

FUNDING FOR GROWTH

The Irish banking landscape in 2020



1 May 2014



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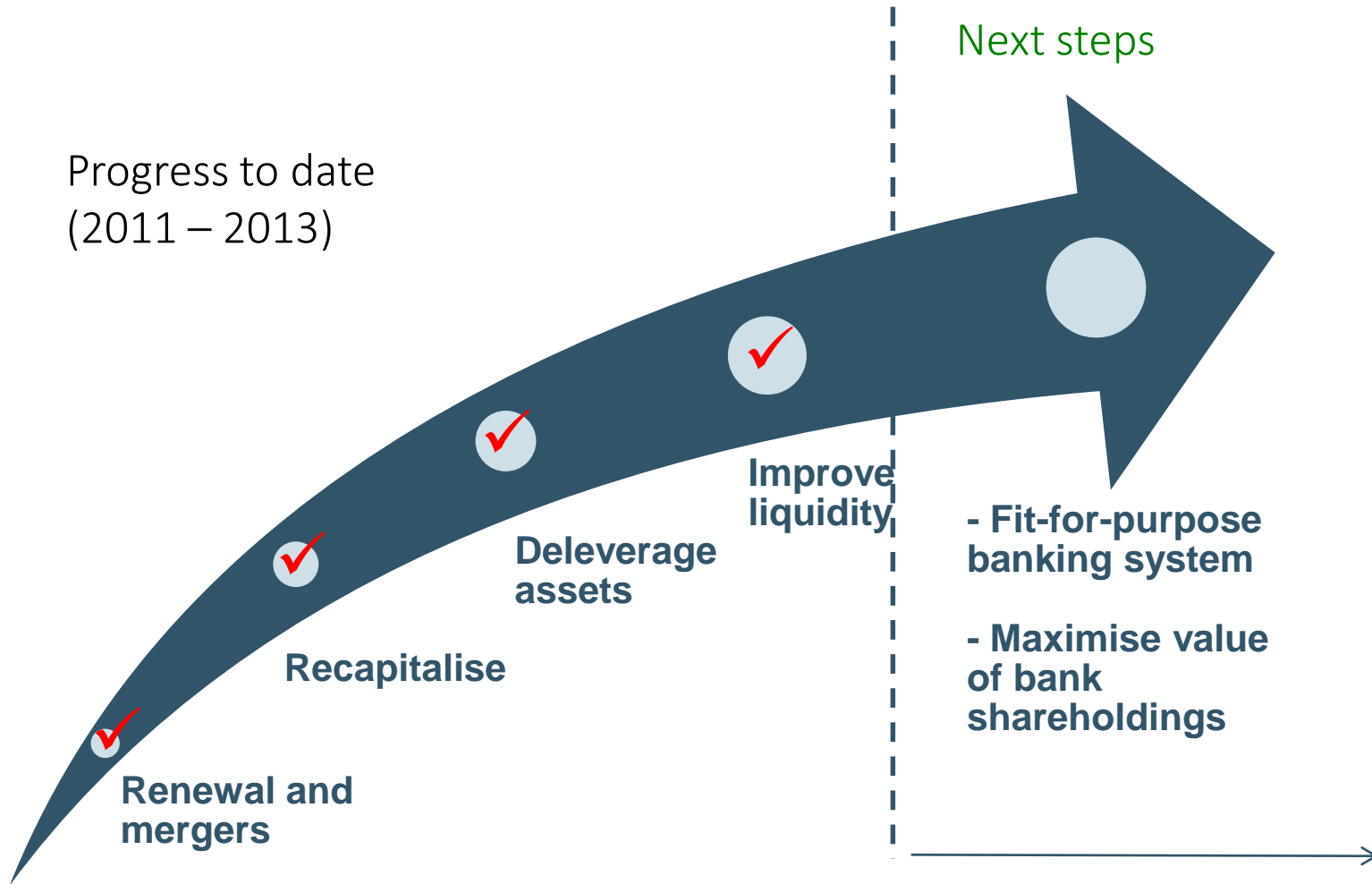
Strategic roadmap



