

NATIONAL TREASURY MANAGEMENT AGENCY

Press Release

Results for the Year 2000

The information below is based on bond prices quoted on the Irish Stock Exchange on 29 December 2000 and, in the case of foreign exchange, on rates notified by the Central Bank as of close of business today, 29 December 2000. All figures in this statement are preliminary. Unless indicated otherwise, all figures are shown in Irish pounds.

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1. HIGHLIGHTS

Debt and Debt Service

- **A fall of 8.6% or IR£2,705 million in the National Debt, bringing it to IR£28,679 million at end December 2000. This fall primarily reflects the forecast Exchequer budgetary surplus this year of some IR£2.6 billion.**
- **The fall in the Debt and strong economic growth have led to an eleven percentage points drop to 39% in the General Government Debt/GDP ratio at end 2000. The Debt/GNP ratio fell from 53% at end 1999 to an estimated 42% at end 2000.**
- **Ireland is now estimated to have the second lowest level of debt relative to GDP within the 15 EU Member States.**
- **Interest payments on the National Debt were down by 12% on 1999 — with total Debt service costs, adjusted to reflect a IR£177 million payment into the Capital Services Redemption Account (CSRA), some IR£213 million below budget.**

Of this IR£213 million, the IR£177 million payment into the CSRA will be carried forward into next year and is available for use by the Government in future years; the remaining IR£36 million contributed directly to the Government's budgetary surplus for the current year.

- **On the basis of the recent Budget figures, the GGD/GDP ratio is expected to continue to fall — to some 33% by the end of next year and to 24% by end 2003.**
- **Ireland maintains AAA ratings from Moody's and Fitch; its AA+ credit rating from Standard & Poor's has been revised to 'positive outlook'.**
- **Settlement of Irish Government bonds was transferred from the Central Bank to Euroclear in December in order to meet new ECB requirements for settlement systems in the euro zone from 1 January 2002.**

New Activities

- **Two new Acts relating to the NTMA passed into law in December:**
 - **National Pensions Reserve Fund Act, 2000**
 - **National Treasury Management Agency (Amendment) Act, 2000**

- **The National Pensions Reserve Fund Act sets out, inter alia, the role and responsibilities of the NTMA in the management of a new Fund, the objective of which is to provide a cushion for the Exchequer against rising future pension costs as a result of the projected ageing of the population.**

There is currently an amount of IR£5,043 million available for investment in the Fund on its establishment; this amount is being held in the Temporary Holding Fund for Superannuation Liabilities pending the formal establishment of the Fund, the appointment of Commissioners to the National Pensions Reserve Fund Commission and subsequent decisions by the Commissioners on how the Fund is to be invested.

- **The National Treasury Management Agency (Amendment) Act gives the NTMA a number of new functions:**
 - **Management of personal injury and property damage claims against the State**
 - **Establishment of a Central Treasury Service for certain public bodies**
 - **Fund Management Services on behalf of Ministers**

In addition the Act provides for the provision of consultancy services by the NTMA.

- **The proposed new legislation on dormant accounts will give the NTMA responsibility for the management of the funds in such accounts handed over to the State.**

