

IRELAND'S ECONOMY AND FINANCES



October 2017



An Roinn Airgeadais
Department of Finance

Key points

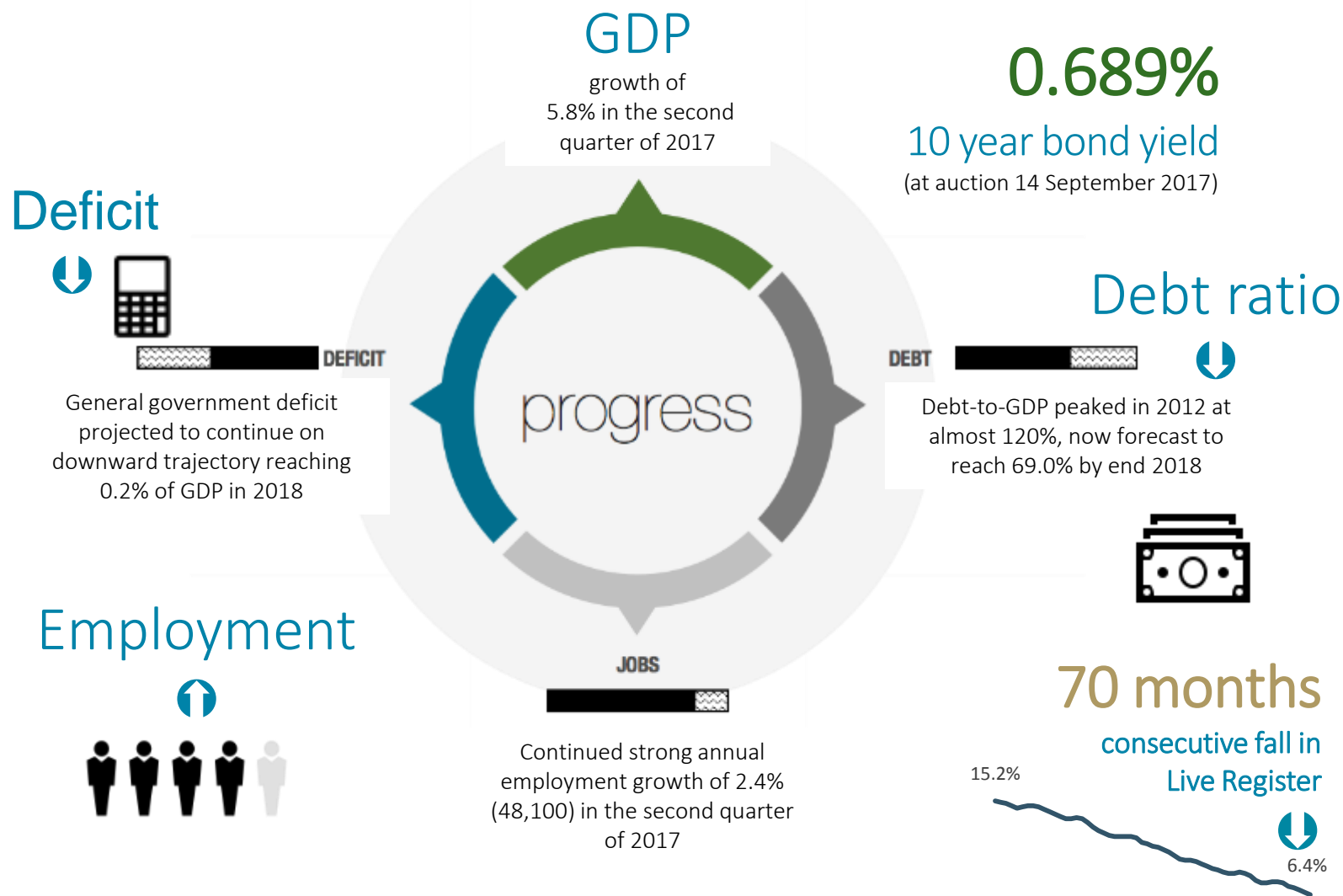
- ✓ The Irish economy expanded by 5.1 per cent last year with GDP growing by 5.8 per cent in the second quarter year-on-year
- ✓ Domestic demand is now a key driver of growth with positive contributions from consumption and underlying investment spending
- ✓ Unemployment rate continues to fall (at 6.1% in September 2017)
- ✓ Medium Term Budgetary Objective (MTO) of a balanced budget in structural terms to be achieved in 2018
- ✓ Deficit projected to reach 0.3% of GDP in 2017 and to 0.2% in 2018
- ✓ Debt-to-GDP ratio down to 70.1% in 2017 and forecast to reach 61.2% in 2021
- ✓ Irish sovereign Long Term Yields (i.e. 10 year bonds) remain below 1% at 0.689% (at last auction) with estimated weighted average maturity of 11.0 years*
- ✓ Banking Sector profitable and well capitalised with State continuing to actively manage investments
- ✓ Ireland committed to maintaining an open, transparent, stable and competitive corporate tax regime

Indicators positive but challenges remain for a small open economy given external headwinds.

* The 11.0 Years average maturity includes IMF/EU loans and is making some assumptions regarding ESFM maturities



Key figures



- Section 1 Economic Goals

Section 2 Public Finances

Section 3 Financial System



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Macroeconomic forecasts

Budget 2018

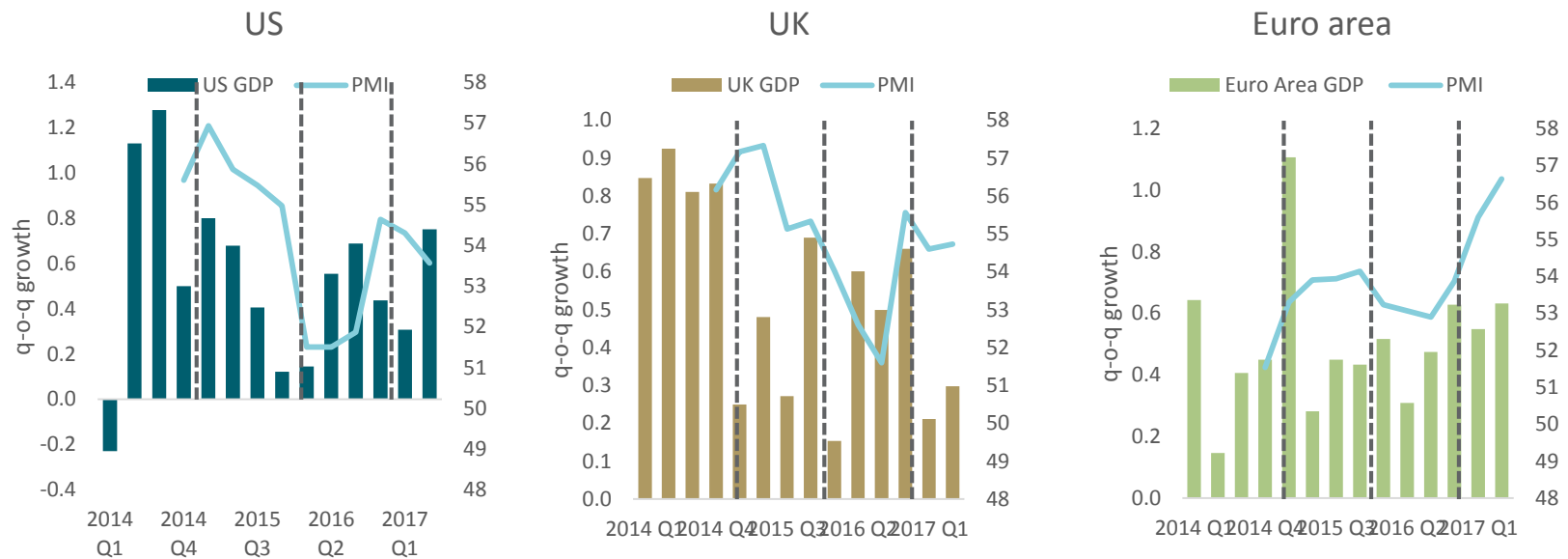
Macroeconomic forecasts for Ireland – October 2017					
Year-on-Year % change	2017	2018	2019	2020	2021
Real GDP	4.3	3.5	3.2	2.8	2.6
Nominal GDP	4.9	4.4	4.4	4.1	4.1
Real GNP	0.0	3.3	3.0	2.5	2.3
Nominal GDP (€ billions)	289.1	301.7	315.0	327.9	341.4
Nominal GNI* (€ billions)	190.2	198.8	207.6	215.9	224.5
Personal Consumption	2.3	2.3	2.2	2.1	1.9
Govt. Consumption	2.0	2.0	2.0	1.9	1.7
Investment	-3.7	6.1	5.6	4.2	3.8
Exports	3.5	4.8	4.3	4.0	3.8
Imports	-1.0	5.5	4.9	4.4	4.2
HICP	0.2	0.7	1.4	1.8	1.9
GDP Deflator	0.5	0.8	1.1	1.3	1.5
Employment	2.8	2.3	2.1	1.8	1.6

