

IRELAND'S CONTINUING PROGRESS



April 2014



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Department of Finance

Key points



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- Ireland continues to perform strongly
- The focus remains firmly on achieving three key goals :

1 managing
the public
finances

2 supporting jobs
and growth
enhancing
strategies

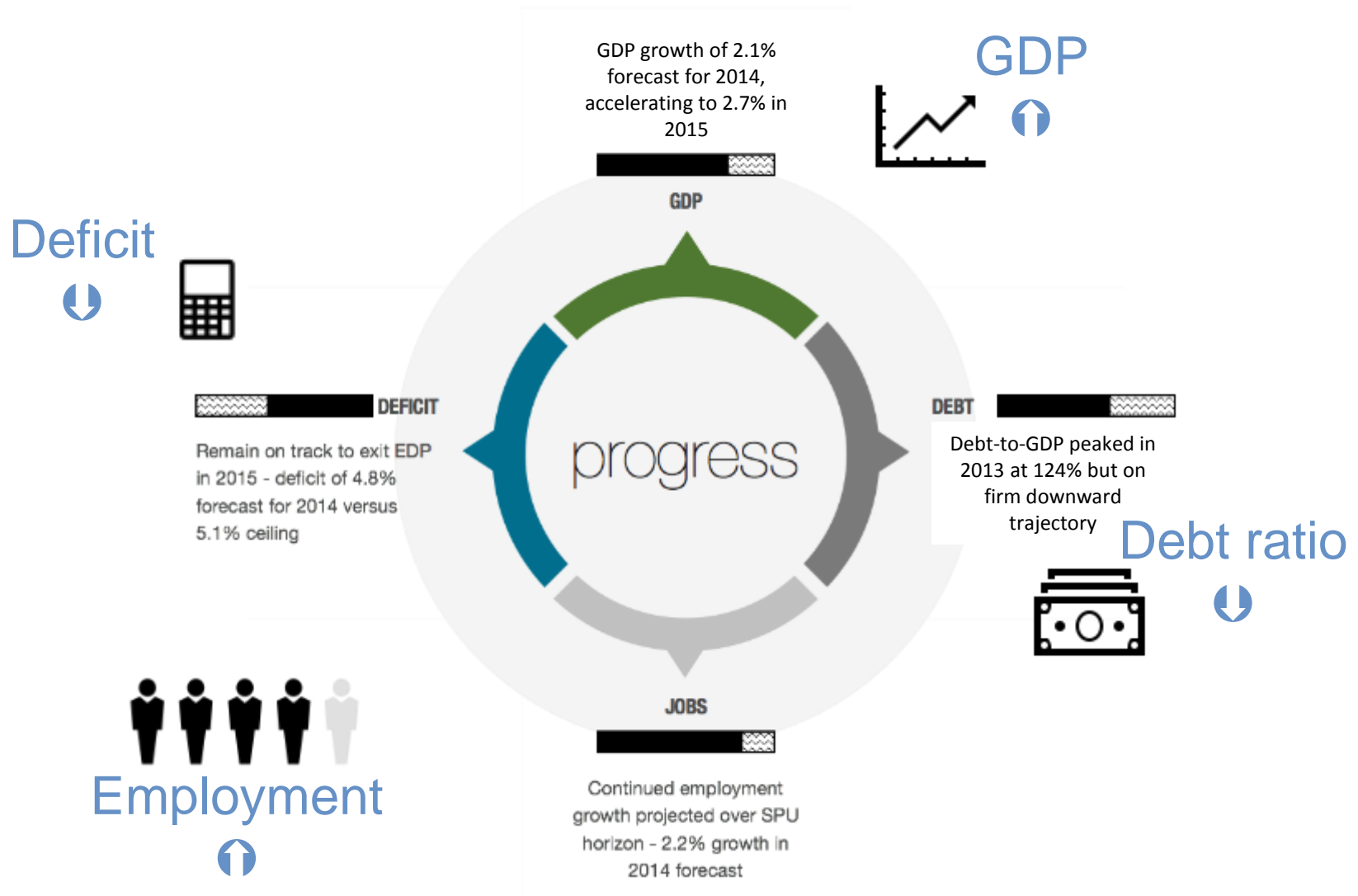
3 restructuring
the banking
and financial
system

- Approach to economic strategy that is growth enhancing, managed within strict fiscal frameworks while supporting employment initiatives
- Reviving domestic demand, seeing stabilisation in the house and commercial property markets and increasing employment
- The liquidators successfully sold over 90% of the €21.7bn par value of loans in IBRC to third parties through open market sales processes
- The NTMA returned to market with a €1bn 10 year bond on 10 April at 2.917% - a record low - (cover 2.8 times) on the back of the Moody's upgrade in January 2014 to investment grade

Key figures



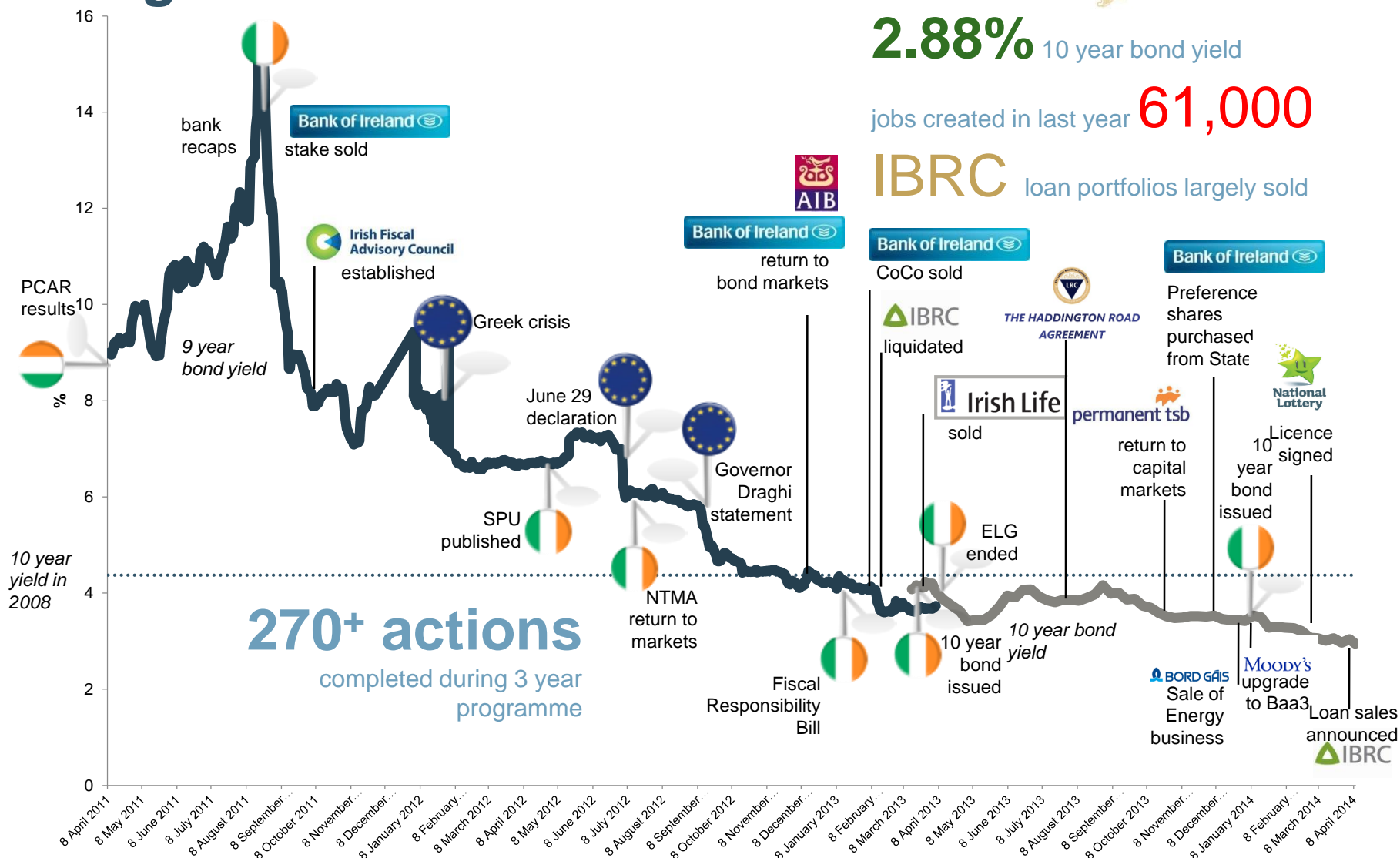
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Progress



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Progress on jobs



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Government for National Recovery 2011-2016



Jobs Initiative

Programme for
Government
commitment



15.1%

CSO SUR,
February
2012



61,000

jobs created year-
on-year (Q4,
2013)



Jobs initiative
€500m programme



13.8%

CSO SUR, 2010

NAMA

€2bn investment plan
alongside €2bn vendor
financing



21 months

consecutive fall in Live Register

11.8%

CSO SUR
March 2014

Source : Central Statistics Office
SUR is the Seasonally Adjusted Standardised Unemployment
Rate



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SPU 2014 macroeconomic forecasts



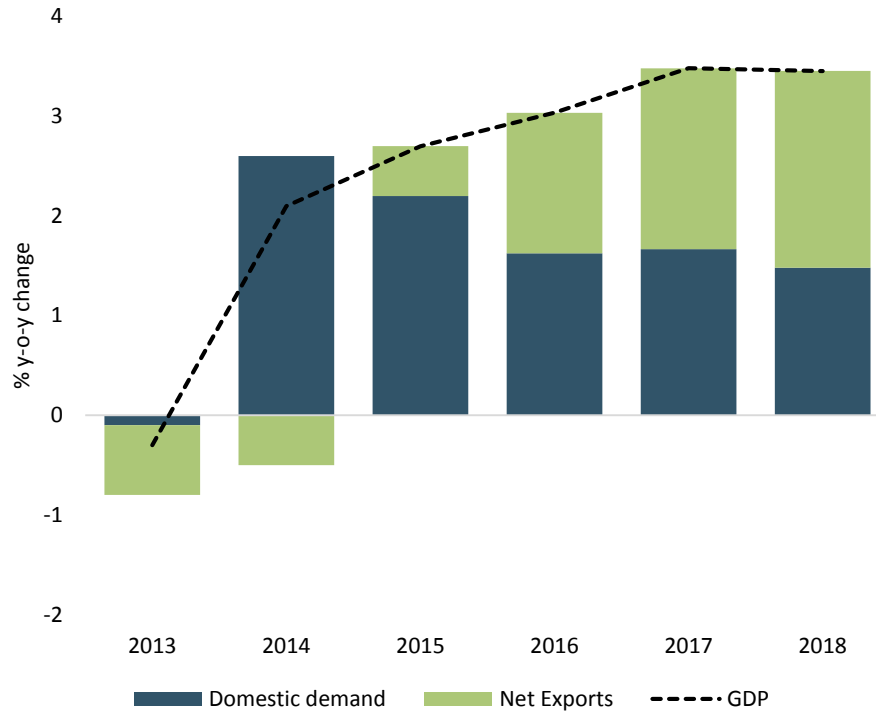
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Year-on-year change	2013	2014	2015	2016	2017	2018
GDP	-0.3	2.1	2.7	3.0	3.5	3.5
GNP	3.4	2.7	2.3	2.5	2.7	2.7
Nominal GDP	0.1	2.6	3.6	4.3	4.7	4.7
Personal Consumption	-1.1	2.0	1.6	1.2	1.2	1.2
Govt Consumption	-0.5	-0.9	-1.6	0.0	0.0	0.0
Investment	4.2	15.4	12.4	7.5	7.5	6.0
Stocks (pp cont)	0.1	0.0	0.0	0.0	0.0	0.0
Exports	0.2	2.1	3.2	4.2	4.4	4.4
Imports	1.0	3.2	3.4	3.6	3.5	3.4
HICP	0.5	0.5	0.9	1.4	1.6	1.6
GDP Deflator	0.4	0.5	0.9	1.2	1.2	1.2
Current a/c (of GDP)	6.6	5.8	5.2	5.3	5.3	5.3

