



**National Treasury Management Agency**

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## **Press Release**

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## **Quarter I Update**

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**[www.ntma.ie](http://www.ntma.ie)**

**8 April 2009**

The information within is based on bond prices quoted on the Irish Stock Exchange on 31 March 2009 and, in the case of foreign exchange, on rates notified by the Central Bank as of close of business on 31 March 2009. Data in respect of the National Pensions Reserve Fund are, in the case of direct quoted investments, based on valuations as of close of business on 31 March 2009 and, in the case of indirect investment vehicles, based on the most recently available valuations. Unless indicated otherwise, all figures are in euro. Debt ratios are based on Department of Finance estimates for EBR and GGB and CSO figures for GDP and GNP.



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## 1. FUNDING POSITION

- The Supplementary Budget for 2009 forecasts an Exchequer Borrowing Requirement of just over €20 billion (including contributions to the National Pensions Reserve Fund of €3 billion). In addition a €5 billion bond falls due for repayment this month, giving a total of €25 billion to be raised in 2009.
- The 2009 net funding requirement will be met by a combination of new syndicated benchmark bond issues and auctions of existing bonds.
- The purchase of property assets by the proposed National Asset Management Agency is expected to be paid for by the issue of Irish government bonds directly to the banks.
- Despite the difficult and highly competitive conditions in global capital markets, the NTMA successfully raised medium-term and long-term funding of €11.3 billion in Q1 2009:
  - 8 January (syndication – new bond):  
4% Treasury Bond 2014 – raised €6 billion at a yield of 4.069%
  - 25 February (syndication – new bond):  
3.9% Treasury Bond 2012 – raised €4 billion at a yield of 4.01%
  - 24 March (auction – existing bonds):  
4% Treasury Bond 2011 – raised €400 million at a yield of 3.459%  
4½% Treasury Bond 2020 – raised €900 million at a yield of 5.808%

The bond auction was three times oversubscribed.

- A new Treasury Bill programme launched on 26 March for 1, 3 and 6 month maturities provided:
  - 1 month bills - €500 million at an annual yield of 1.139%
  - 3 month bills - €500 million at an annual yield of 1.286%
  - 6 month bills - €500 million at an annual yield of 1.384%

Bids totalled €3.7 billion.

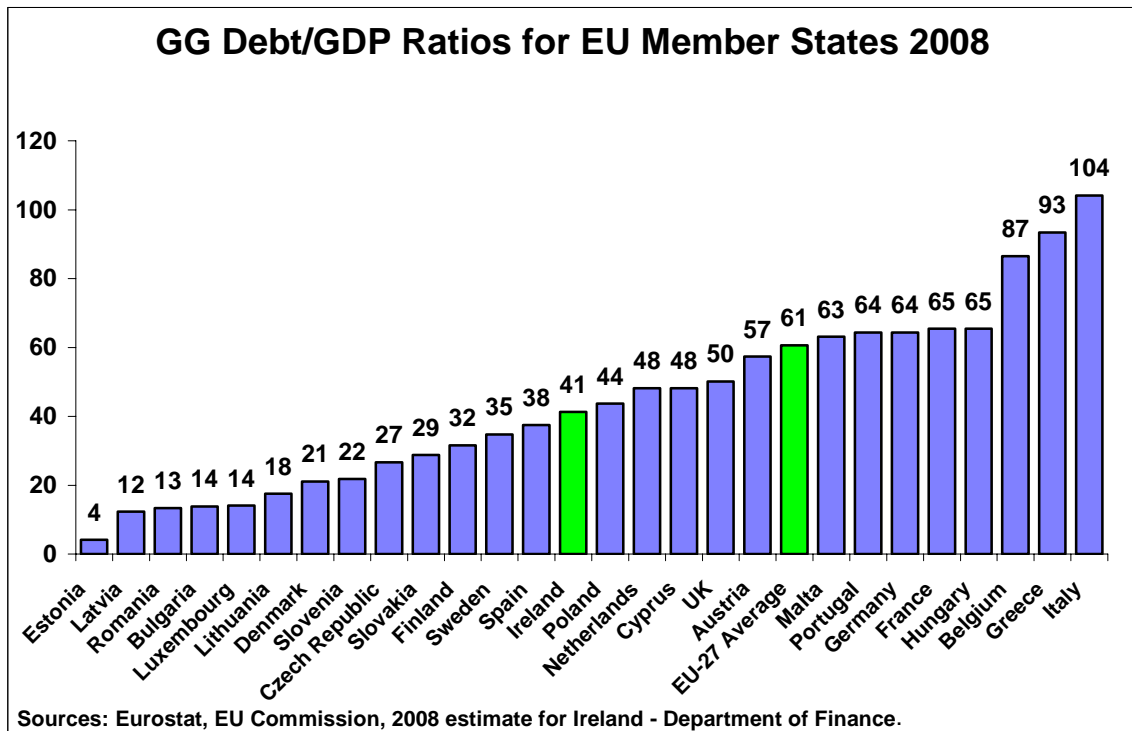
- A further issue of Treasury Bills today 8 April provided:
  - 1 month bills - €500 million at an annual yield of 0.967%
  - 3 month bills - €500 million at an annual yield of 1.058%
  - 6 month bills - €500 million at an annual yield of 1.157%

