



National Treasury Management Agency

NATIONAL TREASURY MANAGEMENT AGENCY

Press Release
18 July 2007

Summary of Activity for the Year 2006

www.ntma.ie

SUMMARY OF ACTIVITY

The key features of 2006 were:

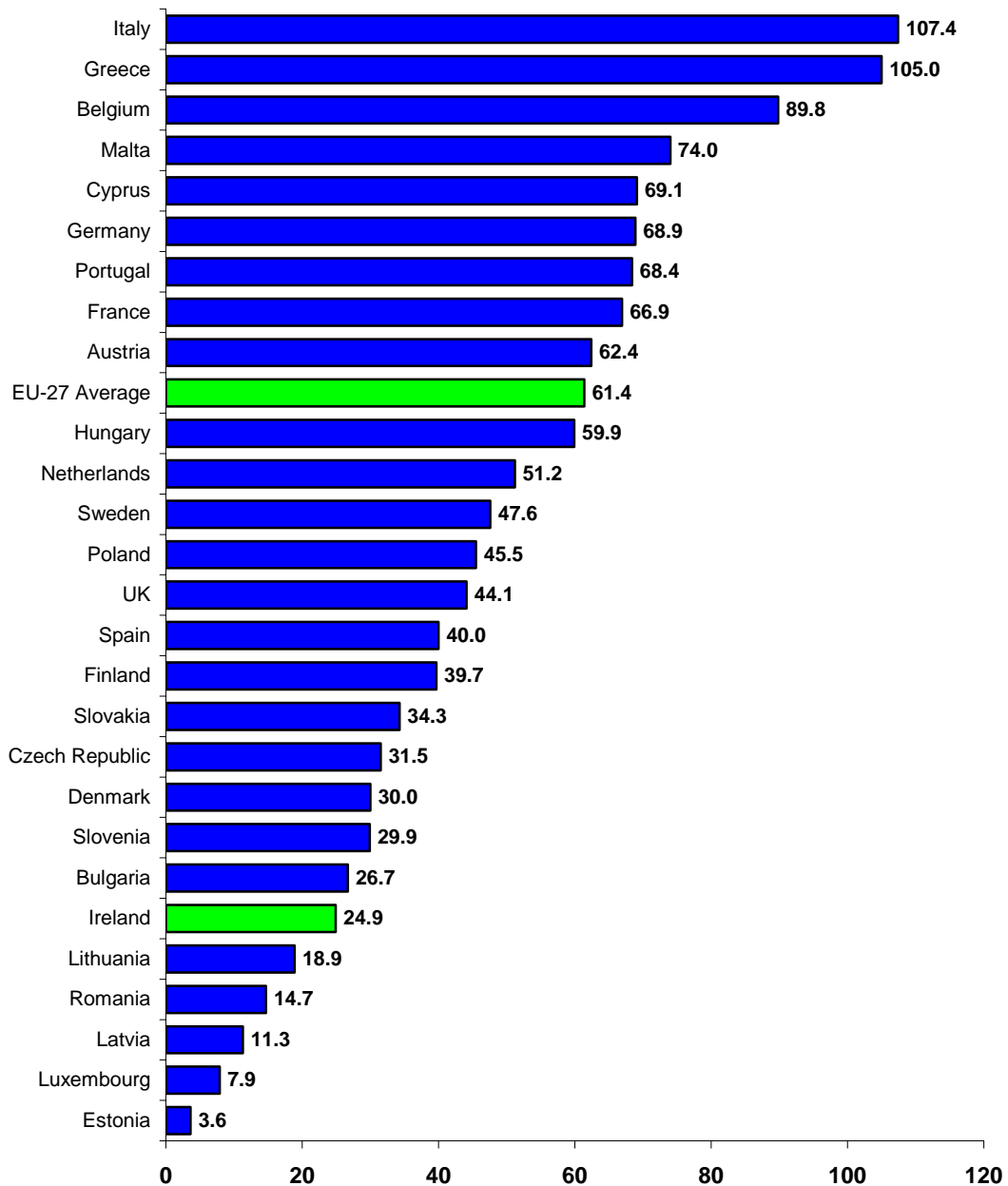
OVERALL

- With a 2006 budget surplus of €2.3 billion - rather than the earlier estimated deficit of €3 billion - and strong gains on the National Pensions Reserve Fund, the State was better off by some €7 billion more than might have been expected at the beginning of the year; this brings the aggregate gain over the last two years to €12 billion.
- The combined total of asset and liability portfolios managed by the NTMA rose to almost €60 billion.
- Gross cashflows through the NTMA in 2006, at almost €580 billion, were equivalent to around four times Ireland's GNP.

