

Covered Banks usage of ECB funding

December 2012 data set

January 2013

Usage of ECB funding by banks in Ireland

Banks operating in Ireland (i.e. both covered and non-covered banks) continue to reduce their level of borrowing from the ECB. During December the funding drawn via the ECB refinancing operations declined by €4.8 billion (6.3%) to €70.9 billion – its lowest level since September 2008.

Year-on-year, funding drawn from the ECB has reduced by €36.3 billion or 34%. The reduction from peak is €65.5 billion or 48%.

Figure 1. Usage of ECB borrowing by banks in Ireland

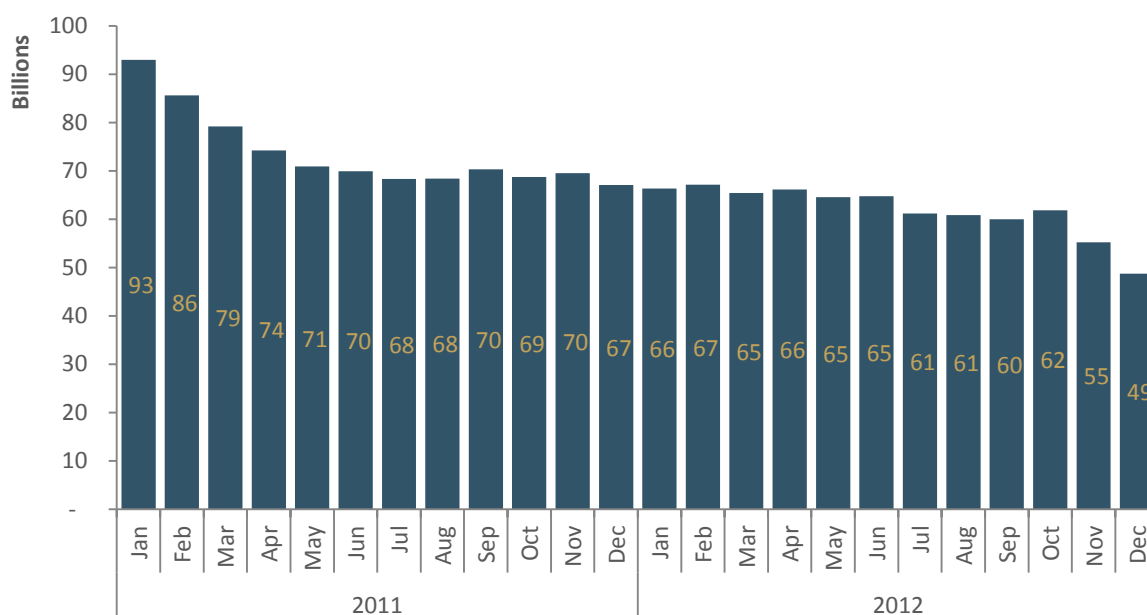


Covered Banks usage of Eurosystem funding

Drawings from the ECB by Covered Banks (excluding IBRC) declined by €6.5 billion (or 12%). Year-on-year borrowing from the ECB is down €17.9 billion (45%) to stand at €48.7 billion. The steady decline in reliance on ECB funding reflects the continued strengthening of the banking system, albeit from a weak base. The improvement in funding has been achieved through managed deleveraging, deposit gathering and the return of BOI and AIB to international funding markets.

The Government is committed to reducing the level of dependence on ECB borrowing further, on a prudent and sustainable basis. While there is still much work to do, the continued decline in ECB borrowing demonstrates the progress being made in restructuring the domestic banking sector.

Figure 2. Covered banks (excl IBRC) ECB funding, €bn



Drivers of reliance on Eurosystem funding

Importantly in November, both AIB and Bank of Ireland returned to international debt markets raising €1.5 billion in funding from covered bonds, secured on Irish collateral and priced inside secondary market prices at 270bps over mid-swaps.

Driving the year-on-year decrease in reliance on Eurosystem funding has been the growth in deposits, which show a year-on-year increase in December of €8.7 billion or 6%. Although the pace of year on year increase has moderated somewhat recently, the stability in deposit volumes as deposit interest rates have been trending lower is encouraging and a further sign of the returning confidence in the Irish banking system.

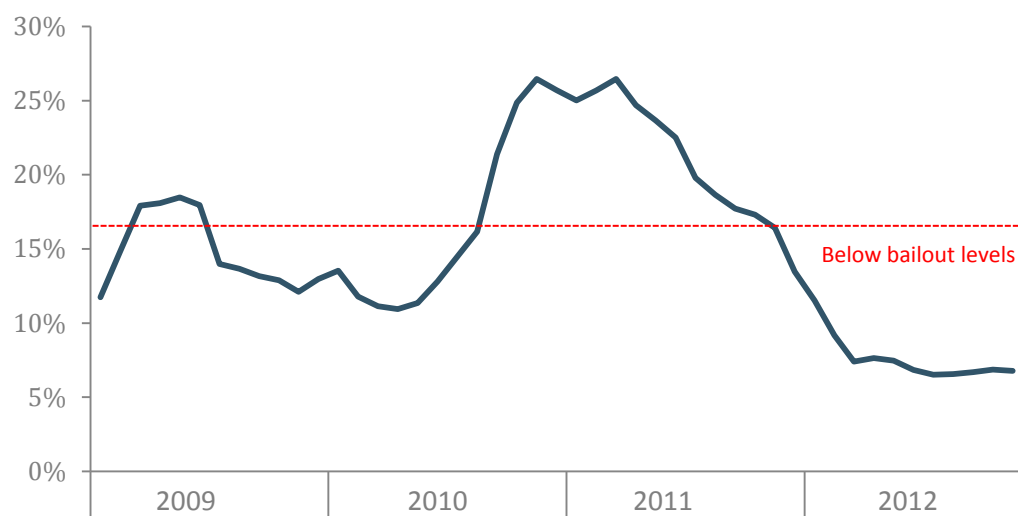
In addition, during the year to end 2012, AIB and BOI substantially completed their asset disposals required by PLAR.

Share of total ECB funding

The share of total ECB funding by banks in Ireland has declined steadily from a peak in November 2010 of c.26.5% immediately after the bailout to 6.3% at end December 2012. The covered banks (excluding IBRC) account for c.4.3% of total Eurosystem funding at end-December 2012, down from a peak of c.18.8%.



Figure 3. Share of total Eurosystem funding



Note to editors; about covered bonds:

Irish covered bonds, known as Asset Covered Securities or ACS, are issued under a legal framework first put in place in 2001 and updated in 2007. The original ACS legislation was widely regarded as 'best of breed' throughout Europe. The ACS covered bond structure has proven to be a robust and valued framework by international investors. The 2007 legislation reinforces the commitment and desire of Government agencies to ensuring that Ireland has a strong legislative framework in place that remains "best in class".

There are three types of covered bond which can be secured by a pool of assets, namely; (i) public credit; (ii) mortgage credit; and (iii) commercial mortgage credit. However where the issuer issues more than one type of ACS, the assets must be maintained in separate cover pools. Assets can be located in the European Economic Area (EEA), Switzerland, Canada, USA, Japan, New Zealand, or Australia.

Irish covered bonds are regulated by the Central Bank of Ireland. The Cover-Asset Monitor (CAM) monitors ongoing compliance with the ACS framework and is required to report breaches to the Central Bank.



Next publication date

14/02/2013 January ECB Funding note
14/03/2013 February ECB Funding note
14/04/2013 March ECB Funding note

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