Bids totalled €4.4 billion.

The success of these deals reflects the continued confidence of investors in Irish Government debt.

- The build up of Exchequer cash balances towards the end of 2008 has assisted in the timing of borrowing in 2009, ensuring that the NTMA can raise funds as opportunities arise without having to enter the market at particularly turbulent times. At the end of March, free cash balances in the Exchequer were almost €27 billion.

- In line with the Q1 2009 EBR, the National Debt increased by €3.8 billion (including a contribution of €400 million to the National Pensions Reserve Fund) and now stands at €54.2 billion. It is forecast to increase to €70.9 billion by the end of this year.
- At end 2008 the General Government Debt/GDP ratio was 41 per cent, well below the EU average of 60.6 per cent. The General Government Debt measure does not allow the cash balances to be offset against the gross position.



- Deducting the value of the National Pensions Reserve Fund and other funds managed by the NTMA from the gross debt would give a Debt/GDP ratio of around 30 per cent at end 2008. Subtracting Exchequer cash balances reduces the ratio further to 20 per cent.
- In January the European Commission published forecasts for Debt/GDP ratios to 2010 on a “no policy change basis”. Ireland is forecast to remain below the European average.

	2008	2009	2010
Belgium	88.3	91.2	94.0
France	67.1	72.4	76.0
Germany	65.6	69.6	72.3
<b>Ireland</b>	<b>41.0</b>	<b>59.0</b>	<b>73.0</b>
Italy	105.7	109.3	110.3
Portugal	64.6	68.2	71.7
Spain	39.8	46.9	53.0
UK	50.1	62.6	71.0
<b>Euro Area</b>	<b>68.7</b>	<b>72.7</b>	<b>75.8</b>

Source: European Commission, Ireland ratios updated per Supplementary Budget 2009

