

**National Treasury Management Agency**

Report and Accounts for the year ended 31 December 1997



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# National Treasury Management Agency

Report and Accounts for the year ended 31 December 1997



## National Treasury Management Agency

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# National Treasury Management Agency

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Directors

John C. Corrigan  
Anne Counihan  
Jim Farrell  
Adrian J. Kearns  
Paul Sullivan

Irish Pound Debt  
Legal & Corporate Affairs  
Operations  
Foreign Currency Debt  
Strategy & Risk Management



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# Legal Framework

The National Treasury Management Agency Act, 1990 provided for the establishment of the National Treasury Management Agency "to borrow moneys for the Exchequer and to manage the National Debt on behalf of and subject to the control and general superintendence of the Minister for Finance and to perform certain related functions and to provide for connected matters". The 1990 Act enabled the Government to delegate the borrowing and debt management functions of the Minister for Finance to the Agency, such functions to be performed subject to such directions or guidelines as he might give. Obligations or liabilities undertaken by the Agency in the performance of its functions have the same force and effect as if undertaken by the Minister. The Agency came into existence on 3 December 1990. The Chief Executive who is appointed by the Minister for Finance is directly responsible to him and is the Accounting Officer for the purposes of the Dail Public Accounts Committee. The Agency has an Advisory Committee to assist and advise on such matters as are referred to it by the Agency.





National Treasury Management Agency

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30 June, 1998.

Mr. Charlie McCreevy T.D.,  
Minister for Finance,  
Government Buildings,  
Upper Merrion Street,  
Dublin 2.

Dear Minister,

I have the honour to submit to you the Report and Accounts of the National Treasury Management Agency for the year ended 31 December 1997.

Yours sincerely,

**Michael J. Somers**  
Chief Executive





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The scenes of Dublin reproduced in this report are the work of Gerard Glynn, an Irish artist.



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# EMU & The National Debt

In six months Ireland will be part of the European Economic and Monetary Union (EMU), sharing a single currency with ten other countries. EMU is an event of great significance in the history of Europe, carrying with it substantial and long lasting political and economic implications.

Some of the beneficial effects of EMU have already been experienced. Yields on longer-dated Irish Pound bonds have converged substantially towards German levels, with the spread in the key ten year maturity having narrowed by some 46 basis points since the beginning of 1997 to a current spread of approximately 30 basis points. A major future benefit of EMU to Ireland is the expected lower interest rate structure that will apply, particularly in the money markets where rates are expected to fall significantly on entry into EMU.

The trend towards lower bond yield spreads will be reinforced by the recent credit rating upgrades given to Ireland by both Moody's Investors Service and Standard & Poor's in the context of Ireland participating in EMU from the outset. As a consequence of these upgrades Ireland now has a AAA rating from Moody's and a AA+ rating from Standard & Poor's on all its long term debt. These ratings follow a period of steadily improving Irish sovereign credit quality. As a result of working to achieve a succession of upgrades, Ireland now enjoys ratings superior to five of the other founding members of EMU. The Agency expects that comparative advantage to be reflected in the price of Ireland's debt.

In the Agency's particular field of operations - the funding and management of the National Debt - the introduction of the single currency will result in considerable change in the business environment, giving rise to significant challenges and opportunities. While not underestimating the challenges, the Agency approaches this change with a strong technical capability and with confidence as to the long term benefits that will accrue to the Exchequer. Change is not new to the Agency; over the past seven years it has been actively involved in managing change: change in the way the core business of debt management has been conducted, change in the structure of the Irish bond market and in the manner in which the Agency issues debt into that market, and change in the market environment characterised by increasing transparency and competition. As a result, the Agency is well positioned from its experience to deal with the further change necessitated by EMU.





Figures caught in a Squall, near Parnell Monument, Dublin.



However, confidence in the long term benefits from EMU should not lead to complacency; the Agency recognises the scale of the change and is devoting considerable attention and resources to ensuring that it is well prepared, both technically and in terms of business strategy, for the new market environment.

### Technical Preparations

At the technical level, the staff of the Agency have been working, both internally and with other market participants, to ensure that from the perspective of the domestic capital market the changeover to the single currency takes place in an orderly manner. This work has involved participation in a number of working groups and other discussion forums, both domestic and foreign, including the Europe wide group of market experts (the Giovannini Group), the EU Monetary Committee 'ad hoc' working party on debt redenomination, and the OECD debt experts group as well as major institutional investors. These consultations have contributed substantially to the achievement of agreed plans for both the redenomination into euro of outstanding Government debt and the market conventions and practices that will apply to the issuance of new euro denominated Government debt from the beginning of next year. An outline of the Agency's plans for the redenomination of existing debt and issuance of new debt from the beginning of Stage III of EMU was included in the first and second editions of the Government's National Changeover Plan and are reflected in the Government's EMU Bill. Recently, following discussions with both the Central Bank and bond market participants, the Agency published a paper entitled 'Ireland - Redenomination of Central Government Debt and Related Matters'. This sets out precise details of the debt to be redenominated and of the calculations involved, the working arrangements for the changeover weekend and the market conventions (day count, coupon frequency, business days etc.) that will apply to new issues of debt denominated in euro.



