lifetime it will have paid around €5.5 billion to the government through its profits and through the corporation tax on those profits. This profit for the State seems appropriate, and the original valuation of the loans, in terms of their long-run value, also seems to have been reasonable in the light of what was known at the time.

This assessment of NAMA as a success story is shared by a number of studies comparing NAMA's performance with that of similar agencies in other countries.

1. Introduction

The financial crisis that hit Ireland in 2008 caused huge economic and social damage, putting the State's finances under intolerable pressure, necessitating a "bail-out" by Ireland's EU partners and the IMF. It took five years and huge pain to resolve the problems that manifested themselves during the crisis. However, necessary major changes were made to the economy so that from 2013 Ireland returned to a satisfactory growth path, just five years after the onset of the crisis.

The essential reforms involved dramatic cuts in public expenditure and an increase in taxation to restore balance to the public finances. The interventions by the State to stabilise the banking system and deal with its huge losses involved a range of different policy measures. Along with the other institutional reforms, the establishment of NAMA in 2009 was an essential ingredient in the successful response to the crisis. It played a crucial role in resolving the banking crisis by ensuring that the State, which had taken responsibility for the bulk of the liabilities of the Irish banks, would eventually realise the maximum possible value from the banks' distressed assets, minimising the long-term cost to the State.

Fifteen years after its establishment, as NAMA completes its allotted task, this paper looks at the original decision to establish NAMA, its intended role in supporting an economic recovery, and how it has performed this task over its life, maximising the value of the assets it had acquired when it was established.

As set out in the 2009 legislation establishing NAMA, its primary purpose was

“to contribute to the achievement of the purposes of the Act by acquiring eligible bank assets from participating institutions, dealing with the assets acquired by it expeditiously and protecting or enhancing their long-term economic value and, in so far as possible, NAMA will, as expeditiously as possible, obtain the best achievable financial return for the State.”

When NAMA acquired the assets from the banks in 2010 and 2011, the steep discount it applied to them made clear the huge financing requirement for the State to make the banks secure. The losses crystallised in the transfer of assets to NAMA were losses that the banks had already incurred, but which were not reflected in the banks' balance sheets. In turn, the size of the injection needed from the State to recapitalise the banks precipitated the bail-out of the State by the EU and the IMF at the end of 2010.

In assessing NAMA's role in helping to resolve the crisis the first important question to be answered in this paper is:

- **Did NAMA pay too little or too much for the distressed assets of the Irish banking system?**

If it had turned out that distressed assets purchased by NAMA had been more valuable than the price paid by NAMA, this could eventually have resulted in a large profit for NAMA. However, the counterpart to such “excessive” profits would have been that the capital injection by the State into the banks would have proved to be unnecessarily large. In turn, if such a large capital injection into the banks had not been necessary, because the distressed assets were more valuable than NAMA actually estimated, the State might have avoided the need for a bail-out, with all its consequences.

On the other hand, if NAMA had overvalued the distressed assets it had acquired, it would have made a significant loss as it disposed of the assets. As the funding of NAMA was guaranteed, NAMA’s own losses would have come back to haunt the State, prolonging the crisis, and possibly preventing Ireland’s re-entry back into the bond markets from 2014. In any event, such an overvaluation of the banks’ distressed assets would not have been credible in 2011 as the State would have faced huge problems borrowing on financial markets.

NAMA has earned a return of around 12.9% per annum. It represents a reasonable return on the original investment in NAMA, with all the risks that that entailed. Even marginal additional adverse shocks to the economy over that period could have wiped out that profit.

As set out in this paper, as NAMA winds down after fifteen years, it is clear that the original valuation of the distressed assets in terms of their long-run value was reasonable and that the eventual profit made by NAMA was appropriate on a risk return basis.

The second important question to be answered in this paper is:

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The conclusion of this paper is that, **having purchased the distressed assets, NAMA’s strategy for managing, developing and disposing of these assets was broadly successful. While the disposal of the assets took somewhat longer than originally anticipated, the revised time scale allowed NAMA to adopt a more flexible approach and maximise the full benefit for the State of the assets, helping offset some of the costs of the financial crisis.** This approach was aligned with its primary legal remit to maximise return for the benefit of Irish taxpayers.

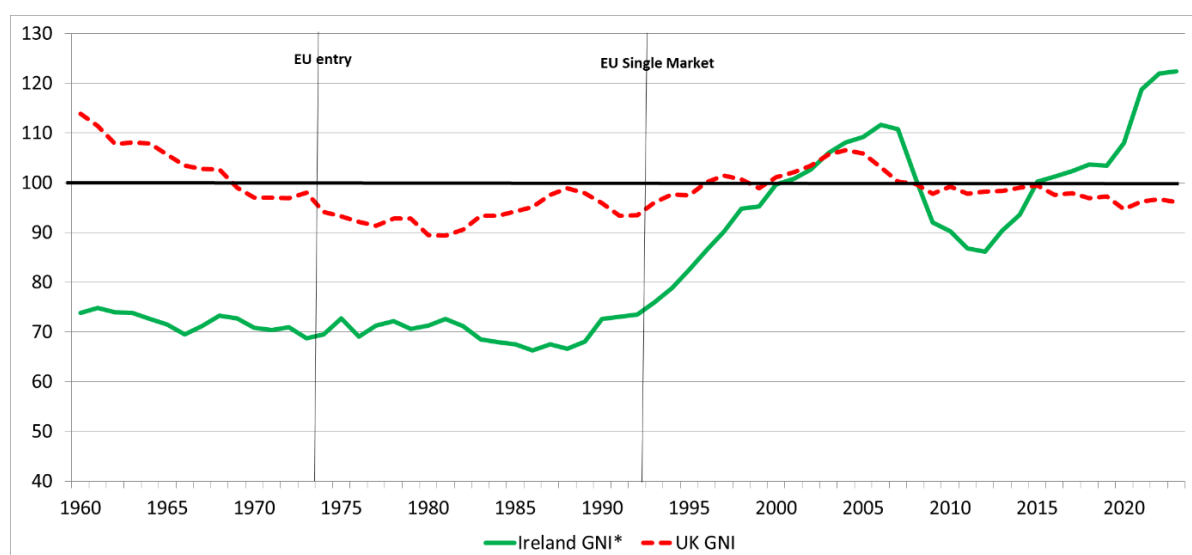
Section 2 sets out the economic backdrop to the financial crisis. The first years of the financial crisis, beginning in 2008 are described in Section 3, making the establishment of NAMA essential, which is then discussed in Section 4. The initial recovery in the economy from the crash, beginning in 2013, is analysed in Section 5, as it provides the context in which NAMA has undertaken its task. The work of NAMA, in maximising the

return for the State on the assets it acquired in 2010-11, is described in Section 6. As NAMA completes its work, Section 7 considers its performance in the context of the outcomes for other similar institutions elsewhere in Europe. Finally, conclusions are drawn in Section 8.

2. The Economic Backdrop

From the early 1990s until the financial crisis began in 2008, the Irish economy grew much more rapidly than its EU peers, narrowing the historic large gap in living standards compared to the EU, as shown in Figure 1. From around 2000 the Irish standard of living exceeded the average for the then EU. This convergence might have begun earlier but for the fiscal problems of the 1980s and a tightening of monetary policy following German unification in 1990.

Figure 1: Irish GNI* per head relative to EU 15 GDP

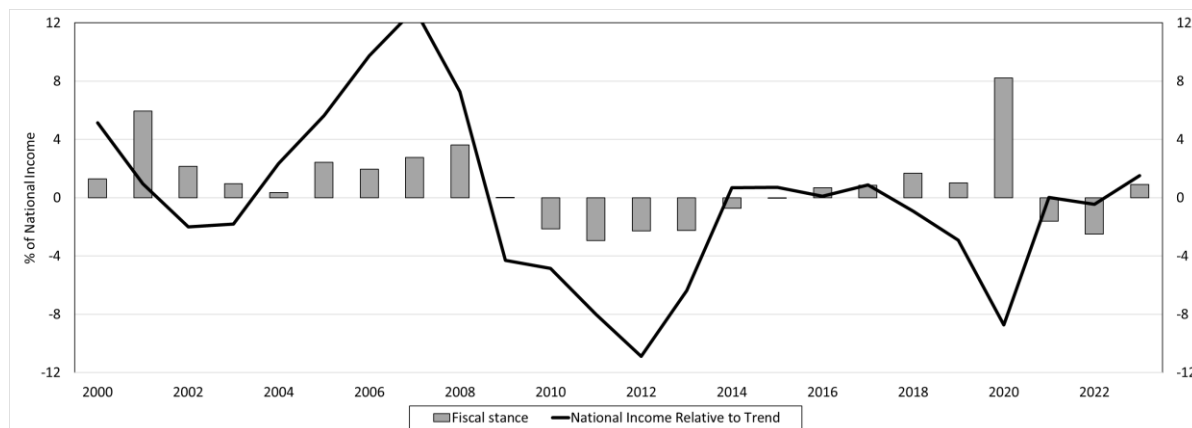


A key factor in this success, often characterised as the “Celtic Tiger” years, was the belated result of decades of investment in upgrading the educational system, which began with free secondary education in 1967 (FitzGerald, 2012, FitzGerald, 2019, and Keenan and McIndoe-Calder, 2025). The results of sustained investment in human capital take decades to mature. By the early 1990s the educational attainment of many of those then active in the labour market was much superior to the older (pre-1967) cohort who were retiring. This both increased productivity as well as participation in the labour force, especially by women. This was the single most important factor in driving the very rapid growth in the economy in the Celtic Tiger years.

