

The 2013 guide to

# Ireland



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# Ireland in the business of recovery

Ireland is recovering, rebuilding its financial infrastructure as well as restoring its international reputation to allow the country, and its people, to return to a level of stability and growth that would be normal for an open, international and competitive economy.

## *An introduction by the Department of Finance, Ireland*

In late 2010, the Irish government agreed with the Troika a programme of financial assistance to allow three things to occur:

- Reform of the banking system through the injection of capital and the restructuring of the banks themselves;
- Restoration of public finances to sustainable levels; and
- Ensuring that policies support a growth agenda to rebuild the economy.

### Reforming the banking sector

A total of €64 billion has been invested by the Irish state in the banking system, but only after significant restructuring of the system:

- There are now three main banks (reduced from six in 2010), each of which was recapitalized following the Central Bank of Ireland's Prudential Capital Assessment Review in 2011, ensuring solid capital ratios (AIB 15.1, ptsb 18.0% and Bank of Ireland 14.4%, as at end-December 2012);
- Staff numbers were reduced by 4,500 through voluntary redundancy programmes, salaries were capped, there were no bonus payments and management changed significantly.

To date this has resulted in:

- Regaining access to the capital markets via covered bonds in the first quarter of 2013;
- Divestment by the state, in February 2013, of €1 billion of its contingent capital notes (CoCos) in Bank of Ireland, and;
- Irish Life (purchased by the state in June 2012 for €1.3 billion) being sold to Great Western, which owns Canada Life in Ireland, in March 2013 for €1.3 billion.

Further work is now concentrating on debt overhang, specifically on mortgage arrears and new personal insolvency services. Initiatives to ensure a supply of credit to the economy, especially for small and medium-sized enterprises, are underway with partners such as the European Investment Bank.

### Restoring public finances

The government has focused on the need to reduce the level of the current deficit that the state has had to bear over the past years. The latest deficit figures show continuing and significant progress, with all Troika targets met, and we are on target to reduce the deficit to 3% by 2015.

In February 2013, the state issued a new series of bonds, replacing the promissory notes that had originally been used to support IBRC (formerly Anglo Irish Bank).

The National Treasury Management Agency (NTMA) raised €5 billion through the sale of a new 10-year benchmark treasury bond in



John Moran, Secretary General,  
Department of Finance

March 2013, demonstrating that Ireland has regained access to the international debt markets. The funds were raised at a yield of 4.15% with a bid-to-cover ratio of 2.6 times.

The state is also committed to realising value from state-owned assets. NewEra has been established as a shareholding agency to coordinate the management of state-owned companies and ensure best value through their operation. In some cases, companies, or parts of them, will be sold to market or institutional investors. In other cases, the investments will be more actively managed to generate greater value for the state.

### Rebuilding the economy through growth and stability

The changing nature of the Irish economic situation over the past five years is requiring a radical rethink of the shape and structure of the economy. The businesses that will thrive will be cost-competitive, based on the skills and experience of the Irish workforce and look to drive efficiency and innovation globally.

Importantly, there are positive steps, particularly in the export sectors, which are driving recovery:

- 2012 saw exports higher than ever before, increasing to €177 billion and serving more than 150 countries;
- Ireland is the second largest exporter of software in the world, the eighth largest exporter of pharmaceuticals, a world leader in sustainable food production and the fourth largest net exporter of beef in the world;
- In 2012 the FDI sector experienced the highest net job creation in a decade; and
- The country continues to be an attractive tourist destination with 6.5 million non-resident visits in 2012, contributing €3.7 billion to the economy.

Stability also seems to be returning to the property market, with both commercial and residential prices growing slightly from lows seen in 2012.

### Next steps

There have been many sacrifices that the country, including both public and private sector workers, has had to accept. However, there remains a determination to see the project through and restore the economy to a viable state, having learned the painful lessons of the excesses during the 2000s. Ireland will be back: stronger, measured and competitive.



# NTMA: stability and growth

Ireland's successful implementation of its adjustment programme has put the economy back on its feet and enabled it to return to the international capital markets, with encouraging results

Ireland is expected to grow by about 1% in 2013, outperforming all other euro area economies, many of which will continue to contract this year. The domestic economy finally stabilized in the second half of 2012 after five years of recession. Net exports will also underpin this recovery.