The Agency plans to implement a securities exchange programme which would allow investors to switch at market prices from certain existing bonds into new bonds of similar duration but carrying the lower coupons appropriate to the euro market and based on the new market conventions. Such a programme would improve the price transparency and liquidity of the market.

While not seeking to impose standardisation across the European bond markets as a matter of principle, market participants have widely recognised that greater harmonisation of market conventions would contribute to the greater efficiency and liquidity of the new single currency bond market; this in turn should result in a lower cost of funds, to the benefit of the Exchequer.

In parallel with the above the Agency has, over the past eighteen months, been working on changes to its I.T. systems and reporting procedures to meet the business needs arising from membership of EMU. Against the background of a detailed plan, work is proceeding to ensure that all the necessary modifications are in place on time.

### Business Impact

From the beginning of EMU the Agency will change from being the dominant issuer in the relatively small Irish bond market to having a market share of only some 1% of what will be a very large, liquid, multi- issuer bond market. This will represent a major change in the environment in which the Agency conducts its business. The Agency will be competing for funds not only with other sovereigns but probably also with corporates, regional authorities and other entities both inside and outside the EU if, as expected, the single currency encourages the development of a euro denominated market in corporate bonds and asset backed securities.

Access to a much larger pool of capital without exchange rate risk will be a significant benefit. The greater size and liquidity of the euro market will give opportunities for increased flexibility and cost saving in liquidity management, while the euro derivative markets should facilitate interest rate management.



The increased focus by the market on sovereign credit risk should also be positive for Ireland, as long as competitiveness is maintained, given the strong economic and demographic fundamentals underpinning the performance of the economy. Finally, the overall level of euro interest rates is likely to be considerably lower than what Irish Pound rates would have been.

On the other hand, the Agency may no longer be able to rely on the support of a domestic investor base whose fixed income portfolios have traditionally been heavily weighted in Irish Pound Government bonds. With most of their liabilities denominated in Irish Pounds, many Irish financial institutions have, for prudential reasons, held the majority of their assets also in Irish Pounds. With the replacement of the Irish Pound by the euro, a multi-issuer euro bond index is expected to gain in usage as the industry benchmark at the expense of domestic bond indices. Accordingly, Irish institutional investors may have a lesser need for Irish assets and may diversify their portfolios into a broader range of euro-denominated investments.

A similar diversification process can, however, be expected among institutional investors in other EMU countries. The challenge for the Agency will be to identify those foreign based institutions which traditionally have not been investors in the Irish bond market but for which Irish bonds could be an attractive asset class in the new single currency environment. Many of these institutions will be relatively unfamiliar with Irish Government bonds and the characteristics of the Irish economy; familiarising investors in these areas will be a major marketing challenge for the Agency.

The emergence of a more homogeneous, transparent euro bond market will increase competition as all issuers will offer essentially the same product. Price difference will reflect relative credit quality and liquidity. The focus on credit ratings can be expected to increase and in that regard the markets' judgement will be both immediate and measurable.



Ireland will be entering EMU with excellent credit credentials. However, the larger EMU participating countries will have an advantage, with the scale of their bond markets facilitating deeper liquidity than is achievable by the smaller countries. Some of the new investors attracted to the Irish market may have more of an investment than a trading focus leading to a reduction in secondary market activity and an absence of directional trades. While acknowledging the benefit of a more stable investor base, such a development could impair liquidity and result in a wider spread than would otherwise be payable given Ireland's high credit standing. Accordingly it will be important for the Agency to ensure that, as far as possible, any such developments do not negatively impact on the liquidity of Irish bonds and on the rate at which Ireland can raise funds in the single currency capital market.

Developments in the derivatives markets will also have a bearing on liquidity, with the main liquid futures contracts likely to be based on the bonds of larger issuers. The Agency continues to work with other smaller EMU countries and the principal futures exchanges to identify ways of ensuring that the liquidity of bonds issued by smaller countries is maximised.





## Advisory Commitee

|                      |   |
|----------------------|---|
| Joe Moran            | Chairman, Forum for the Construction Industry                   |
| Gerold W. Brandt     | Member of the Managing Board, Bayerische Landesbank, Munich     |
| Paul Carty           | Managing Partner, Deloitte & Touche                             |
| John F. Daly         | Chairmen, ICL Computers (Ireland) Limited                       |
| Lewis L. Glucksman   | Senior Advisor, Saloman Smith Barney, New York                  |
| Patrick H. Mullarkey | Secretary General, Department of Finance                        |
| Donald C. Roth       | Managing Partner, Emerging Markets Partnership, Washington D.C. |



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# Summary of Activity

## Performance of the Agency

The Agency had a very active year in debt management and refinancing activities with a total cash throughput in 1997 of IR£178 billion (IR£178 thousand million). This throughput reflects a variety of financial market transactions, encompassing short term paper, bonds, derivatives and foreign exchange.