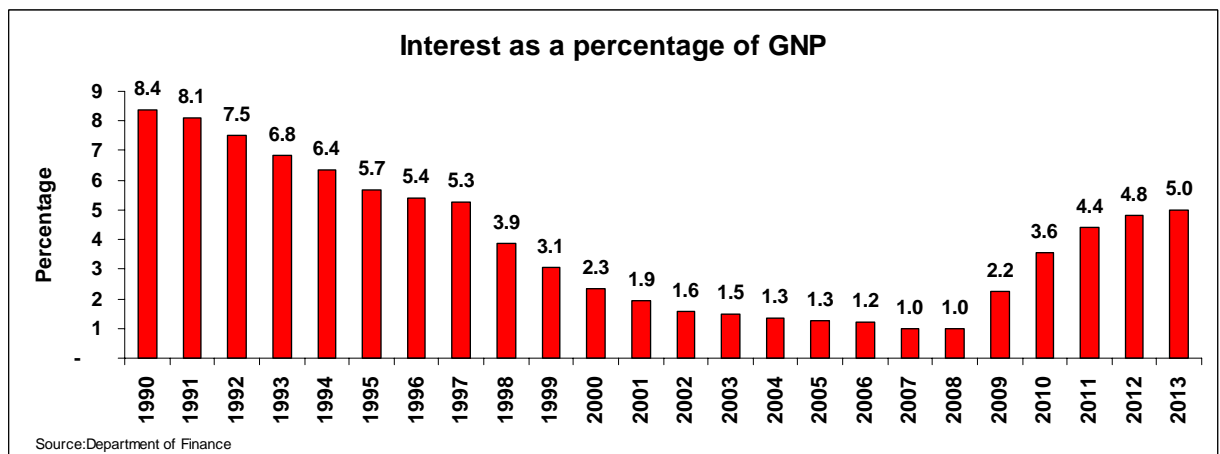
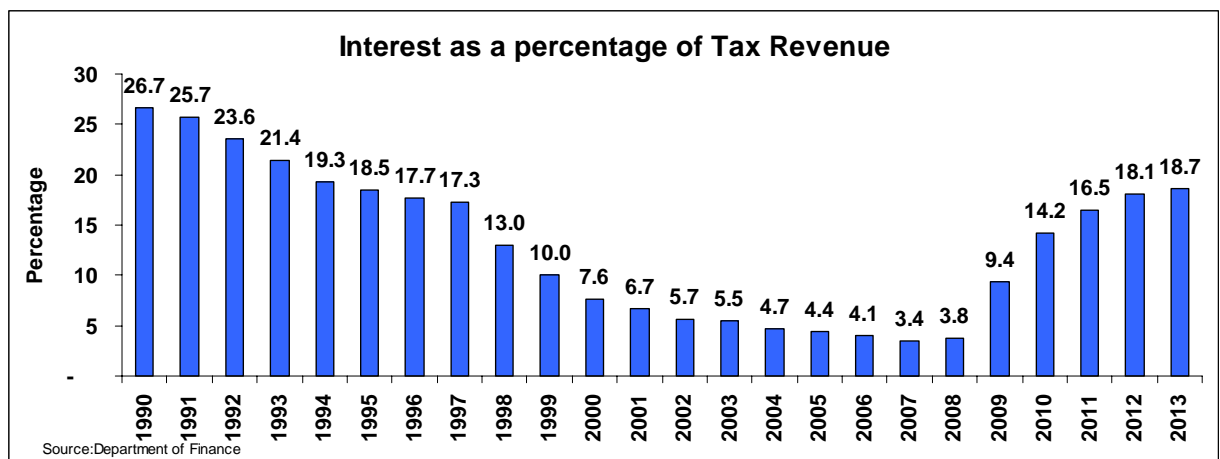
- Forecast debt ratios for 2009-2013 are set out below, along with adjustments for net cash position:

Year	2009	2010	2011	2012	2013
Debt/GDP*	59%	73%	78%	79%	77%
Cash balance/GDP	12%	12%	10%	7%	4%
Net ratio	47%	61%	69%	72%	73%

\*Source: Department of Finance, Supplementary Budget 2009

These estimates do not include any adjustment in respect of debt issued in connection with the proposed National Asset Management Agency. Please see page 8.

- Interest payments on the debt were 3.8 per cent of tax revenue in 2008; the equivalent figure was 26.7 per cent when the NTMA was established in 1990. In 2009 the forecast is for 9.4 per cent of tax revenue, reflecting higher interest costs on a larger debt and lower tax revenues. While the interest burden will increase substantially over the period 2009-13, it will be no greater than the levels experienced in the mid-1990s.



