

PRESS RELEASE

ANNUAL REPORT OF THE NATIONAL TREASURY MANAGEMENT AGENCY FOR YEAR 2000

The NTMA today, 19 July 2001, released its Annual Report for the year ended 31 December 2000.

Preliminary figures for 2000 were announced by the NTMA in its press statement on 29 December 2000.

SUMMARY OF ACTIVITY

The key features of 2000, discussed more fully in the pages following, were:

- **A fall in the nominal value of the National Debt by €3.3 billion to €36.5 billion.**
- **A fall of 11 percentage points in the Debt/GDP ratio, to 39 per cent at end 2000 – the second lowest Debt/GDP ratio among the 15 EU Member States.**
- **Exchequer debt service costs €71 million below the budget estimate (after adjustment for exceptional items).**
- **Savings of €29.5 million against an externally audited benchmark.**

- **Management of some €6.5 billion in the State's Temporary Holding Fund for Superannuation Liabilities, now the National Pensions Reserve Fund, (following enactment of the National Pensions Reserve Fund Act, 2000); the balance outstanding in this Fund now exceeds €7 billion and is expected to exceed €7.5 billion by year end.**

- **Preparations for the establishment of**
 - i) **the State Claims Agency to manage certain personal injury and property damage claims against the State, and**

 - ii) **a Central Treasury Service for a number of public sector bodies.**

THE NATIONAL DEBT

Decline of €3.3 billion to €6.5 billion, primarily due to the Exchequer Surplus. The National Debt per person at work was €21,348 at end 2000 by comparison to €28,086 at end 1990.

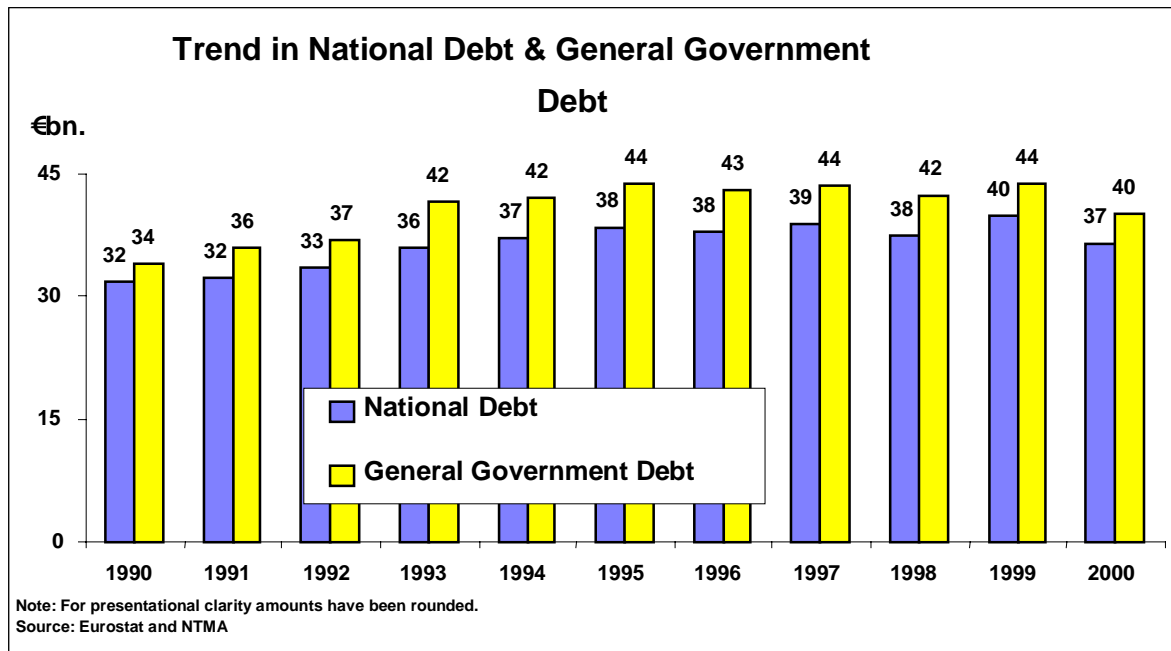
The nominal value of the Debt as traditionally measured (the National Debt), which is calculated net of cash balances, was €6.5 billion at end 2000; this is some €3.3 billion below the end 1999 level of €9.8 billion. The decrease in the Debt principally reflects the Exchequer Budget surplus of some €3.2 billion.

THE GENERAL GOVERNMENT DEBT

Fall in GGD of €3.9 billion to some €40 billion reflects increase in surplus on Social Insurance Fund, in addition to Exchequer Surplus.