NATIONAL DEBT

- The National Debt decreased by €2.3 billion and stood at €35.9 billion at end 2006.
- The National Debt, less the National Pensions Reserve Fund and other funds managed by the NTMA, is now equivalent to less than four months' tax revenue (down from six and a half months at end 2005). 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 dropped again – to 24.9 per cent at end 2006 (from 27.4 per cent at end 2005) and continues to be one of the lowest in the EU.
- Deducting the value of the National Pensions Reserve Fund and other funds managed by the NTMA would give an even lower Debt/GDP ratio of around 12.7 per cent at end 2006 (16.3 per cent at end 2005).
- Interest payments on the Debt were €1,859 million. This represents 4.1 per cent of tax revenue, less than a sixth of the equivalent figure of 25.7 per cent 15 years ago. The reduction in the interest burden has freed up substantial resources which the Government can use for other purposes. Total debt service costs in 2006 were €271 million below budget.
- Foreign investors hold 86 per cent of Irish Government bonds, up sharply from 22 per cent at end 1998, just before the introduction of the euro.

General Government Debt/GDP Ratios for EU-27 Member States 2006



Sources: Eurostat, EU Commission, Department of Finance (2006 estimate for Ireland)

- Ireland's benchmark bonds trade at virtually the same cost as those of Germany and France, who are viewed as the benchmark borrowers in Europe. As a result of the strength of the public finances, no new bond issues or auctions of existing bonds were necessary during 2006.
- Bond yields were:

	At 31 December 2006	At 26 June 2007
3¼% Treasury Bond 2009	3.90%	4.44%
5% Treasury Bond 2013	3.92%	4.53%
4.6% Treasury Bond 2016	3.95%	4.58%
4½% Treasury Bond 2020	4.03%	4.65%

- At end 2006, 88 per cent of the National Debt carried fixed rates of interest. The balance related 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 net additional funds of €219 million in 2006. But when account is taken of payments of accrued interest, the amount outstanding fell. Repayment of €142 million was made to holders of maturing Special Savings Incentive Accounts with An Post.
- 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 reaffirmed Ireland's top AAA long-term credit rating towards the end of 2006.

OTHER NTMA FINANCIAL ACTIVITIES

- The NTMA has borrowed on behalf of the Housing Finance Agency since February 2003. These borrowings averaged €1.57 billion in 2006. Turnover in 2006 was €31.2 billion.
- The Central Treasury Service continues to provide health, education and local government authorities with a competitive alternative to the banking industry for both borrowing and lending. An average of €50 million in loans and €55 million in deposits was outstanding during 2006.
- 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 €2.7 billion at end 2006, up by €600 million from end 2005.
- The NTMA manages the assets of the Dormant Accounts Fund, which came to €211.5 million at end December 2006 (€204.4 million at end 2005). The Fund now stands at an estimated €259 million.
- The NTMA manages a passive bond mandate for the National Pensions Reserve Fund. This bond portfolio has made gains of €500 million since inception and stood at €1.8 billion at end 2006. The Fund's cash balances, currently €340 million, are also managed by the NTMA.
- The foreign exchange transactions required by the NPRF for its investments in non-euro assets and for the execution of the Fund's long-term strategic hedging strategy (but not those for the Fund's active foreign currency exposure management) are executed by the NTMA. Turnover on these activities in 2006 amounted to over €32 billion.

- Key developments arising from the CIS Risk Management Service Plan for 2006 included quality assurance initiatives to support the STARSweb system, the establishment of successful obstetric and paediatric forums and significant collaborative projects with the Health Service Executive and Health Information and Quality Authority.

NATIONAL DEVELOPMENT FINANCE AGENCY

- The NDFA was established on 1 January 2003 to provide financial advice to State authorities undertaking major infrastructure projects, whether by means of Public Private Partnership (PPP) or traditional procurement.
- To date, 107 projects have been referred to the NDFA, which has completed its advice on 35 projects. Of these, 20 are PPPs which involve significant financing from the private sector.
- In 2006 the NDFA completed its advice in relation to six projects:

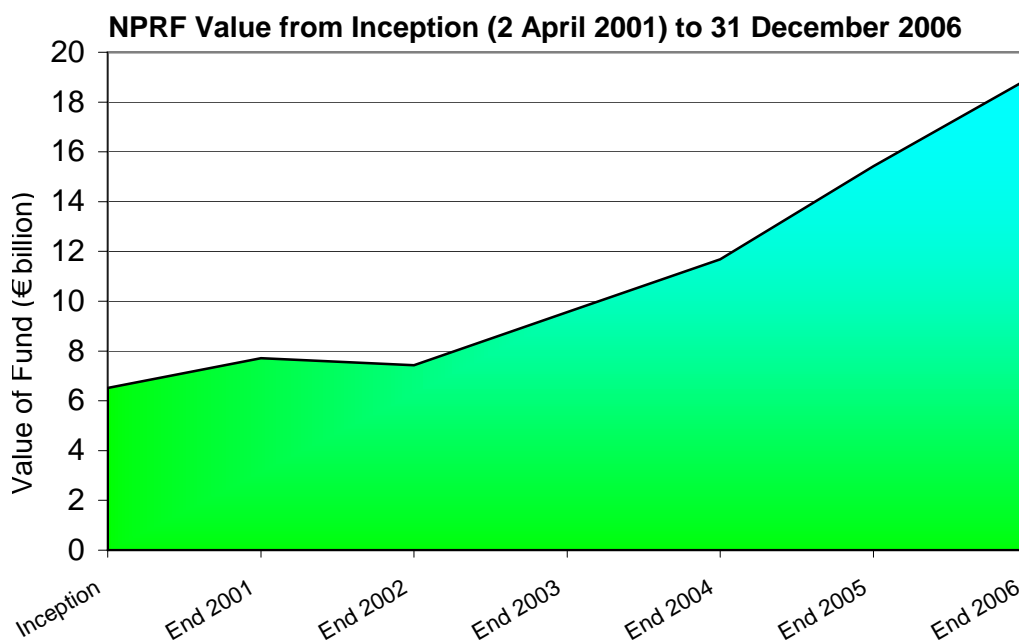
Contract	Total Cost €m	Contract Awarded	Target Completion	PPP/ Non-PPP
N25 Waterford Bypass	360	April 2006	2010	PPP
Limerick Tunnel	330	August 2006	2010	PPP
Greystones Harbour	210	Pending Planning	2012	PPP
Jamestown Road Regeneration	45	February 2007	2010	PPP
Midlands Prison Loan Refinancing	37	December 2006	Complete	Non-PPP
Horse Racing Ireland Capital Funding	15	December 2006	Complete	Non-PPP

- The NDFA continues to provide financial advice on a number of high profile projects. Examples include Thornton Hall Prison and transport projects such as the Metro North PPP Project, LUAS extensions and roads. To date in 2007, the NDFA has completed its advice in relation to the Criminal Courts Complex, the National Conference Centre, Lansdowne Road Stadium and a number of social and affordable housing projects and roads schemes.
- In July 2005 the Government expanded the NDFA's remit, providing for a "Centre of Expertise" to undertake the actual procurement of projects, initially on behalf of the Department of Health and Children, the Department of Justice, Equality and Law Reform and the Department of Education and Science. The NDFA is currently procuring the first and second bundles of a programme of 27 schools for the Department of Education and Science.
- The remit of the NDFA has recently been further extended to include a wider range of Government Departments: the NDFA has commenced pre-procurement work on behalf of the Department of Arts, Sport and Tourism for the National Concert Hall and the Abbey Theatre.

- The legislation giving statutory effect to the procurement role of the NDFA, the National Development Finance Agency (Amendment) Act 2007, was enacted in April 2007. 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.

NATIONAL PENSIONS RESERVE FUND

- The Fund grew by €3.5 billion to €18.9 billion at 31 December 2006 from €15.4 billion at end 2005. Investment returns added €2 billion, while the Exchequer contributed €1.4 billion.
- The Fund earned an investment return of 12.4 per cent in 2006, recording its fourth straight year of strong growth and bringing its annualised return since inception in April 2001 to 6.5 per cent.
- The Fund's value at end 2006 was equivalent to 12.6 per cent of GNP.
- At end 2006 the Fund held shares in approximately 2,250 quoted companies worldwide. It held 161 debt securities and had investments in 22 property investment vehicles and 18 private equity investment vehicles.
- In April 2006 the Fund joined a group of the world's largest institutional investment funds in signing the UN Principles for Responsible Investment. The aim of the Principles is to integrate the consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices and thereby improve long-term returns.



NEW ACTIVITIES

- The Carbon Fund Act 2007 provides for the establishment of the Carbon Fund and designates the NTMA as agent for the State with responsibility for the purchase of carbon credits required to meet Ireland's obligations under the Kyoto Protocol.
- The NTMA is to manage the foreign currency requirements (about €100 million per annum) of the Department of Foreign Affairs. This will be carried out on a non-statutory basis pending the enactment of legislation.
- The Education Finance Board was established in February 2006 under section 23 of the Commission to Inquire into Child Abuse (Amendment) Act 2005. The Fund which the Board has at its disposal is managed by the NTMA pending its disbursement by the Board. The balance in the Fund at 31 December 2006 was €10 million.
- In July 2006 the Department of Finance requested the NTMA to undertake a review of the treasury management and banking arrangements of the Health Service Executive. The review commenced in September and a report was presented to the Department of Finance in December 2006.
- The Health Act 2007, which provides for the establishment of the Health Information and Quality Authority, includes a provision whereby the NTMA may, at the request of the Health Service Executive, manage moneys in patients' private property accounts on terms agreed with the HSE.

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 2006, €15.4 billion of asset covered securities were issued in Ireland under the Act, bringing the total amount in issue to €60 billion.

CONSULTANCY & INTERNATIONAL RELATIONSHIPS

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

HUMAN RESOURCES

- In June 2007, the number of staff employed by the NTMA was 135.

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