## The key features of the year were as follows:

- refinancing of maturing domestic and foreign medium and long term borrowings amounting in aggregate to IR£2,443 million;
- Exchequer debt service costs IR£34 million below the 1997 Budget (after allowing for the additional payment of IR£208 million to the National Savings interest reserve and an increase of IR£4 million in the reserve of the Post Office Savings Bank (POSB) Fund)
- full provision for the interest accruing in 1997 on the National Savings schemes, the first year in which full provision was made;
- repayment of some IR£1,041\* million equivalent (net) of foreign currency borrowings (which were refinanced by the issuance of Irish Pound debt);
- upgrades in Ireland's foreign currency rating from AA1 to AAA (Moody's) and from AA to AA+ (Standard & Poor's);
- Net Present Value savings of IR£31 million against an externally approved and audited benchmark portfolio (the Benchmark); and
- an 8 percentage points fall in the General Government Debt/GDP ratio from 71% at end 1996 to an estimated 63% at end 1997.

\* unless otherwise stated, all foreign currency amounts are expressed in Irish Pound equivalents.





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## Debt Service (Interest, Sinking Funds & Other Costs)

The Exchequer debt service cost in 1997 (including the increase in the reserve of the POSB Fund over budget) was IR£34 million lower than provided in the Budget.

In 1997 the Government provided IR£2,560 million for debt service. The actual Exchequer debt service outturn was IR£2,755 million. This outturn included a special payment, decided on by the Minister for Finance, of IR£208 million to the National Savings interest reserve which was not provided for in the original Budget. The outturn was also achieved without the planned use of IR£17 million of the reserve of the POSB Fund. In fact the reserve of the POSB Fund actually increased by IR£4 million during the course of 1997. The overall result, therefore, was a favourable debt service variance of IR£34 million relative to the Budget.

Of this IR£34 million, IR£21 million has been carried forward in the reserve of the POSB Fund (which is already factored into future Budget arithmetic) and IR£13 million went towards reducing the 1997 EBR.

Details of the analysis of the Exchequer debt service outturn relative to Budget are shown below:

### Analysis of Exchequer Debt Service Outturn Relative to Budget

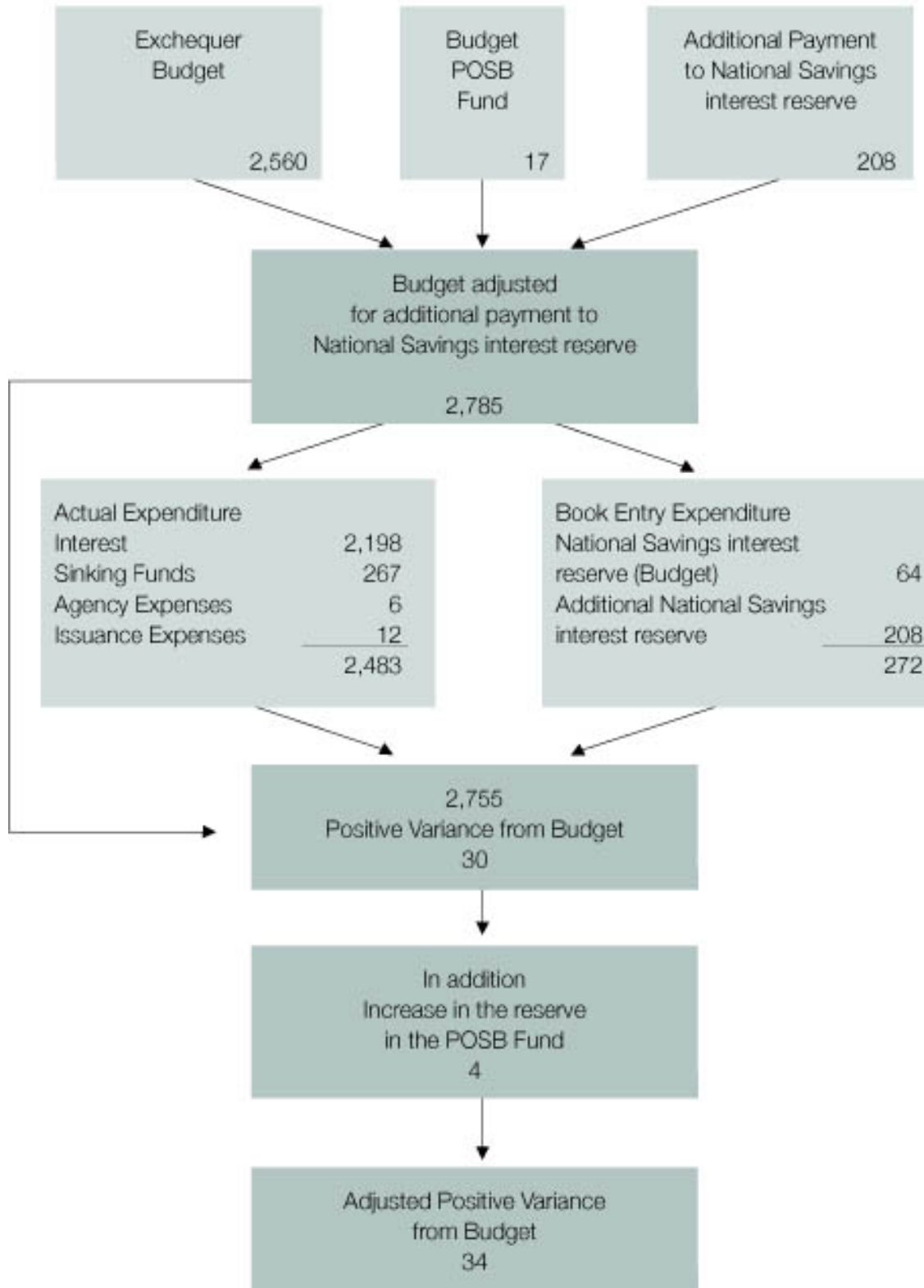
|  | IR£ million |        |
|--|-------------|--------|
|  | Outturn     | Budget |
| Exchequer Debt Service Expenditure   | 2,755       |        |
| Less: Special Payment to National Savings interest reserve<br>(not provided for in Budget) | 208         |        |
| Adjusted Exchequer Debt Service Expenditure  | 2,547       | 2,560  |
| Favourable Variance from Budget  | 13          |        |
| Variance to Budgeted POSB Fund Reserve usage   | 21          |        |
| Adjusted Favourable Variance from Budget   | 34          |        |





