Ireland

Information Memorandum

April 2000

National Treasury Management Agency

National Treasury Management Agency

Chief Executive

Dr. Michael J. Somers

Directors

John C. Corrigan	Euro Funding and Debt Management
Anne Counihan	Legal and Corporate Affairs
Jim Farrell	Operations
Adrian J. Kearns	Foreign Currency Debt
Paul Sullivan	Strategy and Risk Management

Euro Funding and Debt Management

Contacts

Director
John C. Corrigan

Deputy Director
Fionan Coleman

Long Term Debt
Colum Graham
Oliver Whelan

Short Term Debt and Cash Management
Sean Regan
Mark Merrigan
Dymphna McHugh
Marion Devlin

Analyst/Economist
James Golden

Secondary Market Trader
Aidan Ingoldsby

Address
National Treasury Management Agency
Treasury Building
Grand Canal Street
Dublin 2

Telephone:	353-1-664-0800
	353-1-676-2266
Fax:	353-1-676-6661
Web:	http://www.ntma.ie
E-mail:	info@ntma.ie
Reuters:	NTMA - K
Bloomberg:	NTMA

Contents

Foreword by the Minister for Finance	**1**
Parliament and Government	**2**
Public Finances	**3**
National Debt Management	**5**
Social Welfare and Public Service Pensions Prefunding Initiative	**12**
Main Economic Developments	**13**
Industry	**17**
Services	**18**
International Financial Services Centre	**19**
Agriculture	**20**
Population, Labour Force and Employment	**21**
International Trade	**22**
Balance of Payments	**23**
Appendix 1 - Expenditure on Gross National Product	**24**
Appendix 2 - Balance of International Payments	**25**
Appendix 3 - Central Government Receipts and Expenditure	**26**
Appendix 4 - Exchange Rates	**27**
Appendix 5 - International Commitments	**28**
Map of European Union	**29**
Map of Ireland	**30**

Footnote: All figures in this Memorandum are quoted in euro.

Historical data have been converted from IR£ to € at the fixed conversion rate (1 euro = IR£0.787564).

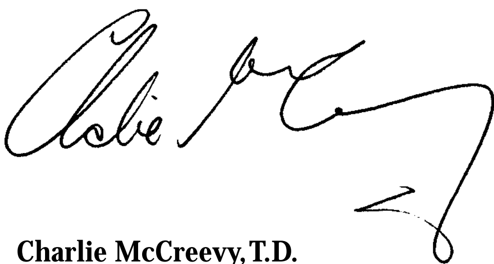
Foreword

by Mr. Charlie McCreevy, T.D.
Minister for Finance

I am pleased to introduce the 2000 Ireland Information Memorandum. Ireland's economy has been transformed by the rapid economic growth of recent years. Over the past five years the average annual growth rate of the economy has been about 9 per cent and our unemployment rate has fallen to less than 5 per cent. The outlook for the next number of years remains buoyant, underpinned by favourable demographic and productivity figures in the context of continued fiscal discipline with budgetary surpluses and further reductions in the national debt.

In my Budget Statement on 1 December, 1999 I gave details of the scheme to set aside each year resources equivalent to one per cent of GNP to prefund part of the State's social welfare and public service pension liabilities. The first annual contribution was set aside in 1999 together with the bulk of the proceeds of the flotation of Telecom Eireann (now Eircom). I expect to introduce shortly legislation setting up the new national pension fund. In the meantime, money set aside for the new fund - now some €6 billion - is in a temporary holding fund. The prefunding arrangements represent a far sighted move to make realistic provision in good time for future liabilities which will have to be met when the demographic structure will be much less favourable than at present. The National Treasury Management Agency will have a key role in the management of the new fund.

The National Treasury Management Agency will also continue its successful work of managing the national debt in a cost efficient manner so as to minimise the burden of debt service on the Exchequer. The following pages set out details of these and many other issues in a useful and informative manner. I look forward to continuing our traditionally close links with the international financial community during 2000.



Charlie McCreevy, T.D.
Minister for Finance

Parliament and Government

Ireland is a parliamentary democracy. Under the Constitution, legislative power is vested in the National Parliament - the “Oireachtas” - which consists of the President and two Houses, the Dáil and the Seanad. The President holds office for seven years and may be re-elected once only. Most of the President’s powers can be exercised only on the advice of the Government. Elections to both Houses are held at least once every five years. Legislation may be initiated in either House, with the exception of money Bills, which may be initiated only in the Dáil.

Dáil (Lower House)

The Dáil or Lower House consists of 166 members, elected by citizens and others aged 18 and over on a system of proportional representation. The Taoiseach (the Prime Minister) is appointed by the President on the nomination of the Dáil.

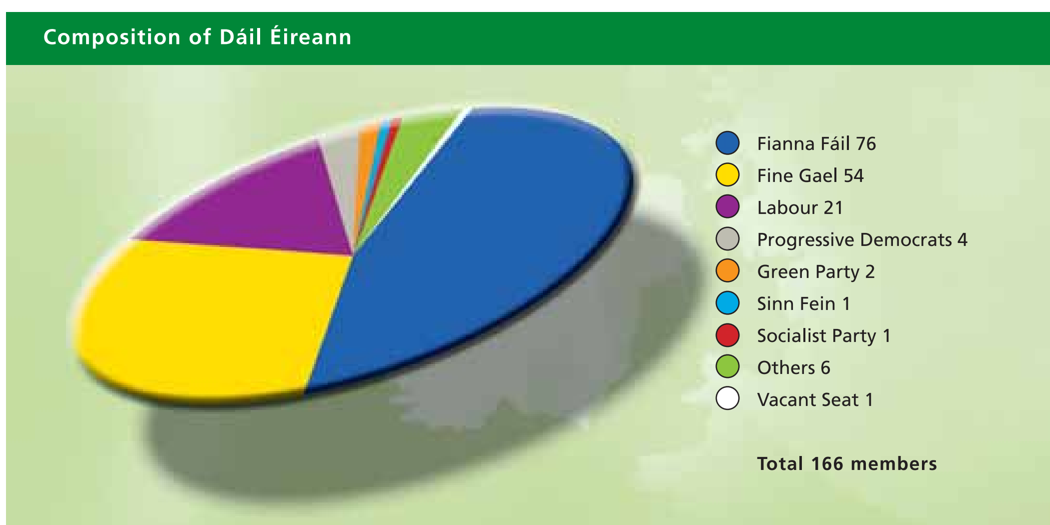
Seanad (Upper House)

The Seanad or Upper House is composed of 60 members. Eleven are nominated directly to the House by the Taoiseach. Forty-three are elected from five panels representing vocational interests and six are elected by the graduates of the National University of Ireland and the University of Dublin (Trinity College). Although the Seanad can initiate legislation, its legislative role is restricted under the Constitution: it cannot initiate money Bills i.e. financial legislation, nor can it delay indefinitely legislation which has already been passed by the Dáil and it cannot initiate Bills to amend the Constitution.

