

RELEASE OF 1999 ANNUAL REPORT OF THE NATIONAL TREASURY MANAGEMENT AGENCY

PRESS RELEASE

The Agency today, 27th July 2000, released its Annual Report for the year ended 31 December 1999.

Preliminary figures for 1999 were announced by the Agency in its Press Statement on the 30 December 1999.

SUMMARY OF ACTIVITY

There was, in 1999, an unprecedented budget surplus of IR£1,191 million ^(Note 1). This surplus, combined with cash from the Telecom IPO, facilitated both putting aside funds to meet part of the State's pension liabilities and reducing the underlying level of the National Debt.

The key features of 1999 were:

- A fall in the mark-to-market value of the National Debt by IR£2.8 billion (notwithstanding an increase, for technical reasons, in its nominal value).
- Reported Exchequer debt service costs IR£344 million below the Budget estimate (after adjustment for exceptional items).

Note (1): Unless otherwise stated, all amounts are expressed in Irish Pound equivalents. The conversion rate for euro equivalents is €1 = IR£0.787564.

- A 5 percentage points fall in the Debt / GDP ratio – to 50 per cent at end 1999 - the fourth lowest Debt /GDP ratio amongst the 15 EU member states. [This takes account of revised GDP figures published last week by the CSO].
- Savings of IR£27 million against an externally audited benchmark.
- A major restructuring of the Irish Bond market through the Securities Exchange Programme (SEP).
- A substantial increase in the percentage holdings of non-resident investors – from some 22% at end-1998 to 29.5% at end 1999, with a further increase to just over 45% by June 2000.
- Management of the State's Temporary Holding Fund for pension liabilities, pending enactment of the National Pensions Reserve Fund Bill.
- Preparations for the establishment of a Claims Agency to manage liability claims against the State and for the provision of a Central Treasury Service to public sector bodies.
- The absorption of FEOGA debt of IR£375 million into the National Debt.

NEW BUSINESS ACTIVITIES

The Government recently published draft legislation and issued statements on a number of new areas of financial management within the State sector in which it is proposed that the Agency will be centrally involved. In recent months the Agency has been actively involved in preparations for taking on these new functions, in addition to the ongoing responsibility of managing the National Debt.

These new areas are:

- National Pensions Reserve Fund Bill, 2000
 - National Treasury Management Agency (Amendment) Bill, 2000
 - Dormant Accounts with financial institutions.
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National Pensions Reserve Fund Bill, 2000

In July 1999 the Government announced that they were going to put aside funds to meet future liabilities for social welfare and public service pensions and that the Agency would be centrally involved in this project. Funds from the sale of State assets together with a sum equivalent to 1% of GNP would be earmarked for investment each year towards meeting these liabilities.

The Agency has worked closely with the Department of Finance in advancing the arrangements necessary for the establishment of the new Fund.

Following the Telecom flotation the Agency has been managing the cash proceeds of the IPO, latterly through the Temporary Holding Fund. By end 2000 the size of the Fund will be approximately IR£4.9 billion with these moneys being placed on deposit pending the enactment of legislation establishing the National Pensions Reserve Fund. Interest earned on the deposits to date totals IR£110 million.

National Treasury Management Agency (Amendment) Bill, 2000

This bill, recently published by the Government, sets out four new areas of responsibility for the Agency:

- Claims management
- Central Treasury Service
- Management of Funds

- Consultancy

CLAIMS MANAGEMENT

The bill provides for the delegation to the Agency of the management of personal injury and property damage claims against the State. Government Departments paid out almost IR£100 million in compensation costs and associated legal fees in 1999 and the Government decision was prompted by the view that savings could be achieved by applying to State claims the same commercial discipline that is applied to claims against insurance companies.

In addition to its claims management function, the Agency will also have responsibility for putting procedures in place to minimise the incidence of claims, such as the provision of a risk management advisory service to State authorities.

CENTRAL TREASURY SERVICE

The new legislation will enable the Agency to offer a central treasury service to certain public sector bodies such as local authorities, health boards and vocational education committees.

The provision of a central treasury service is a practice followed in the private sector for some time, particularly by multinational companies.

FUND MANAGEMENT SERVICE

The Agency will be empowered to provide a fund management service whenever such a service is requested by a Minister.

CONSULTANCY SERVICE

The legislation will enable the Agency to provide consultancy services within its areas of expertise. Income from such services will be used to defray the Agency's administration expenses.

Dormant Accounts

The Government recently decided that balances on dormant accounts in certain financial institutions would be remitted to the State. Legislation to give effect to this measure is in the course of preparation. Consultations are still taking place with the various institutions involved.