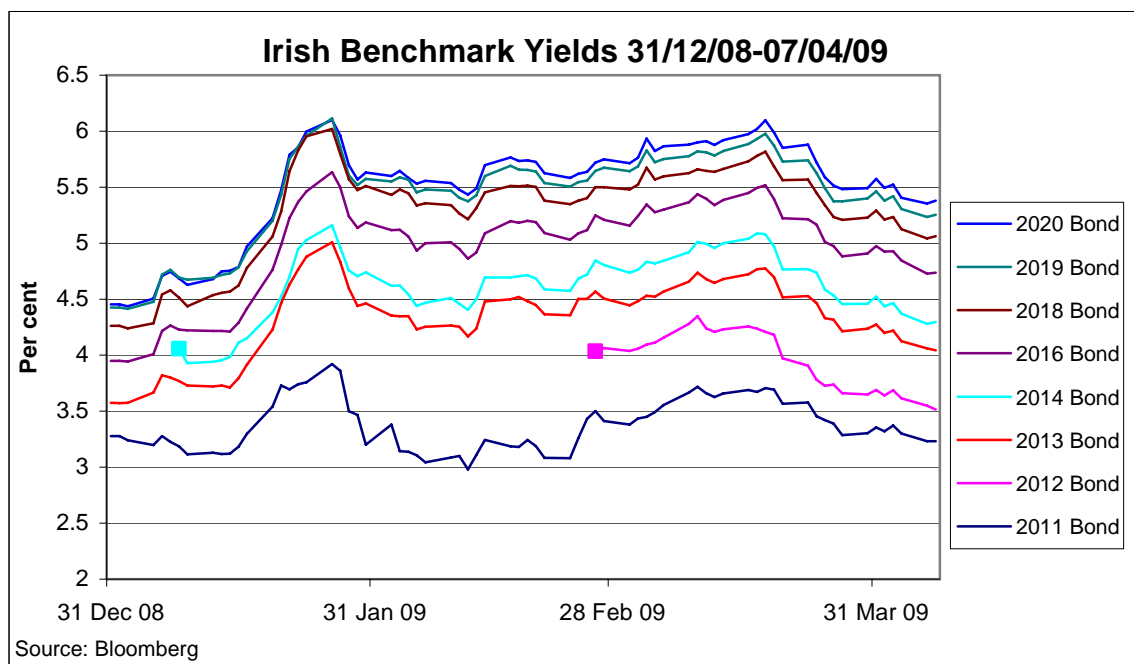
- Based on our latest estimates and current market conditions, debt service costs could be up to €600 million (€250 million on GGB basis) lower than the amount originally forecast in the Addendum in January 2009. The estimated "savings" mainly reflect timing issues and are subject to uncertainty with regard to (i) the borrowing requirement and (ii) instability in the capital markets. The lower debt service estimate was incorporated into the Supplementary Budget.

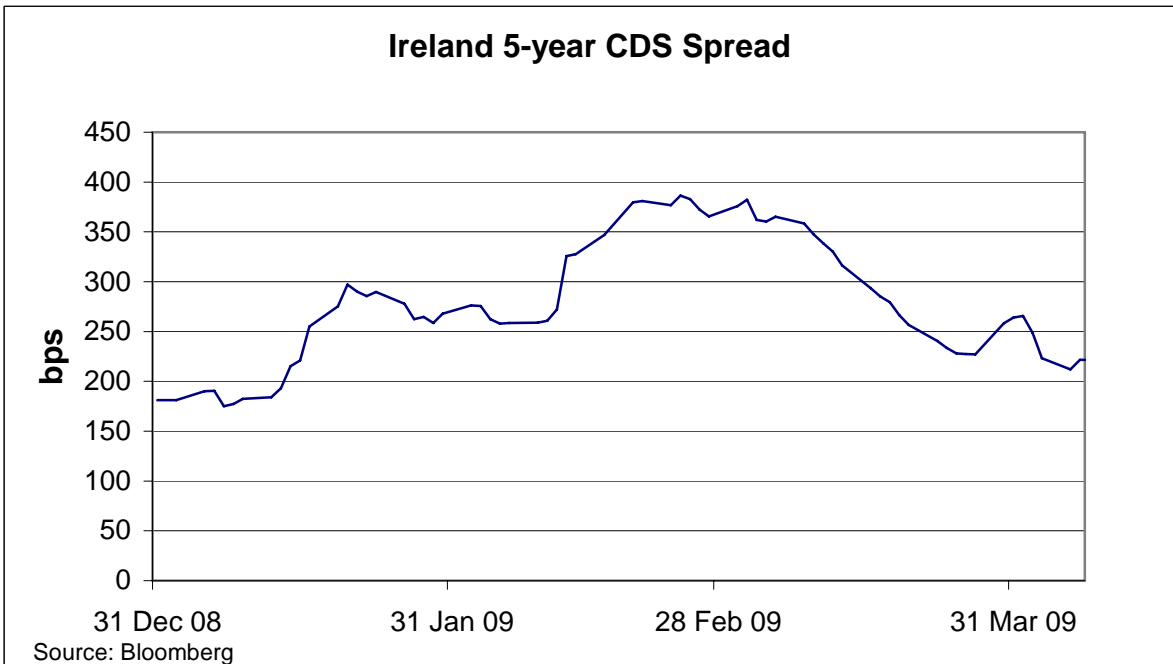
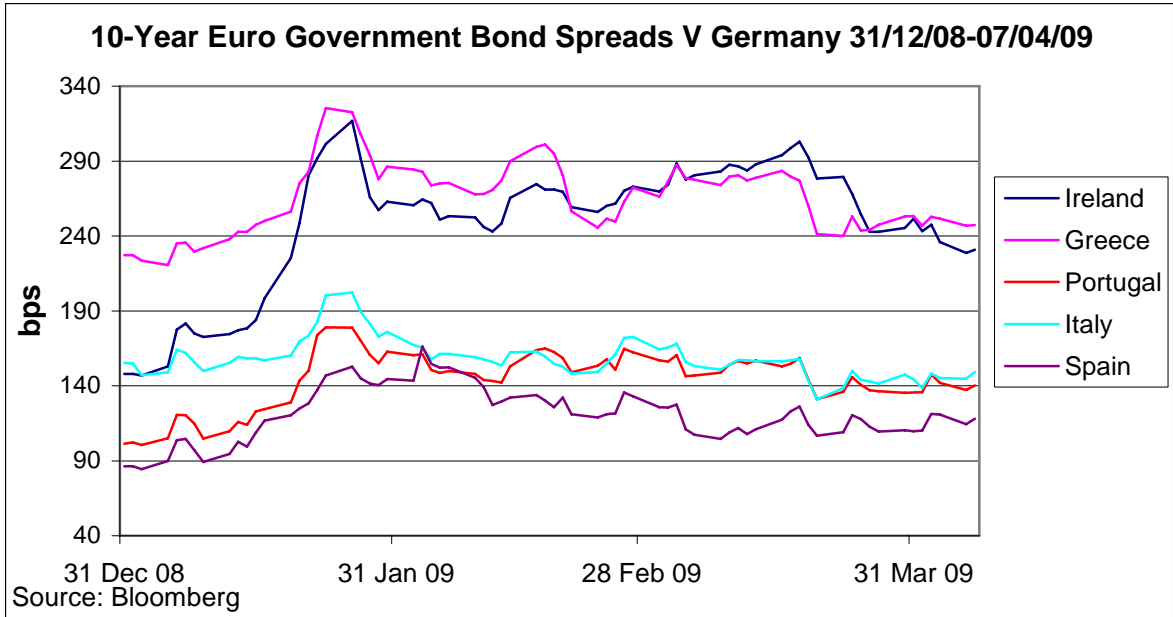
- The first quarter saw continued volatility in global capital markets. Ireland must now compete not only with other euro sovereign borrowers as they fund their deficits and recapitalise their banks, but also with banks as they rebuild their balance sheets with the backing of government guarantees.

