



National Treasury Management Agency

NATIONAL TREASURY MANAGEMENT AGENCY

Press Release
20 July 2006

Summary of Activity for the Year 2005

www.ntma.ie

SUMMARY OF ACTIVITY

The key features of 2005 were:

OVERALL

- With a much smaller than projected budget deficit in 2005 resulting in only a small increase in the National Debt, as well as record returns on the National Pensions Reserve Fund, the State is better off by some €5 billion than might have been expected at the beginning of 2005.
- The combined total of asset and liability portfolios managed by the NTMA exceeds €57 billion - up 14 per cent on last year.
- Gross cashflows through the NTMA amounted to €642 billion - up by €100 billion and equivalent to five times Ireland's GNP.
- A number of new functions have been assigned to NTMA.

NATIONAL DEBT

- The State's balance sheet continues to improve. The National Debt, less the National Pensions Reserve Fund and other funds managed by the NTMA, is now equivalent to only six and a half months' tax revenue. When the NTMA was established in 1990, it took over three months' tax revenue just to pay the interest on the debt.
- The General Government Debt/GDP ratio continues to fall - to 27.6 per cent at end 2005 (from 29.4 per cent at end 2004) 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 Net Debt/GDP ratio of around 17.9 per cent at end 2005 (21.6 per cent at end 2004).
- The National Debt at end 2005 was €38.2 billion.
- Interest payments on the Debt were €1,865 million, or €257 million below budget. Interest costs absorb 3.7 per cent of tax revenue, about a fifth of the figure 10 years ago when the interest bill was 18.8 per cent of tax revenue. This reduction in the interest burden has freed up substantial resources, which the Government can use for other purposes.
- To meet debt repayments and the expected budget deficit, €1.6 billion was raised through bond auctions during 2005, at an average yield of 3.44 per cent.

- A further €384 million was raised in February 2005, when the NTMA issued USD 500 million bonds under its Euro Medium Term Note Programme. The dollars 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.
- Foreign investors hold 84 per cent of Irish Government bonds, up sharply 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 2005 was taken up by foreign investors.
- The Royal Bank of Scotland became a Primary Dealer in Irish Government bonds in May 2005. This development reflects the continued increase in demand for Irish Government bonds by international investors. AIB resigned as a Primary Dealer in December 2005. Seven of the eight Primary Dealers are major international banks based overseas.
- Ireland continues to 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 EuroMTS, Bloomberg and Euroclear as well as the Primary Dealership system has facilitated this process.
- Bond yields were:

	At 31 December 2005	At 28 June 2006
3¼% Treasury Bond 2009	2.98%	3.71%
5% Treasury Bond 2013	3.17%	3.97%
4.6% Treasury Bond 2016	3.29%	4.09%
4½% Treasury Bond 2020	3.43%	4.24%
- Turnover in Irish Government bonds on the Irish Stock Exchange in 2005 was €51.3 billion.
- At end 2005, 83 per cent of the National Debt carried a fixed rate of interest. The remaining 17 per cent relates to retail savings schemes. 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.
- Exchange rate risk has been eliminated from the National Debt, as all of the debt is now denominated in, or swapped into, euro.
- Government retail savings schemes raised a net €407 million in 2005.

- 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 continue to assign the top AAA long term credit rating to Ireland, with a stable outlook.

OTHER NTMA FINANCIAL ACTIVITIES

- The NTMA has borrowed on behalf of the Housing Finance Agency (HFA) since February 2003. Average outstanding borrowings on behalf of HFA were €1.75 billion in 2005.
- The Central Treasury Service to health and education authorities and local government continues to provide these bodies with a competitive alternative to the banking industry for both borrowing and lending. An average of €66 million in loans and €40 million in deposits was outstanding during 2005.
- The NTMA manages the assets of the Social Insurance Fund on behalf of the Department of Social and Family Affairs. The total assets under management by the NTMA were €2.05 billion at end 2005 - up by €400 million from end 2004. A further €500 million has been transferred to date in 2006.
- The NTMA manages the assets of the Dormant Accounts Fund, which came to €204.4 million at end December 2005 (€198.5 million at end 2004). Some €40.8 million was transferred to the Fund by financial institutions and life assurance companies in 2005, while €22.9 million of previously dormant funds was reclaimed by them. Disbursements from the Fund amounted to €14.4 million during the year. A further €79.9 million has been transferred to the Fund so far in 2006, while previously dormant funds of €18.7 million have been reclaimed and disbursements of €7 million have also been made. The fund now stands at an estimated €261 million.
- The NTMA manages the balance in the Exchequer Account at the Central Bank of Ireland in support of the European Central Bank's (ECB) overall liquidity management operations. The 2005 turnover in ECB liquidity management operations was €303 billion, while the average daily transaction size was €626 million.
- Total cash under NTMA management at end 2005 was over €5 billion.