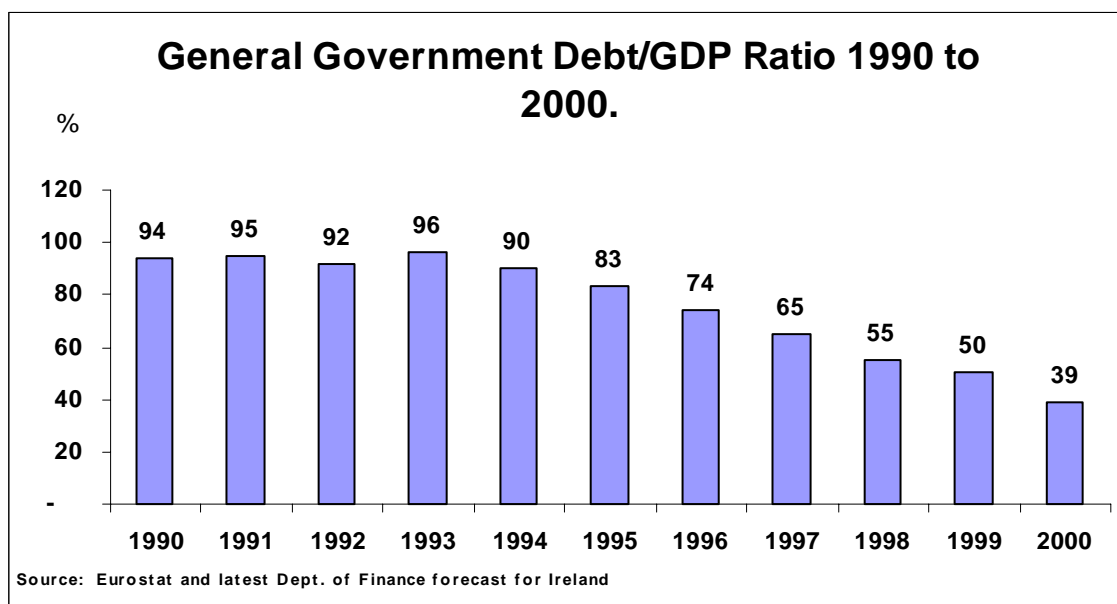
The above highlights are discussed in more detail below:

2. NATIONAL DEBT / GENERAL GOVERNMENT DEBT

The nominal value of the Debt as traditionally measured (the National Debt), which is calculated net of cash balances, is estimated to be IR£28.7 billion at end 2000; this is some IR£2.7 billion below the end 1999 level of IR£31.4 billion. The decrease in the Debt principally reflects the forecast Exchequer budgetary surplus of some IR£2.6 billion for the current year; the impact of the surplus and other factors contributing to the fall in the Debt are detailed in the attached Appendix 1.

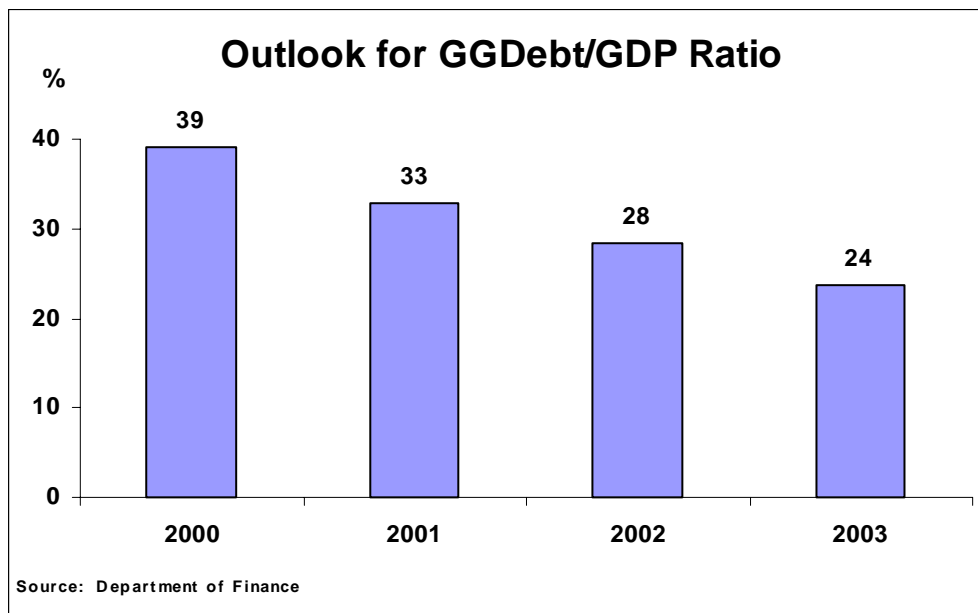
The General Government Debt (GG Debt) is the standard measure used within the EU. The National Debt is the principal component of the GG Debt but, as the GG Debt is a gross measure of debt, it makes no allowance for the netting of Exchequer cash balances; in addition, it applies a wider definition of "Government" which includes Local Government debt and some other minor liabilities of Government.