One result of this was the increased spread in the cost of funding that all European countries pay over the German benchmark rate. Ireland's spreads rose sharply in January as a result of a number of global and domestic factors. Global factors included the prospect of continued contraction in the major economies and the associated increased risk aversion; domestic factors included the sudden deterioration in public finances, uninformed comment regarding the bank recapitalisation programme, and the speculative activities of participants in the credit default swaps market. However, yields have been falling recently.

Bond	31/12/07	31/03/08	Change	31/03/09	Change	07/04/09	Change
4% Treasury Bond 2011	-	3.29%	-	3.39%	0.10%	3.25%	-0.14%
3.9% Treasury Bond 2012	-	-	-	3.69%	-	3.50%	-
5% Treasury Bond 2013	4.27%	3.58%	-0.69%	4.31%	0.73%	4.05%	-0.26%
4% Treasury Bond 2014	-	-	-	4.53%	-	4.30%	-0.23%
4.6% Treasury Bond 2016	4.35%	3.94%	-0.41%	5.00%	1.06%	4.73%	-0.27%
4½% Treasury Bond 2018	4.49%	4.24%	-0.25%	5.27%	1.03%	5.08%	-0.19%
4.4% Treasury Bond 2019	-	4.43%	-	5.45%	-	5.26%	-0.19%
4½% Treasury Bond 2020	4.55%	4.48%	-0.07%	5.58%	1.10%	5.38%	-0.20%

Source: Irish Stock Exchange





- At end Q1 2009, 98.5 per cent of the National Debt (net of cash balances) carried fixed rates of interest. The balance mainly related to the retail savings schemes and commercial paper programmes. 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, protecting the Exchequer against the effects of rising interest rates.