Contributors to GDP growth (year-on-year)



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Source : Department of Finance – actual and forecast

Key points

- We expect domestic demand to contribute positively to growth over the period to 2018
- The negative effect of the pharma cliff on exports should ease after 2014

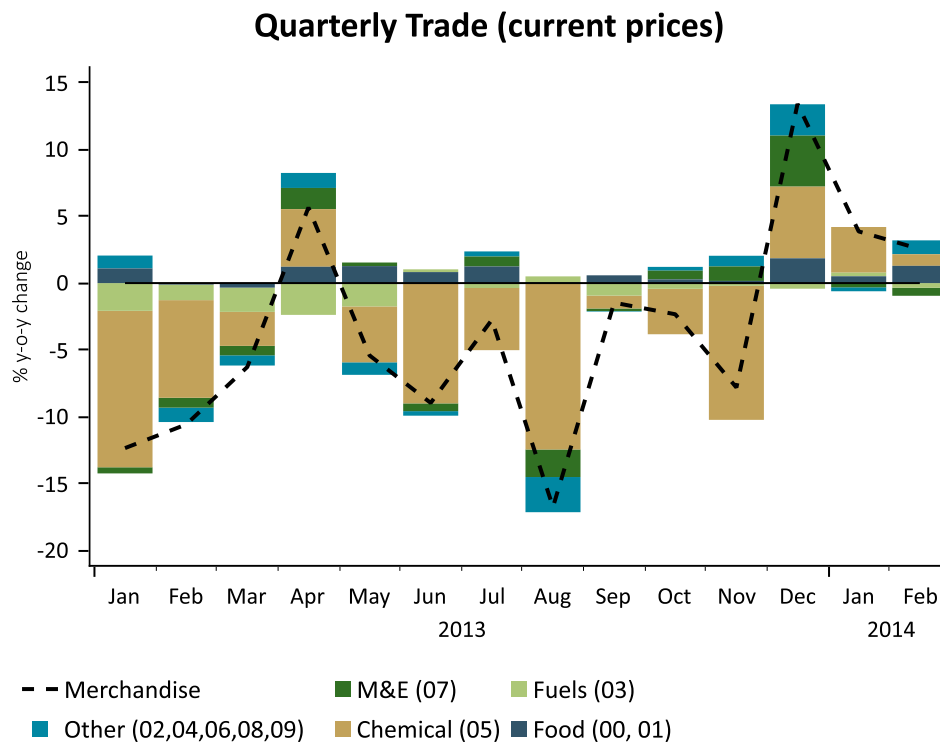
Pharma-chem impact on exports



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Key Points

- Pharma (i.e. chemicals) exports represent nearly half of all goods exports
- Exports in the sector down approx. 10% last year
- [Recent trade figures](#) suggest the 'patent cliff' effect will be less pronounced in 2014
- *A Department of Finance [Working Paper on the pharma cliff](#) can be found on the DoF website*



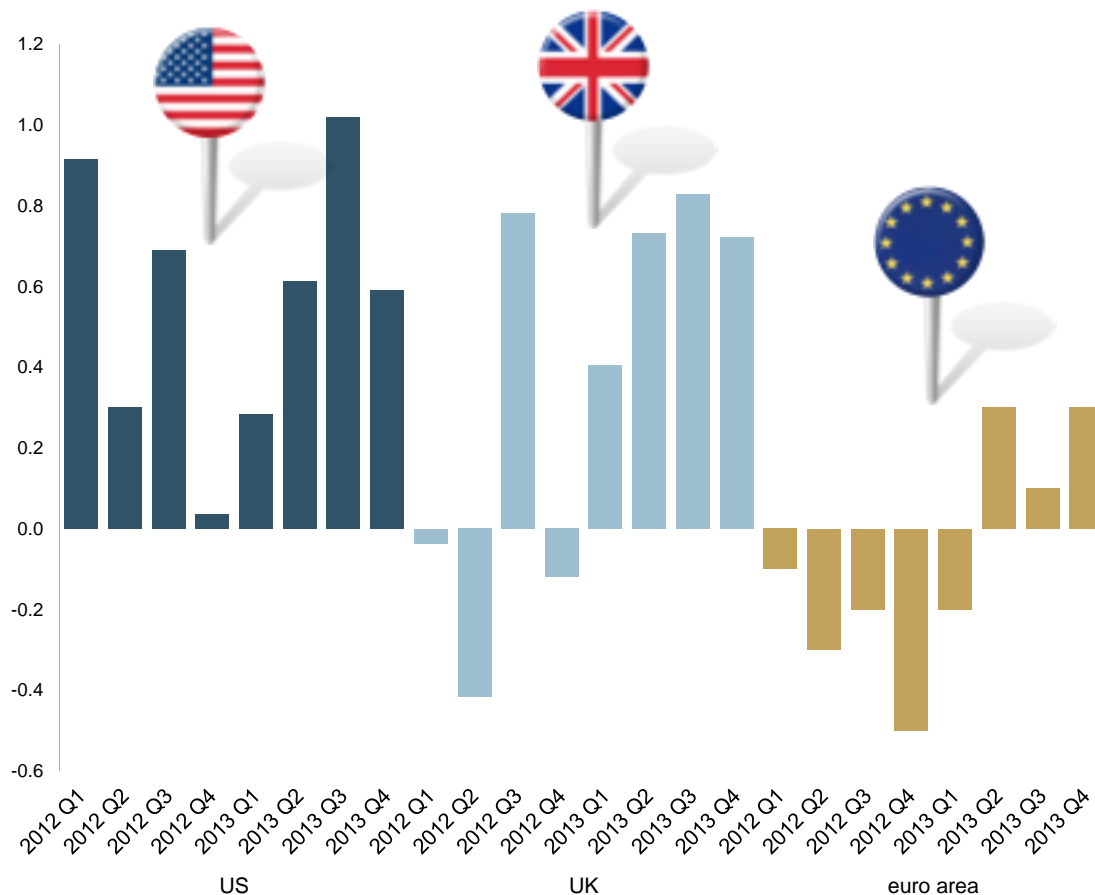
Return to growth in trading partners



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Key points

- Strong growth in the US
- Euro area returned to growth in Q2 of 2013
- UK growth ahead of expectations in 2013 – up 1.9%
- Euro area, US and UK combined represent about $\frac{3}{4}$ of exports



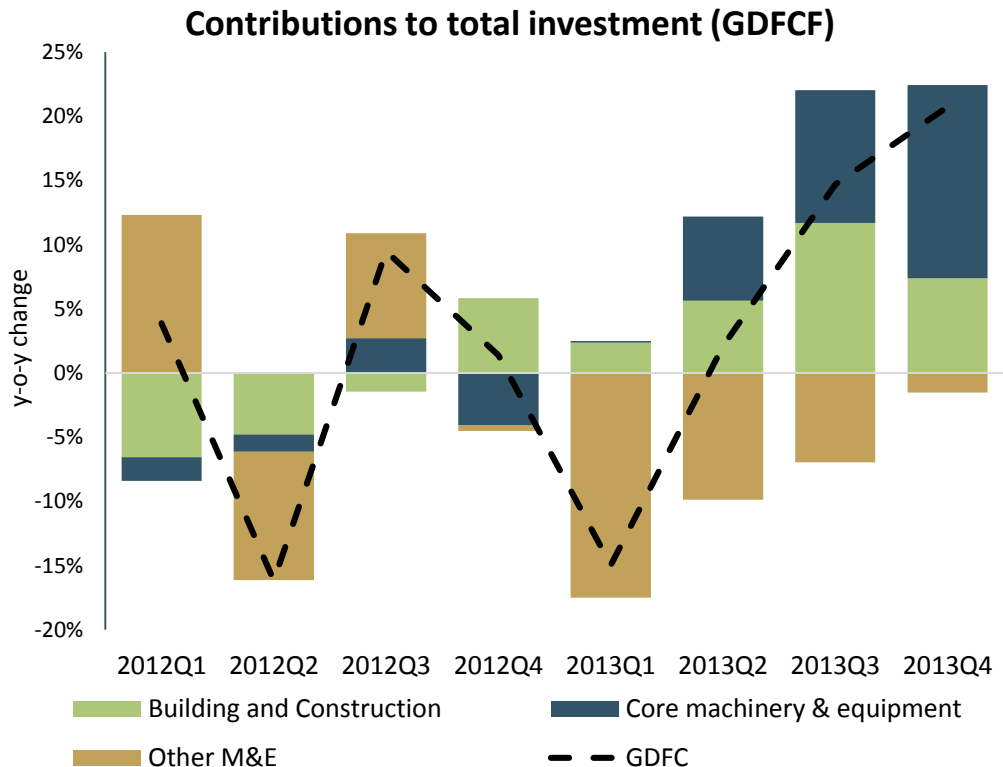
Investment recovery



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Key Points

- Other M&E (mostly imported planes) down by c. 70% in 2013
- But 'core' investment (i.e. investment less planes) recorded strong growth
- [Forward looking indicators](#) suggest further strong investment growth in 2014



Labour market recovery



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Key Points

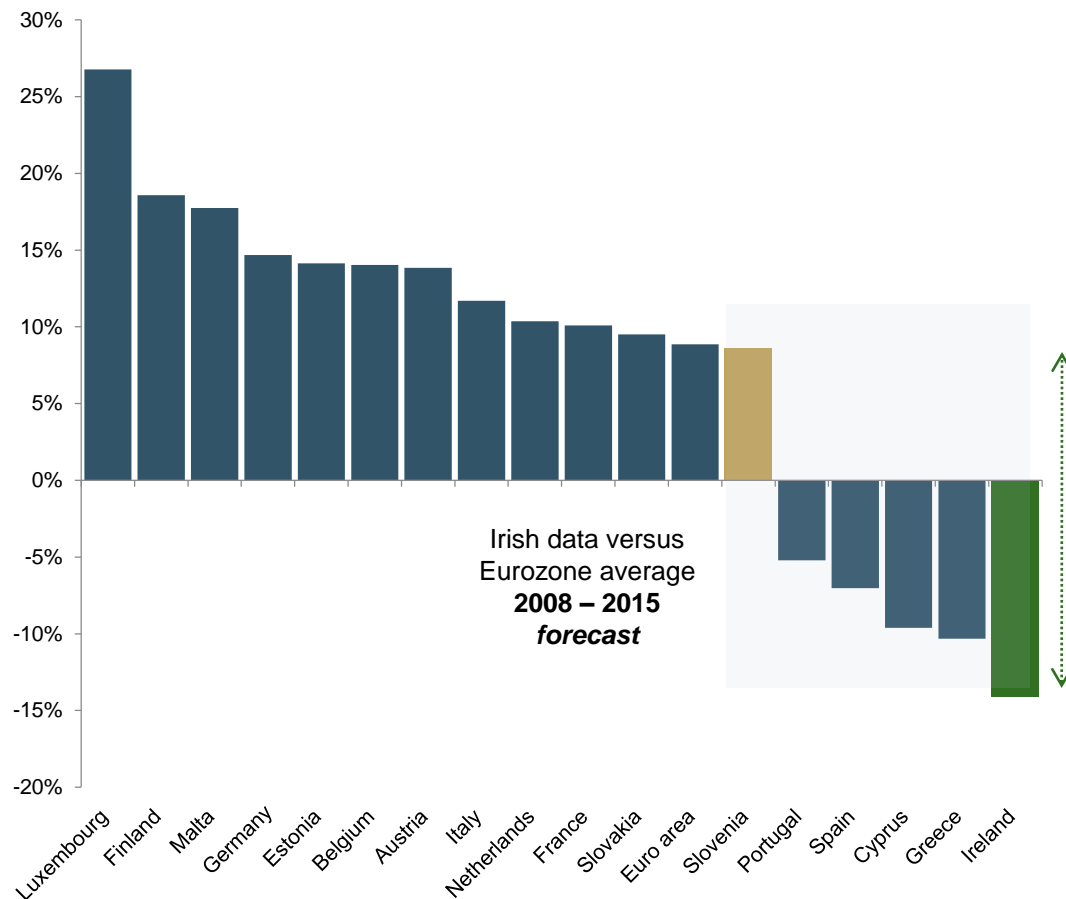
- Employment numbers surprised on the upside in 2013, up 2.4%
- Live Register & survey data suggests continued momentum into this year
- Unemployment rate (11.7% in April) now below euro area average