The General Government Debt (GGD) is the definition of debt used for comparative purposes within the European Union. It consists of the National Debt, excluding any deduction for Exchequer cash balances, plus Local Government debt and certain other liabilities of Government; it also includes the estimated interest overhang on the National Savings Schemes, €2,378 million at end 2000, but takes no account of the reserve of €1,120 million against this overhang.

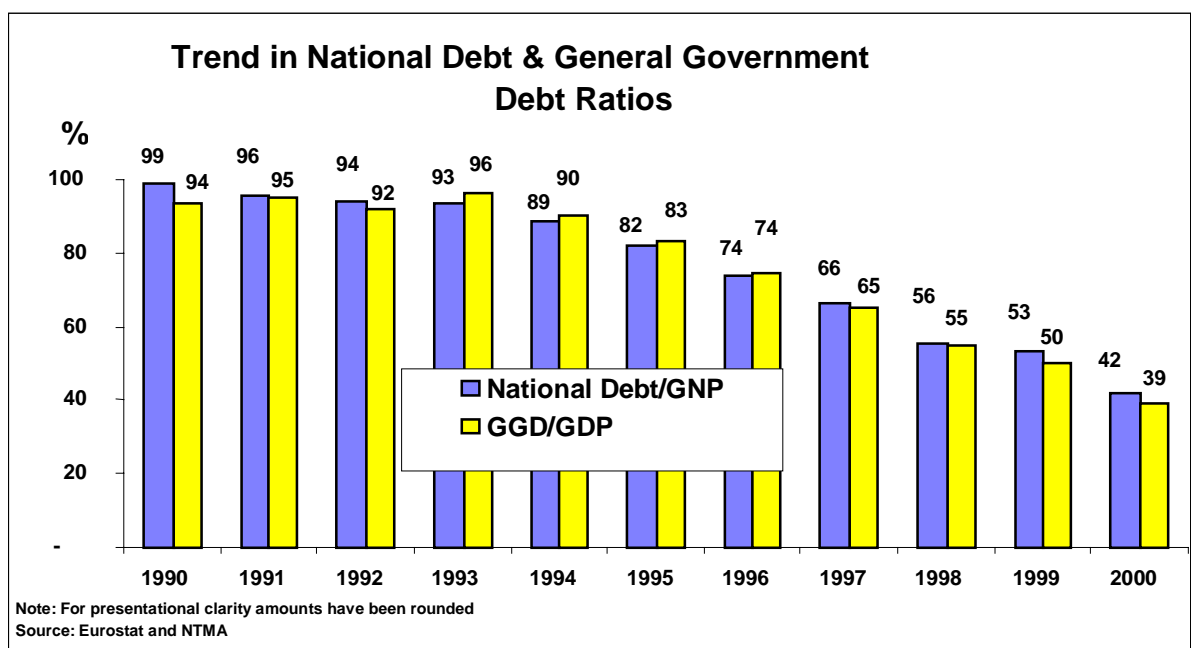
The GGD was some €40.0 billion at end 2000, down by €3.9 billion from €43.9 billion at end 1999. As with the National Debt, the decline in the GGD was mainly due to the Exchequer Budget surplus. However, GGD fell by some €0.6 billion more than the National Debt, primarily due to the increase (€500 million) in the surplus in the Social Insurance Fund invested in Exchequer Notes which is netted off in the GGD measure of indebtedness.



DEBT RATIOS

Debt Ratios declined by some 11 percentage points last year. Netting out National Pension Reserve Fund assets would reduce ratios by an additional 6 to 8 percentage points.

While the absolute level of Debt has remained within a relatively narrow range over the past several years, the ratios of Debt to GDP and GNP have declined sharply because of the strong growth of the economy.