The GG Debt/GDP ratio fell by eleven percentage points during the year – from 50% at the end of last year to an estimated 39% at end 2000, reflecting the Exchequer surplus and the strong growth in GDP this year.

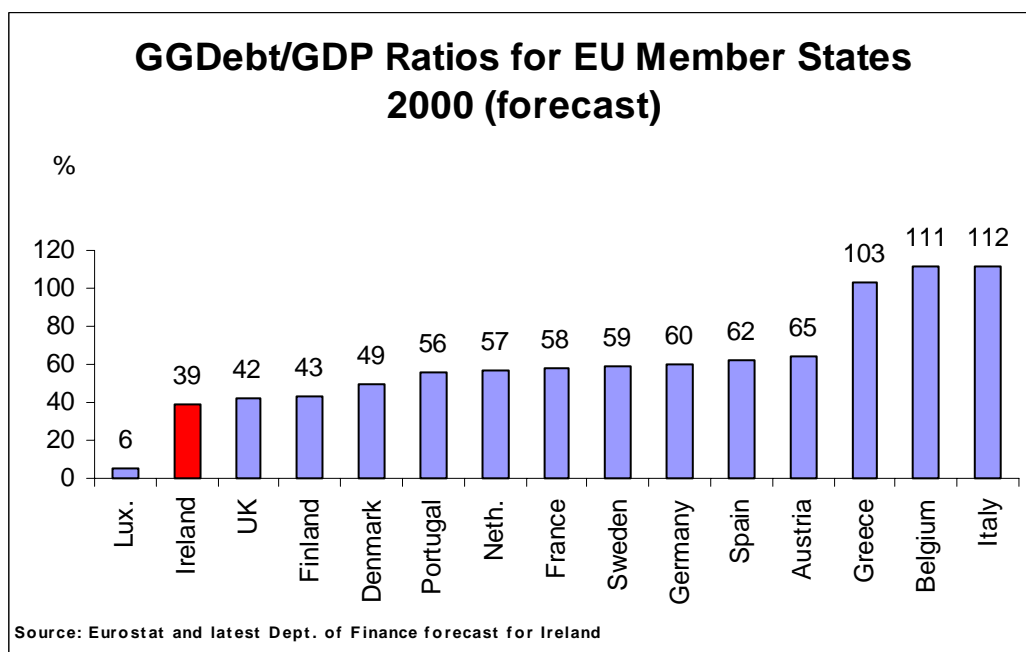


The National Debt/GNP also fell substantially during the year — by an estimated 11 percentage points from 53% to 42%.

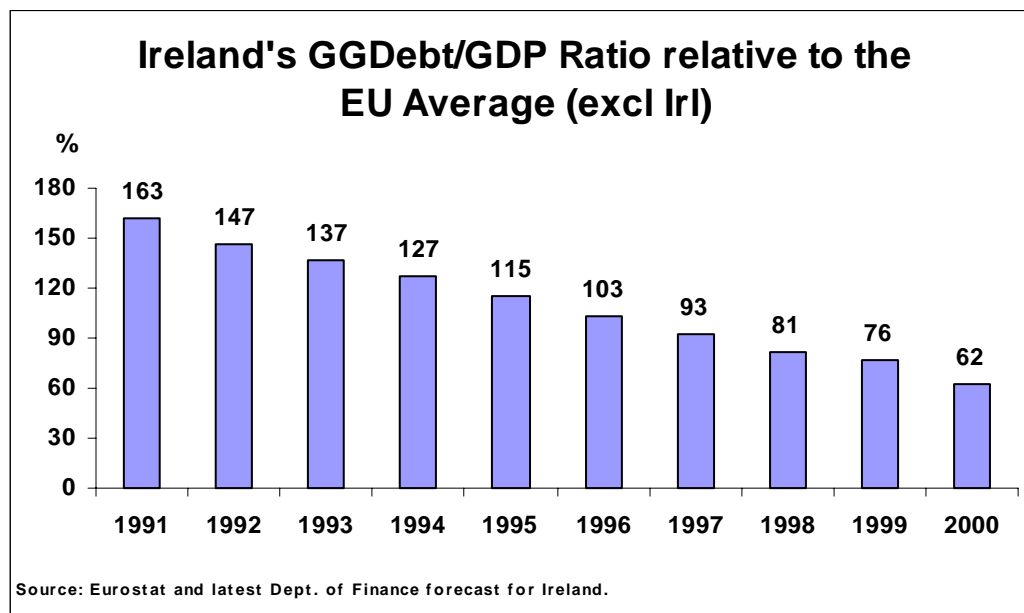
The outlook over the next few years, as outlined in the Government's recent Budget and reflecting the projected continuation of favourable Exchequer finances and economic growth, points to a further decline in the GG Debt/GDP ratio – from 39% at the end of this year to some 24% by end 2003, as shown below:



A comparison of Ireland's GG Debt/GDP ratio with other EU countries is set out below; Ireland has the second lowest level of indebtedness relative to GDP among the 15 EU Member States.



Ireland's GG Debt/GDP ratio has now fallen to some 62% of the EU average at end 2000, contrasting sharply with a ratio of some 163% in 1991.



3. NEW FUNCTIONS FOR THE NTMA

During the year the NTMA was actively involved in the preparation of two new pieces of legislation which will substantially impact its future activities.

In December, the Oireachtas passed both the National Pensions Reserve Fund Act, 2000 and the National Treasury Management Agency (Amendment) Act, 2000.

THE NATIONAL PENSIONS RESERVE FUND ACT, 2000

- The above Act establishes the National Pensions Reserve Fund (the Fund) which is designed to meet part of the escalating Exchequer cost of social welfare and public service pensions arising from the projected ageing of the population; money accumulating in the Fund cannot be withdrawn until 2025.
- The Fund will be financed primarily by a receipt from the Budget each year equivalent to 1% of GNP (currently some IR£678 million), possibly supplemented by such additional payments as may be approved by Dáil Éireann.
- Already some IR£5,043 million has been set aside in a Temporary Holding Fund for Superannuation Liabilities — established last year as an interim measure and funded by most of the proceeds of the sale of Telecom Éireann (Eircom) together with GNP related contributions. The above amount includes accumulated interest of some IR£194 million. These funds are managed by the NTMA and are invested in short term deposits pending the formal establishment of the Reserve Fund.
- The Fund will be controlled and managed by the National Pensions Reserve Fund Commission, which will have discretionary authority to determine and implement an investment strategy on commercial and prudent risk management principles.

- The Act provides for the Commission to consist of seven members and for the appointment of these Commissioners by the Minister for Finance; the Chief Executive of the NTMA is, *ex officio*, a Commissioner. Specific requirements relating to the appointment of Commissioners — e.g. terms of office and required experience — are set out in Section 7 of the Act.
- The Fund will be free to invest in all asset classes (the only exception being Irish Government securities). It is expected that, because of its long term character, the Fund will be substantially invested in a well diversified portfolio of international equities.
- The NTMA will be the Manager of the Fund, acting as agent of the Commission.
- The Commission will decide whether the NTMA should manage some of the assets of the Fund itself or outsource all or part of the management to external fund managers.
- Under Section 3 of the Act, the Minister will nominate the establishment date for the Fund and the Commission.

THE NATIONAL TREASURY MANAGEMENT (AMENDMENT) ACT 2000

This Act will extend substantially the role of the NTMA to cover the following functions:

- Management of personal injury and property claims against the State
- Central Treasury Services, and
- Fund Management Services

Claims Management:

- The NTMA, acting as the State Claims Agency, will, where such function is delegated to it by the Government, manage personal injury and property damage claims against the State and certain State bodies wholly or partly funded by the Exchequer.
- The Claims Agency is required to adopt a commercial approach to claims management in accordance with best industry practice.
- In carrying out these functions the Claims Agency will be advised by a Policy Committee established for that purpose. Members of the Committee will be appointed by the Minister for Finance.
- The Claims Agency will recruit a small core of experienced claims and risk management staff and avail of legal and other expert services through the use of panels where appropriate.
- The Claims Agency will provide risk management services to State authorities, with a view to reducing the incidence of claims.
- Preparations for the establishment of the Claims Agency are continuing and operations will begin formally on a date to be determined by the Minister for Finance.
- In addition to new claims arising subsequent to the establishment of the State Claims Agency, it is envisaged that some claims which are currently at an early stage of litigation will also be handled by it.