Government

The Government, which was formed in July 1997, comprises two political parties: Fianna Fáil and the Progressive Democrats. The Taoiseach is Mr Bertie Ahern who is also leader of Fianna Fáil. The leader of the Progressive Democrats, Ms Mary Harney, is Tánaiste (Deputy Prime Minister) and Minister for Enterprise, Trade and Employment. The Minister for Finance is Mr Charlie McCreevy (Fianna Fáil).

Composition of Dáil Éireann



Public Finances

Public Finance Developments

	1996	1997	1998	1999	2000*
Current Budget Deficit/(Surplus)					
- €€million	(371)	(767)	(2,655)	(4,365)	(5,787)
- per cent of GDP	(0.6)	(1.2)	(3.5)	(5.1)	(6.2)
Exchequer Deficit/(Surplus)**					
- €€million	554	298	(948)	(1,513)	(2,043)
- per cent of GDP	1.0	0.5	(1.3)	(1.8)	(2.2)
General Government Deficit/(Surplus)					
- per cent of GDP	0.6	(0.8)	(2.1)	(2.0)	(1.6)
General Government Debt					
- per cent of GDP	74.1	65.3	55.6	52.4	45.4

* Budget Targets
** Combined Capital and Current Budgets

Source: Department of Finance

1999 Budget Outturn

The 1999 Exchequer Surplus was €1,513 million or 1.8 per cent of GDP compared with the Budget target of a surplus of 1.5 per cent. This outturn is after taking into account the decision to allocate a sum amounting to 1per cent of GNP to the partial pre-funding of future social welfare and public service pension costs. The Government has committed to making this an annual commitment and legislation providing for this commitment and the investment of the funds is expected to be enacted in 2000. In the meantime, the funds allocated in 1999 are under the management of the National Treasury Management Agency. Tax receipts increased by 15 per cent compared with a Budget target of 7.5 per cent. Government expenditure exceeded the Budget target; total net current expenditure increased by 7.9 per cent.

The General Government Deficit (GGD), as defined for Maastricht purposes, is provisionally estimated to show a surplus of 2.0 per cent of GDP compared with the Budget target of a 1.7 per cent surplus. This outturn will maintain Ireland's position among the strongest fiscal performers in the EU: the outturn has now been comfortably within the Maastricht criterion (of a 3 per cent deficit) for 11 years.

2000 Budget Targets

The 2000 Budget targets are:

- Current Budget Surplus of 6.2 per cent of GDP;
- Exchequer Surplus of 2.2 per cent of GDP; and
- General Government Surplus of 1.6 per cent of GDP.

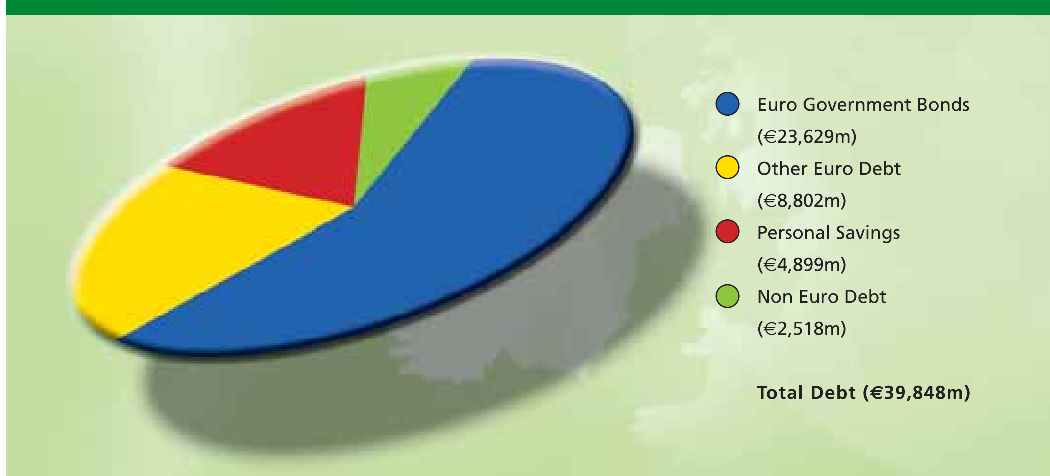
These targets meet the Government's commitment to continued budgetary discipline within the context of the fiscal convergence criteria of the Maastricht Treaty and the terms of the Stability and Growth Pact. As in 1999 the surplus takes account of the allocation of 1 per cent of GNP to pre-fund future social welfare and public service pensions. The ratio of General Government Debt to GDP is forecast to decline from 52.4 per cent at end 1999 to 45.4 per cent at end 2000. The corresponding figures, net of the assets set aside for future pension liabilities, are 47.8 per cent for 1999 and 38.7 per cent for 2000.

National Debt Management

Debt Management Overview

The National Treasury Management Agency (NTMA) was set up in 1990 to manage the National Debt in a cost efficient manner. The key objectives of the Agency are to refinance, as necessary, maturing National Debt and the Government's annual borrowing requirement, while at the same time outperforming a benchmark portfolio and meeting its annual fiscal budget target. In seeking to meet its objectives the Agency is free to formulate, within guidelines specified by the Minister for Finance, the strategies it sees as required to achieve its goal of cost effective borrowing.

Composition of National Debt at 31 December 1999



Euro Government Bonds (€23,629m)
Other Euro Debt (€8,802m)
Personal Savings (€4,899m)
Non Euro Debt (€2,518m)

Total Debt (€39,848m)

Euro Denominated Bonds - Primary Dealer System

The Irish Government bond market is based on a Primary Dealer system. There are six Primary Dealers recognised by the NTMA, who make continuous two-way prices in designated bonds in minimum specified amounts and within maximum specified spreads. There are also a number of stockbrokers who match client orders. However, about 95 per cent of turnover is accounted for by the Primary Dealers. The Primary Dealer system, which was introduced at the end of 1995, has brought improved depth and liquidity to the market while the bond repo market has grown in tandem, adding to the liquidity in the bond market. The Primary Dealers are:

- ABN AMRO, Dublin and Amsterdam
- AIB Capital Markets, Dublin
- Credit Agricole Indosuez, Paris
- Davy Stockbrokers, Dublin
- Deutsche Bank, Frankfurt
- NCB Stockbrokers, Dublin

Primary Dealers are members of the Irish Stock Exchange, and Government bonds are listed on the Exchange.