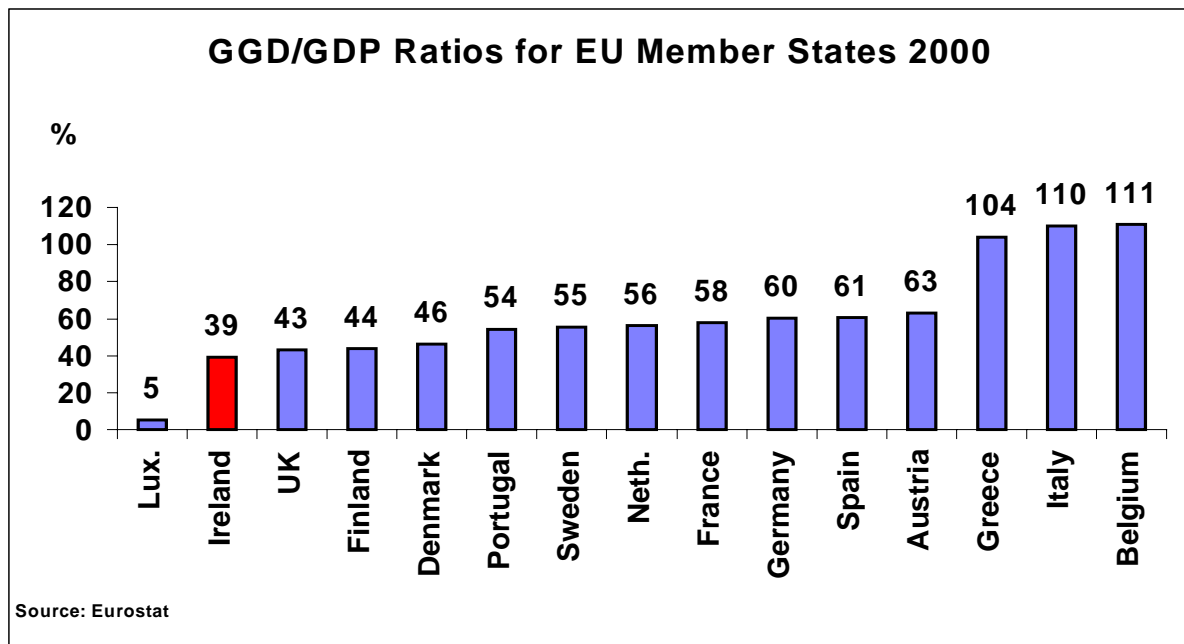
The GGD/GDP ratio fell by 11 percentage points during the year – from 50 per cent at end 1999 to 39 per cent at end 2000, reflecting both the Exchequer surplus and the strong growth in GDP. Similarly, the National Debt as a percentage of GNP decreased by 11 percentage points to 42 per cent at end 2000 from almost 53 per cent a year earlier.

If the €6.4 billion invested at year end in the National Pensions Reserve Fund were to be included as an offset to the National Debt, as is the case with Exchequer cash balances, this would have reduced the National Debt/GNP ratio at end 2000 by an additional 8 percentage points, from 42 per cent to 34 per cent. Similarly, netting out the Fund from the General Government Debt would have reduced the GGD/GDP ratio by an additional 6 percentage points, from 39 per cent to 33 per cent.

INTERNATIONAL COMPARISONS

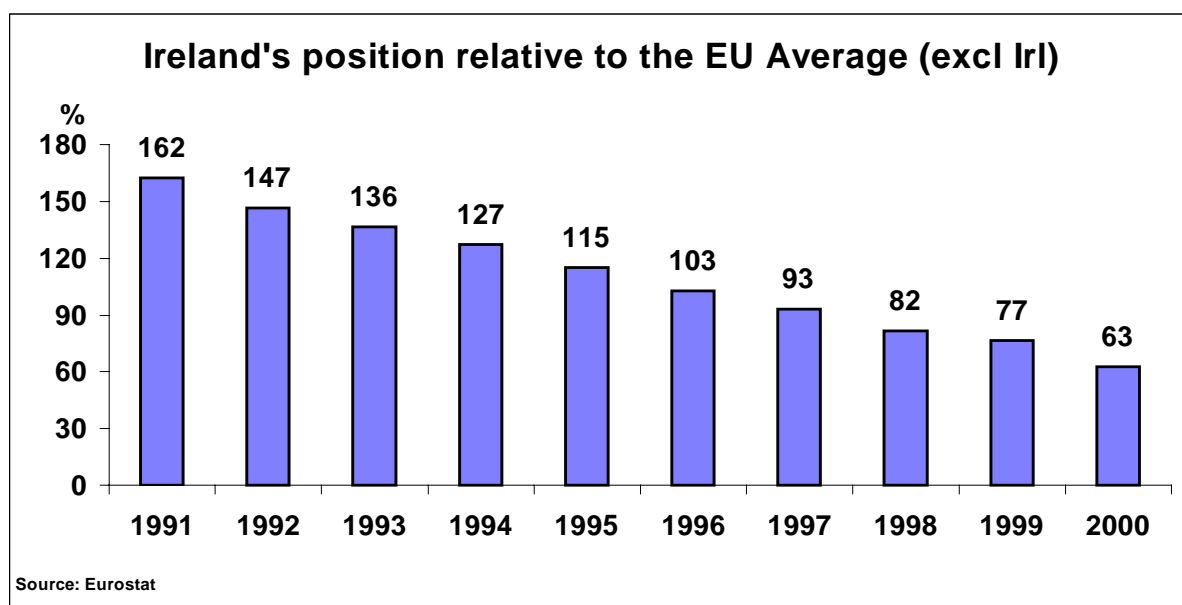
Ireland has second lowest debt ratio among EU countries, almost 40% below EU average.