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Progress to date
(2011 – 2013)

Next steps



Legacy issues stabilising



Profitability

- Net interest margins improving
- Focus on returning to profitability

Non-performing loans (NPLs)

- Stabilization in NPLs
- Progress in restructuring

Demand for credit

- Improving economy is restoring confidence



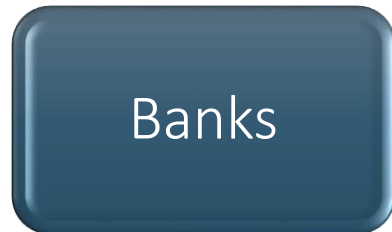
Changes to funding landscape

Pre
Crisis



Non-bank

Future
Funding



Non-bank

Future funding to come from diverse sources, both bank and non-bank

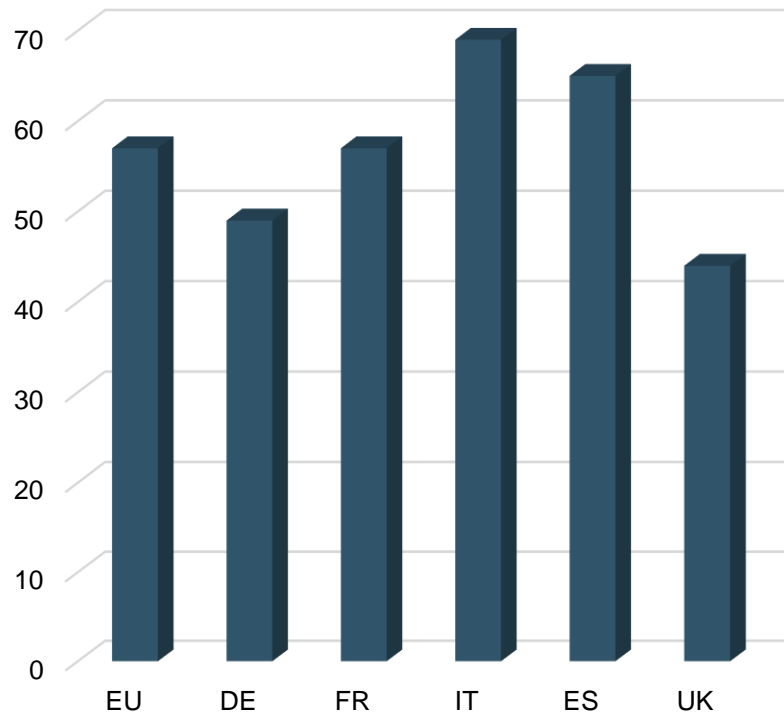
Non-bank funding includes :

- ISIF/NPRF funds
- Venture Capital
- Enterprise Ireland schemes
- REITS
- Direct participation from pension funds / insurance companies
- International funds (e.g. Kennedy Wilson, Lone Star, Apollo)