Bond Market Developments

During 1999 the Agency raised €1.5 billion in a series of nine auctions which were conducted through the six Primary Dealers.

The yield on the key ten year benchmark Irish Government bond started 1999 at 3.92 per cent and during the year it traded in a range of 189 basis points from a low of 3.83 per cent on 25 January to a high of 5.72 per cent on 20 October. It closed the year at 5.57 per cent.

In the first quarter of the current year the Irish Government ten year benchmark bond traded in a range from 5.43 per cent to 5.90 per cent. It ended the quarter at 5.45 per cent.

The spread at which Irish Government bonds trade relative to the bonds issued by most other euro area Governments has improved since the launch of the euro. By way of illustration spreads on 31 March, 2000 were as follows for the ten year bonds:

Irish Government Ten Year Bond Yield Spreads Relative to:

Country	Germany	Spain	Austria	Belgium	Finland	Portugal
Spreads (Basis Points)	+24	+2	-1	-5	+4	-6

Non resident holdings of Irish 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. During the first quarter of this year the non resident holdings continued to increase sharply and reached a figure of €8.7 billion or 36.4 per cent by end March.

Current Benchmark Bonds

The Agency has designated benchmark bonds close to 2, 5, 10 and 16 year maturities. The Primary Dealers are obliged to make continuous prices in the benchmark bonds and in one other large liquid bond. These five bonds constitute some 95 per cent of the fixed rate bonds in issue with more than one year to maturity.

Current Benchmark Bonds

Coupon	Name	Maturity	Outstanding €m (End March 2000)
2.75% (annual)	Treasury Bond	18 October 2002	3,031
3.50% (annual)	Treasury Bond	18 October 2005	4,774
4.00% (annual)	Treasury Bond	18 April 2010	6,326
4.60% (annual)	Treasury Bond	18 April 2016	3,612

Securities Exchange Programme

Introduction

A number of initiatives have been taken by the NTMA over the years to improve liquidity in the bond market with the objective of reducing borrowing costs for the Government. Following the launch of the euro the Agency decided that a major initiative was required to ensure that Irish bonds traded effectively in the new euro denominated pan-European market. The initiative taken was the Securities Exchange Programme. The rationale underlying the Programme was the Agency's belief that, in order to be competitive in the new euro environment, Irish Government bonds must have relatively large issue size and technical characteristics analogous to those in other euro zone markets.

The Agency set out to address the above 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, with coupons around current market yields and technical characteristics similar to bonds in other European markets. In the absence of such an initiative, there was a risk that the bonds would trade at yields inappropriate to Ireland's credit rating.

Preparation for the Programme

In the months preceding the Exchange Programme the Agency held widespread discussions with the major investors in the Irish Government bond market and with the six Primary Dealers. The discussions were the key to the successful execution of the Programme. As a result of these discussions the Agency achieved broad agreement with the market on the best approach, in terms of the timing and sequence of the exchanges to be offered and the details of their execution.

A major factor for the success of the Programme was the fact that the Agency introduced changes in the technical conventions which apply to new Irish Government bond issues. These changes are as follows:

- **a)** no ex-dividend period
- **b)** standard settlement period of T+3 (i.e. three business days after the trade date)
- **c)** the same daycount convention for interest calculation purposes as the core euro denominated sovereign bonds; i.e. annual coupon based on actual/actual interest payment calculation.

Arrangements were also put in place to ensure timely settlement of trades in Irish Government Bonds between members of the Central Bank of Ireland Securities Settlements Office (CBISSO) and the two major international settlement systems - Euroclear and Clearstream. Previously these trades took an extra day to settle compared with other sovereign euro bonds. This was a disincentive for potential foreign investors. The new arrangements involve the Agency in effect guaranteeing the delivery of bonds to Euroclear and Clearstream by CBISSO members of acceptable credit quality.

The tax changes necessary to facilitate the full participation of Irish financial institutions in the Programme were incorporated in the 1999 Finance Act. The effect of the changes was to ensure that the sale by certain domestic financial institutions, notably insurance companies, of old bonds to the Agency in exchange for the purchase of new bonds under the Programme would not trigger tax payments in advance of when they would otherwise have been due had the Programme not taken place.

Execution of the Programme

The Exchange Programme was launched in May 1999 with most of the major transactions taking place in three phases, viz. on 11th, 17th and 25th May. On completion of the third phase over 91 per cent of the outstandings in the old bonds covered by the Programme had been exchanged for new bonds.

As a result of the Exchange Programme the ratio of General Government Debt (based on nominal value) to GDP was increased by some 4 percentage points. The ratio was 55.6 per cent at end 1998 and at end 1999 it had fallen to 52.4 per cent including the effects of the Exchange Programme. The Programme did not affect the economic value of the outstanding debt. Cashflow savings represented by the lower annual coupons on the new bonds offset the addition to the capital stock of the debt.

Bond Settlement System

The National Treasury Management Agency and the Central Bank of Ireland announced on 30 March, 2000 that the settlement of Irish Government bonds currently carried out by the Central Bank is to be transferred to the Euroclear System. This arrangement will enable local and international financial institutions to safekeep and settle both domestic and cross-border Irish Government bond transactions in a single settlement location. This will, in turn, facilitate access to a broader range of investors and increase the liquidity of Irish Government bonds in the international capital markets. The decision follows a strategic review of the settlement system for Irish Government bonds by a working group comprising the NTMA, the Central Bank of Ireland and local market representatives. The transition to the Euroclear System is expected to be completed in the coming months. The Central Bank of Ireland will, however, continue to act as Registrar for Irish Government bonds.

Ireland is the first European country to transfer the settlement of Government bonds from its Central Bank to an international securities depository. This will make a major contribution to reducing the current fragmentation of the European securities settlement infrastructure, while continuing to ensure that Irish Government bonds are in the mainstream of the new, pan-European, euro-denominated Government bond market.

Taxation

There is no withholding tax on Irish Government bonds. Non-resident holdings are exempt from all Irish taxation, present or future.