The Agency's principal responsibilities in this area will include:

- receiving moneys from financial institutions;
- investing such moneys in short term debt instruments;
- making refunds to financial institutions when directed to do so.

It is not known at this stage how much money will be remitted to the State under the proposed new arrangements. A major determinant will of course be the time limit for defining dormant accounts.

THE NATIONAL DEBT

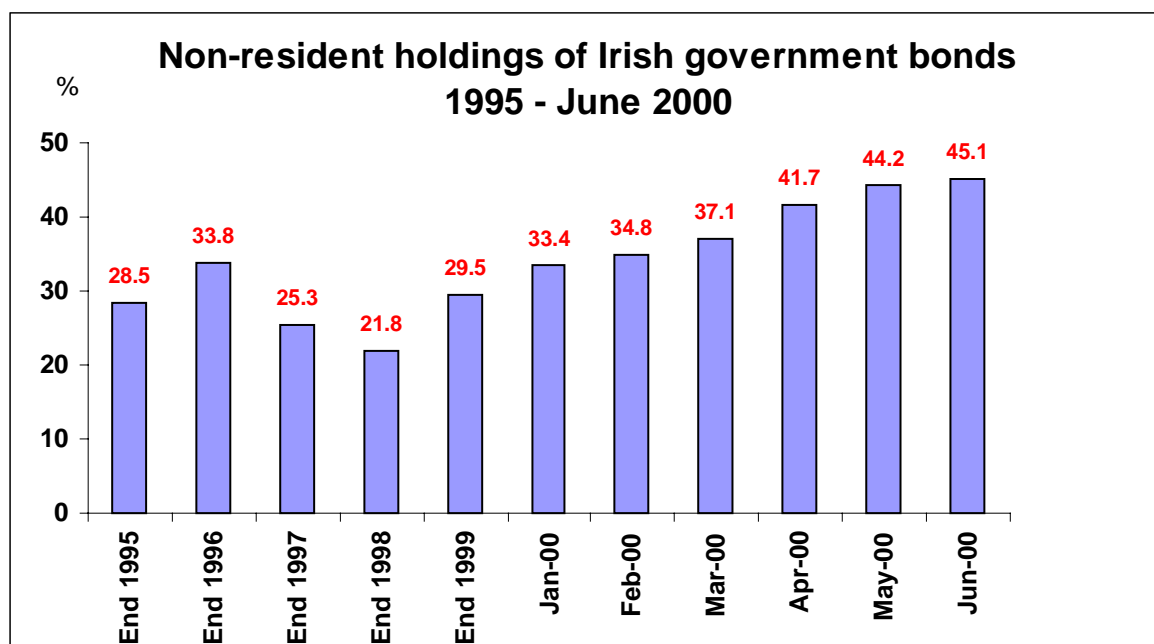
The market value of the Debt declined in 1999 by some IR£2.8 billion, from IR£34.9 billion to IR£32.1 billion. The main factors were the Exchequer surplus of IR£1.2 billion and a net present value decline of IR£1.5 billion due to an increase in bond yields during the year; in addition the SEP contributed to a decline of IR£154 million as it lengthened the duration of the portfolio when interest rates were particularly low; this was offset by a foreign exchange translation impact of IR£141 million. Details of the change in the market value of the Debt are shown on page 11 of the Report.

Reflecting principally the accounting effect of the Securities Exchange Programme (SEP) and the absorption of FEOGA debt into the National Debt, the nominal value of the National Debt increased by some IR£1.8 billion. (See Report, page 12).

NON-RESIDENT HOLDINGS OF IRISH GOVERNMENT BONDS

With the introduction of the euro it was foreseen that there would be a significant diversification of the holders of Irish Government bonds away from domestic resident investors towards non-residents. This diversification has occurred at a rapid rate, particularly in the current year.

As Irish fund managers have now adopted indices which reflect the structure of the broad euro area Government bond market, they have been reducing their share of Irish Government bonds while non-resident investors from other euro area countries have been increasing their holdings. Non resident holdings now stand at 45% of the total – a historically high level. The experience of Ireland in this regard is similar to that of other smaller euro area countries, though perhaps somewhat more pronounced. The increase in non-resident holdings is illustrated in the following graph.