Importance of SMEs

Turnover SMEs/Total

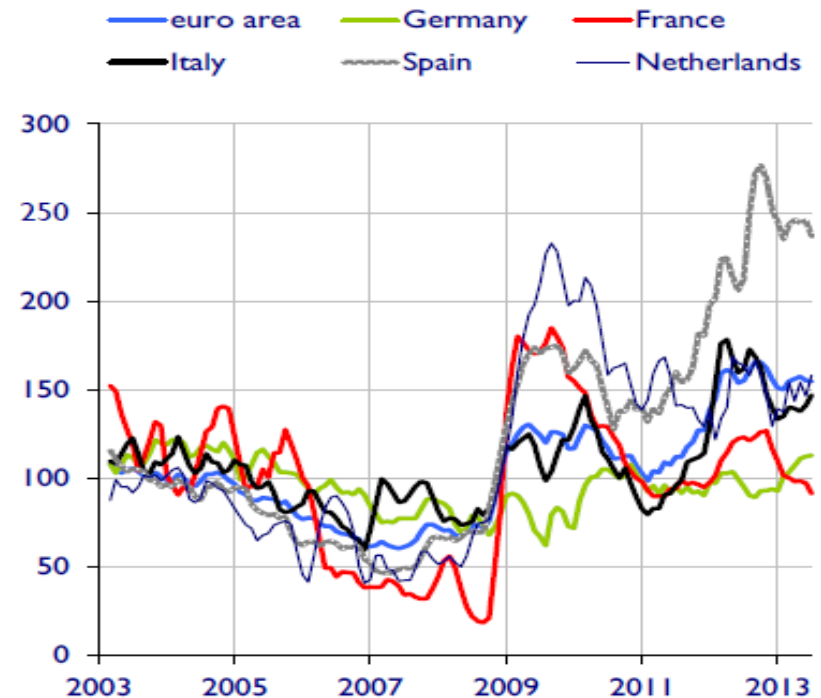


Turnover of SMEs in percentage of the turnover of all non-financial firms

Source : Eurostat 2013

Spread between small and large loans

(basis points - 3mth moving average)



Source : ECB (MIR statistics)

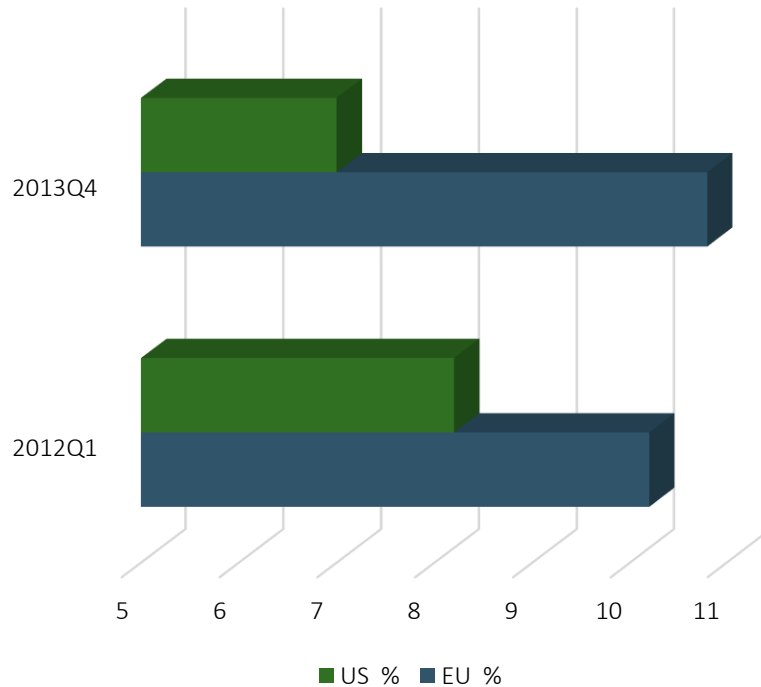
Small loans - up to €1m. Large Loans - €1m +