GDP in Ireland & inflation by multinationals

- 2016: GDP growth for 2016 - Irish economy expanded by 5.1 per cent
- GDP growth in 2016 is a fair reflection of underlying activity in the Irish economy and is consistent with continued strengthening in the labour market and robust tax receipts. It was not affected by the relocation of Multinationals and is well represented in this figure.
- 2015: Headline GDP figures of 26 % were clearly distorted and are exaggerated
 - Small number of large multinational firms
 - Exceptional factors
 - Limited impact on actual activity in the Irish economy
- Underlying economic activity remains robust.
- Employment growth, consumer spending and tax receipts = underlying growth of c. 5 % in 2015.
- We always use best international practice and statistical standards.
- An alternative indicator (GNI*) of the size of the IE economy was published this year in nominal terms.



Economic growth in Ireland's key trading partners is generally picking-up...

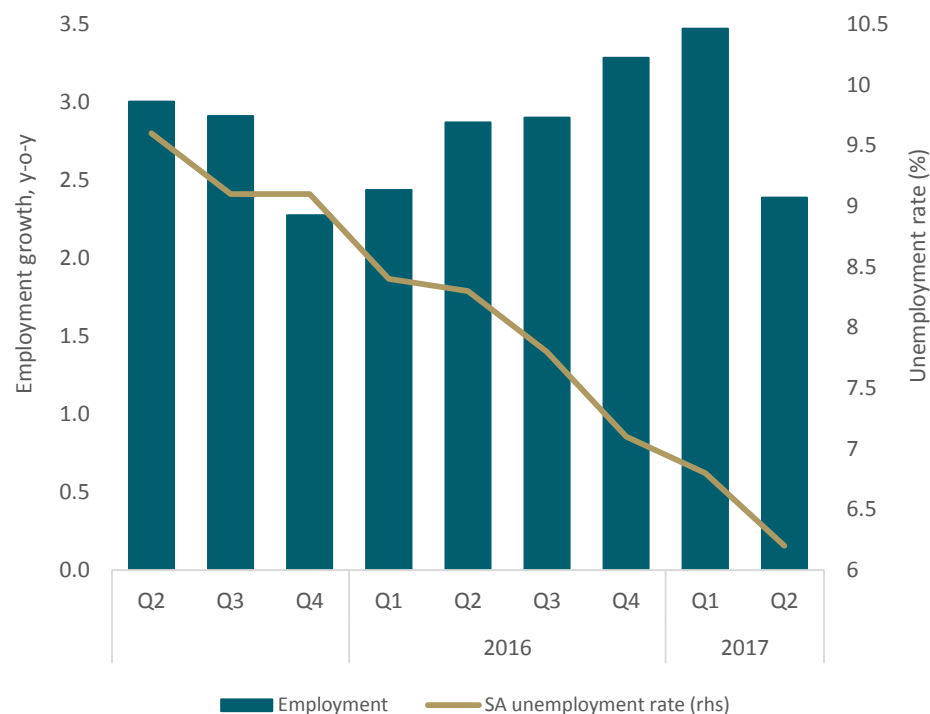


- Sustained economic growth in the euro area and the US expected in 2017 and 2018.
- UK growth has slowed markedly in the first half of 2017.
- Main trading partners account for approximately 2/3 of Irish exports

Highest level of employment since 2008

Key points

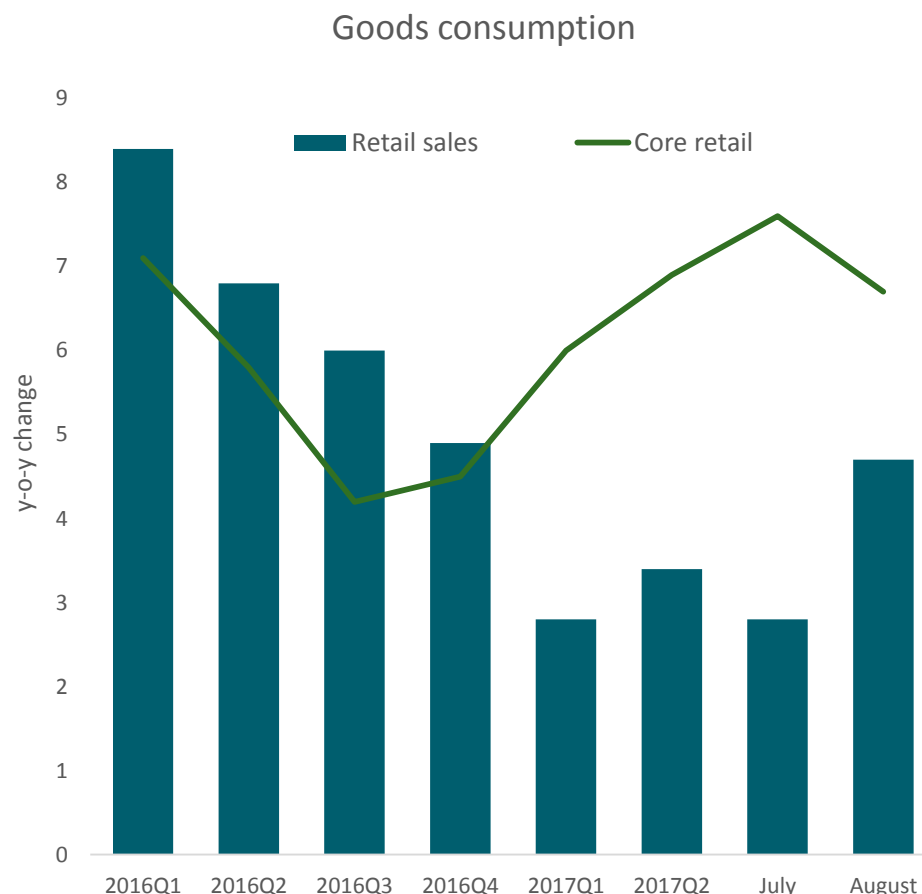
- Employment levels have increased by almost 13 per cent since low-point in mid-2012 (230,000 jobs)
- Unemployment rate of 6.1 per cent recorded in September 2017
- Unemployment rate fell by about 9 pp since the peak in early 2012



Retail sales growth remains robust

Key points

- Retail sales are up 3.3 per cent January – August y-o-y
- Core retail sales, which exclude car sales, are up 6.6 per cent January – August y-o-y
- Consumer sentiment remains solid – well above its long-run average.