Central Treasury Services:

- Central Treasury Services will be offered by the NTMA to Local Authorities, Health Boards, Vocational Education Committees, and certain other public bodies designated by the Minister for Finance.
- The concept follows best practice in the private sector whereby related companies pool their borrowings and surplus cash in a central treasury unit with a view to achieving cost savings.
- The Agency will offer these bodies both deposit and loan facilities at attractive rates, with the aim of providing a cost effective alternative to their current arrangements and achieving savings for the Exchequer.

Fund Management Services:

- These services will be made available to Ministers who have funds under their management or control.
- Ministers who wish to avail of this service will authorise the NTMA to manage the relevant funds in accordance with an agreed investment strategy.

DORMANT ACCOUNTS

- In November, the Government announced their proposals for legislation on dormant accounts. This legislation will apply to accounts with no customer initiated transaction in the previous fifteen years.
- If the owners of such accounts cannot be traced, the funds will be handed over to the State to be used for charitable purposes or purposes of societal and community benefit.
- Under the proposed legislation, the NTMA will be given responsibility for the management of these funds, pending their disbursement for the above purposes.

4. DEBT SERVICE COSTS

Exchequer debt service costs in 2000 were IR£213 million lower than provided for in the Budget.

The debt service budget for 2000 was IR£2,241 million. The outturn was lower by some IR£213 million, mainly because of buoyancy in the Government's finances.

Reported 2000 Exchequer debt service expenditure was IR£2,205 million, some IR£36 million below the budget of IR£2,241 million. Included in this debt service outturn was an unbudgeted payment of IR£177 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 IR£2,028 million. The overall result, therefore, as shown in the table below, was a favourable debt service variance of some IR£213 million relative to the Budget estimate.

Of this IR£213 million, some IR£36 million went towards increasing the 2000 Exchequer surplus and IR£177 million has been carried forward in the balance in the CSRA. As a result, the balance in the CSRA will be almost IR£635 million at end 2000; in his recent Budget the Minister decided to use IR£400 million and IR£230 million of this CSRA balance in 2001 and 2002 respectively.

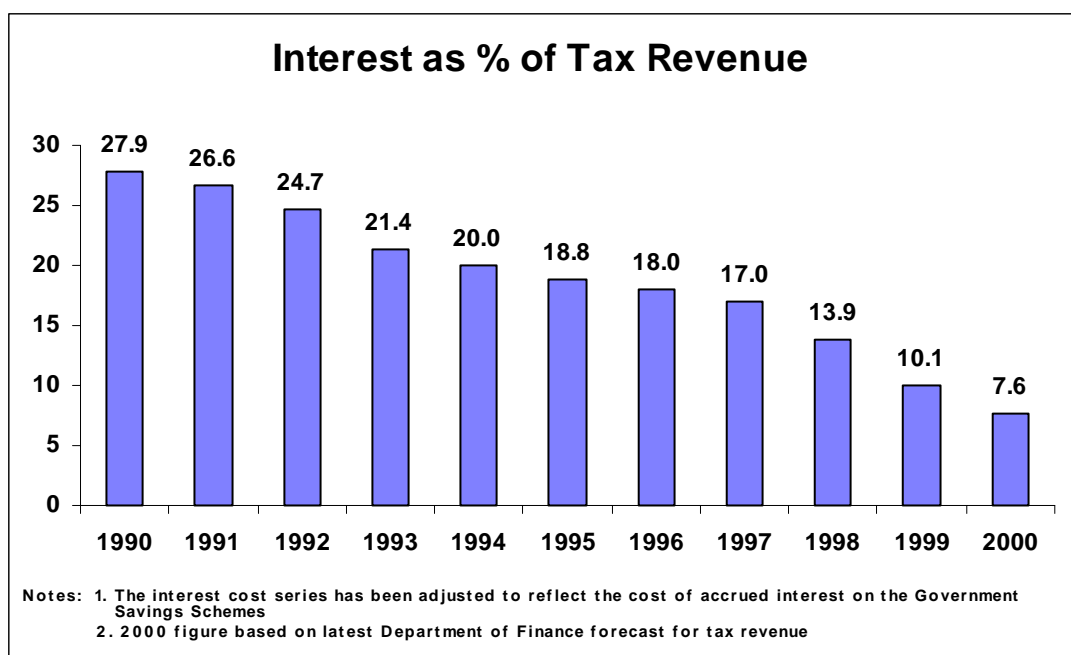
ANALYSIS OF EXCHEQUER DEBT SERVICE OUTTURN RELATIVE TO BUDGET		
	(IR£ million)	
	<u>OUTTURN</u>	<u>BUDGET</u>
Exchequer Debt Service Expenditure	2,205	2,241
Less: Payment to CSRA	<u>177</u>	
Adjusted Exchequer Debt Service Expenditure	<u>2,028</u>	<u>2,241</u>
Adjusted Favourable Variance from Budget	213	