Relative improvement in unit labour costs



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Key point

- Continued competitiveness boost through reduction in unit labour costs with a 21% relative improvement forecast against the Eurozone average

Source : EC Autumn 2013 forecast

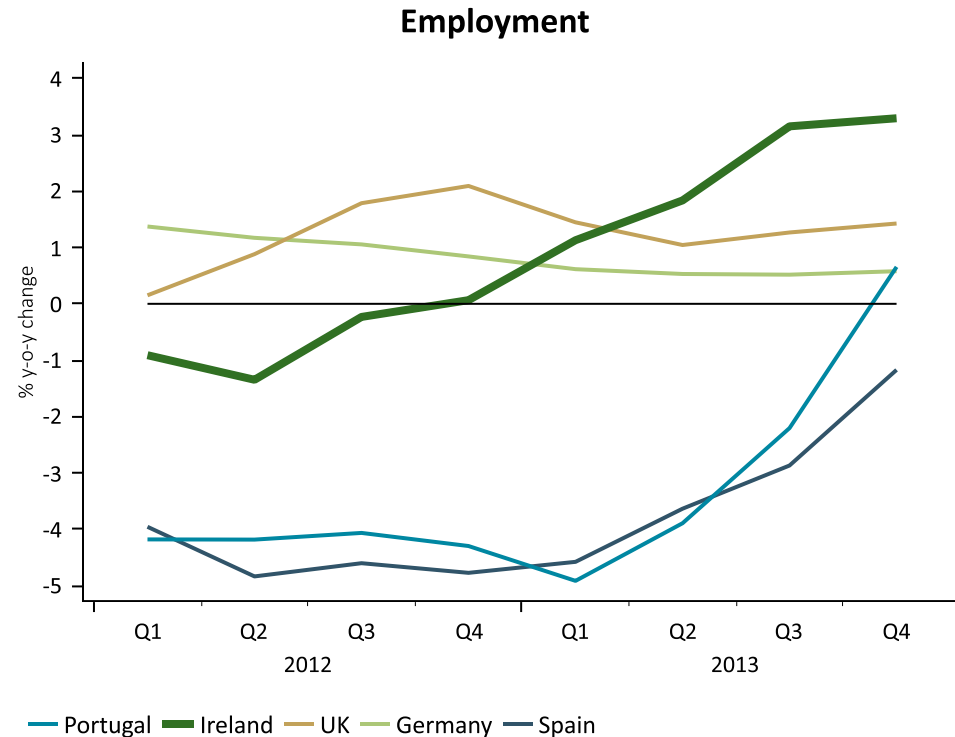
Strongest annual employment growth in EU28



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Key Points

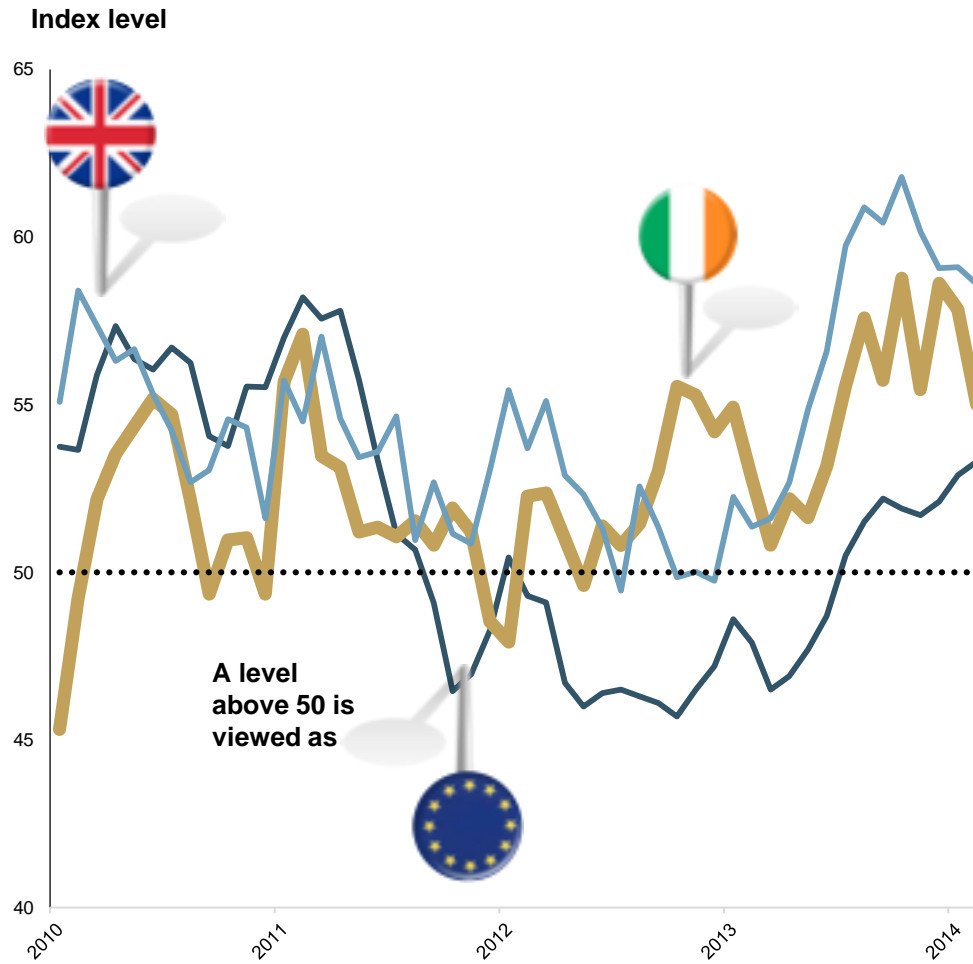
- Irish employment increased by 3.3% (y-o-y) in Q4
- Average employment declined by 0.1% in EU28
- Irish employment growth was the strongest in the EU in H2 2013



Purchasing Managers Index positive



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Source : Markit

Key points

- The latest Irish PMI figures (February 2014) indicate continuing recovery in the manufacturing, services and construction sectors
- Recent readings from key trading partners suggest further recovery in our largest export markets

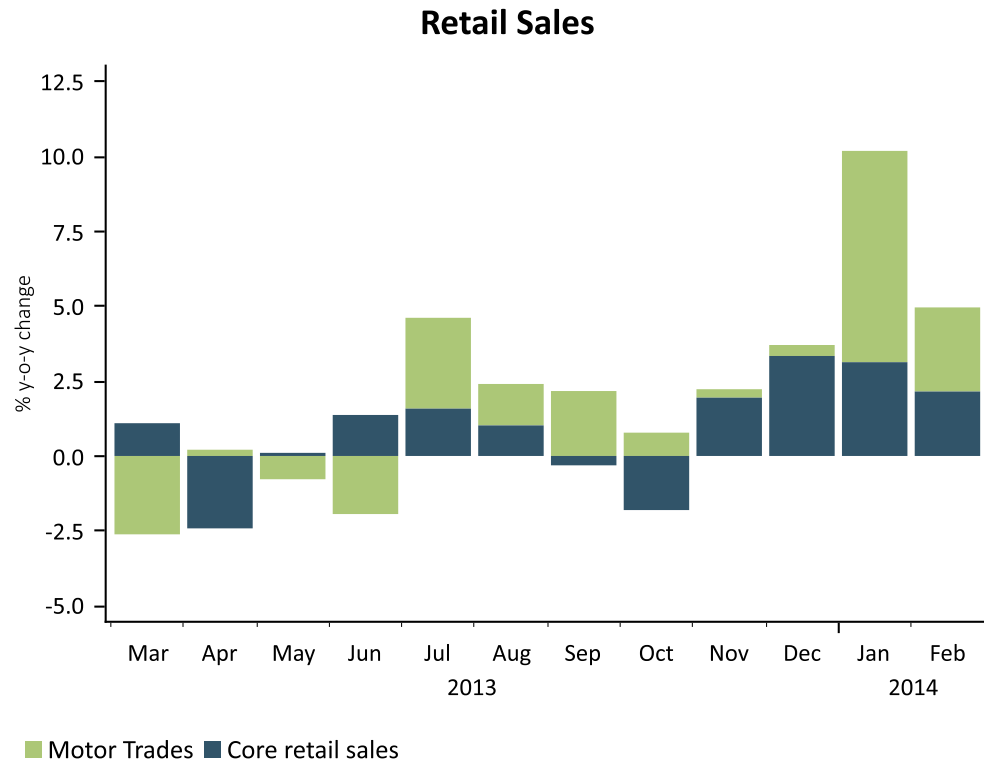
Strong retail sales recovery



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Key Points

- Personal consumption expenditure down 1.1% in 2013
- [Retail sales up 8%](#) (y-o-y) over the first two months of 2014
- Supported by strong car sales – [private vehicle licenses up 27%](#) in Q1





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Focus on consolidation



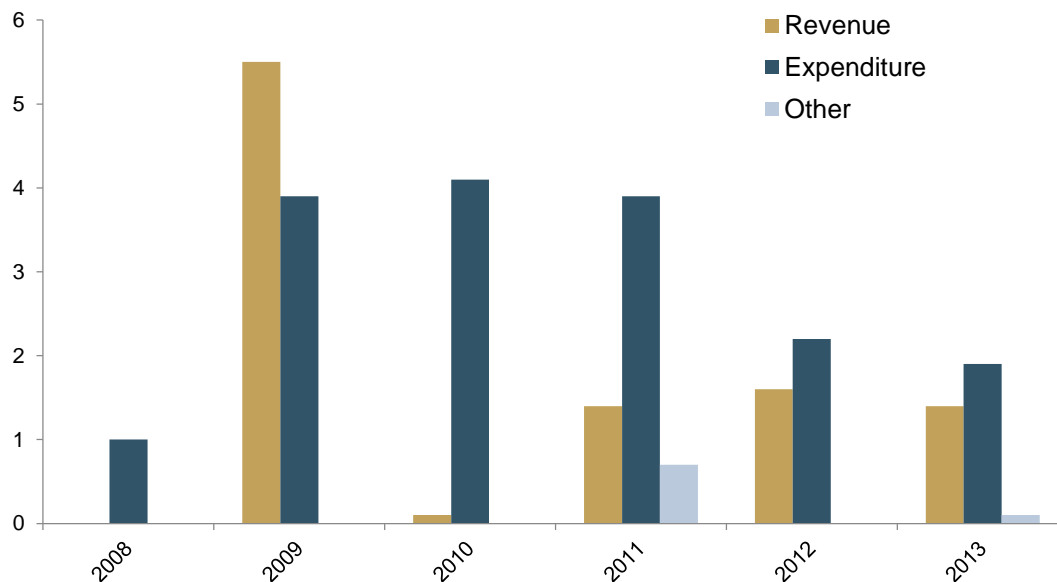
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CONSOLIDATION AS % OF GDP