COMPOSITION OF THE DEBT

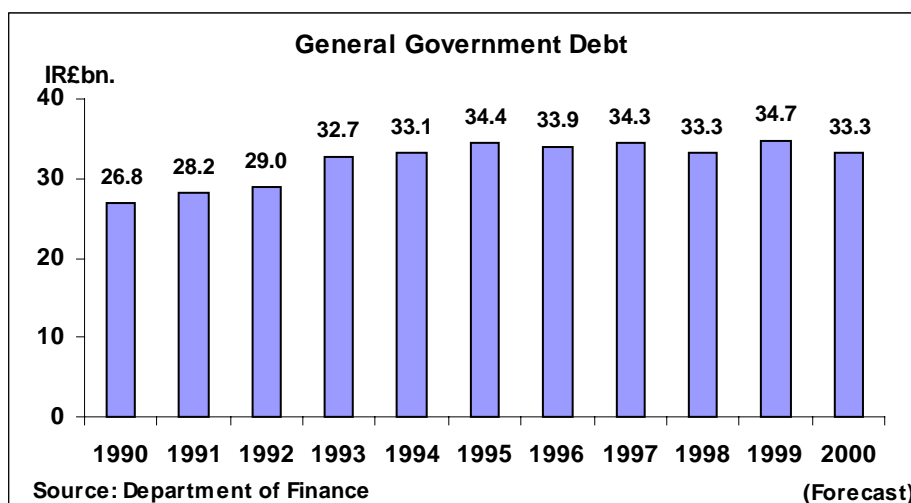
In the second half of 1998 and early 1999, as part of the transition to the euro, the Agency hedged into euro all non-euro related debt other than sterling. Given the significant appreciation of the non-euro currencies against the euro in 1999, in particular the US dollar and Japanese yen, maintaining borrowings in these currencies would have added some IR£400 million to the Debt had they not been hedged into euro.

As a result of this hedging activity, some 94 per cent of the National Debt at year end was in euro with the balance of 6 per cent in sterling.

During 1999 the interest duration of the Debt was lengthened slightly – from 3.66 years at end 1998 to 3.87 years at end 1999.

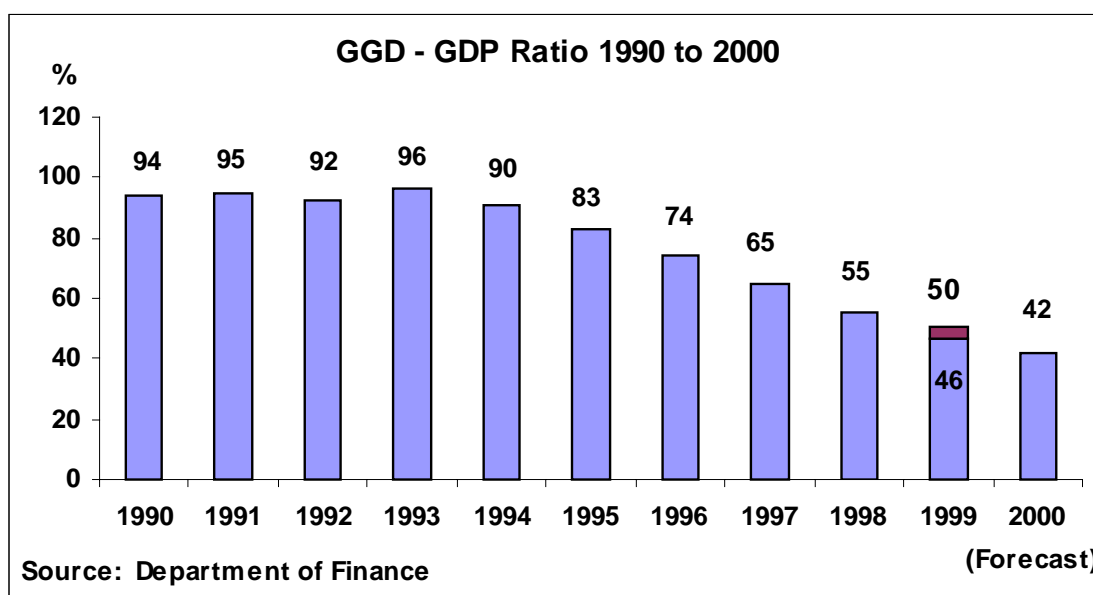
THE GENERAL GOVERNMENT DEBT / DEBT RATIOS

The General Government Debt (GGD) is the definition of debt used for comparative purposes within the European Union. The National Debt, as traditionally measured, is the principal component of the GGD. However, GGD is a gross measure of debt and, therefore, does not include any offset for Exchequer cash balances; in addition, GGD represents a wider definition of Government, including Local Government debt and certain other liabilities of Government.