International comparisons of indebtedness are normally based on the ratio of General Government Debt to Gross Domestic Product – GGD/GDP.



By end 2000, Ireland's comparative indebtedness was the second lowest among the fifteen EU Member States, representing 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 below two thirds of the EU average by the end of last year; this compares with a position well above the average in the first half of the decade.



DEBT SERVICE COSTS

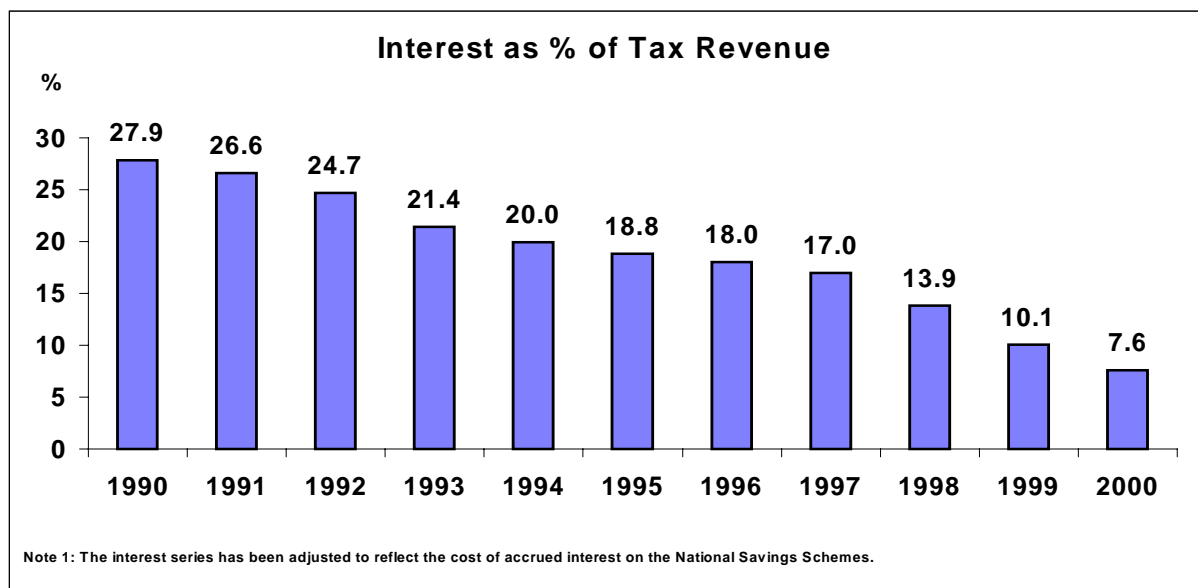
Debt service costs €71 million below budget estimate (after exceptional items). Further decline in interest burden of the Debt from 10.1% of tax revenue to 7.6%.

Reported 2000 Exchequer debt service expenditure was €2,799 million, some €47 million below the budget of €2,846 million. Included in this debt service outturn was an unbudgeted payment of €24 million into the Capital Services Redemption Account (CSRA) in December at the direction of the Minister for Finance.