John Corrigan,  
chief executive, NTMA

Perhaps more important than the basic growth data is Ireland's demonstrable track record in the implementation of the Troika's economic adjustment programme, which began in November 2010 and is due to be completed this year. As Moody's observed in March, "from the start, the Irish government has consistently met and in some respects exceeded the quarterly programme criteria, despite difficult domestic and external conditions."

## Back to the capital markets

The successful implantation of the adjustment programme has played a key role in supporting Ireland's return to the international capital market at progressively lower yields. Having reduced refinancing risk in 2012 by swapping much of its outstanding short-term debt into longer-dated obligations, Ireland passed another significant milestone at the start of January, when it issued its first syndicated bond since the bail-out. This was a highly successful €2.5 billion tap of its 5.5% October 2017 benchmark.

John Corrigan, chief executive of the National Treasury Management Agency (NTMA) in Dublin, says that Ireland had no pressing need for funding when it returned to the market in January, with the €67.5 billion EU-IMF assistance programme comfortably covering the requirement for 2013. This year, the NTMA's indicated issuance target of €10 billion addresses Ireland's funding need for 2014.

Corrigan says that the key priority in January was for Ireland to demonstrate that it could issue on a standalone basis, re-build its yield curve and inject liquidity into its international issuance. It achieved all three objectives with a flourish, generating total demand of more than €7.5 billion for a transaction that was priced at 250bp over mid-swaps, which represented a narrow 5bp concession to Ireland's secondary market yield curve. 87% of demand came from a very well-diversified range of institutions outside Ireland.

NTMA built on the success of January's transaction in March, extending its yield curve by printing a new €5 billion 10-year benchmark that generated orders of €13 billion from 400 investors. This was another resounding vote of confidence in the Irish recovery story.

The strength of demand, the lion's share of which came from real money accounts, allowed Ireland to increase the size of this landmark

issue from an originally planned range of between €2 billion and €3 billion, while narrowing pricing from 250bp over mid-swaps to 240bp which was flat to Ireland's secondary market yield curve. Again, overseas demand was the clear driver for the deal, with well over 80% placed outside Ireland. Fund managers, pension funds, insurance companies and banks formed the bedrock of demand, accounting for 90% of distribution.

## High-quality investor base

"The key message from the benchmarks we issued in January and March is that we have regained access to the capital market and engaged a very high-quality investor base," says Corrigan. "We have also now been able to put in place pre-funding for a 12-15-month period beyond the end of 2013."

This year's benchmark issues have been complemented by the announcement in February of a watershed arrangement that had been negotiated for more than a year with the European Central Bank (ECB), allowing for the replacement of promissory notes with €25 billion of ultra-long-term bonds. The promissory notes, which had an average maturity of between seven and eight years, were originally issued by the government for the restructuring of the Irish Bank Resolution Corporation (IBRC). "From NTMA's perspective, the most important aspect of the promissory note deal is that it significantly reduces our funding needs for the next decade by about €20 billion," says Corrigan. Those funding needs have been further reduced by the decision of EU ministers on April 12 to lengthen the maturities of the EFSM and EFSF loans to Ireland and Portugal by an average of seven years, Corrigan notes. Some €40 billion of loans to Ireland will benefit from this extension.

Through its extensive investor relations programme, the NTMA is confident that there would be strong demand for Ireland in the dollar market, which saw record volumes from SSA borrowers in the first quarter of 2013. But Corrigan says that there are no immediate plans to look at alternatives to the euro market. "Our first priority has been to rebuild liquidity in our euro issuance, and although a dollar deal is certainly an option, it is probably on the back burner for the moment," he says.

Beyond the relatively robust growth prospects for 2013, the huge improvement in debt sustainability bodes well for the NTMA's funding programme, with Ireland's debt to GDP ratio set to peak this year and decline in 2014.



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# NAMA: confident about the future

## A key player in Ireland's response to the banking and property crisis

The National Asset Management Agency (NAMA) was established in 2009 as part of Ireland's response to its banking and property crisis. NAMA has acquired commercial and residential property loans with a nominal value of €74.2 billion from five Irish financial institutions. In purchasing these loans, NAMA issued senior and subordinated debt of close to €32 billion and has been managing the assets to obtain the best financial return for the state. NAMA has generated over €11 billion in cash flows since inception, has approved development funding of €1.7 million for its assets, is profitable and, critically, is on target to repay senior debt of €7.5 billion by the end of 2013 and all its senior debt by 2020.