The effect will cumulatively represent some 19% of GDP over the 7 year period

€ billions



Key point

- Consolidation achieved through a combination of actions over the period

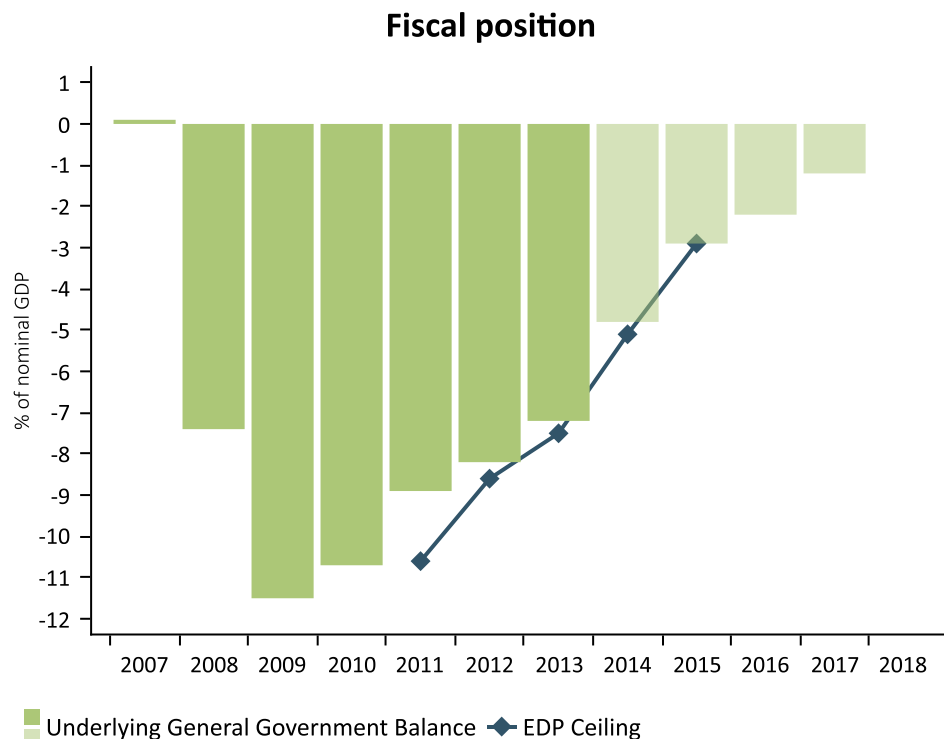
Remain on track to exit EDP next year



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Key Points

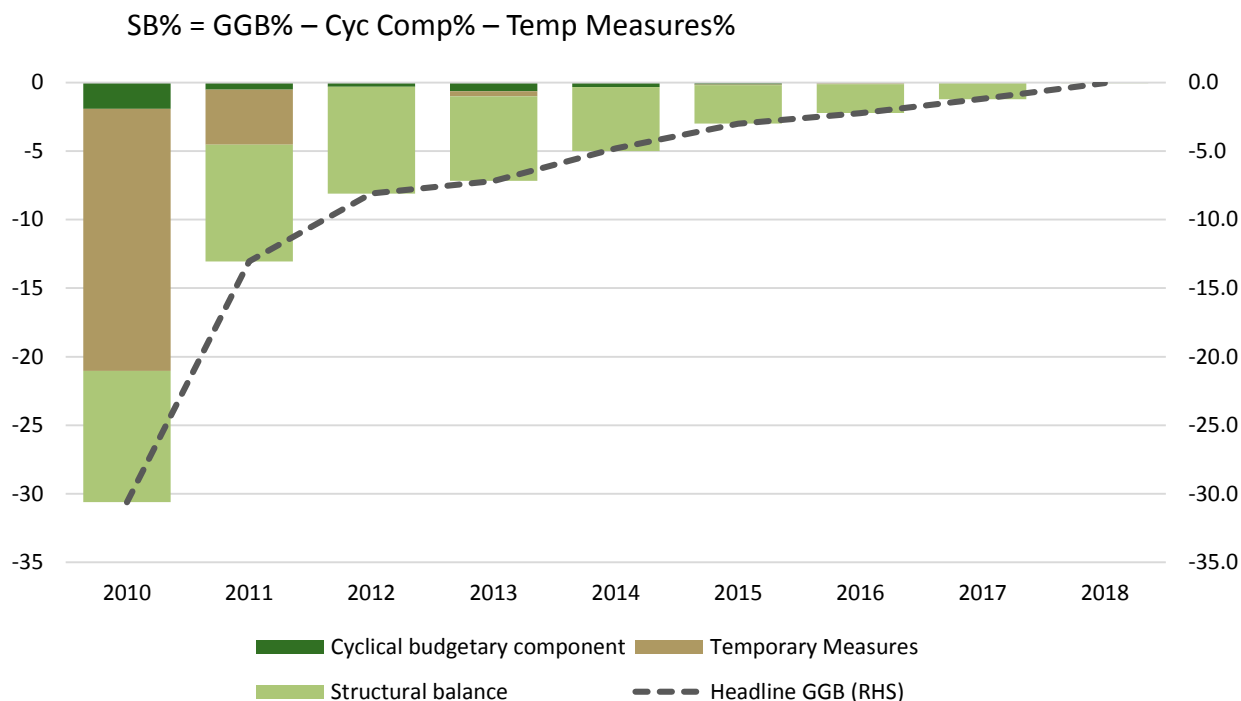
- Deficit target met or exceeded in every year thus far
- Underlying GGB of -4.8% forecast for this year vs -5.1% ceiling
- Underlying primary (less interest expenditure) balance expected to be recorded this year



Contributions to General Government Deficit



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Source: Department of Finance estimates. SPU April 2014.

- **Structural deficit** of -6.2% in 2013, closing gradually. MTO by 2018. Average structural correction of 1¼ pp per annum over 2014-2018.
- **Temporary measures** fading out; 2013 -0.4% GDP (ELG call, mobile licenses, PN accrued interest). 2014 +0.2% GDP (lottery licence, credit unions).
- **Cyclical component** less pronounced given flatter output gap profile

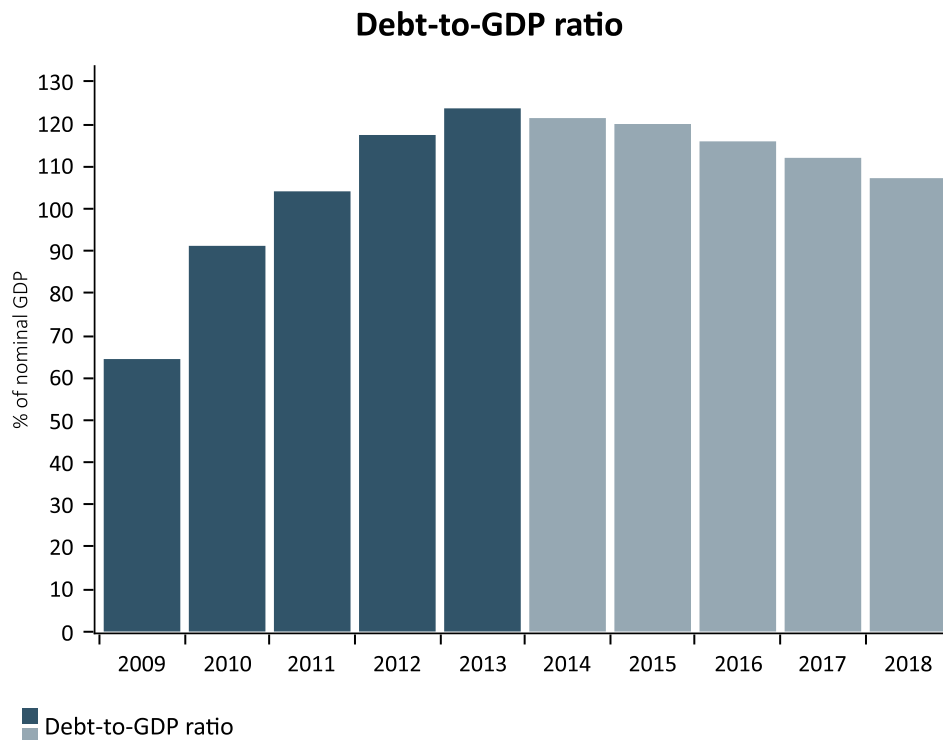
Debt ratio on firm downward trajectory



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Key Points

- Debt expected to have peaked in 2013 at 123.7% of GDP
- Debt ratio to fall to 121.4% of GDP this year and to continue to decline thereafter
- Net debt (i.e. excluding liquid assets) amounted to 98% of GDP in 2013

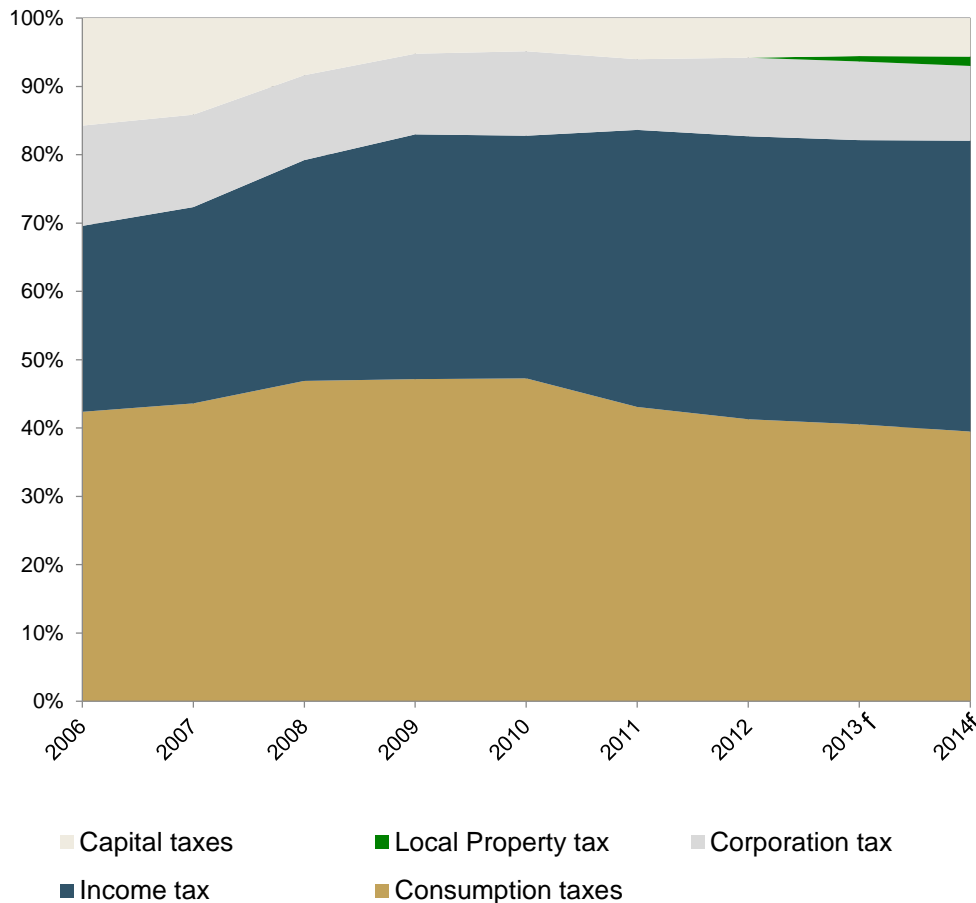


Sustainable tax base



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% total tax revenues



Source : Department of Finance – actual and forecast

Key points

- Q1 taxes ahead of target and some €415m higher than Q1 2013
- Shift away from transaction-based taxes while broadening tax base - introduction of new taxes such as Local Property Tax in 2013
- Adherence to Global Regulatory and Supervisory Standards recognised in December 2013