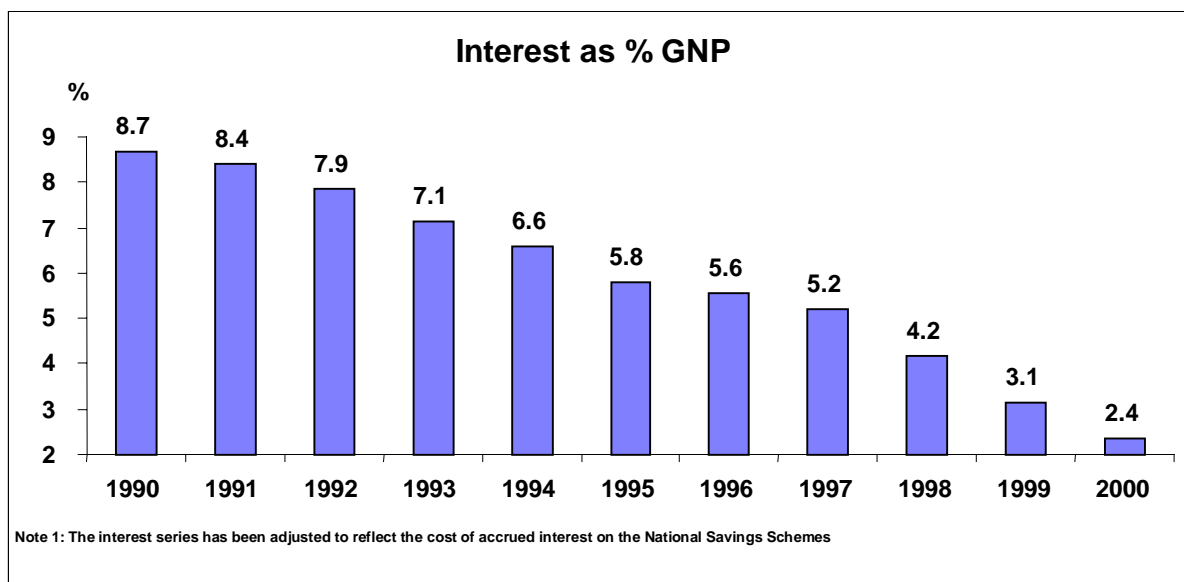
Allowing for this item, the adjusted Exchequer debt service expenditure was €2,575 million. The overall result, therefore, as shown in the table below, was a favourable debt service variance of some €271 million relative to the budget estimate, due mainly to the buoyancy in the Government's finances.

ANALYSIS OF EXCHEQUER DEBT SERVICE OUTTURN RELATIVE TO BUDGET		
	(€million)	
	<u>OUTTURN</u>	<u>BUDGET</u>
Exchequer Debt Service Expenditure	2,799	2,846
Less: Payment to CSRA	<u>224</u>	
Adjusted Exchequer Debt Service Expenditure	<u>2,575</u>	<u>2,846</u>
Adjusted Favourable Variance from Budget	271	

The burden of debt service costs on the economy and the taxpayer continued to fall in 2000. The ratio of interest payments to tax revenues declined by 2.5 percentage points, continuing the downward trend of the past several years. As a result, interest on the Debt now absorbs some 7.6 per cent of tax revenue compared to almost 28 per cent at the beginning of the decade, resulting in the freeing up of substantial financial resources for other purposes.



Similarly, the interest burden expressed relative to GNP declined further in 2000, falling to just below 2.5 per cent.



IRISH GOVERNMENT BOND ISSUANCE

Issuance reduced due to buoyancy of Government finances.

The NTMA's fixed interest borrowing in 2000 was in three of the four benchmark bonds – those maturing in 2005, 2010 and 2016 – all having annual coupons and sold by auction through the six Primary Dealers. Auctions were held in each of the months from February through September. The auctions which had been scheduled for October and November 2000 were cancelled following the publication of the Exchequer returns for the first nine months of the year and the upward revision of the projected full year Exchequer surplus; as a result €1,161 million was raised through bond auctions in 2000 as compared with €1,490 million in 1999.

NON RESIDENT HOLDINGS

Continued increase in non resident participation.

In line with the experience of many other EMU countries, non resident holdings of Government bonds have increased significantly since the introduction of the euro. At end 1998, non-resident holdings amounted to €4.4 billion, or 21.8 per cent of the total bonds outstanding; by end 1999, these figures had increased to €7 billion and 29.5 per cent respectively. Non-resident participation in the market continued to grow in 2000 and by the end of the year non-resident ownership totalled €10.3 billion, equivalent to some 47.4 per cent of outstanding bonds.

CREDIT RATINGS

Top AAA rating maintained from Moody's and Fitch; new AAA rating from Rating and Investment Information Inc.; Standard & Poor's AA+ rating upgraded to 'positive' outlook.

In October 2000, Standard and Poor's announced a change from "stable" to "positive" in the outlook for the AA+ rating for Ireland's long term debt. In April 2001, the Japanese credit rating agency, Rating and Investment Information Inc. (R&I), announced that it had assigned new top grade ratings of AAA to Ireland's euro-denominated and foreign currency long term debt and a-1 to short term debt. R&I had previously rated only individual Irish Government Samurai bonds, where the rating had been AA+.

Moody's and Fitch both reaffirmed the AAA rating for Ireland's long term debt. Likewise, Moody's, Standard & Poor's and Fitch reaffirmed the top short term ratings.