A diagram showing the breakdown of debt service costs is shown below.

Analysis of Debt Service Outturn Relative to Budget - IR£ million





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Debt service expenditure (IR£2,755 million) consisted of interest on the National Debt of IR£2,198 million, sinking fund payments of IR£267 million, fees and expenses of IR£12 million, administration costs of the Agency of IR£6 million and a payment of IR£272 million to the National Savings interest reserve.

The principal reasons for the budgetary outperformance were the convergence of Irish bond yields towards core European levels; active management of interest and exchange rate risk; early repayment and more efficient refinancing of debt and a lower than budgeted EBR.

## Financial Operations

The Agency raises funds primarily for:

- Funding any Exchequer Borrowing Requirement (EBR); and
- Refinancing Maturing and Prepayable Debt.

The principal activities in 1997 under these headings were:

### Funding

The reported 1997 EBR was IR£235 million. This included a payment of IR£272 million into the National Savings interest reserve which did not require funding (cash in the reserve is borrowed by the Exchequer rather than being put on deposit). Consequently there was an Exchequer cash surplus of IR£37 million.

During 1997 the Agency raised funds as follows:

|                              | IR£ million |
|------------------------------|-------------|
| Irish Pound Bonds            | 1,977       |
| Irish Pound Notes (net)      | 182         |
| Section 69 Notes (net)       |             |
| (a) domestic                 | 96          |
| (b) foreign                  | 15          |
| National Savings Schemes     | 185         |
| Other Irish Pound Borrowings | 84          |
|                              | 2,539       |