Bond Indices

Irish Government bonds are included in the following international bond indices:

- Bloomberg/EFFAS - Government Bond Index
- JP Morgan - Irish Government Bond Index
- Lehman Brothers - Global Bond Index
- Merrill Lynch - Global Government Bond Index II
- Salomon Smith Barney - World Government Bond Index

Gross Issuance to Remain Low

Maturing debt in 2000 amounts to some €4 billion and, after account is taken of the projected Exchequer surplus, bond issuance of some €2 billion will be required. Given that the Irish fund managers have recently adopted a new benchmark in which Irish Government bonds have a weighting of only 1.3 per cent, it is expected that non-residents will use the auctions as an opportunity to increase their Irish bond holdings.

Gross issuance will be executed by means of ten auctions held on the third Thursday of every month, except for January and December. The auction details (i.e. bond and amount) will be announced at 9:00 a.m. on the Tuesday prior to each auction on Reuters page NTMB and Bloomberg page NTMA, Menu Item 2. Access to the auctions is confined to the Primary Dealers.

Market Information

Reuters	Bloomberg	Bond Prices & Market Comment	Phone
AABIRL	AASI	Primary Dealer - ABN AMRO	31-20-383-6807
GDAB	GDSB	Primary Dealer - AIB Capital Markets	353-1-829-1666
CAIIE01		Primary Dealer - Credit Agricole Indosuez	33-1-41-89-58-12
DAVB-D	DAVY	Primary Dealer - Davy Stockbrokers	353-1-679-2800
NCBBONDS/NCSG	NCB	Primary Dealer - NCB Stockbrokers	353-1-670-2200
DBF18	DABB	Primary Dealer - Deutsche Bank	49-69-910-37329
BLOX		Bloxham Stockbrokers	353-1-829-1777

Other Long Term Debt

The medium and long term foreign currency debt, which was in the portfolio before the adoption of the euro, is now denominated in euro legacy currencies or, in the case of other currencies, has been swapped into euro, with the exception of sterling which now accounts for some seven per cent of the debt. As this former foreign currency debt matures it is refinanced in euros or repaid from the Government's budgetary surplus. The Agency also buys back and cancels this debt according as opportunities arise in the market. In 1999 some €500 million was bought back and cancelled in this way.

Secondary Trader

The NTMA maintains a secondary trading function to trade in bonds through the retail market. The secondary trading function is subject to separation by means of "Chinese Walls" within the NTMA.

Short Term Debt Portfolio

Commercial Paper Programmes

Ireland has a €2 billion CP Programme in Frankfurt, a US$5 billion multicurrency ECP Programme in London and a US$1 billion US CP Programme in New York. The CP programmes provide funds at attractive levels, significantly below euribor, and are used as bridging finance in the replacement of longer term debt and for other liquidity management purposes.

Exchequer Notes

The Exchequer Notes programme provides a short term vehicle for funding and liquidity management. By the end of 1999 there was €1 billion of Exchequer Notes in issue. Exchequer Notes (denominated in euro) are sold directly by the Agency to investors in maturities ranging from 1 day to 365 days depending on the investor's requirements. They are also listed on the Irish Stock Exchange. The investor base includes financial institutions and corporate entities, both domestic and non-resident. The minimum investment amount is €100,000.

Agricultural Commodity Intervention Bills (ACIBs)

ACIBs are short-term instruments, managed by the Agency, which are designed to fulfil the short-term funding requirements of the Department of Agriculture, Food and Rural Development. These requirements arise from ongoing intervention payments made to farmers which are refunded to the Department by the European Commission at regular intervals. ACIB paper is marketed and structured to complement Exchequer Note issuance.

Section 69 Multicurrency Notes

Section 69 of the Finance Act of Ireland, 1985 was introduced for the specific purpose of offering tax free investment opportunities to foreign owned companies that are located in Ireland. Many of these companies had previously been repatriating their surplus funds to their parent companies for investment in low tax or no tax jurisdictions elsewhere. Each day they may invest directly with the NTMA in euro or in any of the other major currencies. They may choose the period of investment and the amount of investment (subject to a minimum investment amount of €100,000 or its equivalent amount in other currencies). Investors also have the choice of dealing through all the major banks in Ireland. The interest paid on the investment is not subject to any tax in Ireland. The sovereign credit ratings of Ireland (see below) apply.

Medium Term Note Programmes

The Agency has in place a US$2 billion Euro Medium Term Note Programme and a US$500 million US Medium Term Note Programme. These are multi-currency Programmes which facilitate issuance in a variety of structures. However, due to the low level of funding as a result of the Exchequer surplus and the policy decision to concentrate funding through the Primary Dealer system these Programmes have not been used in recent years.

Credit Ratings

Short-term Credit Ratings

Ireland has the top A1+, P1 and F1+ ratings from Standard & Poor's, Moody's Investors' Service and Fitch IBCA respectively.

Long-term credit ratings

During the course of 1999, Ireland's debt grade was maintained unchanged.

- Moody's ratings AAA.
- Standard & Poor's ratings AA+.
- Fitch IBCA ratings AAA

Social Welfare and Public Service Pensions Prefunding Initiative

During 1999 the Government announced that it had decided on a crucial, new strategy designed to enhance the Exchequer's ability to continue to maintain and improve public services through the decades ahead when, it is expected, the ratio of both Social Welfare and Public Service pensioners to persons at work will increase substantially. The strategy entails setting aside one per cent of Gross National Product (GNP) annually to provide resources for pre-funding part of these prospective costs. In addition a major portion of the proceeds of the Telecom Eireann (now Eircom) flotation was allocated to supplement the annual allocation in 1999.

In commenting on the decision to prefund, the Minister for Finance noted that, whereas in Ireland today, there is 1 person aged 65 or over for every 5 persons of working age, demographic projections indicate that by the middle of this century - which is within the timescale for pension actuarial planning - this ratio will rise above 1 person aged 65 or over for every 2 persons of working age.

It has been estimated that prospective demographic change by the middle of this century will require additional Exchequer expenditure of approximately 7 per cent of GNP to broadly maintain the current level of pension and health service provision. If these extra Exchequer costs were to be spread equally over the period to mid-century, some 3.5 per cent of GNP would have to be set aside annually. The Minister's assessment is that funds based on an annual budgetary allocation of 1 per cent of GNP together with the lump sum contribution from the Telecom Eireann flotation may meet about one-third of the extra costs which demographic change promises over the period to mid-century.