### Asset sales

Of the €11 billion in cash flows to date, over €7 billion has been generated by the sale of property by NAMA debtors and receivers. The balance is largely generated from effective management of its assets. Eighty per cent of sales have occurred in the UK, reflecting favourable conditions there in recent years and the on-going demand for good assets in the London region<sup>1</sup>. NAMA is also overseeing substantial sales in Ireland, where there is now €1.5 billion of NAMA-related property on the market through debtors and receivers.

As part of this process NAMA has sold loans with nominal balances of more than €2 billion; in Ireland, loan portfolio sales of €1.1 billion are under way. Typically, loan sales follow a competitive process managed by a loan sale adviser acting on NAMA's behalf<sup>2</sup>.

### Generating strong cash flow

Part of NAMA's strategy is also to create and add value to its property portfolio with the objective of enhancing cash flows and increasing long-term recoverable value. This process includes working closely with debtors and receivers to secure quality tenants and maximize rental income and occupancy across its portfolio. As a result, NAMA is posting net recurring income of over €120 million a month, mainly in rental receipts. With total costs (including funding costs) running at about €500 million a year, that leaves free cashflow of close to €750 million each year (asset disposal proceeds are in addition). NAMA is confident the quality of its remaining assets and of its asset management activity will maintain a strong cashflow position in future.

### Property market initiatives

An important part of NAMA's objective is, as NAMA's chairman Frank Daly said recently, "to contribute in a tangible way to sustainable recovery in the Irish property market".

NAMA is advancing capital to preserve and enhance the value of the assets securing its loans. It has already advanced €1 billion in capital funding and has committed to advancing a further €2 billion over the next four years for projects to meet expected demand, including new office space in key growth centres. A good example is the Dublin Docklands, now the subject of proposed accelerated planning, which will be pivotal in accommodating emerging demand from the FDI sector.

This objective will also be met by NAMA's commitment to lend at least €2 billion in vendor finance to purchasers of commercial property securing the agency's loans (details available at [www.nama.ie/publications](http://www.nama.ie/publications)).

Recovery in Ireland's commercial property market is already being supported by a substantial increase in investment by overseas funds attracted by the good yields available. NAMA's initiatives, allied with important government incentives on stamp duty, capital gains tax, upwards-only rent reviews and the establishment of real estate investment trusts, are expected to underpin this recovery and longer-term sustainability in the market.

### IBRC

As part of a government decision to appoint special liquidators to Irish Bank Resolution Corporation (IBRC) in February 2013, it was decided that NAMA should acquire any loans unsold after the liquidators complete a valuation and sales process over the course of the year. Depending on the volume of loans sold by the special liquidators to third parties, this could increase NAMA's balance sheet by 50%.

### Positive outlook

Brighter prospects for the property sector, twinned with NAMA's successful track record since 2009, leave NAMA chief executive Brendan McDonagh confident about the agency's prospects. "NAMA is in a very good position in terms of achieving our stated objectives and, in the process, contributing strongly to recovery in the Irish property market in line with the overall recovery of the Irish economy. We will continue to leverage our experience and results to deliver on our commercial mandate, which is the best achievable return for the Irish taxpayer over the life of NAMA."

### Engaging with purchasers

NAMA will always engage with parties who have an interest in purchasing either a property that secures a NAMA loan or loans themselves and will actively facilitate engagement with its debtors/receivers.

Individuals interested in buying a property that secures a NAMA loan are encouraged first to contact the owner or, in the case of a property subject to enforcement, the appointed receiver or administrator (a full listing of properties subject to enforcement is available under 'Properties Enforced' on NAMA's website, [www.nama.ie](http://www.nama.ie)). Interested parties can also contact NAMA directly at [info@nama.ie](mailto:info@nama.ie).

In the case of both asset and loan sales, NAMA maintains a register of interested parties. When appropriate disposals arise, these parties are contacted by the relevant agents and given an opportunity to bid.



1. A breakdown of assets securing NAMA's loans by geography and asset class can be accessed at [www.nama.ie/about-our-work/key-figures](http://www.nama.ie/about-our-work/key-figures).  
2. A loan sales advisory panel has been appointed for this purpose and can be viewed at [www.nama.ie/procurement](http://www.nama.ie/procurement).