Getting Ireland Brexit Ready

- The UK's decision to exit the EU represents an external risk to our economy.
- Budget 2018 helps to mitigate the impacts of this decision by;
- 'Balancing the books' putting the public finances in a better position to withstand Brexit-related fiscal shocks;
- Furthering the establishment of the 'Rainy Day Fund' an important step in strengthening the national finances for external risks;
- Introducing a new €300 million Loan Guarantee Scheme for Brexit-impacted business and a complementary €25 million Agriculture Brexit Loan Scheme;
- Doubling of capital investment between 2015 to 2021 from €3.7 to €7.8 billion - boosting the growth potential of the economy;
- Retaining of the 9% VAT rate in the hospitality sector will reduce the impact of currency volatility in the wake of the UK's decision.



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Stability and Growth Pact

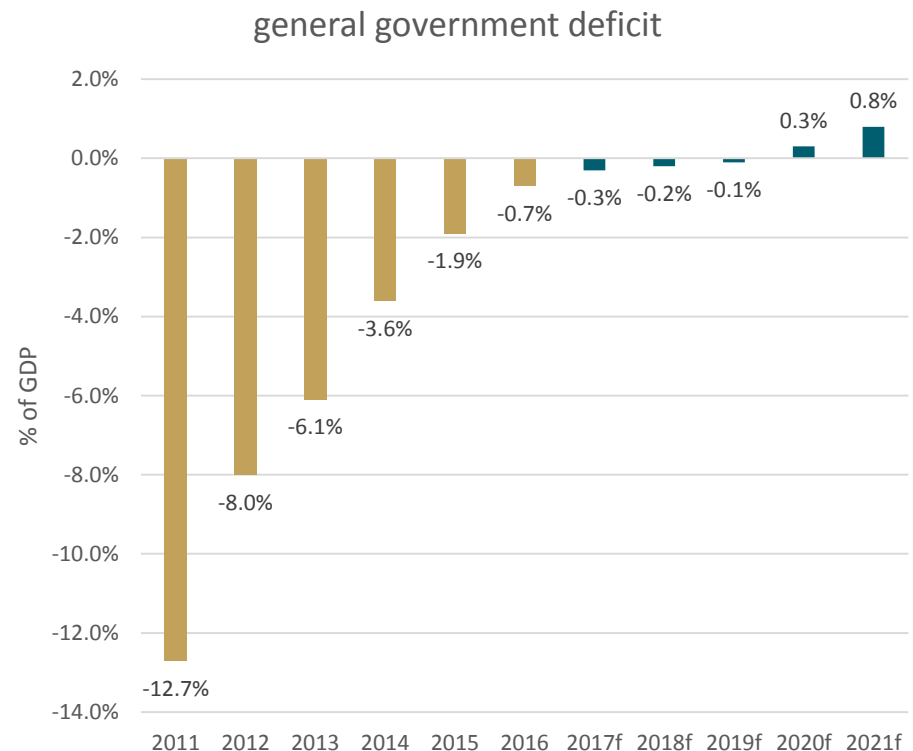
- With the correction of the excessive deficit in 2015, the new fiscal anchor is the achievement of a structural deficit of 0.5 per cent of GDP.
- On-track to achieve this in 2018, based on current trajectory and assumptions within Budget 2018.
- SGP requires reduction of debt ratio to less than 60% of GDP. Current fiscal forecasts indicate that the debt ratio, having peaked at almost 120% of GDP, will reduce to 61.2% of GDP by 2021.
- Under new fiscal regime, increases in public expenditure will be derived with reference to potential growth rate of economy, independent of tax (over)performance.
- This means that future government expenditure will be decoupled from cyclical or windfall tax revenues and will be sustainably financed.



On-going improvement in the general government deficit...

Key points

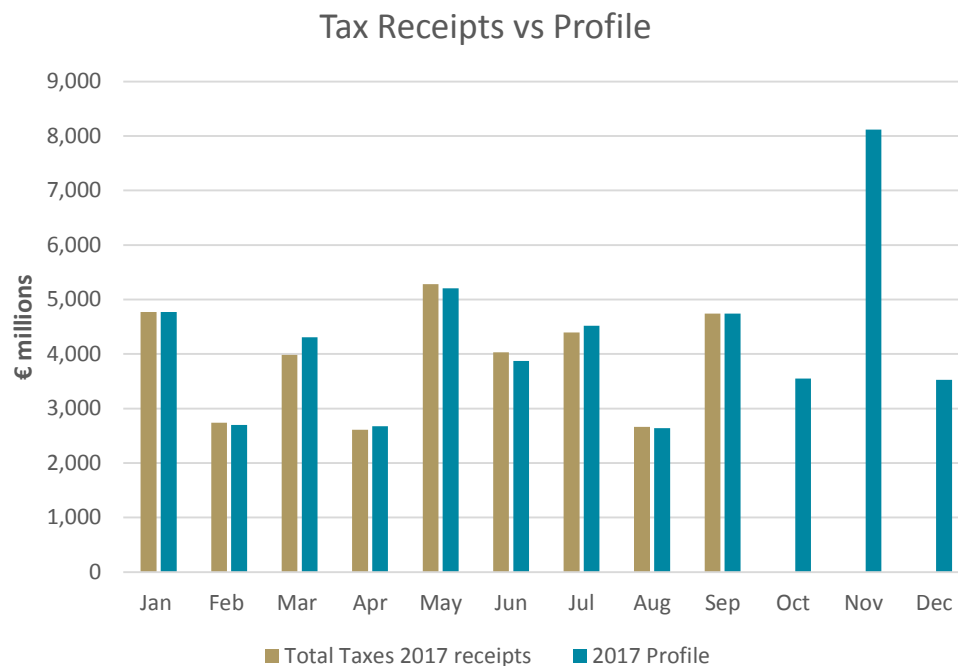
- General government deficit of 0.3% of GDP for 2017, improving to 0.2% of GDP in 2018.
- A general government surplus is forecast from 2020.



Tax performance year to date

Key points

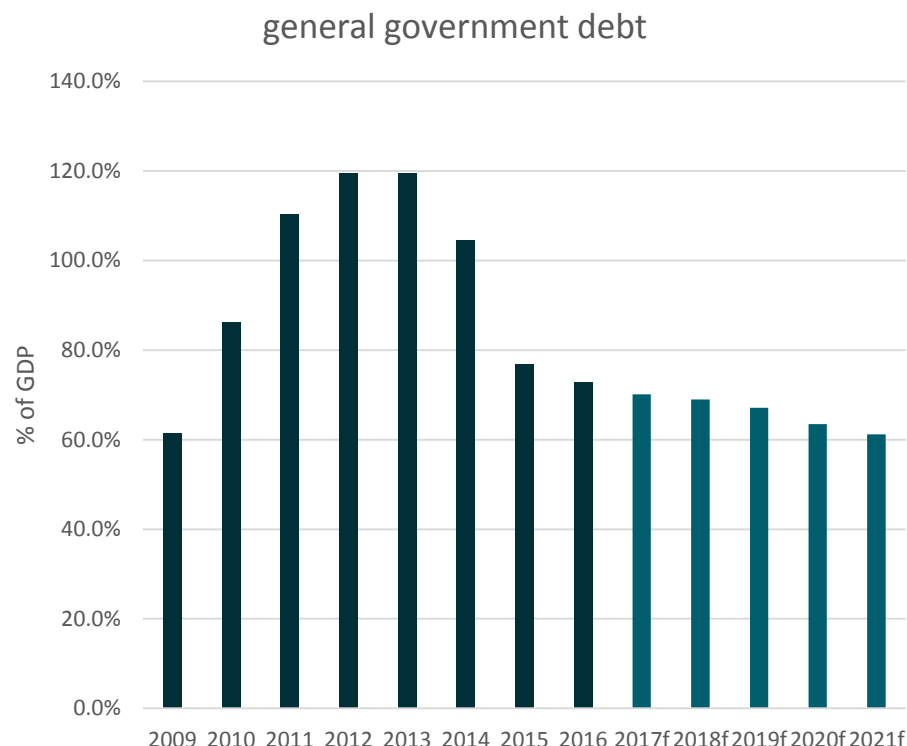
- Tax revenues of €35,217 million were received to end September 2017. This is marginally below target (down 0.6% of €212 million).
- In year-on-year terms, tax revenues are up 5.4% or €1,810 million.