Impact of crisis greater in EU than US

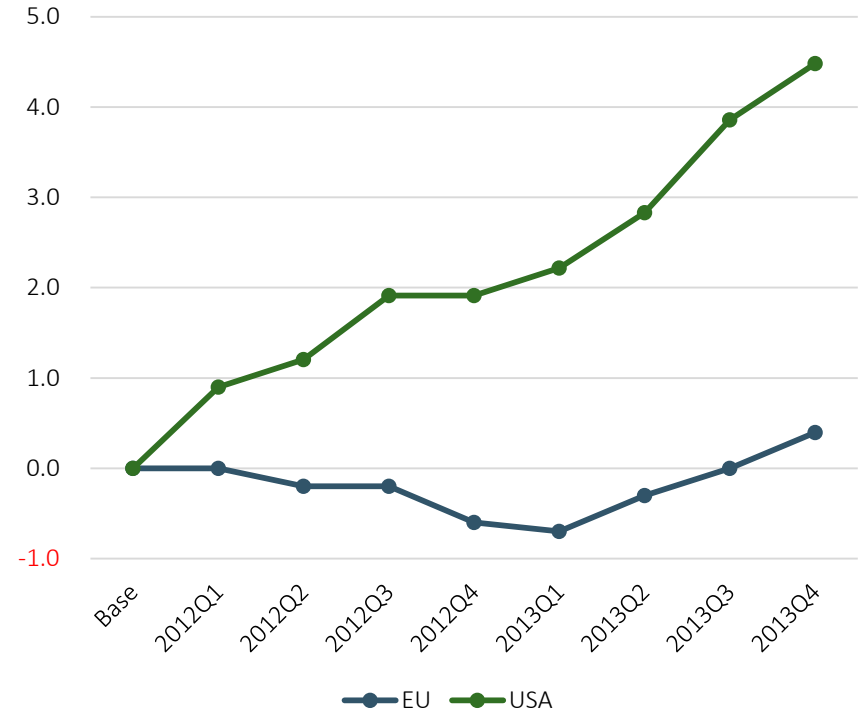


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Unemployment EU & US

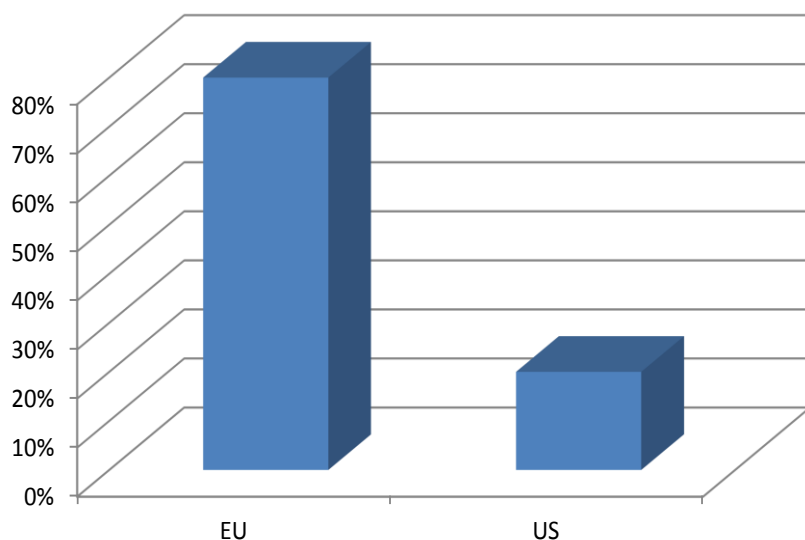


Growth since 2012

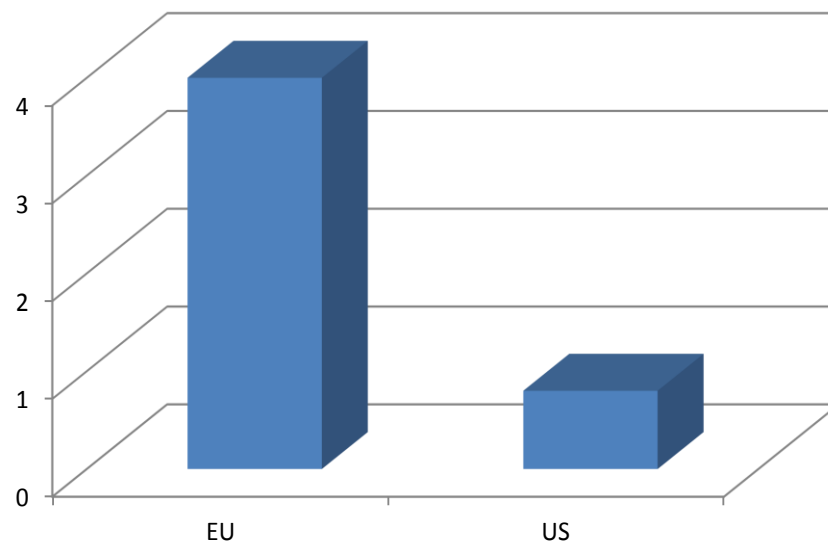


Dependency on banking

Bank financing % (vs non-bank financing)



