



Charlie Haughey - Creator of the National Treasury Management Agency (NTMA)

Introduction

The 1980s in Ireland are often only remembered as a time of economic hardship and mass emigration. But the later part of the decade was also a time of great private and public sector innovation, led by Taoiseach Charles Haughey, which laid the foundation for future progress and prosperity. One of his innovations was the establishment of the National Treasury Management Agency; an example that has been referenced many times since by other countries, including the UK, as they too have sought to professionalise their debt management structures.

Economic Backdrop 1980-1987

Between 1980 and 1987 net emigration from Ireland totalled over 100,000. Despite this outflow, unemployment grew from 8.1% (101,500) of the labour force in 1980 to 18.8% (247,300) in 1987. Inflation throughout the period remained stubbornly high; average annual inflation from 1980 to 1987 ran at 11%. This was 8% higher than in Germany where prices grew at an annual average rate of 3% during the same period.

Due to ongoing budget imbalances the National Debt grew quickly in this period, both in absolute and relative terms. In 1981 it passed £10 billion for the first time and approached 100% of GNP. By 1987 it had reached £23 billion, over 130% of GNP of approximately £17 billion and amongst the very highest in the OECD. To put this in context, the National Debt stood at €116.2 billion at the end of October 2011. With GNP for 2011 forecast at about €128 billion the corresponding ratio today is therefore about 90%.

The financial costs of carrying such an excessive debt burden were enormous. In 1980 £660m was spent on total debt service, a figure which represented 7.3% of GNP. By 1986 this had risen to £2 billion, about 12% of GNP, or about a full quarter of Government current expenditure or virtually the entire tax take from the PAYE sector. In December 1986 the spread between the three-month Irish Pound Dublin Interbank interest rate and the German Deutsch Mark equivalent was over 800 bps. The spread on short term debt issued by the two countries is less than half that today.

The National Economic and Social Council examined the sustainability of the debt position in 1986 and reported it as being "dynamically unstable". Further comment from the NESCC was deeply worrying: "While the current situation is grave, the Council is even more concerned at the fact that, without a change in present policies, the medium-term prospects offer no relief".

Steps in the Right Direction 1987-1989

The Program for National Recovery of 1987 initiated by Charles Haughey as leader of Fianna Fail, and put together with ICTU and the other social partners, contained a substantial number of macroeconomic policies. Many of these have been the subject of much retrospective scrutiny. There is one policy in particular, often overlooked, but without which the NTMA would not likely have come into existence. This was the macroeconomic policy statement:

"As part of public expenditure control, the measures already taken to improve management of the National Debt will be pursued."

The emphasis on management is noteworthy. The Taoiseach of the day, Charles Haughey, had always been keen to listen and learn from leaders in the private sector. Amongst those, Dermot Desmond of NCB, had been very vocal in conveying to the Taoiseach the importance of the professional management of the National Debt, which even in the absence of increased borrowing would continue to drag on the ability of the Government to put money to productive use elsewhere in the economy. In one of his first acts on returning to Government in 1987, the Taoiseach, Mr. Haughey, appointed Michael Somers to the newly created position of Secretary for National Debt Management within the Department of Finance. Mr. Somers, an expert in debt management, had been transferred from his previous role in Finance to the Department of Defence in 1985. Commenting on the appointment in the Dáil on 8 April 1987, the Taoiseach said: "Given the enormous size of the national debt, its efficient management is of the greatest importance. It is generally accepted that the Department of Finance have been particularly successful in raising loans on very keen terms and in handling the management of the debt in a skilful and professional way. National debt service is a first charge on the Government's finances and the division of the Department which deals with this area of work has now been strengthened by the appointment of a specially experienced Secretary for National Debt Management who will be responsible to the Secretary of the Department."

In 1988 the National Debt grew at its lowest level for many years and as a percentage of GNP actually fell slightly from 131.4% to 131.1%. While there was a relatively small absolute increase in the debt figure the cost of servicing the debt was almost flat. In the Dail on the 9 February 1988 the Taoiseach commented: "For some time before the general election I had been arguing that more active management of the national debt was possible and that this could achieve significant savings in the cost

of servicing it." The Government was able to report on the increasingly active debt management program being pursued by the National Debt Management Division of the Department of Finance alongside favourable developments in international interest and exchange rates. Amongst the measures being taken by the Department was the increased use of more sophisticated debt management instruments such as interest rate swaps.

In the same 9th February speech, the Taoiseach, Mr. Haughey, spoke, again, of his admiration for the quality and competence of the Irish public service. He acknowledged the importance "that public administration should be able to attract and retain its share of the best talents that are available by rates of remuneration and conditions that are reasonably competitive having regard to the differences between the public and private sectors." But the reality of the requirement for severe reductions in Government expenditure meant that the special pay award designated at the time once again had to be deferred.