- The credit rating agencies continue to regard Irish Government debt as among the safest in the world. Ireland's debt is highly rated by all the credit rating agencies:

<b>Rating Agency</b>	<b>Long-Term</b>	<b>Short-Term</b>	<b>Outlook</b>
Fitch Ratings	Aaa	P1	Negative
Moody's	AAA	F1	Negative
Ratings and Investment Information	AAA	a-1+	Negative
Standard & Poor's	AA+	A1+	Negative

- International investors hold 85 per cent of Irish Government bonds, up sharply from 22 per cent at end 1998, just before the introduction of the euro.
- Exchange rate risk in economic terms has been eliminated from the National Debt, as all of the debt is now denominated in, or swapped into, euro.

## 2. NATIONAL PENSIONS RESERVE FUND

- **Performance**

3 Months - 1 January to 31 March 2009	-6.7%
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The Fund's value at 31 March 2009 was €15.5 billion.

The Fund's first quarter decline was due to the performance of its equity portfolio as the global recession continued. Markets remained extremely volatile during the quarter and vulnerable to negative news flow, although they did rally towards end March as evidence emerged from the US that the pace of slowdown was moderating. For the quarter, the FTSE Eurozone index declined by 13.7 per cent and the S&P 500 fell 11.7 per cent. Combined with the difficult year experienced by global markets during 2008, this reduced the Fund's annualised performance since inception to -0.4 per cent compared with 6.0 per cent at end 2007.

While some commentators believe equity markets may have bottomed, it is difficult to be definitive at this stage and they remain vulnerable to bad news. At the moment, the best economic prospects would seem to be for some recovery in the US in 2010 with Europe following in 2011.

- **Asset allocation at 31 March 2009**

The Fund has increased its cash balances and maintained a cautious approach to equity investment since the onset of the credit crisis in 2007. At the start of 2009 cash balances comprised over 10 per cent of the total Fund. These cash balances have been reduced and the Fund's government bond investments liquidated to finance the €3.5 billion purchase of Bank of Ireland preference shares on 31 March in order to recapitalise the bank. The purchase was directed by the Minister for Finance under the *Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act 2009*.

A fixed dividend of 8 per cent per annum is payable on the preference shares which can be repurchased at par up to the fifth anniversary of issue and at 125 per cent of face value thereafter. Warrants attached to the preference shares give an option to purchase up to 25 per cent of the ordinary share capital of the bank existing on the date of issue of the preference shares. The warrants are exercisable at any time from the fifth to tenth anniversary of issue. All proceeds from the investment will form part of the Fund.

### NPRF Asset allocation at 31 March 2009

Allocation	€m	%
Large Cap Equity	8,075	52.2
Small Cap Equity	483	3.1
Emerging Markets Equity	218	1.4
Private Equity	499	3.2
Property	469	3.0
Commodities	60	0.4
Fixed Income	1,087	7.0
Currency and Other Funds	179	1.2
Cash	787	5.1
Directed Investments*	3,617	23.4
<b>Total Net Assets</b>	<b>15,474</b>	<b>100.0</b>

\* The Fund's directed investments are the Bank of Ireland preference shares (with attached warrants) in which the Fund has invested under the direction of the Minister for Finance. The preference shares are held at cost. The warrants are marked to market.

- **2008 Outturn**

In the NTMA's Preliminary Results for 2008, a preliminary Fund return of -29.5 per cent was given for the year. This figure was, in the case of direct quoted investments, based on figures as of close of business on 30 December 2008 and, in the case of indirect investment vehicles, based on the most recently available valuations. The Statement noted that it was expected that property and private equity valuations would be adjusted downward when end-December valuations were received. The majority of these valuations have now been received and the Fund's 2008 return has been revised to -30.4 per cent. This figure is unaudited. A final audited figure for the year will be published in the National Pensions Reserve Fund Commission's Annual Report.

### 3. NATIONAL ASSET MANAGEMENT AGENCY

- The Government has announced plans for a National Asset Management Agency (NAMA), which will operate as an independent commercial entity under the aegis of the NTMA. The indicative term sheet is set out in Appendix II.
- The NAMA will buy property-related loans from the covered banks at an appropriate discount and will pay for them by the issue of Irish government bonds directly to the banks. There will be a significant impact on the gross debt ratios.