Bank assets relative to GDP

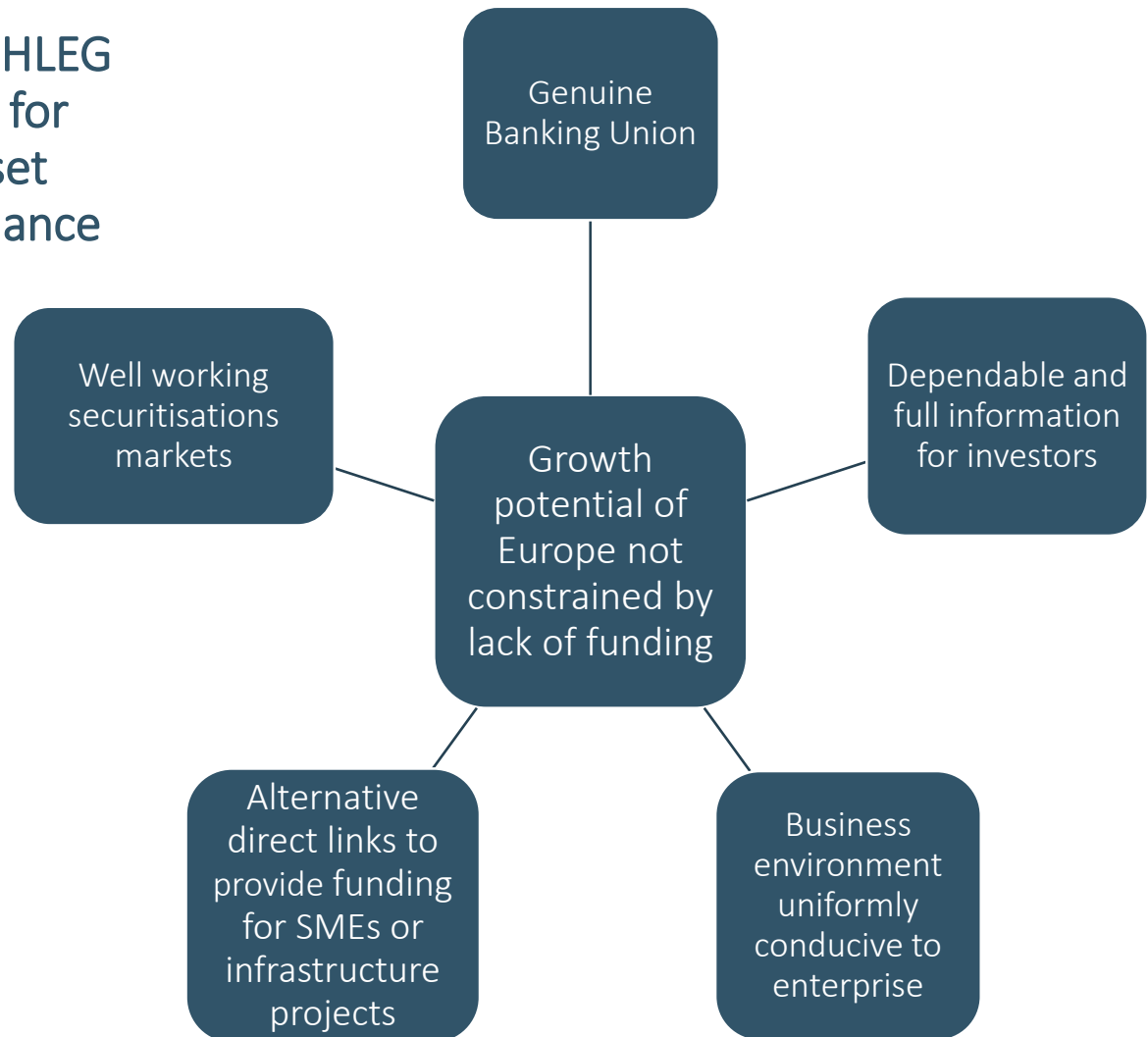


- 80% of debt financing in the EU provided by banks compared to 20% in the US
- Aggregate balance sheets of EU banks about 4 times EU GDP, the US banks are about 0.8 times US GDP