Debt ratio on downward trajectory

Key points

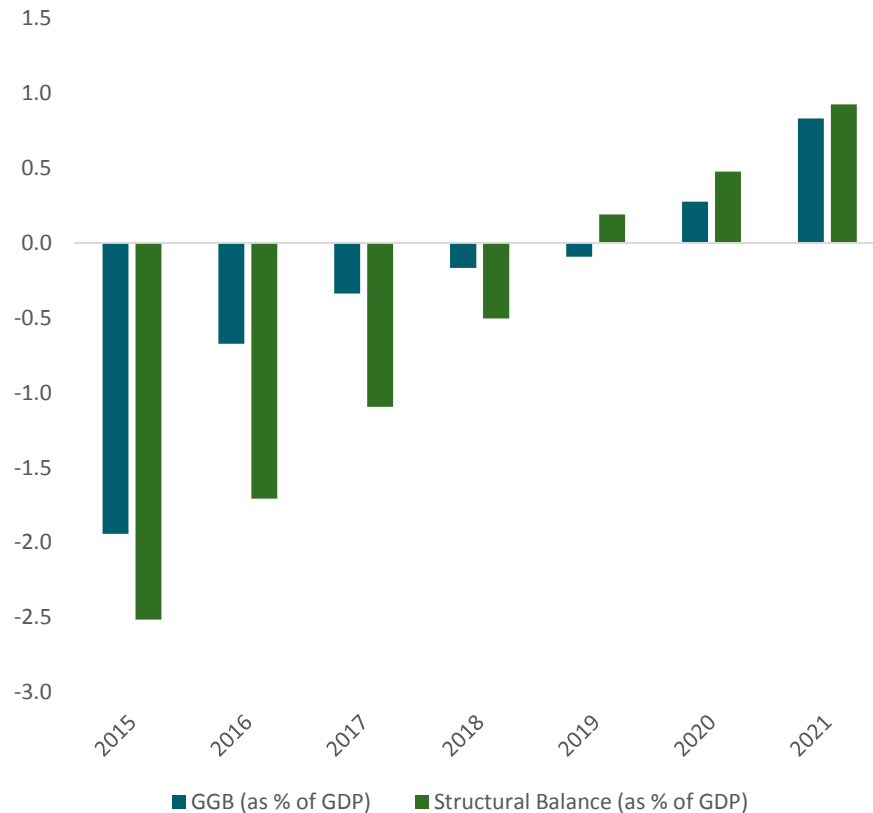
- Debt ratio peaked in 2012 / 2013.
- Significant decline in 2015 debt ratio - primarily due to the large revision to 2015 GDP in the National Accounts.
- Decline in debt-to-GDP ratio expected to continue over the forecast horizon.



Budget 2018 fiscal forecast

	2015	2016	2017	2018	2019	2020	2021
General government balance (% of GDP)	-1.9	-0.7	-0.3	-0.2	-0.1	0.3	0.8
General government primary balance (% of GDP)	0.7	1.6	1.7	1.7	1.7	1.9	2.3
Structural Budget Balance (% of GDP)	-2.5	-1.7	-1.1	-0.5	0.2	0.5	0.9
Debt-to-GDP ratio	76.9	72.8	70.1	69.0	67.1	63.5	61.2
Debt-GNI* ratio	116.6	106.0	106.5	104.7	101.8	96.4	93.1

Structural deficit improvement



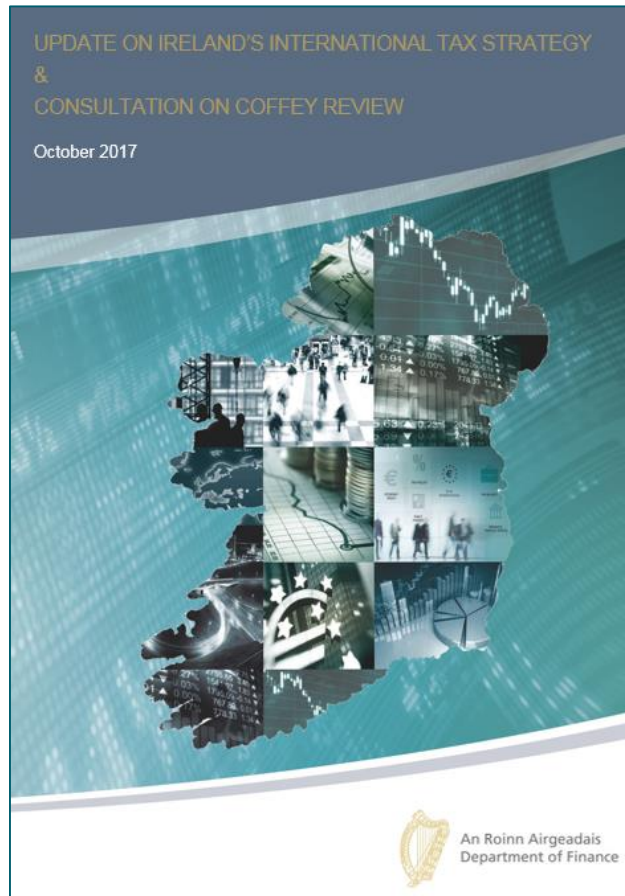
Key points

- Average annual structural improvement of 0.6 per annum over 2017-18
- Running balanced budget in structural terms (i.e. reaching MTO of -0.5% of GDP) by 2018.

Source: Department of Finance estimates, Budget 2018.



Ireland's International Tax Strategy



- Update on Ireland's International Tax Strategy published with Budget 2018
- Sets out Ireland's track record of delivering on our commitments to international tax reform
- Opportunity to map out where we are going in the year ahead
- Continued implementation of OECD BEPS recommendations
- Commitment to tax transparency

Section 1 Economic Goals

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State bank investments: overview

Institution:



Equity	Ownership	71.25%	14%	75%
	Valuation ²	€9.2bn	€1.0bn	€1.0bn
	% of 2016 GDP ³	3.4%	0.4%	0.4%
P&L	Underlying PBT – 1H 2017	€823m	€480m	€53m
	Underlying PBT – FY 2016	€1,475m	€1,071m	€188m ¹
	Underlying PBT – FY 2015	€2,211m	€1,201m	€26m ¹
	NIM – 1H 2017	2.54%	2.32%	1.81%
	NIM – FY 2016	2.25%	2.19%	1.48%
Balance Sheet	Gross Loan Book – 1H 2017	€64bn	€80bn	€21bn
	Gross Loan Book – FY 2016	€65bn	€82bn	€21bn
	Gross Loan Book – FY 2015	€70bn	€91bn	€26bn
	Impaired loans – 1H 2017	€7.8bn	€5.4bn	€4.9bn
	Impaired loans – FY2016	€9.1bn	€6.2bn	€4.9bn
	Impaired loans – FY2015	€13.1bn	€10.0bn	€5.4bn
	Liquidity Coverage Ratio – 1H 2017	134%	120%	145%
	Liquidity Coverage Ratio – FY2016	128%	113%	166%
	Liquidity Coverage Ratio – FY2015	116%	108%	153%
	Fully Loaded Basel III CET1 - 1H 2017	16.6%	12.5%	15.0%
	Fully Loaded Basel III CET1 - FY 2016	15.3%	12.3%	14.9%