The beneficial effects of this investment in human capital have continued to this day as the generation retiring has continually been replaced by a better educated younger cohort. It has been vital in attracting foreign investment in the computer equipment, pharmaceutical and IT sectors. In these sectors three quarters of the employees have third level qualifications.

However, as Keenan and McIndoe-Calder suggest, the effect of rising human capital on productivity will begin to slow from now on, as the educational attainment of even older labour market participants is already quite high.

Figure 2: Fiscal stance and actual national income relative to trend



Source: FitzGerald, 2025, “Seventy Years of Irish Fiscal Policy: 1954-2024”.

The rapid growth in the economy slowed temporarily in 2001 and 2002 due to problems in the world market for the products of the high tech sector. The impact of this slowdown was partly offset by stimulatory fiscal policy. Figure 2 shows that there was a very big fiscal stimulus in 2001, followed by a smaller stimulus in 2002 (an election year). This fiscal action was broadly appropriate, given the underlying strength of the economy and the temporary setback for the high tech sector.

Growth recovered strongly in 2003 and thereafter the economy was operating close to capacity. As a result, it would have been appropriate to have used fiscal policy to slow the economy, keeping demand growth in line with supply. However, as shown in Figure 2, the fiscal stance was strongly stimulatory between 2005 and 2007, at a time when national income was well above trend, indicating capacity problems.

Figure 3: Migration

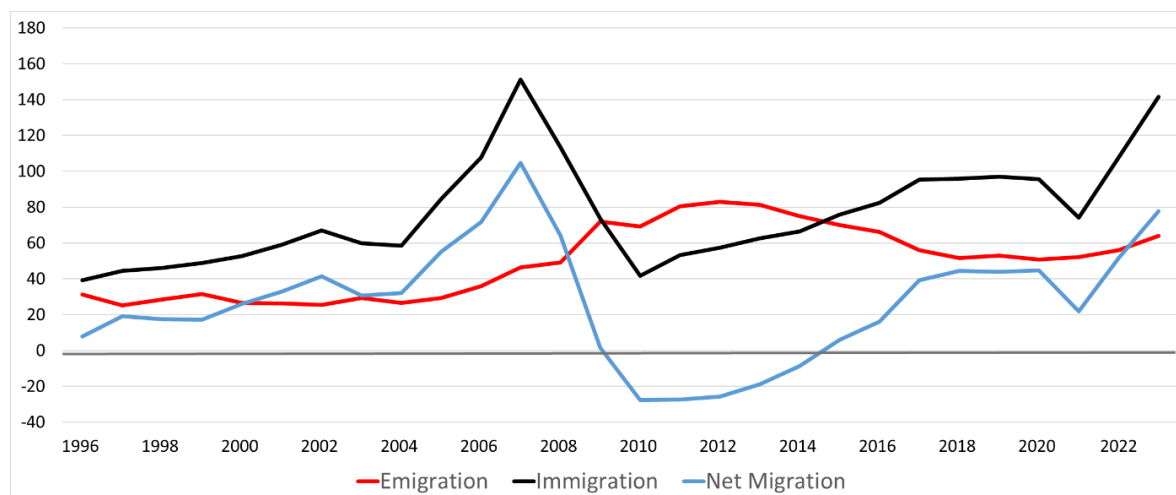
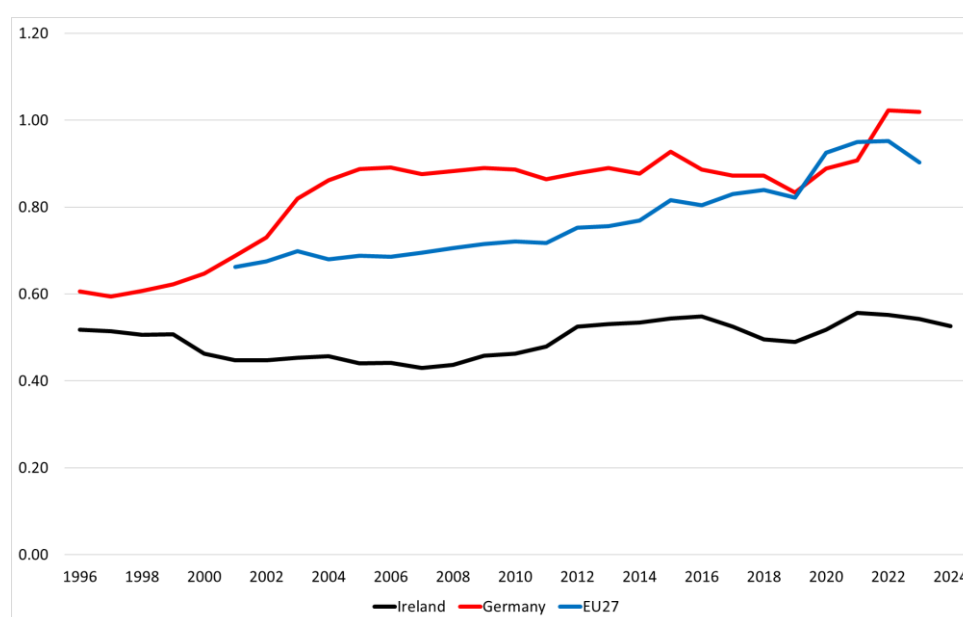
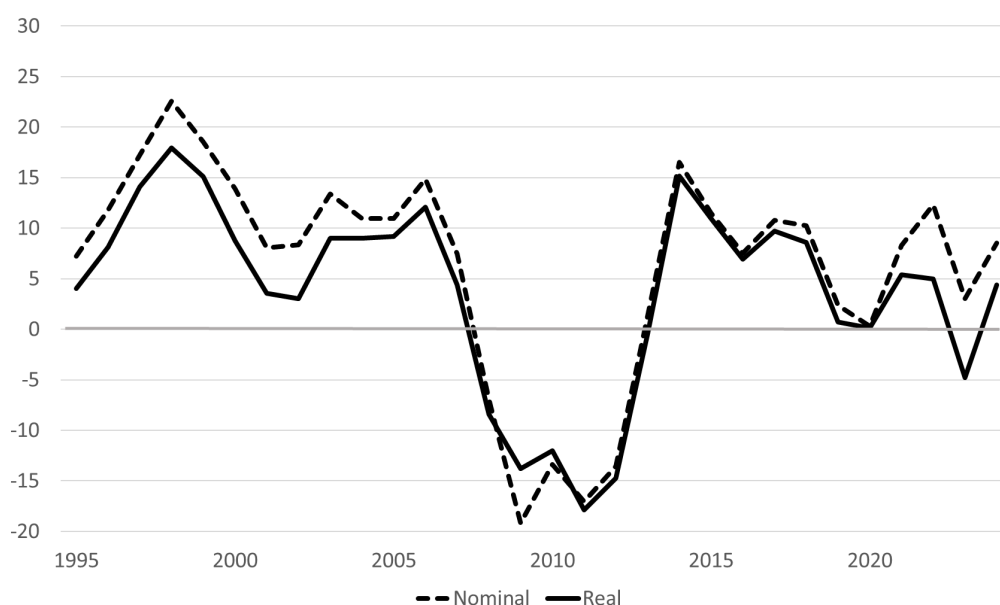


Figure 4: Ratio of Deaths to Population aged 30



The result was that the economy grew at almost 5% a year between 2003 and 2007. The rapid increase in employment that this produced could not be met from the natural increase in population. Instead, there was very substantial immigration to fill the increasing number of jobs (Figure 3). The immigration included a substantial number of returning emigrants, as well as growing numbers coming from the new member states, often working in the construction sector.

Figure 5: House Price, % change nominal and real



The population rose rapidly over the period to 2007, with the natural increase supplemented by substantial net immigration. In turn this put major pressure on the demand for housing. Figure 4 shows the ratio of deaths to the population aged 30 – a

crude measure of the need to build additional accommodation. As can be seen from the Figure, Ireland was exceptional in needing to greatly expand its housing stock because of the rapidly rising adult population.

The result of the demand pressure from the rising population was a continuing rapid rise in house prices, as shown in Figure 5. Even allowing for the growth in consumer prices, real house price growth between 2003 and 2007 averaged 9% a year.

It is impossible to identify when the bubble generated in the 2003-2007 period became irreversible – when a collapse in house prices became inevitable. With the benefit of hindsight, probably the last chance to stop the build-up in debt and the loss of competitiveness was in 2006. By the end of that year, and moving into 2007, house prices were so far above their equilibrium level that a collapse became almost inevitable. Nonetheless, even in 2007 regulatory action by the Central Bank could have halted the rising exposure of the banking system to the property market, substantially reducing the eventual cost of the financial crisis.

One further factor which aggravated the costs of the collapse was the fact that housing, and the building and construction sector generally, was allowed to expand to take a major share of the economy. By 2006, investment in housing represented 14% of GNI*, up from 9% in 2000 (and 2% in 2013). This meant that when the building and construction sector collapsed there was a massive reduction in demand and, hence in national income (GNI*).

This contrasts with the situation in the UK, which also suffered from a housing price bubble. However, in their case there was not a significant increase in building in the boom so that, when prices collapsed, there was not a direct effect on domestic demand from falling investment.

The expansion of the building sector in Ireland meant that it had to bid resources away from elsewhere in the economy. This was done through raising the rate of inflation, in particular of wages. This served to kill off a significant number of firms and jobs in low-tech exporting firms, jobs that did not seem important at the time, but which proved to be crucial once the recession hit.

This growth in real house prices and the funding of a very high level of new construction would not have been possible without a massive expansion in mortgage finance provided by the banking sector. Long-term loans to households (including mortgage finance) rose from 75% of household income in 2001 to over 190% by 2007. By 2023 it was back down to 84%. In any downturn affecting household income this level of household indebtedness was going to cause major problems.