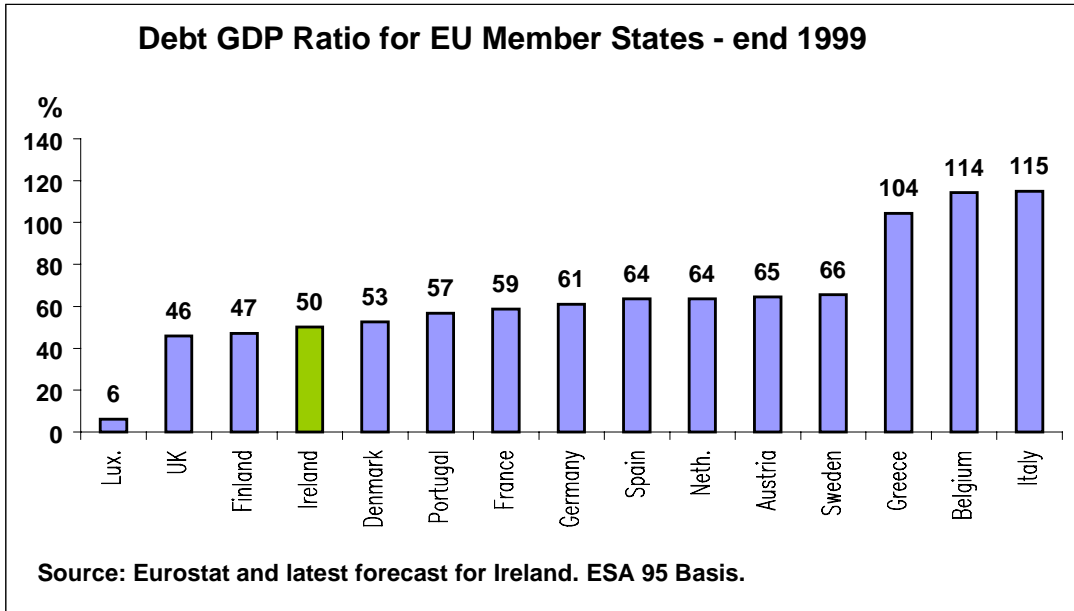
While the absolute level of Debt has remained within a relatively narrow range over recent years, the ratio of Debt to GDP and GNP has declined sharply because of the very strong growth of the economy.

In 1999, the GGD/GDP ratio fell by some 5 percentage points, - from 55 to 50 per cent and, as can be seen below, would have fallen to 46 per cent had it not been for the accounting effect of the SEP. Looking forward, a further decline in the ratio, of the order of eight percentage points, is expected this year.



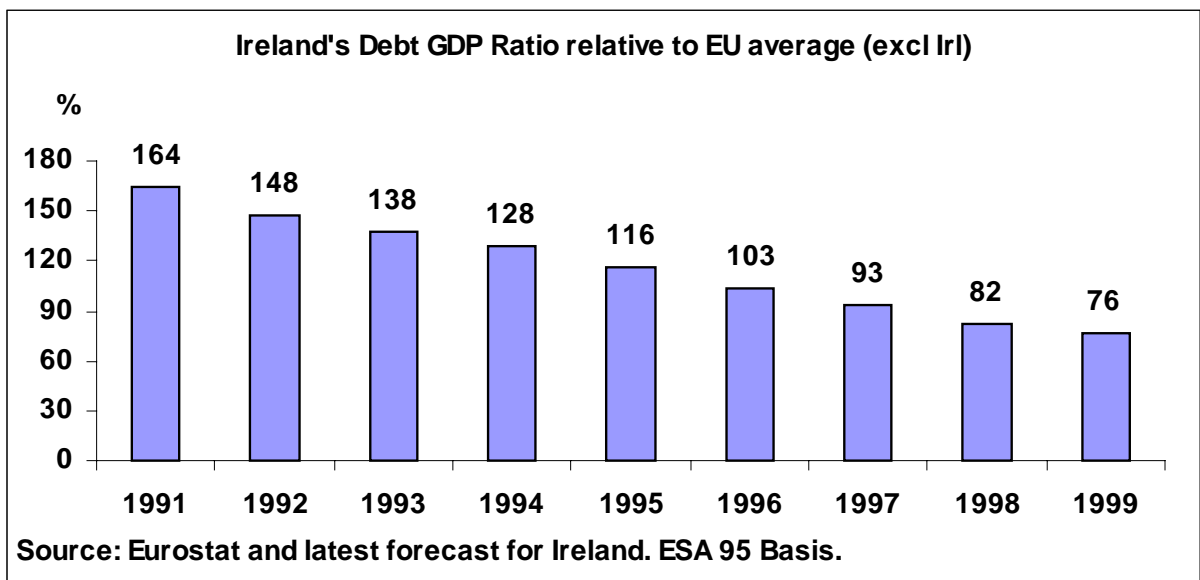
INTERNATIONAL COMPARISONS

By the end of 1999, Ireland's comparative indebtedness was the fourth lowest among the fifteen EU Member States. This represents a continuation of the improvement in Ireland's relative position in recent years; as recently as the end of 1996, Ireland was eleventh out of the fifteen Member States.