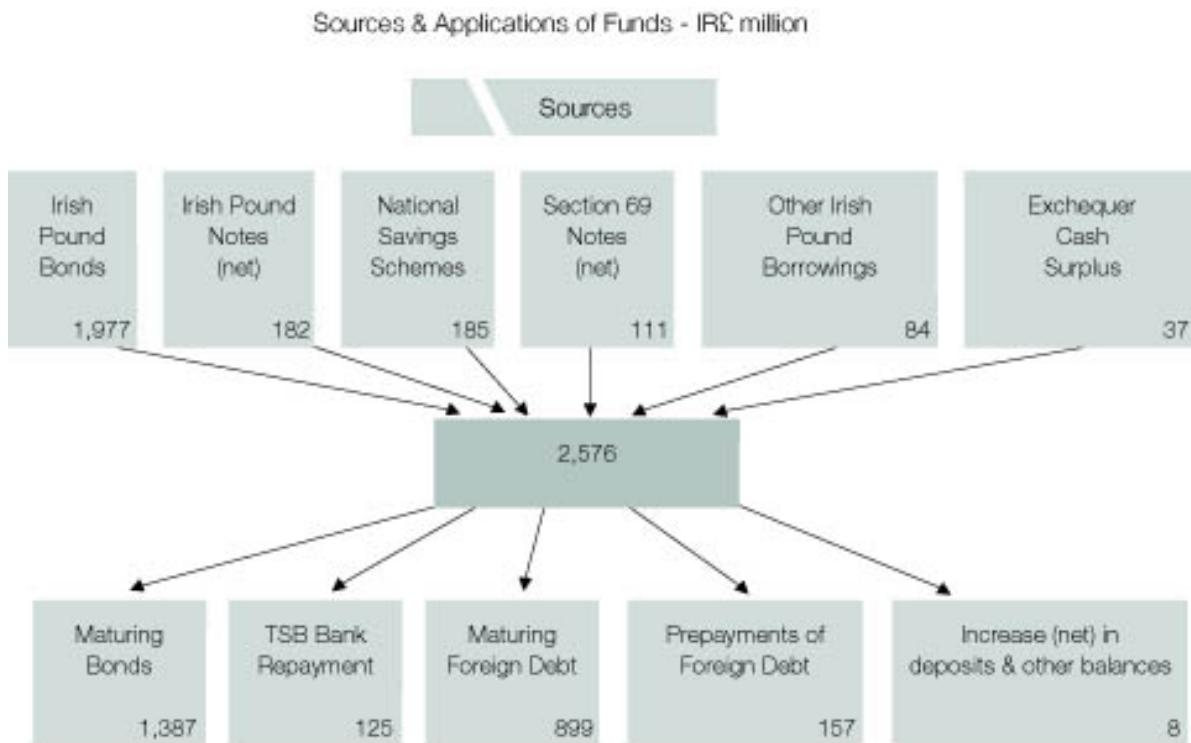


These funds, together with the Exchequer cash surplus of IR£37 million were used to repay:

- IR£1,387 million in maturing Irish Pound bonds;
- IR£899 million in maturing foreign currency debt;
- IR£157 million in prepayable foreign currency debt;
- IR£125 million to TSB Bank.

Deposit and other balances were increased by IR£8 million.

A diagram of the main sources and applications of funds is shown below:



### Management of Irish Pound Bond Market

To promote bond market liquidity, the Agency provided the following:

- IR£28.4 billion in sale and repurchase agreements (REPOs);
- IR£4.7 billion (nominal) in bond switching.

### Short Term Debt

Short term borrowings and repayments totalled:

- IR£40 billion in connection with the Agency's cash management activities.

### Cash Flows

Gross cash flows, including all short term debt management activities, increased by some 15 per cent on 1996 levels and totalled IR£178.1 billion. These consisted of gross borrowings of IR£29.3 billion, gross payments of IR£29.4 billion, flows on foreign exchange and derivatives transactions of IR£59.8 billion, REPO transactions of IR£56.9 billion and interest and associated payments of IR£2.7 billion. These cash flows were in Irish Pounds and in a wide range of foreign currencies.

## Interest Accruing on Government Savings Schemes

1997 was the first year in which interest charged to the Budget for the National Savings schemes exceeded the interest cost accruing during the year.

The National Savings interest reserve was established in 1994 to address the growing interest overhang in these schemes which arises because interest is charged to the Budget only when Savings Certificates, Savings Bonds and Instalment Savings are repaid, rather than in each year. The 1997 debt service outturn included a budgeted IR£64 million paid to the reserve together with the additional payment of IR£208 million referred to earlier - a total of IR£272 million. Interest paid on encashments of savings products during the course of 1997 was IR£92 million. The total 1997 interest charge for the savings schemes was therefore IR£364 million. The amount of interest accruing on these schemes in 1997 is estimated to have been some IR£309 million. Consequently, there was full provision for the annual interest accruing on the savings schemes in 1997, the first year in which full provision was made. The reserve now stands at IR£623 million representing some 40 per cent of the estimated interest overhang of IR£1,573 million.





## Benchmark

In addition to being assessed by reference to the debt service Budget and by other funding, liquidity and debt management criteria prescribed by the Minister for Finance, the Agency's performance is also measured by reference to an independent and externally approved and audited Benchmark portfolio.

This Benchmark performance measurement system takes account of the net present value of all future liabilities and their associated risks; in effect it calculates the impact of the Agency's actions not only in the year under review but also their projected impact over the full life of the debt. The measurement of performance against the Benchmark was carried out by the Quantitative Finance Group of Union Bank of Switzerland (UBS) based on data audited by Price Waterhouse.

In 1997, the Agency achieved savings of IR£31 million relative to the Benchmark. Savings were achieved in both the domestic and foreign portfolios. In the domestic portfolio the Agency's funding was predominantly in the ten year sector (where a new bond - the 6% Treasury Bond 2008 - was issued), as investors largely avoided shorter dated bonds, both because of high money market rates and in anticipation of EMU convergence. The long duration of the actual portfolio relative to the Benchmark was offset by Irish Pound interest rate swaps. The gains came from interest rate swaps, new long term foreign currency borrowings swapped into Irish Pounds, other long term bond activity and, at the short end of the market, from activity in Exchequer Notes and in REPOs.