There was a very strong supply response from the building sector. While in 1995 the number of housing completions was 30,000, between 2003 and 2007 completions

averaged 80,000 a year. The financing of this level of construction activity also required a major expansion of the capital employed in the building and property development sector, over and above the financing for the purchase of the finished dwellings.

Table 1: Mortgage Lenders Liabilities, end year

	2002		2007	
	€ bn	%	€ bn	%
Capital	15	8.3	35	5.7
Deposits financial sector	47	26.0	241	39.2
Deposits, non-financial sector	88	48.6	179	29.1
Securities	11	6.1	102	16.6
Other	20	11.0	58	9.4
Total	181		615	

Source: Central Bank of Ireland Quarterly, Table C7

Table 1 shows the balance sheet liabilities of mortgage lenders at the end of 2002 and again for the end of 2007. The capital of the banks had fallen from 8% to under 6% of their liabilities. Deposits from the domestic non-bank sector, which are inherently stable, fell from 50% of their liabilities to under 30% over those 5 years. In turn deposits from the financial sector and securities changed from being under a third of their liabilities in 2002 to 56% by the end of 2007. The bulk of this form of finance came from outside Ireland. The reliance on this source of finance meant that most of the liabilities of the banks were inherently short-term in nature, and it was also likely to be much more volatile in a crisis than traditional deposits. This left the banks providing inherently long-term mortgage finance extremely vulnerable to any downturn affecting the property market.

By early 2008 commercial property lending was €160bn, 100% of national income. According to Honohan, 2019, two thirds of the lending by the banking system went to property – either for development of buildings or for mortgage financing. This left them very exposed to a downturn in the property markets. The vulnerability of the banking system to shocks affecting their assets, primarily loans financing the property market, was heightened by the changes in the liabilities side of their balance sheets discussed above.

In the period before EMU a constraint on such an expansion of foreign borrowing by banks to fund even greater investment in the property market might have been the exchange risk that it involved. However, the experience of EU countries outside EMU shows a change in the world financial system had taken place and this no longer posed a major obstacle to banks outside the Euro zone, such as in Poland and Latvia, borrowing abroad to fund domestic lending, including in housing (Euroframe, 2006).

Partly due to US policy, there was a huge supply of cheap credit available on world markets. You did not have to be a member of EMU to benefit from it. Latvia and Iceland,

though outside EMU, experienced a massive inflow of funds through their banking system, funding a property boom very similar to that of Ireland. Thus, EMU membership made the inflow of capital to fund the Irish property bubble a little easier, but Ireland would probably have faced the same temptations outside EMU. Latvia, Estonia and Iceland all had significant problems when the financial crisis hit.

This highlights the fact that appropriate regulatory and domestic fiscal policies are the only guard against property bubbles. In particular, it is only after the crisis that regulation of systemically important banks was appropriately strengthened. Today it is centralised in Frankfurt for major banks.¹ Relying on market forces alone to ensure wise behaviour by the financial system heightened the risks.

Policy Failures

The single biggest policy mistake in Ireland in the run up to the financial crisis was the Central Bank's failure to regulate the domestic banking system to protect banks from their own unwise policies. If the regulations, which are in place today, had been implemented in 2003, the gravity of the financial crisis would have been much less, if not avoided, and the recession from the external turndown would have been much less serious.

Fiscal policy was also wholly inappropriate from 2004 to 2007, injecting large sums into an already booming economy. This further expanded the building and construction sector in an unsustainable fashion. Because the rapid growth of the housing and property market generated major tax revenue for the government, government surpluses masked the true stimulatory stance of fiscal policy. Honohan², 2019, estimates that the excess tax revenues from the bubble in the economy were between €25 billion and €30 billion.

Finland and Sweden, which had suffered major financial crises and a serious recession in the 1989-91 period, had learned a lesson in terms of fiscal policy. As a result, during the boom years of 2005-7 their governments operated a tight fiscal policy, rather than further stimulating their economies. By 2007 the government surplus was 5% of GDP in Finland in 2007 and 3.4% in Sweden.

Warnings

A series of contemporary reports warned of the inappropriate nature of the fiscal stimulus which was implemented by the Government between 2003 and 2007. These reports included the ESRI's *Medium-Term Review*, published at the end of 2005. It recommended that, instead of stimulating the economy, action should be taken to

¹ The issue of the guarantee of deposits has still not been resolved, remaining a national rather than a Euro-zone wide responsibility.

² Honohan, p. 325

reduce demand, especially in the housing sector. While the media highlighted this warning, it was not taken seriously by the government. The warnings were repeated in another ESRI report in 2006. Again, in Spring of 2007, Barrett, Kearney and McCarthy further emphasised the dangers arising from the inappropriate stance of fiscal policy.

All of these reports emphasised the dangers, particularly for the housing market. With house prices rising in real terms continuously over the period, there was a growing danger that an economic slowdown could result in a precipitous fall in prices (Kelly, 2007). However, the authorities paid even less attention to the growing risks in the banking system arising from its massive exposure to the property market and the changing nature of its funding.

Honohan, 2006, exceptionally, highlighted that the net foreign borrowings of Irish credit institutions lending to Irish residents had grown with “astonishing speed” since 2003. The increase in net foreign borrowing was being used to fund the very rapid growth in private sector credit, which in turn was being used to finance the boom in the housing market. This situation was not sustainable.” The Central Bank remained oblivious to these risks.

Following up on Honohan’s warning, Barrett, Kearney and McCarthy, 2007, cautioned that the intensity of the investment in property ran well beyond the available domestic savings, resulting in a growing current account deficit on the balance of payments. The counterpart to the deficit was a growing inflow of funds through the banking system.

3. The Financial Crash – First Years

In 2006 and 2007 the EU economy had grown at an average of 3% a year, but the world economy, including the EU, turned down in 2008. For the EU, growth in 2008 was only 0.2%, and there was a big fall in output in 2009 of 4.4%. In the absence of any domestic problems, there was inevitably going to be a fall in output in Ireland in the 2008-11 period as a result of what was happening in export markets. However, as described earlier, the economy was exceptionally exposed to the recession due to the inflated housing / property sector. Even more serious, though less apparent in early 2008, the problems that had been allowed to build up in the banking system would come to haunt the economy over the subsequent 4 years.

As shown in Figure 6, in Ireland national income fell by 4.3% in 2008 and by 9.7% in 2009. The cumulative fall in national income over the five years to 2013 was an unprecedented 13.2%. Over the same period employment fell by 12.7%. Because the government was very dependent on tax revenue from the building and construction sector, government revenue also fell dramatically, while government expenditure on unemployment payments climbed. The result was that, while the government had a small surplus in 2007, borrowing was 8.4% of national income in 2008 (Figure 7).

Figure 6: Growth in GNI*, %

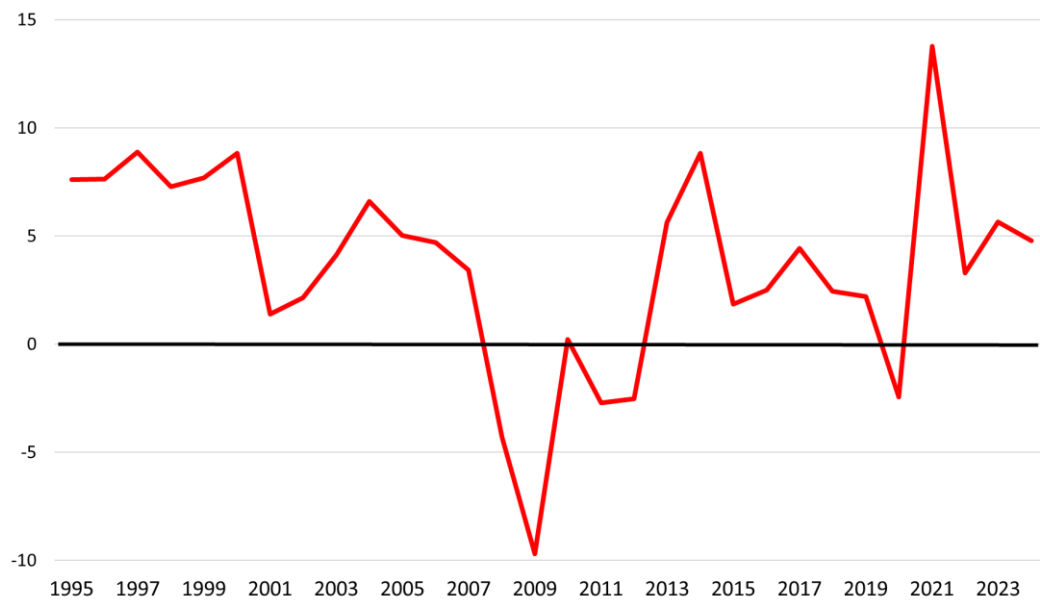
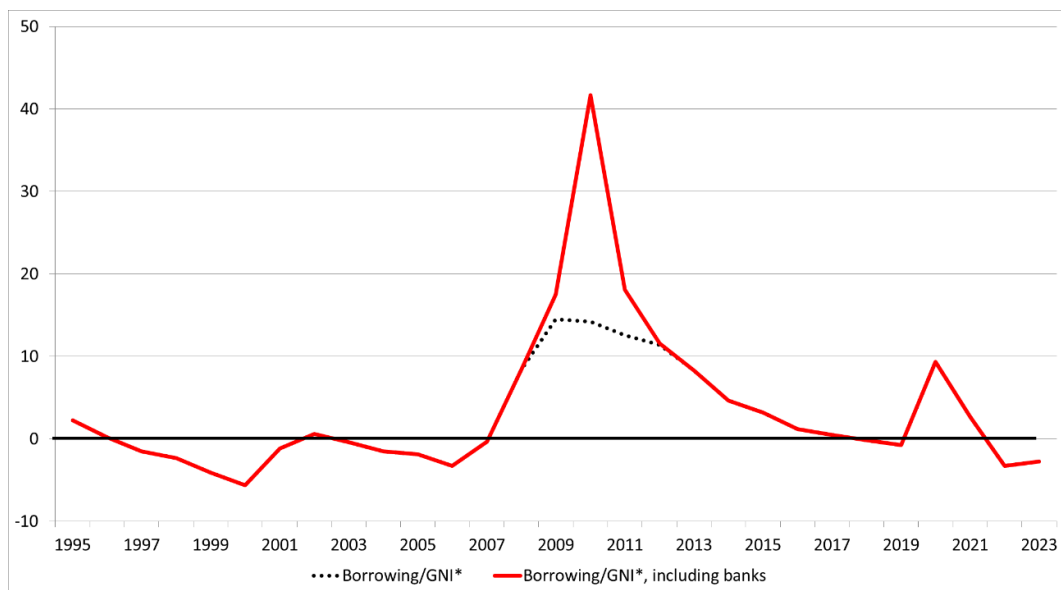