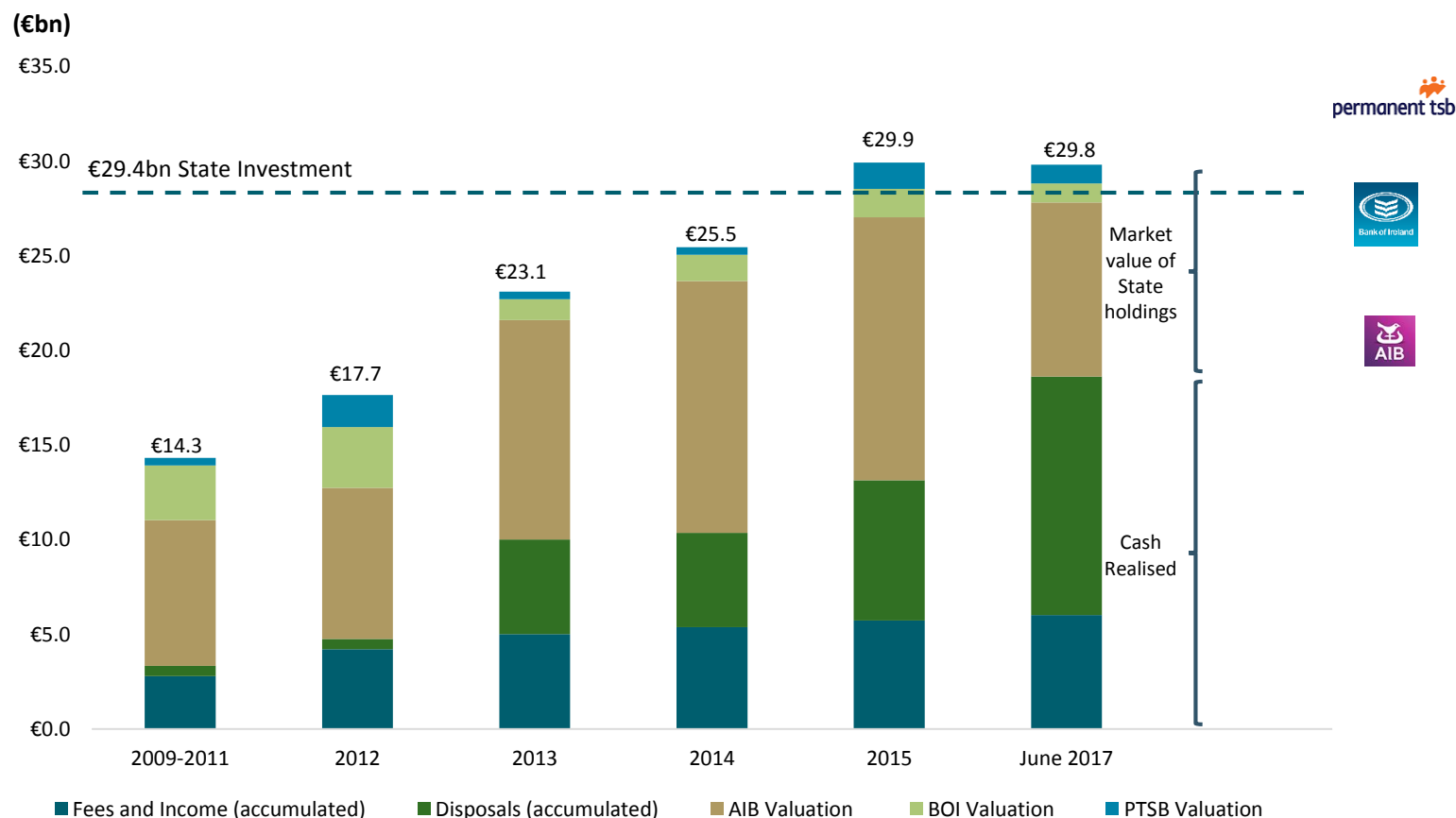
Jan-18 regulatory minimum: 100%

1. PTSB reported losses, after exceptional items, of €226m in 2016 and €434m in 2015. Exceptional items substantially comprised losses on the deleveraging of non-core loan portfolios.
2. Bank valuations based on ISE closing prices, 27th June 2017.
3. Official GDP being used by DOF in current ratios is €268bn.



State bank investments: expected value for taxpayers

€29.4bn of State bank investments expected to be recovered (€bn)^{1,2,3,4}:



1. Disposals comprise sale/redemption of debt instruments, AIB and PTSB IPOs, and the sale of Irish Life.
2. Fees and income comprise interest coupons, recap fees, and CIFS/ELG fees.
3. Bank valuations based on ISE closing prices, 27th June 2017.
4. The result of AIB IPO reflected above does not include value of Government owned warrants



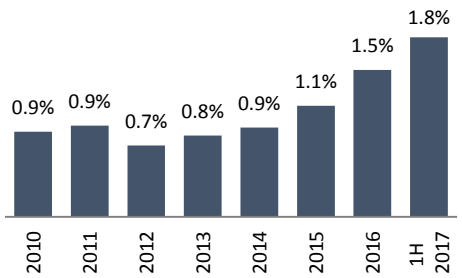
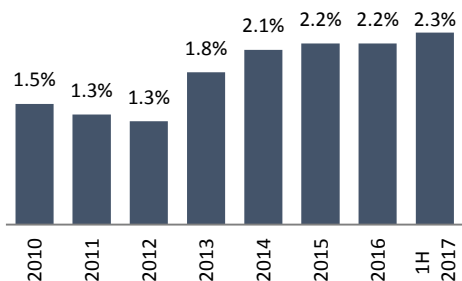
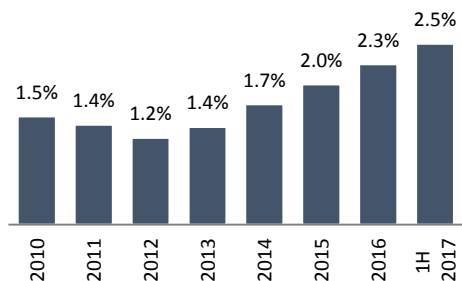
State bank investments: paving the road to growth

Enhanced Revenue Drivers

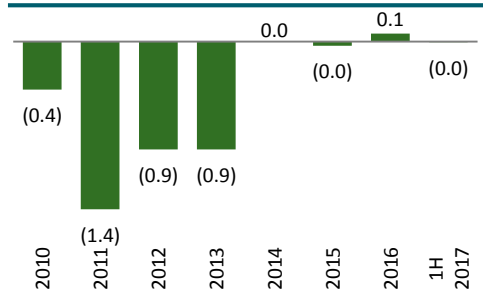
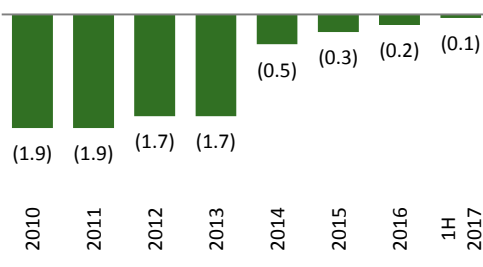
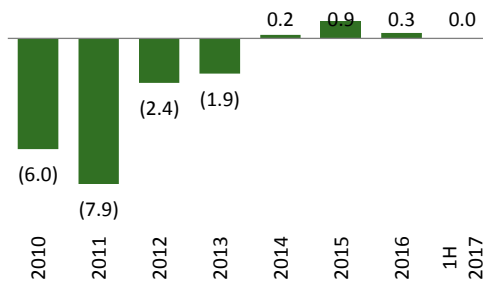
Improved Risk Profile