Pending the enactment of detailed legislation providing for the establishment and on-going management of the pension funds, legislation was enacted in 1999 setting up a Temporary Holding Fund for the Exchequer money set aside in 1999 for the pension funds. The Minister for Finance announced that the NTMA would be given a key role in the management and investment of the pension funds.

Main Economic Developments

Main Economic Indicators

	1995	1996	1997	1998	1999[2]	2000[3]
Real GDP Growth (annual per cent change)	11.1	7.4	9.8	9.5	8.4	7.4
Consumer Prices[1] (annual per cent change)	2.5	1.6	1.5	2.4	1.6	3.0
GDP (at current market prices)(€bn)	52.1	57.4	65.8	75.7	84.9	94.0
Balance of Payments (per cent of GDP)	2.6	2.8	2.5	0.9	0.35	-0.8

[1] Personal Consumption Deflator [2] Estimate [3] Forecast

Sources: 1995-1998, Central Statistics Office. 1999-2000, Department of Finance.

Economic Performance

In 1999, Ireland's economy continued the strong performance of recent years. GDP is estimated to have grown by 8.4 per cent. As a result, Ireland's GDP has grown by over 60 per cent in real terms since 1993 - an average of just under 8.5 per cent per annum. This performance is expected to continue in 2000, with real GDP growth of 7.4 per cent forecast. Consequently, this is expected to be the sixth year in succession in which Ireland has had the highest rate of economic performance in the EU.

Inflation remained low for much of 1999, mainly as a result of large interest rate falls and in response to low international inflation. The annual average at 1.6 per cent was lower than had been forecast at the start of the year. However, the headline rate rose sharply to 3.4 per cent at the end of the year in response to large international oil price rises and changes in tobacco excise duty introduced in the Budget. It is expected to remain close to current levels in the early part of 2000 before declining in the second half of the year, resulting in an annual average rate of 3 per cent.

The strong employment growth of recent years has continued. In the year to May 1999 the numbers employed grew by 6.5 per cent while the unemployment rate fell to 5.7 per cent from 7.8 per cent. The unemployment rate fell further to 4.7 per cent in March 2000.

1998 GDP by Sector at current market prices

Source: Central Statistics Office

Competitiveness

External competitiveness is vital to the maintenance of strong economic growth. Social partnership agreements between the government, employers, trade unions, farming interests and, latterly, the community and voluntary sector have played a crucial role during the recent sustained period of fiscal consolidation and economic growth.

Five agreements have been negotiated since 1987. Each accepted the need for prudent fiscal and economic policy. Partnership 2000 (1997 to 2000), which expires later this year, incorporated moderate pay increases which combined with tax measures contributed significantly to the strong economic performance of recent years. The Programme for Prosperity and Fairness (2000 to 2002), which was ratified in March 2000, and of which competitiveness is a core theme, aims both to enhance recent economic prosperity and to promote social inclusion.

The rapid growth in output and employment is, however, giving rise to supply-side pressures in some sectors - particularly in the "high-tech" and construction sectors. In these sectors, because of very strong labour demand, wages have increased ahead of expectations. However, the increases in wages in the manufacturing sector have been moderate, by contrast. In addition, Irish manufacturing unit wage costs have remained favourable due to strong growth in labour productivity.

National Development Plan

The National Development Plan is designed to underpin the development of a dynamic competitive economy over the period 2000-2006. The Plan provides for total public, EU and private funds investment of €51.5 billion in 1999 prices over the period 2000-2006. The publicly funded element (including EU and Public Private Partnership sources) of the investment will be matched by an estimated €8.1billion of private investment. The EU Structural and Cohesion Funds will contribute some €3.8 billion of the overall investment over the period of the Plan.

The Plan aims to build on the strong economic progress of recent years and to strengthen the foundations for further strong and sustainable progress in the years ahead. Unlike its two predecessors, it is not a Plan primarily designed to draw down EU Structural and Cohesion Funds. Whilst these funds will continue to perform a valuable, albeit, declining role as a source of funding, the Plan is based first and foremost on an assessment of the development needs of the country and will put in place the investment programmes required to meet those needs.

EU Cohesion Fund

The Cohesion Fund benefits member States with a GNP per capita of less than 90 per cent of the Community average, which have a programme leading to the fulfilment of the conditions of economic convergence set out in Article 104c of the Maastricht Treaty. Ireland, Spain, Portugal and Greece qualify for aid from the Fund. The Cohesion Fund which complements the EU Structural Funds for these countries assists specified projects in the environment and transport infrastructure.

A mid-term review of eligibility will be carried out in 2003 based on per capita GNP criterion for the 2000 to 2002 period. This is likely to establish that Ireland's per capita GNP exceeds 90 per cent of the Community average and, in this eventuality, Ireland's eligibility for Cohesion Fund assistance will cease after 2003. Ireland's allocation from the fund for 2000 - 2003 amounts to €557 million.

Understanding Ireland's Recent Growth Experience

Ireland enjoyed spectacular economic success in the 1990s to the extent that its GDP per head increased from 68 per cent of the EU average in the 1980s to 115 per cent at present. The Irish economy grew at an annual average rate of 8.8 per cent in the period 1995-1999 as compared with a rate of 2.2 per cent for the EU as a whole. (Source: EU Commission and Eurostat). A number of mutually reinforcing domestic developments interacted favourably with external forces to produce this sustained period of strong growth in Ireland.

- The labour force grew at an average of about 2.5 per cent over the decade of the 1990s and at 3 per cent in the last five years as compared with an annual average of about 0.5 per cent during the previous three decades. This upsurge in labour supply was due to:
  - **a)** the coming of age of the 1970s "baby boom"
  - **b)** a sustained acceleration in the rate of female participation in the labour force
  - **c)** net inward migration flows.

- Labour productivity growth (at 3.5 to 4 per cent per annum) has been high in Ireland over the past four decades as compared with elsewhere in Europe and the developed world. Among the main factors at work here are:
  - **a)** Ireland has transformed itself from being largely agriculture based into an industry and service based economy
  - **b)** education achievement has increased rapidly thereby increasing the "human capital" stock inherent in the workforce.

- The level of domestic demand has grown significantly due to:
  - **a)** the increased discretionary income of those in employment as the dependency ratio declined, with fewer children in the population as a result of falling fertility and birth rates
  - **b)** the population growth in the 1990s which was heavily concentrated in the main earning and spending age groups (25-54 years).