NEW ACTIVITIES

- The NTMA manages the assets of the Education Finance Board Fund. The balance in the Fund at 31 December 2005 was €11 million. The Education Finance Board was established to administer an education grants scheme for former residents of industrial schools, reformatory schools and certain other institutions and their families.

- Arising from the State's obligations under the Kyoto Protocol, the Budget for 2006 allocated €20 million to purchase carbon credits and the NTMA has been appointed as purchasing agent for the State. Legislation to enable the NTMA undertake this role is being drafted.

STATE CLAIMS AGENCY

- The State Claims Agency (SCA) is currently managing approximately 3,600 personal injury claims, with an outstanding reserve value of €250 million - €100 million for employer liability, public liability and property damage and €150 million for clinical negligence.
- To end-June 2006, the SCA has resolved approximately 2,400, or 40 per cent of all claims received since inception, at a cost of €33.2 million.
- 30 per cent of all closed claims have been resolved at no cost to the State.
- 72 per cent of all claims involve the Prison Service, Garda Síochána and Defence Forces.
- Significant new classes of claims have been delegated to the SCA in 2005 - notably sexual abuse and hearing loss claims.
- Excluding the new classes delegated, there has been a significant decline since 2001 in employer liability and public liability claims against the State (by approximately 80 per cent and 30 per cent respectively).
- In cooperation with the Defence Forces and the Irish Prison Service, employer liability/public liability risk management initiatives by the SCA focused on reviewing the risk management systems in place and, where necessary, supporting action to bring them in line with best practice. Additionally, in conjunction with the Department of Education and Science, the SCA reported on the management of safety in post-primary schools with particular focus on the technology subjects. Funding of €40 million was provided to enable schools to implement the report's recommendations.
- Approximately 60 per cent of all clinical negligence claims, by reserve value, relate to Obstetrics and Gynaecology.
- A significant part of the SCA's role is to advise and assist the HSE in the design and implementation of a national clinical risk management scheme. A team of four practitioners with wide-ranging medical and nursing experience has been recruited to support the development of the SCA's statutory remit of risk advice and assistance.

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. The NDFA has provided financial advice on many major projects, including housing, railways, prisons, courthouses, schools and the National Conference Centre.
- To date, 91 projects have been referred to the NDFA with a total capital investment of some €20 billion. The NDFA has completed its advice in relation to 23 projects with a capital value of €2.8 billion, eleven of which were Public Private Partnerships (PPPs) involving financing from the private sector. For these projects, financing has been provided by the following sources: private bank debt, European Investment Bank project loans, direct Exchequer contributions and private equity.
- The 2006-09 multi-annual budget has provided for public capital expenditure over the next five years of up to €43.5 billion. NDFA will be playing a key role in providing financial advice and delivering these projects.
- In July 2005, the Government announced a major new initiative aimed at accelerating the delivery of PPPs for key capital infrastructure projects. It involves the expansion of the NDFA into a "Centre of Expertise" which is responsible for the delivery of PPP projects. The role covers the Education, Health and Justice sectors initially and the NDFA has already commenced work on some €1 billion worth of projects in these sectors. This has extended the role of the NDFA from being financial advisors to being responsible for all aspects of procurement and delivery in these sectors.

National Pensions Reserve Fund

- The Fund grew by €3.7 billion from €11.7 billion at end 2004 to €15.4 billion at end 2005.
- The Fund earned a return of €2,410 million or 19.6 per cent in 2005 reflecting its heavy concentration in equities and the strong growth in world equity markets.
- The Fund currently holds shares in about 1,800 quoted companies worldwide.
- The Fund's end-year value was equivalent to 11.4 per cent of GNP.

- In February 2005, the Fund announced a significant diversification of its strategic asset allocation, primarily through an 18 per cent allocation to alternative asset classes - property, private equity and commodities - to be achieved on a phased basis by end 2009.
- Significant progress was made on this diversification strategy during the year. €629 million was invested in global equity markets. Of this, €188 million was invested in small cap equities and 291 million in emerging markets equities. €170 million was invested in commodities. By year end, a total of €404 million had been committed to international property funds and €181 million to international private equity funds. Moneys committed to these funds will be drawn down as suitable investment opportunities arise.

National Pensions Reserve Fund		
Summary Asset Allocation - 31 December 2005		
	€m	%
Quoted Equity Investments	12,136	78.7
Private Equity	20	0.1
Property	133	0.9
Commodities	200	1.3
Government Bonds	1,802	11.7
Cash	1,128	7.3
Total	15,419	100.0

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 2005, 15.65 billion of asset covered securities were issued in Ireland under the Act, bringing the total amount in issue to 44.75 billion.

CONSULTANCY & INTERNATIONAL RELATIONSHIPS

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

HUMAN RESOURCES

- In June 2006, the number of staff employed by the NTMA was 115.