# Ireland's FDI success

A roll-call of leading global companies has chosen to site operations in Ireland in recent years. Their investments are making an important contribution to the country's economic recovery

Foreign direct investment (FDI) continues to play a highly significant role in Ireland's economic recovery, with the country attracting substantial investments from global leaders in digital media, life sciences, international financial services and ICT. The list of companies that have chosen to locate operations in Ireland reads like a roll-call of the world's most successful and high-growth companies: eBay, PayPal, Twitter, LinkedIn and IBM among them. Recent investments have come from Apple, Facebook, PayPal, Northern Trust, EA Games, Fidelity, SAP, Amgen, Mylan, Cisco, Arvato, Allergan, Eli Lilly Novartis, Zurich, Yahoo and McAfee. A notable feature is the wide range of greenfield investments coming to Ireland, including Clearstream (part of Deutsche Börse), Hubspot, Dropbox, Aspen and Nuance.

IDA Ireland, the Irish government agency responsible for attracting FDI, reported the creation of 12,722 new jobs in 2012, with FDI employment growing by 6,570. 2012 was IDA's third consecutive year of growth in net employment, with job losses at IDA client companies the lowest in a decade. IDA client companies spent €18.8 billion in the Irish economy in 2012, an increase of 10% when compared to 2010. IDA has a global footprint, with offices in the US, Europe and Asia.

## Transforming operations

IDA attributes its success in attracting FDI amid significant economic challenges globally and locally to helping its existing investors to transform their operations in Ireland, which has led to marked reductions in job losses. In addition, Ireland offers global companies a talented workforce, technology capability, an attractive corporation tax rate and a strong track record in successful FDI.

Ireland offers investors:

- A thriving RD&I sector, with strong government support for productive collaboration between industry and academia.
- A strong legal framework for development, exploitation and protection of intellectual property rights
- A strategic location with easy access to the EMEA region. Excellent IT skills and infrastructure.
- An advanced telecommunications infrastructure, with state-of-the-art optical networks and international connectivity.
- Strategic clusters of leading global companies in life sciences, ICT, engineering, services, digital media and consumer brands.
- An established reputation as a hub for business process improvement across EMEA.

From Ireland's perspective, the strong positive is the kind of investments that are going into the country. For example, IBM's global location data show that Ireland ranks number one in the world for the average value of individual investments. The data also show that Ireland is number one in Europe for jobs created via research and development.

Ireland's capital, Dublin is home to two strategically important hubs: one is the International Financial Services Centre (IFSC), where banks, funds, insurance companies and asset managers are gathered

together to serve their international customer base. The other is the so-called 'Silicon Docks', an area in central Dublin where global giants like Google, Facebook and Twitter have established a footprint in recent years.

## Playing a part in recovery

Nobody claims that FDI alone can propel the Irish economy towards a full sustained recovery. But the sector can certainly play its part in wider national recovery efforts. The direct jobs that result from these announcements are most welcome, but the spin-offs are also vitally important.

One of the main reasons cited by multinational companies for setting up in Ireland is the access to a world-leading, highly-skilled workforce within Ireland and from across Europe. In 2010 the share of population aged 25-34 in Ireland with a third-level qualification was the third highest in the EU at 45.7%, compared to 32.5% across the EU as a whole. Ireland is ranked in the 10 best educated countries in the world by the 24/7 Wall St/OECD Education at a Glance report. In the IMD World Competitiveness Yearbook Ireland ranks first in the world for skilled labour and the flexibility and adaptability of the workforce.

Ireland's competitive advantage has also increased in recent years, with business costs falling significantly from their peak in 2007/08; prime office rents are down by 52% and unit labour costs down by 12%. In addition, Ireland has one of the most productive economies in Europe. Irish productivity is around 40 points above the EU27 baseline. Only Luxembourg and Norway have higher productivity levels.

The pipeline for FDI in Ireland for the medium term remains positive. There are definite opportunities for growth in the IT/technology sector, specific areas of financial services, life sciences, engineering manufacturing, social/digital media and sectors where consolidation is taking place on a pan-European basis. In addition IDA is looking to investigate and assess future opportunities for FDI. The IDA's global team is determined to pursue these opportunities, to win for Ireland the best in FDI which will continue to play a significant role in Ireland's economic recovery and support the growth of its multinational client base through expansion and development of their international footprint.



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