Contingent bank liabilities/debt maturity



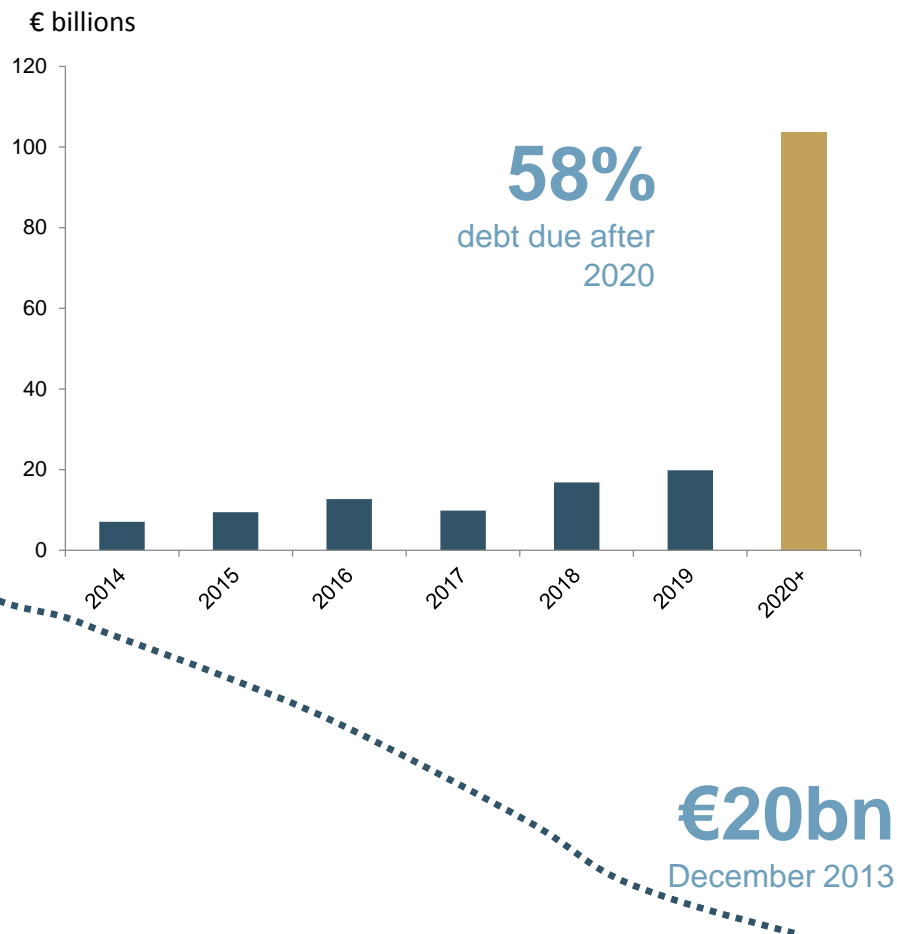
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€375bn

September 2008

Key points

- Contingent exposure through the bank guarantees (CIFS and ELG) reduced significantly after withdrawal in March 2013
- Some €4.2bn earned in fees on the bank guarantees



Source : Department of
Finance

SPU 2014 fiscal forecasts

	2013	2014	2015	2016	2017	2018
Underlying General Govt. Balance	-11,755	-8,040	-5,135	-3,950	-2,265	-85
- % of GDP	-7.2	-4.8	-2.9	-2.2	-1.2	0.0
Debt-to-GDP ratio	123.7	121.4	120.0	115.9	112.0	107.2



Key points

Ireland currently operates under the *corrective* arm of the SGP – we have to correct deficit by 2015.

Thereafter, the *preventative* arm of the pact, as revised in 2011 by the Six-Pack, comprises a number of fiscal rules which have already been introduced into Irish domestic legislation.

The most important of these are :

- Progress towards a structural balance (our 'MTO') by at least 0.5% of GDP per annum
- Expenditure benchmark which will allow expenditure to grow only with reference to potential GDP within the context of the MTES
- Debt rule reducing the debt level towards 60% of GDP at a set pace, which will ensure a downward trajectory for Irish debt over time



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The cost of the banking crisis



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Original capital
injections
€64.1bn



Disposals



€3.4bn sale of CoCo,
Preference Shares and warrants

€1.3bn

sale of Irish Life



Irish Life

€5.2bn Income

ELG and income on capital
instruments



€1.5bn



€11.6bn



€0.4bn*

Valuations

PCAR
banks

€6.7bn

IBRC
(in
special
liquidation)

€34.5bn
(some
ELG
paid)

**€40.7bn
net position
(total return)**

Key points

- Ireland invested some €64.1bn into the banking system during the crisis - equivalent to 40% of GDP
- Income of €5.2bn has been generated by the bank guarantee for the Exchequer
- A further €4.7bn has been repaid in 2013 following the sale of the Bank of Ireland CoCos, the successful sale of Irish Life and the redemption of the preference shares to the State by Bank of Ireland

Source : Department of Finance, values as at 4th March 2014 * denotes valuation of CoCo, there is no estimate of valuation of equity

Bank restructuring remains on track



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€255bn
aggregate
balance sheet
at Y/E 2010

119%
average LDR
ratio at the Irish
banks

The Irish
banks
today

permanent tsb



Bank of Ireland



Irish Life
bought by State €1.3bn

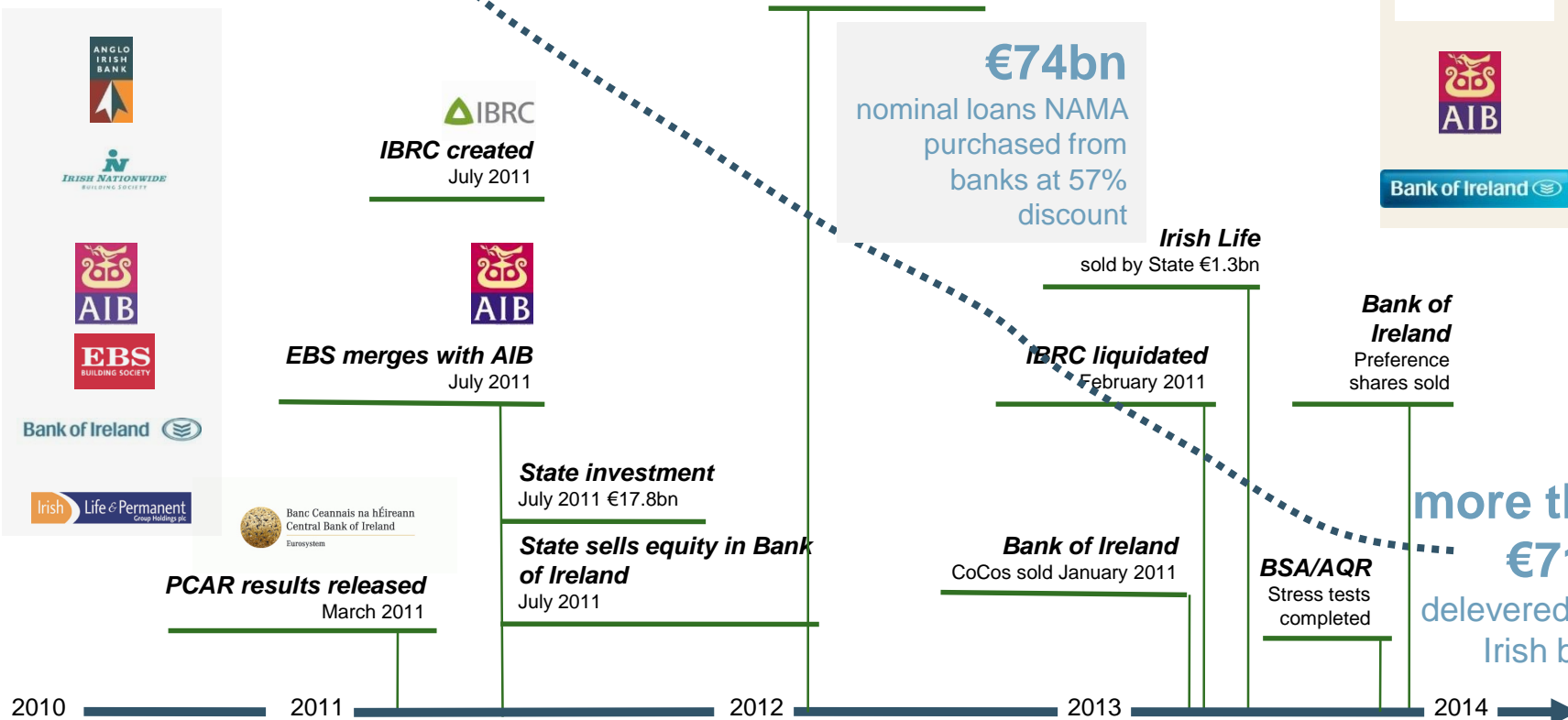
€74bn
nominal loans NAMA
purchased from
banks at 57%
discount

Irish Life
sold by State €1.3bn

IBRC liquidated
February 2011

Bank of Ireland
Preference
shares sold

more than
€71bn
delevered from
Irish banks

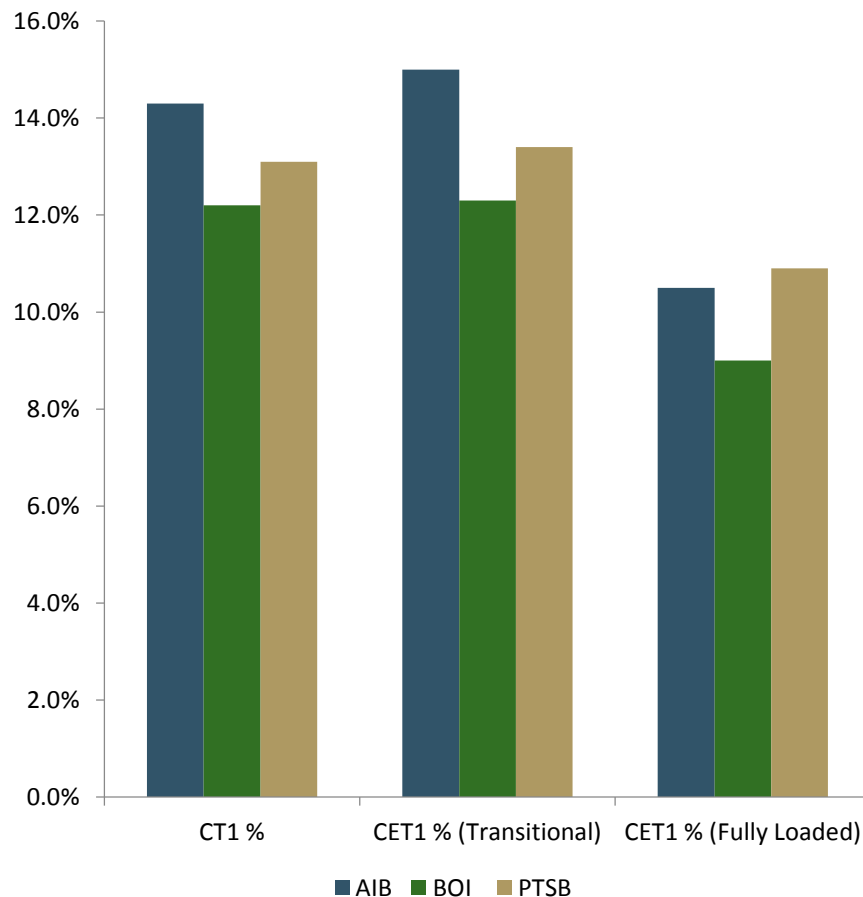


Capital levels



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Capital ratios (December 2013) post Balance Sheet Assessment

