

NAMA effect will give peripheral Ireland a boost in capital markets

By [Joe Brennan](#)

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Having already raised two-thirds of the country's borrowing requirements for the year, the National Treasury Management Agency didn't really need to hold a €1.5bn debt auction this week.

But bond market observers believe at this stage that it is not about the sovereign being able to access the bond markets, but rather about opening the door for the banks, which face €25bn of debt maturities alone in September, when the original guarantee is due to expire.

While Irish lenders made good progress at accessing the international bond markets earlier this year -- albeit under the new guarantee scheme -- it has now been eight weeks since the last issuance, when Irish Life & Permanent sold a €1.25bn, three-year bond.

The chairman of one of Spain's largest banks BBVA, Francisco Gonzalez, this week drew into sharp focus how the eurozone debt crisis was hindering the borrowing capacity of the country's lenders.

"If the Spanish state is having difficult in financing itself outside Spain, then the difficulties will be even greater for those in the private sector. For the majority of companies and Spanish financial firms, international capital markets are closed," he said. Spain is not alone.

Debt markets

Kevin McConnell, head of research at Bloxham Stockbrokers, believes European banks are going to find it "extremely hard to access the market until the sovereign debt markets become more normal".

Moody's senior sovereign ratings analyst Dietmar Hornung didn't hold out much hope for volatility to dissipate any time soon when he addressed a function in Dublin this week. "The public debt crisis is here to stay for quite a while," he said.

On the face of it, banks in a peripheral country like Ireland, which is going through one of the worst downturns among industrialised countries since the 1930s, would find it even harder to tap the markets.

State guarantee

All told, the state-guaranteed institutions need to refinance a total of €51bn of bonds that are due to mature this year, according to Glas Securities, the Dublin-based debt market experts. Adding in short-term money of less than a year in duration, lenders need to roll

over a total of €77bn by the end of the year, according to calculations by UCD economist Karl Whelan.

The sector's woes are exacerbated by the fact that the extended guarantee is set to expire at the end of this month. Although it is hoped Ireland will be given the go-ahead by Brussels within coming weeks to extend the so-called Eligible Liabilities Guarantee (ELG) scheme to the end of the year.

Even under benign market conditions, Bank of Ireland (BoI) is the only lender that is sufficiently recapitalised to be able to approach global bond investors with an unguaranteed debt issuance.

BoI chief executive Richie Boucher made no secret during the group's recent €3.56bn equity raise that he was preparing to wean the bank off State support by the end of September.

"It looked a few months ago as if BoI had set up the tennis court nicely to play ball with the markets -- but then somebody stole the rackets," said a debt market observer. "Now you're dealing with a market that's shut down for guaranteed issuance, let alone unguaranteed issuance."

So are the country's banks facing a repeat of the liquidity crisis they barely survived almost two years ago?

Industry observers say the banks are buffered by a number of factors. "They have made a lot of progress in improving their liquid assets over the past few years. Significant effort has gone into packaging mortgages through securitisation deals, which they can easily use as collateral to tap the ECB (European Central Bank)," said a senior banking executive.

There is no publicly available data on the extent to which the guaranteed lenders are tapping the ECB -- but figures on mortgage providers' use of funds from Frankfurt give a useful insight to the trends.

ECB funds

Home loan providers were using about €2bn of ECB funds to finance their activities before the US sub-prime crisis erupted in August 2007. However, the figure spiralled to €39bn after the collapse of Wall Street investment bank Lehman Brothers, before peaking at a record €72bn last June.

Reliance on ECB money has remained choppy ever since. The latest figures show that mortgage lenders were using €39bn of funding from the eurozone's central bank at the end of April, down more than 8pc on the month.

There is little doubt, however, that ECB dependence has risen sharply since late April -- with anecdotal evidence suggesting that Irish banks have not been active in the short-term inter-bank lending market.

The ECB started to phase out additional stimulus measures -- including 12-month money auctions -- late last year, but has since reinstated some of them as the sovereign debt crisis has made banks hoard record levels of cash again.

NAMA effect

But the real advantage is the National Asset Management Agency (NAMA) effect. While the primary objective was to remove risky property loans from lenders' balance sheets, the real benefit in the current environment is the impact it has on their funding and liquidity.

"Ireland is in a somewhat different space to other eurozone countries, in that NAMA is helping to deleverage the banks and the bonds they are receiving from the agency boost their liquidity significantly," said Mr McConnell.

The five participants in the scheme will have €80bn less assets to fund by the end of December -- or next February at the latest -- as the NAMA transfers are completed. In return, they are receiving an estimated €40bn-€45bn of government-backed bonds.

Credit market shutdown

"It's not ideal that Irish banks would have to resort to using NAMA bonds to access ECB funding, but given that we are witnessing a complete shut-down of the European funding market, it gives them a certain advantage," said the debt market source.

The deleveraging effect of NAMA means that the domestic banks would only be looking to raise a maximum of €30bn to €35bn of bonds this year with maturities of greater than 12 months, according to Glas Securities.

The bond market specialists believe the banks could get away with raising between €20bn and €25bn.

The six institutions had made good headway earlier this year in using the ELG scheme -- raising €18bn between them before the markets screeched to a halt.

But even when more normal market conditions return, Irish banks are still faced with two key funding challenges which are not easily solved: lengthening their debt maturity profile and lowering their dependence on the volatile wholesale markets.

- Joe Brennan