Debt service costs of IR£2,205 million include interest payments of IR£1,807 million, sinking fund payments of IR£378 million, fees of IR£14 million and administration expenses of IR£6 million. The interest payments of IR£1,807 million include the above

mentioned transfer of IR£177 million to the CSRA, giving an underlying Exchequer interest cost of IR£1,630 million.

DEBT SERVICE BURDEN

The interest burden of the National Debt continued to fall in 2000. As represented by the ratio of interest payments to tax revenue, the debt service burden declined by an estimated 2.5 percentage points to 7.6%. This continues the strong downward trend of the past several years, bringing the debt service burden to just over a quarter of the level of 1990 as can be seen below:



5. BOND MARKET DEVELOPMENTS

i) Issuance

During 2000 the NTMA issued some IR£1,000 million in a series of eight auctions which were conducted through the six Primary Dealers. The bonds auctioned were the 3.5% Treasury Bond 2005, the 4% Treasury Bond 2010 and the 4.6% Treasury Bond 2016.

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, the NTMA announced the cancellation of the two remaining bond auctions scheduled for October and November 2000.

ii) Bond yields

At the beginning of the year, the yield on the ten year benchmark Irish Government bond was 5.71%; during the year it traded in a relatively narrow range of 83 basis points, from a high of 5.90% on 18 January to a low of 5.07% on 18 December, closing the year at 5.08%.

The yield spreads between Irish Government bonds and (i) German Government bonds and (ii) bonds issued by most smaller euro area Governments improved over the course of the year (See Appendix 2). This improvement can be attributed to the overall strength of the economy, the continued favourable trends in the public finances and the related prospect of significant reductions in the ratio of Government Debt to GDP over the coming years. The impact of these favourable developments on Irish Government bond yields has been underpinned by positive assessments on the part of the international credit rating agencies and market analysts in general. In addition, foreign institutional investors have shown confidence in the market, as evidenced by the increase in the proportion of Irish Government bonds held by non residents, from 29 per cent at the beginning of the year to an estimated 46 per cent at end December.

iii) Turnover

Turnover in Irish Government bonds in 2000 amounted to IR£35.4 billion. Excluding

the impact of the Securities Exchange Programme in 1999, this figure represents sustained turnover. This is in line with activity in other small European markets.

iv) **Funding - 2001**

On 13 December 2000, the NTMA indicated that the limited amount of funding which is likely to be required in 2001 would be met through short term paper borrowings rather than bond issuance.

6. EUROCLEAR

On 4 December 2000, the clearing and settlement function for Irish Government bonds was transferred to the Euroclear System from the Central Bank of Ireland.