Increased Profitability

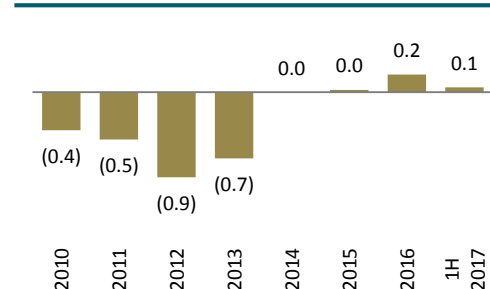
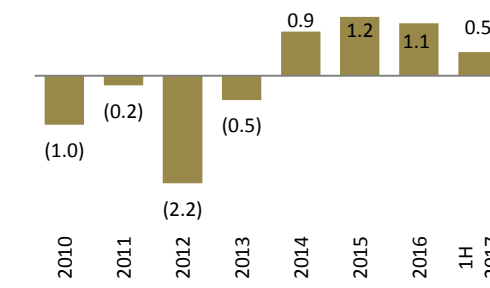
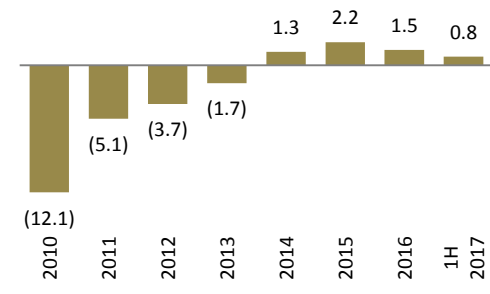
Net Interest Margin¹



Loan Loss Provisions (EURbn)



Profit Before Tax (EURbn)



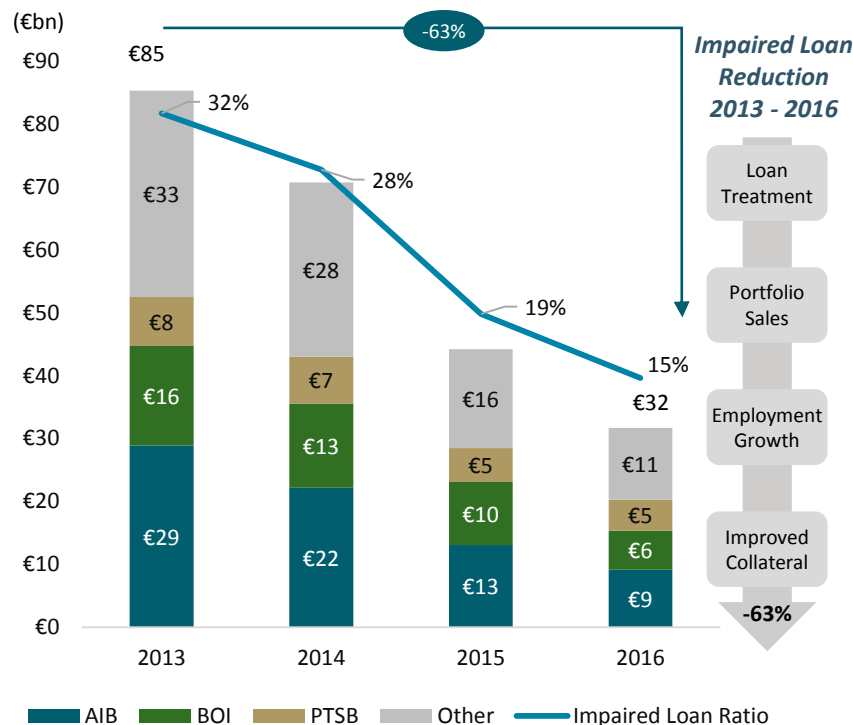
State bank investments: improved risk profile

...>60% impaired loan reduction from 2013 peak

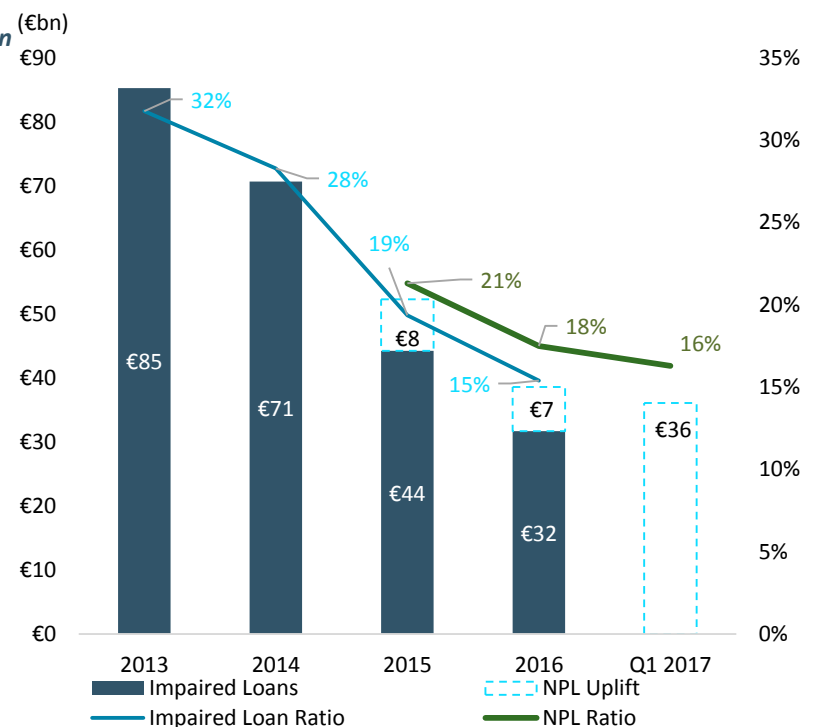
Commentary:

- Impaired loans have fallen over 60% since 2013, a strong pace of reduction (€85bn in 2013 to €32bn 2016)
- Impaired loan % is high despite large reductions in impaired loans. This is due to redemptions outstripping new lending (reducing denominator), and requirements set out by Directorate-General for Competition
- A combination of rising property prices, a growing economy, and measures taken by Irish banks to address impaired loans, have all contributed to the decline in balances
- Non-Performing Loan (NPL) ratio fell 2% in first 3 months of 2017

Impaired Loan Balances (€bn) & Impaired Loan Ratio (%)¹



Impaired Loan Balances & Non-Performing Loan Balances^{1,2,3}



1. Company Accounts / Central Bank of Ireland / DoF Analysis. Impaired loan Ratio = Impaired loans as a % of gross loans
2. NPL = Impaired loans + debtors deemed unlikely to pay
3. NPL Data: SSM Dataset

NPL = Impaired + debtors deemed unlikely to pay

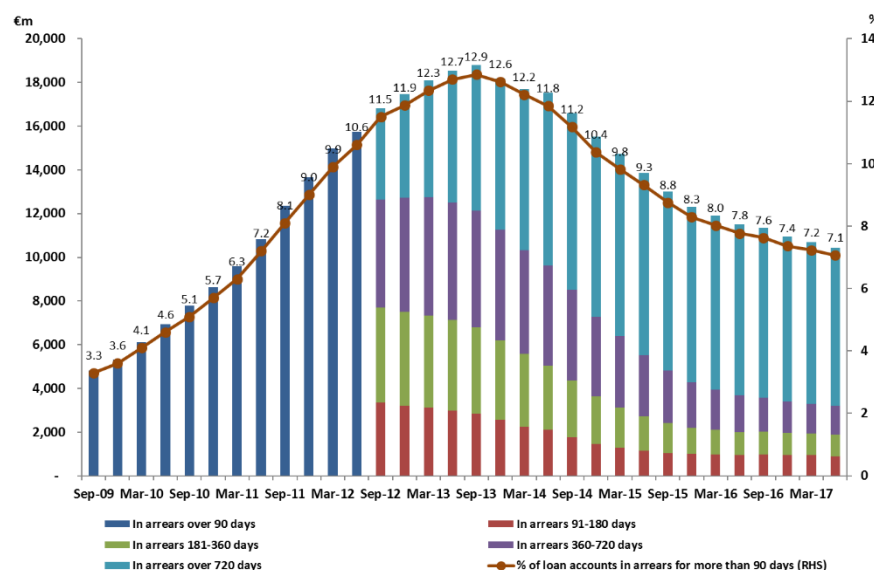
Impaired loans: >90 days past due date of repayment