NEW BUSINESS ACTIVITIES

Two significant new Acts passed in December, 2000.

Two Acts passed by the Oireachtas in December 2000, the National Pensions Reserve Fund Act, 2000 and the National Treasury Management Agency (Amendment) Act, 2000, assigned significant new responsibilities to the NTMA. Further new fund management responsibilities will arise for the NTMA following enactment of the Dormant Accounts Bill, 2001. Details of these new business activities are outlined below.

NATIONAL PENSIONS RESERVE FUND

The National Pensions Reserve Fund established; over €7 billion now in the Fund and preparations for long term investment currently underway.

The National Pensions Reserve Fund (NPRF) is designed to prefund, in part, the Exchequer cost of social welfare and public service pensions over the long term by setting aside part of the proceeds from the sale of Telecom Eireann plus the equivalent of 1 per cent of GNP each year from the annual Budget; there is also provision to enable additional sums – for example, the proceeds from the sale of State assets – to be paid into the Fund from time to time by resolution of Dáil Eireann. The Fund was formally established on 2 April 2001 under the National Pensions Reserve Fund Act, 2000. Also on that date, the National Pensions Reserve Fund Commission was appointed by the Minister for Finance. Under the Act the Commission is responsible for the control, management and investment of the assets of the Fund. As required by section 21 of the Act, the Commission appointed the NTMA as Manager of the Fund to act as its agent in the performance of its function for a period of 10 years.

Following its establishment in April 2001, €6,482 million was paid into the Fund from the Temporary Holding Fund for Superannuation Liabilities. That Fund had been set up in 1999 to receive part of the Telecom Eireann flotation proceeds as well

as the GNP related contributions for 1999 and 2000 set aside for pension prefunding purposes pending the establishment of the National Pensions Reserve Fund. Under delegated authority from the Commission, the moneys in the Fund are being managed by the NTMA on a cash basis pending their long term investment.

STATE CLAIMS AGENCY

Preparations include staff recruitment and the establishment of expert panels.

Under the provisions of the National Treasury Management Agency (Amendment) Act, 2000, the Government may delegate to the NTMA the management of certain personal injury and property damage claims against the State. When carrying out its new claims management and associated risk management functions, the NTMA is to be known as the State Claims Agency (SCA). It is expected that the NTMA will formally take over the management of new claims and of some existing claims in the near future when certain outstanding issues are resolved. The NTMA is currently in the process of recruiting experienced staff who will be supplemented by panels of outside experts to provide assistance as required. A Committee of 7 persons with appropriate skills will be appointed by the Minister for Finance to advise and assist in the management of claims.

SOCIAL INSURANCE FUND

Recent implementation of longer term investment of the surplus in the Fund, currently amounting to some €1 billion.

The Social Insurance Fund is the fund into which all social insurance contributions are paid and out of which payments such as unemployment assistance and contributory old age pensions are made.

At present there is a surplus of some €1 billion in the Fund which was invested in short term Exchequer Notes at end June 2001. As this surplus is forecast to increase

significantly over the coming years, a portion of the Fund is now being invested in longer maturity assets in the context of a recently agreed investment strategy.

CENTRAL TREASURY SERVICE

Activities recently commenced.

The National Treasury Management Agency (Amendment) Act, 2000 provides, inter alia, for the NTMA to make available a Central Treasury Service to Local Authorities, Health Boards, Vocational Education Committees and other designated bodies.

This service, providing deposit and loan facilities to the above mentioned bodies, is designed both to give them a competitive alternative to banks and also to make savings for the Exchequer. There are some one hundred and twenty bodies eligible to avail of the service.

Since early this year, the NTMA has been actively marketing the programme and lending and deposit activity commenced in May 2001.

DORMANT ACCOUNTS

Legislation finalised.

The Dormant Accounts Bill, 2001 has been passed by the Dáil and Seanad and is currently before the President for signature. The legislation, when brought into operation by the Minister for Finance, will give effect to the previously announced decision of the Government that balances on dormant accounts in certain financial institutions would be remitted to the State and used for charitable purposes or purposes of societal or community benefit. Transfers of dormant moneys by financial institutions will be made to a special fund known as the Dormant Accounts Fund which will be managed and invested by the NTMA, and the first transfers are to take

place not later than 30 April 2003. Disbursements will be made on the direction of the Dormant Accounts Disbursement Board.

The period of dormancy is 15 years from the last customer-initiated transaction but holders of accounts can reclaim their money at any time.