<b>Debt Ratios</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<u>Scenario 1: Based on Supplementary Budget 2009 Deficit</u>					
General Government Debt/GDP	59%	73%	78%	79%	77%
General Government Debt/GDP, adjusted for cash balances	47%	61%	69%	72%	73%

Scenario 2: Based on Supplementary Budget 2009 Deficit, consolidating a €50\* billion bond issue by/on behalf of NAMA

General Government Debt/GDP	88%	103%	107%	106%	103%
General Government Debt/GDP, adjusted for cash balances	77%	91%	97%	99%	99%

\*€50 billion for illustrative purposes only, does not assume any repayment of NAMA bonds before 2013

- The income from the assets and the proceeds from their eventual sale will accrue to the NAMA. These income streams will mitigate the cost to the Exchequer of servicing the additional debt. If on wind-up the NAMA has made a profit, this profit will also accrue to the State. If however the NAMA makes a loss, the Government will apply a levy to the banks to recoup the shortfall.

8 APRIL 2009



## APPENDIX I - CHANGE IN NOMINAL VALUE OF NATIONAL DEBT QI 2009

	<b>€million</b>
<b>Value of National Debt (end 2008) (nominal)</b>	<b>50,398</b>
<b>Plus:</b>	
(i) Exchequer Deficit (Department of Finance forecast)	3,721
(ii) Non-cash movements*	126
<b><u>Change in nominal value of National Debt</u></b>	<b><u>3,847</u></b>
<b><u>Value of National Debt (end QI 2009) (nominal)</u></b>	<b><u>54,245</u></b>

**\*Note:** Impact of exchange rate movements and net discounts on tranches and cancellations.  
Premiums/discounts arise when bonds are issued at a price other than their par value due to a difference between the coupon on the bonds and market yields.

**APPENDIX II - NATIONAL ASSET MANAGEMENT AGENCY**  
**INDICATIVE TERM SHEET FOR PROPOSED ASSET MANAGEMENT COMPANY**  
**(SUBJECT TO EUROPEAN COMMISSION STATE AID APPROVAL)**

Agency Structure	The Agency will be a commercial Semi State entity under the governance, direction and management of the NTMA and be designated as the National Asset Management Agency (NAMA).
Institutions Covered	Those who are regarded by the Government as appropriate for inclusion having regard to the structure of their loan book, their access to support, their ownership structure and their relative importance to the national economy.
Assets Covered	All loans in respect of the purchase of land for development and associated work in progress arrangements. In addition, certain property investment loans, especially where associated with the largest borrowers. Exact assets to be considered further.
Size of NAMA	Potentially €80bn to €90bn in assets (based on current book value, but to be transferred at an appropriate discount).
Pricing	Portfolio pricing depending on the category of underlying security. Appropriate percentage discounts would be paid for land and development loans and for property investment loans depending on the assessment of risks involved. The objective should be to break the link between banks and the property assets, at least at the outset.
Timeframe	Budget day announcement with legislation enacted soon thereafter. Preparation of legislation and preparation of the management structures would be initiated in parallel.
Legislation	The NAMA initiative would require new legislation (the "NAMA Act") which would create NAMA under the umbrella of the NTMA.
Participation	Optional participation proposed, but banks would have to agree that all loans in particular portfolios have to be sold to NAMA. The legislation should also provide for a mandatory power to acquire assets so as to ensure cooperation on the part of institutions, or to overcome legal difficulties with the assignment of assets.
Payment	Property loans sold to NAMA will be paid either in government bonds or in government guaranteed bonds issued by NAMA.
NAMA Windup	The Government will on the winding up of NAMA determine if it has made a profit or a loss in its lifetime. Any profits will accrue to the State. If there is a shortfall, the Government intends that a levy will be applied to recoup it.
Special Purpose Vehicles (SPVs)	In order to achieve the optimal return some property loans sold to NAMA will be capable of being transferred into NAMA SPVs which will be capable of being worked out and disposed of in an orderly manner with private equity partners.
NAMA	The Government will capitalise NAMA with sufficient equity so as to undertake its business in an optimal manner.
State Aid	This document summarises the main elements of the NAMA initiative currently under consideration. The finalising of the design of the NAMA initiative will take full account of the Commission's Communication on the treatment of impaired assets, in particular with regard to transparency and disclosure of impairments, burden sharing, the valuation of assets and remuneration.