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Mortgage arrears – positive trends

Mortgage Arrears (PDH)



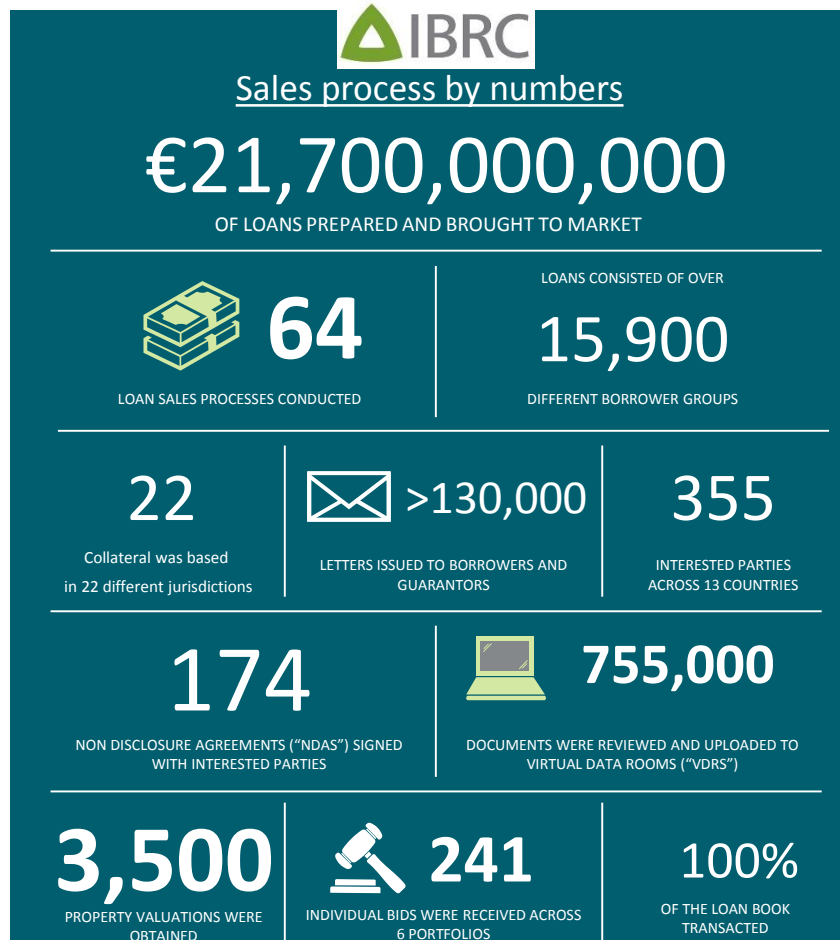
Key points

- The number of PDH mortgage accounts in arrears fell by 3.6% in Q2 2017, marking the sixteenth consecutive quarter of decline.
- Number of PDH accounts in arrears over 90 days stands at 51,750, representing the fifteenth consecutive quarterly decline in this cohort.
- 120,398 PDH mortgage accounts were classified as restructured at end June 2017.
- The PDH 720 day plus category declined for the eighth consecutive quarter.

Source: Central Bank Q2 2017 Residential Mortgage Arrears and Repossessions Statistics

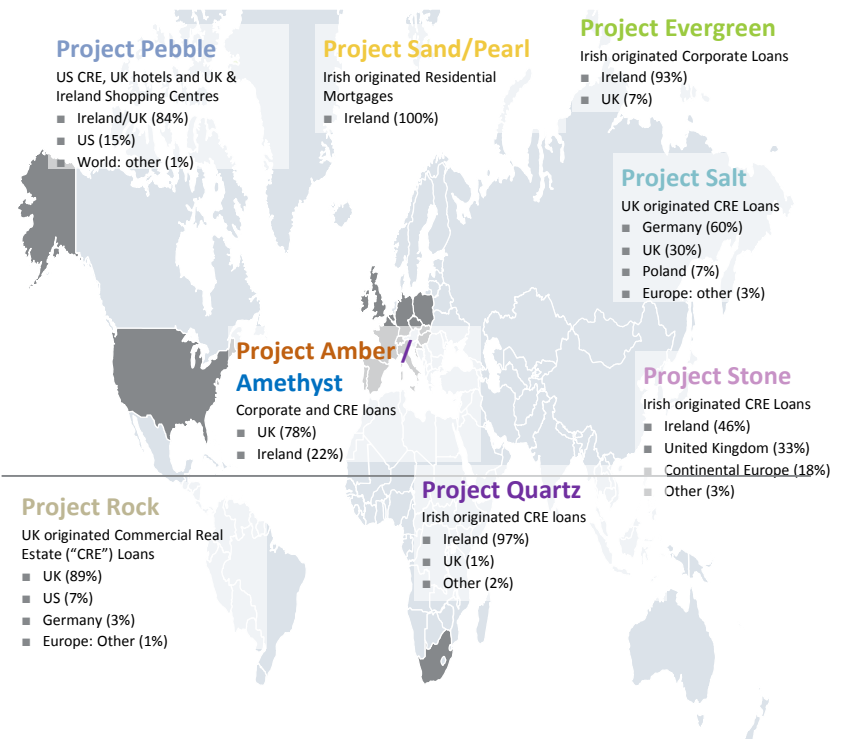


IBRC Progress Update Report



Sales Processes

- The IBRC loan portfolio was supported by collateral based in 22 different jurisdictions worldwide
- Strong interest from a variety of financial and strategic buyers and funders, with US private equity houses and hedge funds being key participants across each of the portfolios.



IBRC Liquidation Update



Liquidation update

Recent Developments

- The most recent special liquidation progress update report was published in May 2017 giving a comprehensive overview of the work completed to date. It is available on the Department of Finance website www.finance.gov.ie
- Asset realisation workstream largely complete. At this stage, loans with a par value of €21.7bn have been prepared, brought to the market and sold. The success of the loan sales processes illustrates the strong confidence of investors in the Irish economy and its future prospects with 355 parties across 22 countries interested in the various portfolios
- As at the 6th of February 2017, the fourth anniversary of the liquidation of IBRC, the Special Liquidators had a net cash balance of €1.2bn which will ultimately be available for distribution to creditors
- On the 13th of December 2016 the Special Liquidators issued a first interim dividend of 25% to all admitted creditors of the liquidation, including the State, who received c.€280m
- The cost of the IBRC liquidation has so far compared favorably with other large corporate liquidations that have taken place in recent years

Ongoing Tasks

- Continued management of over 175 legal cases
- Completion of the creditor adjudication process
- Engagement with the Commission of Investigation
- Management of the remaining loan book of c. €3.7bn
- Realisation of all remaining assets