As a result of this improvement, Ireland's comparative indebtedness had fallen to 76 per cent of the EU average by the end of last year; this compares with a position substantially above the average in the first half of the decade.

Note: These charts have been updated to reflect the revised GDP data announced by the CSO last week.



DEBT SERVICE COSTS

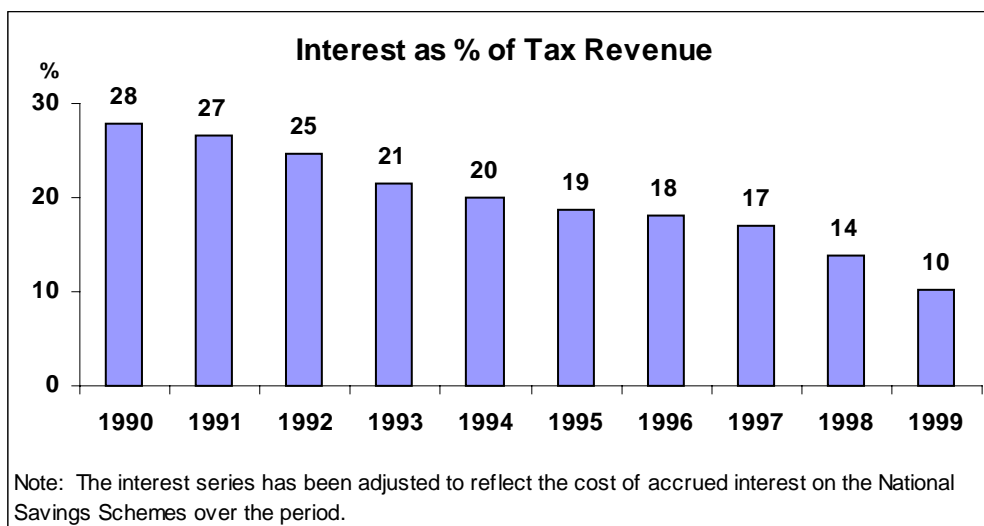
Allowing for exceptional items (detailed below), reported Exchequer debt service costs were lower than budget by some IR£344 million as a result of a number of factors including, in particular, a favourable debt service impact of some IR£188 million from the accounting treatment of the SEP and other portfolio adjustments in 1999, realised gains of IR£100 million from interest rate and currency swaps and buoyancy in the Government's finances.

Reported 1999 Exchequer debt service expenditure was IR£2,513 million, some IR£29 million below the budget of IR£2,542 million. (See Report, pages 17 and 18). Included in this debt service expenditure were two unplanned exceptional items:

- a payment of IR£307 million into the Capital Services Redemption account (CSRA) in December at the direction of the Minister for Finance; and
- the payment in late 1999, in order to reduce Y2k transaction risk in early January, of IR£8 million of interest which would have been payable in the first two weeks of the new year.

Allowing for these exceptional items, adjusted Exchequer debt service expenditure was IR£2,198 million, some IR£344 million below the Budget.

The burden of debt service costs on the economy and the taxpayer continued to fall in 1999. The ratio of interest payments to tax revenues declined by 4 percentage points, continuing the downward trend of the past several years. As a result, interest on the Debt now absorbs approximately 10 per cent of tax revenue compared to almost 30 per cent at the beginning of the decade, resulting in the freeing up of substantial financial resources for other purposes.



SECURITIES EXCHANGE PROGRAMME

A major new initiative – the Securities Exchange Programme - was taken by the Agency in 1999 in order to improve liquidity in the bond market and to ensure that Irish bonds trade effectively in the new euro denominated pan-European market.

The rationale underlying the Programme was that, in order to be competitive in the new euro environment, Irish Government bonds must have:

- (i) relatively large issue size
- (ii) coupons close to prevailing yields, and
- (iii) the same technical characteristics as other euro government bond markets

The Agency addressed these issues, within the constraints of the overall limited size of the Irish Government bond market, by consolidating about 80 per cent of the market into four bonds, each with outstanding amounts of €3-5 billion.

The Programme contributed to a lengthening of the duration of the Debt at a time of historically low yields, thereby contributing to a reduction of IR£154 million in the market value of the Debt at year end.

Details of the Programme are outlined in the Report on pages 24 and 25.