This new arrangement allows financial institutions to safekeep Irish Government bonds and settle domestic and cross-border transactions in a single location. It will contribute to the liquidity of Irish Government bonds in the international capital markets by facilitating access for a broader range of investors.

The new arrangements for bond settlement fully meet the standards which the ECB has laid down for settlement systems to be eligible for use in its monetary policy operations from 1 January 2002.

Ireland is the first European country to transfer the settlement of government bonds from its Central Bank to an international securities settlement and clearing agency.

A more detailed note is attached in Appendix 3.

7. CREDIT RATING

In October, Standard & Poor's announced that it had revised its outlook for Ireland's AA+ credit rating from "stable" to "positive". During the past year, Ireland also maintained its top long term credit rating of AAA from Moody's and Fitch.

Ireland also maintained the top short term credit ratings of A1+, P1, F1+ from Standard & Poor's, Moody's and Fitch respectively.

8. GOVERNMENT SAVINGS SCHEMES

Reflecting the NTMA's reduced need for funds, there was a net outflow from the Government savings schemes in 2000 of IR£187 million. The total outstanding in the schemes is now IR£4.2 billion, representing over 14.5% of the National Debt.

Contrary to the above trend, Prize Bonds attracted net new investment of IR£21.4 million. In November 2000, The Prize Bond Company Ltd. relaunched this product with a new logo and an increased number of lower value prizes; the additional chances to win are expected to enhance Prize Bonds as an investment option.

9. CASH BALANCES

Cash on deposit with the Central Bank and available to the Exchequer at end 2000 is estimated at IR£1 billion. This will be reduced somewhat by cheques drawn on the Exchequer by 29 December but not yet cleared. The Exchequer thus has ample liquidity going into the New Year.