Figure 7: Government Borrowing, % of GNI*



Difficulties had already been seen in the banking system outside Ireland in late 2007. The Central Bank was aware of serious problems in Anglo-Irish bank from early in 2008, though this was not widely appreciated by the wider public. However, the bankruptcy of Lehman Brothers bank in the US on 18th September 2008 sent shock waves through the international financial system and drew attention to weaknesses of banks in other jurisdictions, including Ireland. The fact that The US had been prepared to allow a major bankruptcy to occur in the banking sector raised the possibility that bankruptcy, rather than government bail-outs, might occur in other countries.

Table 2: Credit Institutions, Liabilities, 2008

Month	Bank Deposits		Debt Securities	
	Irish	Foreign	Irish	Foreign
July	177,219	121,804	29,531	214,505
August	179,204	127,114	28,538	211,088
September	180,735	115,082	9,348	208,807
October	176,779	118,999	27,055	175,954

Source: Central Bank of Ireland Quarterly, Table C3

In September 2008 it was also clear that a German bank (Hypo Real Estate) was running into problems, which highlighted the global nature of the impending crisis. As a result, in Ireland the banking system also came under significant pressure over the course of September. As shown in Table 2, deposits from outside Ireland in domestic credit institutions fell by over €12 billion over the course of the month.

Cardiff, 2016, gives a detailed account of how the government and the Central Bank response to the impending crisis affecting the Irish banking system evolved over the second half of September 2008. By the 29th of September Anglo-Irish bank, which had lost much of its deposits, was almost out of cash and it was clear that some action by the authorities was urgently needed. The government decision, announced on September 30th, was to guarantee the borrowings of the domestic banking system.

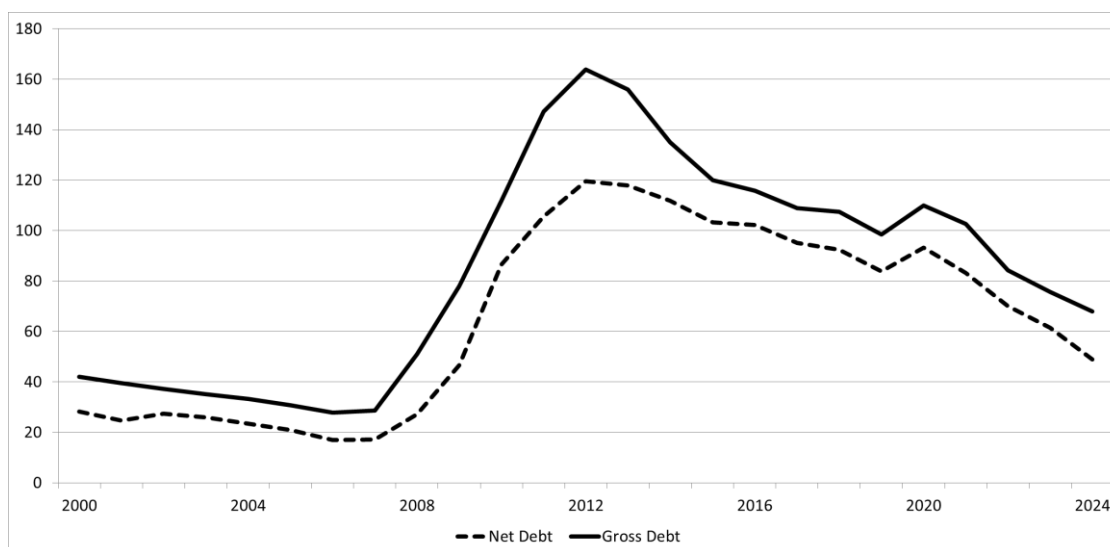
Meanwhile the collapse in the economy, that had been growing in gravity over the course of the year, saw government borrowing for the year soaring to 8.4% of GNI* (Figure 7). The NTMA was one of the earliest to see the dangers that lay ahead for the public finances. They undertook major borrowing early in the year, before financial markets began to be concerned. They were able to build up a “war chest” in advance of the crisis at reasonable interest rates. By the end of the year the liquid assets available to the government were 24% of National Income (GNI*), of which 19 percentage points were in the form of cash and deposits. At the time that looked as if it would be more than enough to cover the government’s soaring funding needs in 2009 and 2010.

The government intended to take action to curb borrowing in 2009 but, because it did not anticipate the big fall in prices in 2009 of 4%, the rates of payment for welfare and the indexation of tax bands and allowances proved to be too generous. As a result, the budget was broadly neutral (Figure 2), doing little to reduce the massive borrowing. From early in the year, it was clear that the government’s hopes of bringing borrowing under control would not work out. In March Standard and Poor had downgraded Irish government debt from its AAA rating.

When combined with the big fall in national income, the borrowing to fund government current expenditure and investment in 2009 came to 14.5% of national income. When a preliminary injection of €4 billion into the banking system was added in, total

government borrowing came to 17.5% of national income, the highest in the history of the State.

Figure 8: Debt/GNI* Ratio



As shown in Figure 8, this took the debt to national income ratio to 78% at the end of 2009, while the net debt to income ratio was 46%, as the NTMA had further enhanced its stock of liquid assets. Under normal circumstances this level of indebtedness would have been readily financed. However, the problem was that borrowing was out of control and the likely rate of increase in the debt burden gave major cause for concern. In addition, the liabilities of the banking system, guaranteed by the government, amounted to 280% of national income (GNI*).

At the time of the bank guarantee the government and the Central Bank had rather limited information on the detailed problems of individual banks. As the Central Bank later found out, the banks themselves were poorly informed on the details of their own position. When combined with “optimism bias”, this meant that as of September 2008 the magnitude of the problems the government would face in the banking system was greatly underestimated. It was not expected that the government would have to pay up on the guarantee to the banks that it had issued.

From the date of the bank guarantee, the growing flow of information becoming available to the government pointed to an ever larger problem, much greater than they had envisaged. Anglo-Irish Bank was nationalised in January 2009 and, by early in that year, it was clear that more government action would be needed to plug the hole in the capital of the other banks.

While the government had begun 2009 with a large cushion of liquidity built up by the NTMA, the deteriorating fiscal position and the unknown but growing nightmare in the banking system made clear that further action would be needed to bring the rapidly rising government liabilities under control.

4. NAMA – Establishment and role

Early in 2009 the Minister for Finance asked economist Peter Bacon to consider how best the problems with the banking system could be addressed so as to protect the public finances. Bacon was able to draw on the experience of other countries that had gone through a major banking crisis, most notably Sweden.

Sweden

In February 2009 the EU Commission published an Economic Paper by Lars Jonung describing the approach taken by Sweden to its banking crisis in 1990-91 (Jonung, 2009). The Swedish government had aimed to save the Swedish banks, but not the owners of the banks. By forcing owners of banks to absorb losses, public acceptance of the bank resolution was fostered.

The assets of the ailing banks were split into "good" and "bad" assets, and the "bad" assets were transferred to two asset management corporations. These assets were assigned low market values in the due diligence process, effectively setting a floor for asset values. In the long run the bank asset management corporations proved to be successful in the sense that the fiscal cost of supporting the financial system was roughly balanced by the revenues received through the liquidation of the asset holdings of the bank asset management corporations. It also suggested that the initial valuation put on the distressed assets by the asset management agencies had been appropriate. This experience was useful in planning how to deal with Ireland's problems in the banking sector.

Bacon Proposals and Legislation

Bacon produced a preliminary report for the Minister for Finance by March 2009 and the final paper was published the following month in April, proposing the establishment of the National Asset Management Agency (NAMA). This was to follow the lines of the Swedish asset management agencies.

As the report indicated, the deterioration in Ireland's credit terms associated with its dire fiscal position had been compounded by the contingent liabilities of €440 billion assumed by Government through the guarantee of most of the assets of the domestic credit institutions in September 2008.

The proposal was that NAMA would buy distressed assets from the banks. While involving the recognition of 'pain' at the outset in terms of losses for the banks, it would have the merit of certainty and clarity, provided of course the projection of the extent of impairment in the assets was accurate in the first place. The crystallisation of the losses

would provide a better understanding of the additional contingent liability for the Exchequer.³

In many cases the banks did not have the depth of management skills to engage in the kind of portfolio sales and work-outs which ultimately would be required to resolve the impairment issue. In addition, consolidation of professional skills and resources would generate cost efficiencies compared to a situation where the banks established their own individual workout subsidiaries. As a result, the return on the distressed assets would be maximised.