In the foreign currency portfolio, the gains were partly the result of tight pricing achieved on swap transactions. In addition, gains were achieved on tactical adjustments to the currency composition of the portfolio during a year in which the notable trends were the strength of the US Dollar and Sterling relative to the Japanese Yen and to core European currencies.



Gains were also achieved by adopting positions which benefited from the convergence of swap rates at the long end of the Sterling and Deutschemark swap curves. The main catalyst for this was a fall in the UK inflation risk premium prompted by the decision to grant operational independence on monetary policy to the Bank of England. In addition, long term UK rates also gained from the perception that the change of government in May 1997 was more likely to lead ultimately to UK participation in EMU. With inflation remaining under control, long term rates in the main currencies were on a downward path for much of 1997 and the trend gained further momentum from the deflationary global impact of the financial crisis in Asia towards the end of the year. Competitive funding through Section 69 notes supplemented the gains outlined above

### Operating Costs

The operating costs of the Agency in 1997 totalled IR£6.1 million. Of this, IR£1.7 million was paid to the Exchequer in the form of PAYE, Social Welfare contributions and VAT, leaving a net cost of IR£4.4 million. This is equivalent to less than 1.4 basis points (hundredths of one percent) of the National Debt.

### Domestic Market Developments

The Irish market benefited as yields in some of the major international bond markets fell to their lowest levels for nearly thirty years, driven by low inflationary expectations and the Asian crisis. The Irish market, most notably in the maturity range from 2006 onwards, also gained from convergence with German government bonds as it became increasingly clear that EMU would commence on schedule with Ireland as a participant from the outset. During the course of the year, Irish Pound bond yields fell by over 1%.



The Finance Act, 1997 provided for the creation of a STRIPS market in Government bonds, enabling the principal and the interest coupons of a particular bond to be separated and traded as securities in their own right, thus creating a stream of zero coupon securities (STRIPS : Separately Traded Registered Interest and Principal Securities). STRIPS are provided for in most other European bond markets and the planned launch by the Agency of this facility as soon as market circumstances allow will help underpin the competitiveness of the Irish bond market in the context of EMU.

The Finance Act, 1997 also empowered the Agency to borrow on behalf of the Minister for Agriculture and Food as Intervention Agent for the European Union under the EU Common Agricultural Policy. The transfer of this function to the Agency took place in March 1998 when it successfully launched a programme of Agricultural Commodity Intervention Bills to meet the funding needs of the Intervention Agency.

The Scientific and Technological Education (Investment) Fund Act, 1997 provides for the Agency to manage a Fund established for the purpose of financing scientific, technological or vocational educational training facilities. The Act provides for a total of IR£250 million to be paid into the Fund from Government sources as well as for donations from the private sector.

## Ulysses Securitisation p.l.c.

Ulysses Securitisation p.l.c. is a special purpose company established in 1995 for the purpose of securitising local authority mortgage payments. The Agency provides management services to the company under a Corporate Services Agreement. To date mortgage payments totalling IR£190 million have been securitised (IR£140 million in 1995 and IR£50 million in 1996). The company continued to operate successfully in 1997.



## Consultancy

The Agency continued its involvement in a number of fee-earning projects during 1997. At present work is proceeding on three major projects - one in Latvia and two in Central Europe. These involve the provision of consultancy services covering accounting, debt management, I.T. systems and general training for the Finance Ministries concerned.

There are a number of other potential projects in the pipeline. As in the past, the Agency will undertake such assignments where resources permit.

## Government Borrowers Forum

In May 1997 the Agency hosted, in Dublin, the annual meeting of the Government Borrowers Forum. Key items on the agenda were preparations by sovereign debt managers for EMU and the issues of risk and performance in liability management.

The Forum is a discussion group of senior debt management officials from Finance Ministries, Central Banks and Debt Offices as well as supra-national borrowers such as the World Bank and the European Investment Bank. Membership includes most of the European countries, the U.S.A., Canada, Australia and New Zealand as well as some countries from South America and the Far East. Meetings have been held in prominent cities in Europe and North America.



## Advisory Committee

The Agency's Advisory Committee met on four occasions in 1997. There were no changes in the composition of the Committee during the year.

## Staff

The Agency's performance depends on the skills and teamwork of the people who work in it. The Chief Executive and Directors wish to acknowledge the commitment of the staff who turned in another excellent performance in 1997.





Sudden Squall, Merchant's Arch, Dublin



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# The National Debt

The burden of the National Debt on the economy continued to fall; the size of the debt as a proportion of Gross National Product dropped while the interest cost diminished in relative terms. Ireland's position vis-a-vis the other countries of the EU continued to improve.