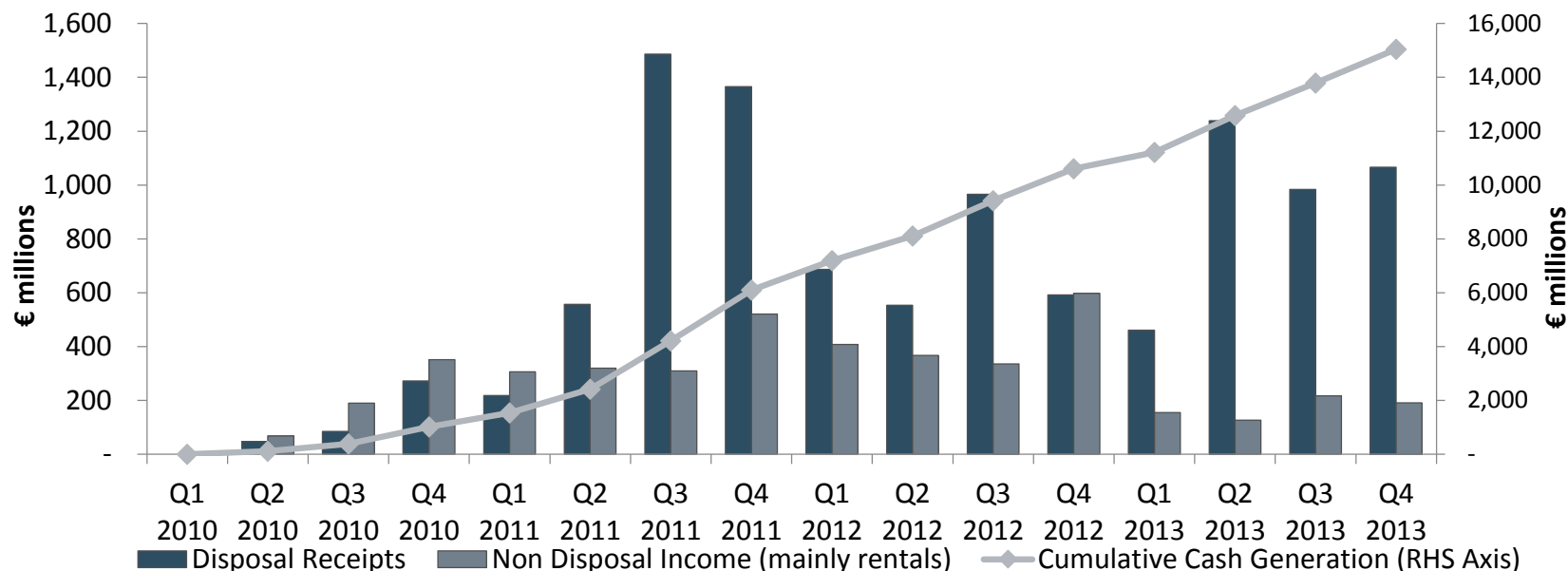


- Capital ratios across the three banks are broadly in line and remain strong at 12% - 14%.
- Key components of capital – provisions and RWAs – have been adjusted following the independent Balance Sheet Assessment in late 2013.
- ECB Comprehensive Assessment (CA) of Euro area banks scheduled for Q4 2014 will comprise supervisory risk assessment, asset quality review (AQR) and stress test.
- The ECB CA AQR is expected to be in line with the recent CBI BSA. Given the results of the BSA this should leave Irish banks well placed going into the ECB stress test

NAMA cash received



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Key Points

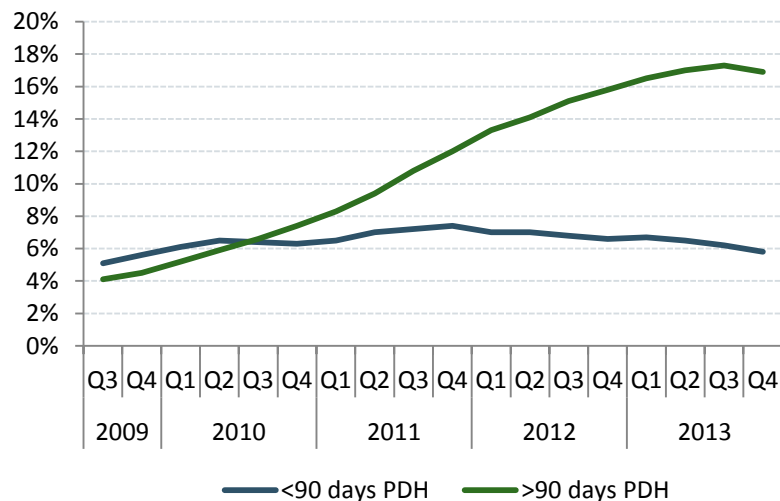
- NAMA met its bond redemption target of €7.5bn for year-end 2013. From inception to March 2014, NAMA has redeemed a total of €10.5bn Senior Bonds
- NAMA has made a coupon payment of €83.9m on its subordinated debt.
- NAMA has repaid some €3.27bn of Senior Bonds issued in relation to IBRC Special Liquidation

Irish mortgage arrears overview

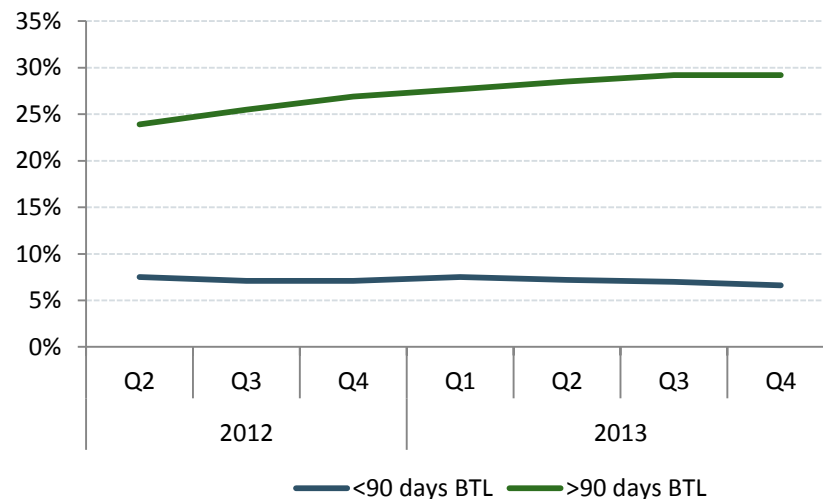


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Principal Dwelling Houses (PDH)



Buy-To-Let (BTL)



Key Points

- Mortgage arrears appear to be peaking as the growth in > 90 days arrears continues to slow.
- < 90 days arrears cases continue to reduce indicating continuing stabilisation in the market.
- The smaller BTL market (c. 25% of total) shows relatively higher arrears.

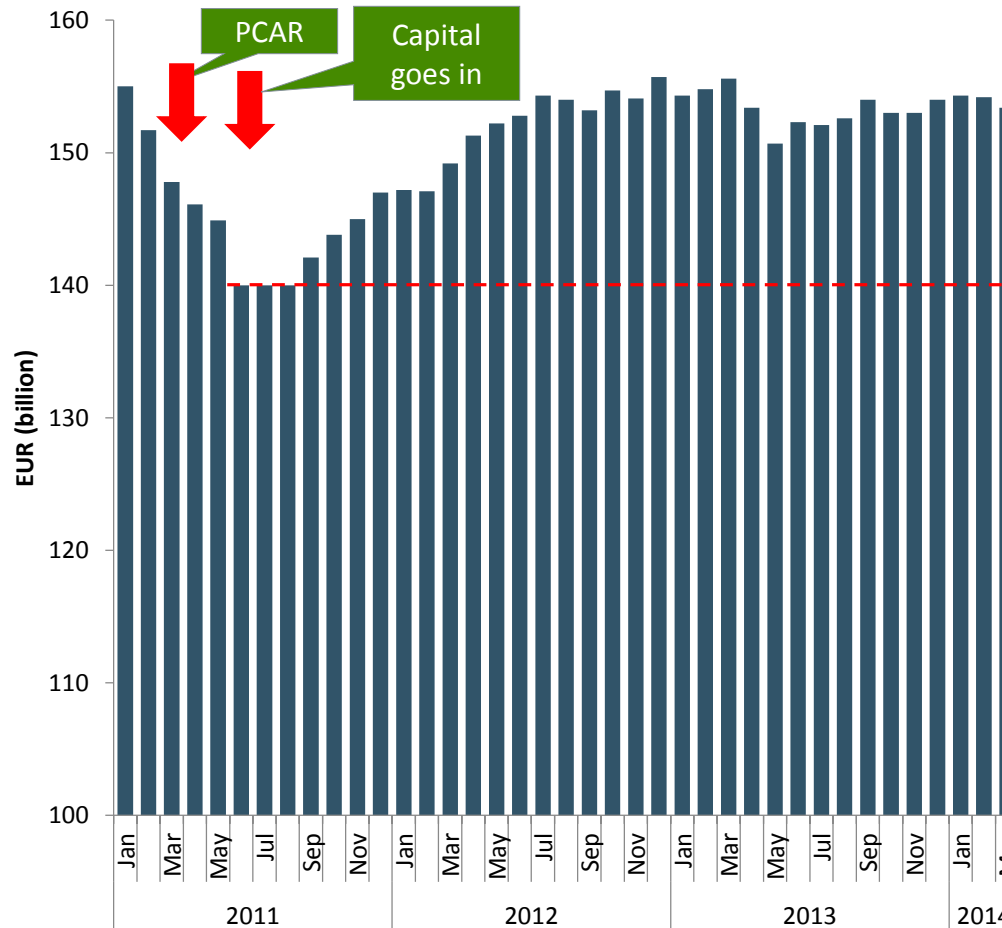
Source: Central Bank

Bank deposits stable in 2013 despite rate cuts



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Covered banks retail and corporate deposits (€bn)



- Covered Banks' deposit volumes remained stable in March 2014 at c.€153.4 billion, with deposits decreasing by c.€0.7 billion month-on-month.
- Deposits have increased by c.€13.4 billion (c.9.6%) since the re-capitalisation of banks was completed in July 2011.
- Deposit volumes in March 2014 versus March 2013 illustrate a stable deposit market, with deposit volumes falling by c. €2.2bn year-on-year.

Source: Central Bank of Ireland & Department of Finance (excludes (i) NTMA pre-recapitalisation deposits, (ii) AIB Poland)

IBRC liquidation update



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Key points

- c.€20 billion of asset sales now agreed and completion of asset sales expected to continue into Q2 2014
- Of the €13bn owed to NAMA almost €4.5bn has already been repaid and residual debt likely to be repaid by Q3 2014
- No further cost expected to arise for the Exchequer
- Only a small number of residual assets now expected to transfer to NAMA

Evergreen

(€2.5bn gross corporate/SME loans)

- Binding bids received on 6th December 2013
- c.84% of the portfolio (by par value) sold to third parties at prices in excess of independent valuations. Most sales have completed.

Sand

(€1.8bn gross resi mortgage loans)

- Sale process launched 14th October 2013
- Large volume of indicative bids received 12th November 2013
- 64% of loans sold to third parties – mixture of PDH and BTL mostly non performing

Rock & Salt

(€7.3bn gross UK loans)

- Binding bids received in late February 2014
- All assets sold (100%) to third parties at prices in excess of independent valuations.

Stone & Pebble

(c. €10bn gross CRE loans)

- Sale process launched 11th November 2013
- High level of interest with a large number of indicative bids received in December 2013
- Binding bids received for the €0.8bn Pebble book in late February 2014
- 100% of Pebble and 85% of Stone sold to third parties.