- The consistency with which successive Governments have pursued industrial policy has also been a significant factor in fostering a climate conducive to economic growth. Industrial policy has been strongly oriented toward attracting foreign investment in manufacturing. This has led to the build up of a high-growth, skill-intensive, export-oriented manufacturing sector which is largely concentrated in high-technology production. The dominance of foreign multinationals within this sector has resulted in beneficial spill-over effects in terms of both technology and skills into the indigenous manufacturing sector.

- Ireland has attracted substantial foreign direct investment since the 1960s, particularly in the areas of electronics, computer hardware/software, pharmaceuticals and chemicals. For example, Ireland has been the destination of 40 per cent of all US foreign direct investment in electronics over the past decade and supplies a third of all personal computers sold in Europe.

- A low rate of corporation tax has been one of the major incentives for foreign direct investment in Ireland. This rate was 10 per cent from the time of our EU entry in 1973 and applied to manufacturing companies irrespective of nationality. It has now been agreed with the EU Commission that a uniform rate of 12.5 per cent corporation tax will be phased in for all sectors by 2003.

- EU transfers also increased the growth potential of the economy through their impact on physical infrastructure and human capital.

- The increased openness of the economy has also facilitated higher growth. The completion of the EU single market and the adoption of the single currency have acted to increase further the openness of the economy.

- The current strong growth performance has taken place in a stable macroeconomic environment which has been fostered by four areas of domestic policy in particular:
  - **a)** low public finance deficits which have now turned into surpluses. The success in stabilising the public finances, both in terms of the reduction of the high level of public debt in the 1980s and the turn-around of the annual budgetary balance from deficit to surplus, has been an important contributory factor to overall macroeconomic stability. This process was greatly aided by the commitment to adhere to the Maastricht guidelines.
  - **b)** a climate of low inflation
  - **c)** a movement into surplus on the current account of the balance of payments
  - **d)** the ongoing process of institutional reform, especially in the areas of industrial relations, the semi-state sector and the administrative and political system

- Successive pay agreements and social partnership agreements since the late 1980s have sustained the competitiveness of the economy.

The above factors have combined to produce quite exceptional rates of economic growth and are still at work. The consensus view among economic analysts and many international commentators is that these favourable conditions are likely to continue over the coming years. Even though the rate of growth is expected to decline gradually, economic growth in Ireland is set to outstrip that in the rest of the EU for another decade.

Industry

Importance of the Industrial Sector

In 1998, industry accounted for 39.6 per cent of GNP, nearly 92 per cent of total exports and 28.6 per cent of total employment. The industrial sector has developed rapidly since the 1970s and Ireland now has a modern industrial-based economy. This has been achieved partly by offering tailored incentives to foreign investment and also by undertaking heavy investment in education and training so as to ensure the ready availability of workers for modern industries. A notable feature in recent years has been the rapid expansion of high-technology industry, including, in particular, the computer sector. There has also been a significant increase in the services sector, including financial services. Industrial output increased by an annual average of 13.9 per cent in the period 1993 to 1998 and this growth has been driven by manufacturing where production over the same period expanded at an average rate of 14.8 per cent annually.

Enterprise Support Agencies

Enterprise Ireland - the State agency for assisting the development of Irish enterprise - has been in operation for over a year now. Aside from being involved in support and training activities, it acts as a one stop, client based agency to assist in trade promotion, strategic development of indigenous enterprise and in attaining a sustainable competitive advantage.

At a regional level, Shannon Development offers enterprise support and advisory services in the Mid-West region, while IDA Ireland continues with its responsibility for attracting internationally mobile investment. While these agencies function with specific aims and objectives, all operate within a framework which facilitates co-operation and mutual support.

Forfas is responsible for the overall policy co-ordination of these bodies and advises on issues relating to industrial development generally.

Location Benefits

The range of benefits available from using Ireland as a location for foreign investment include:

- a rate of 10 per cent corporation tax for new investors in manufacturing and certain internationally traded services until December 2002, and 12.5 per cent thereafter;
- incentives towards fixed asset expenditure and employment creation;
- support towards employee training, and research and development activities;
- a flexible and skilled workforce; and
- infrastructure capable of supporting advanced technologies.

Services

Output

The services sector in Ireland accounts for close to 50 per cent of GDP and around 60 per cent of employment.

Employment

Strong employment growth has occurred in services. In the period May 1994 - November 1999 there was an increase in numbers employed in services of 266,800 or 35 per cent. The numbers employed in financial and other business services accounted for 78,900 of this increase.

Services Employment in Selected Categories

	(November 1999) 000s	Share (%) of total services employment
Wholesale and retail trade	229.3	22.1
Hotels and restaurants	105.1	10.1
Transport, storage and communication	99.9	9.6
Financial and other business services	205.3	19.8
Public administration and defence	78.3	7.5
Education and health	225.8	21.7
Other services	95.1	9.2
Total	**1038.8**	**100.0**

Source: Quarterly National Household Survey released on 7 March 2000

International Financial Services Centre

Financial institutions located in the International Financial Services Centre (IFSC) in Dublin provide a broad range of services including banking, asset financing, leasing, fund and treasury management, insurance, reinsurance, international life assurance and brokerage. The special tax and other incentives, which are available to financial institutions based in the Centre, include a reduced rate of corporation tax on trading profits. In order to benefit from the preferential tax rate, companies must obtain a certificate from the Minister for Finance.

As part of an agreement reached with the EU Commission in 1998 on the future development of the general corporation tax regime in Ireland the preferential regime for the IFSC is currently being phased out. While existing IFSC companies (approved before the end of 1999) can continue to avail of the benefits of the regime until their IFSC certificates expire, it is no longer possible (since 1 January 2000) for new projects establishing in Dublin to gain access to the IFSC regime.

With effect from 1 January 2000, new financial services projects will be liable for tax at the standard rate of corporation tax (currently 24 per cent). However, the standard rate of corporation tax on operating profits, generally, is being reduced on a phased basis to 12.5 per cent by 1 January 2003. This rate will also apply to the trading profits of IFSC companies once their current eligibility for the preferential 10 per cent rate comes to an end.

In anticipation of the ending of the preferential IFSC regime for new projects at the end of 1999, the Government, in March 1999, published its strategy for the continued development of the international financial services industry in Ireland, post-1999. The objective of the strategy is to maintain a vibrant and growing international financial services industry, building on the success of the IFSC. The strategy envisages the Dublin Docklands acting as the hub for the longer-term development of the industry in Ireland, with front-office financial services companies being encouraged to locate within the hub, and back-office activity being facilitated elsewhere in Dublin, or in the country generally.