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

The GGD was IR£32.3 billion at end 1997. This compares with a figure of IR£32.1 billion at end 1996, an increase of some IR£0.2 billion. This increase is due principally to a foreign exchange translation impact of IR£612 million equivalent, reflecting the fall in the value of the Irish Pound during 1997, offset in part by a General Government Surplus. The exchange rate translation impact in 1997 followed a positive translation impact of some IR£859 million equivalent in 1996. A graph of the trade weighted exchange rate of the Irish Pound is shown overleaf.

The National Debt as traditionally measured (i.e. Central Government debt net of balances) was IR£30.7 billion at end 1997 (IR£22.4 billion in Irish Pounds and IR£8.3 billion in foreign currency). This compares with IR£29.9 billion at the end of 1996 (IR£21.2 billion in Irish Pounds and IR£8.7 billion in foreign currency).

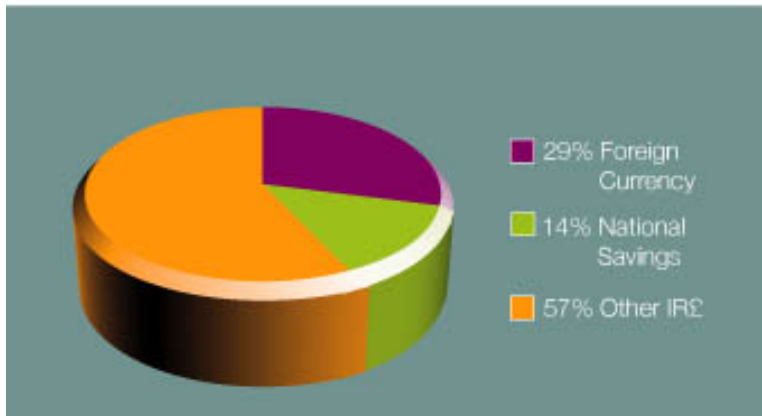


Irish Pound Trade Weighted Index 1996 -1998

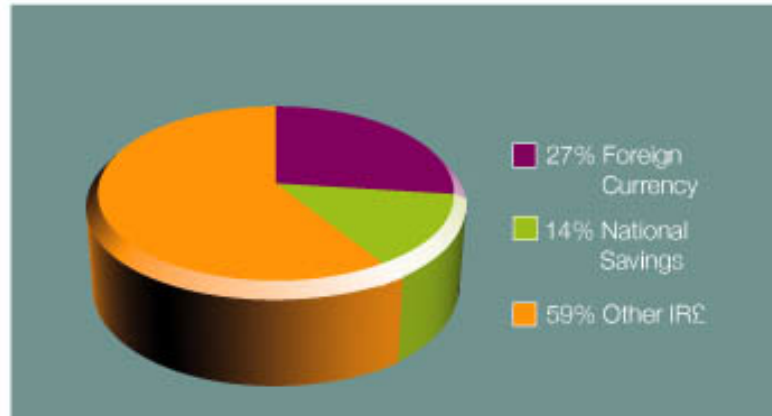


Note: December 1971 = 100

Composition of National Debt Year End 1996



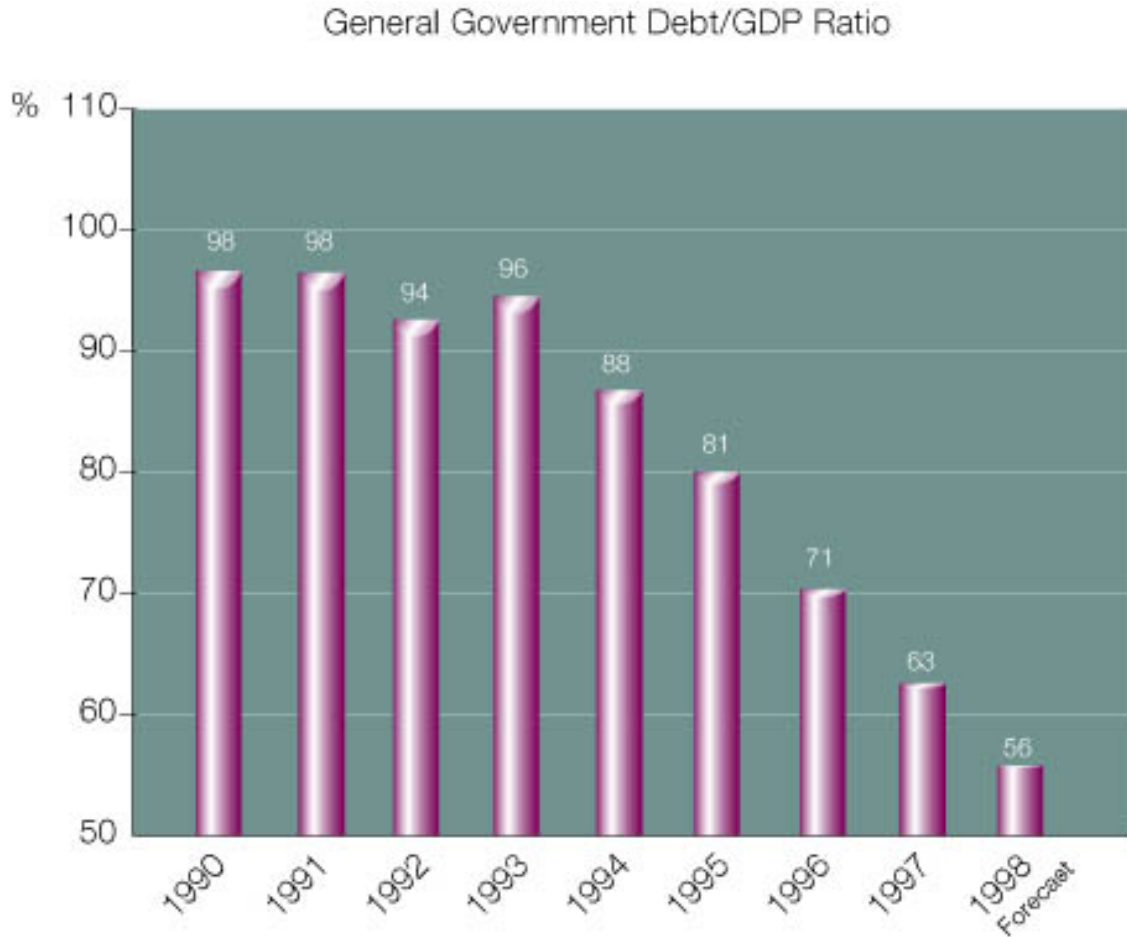
Composition of National Debt Year End 1997