The report suggested that by interposing:

“a disinterested third party between bankers and clients, which might break “crony capitalist” connections that otherwise impede efficient transfers of assets from powerful enterprises. The latter may seem particularly beneficial in circumstances markets, where ownership concentration and connections between borrower and banks are often very close.”

In addition, property developers didn't have access to the capital to work out the assets, something that the proposed NAMA potentially would have, along with the specialised skills the work would require.

Because many of the debtors had borrowed from a number of banks, unwinding these non-performing loans would be extremely complex. If left in the hands of the banks, this would have posed a major obstacle to resolution of the problem. Individual banks would obviously have competed to try and maximise the return they got on their loans and this, in turn, could have resulted in very time consuming and expensive legal cases. Instead, by transferring all of the loans to NAMA, NAMA was in a much stronger position in dealing with the debtors on the collective debts, with clarity in terms of who their single creditor was – NAMA.

Bacon recommended that it was very important that the new agency would have a clear objective - to maximise the value to the State of the assets being acquired, over a long time horizon of, say, 10-15 years.

The government agreed to implement these proposals with draft legislation introduced in the Dáil in autumn 2009. The Act finally passed in November 2009 and NAMA was established in late December 2009.

In line with the Bacon report's recommendations, Section 10 of the Act spelt out NAMA's remit:

³ In the banks' balance sheets, under IAS39 Accounting Standards that came into effect in 2005, loans were still valued at their original valuation and only adjusted for known losses and not expected future losses not yet crystallised. This fatal flaw in accounting standards was not corrected until IFRS9 introduced in 2017.

(1) NAMA's purposes shall be to contribute to the achievement of the purposes specified in *section 2* by—

(a) the acquisition from participating institutions of such eligible bank assets as is appropriate,

(b) dealing expeditiously with the assets acquired by it, and

(c) protecting or otherwise enhancing the value of those assets, in the interests of the State.

(2) So far as possible, NAMA shall, expeditiously and consistently with the achievement of the purposes specified in subsection (1), obtain the best achievable financial return for the State having regard to—

(a) the cost to the Exchequer of acquiring bank assets and dealing with acquired bank assets,

(b) NAMA's cost of capital and other costs, and

(c) any other factor which NAMA considers relevant to the achievement of its purposes.

While Section 2 of the NAMA Act, setting out the purpose of the Act, did include the general objective “to contribute to the social and economic development” of the State, as set out above in Section 10 of the Act, the purpose of NAMA did not include specific details on social or economic objectives. If the government had so wished, they could have issued a directive under Section 14 of the Act making specific requirements in terms of its social and economic objectives.

This clarity of purpose of NAMA was very important in its subsequent success. Experience with the legislation underpinning the Central Bank's role prior to 2008 had shown that including multiple objectives could lead to a loss of focus⁴. This was recognised in an EU study, published in 2016, that compared the experience of NAMA with that of the equivalent Spanish and German institutions:

“Combining original goals with additional socio-economic activities like providing social housing or new development projects can risk leading to conflicting objectives and can deter from the primary mandate.” (Medina Cas, and Peresa, 2016)

Implementation

There were a number of issues that had to be resolved once the Act was passed.

⁴ The original legislation governing the Central Bank before the crisis had included an objective of promoting the financial sector.

First, buying 12,000 loan assets from banks at their long-term value under EU approved rules, rather than their market value, was considered to be state aid to the banks. Approval had to be sought from EU DG Competition for this “state aid”. This was not granted till the end of February 2010, which delayed the start of the asset acquisition process, posing additional problems for the government in tackling the crisis.

Second, it was vital for the government that the funding of NAMA would not be considered part of the national debt, impacting on the ability of the government to borrow to fund its already very large deficit. A two-pronged approach was needed to achieve this.

First an ownership structure had to be created, with some private shareholders, so that NAMA could be considered as operating outside the government sector under Eurostat reporting rules.

Second, the funding for the purchase of distressed assets must not be considered as part of government borrowing and included in the figures for the national debt. This was achieved by NAMA issuing senior bonds which, while they carried a government guarantee, were not considered government debt by Eurostat. These bonds were sold to the banks in return for the purchase of their distressed assets. In turn, these were eligible collateral for the banks to use, allowing them to borrow from the European Central Bank. In this way the borrowing was not considered to be part of the national debt.

For the Irish State, this method of funding NAMA had the additional advantage that the cost of borrowing indirectly from the ECB was much less than if the government had had to borrow through more traditional channels by issuing long-term debt.

The likelihood of NAMA making a significant loss for the government was mitigated by three measures:

- 5% of the acquisition price for assets was funded by way of subordinated debt which was not guaranteed by the government. As the subordinated debt would only be repaid if NAMA generated sufficient returns to repay all its debt, it provided the first layer of insulation to prevent the government having to absorb additional losses;
- The NAMA Act provided the Government with an additional ‘claw-back provision’ in the form of a potential bank-levy on participating banks ;
- and most importantly, the purchase price for the impaired assets that it acquired reflected their true long-term value, rather than the valuation on the banks’ balance sheet⁵. This forced the Irish banks to recognise the losses on their

⁵ Accounting rules meant that the banks had not yet had to recognise the loss in value of the loans in their accounts.

balance sheet rather than the Irish banking system delaying their recognition by transferring the assets to NAMA at the valuation on the banks' balance sheets.

Asset Purchases

Because of the inevitable delays in getting NAMA, as a new organisation, up and running, the first tranche of assets, transferred to NAMA from the banks from the end of March to May 2010, only covered part of the distressed assets that were eventually to be transferred.

In the banks' balance sheets, the assets to be transferred to NAMA were generally valued at their original valuation and only adjusted for known losses and not expected future losses not yet crystallised⁶, far from their market value. The steep discount applied to the first tranche of assets that NAMA bought made it clear that the banks would need recapitalisation to deal with their very large losses (Table 3). However, it still looked feasible for the State to deal with this challenge. The hope of the authorities was that the discount on subsequent tranches would be less than, or at worst equal to, that of the first tranche.

However, the even steeper discount applied on the second tranche acquired between June and August made it clear by the end of September 2010 that the capital requirements of the banks were so large that the government would face major problems raising the funds on financial markets. This made a bail-out almost inevitable.

Table 3: Acquisition by NAMA of Tranches of Loans, 2010-11

Tranche			Bank's par debt € billion	NAMA Payment € billion	Discount € billion	%
1	March-May	2010	15.3	7.7	7.6	49.7
2	Jun-August	2010	11.9	5.3	6.6	55.5
3	October-December	2010	44.0	17.2	27.0	61.4
4	March-October	2011	2.8	1.6	1.2	42.9
Total		2010-11	74.0	31.8	42.2	57.0

Source: NAMA Annual Report

Because of the major hole in the banks' balance sheets, made clear by the forced recognition of their losses as a result of the sale of distressed assets to NAMA, the banks found it impossible to raise funds on the open markets. The markets had already decided at this stage that the banks had major unquantified losses that they had not yet reported. Instead, the banks were reliant on the ECB providing Emergency Liquidity Assistance (ELA). The banks securitised their mortgages and used these as collateral for the ELA. However, as the autumn of 2010 progressed, with the capital requirements of

⁶ The fatal flaw under IAS39 Accounting Standards that came in effect in 2005, this was not corrected until IFRS9 introduced in 2017.

the banks growing, the ECB became very anxious about the volume of ELA needed to keep the banks operational (Honohan 2019).

Eventually, in late November 2010, the government was forced to apply to the EU and the IMF for a financial assistance package, popularly labelled a “bail-out”. The discussions on the package of financial support, and related domestic fiscal measures, took place rapidly, and the agreements were signed on 16 December 2010 by the Irish government and the European Commission.

Importance of Discounts Applied by NAMA

On the acquisition of the banks’ distressed assets by NAMA, crystallising their horrendous losses, it was clear that the Government faced a huge bill to recapitalise the banks. The capital requirements of the banks also needed to take account of the expected large additional losses on the assets that remained with the banks, in particular their mortgage books. It was this requirement for a massive capital injection into the banks that played a crucial role in the government’s decision to seek a bail-out.

It was very important that the valuations applied by NAMA were broadly correct. As mentioned in the introduction, if NAMA had subsequently made very large profits this would have suggested that NAMA had underpaid for the assets and that, if a more appropriate valuation had been applied, no bail-out might have been needed.

If, instead, NAMA had overpaid for the loans then, instead of putting a floor under the State’s banking liabilities, it would just have postponed the need for an even greater government injection into the banks. This could have had very serious consequences, both in terms of confidence in the State’s financial position, and also in prolonging the necessary very severe fiscal adjustment over a number of years, delaying the eventual economic recovery and possibly resulting in the Troika bail-out being extended past 2013 (Troika II).

As discussed in the conclusion, with the benefit of hindsight NAMA got the valuation about right. The bail-out was necessary to fund the injection into the banks. The realistic nature of the agreement underlying the bail-out laid the foundation for a relatively rapid economic recovery.

5. From Recession to Recovery

While the 2009 Budget had turned out to be broadly neutral, due to the unexpected fall in the price level, the Budget for 2010 was very tough as the government fought to close the huge gap between government revenue and expenditure. The net effect of the increases in taxation and the cuts in expenditure was to take over 2% of national income out of the economy (Figure 1).

After the precipitous fall in national income in 2009, it remained roughly unchanged in 2010. However, employment continued to fall rapidly (by 4.5%), and unemployment rose further to 14.5%, with a return to substantial net emigration. Pessimism prevailed about the Irish economy both in Ireland and externally. This affected perceptions about the sustainability of the Irish banking system and contributed to the government's major problems funding its massive deficit for 2010.