Agriculture

Role of Agriculture in the Economy

Primary agriculture is relatively large by European standards, and in 1999 accounted for about 4 per cent of GDP and 8 per cent of total employment. For the agri-food sector as a whole, the corresponding figures are 10 per cent of GDP and 11 per cent of employment in 1999.

Recent Developments and Prospects

Agricultural incomes grew rapidly in the 1990s up to 1996, mainly as a result of substantially increased direct payments to farmers arising from the reform of CAP in 1992, before falling back in 1997, 1998 and 1999. Beef production and dairying have traditionally been the two principal sectors, and in 1999 accounted for around 67 per cent of gross agricultural output. The outlook for farm incomes this year is somewhat more benign than in recent years. This partly reflects the favourable prospects for the beef sector and some improvement in other sectors as well as an expected higher level of subsidies. As a result the overall level of agricultural income is expected to rise by about 3.25 per cent this year.

Population, Labour Force and Employment

Population Growth

In the ten years to April 1999, the population grew by 6.7 per cent to a total 3,744,700. In the year to April 1999 the population increased by 39,800 or 1 per cent. The natural increase and migration have equally contributed to population growth over the last couple of years.

Migration

High emigration was a feature of Irish demography since the middle of the 1800s. This trend was reversed in the 1970s, but resumed in the 1980s and continued on a large scale until 1990. Emigration has been replaced by immigration since 1996. Between April 1998 and April 1999, the numbers of immigrants exceeded emigrants by 18,500. The number of immigrants has been rising over recent years to a high of 47,500 in the year to April 1999. In that year more than half of all immigrants were of Irish nationality (55%) compared to 17% of British nationality and 14% from other areas within the EU.

Labour Force

The labour force increased from 1,308,000 in 1989 to 1,688,000 in 1999 or an increase of 29 per cent. This has been due to three factors, namely, a high rate of natural increase, the high levels of inward migration and increases in the participation rate, particularly amongst women.

The buoyant economic performance has translated into record employment growth over recent years. The numbers in employment have grown by 426,000 or 35 per cent to a total of 1,647,000 in the period May 1994 - November 1999. The unemployment rate has also fallen from a rate 16.3 per cent in April 1988 to 4.7 per cent at March 2000.

Composition of the Employed Labour Force

	(April 1994) 000s	(November 1999) 000s	Change
Agriculture, forestry and fishing	147.7	140.0	-5.2%
Other Production Industries	252.1	314.0	24.6%
Construction	91.5	154.8	69.2%
Wholesale and retail trade	169.1	229.3	35.6%
Hotels and restaurants	68.4	105.1	53.7%
Transport, storage and communication	55.9	99.9	78.7%
Financial and other business services	114.3	205.3	79.6%
Public administration and defence	66.4	78.3	17.9%
Education and health	181.5	225.8	24.4%
Other services	73.6	95.1	29.2%
Total	**1,220.5**	**1647.4**	**35.0%**

Source: Quarterly National Household Survey released on 7 March 2000

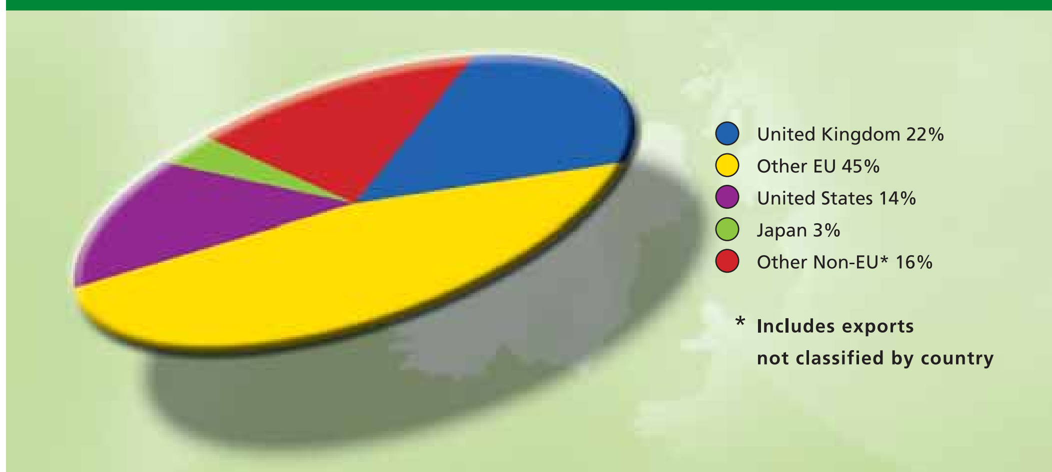
International Trade

Record Surpluses in Recent Years

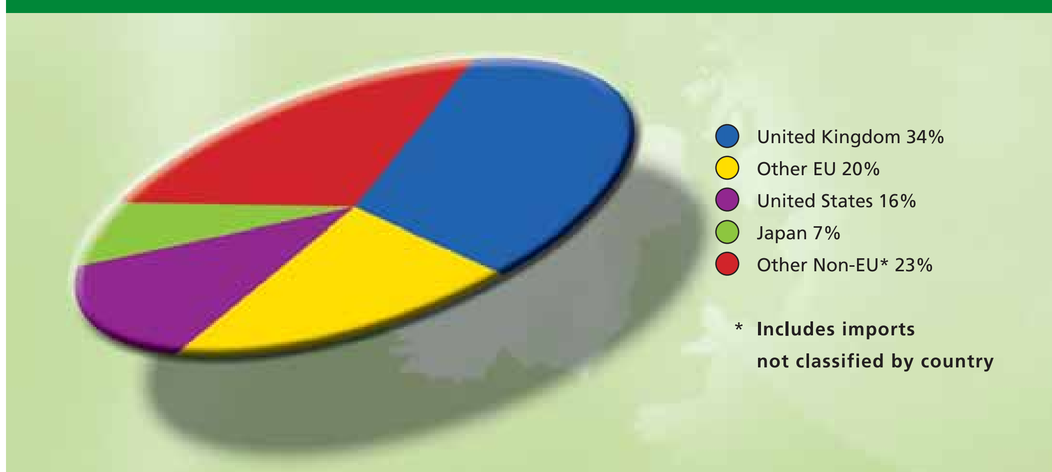
Ireland's trade in the 1990s has been characterised by very strong growth in exports, resulting in record merchandise surpluses in each year from 1992 to 1998. Exports in 1998 increased by almost 27 per cent in value terms and the trade surplus increased by nearly 45 per cent.

