

NATIONAL TREASURY MANAGEMENT AGENCY

Press Release
14 July 2005

Summary of Activity for the Year 2004

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SUMMARY OF ACTIVITY

The key features of 2004 were:

OVERALL

- The total asset and liability portfolios managed by the NTMA exceeded €50 billion for the first time.
- Gross cashflows through the NTMA in 2004 amounted to €532 billion.

NATIONAL DEBT

- The National Debt, when account is taken of the National Pensions Reserve Fund and other funds managed by the NTMA, is now equivalent to around 8 months' tax revenue. When the NTMA was established in 1990, it took over three months' tax revenue just to pay interest on the debt.
- The General Government Debt/GDP ratio continued to fall – to 29.9 per cent at end 2004 (32.0 per cent at end 2003) and continues to be one of the lowest in the EU.
- Deducting the value of the National Pensions Reserve Fund would give an even lower ratio of around 21.5 per cent at end 2004.
- The National Debt at end 2004 was €37.8 billion.
- Interest payments on the Debt were €1,676 million. After adjusting for the impact of the Small Savings Reserve Fund, the cost to the Exchequer was €348 million below budget. This was down to 4 per cent of tax revenue, about a fifth of the figure 10 years ago when the interest bill was 20 per cent of tax revenue. This reduction in the interest burden has freed up substantial resources for other purposes.
- To meet debt repayments and the expected budget deficit, €3.4 billion was raised during 2004, at an average yield of 4.67 per cent, through five bond auctions. The bond auctions were cancelled in the second half of the year because of the emerging strength of the budgetary position.

- To take advantage of low long term interest rates, a new benchmark bond, the 4½% Treasury Bond 2020, was launched in January and investors in the 5% Treasury Bond 2013 were offered terms for switching €2 billion of their holdings into the new longer issue.
- Over 79 per cent of Irish Government bonds are currently held by foreign investors, up from 73 per cent a year ago and sharply up from 22 per cent at end 1998, just before the introduction of the euro. As in recent years, virtually all of the debt issued in 2004 was taken up by foreign investors.
- In February 2005, the NTMA issued US\$500 million bonds under its Euro Medium Term Note Programme. These bonds have a coupon of 3.875 per cent and mature in July 2010. They were issued at 10 basis points over US Treasuries and the proceeds were swapped into euro at 29.3 basis points below Euribor. This represents a saving of €3.5 million when compared with the cost of raising funds in the normal bond auctions.
- HSBC-CCF became a Primary Dealer in Irish Government bonds in October 2004 and Royal Bank of Scotland in May 2005. This development reflects the continued increase in demand for Irish Government bonds by foreign investors. There are currently nine Primary Dealers, seven of whom are major international banks based overseas.
- Ireland can now raise money in the euro area bond market at virtually the same cost as Germany and France, who are viewed as the benchmark borrowers. This is due to the continued strength of Ireland's public finances, especially when compared with some of the major European countries, and the internationalisation of the Irish Government bond market following the introduction of the euro. The NTMA's policy of having a state-of-the-art sale and distribution system through the use of Bloomberg and Euroclear as well as the Primary Dealership system has facilitated this process.
- Bond yields

	End 2004	17 June 2005
3¼ % Treasury Bond 2009	2.95%	2.50%
5% Treasury Bond 2013	3.50%	3.07%
4.6% Treasury Bond 2016	3.75%	3.31%
4½ % Treasury Bond 2020	3.99%	3.55%

- Turnover in Irish Government bonds on the Irish Stock Exchange in 2004, at €72.3 billion, was in line with the average turnover from 2001 to 2003.
- At end 2004, 86 per cent of the National Debt carried a fixed rate of interest, compared with 76 per cent at end 2003. The high level of fixed interest debt is a result of the policy of locking in long term borrowing at historically low levels of interest, thus protecting the Exchequer against the effects of rising interest rates, and also the rundown in short term paper balances as a result of the Exchequer surplus of €33 million.
- All of the National Debt is denominated in, or swapped into, euro.
- There was a net inflow of funds into the Government retail savings schemes in 2004 of €356 million.
- Problems in relation to the sale of Prize Bonds arising out of an EU Directive and certain sections of the Finance Act 2004 were largely resolved following strong representations from the NTMA.

CREDIT RATING

- The credit rating agencies continue to regard Irish Government debt as among the best in the world. Moody's, Standard & Poor's, Fitch and Rating & Investment Information Inc. all re-affirmed Ireland's top AAA long term credit rating this year.