At a seminar in the Department of Finance in May 2010, a leading IMF economist talked about how the Irish growth model was permanently broken. The audience felt, as it turns out correctly, that he was exaggerating the long-term damage to the economy. Nonetheless, it highlighted the external perceptions of Ireland's crisis, making it very difficult to tackle the fiscal and banking problems in a conventional manner. This was the backdrop to the events of the autumn of 2010 described above.

Following on the agreement with the Troika, the Budget for 2011 was the toughest of the financial crisis, taking almost 3% of national income out of the economy (Figure 1). It was also unusual in an historical context as 2011 was an election year. In the run up to many elections in the past, governments had provided significant stimulation to the economy. However, the economic circumstances meant that, as well as the commitments to the Troika on fiscal policy, an "election" Budget would have lacked all credibility.

While the government had agreed a tough fiscal policy with the Troika, throughout the period 2011 to 2013 the composition of Budgets, in terms of tax increases and cuts in expenditure, was determined by the Irish government. The overall fiscal stance would, in any event, have probably also been the Irish government's choice.

In the 1980s successive governments had adopted a stop start approach to dealing with the country's very large fiscal problems. The 1983-1984 Budgets did half the job of putting the public finances on a sustainable footing, but the then government eased off in 1985 and 1986. It was only the tough Budgets of 1987 and 1988 that finally restored order to the public finances. The experience with this very lengthy process of adjustment was that it was very costly, resulting in a decade of low growth.

Instead, between 2010 and 2013, four tough Budgets restored the public finances to a sustainable path. This turned out to be much less damaging for economic growth than spreading out the pain over a longer period, as some suggested at the time.

National income continued to fall in 2012, primarily due to the deflationary fiscal stance. However, the external environment was also unfavourable. While the UK and US economies grew in 2012 and 2013, there was no growth in the EU. Unemployment in Ireland peaked in 2011 and 2012 at 15.4%, with continuing substantial net emigration. The lack of growth, in turn, saw a lack of buoyancy in tax revenue and substantial expenditure on unemployment benefit.

This was the backdrop against which NAMA had acquired its portfolio of non-performing assets from the Irish banks. With the domestic economy on the floor and no loan capital available to potential buyers, it did not make sense for NAMA to begin a substantial programme of assets sales in Ireland in 2011- 2012.

While 2013 was the last of the austerity budgets, the economy began a very vigorous recovery that year, growing by 5.6%. The growth rate for 2014 was even more remarkable at 8.8%. This response showed that the IMF had been far too pessimistic early in 2010 about the underlying strength of the economy.

During the recession too little attention had been paid to the key factor in the Celtic Tiger period, the rapidly rising human capital of the work force, which made it attractive for outward facing firms operating in high tech sectors, such as pharmaceuticals, computer equipment and IT services. Over the crisis period, from 2008 to 2014, employment of graduates increased every year without exception, even though employment fell by 13% between 2007 and 2013.

The building and construction sector contracted very rapidly when the financial crisis hit, with very negative consequences for growth, but the high tech sector continued to perform well, employing more graduates. As a result, it led the recovery in the period after 2013. FitzGerald, 2024, shows that about half of the growth in the economy in the period 2013-23 came from foreign multinational enterprises operating in Ireland, many employing highly educated labour.

This rapid recovery in the economy played a vital role in allowing NAMA to obtain what it had judged in 2010-11 to be the long-term value of the assets it acquired.

6. NAMA in Operation

The purchase and valuation of distressed assets from the Irish banks was largely completed by the end of 2010 (Table 3). As mentioned earlier, the process of acquisition took longer than expected because of the EU Commission's very detailed requirements on how the assets were valued and audited. This was necessary because, in paying long-term value rather than the market price, the difference between the two valuations was considered to be state aid, with implications for European wide banking competition policy.

The assets being purchased were to be valued at what they would be likely to fetch on the open market once the economy had fully recovered over 10 years. If the assets had been sold off quickly after NAMA acquired them during the recession, the combination of a very large amount of distressed assets being sold simultaneously on a market, which was already deeply in recession, would have seen a much lower return. In this scenario, the State would, through NAMA, have made a large loss, which would have been in addition to the losses the banks had already incurred.

As the banks were severely distressed and fighting for survival, they were forced to sell off other assets, such as foreign subsidiaries, in a vain attempt to raise capital and avoid effectively being taken over by the State. This desire to avoid nationalisation, with a complete loss of shareholder equity, could have provoked a fire-sale by the banks if the distressed assets had been left with them. Given that the State had guaranteed most of the banks' liabilities, the result of a fire sale could have ended up being a bigger financing requirement (and loss) for the State.

Table 4: Loan Acquisition by Institution, € billion

	AIB	Anglo	BoI	EBS	INBS	Total
Bank's par debt	20.4	34.1	9.9	0.9	8.7	74.0
NAMA Payment	9.0	13.4	5.6	0.4	3.4	31.8
Discount	11.4	20.7	4.3	0.5	5.3	42.2
% discount	56	61	43	56	61	57

Source: NAMA annual Reports

The assets purchased by NAMA from the different banks are shown in Table 4. As can be seen from the Table, the largest acquisition of assets came from Anglo-Irish Bank. Also, the biggest write-down of 61% was applied to the assets acquired from that bank and the INBS. The lowest write down was applied to the assets acquired from the Bank of Ireland.

The serious problems with the remaining assets in Anglo and the INBS, not acquired by NAMA, meant that these two institutions were eventually wound up and liquidated, whereas AIB and Bank of Ireland survived the crash, albeit requiring a massive injection of capital by the State. Both AIB and Bank of Ireland have eventually repaid the majority of the State's capital injection during the financial crisis.

A win for NAMA in the first two year was the rents on the properties which it took over, which were not necessarily being collected by the previous owners of the loans, the banks. This income stream amounted to over €1.5 billion over the two years 2010 and 2011. The focus on capturing rental income on its acquired portfolio was an important source of cash for NAMA, particularly against the backdrop of a weak and contracting domestic economy with no capital available for potential buyers of assets.

Table 5: Jurisdiction of Property Securing Loans

Jurisdiction	Market Value	
	€ billion	%
Ireland	17.5	54
GB	10.9	34
Northern Ireland	1.3	4
Other	2.7	8
Total	32.4	

Source: NAMA Annual Reports

Table 6: Analysis of Sale of Assets by Geographical Region, € million

	Great Britain Including Northern Ireland	Ireland	Rest of World	Other	Total
2010	0.312	0.067	0.005	0.020	0.404
2011	2.957	0.491	0.267	0.072	3.787
2012	2.377	0.396	0.252	0.048	3.073
2013	2.529	0.793	0.319	0.043	3.684
2014	3.399	3.628	0.706	0.078	7.811
2015	2.260	5.580	0.521	0.184	8.545
2016	1.243	3.324	0.433	0.016	5.016
2017	0.152	2.198	0.068	0.026	2.444
2018	0.381	2.649	0.110	0.014	3.154
2019	0.038	1.135	0.004	0.026	1.203
2020	0.016	0.808	0.019	0.005	0.848
2021	0.000	0.618	0.002	0.001	0.621
2022	0.000	0.400	0.004	0.000	0.404
2023	0.003	0.267		0.002	0.272
2024		0.566	0.002	0.002	0.570
2025		0.089			0.089
Total	15.667	22.920	2.712	0.537	41.836

Source: NAMA

Unlike the case of the Swedish “bad bank”, *Bankstödsnämnd*, in 1990-91, and the Spanish (Sareb) and German (FMS Wertmanagement) equivalents, also established to deal with the fall-out from the 2008-2013 financial crises, NAMA had acquired significant distressed assets outside its home market, Ireland, in particular in Great Britain (Table 5). These amounted to 46% of its total assets. In the case of the other “bad banks” nearly all of their assets were domestic (Medina Cas and Peresa, 2016).

Immediately after NAMA was established there was serious pressure from the Troika to ensure that NAMA would rapidly sell off assets and repay the government guaranteed NAMA bonds. The ECB was especially anxious about the very extensive use of government guaranteed NAMA bonds as collateral by the banks to borrow from the ECB, as well as the dependence of the Irish banking system on ELA for their liquidity. In both cases the ECB would have liked this form of funding to have been replaced by direct funding by the State, using up all the available borrowing from the Troika. Such an outcome would have involved much higher interest payments than the interest that NAMA ended up paying on its senior bonds.

As Honohan, 2019, says, an early sale of assets on the extremely weak Irish property market, would have only caused a further fall in Irish property prices, resulting in substantial additional losses. Resolving these tensions with the Troika was an issue for government. The target agreed with the Troika was for NAMA to generate €7.5 billion in

cash by 2013 through its sales. This was well exceeded by 2013, with cumulative sales amounting to almost €11 billion by the end of that year.

Because the UK economy recovered much more rapidly than the Irish, with good growth from 2011 onwards, NAMA could start developing and selling its GB assets on a rising market earlier than it could in Ireland. As shown in Table 6, between 2010 and 2013 the sale of assets in the UK accounted for 75% of all sales by NAMA, with a further 8% in other non-Irish markets (Daly, 2015). These UK sales meant that a quarter of the total value of all NAMA sales over its lifetime had been realised by the end of 2013.

Importantly NAMA only sold c. €0.9 billion of Irish assets in 2010-2012 - it did not make sense for NAMA to begin a substantial programme of assets sales in Ireland in 2011-2012. This rapid recovery in the economy from 2013 played a vital role in allowing NAMA obtain what it had judged in 2010-11 to be the long-term value of the assets it acquired.

In its first two years there had been much scepticism expressed about whether NAMA would end up making large losses. Thus, the successful development and sale of some of the assets in Great Britain was important in raising cash and showing that the NAMA model would work, especially to some of Ireland's creditors and credit rating agencies. The reassurance provided by the early sales helped the NTMA to re-enter the bond markets from 2014.

