The Irish Bond Update - February 2009

IRELAND ISSUES ITS SECOND LARGE BOND THIS YEAR

NTMA launches new Irish bond...

The Irish National Treasury Management Agency (NTMA) brought another new issue to the market yesterday, **a three year €4 billion 2012 bond** carrying a coupon of 3.9%. Despite the difficult market conditions and persistent negative newsflow in relation to Ireland, the investor interest was strong with the NTMA receiving bids of €5.2 billion.

This follows the issuance of the €6 billion 4% January 2014 bond last month and the €4 billion 4% November 2011 bond towards the end of last year. Thus, the NTMA has raised €14 billion in the international bond market in the past four months. **This leaves the Irish government in a very strong funding position.**

It has a total funding requirement of €25 billion in 2009 (budget deficit of €20 billion and bond redemptions of €5 billion). It has now raised 40% of this sum in the bond market in the first two months of the year. On top of this, the NTMA overfunded last year and had cash balances of €22 billion at the end of 2008.

There is no denying, though, that yesterday's issue was done at very generous terms for an AAA rated sovereign issuer. The new bond was priced at 170bps over mid-swaps. The absolute yield level is low, however, at circa 4%, and its shows that Ireland continues to be able to raise funds in difficult global capital markets.

...Showing sovereign risk talk is idle speculation

It also shows that speculation in some parts of the media that Ireland could default on its debt is idle talk that is far removed from the truth. The following points are worth noting in this regard:

- The **net Irish national debt stood at less than 20% of GDP** at end 2008;
- Reflecting the low level of the debt and low interest rates, **interest payments on the national debt amounted to just 1% of GDP** and less than 4% of tax receipts in 2008;
- The latest figures, which are for end January, show **cash balances of some €25 billion in the NTMA**;
- **Appetite for Irish Government paper remains strong** with the NTMA raising €6 billion in a bond issue in January, followed by the €4 billion bond issue yesterday;
- The €7 billion **recapitalisation of AIB/BOI is being funded from national savings** through an investment by the National Pension Reserve Fund;
- It is worth noting that while other eurozone countries have been downgraded this year, Ireland still retains its **AAA rating** from the three main rating agencies, principally because the starting position on the public finances was so strong entering this economic downturn.

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