The rapid expansion of exports in recent years has been led by the high-technology sectors of manufacturing, in particular the computer, office machinery and pharmaceutical sectors. Volume growth in exports was nearly 25 per cent in 1998 and is estimated at approximately 12 per cent in 1999 while volume growth in imports was 17 per cent in 1998 and is estimated at 12 per cent in 1999.

Geographical Distribution of Exports in 1998



Geographical Distribution of Imports in 1998



Balance of Payments

Current Account Balance

The current account of the balance of payments has been in surplus since 1991. A surplus equivalent to 1.1 per cent of GNP was recorded in 1998 while a surplus of 0.4 per cent of GNP is estimated for 1999.

Appendix 1

Expenditure on Gross National Product at Current Market Prices (€million)

Description	1994	1995	1996	1997	1998*
Personal consumption of goods and services	27,311	29,120	31,818	34,988	38,967
Net Current Spending by Public Authorities	7,413	7,843	8,274	9,110	10,136
Gross domestic fixed capital formation	7,673	9,046	10,873	13,566	17,012
Value of physical changes in stocks	(171)	543	542	824	1,001
Exports of goods and services	32,135	39,155	43,604	51,602	63,874
Imports of goods and services	(27,796)	(33,482)	(37,288)	(43,582)	(55,013)
Statistical Discrepency	(246)	(131)	(418)	(706)	(255)
Gross Domestic Product at current market prices	**46,319**	**52,095**	**57,405**	**65,802**	**75,723**
Net factor income	(4,563)	(5,746)	(6,430)	(8,029)	(9,465)
Gross National Product at current market prices	**41,755**	**46,349**	**50,975**	**57,773**	**66,259**

*** - Preliminary**

Source: Central Statistics Office

Expenditure on Gross National Product at Constant (1990) Market Prices (€million)

Description	1994	1995	1996	1997	1998*
Personal consumption of goods and services	28,079	29,120	31,022	33,281	35,733
Net Current Spending by Public Authorities	7,626	7,843	8,064	8,450	8,948
Gross domestic fixed capital formation	7,968	9,046	10,513	12,347	14,418
Value of physical changes in stocks	(163)	543	599	870	1,002
Exports of goods and services	32,733	39,155	43,758	51,203	61,714
Imports of goods and services	(28,847)	(33,482)	(37,507)	(43,543)	(53,659)
Statistical Discrepency	179	(131)	(326)	(477)	(476)
Gross Domestic Product at constant market prices	**47,575**	**52,095**	**56,124**	**62,131**	**67,681**
Net factor income	(4,649)	(5,746)	(6,453)	(7,966)	(9,145)
Gross National Product at constant market prices	**42,926**	**46,349**	**49,671**	**54,164**	**58,536**

*** - Preliminary**

Source: Central Statistics Office

Appendix 2

Balance of International Payments 1994-1998 (€million)

	1994	1995	1996	1997	1998
Current Account					
Merchandise	6,852	9,471	11,118	14,057	18,880
Services	(2,512)	(3,798)	(4,802)	(6,038)	(10,018)
Current Transfers	1,468	1,409	1,719	1,638	1,318
Factor Incomes	(4,539)	(5,724)	(6,429)	(8,029)	(9,465)
Net Balance	**1,267**	**1,359**	**1,605**	**1,629**	**715**
	1994	**1995**	**1996**	**1997**	**1998**
Capital and Financial Account					
Capital Transfers	319	649	621	734	839
Private Capital	(1,746)	(2,316)	(679)	(3,322)	(4,247)
Official Capital	(1,695)	30	48	(2,768)	(1,594)
Credit Institutions Transactions	178	2,283	(1,561)	(385)	5,523
Official External Reserves (1)	130	(1,832)	70	957	(2,089)
Net Balance	**(2,815)**	**(1,186)**	**(1,501)**	**(4,783)**	**(1,566)**
Net Residual	**1,548**	**(173)**	**(104)**	**3,154**	**849**

(1) Computed on a transactions basis,
i.e. change in total reserves less valuation changes and allocations of SDRs.

Source: Central Statistics Office

Appendix 3

Central Government Receipts and Expenditure 1996-2000 (€million)	1996	1997	1998	1999	2000*
Current Budget					
Expenditure	16,077	17,795	18,299	19,750	20,342
Revenue	16,448	18,562	20,954	24,115	26,130
Deficit/(Surplus)	(371)	(767)	(2,655)	(4,365)	(5,787)
as percentage of GDP (ESA 95)	(0.6)	(1.2)	(3.5)	(5.1)	(6.2)
Capital Budget					
Expenditure	1,950	2,094	2,772	8,591	6,260
Exchequer Capital Resources	1,025	1,028	1,065	5,738	2,515
Exchequer Borrowing Requirement/(Surplus)	554	298	(948)	(1,513)	(2,043)
Total Exchequer Borrowing/(Surplus) as percentage of GDP (ESA 95)	1.0	0.5	(1.3)	(1.8)	(2.2)

* Budget Estimate

Source: Department of Finance

Appendix 4 - Exchange Rates

Economic and Monetary Union (EMU)

The full set of irrevocably fixed conversion rates between the euro and the participating currencies is as follows:

1 euro	=	40.3399 Belgian francs
	=	1.95583 German marks
	=	166.386 Spanish pesetas
	=	6.55957 French francs
	=	0.787564 Irish pounds
	=	1936.27 Italian lira
	=	40.3399 Luxembourg francs
	=	2.20371 Dutch guilders
	=	13.7603 Austrian schillings
	=	200.482 Portuguese escudos
	=	5.94573 Finnish markkas

Appendix 5 - International Commitments

European Union

On 1 January 1973, Ireland joined the European Economic Community (EEC), the European Atomic Energy Community (EURATOM), the European Coal and Steel Community (ECSC) and is a member of the European Investment Bank (EIB).

Ireland is a member of the following international financial institutions:	Date of Membership
International Monetary Fund (IMF)	8 August 1957
International Bank for Reconstruction and Development (IBRD)	8 August 1957
International Finance Corporation (IFC)	11 September 1958
International Development Association (IDA)	22 December 1960
International Centre For Settlement of Investment Disputes (ICSID)	7 April 1981
Multilateral Investment Guarantee Agency (MIGA)	5 July 1989
European Bank for Reconctruction and Development (EBRD)	26 March 1991

Ireland is a founder member of the Organisation for Economic Co-operation and Development (OECD), and also of the United Nations and other major international non-financial organisations.

Map of European Union

Map of Ireland