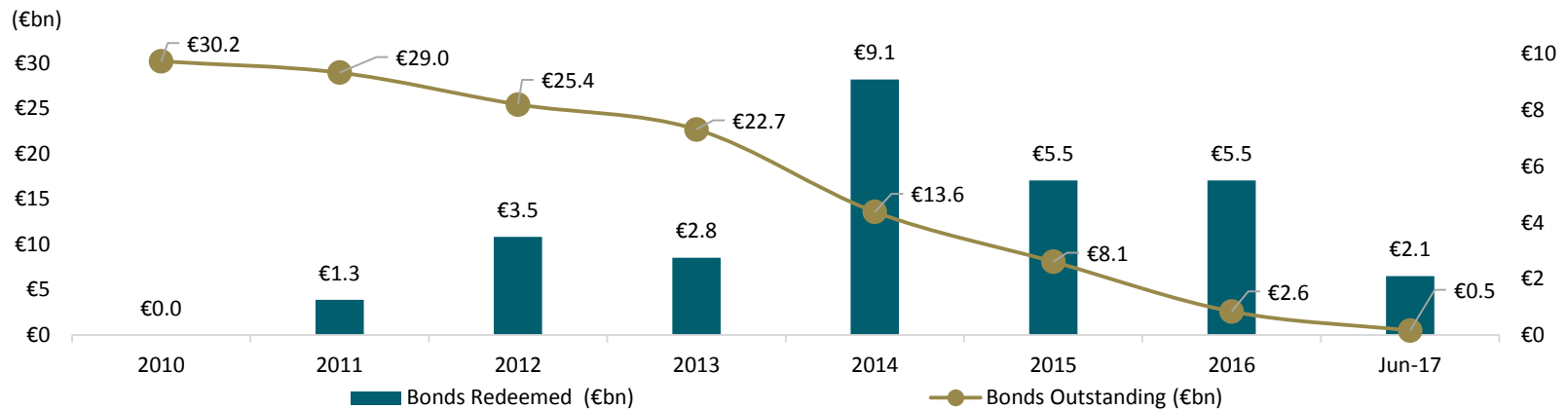


NAMA Background and Performance

Background:

Purpose:	<ul style="list-style-type: none"> Established in 2009 to remove uncertainty around land and development loans from participating banks' balance sheets, the value of which had fallen steeply following the financial crisis¹.
Nominal value of loans transferred:	<ul style="list-style-type: none"> Acquired gross loans with outstanding principal balances of €74.2bn from Irish banks
Price paid for loans acquired:	<ul style="list-style-type: none"> In total €31.8bn¹ paid (57% discount on par debt) in the form of: <ul style="list-style-type: none"> €30.2bn ECB eligible Government guaranteed senior bonds €1.6bn unguaranteed subordinated bonds.
State Aid:	<ul style="list-style-type: none"> Consideration included an uplift to reflect the long term economic value. Market value of the loans at the reference valuation date (30th Nov 2009) was €26.2bn, difference of €5.2bn notified as State Aid
Progress to date:	<ul style="list-style-type: none"> Through phased disposals, asset/debtor management and complimentary value maximizing strategies, NAMA has now generated almost €40bn cash and redeemed a total of €29.7bn, or 98%, of €30.2bn senior debt, with just €500m outstanding
Profitability:	<ul style="list-style-type: none"> Generated profit of €1.5bn in 2016, its 6th consecutive year of profits
Redemption of debt	<ul style="list-style-type: none"> Expects to redeem all of the remaining senior debt by YE 2017, subordinated debt in 2020, and generate a surplus of €3bn²

Performance: c.€500m Senior Bonds Outstanding: 2% of original €30.2bn issued



NAMA Has Three Commercial Objectives

- NAMA seeks to make a positive social and economic contribution across the broad range of its activities, subject to the primacy of its commercial mandate and often complementing it.



Objective

- Repay 100% **Senior Debt** by year end 2017 and all Sub-Debt by March 2020

Achievements to date

- Senior debt reduced from €30.2bn at inception to just €500m today



- Facilitate delivery of key Grade A **Office Space** in the Dublin Docklands Strategic Development Zones (SDZ)

- At YE 2016, 82% of the sites NAMA originally had an interest in were either under construction, received planning, or had been sold with planning permission



- Facilitate delivery of up to 20,000 **residential units** by end 2020

- From 2014 to end June 2017, NAMA has funded the construction of 5,300 new residential units in Ireland



Financing the State – ISIF

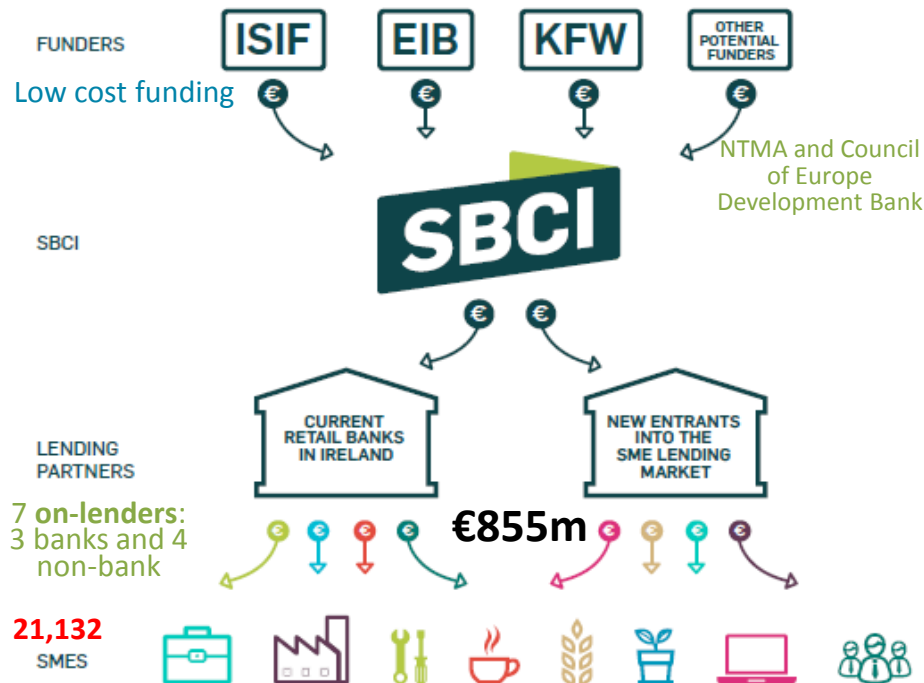


Figures are preliminary and unaudited as at 31 Aug 2017

Strategic Banking Corporation of Ireland

Key points

- The Strategic Banking Corporation of Ireland (SBCI) began lending in March 2015. Its goal is to ensure access to flexible and appropriately priced funding for Irish SMEs.
- The SBCI uses an on-lending model which means it does not lend directly to SMEs. The SBCI works with both banks and non-bank finance providers.
- To the end of June 2017, €855 million has been lent to 21,132 SMEs supporting 106,728 jobs. This represents an increase of 57% in SBCI lending since the end of December 2016.
- The average size of an SBCI loan is €42,253. The interest rate on SBCI loans is, on average, 1.15% lower than the average market interest rate on loans to SMEs.
- SMES receiving SBCI finance operate in a variety of business and economic sectors and are based in all geographical regions.
- The SBCI currently has seven on-lending partners: AIB, Bank of Ireland, Ulster Bank, Finance Ireland, First Citizen, Bibby Financial Services and FEXCO Asset Finance.



IFS2020 Strategy update

Strategy for Ireland's international financial services sector

Strategy Background	Strategy Implementation	Milestone Deliverables
Launched in March 2015 with target of creating 10,000 new net IFS jobs by 2020 i.e. grow sector from 35,000 to 45,000	Minister of State Michael D'Arcy chairs quarterly IFS2020 Joint Committee meetings comprised of public & private sector stakeholders	The IFS2020 Action Plan 2017 provides for 4 strategic priorities incorporating 40 specific measures
Strategy on track <ul style="list-style-type: none">Over 40,000 directly employed in sectorOver 2,000 net new jobs created in 2016	<ul style="list-style-type: none">Quarterly progress reports publishedDynamic & evolving StrategyProposals for Action Plan 2018 under consideration	<ul style="list-style-type: none">Third European Financial Forum to be held 31 January 2018Continued rollout of <i>IFS Ireland</i> BrandSeveral high-profile job announcements in 2017

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