Internationally, the financial services sector boomed in the 1980s and in Ireland this rapid growth was particularly pronounced, albeit from a low base. Key to this growth was the ability to attract professional talent from both the internal and international labour market. In particular, experienced personnel were at a premium and attracted corresponding levels of reward. The Department of Finance, long recognised as an excellent provider of training, in particular in debt management, became a major net supplier to this buoyant labour market. The result was a constant drain of resources from the Department to the private sector; with the replacements for those leaving themselves being quickly poached by new, better paying, employers. Mr. Haughey was keenly aware of the difficulties of the Department in recruitment and retention of key staff and regularly discussed the issue with participants from both sides including Dermot Desmond who strongly believed that private sector principals should be applied in professionalising the management of the national debt burden. In the motion for the adjournment of the Dáil on 15 December 1989 the Taoiseach returned to the issue of the management of the debt portfolio. Commenting on progress made he highlighted that there was "still a long way to go, before our national debt is reduced to an acceptable level". "While considerable progress has been made over the last two years, we intend to go a step further and establish by legislation a national debt office, which will be staffed by experienced personnel operating on special contracts on conditions akin to those obtaining in the private sector under the overall responsibility of the Minister for Finance."

Establishment of the Agency 1990

The Dáil, led by Taoiseach Charles Haughey, passed the National Treasury Management Agency Act in 1990 which provided for the establishment of the NTMA "to borrow moneys for the Exchequer and to manage the National Debt on

behalf of and subject to the control and general superintendence of the Minister for Finance and to perform certain related functions and to provide for connected matters".

The 1990 Act enabled the Government to delegate the borrowing and debt management functions of the Minister for Finance to the NTMA, such functions to be performed subject to such directions or guidelines as he might give.

The Agency came into existence on 3 December 1990 and commenced operations immediately, taking over the borrowing and debt management functions of the Department of Finance and the gilt market operations of the Central Bank. Michael Somers was appointed as the Agency's first Chief Executive. On 1 March 1991, twenty-five former Department of Finance personnel took up appointments with the agency and by year end a further twenty eight staff had been recruited from other sources, principally the financial services sector in Dublin and London. The professionals who joined were experts in their fields; in line with the expectation and rationale of the formation of the Agency.

Success Achieved from 1990 to 2007

Despite the progress made in the late 1980s, in 1990 Ireland was still one of the most indebted of OECD nations with a National debt burden of 87.7% of GDP. The cost of servicing the debt, in excess of £2.3 billion, was 70% of the income tax take in 1990.

From 1990 to 2007 the ratio of debt to GNP steadily declined, although absolute levels increased. By 2007 the National Debt stood at €37.6 billion, 23.3% of GNP and amongst the lowest in Europe at that time. The total debt service cost in 2007 was €2.4 billion of which €1.6 billion was interest. In 1991 the interest bill on the National Debt was 8.1% of GNP. By 1999 this had fallen to just over 3% and in 2007 had been reduced to less than 1%.

There has been much revisionist debate about the extent to which the NTMA was instrumental in reducing the cost of debt servicing in the era before the global financial crisis of 2008; or whether it simply benefited from the macro economic progress in reducing deficits, improving credit ratings, falling global interest rates and ultimately the single currency.

However, there can be no doubt that the NTMA was a proactive agent in ensuring that Ireland benefited from these favourable forces. Improvements in the efficiency of the market for Government debt was a crucial contribution by the NTMA. Improvements included many measures to reduce the cost of issuance of bonds, measures to improve liquidity in the market and above all to manage risk. Some examples of actions taken by the agency are:

- The introduction of regular auctions to promote the openness, predictability and transparency of the market
- The introduction of a formal market-making system to bring depth and liquidity to the market.
- The inclusion of Ireland in the main international bond indices with other measures helped to expand, broaden and diversify the investor base.

The NTMA also traded debt more actively, retiring more expensive debt with cheaper new issues, replacing short-term obligations with more long term offerings and matching income more closely with liabilities. The Agency also took steps to ensure that derivative instruments - such as interest rate swaps, cross currency swaps, caps, floors, futures and foreign currency forward contracts - as well as spot transactions in foreign currencies were available to be utilised in the management of the debt.

Legacy and Future Challenge

Since the establishment of the NTMA by Taoiseach Charles Haughey in 1990, the model it provided for the management of sovereign debt has been referenced in the creation of similar agencies in diverse economies such as Australia and Austria, India and the UK.

A further measure of the success of the NTMA has been the choice of successive Governments to expand its remit such that it now includes the management of the National Pensions Reserve Fund the National Development Finance Agency, the State Claims Agency, the National Asset Management Agency and the New Economy and Recovery Authority.

The vision and innovative approach to professionalising the management of Ireland's national debt and the foundation of the National Treasury Management Agency has served the country well and has created the foundation to deal with the current equally troubled economic environment.