Now, imagine a Europe in which



This is the vision of the HLEG which formed the basis for the recommendations set out in the Report – “Finance for Growth”



What lessons in “Finance for Growth”



New cross-cutting paradigm

Area of focus	Relevant measures	What's needed?
Financial/ Business Environment	<ul style="list-style-type: none">▪ Achieving best pricing requires that Member States have best in class rules	<ul style="list-style-type: none">▪ Identification of best practices across a range of criteria (e.g. bankruptcy)▪ Member States (MS) evaluate their own business environment and establish reform processes▪ EC to consider CSR tool to advance specific items
Transparency and Data	<ul style="list-style-type: none">▪ Greater transparency for investors	<ul style="list-style-type: none">▪ Transparency and data will be key in both SME and infrastructure sectors
Addressing Fragmentation	<ul style="list-style-type: none">▪ Pooled Investment Vehicles▪ National / Public Development Banks	<ul style="list-style-type: none">▪ Market based financing may allow by-passing of sovereign stressed banks▪ ELTIFs and passporting of funds throughout the EU▪ EIB and NDBs play a greater role in reducing fragmentation across borders, if necessary.

New paradigm for funding SMEs



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Area of focus	Relevant measures	What's needed
Small and Micros	<ul style="list-style-type: none"> Bank lending is key Other options include equity finance, government schemes, crowd funding 	<ul style="list-style-type: none"> Banks remain key but EIB/NDBs may provide lower cost funding or guarantees Other new forms of P2P lending such as crowd funding Encourage schemes to provide start up/growth capital
Medium sized companies	<ul style="list-style-type: none"> Bank lending is key EIB & NDBs a potential funding source Securitisation market 	<ul style="list-style-type: none"> EIB-EIF as creator of high quality securitisation standard Regulatory rules must not be harmful to banks sponsors or regulated buyers of securities for securitisations Pan EU quality label and ECB acceptance
Larger scale SMEs ("mid-caps")	<ul style="list-style-type: none"> Use of debt and equity options e.g. private placements, lending from funds, issuances on public equity markets 	<ul style="list-style-type: none"> MSs to investigate and implement national private placement markets for SMEs Funds to be able to passport both assets/liabilities MSs to investigate best practice abroad Ecosystem of brokers, analysts and market makers Retail bonds should be developed

New paradigm for funding infrastructure



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Area of focus	Relevant measures	What's needed?
Dependable and full information	<ul style="list-style-type: none">▪ Access to historical information▪ Credible pan EU transaction pipeline information	<ul style="list-style-type: none">▪ Pool MSs data on infrastructure projects▪ Harmonised pan EU database of projects in planning or procurement stages
Adjusting rules to facilitate investment	<ul style="list-style-type: none">▪ A Strong PPP market across Europe▪ Uniform public procurement procedures	<ul style="list-style-type: none">▪ MSs to work with EC to publish 3 year forward looking national investment plans▪ Stabilise tariffs in EU over projects life▪ Procurement rules adjusted uniformly to attract available non-bank financing options▪ Standardise documentation across EU
Enable funding of scale	<ul style="list-style-type: none">▪ Channeling pools of capital into EU projects▪ Strengthen multilateral banks involvement	<ul style="list-style-type: none">▪ European Infrastructure Guarantee Facility for stressed MS/those without PPP experience▪ At MS level, develop national vehicles to pool capital for smaller projects▪ Extend the EU-EIB Project Bond mechanism



Future of Banking : drivers of change

Impact of Banking Union?

Technology

Customer / Bank interaction

- Digital banking
- 24 hour service
- Customer Analytics

How banks work

- Paperless systems
- Risk management technology

Conclusions



Significant restructuring of Irish banking sector has taken place

Irish banking system is emerging from the crisis

HLEG on SME and infrastructure financing concluded :

- Europe has been overly reliant on bank financing model for its economy.
- Increased levels of non-bank finance should be rolled out across Europe.
- Ultimately, Banking Union is moving towards fairly priced bank funding in a genuine single EU market.



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