HOUSING FINANCE AGENCY FUNDING

- The NTMA has borrowed on behalf of the Housing Finance Agency since February 2003. The borrowings, which averaged €1.6 billion in 2004, resulted in interest savings of €1.3 million.

CENTRAL TREASURY SERVICES

- The Central Treasury Service to Local Authorities, Health Boards and Vocational Education Committees continues to provide a competitive alternative to the banking industry to these bodies for both borrowing and lending. An average of €90 million in loans and €25 million in deposits was outstanding during 2004.

SOCIAL INSURANCE FUND

- The NTMA manages the surplus balances of the Social Insurance Fund on behalf of the Department of Social and Family Affairs. The total surplus under management by the NTMA was €1.6 billion at end 2004, up by €300 million from end 2003. Since year end, a further €400 million has been added to bring the Fund to over €2 billion in June 2005.

DORMANT ACCOUNTS

- The NTMA took on the management of the Dormant Accounts Fund in 2003. In April 2004, the remit of the Fund was widened to include certain life assurance policies. To date €293 million has been transferred to the Fund, of which €58 million has been reclaimed. There have also been disbursements so far of €16 million. Taking account of interest accrued, the balance under management now stands at some €225 million.

EXCHEQUER ACCOUNT BALANCES

- The NTMA manages the balance in the Exchequer Account at the Central Bank in support of the European Central Bank's overall liquidity management operations. The 2004 turnover in ECB liquidity management operations was €221.5 billion, while the average transaction daily size was €476 million. Net Exchequer cash on deposit with the Central Bank at end 2004 was €2.1 billion. Total cash under NTMA management at end 2004 was close to €6 billion.

STATE CLAIMS AGENCY

- The State Claims Agency (SCA) is currently managing almost 2,600 personal injury claims, with an estimated value of €135 million, comprising:

Employer liability, public liability and property damage	65%
Clinical negligence	35%

- The inflow of non-clinical claims is more than matched by the pace of claims settled or otherwise disposed of.
- The SCA has resolved over 1,100 claims since inception at a cost of approximately €12.5 million.

- The SCA is currently seeking to recover costs from about 500 plaintiffs who brought asbestos-related “worried well” claims.
- Employer Liability/Public Liability risk management initiatives by the SCA during 2004 focused on a wide range of current or potential sources of claims. These included mould, radon gas, road traffic accidents, technical workshops and asbestos.
- In conjunction with its responsibilities to manage clinical claims, the SCA has a role to advise and assist in the design and implementation of a national clinical risk management scheme.
- The ongoing implementation of a clinical web-based incident reporting system (STARSWeb) will, for the first time in Europe, enable data on clinical incidents in hospitals and other healthcare enterprises to be standardised, recorded and analysed in a central national database.

NATIONAL DEVELOPMENT FINANCE AGENCY

- The National Development Finance Agency (NDFA) was established on 1 January 2003 to provide financial advice to State Authorities and to assist in providing cost effective finance for major infrastructure projects.
- There are over 80 projects currently referred to the NDFA for advice at various stages of development, with a total capital investment of some €15 to €20 billion.
- To date, the NDFA has completed its advice on thirteen projects with a combined capital value of some €1.3 billion. Six of these projects were Public Private Partnerships (PPPs) involving substantial private finance input. In respect of non-PPPs, the NDFA has organised lending facilities of some €400 million from the European Investment Bank and other financial institutions.

NATIONAL PENSIONS RESERVE FUND

- In April 2001, the NTMA was appointed for a period of ten years as the Manager of the Fund to act as agent for the National Pensions Reserve Fund Commission.

- The Fund earned a return of €951 million, or 9.3 per cent, in 2004. Its market value at 31 December 2004 was €11,689 million, including the 2004 Exchequer contribution of €1,177 million.
- €1,415 million was invested in global equity markets through the year, effectively completing the “averaging in” market entry approach adopted by the Commission since 2002.
- The Commission decided to invest 18 per cent of the Fund in additional asset classes – property, private equity and commodities.
- In total, the Fund had shareholdings in 1,752 companies across 24 markets at end 2004 and its assets were equivalent to 9.5 per cent of GNP.

ASSET COVERED SECURITIES

- Certain functions devolve on the NTMA under the Asset Covered Securities Act 2001 in respect of which it receives an annual fee related to the volume of business activity.
- During 2004, €16.8 billion of asset covered securities were issued in Ireland under the Act.

CONSULTANCY & INTERNATIONAL RELATIONSHIPS

- Other countries continue to consult the NTMA with respect to its asset and liability management activities.

HUMAN RESOURCES

- In June 2005, the number of staff employed by the NTMA was 98.

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