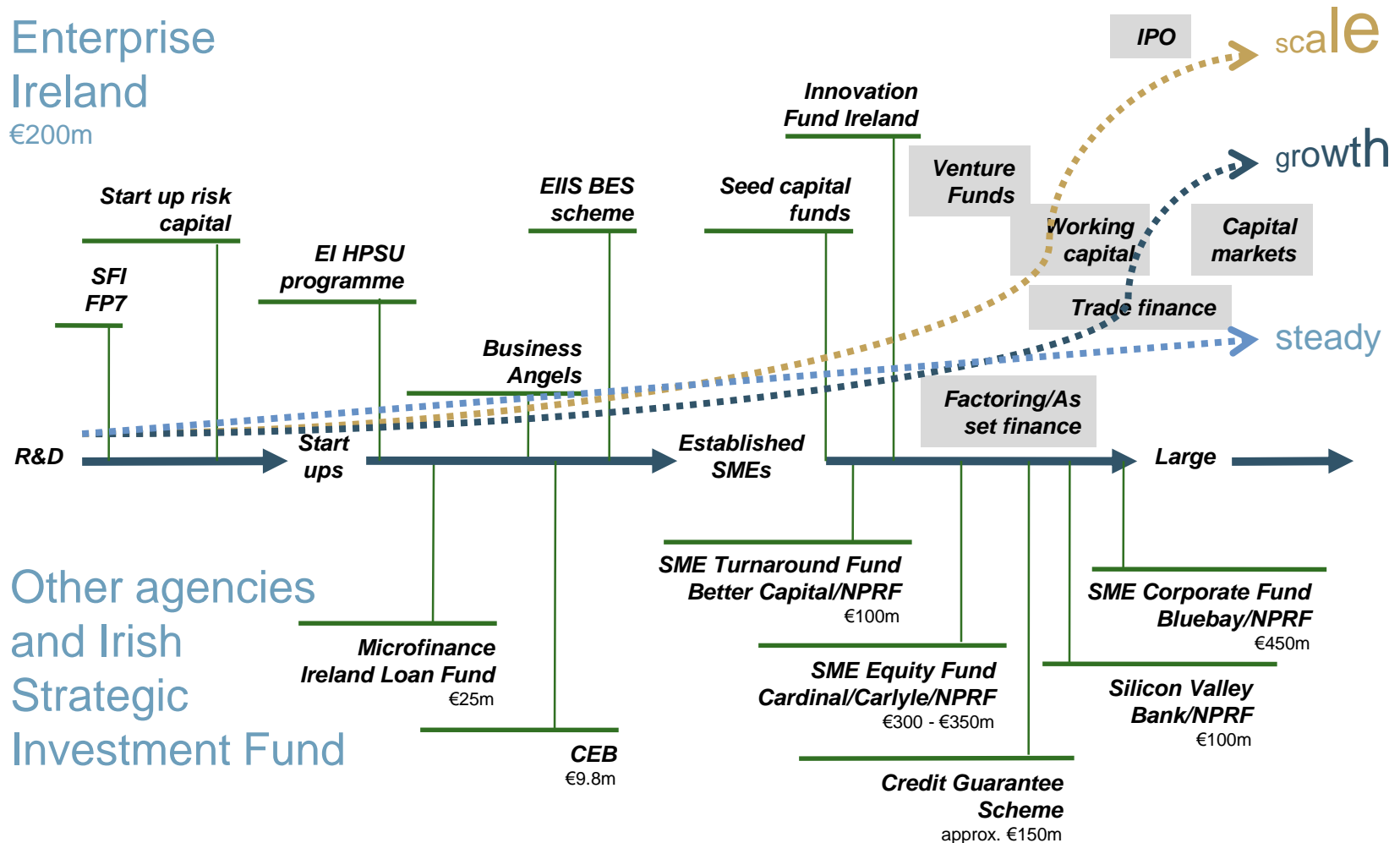
Non-bank funding for SME sector



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Enterprise
Ireland

€200m



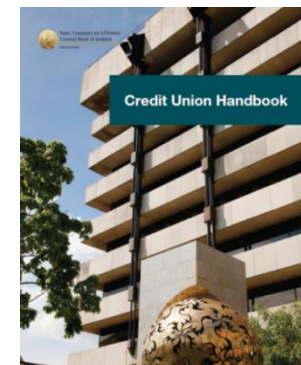
Credit Union sector



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Key points

- The Credit Union sector has some 2.8m members at 393 Credit Unions
- Aggregate balance sheet of €13.8bn
- Loans of €4.5bn
- Total reserves of €2.1bn
- Regulatory capital of €1.4bn
- Arrears of €816m (19%)
- Combined resolution and restructuring funds of €500m (fully funded) to support change in the sector
- New regulatory regime commenced in October 2013





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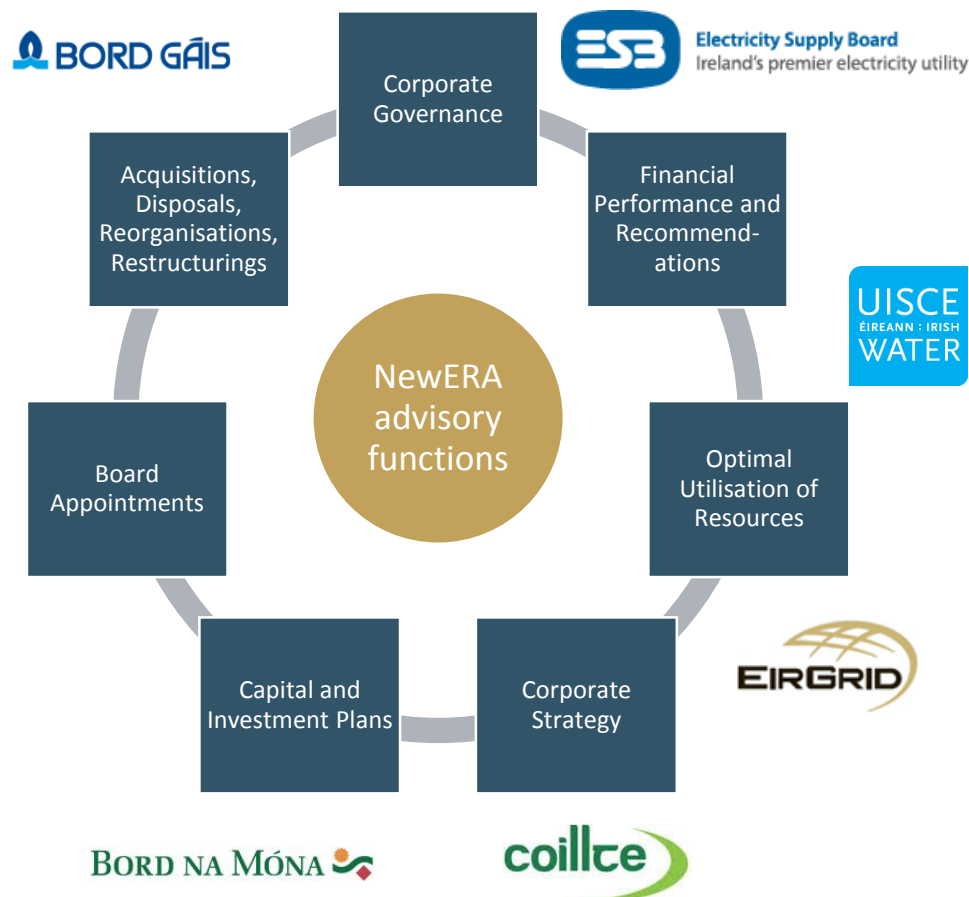
NewERA



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Key points

- Established in 2011 in the NTMA to maximise semi-state companies' contribution through commercially orientated shareholder engagement
- Companies under its remit generate ~€6bn in revenues and capital employed of ~€13.6bn
- NewERA is advising on the sale of state assets and the establishment of Irish Water
- Legislation being drafted to give NewERA a legal mandate and expected to be enacted by mid-2014



Ireland Strategic Investment Fund (ISIF)



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The ISIF was launched on 5th March absorb the NPRF's resources - €6.5 bn of commercial investment capacity to support economic activity and employment in Ireland



Selected NPRF commitments

 National Pensions Reserve Fund Commission SME Turnaround Fund €100m NPRF commitment €50m January 2013	 National Pensions Reserve Fund Commission SME Equity Fund €300m - €350m NPRF commitment €125m January 2013	 National Pensions Reserve Fund Commission SME Credit Fund €450m NPRF commitment €200m January 2013
 National Pensions Reserve Fund Commission Irish Water Financing of water meters NPRF commitment €250m to-date 2013	 National Pensions Reserve Fund Commission Irish PPP Projects €25m to-date 2012/2013	 National Pensions Reserve Fund Commission Innovation Fund Ireland NPRF commitment €125m 2010

FDI strength



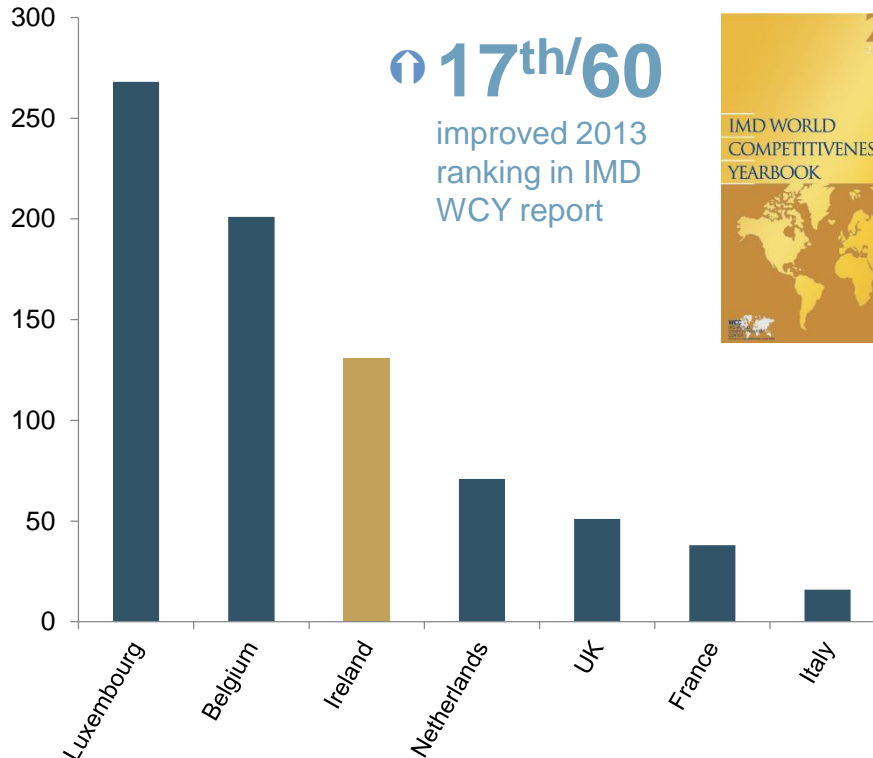
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↑ 1st

Best country for business
(December 2013)

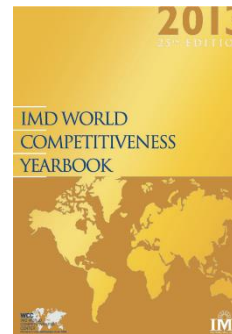


FDI stocks % GDP
(3 year average)



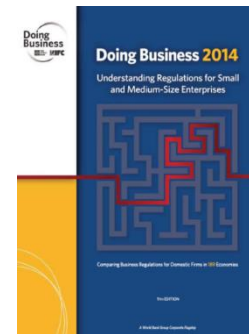
↑ 17th/60

improved 2013
ranking in IMD
WCY report



⇒ 15th/189

retained position in
2014 in World Bank
rankings



Key points

- 1st for flexibility and adaptability, 2nd in management practices and 4th in international trade (WCY 2013)
- Employment grew at FDI firms by 4% per annum since 2011