Table 7: Interest on NAMA Senior Bonds

	Senior Debt		National Debt	
	Balance € million	Interest € million	average interest %	average interest %
2010	28650	99	0.3	3.3
2011	29106	423	1.5	3.0
2012	25440	320	1.3	3.5
2013	34618	126	0.4	3.6
2014	13590	79.4	0.6	3.7
2015	8090	14	0.2	3.4

Source: NAMA Annual Reports

As discussed earlier, the way NAMA was financed, through issuing bonds guaranteed by the government, was important both in keeping NAMA's liabilities off the Irish national debt, as defined by Eurostat, but also in keeping the interest cost on NAMA's capital funding low. Because the bonds were used by the banks as collateral to raise funding from the ECB the interest rate was tied to the ECB rate for such lending. This was very much lower than the cost of long-term funding for the government available from the EU and IMF package.⁷

⁷ Honohan, 2019, p. 250, notes that the interest rate originally charged on the Troika loans was very high. However, in July 2011 this interest rate was substantially reduced at the same time as similar terms were granted to Greece.

Table 7 shows the value of NAMA's senior bonds outstanding at the end of each year and the interest paid on the bonds. The crude average interest rate peaked at 1.5%. This was only half the average interest rate paid on the national debt. Of course, during the crisis years borrowing by the government at the margin was substantially more expensive than the average, so that the benefits were even greater than this Table suggests. This illustrates the substantial savings in the cost of funding for NAMA through the way it was financed – a major long-term benefit for the State.

Originally it was envisaged that the assets acquired by NAMA would all be sold within a decade.⁸ While, the bulk of the assets were sold within that time frame, the more difficult to place assets have required a longer period to realise their full value. As NAMA had already repaid all its debts and booked significant profits, the slight extension in the time frame made sense.

Table 8: Repayment of Bonds and Equity by NAMA, € million

	Senior Bonds	Junior Bonds	Equity	Total
2011	1250	0	0	1250
2012	3500	0	0	3500
2013	2750	0	0	2750
2014	9100	0	0	9100
2015	5500	0	0	5500
2016	5500	0	0	5500
2017	2590	0	0	2590
2018	0	529	0	529
2019	0	0	0	0
2020	0	1064	56	1120
2021	0	0	0	0
2022	0	0	0	0
2023	0	0	0	0
2024	0	0	0	0
2025	0	0	0	0
Total	30190	1593	56	31839

Source: NAMA Annual Reports

Once rapid growth began in 2013, NAMA began to ramp up sales. As shown in Table 6, the peak years of sales were in 2014-2016, when the economic recovery was well established. By that stage concerns about NAMA's ability to realise the expected value of its assets had greatly diminished. Also, the rapid recovery in the Irish economy reassured Ireland's creditors. As a result, the pressures on NAMA were reduced and it had the luxury of more time to ensure it maximised the price it got for the remaining assets.

NAMA will have completed its work by the end of 2025, having disposed of all the assets it acquired in 2010-11, 15 years after it was established.

⁸ Bacon, 2009, had suggested a 10–15-year time frame.

Table 9: Payments by NAMA to the State, € million

	Surplus	Tax	Total
2011		-235	-235
2012		76	76
2013		71	71
2014		52	52
2015		28	28
2016		164	164
2017		63	63
2018		109	109
2019		30	30
2020	2000	19	2019
2021	1000	16	1016
2022	500	3	503
2023	350	5	363
2024	400	18	468
2025 ⁹	800		800
Total	5050	419	5527

Source: NAMA Annual Reports

As NAMA sold off its assets, it began to repay its senior bonds, bonds that were being used as collateral by the banks borrowing from the ECB. The agreement with the Troika was that a quarter of the borrowings would be repaid by the end of 2013. As shown in Table 8, this target was also achieved, with a further major repayment in 2014. By the end of that year 55% of the borrowing through state-guaranteed bonds had been repaid. This provided major reassurance to the ECB and effectively ended pressures from the Troika for more rapid liquidation of NAMA's assets.

Having repaid all of its senior bonds by 2017, NAMA went on to repay the subordinated debt and the small equity that had been injected at the start. This was completed by 2020, so that from 2020 onwards all of the profits on the sale of assets were available to transfer to the Government.

As show in Table 9 the first transfer of profits to the Exchequer of €2 billion cash was made in 2020. By the end of 2025, when NAMA is wound up, the total profit realised by NAMA on the portfolio of assets that it took over in 2010-11 is expected to come to €5.05 billion. Together with the corporation tax paid over its life of €0.45 billion, this makes a cumulative return for the State on its "investment" of almost €5.5 billion.

Economic and Social Objectives

While the NAMA Act, in setting NAMA's terms of reference, did include the general objective "to contribute to the social and economic development" of the State, the Act

⁹ Estimated.

also made clear that this objective was secondary to the primary role of NAMA, to maximise the return on its assets.

Speaking to the Joint Oireachtas Committee on the Banking Crisis in 2015 Frank Daly, Chairman of NAMA, summarised NAMA's approach to its social and economic objectives:

“NAMA seeks to manage its portfolio in Ireland in a manner that complements the objectives of other public bodies, including Government departments, State agencies and local authorities. One way that NAMA gives practical effect to this is by giving public bodies first option on the purchase, at current assessed market valuations, of property securing NAMA's loans. In line with that commitment, we have facilitated the sale of land and property for a range of public uses including schools and healthcare facilities.”

In 2016, the EU study (Medina Cas, and Peresa, 2016) expressed concern that combining the original goals with additional socio-economic activities, like providing social housing or new development projects, could have risked conflicting objectives damaging NAMA's progress in meeting its primary mandate.

Looking back over its 15 years, the clear focus of NAMA on its primary objective was maintained throughout its operation and it was crucial in successfully completing its work. However, where it could enhance the value of its assets it did finance the building of housing, and commercial office buildings in Dublin Docklands contributing to both maximising its return on its assets and contributing to the State's social goals on housing.

In 2015 the Minister for Finance, Noonan, indicated that he was keen to see more housing built. However, until 2015 the cost of building houses was greater than the price houses were selling for, which would have meant that NAMA would have made a loss.

As a result, the first investment in housing involved the completion of 5000 apartments in London, which enhanced the return for NAMA on that asset.

As of May 2016, NAMA had funded the delivery of 2,042 social housing units and funded the completion of 2,768 new houses and apartments throughout the country. At the time it aimed to fund the delivery of 20,000 residential units by 2020. Its involvement in housing was either by funding its debtors or receivers, or through commercial joint funding arrangements with developers, where it held minority stakes.

In total, since 2014 NAMA has directly funded the construction of 14,600 dwellings. In addition, a further 30,000 dwellings were completed with various forms of support from NAMA.

An example of how NAMA operated within its remit to encourage development was its commitment to fund, if necessary, the Strategic Development Zone in the docks to the

tune of €1.9 billion. However, private funding undertook the task as investors knew that, because of NAMA's commitment, they would not find themselves isolated if they invested.

If the government had wished NAMA to change its role and become a property development agency, it could have issued a direction to that effect under the NAMA Act. It did not and, if it had, it would have necessitated NAMA making a major change in its operation, developing additional skills to become a property developer. Such a change would have risked major disruption and loss of focus on the primary objective of getting back as much as possible of the State's investment to cover the losses of the banking system. Instead, the government established the separate Land Development Agency in 2018 to undertake this task.

Policy making has lagged the recovery. The concerns about indebtedness militated against rapidly ramping up public investment in the aftermath of the crash. With the benefit of hindsight, from 2015 onwards government policy on infrastructural investment should and could have been more adventurous.

In the ESRI's optimistic scenario in 2013 they saw 231,000 houses being built in the 10 years to 2023. Actual completions were 179,000. Thus, investment in housing was too low, even based on that very modest forecast of economic growth at the end of the crisis. Even though the recovery was well under way in 2015, investment in housing took some considerable time to ramp up. However, this was a matter for government, not for NAMA, given its very specific remit.

7. Asset Management Agencies

Alternative Approaches

While the approach adopted by the Government in establishing NAMA in 2010, as part of its strategy for tackling the banking crisis, has turned out to be successful, other options could have been considered.

An alternative approach could have been to leave the distressed assets with the existing banks. However, the banks didn't have the expertise to undertake such a task. As Honohan, 2019, says:

“Management bandwidth would not have been sufficient to take on the big developers as well.”

Ingves et al., 2004, had also suggested that managing specific non-performing loans and assets requires different skills than those usually available in a bank.

In addition, leaving the banks to sort out the problem would have meant that there was continued huge uncertainty about their capital needs, delaying the necessary recapitalisation of the banks and prolonging the crisis. Given what we know now about

the banks' problems, the sums needed to recapitalise the banks would, inevitably, have still necessitated a bail-out.

Honohan also lists a more radical approach, which would have involved establishing new banks, leaving the distressed assets with the old banks. This would not have avoided the State's major liabilities arising from its guarantee of the domestic banking system from 2008. While this might have worked if only one or two banks had serious problems, it would not have been practical, given that all of the banks were under water. With such a high proportion of borrowers (including mortgages) in difficulties, any new banks could not have fully escaped the problems of bad debts. Finally, staffing the new banks with the relevant expertise would, in itself, have been a problem, and the new banks would, in any event, have required a major injection of capital by the State.

Thus, the NAMA approach was the only realistic option open to the government in 2009 when it was faced with the full magnitude of the banking crisis.

Comparative Assessment

There are quite a number of examples in other countries of asset management agencies which were set up to help deal with banking crises. As discussed earlier, the examples¹⁰ established to deal with the Swedish banking crisis of 1991 provided a model for what subsequently became NAMA.