National Treasury Management Agency

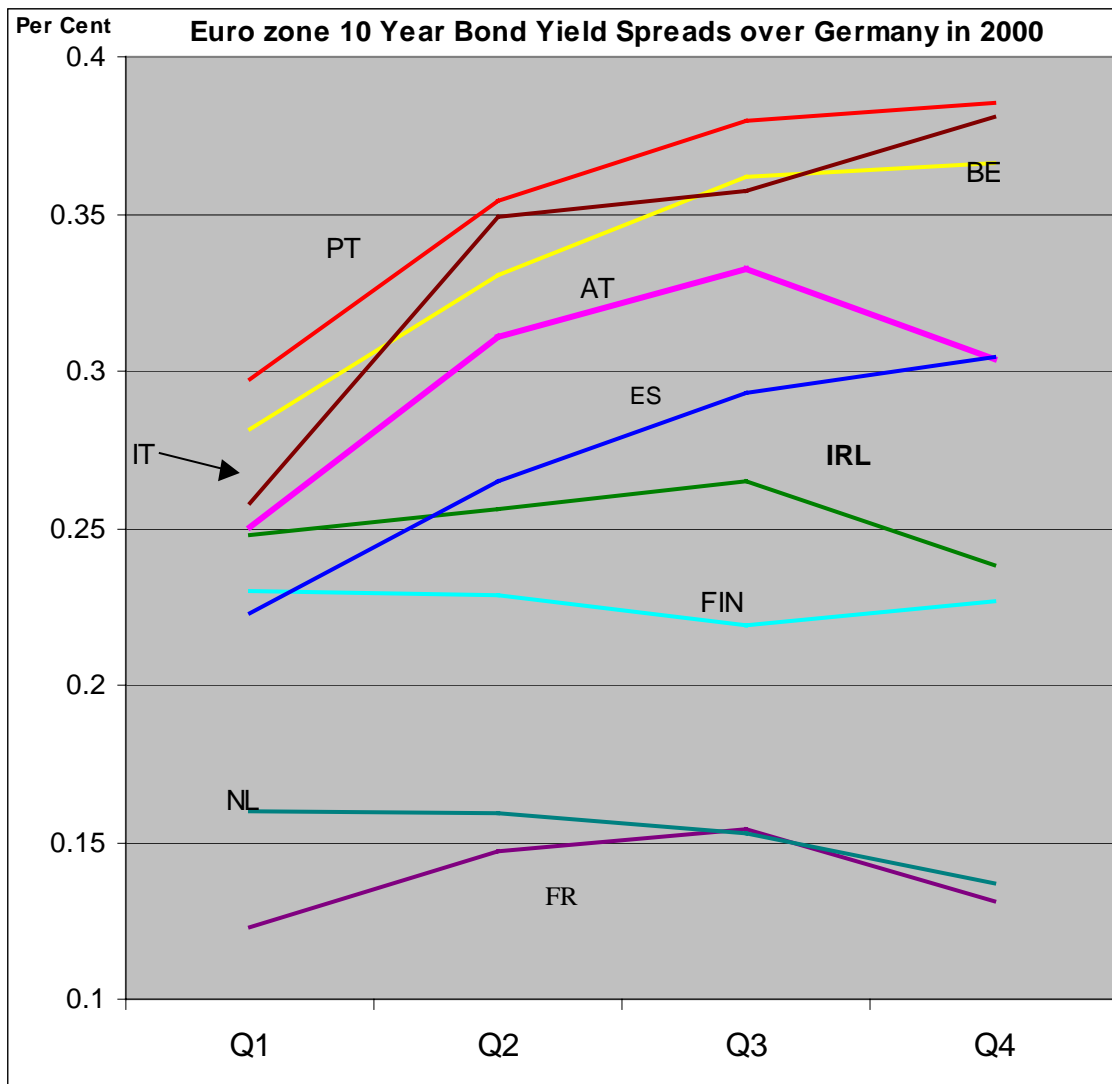
29 December 2000

CHANGE IN VALUE OF NATIONAL DEBT IN 2000

	IR£ million	€ million equivalent
Value of National Debt (end-1999) (nominal)	<u>31,384</u>	<u>39,849</u>
Less: i) Exchequer Surplus (Department of Finance forecast)	2,578	3,274
ii) Exchange Rate Impact	64	81
iii) Impact of change in CSRA current balance	177	225
Plus:		
Impact of net premiums on Tranching and Cancellations*	114	145
Decrease in value of National Debt	<u>2,705</u>	<u>3,435</u>
Value of National Debt (end-2000) (nominal)	<u>28,679</u>	<u>36,414</u>

***Note:** Premiums/Discounts arise when bonds are issued at other than their par value due to a difference between the coupon on the debt and market yields.

10 Year Spreads in the euro zone relative to German Bund



CLEARING AND SETTLEMENT OF IRISH GOVERNMENT BONDS

On 4 December 2000, the clearing and settlement function for Irish Government bonds was transferred to the Euroclear System from the Central Bank of Ireland. The nominal value of such bonds outstanding is IR£17.2 billion.

This new arrangement allows financial institutions to safekeep Irish Government bonds and also to settle domestic and cross-border transactions in a single location. It increases the liquidity of Irish Government bonds in the international capital markets by facilitating access for a broader range of investors.

The Central Bank of Ireland's own settlement system, CBISSO, ceased operations at close of business on 1 December. The Central Bank will, however, continue to act as Registrar for Irish Government bonds.

The decision to outsource settlement activity to Euroclear followed an extensive study by a working group comprising the National Treasury Management Agency, the Central Bank of Ireland and local market representatives.

The new arrangements for bond settlement fully satisfy the standards for real time delivery versus payment in relation to accounts at a central bank which the European Central Bank has set as a requirement for settlement systems to be eligible for use in its monetary policy operations from 1 January 2002.

Ireland is the first European country to transfer the settlement of government bonds from its Central Bank to an international securities agency. The transfer of activities took place without any service disruption.

The Euroclear System is the world's largest clearance and settlement system for internationally traded securities, providing cross-border securities services to market participants located in more than eighty countries.

The transfer to the Euroclear System is a further important step in ensuring that Irish Government bonds are in the mainstream of the new pan-European euro-denominated government bond market. It is expected that a considerable consolidation of the current fragmented settlement infrastructure in Europe will occur over the coming years as investors demand reductions in the cost of trading.