Source : UNCTAD country reports 2010, 2011 and 2012

Selected real estate transactions



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GREEN
REIT PLC



better living made simple

REITS



hibernia
reit plc

Green REIT (June 2013) €310m

Hibernia REIT (December 2013) €365m

IRES REIT (April 2014) €200m

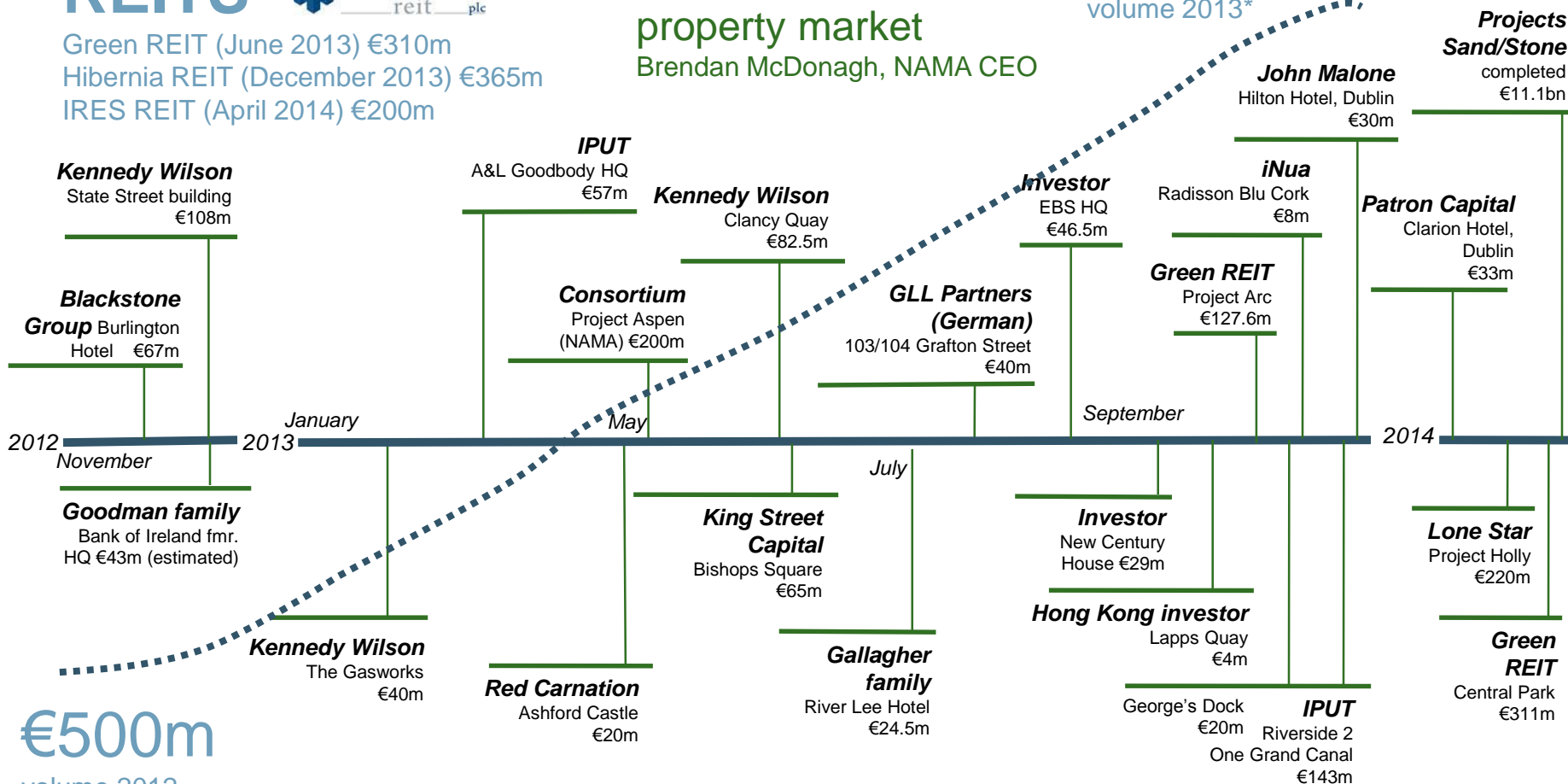
“still a need for
caution” in the Irish
property market
Brendan McDonagh, NAMA CEO

€1.9bn

volume 2013*

€5.0bn

volume 2014*



* source : market estimates (CBRE, April 2014)

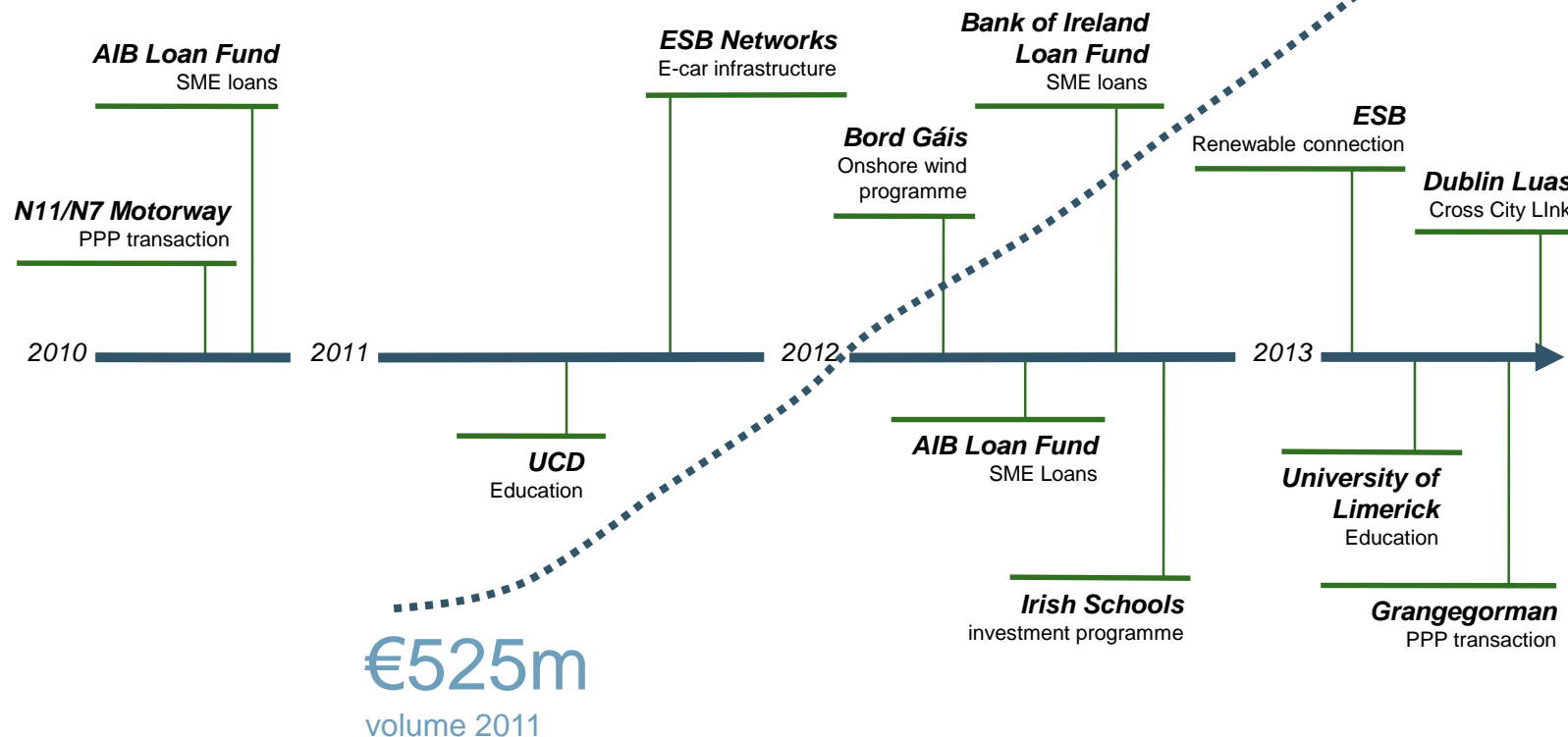
Notable EIB funding transactions



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€1,193m
volume 2013

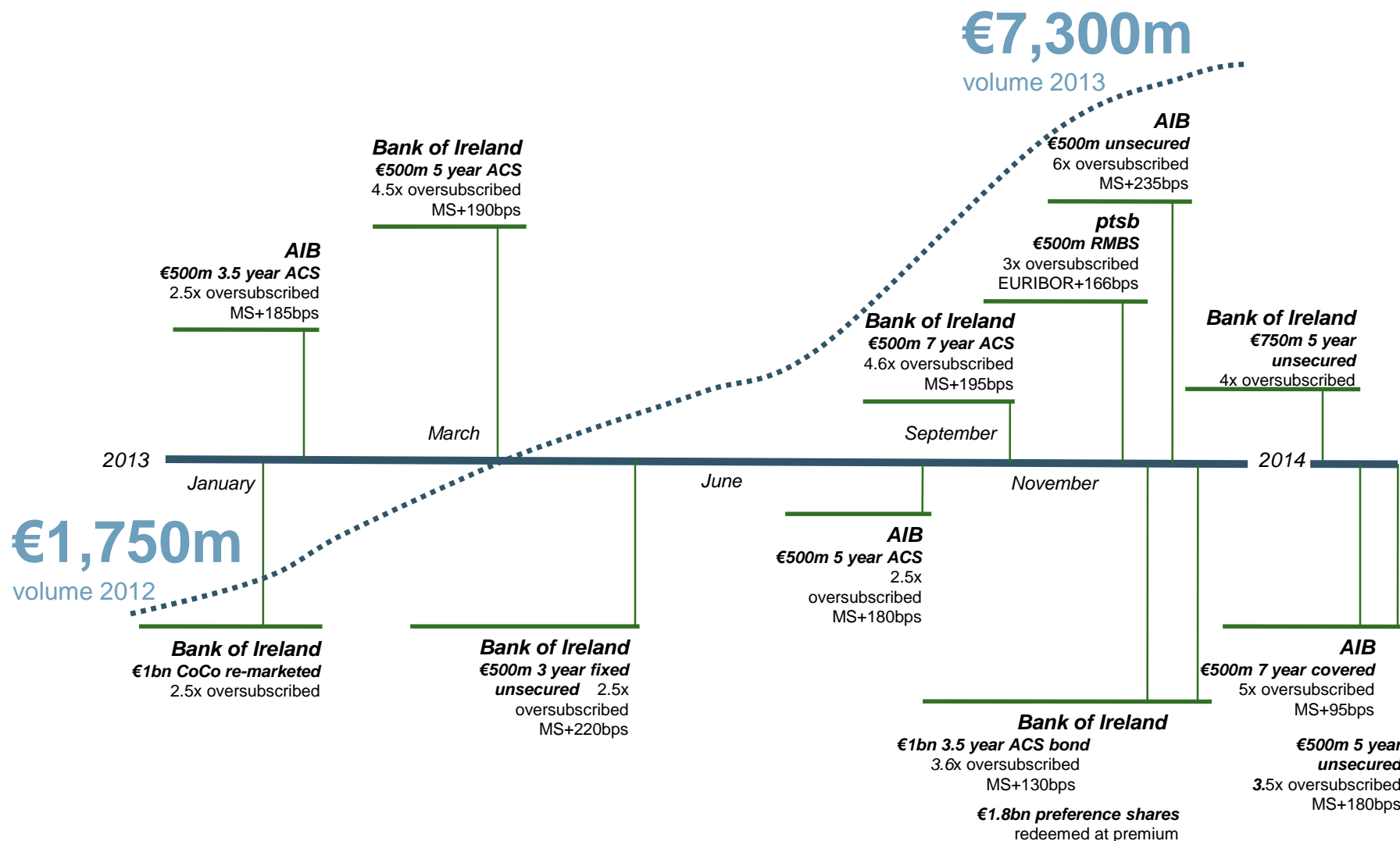


source : Department of Finance

Selected capital markets issues



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