Jonung, 2009, concluded that in the long run the two Swedish bank asset management corporations proved to be successful in the sense that the fiscal cost of supporting the financial system was roughly balanced by the revenues received through the liquidation of the asset holdings of the bank asset management corporations. Another example of such an agency was introduced in South Korea (KAMCO) to deal with a banking crisis there in 1997 (Park and Heaphy, 2024).

Beginning in 2008, the financial crisis saw huge problems in banks across the developed world. These included banks in the US, the UK, Iceland, Germany, Switzerland, the Netherlands and Belgium, Spain and Ireland.

As happened in Ireland, where NAMA was established in 2009, Germany and Spain also introduced asset management agencies as a key component of their approach to dealing with their banking problems. The German agency, FMS Wertmanagement, was established in 2010 and the Spanish agency, Sareb, was set up in 2012.

An EU Commission paper by Medina Cras and Peresa, 2016, looked at the experience with these two asset management agencies, along with NAMA. This study took place in 2016, after the economic recovery was well under way in the three economies and the banking crises had been largely resolved. By 2016, there were already good indications

¹⁰ There were two agencies, involved: *Securum* and *Retriva*.

of how successful the agencies would be in securing for their respective governments an appropriate return on their initial investment in distressed assets. Thus, it provides a useful comparative perspective on the extent to which these bodies met the needs of their respective economies.

In assessing the performance of the three agencies, the paper emphasises the importance of each agency having a clear goal to recover the State's investment. They suggest that combining this primary goal with other social initiatives, such as the provision of housing, could have resulted in a loss of focus for the asset management agencies.

Medina Cras and Peresa, 2016, note that NAMA, and to a lesser extent the Spanish Sareb, did embrace social roles, which seemed to go beyond their primary mandates. In the case of NAMA they note that these actions were also linked to the broad objective of socioeconomic development specified in the NAMA Act. However, in the case of NAMA the activity in the housing market was strictly limited in nature and designed to enhance the value of its assets. NAMA had to act within State Aid rules. NAMA's role in housing delivery was subject of a State Aid complaint by Irish developers in 2018 which was dismissed by the EU. Thus, it did not distract from NAMA's primary objective.

Medina Cras and Peresa, 2016, noted that

“... the NAMA Act gave NAMA legal powers that enabled it to collect payments due on loans more effectively as it helped speed up asset disposals and ensure income generation from rentals. This also helped break the past speculative close link between developers and lenders. NAMA's ability to promptly access commercial real estate collateral from insolvent debtors would have been hampered had the operating legal framework been similar to the one applying to residential real estate in Ireland, characterised by difficulties in collateral realisation and numerous court adjournments.”

Comparing the performance of the three agencies in 2016, Medina Cras and Peresa, 2016 note that NAMA had been very effective with the sale of assets, At the time their study was published, NAMA was the most advanced of the three asset management companies in realising the value of their initial assets, though it had been in existence for the longest time. This success was facilitated by the fact that NAMA's assets were homogeneous, mostly large land and development real-estate loans. Such assets were relatively easier to sell than for example, corporate loans.

As discussed earlier, with the benefit of hindsight the original valuation of its loans by NAMA appears to have been appropriate. As a result, as noted by Medina Cras and Peresa, in the long run NAMA was likely to make a limited profit.

Sareb's performance up to 2015 was rather different as it was negatively affected by write-downs on its assets after they had been acquired. This meant that by 2015 its original capital of €1.2 billion was nearly depleted. This overestimate of the value of the Sareb's assets at acquisition did not have a major negative effect on the Spanish economy because the economy had begun to recover by 2015 and, compared to Ireland, the losses were much smaller relative to the size of the Spanish economy. However, as mentioned earlier, if this had happened with NAMA, it would have posed major difficulties for the government in returning to the financial markets from 2014 and could have prolonged the recession.

The German bad bank acquired the distressed assets of some German banks at "book prices", which guaranteed that it would make a loss, a loss that was difficult to quantify at the time (Honohan, 2019). As the German government was in a much stronger financial position than Ireland and Spain, this uncertainty about the future losses of the German bad bank did not seriously damage the German State. By contrast, in 2010 Ireland did not have the luxury of being able to postpone a final assessment of the banking losses, given the much larger share of the economy accounted for by the distressed assets.

A more recent study for the Asian Development Bank, 2021, also looked at the experience with different asset management agencies. In the case of NAMA, they concluded that: "Ireland is one of the best examples of a successful implementation of a state-backed Asset Management Company which held large proportions of assets in its home market and overseas." In looking at the Greek and Italian experience they concluded that delays in establishing legal frameworks to facilitate efficient non-performing loan transfers destabilized the Greek and Italian economies. In the Irish case the speedy enactment of effective legislation facilitated rapid action by NAMA.

8. Conclusions

NAMA was one crucial component of a wide range of policy measures that the State had to implement to resolve the economic and financial crisis that began in 2008. The speedy implementation of the necessary difficult measures, including the establishment of NAMA, contributed to an early resolution of the financial crisis.

At its establishment in 2009, NAMA was given the clear objective of maximising the return to the State from the distressed assets it acquired. The clarity of NAMA's objective, and how it was implemented, made a major contribution to minimising the huge cost to the people of Ireland from the financial crisis.

As intended, NAMA played a crucial role in its early years, ensuring the timely identification of issues with financial institutions through accurate valuations,

crystalising the losses that already existed in the Irish banking system.¹¹ This helped make clear the magnitude of the recapitalisation of the banking system that the State had to undertake. If this process had been allowed to drag on without a resolution, the eventual recovery of the Irish economy could have been seriously delayed.

In the early years the government was under heavy pressure from the Troika to persuade NAMA to sell off its assets more rapidly. The government, in resisting these pressures, and NAMA in sticking to its preferred disposal strategy and taking adequate time to realise the full value of the assets, made the right decision. It did not make sense for NAMA to begin a substantial programme of assets sales in Ireland in 2011- 2012. The rapid recovery in the Irish economy from 2013 played a vital role in allowing NAMA to obtain what it had judged the long-term value of the assets it acquired.

As NAMA comes to the end of its mission its financial performance is clear. Over its lifetime it will have paid around €5.5 billion to the government through its profits and through the corporation tax made on those profits.

As set out in the introduction, **a key question is whether this profit is too little or too big.**

If NAMA had made a significant loss through overvaluing the assets it acquired, it could have damaged confidence in the government's ability to restore order to the banking sector, possibly prolonging the crisis and adding to its cost. While many critics in the early years suggested that NAMA would make a substantial loss, the cumulative profit NAMA has made over its 15 years of operations makes it clear that NAMA did not overvalue the assets it acquired.

However, there is also a question of whether it undervalued the assets at acquisition, possibly pushing the State into an unnecessary bail-out in 2010.

The original methodology for the valuation of the assets had been overseen by the EU Commissions as part of its consideration of the amount of "state aid" involved in valuing the assets based on what they would be worth in the long run once the economy had recovered. This methodology was designed to ensure that the price was not set too high, providing unfair support to the banks from whom the assets were being purchased. The long discount rate was set at around 5% per annum.

While the profit of €5.5 billion actually realised is significant, it has taken 15 years to accumulate, and it is consistent with NAMA's original valuation of the assets. **NAMA has earned a return of around 12.9% per annum. It represents a reasonable return on the original investment in NAMA, with all the risks that that entailed.** Even

¹¹ In addition to their losses on property loans, the banks suffered major losses on their mortgage books. These loans remained the banks' responsibility. However, they were slow to deal with this problem.

marginal additional adverse shocks to the economy over that period could have wiped out that profit.

NAMA's funding model, as a result of its ability to indirectly borrow from the ECB, was a major long-term benefit for the State.

Thus, the profit for the State seems appropriate, and the original valuation of the loans in terms of their long-run value also seems to have been reasonable in the light of what was known at the time.

The second question raised in the introduction was **whether NAMA managed the disposal of these assets in line with its legal remit and delivered value for the state.**

One of the benefits of NAMA was that it created an effective centralised platform to manage 800 debtor connections and the 12,000 loans (secured on 60,000 properties) that it acquired. The banks did not have the specialised expertise needed to deal with this huge portfolio of problem loans, especially where many of the debtors had loans from multiple banks. Instead, NAMA had the specialist staff with expertise in finance, banking, credit, law, property, insolvency and planning that allowed them to undertake their task.

NAMA clearly followed its remit and did not get distracted by other, albeit important, objectives. The fact that it has realised a significant profit at the end of its 15-year life indicates that it has been broadly successful in how it has managed the process of selling off its assets.

Obviously, there will have been cases where holding on longer would have realised a higher profit. Also, there are some cases where the price NAMA got for some assets is greater than the value of those assets today.¹²

Having purchased the distressed assets NAMA's strategy for managing, developing and disposing of these assets was broadly successful. While it took longer than the initial ten years that was envisaged when it was established, the bulk of the work had been done within that time scale. By taking a more flexible approach to the completion date it has maximised the profit for the State.

While not part of its primary remit, in order to maximise the benefit to the State, where appropriate, it supported the development of some of its assets, including supporting directly or indirectly the construction of over 40,000 dwellings. Given its primary objective, it was precluded from operating as a developer building large number of dwellings. Instead, the government established the Land Development Agency to undertake this task.

¹² By way of example, NAMA sold loans associated with 3 major Shopping Centres for €1.8 bn in 2015, latest valuations from accounts of Hammerson indicate a value of c€900m

Finally, Honohan, 2019, said that **NAMA had outperformed the expectations held when it was first announced. This assessment of NAMA as a success story is shared by the studies comparing NAMA's performance with that of similar agencies in other countries.**

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