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The ratio of General Government Debt to Gross Domestic Product declined from 71 per cent at end 1996 to 63 per cent at end 1997. Expressed in terms of the National Debt as a percentage of Gross National Product, the ratio decreased to 73 per cent at end 1997 compared with 79 per cent a year earlier.

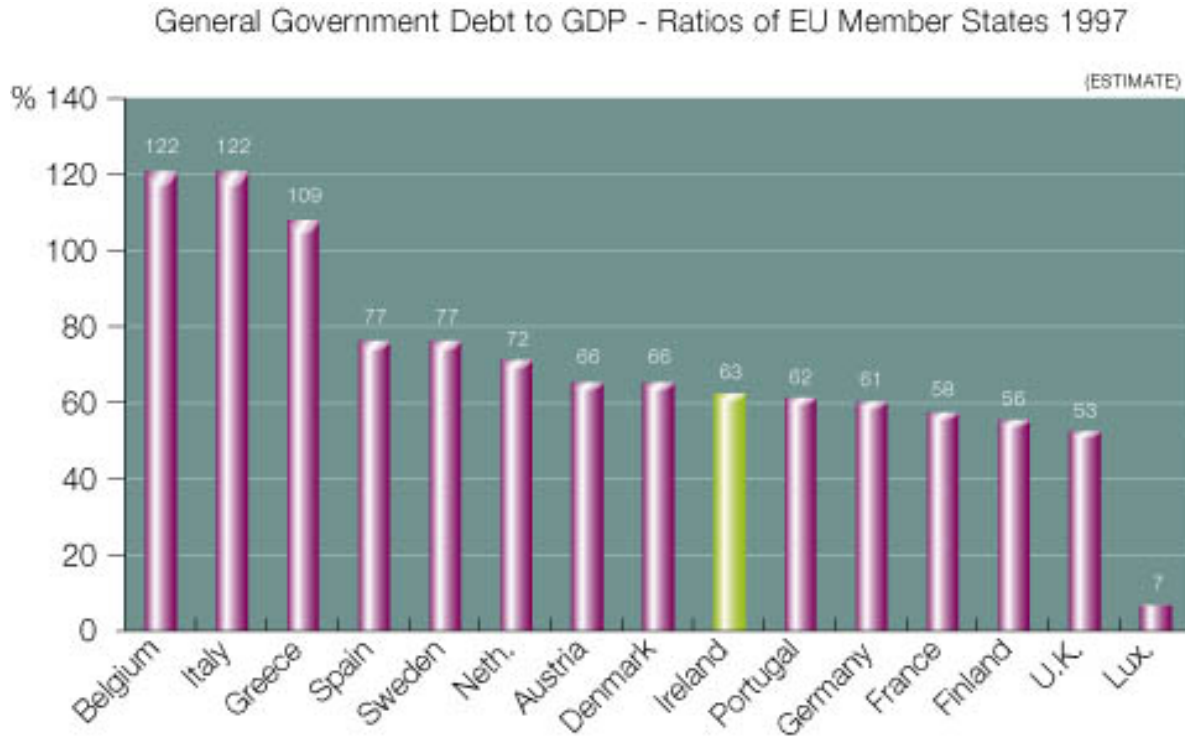


The projected General Government Surplus and strong economic growth for the current year are expected to result in a further reduction in the Debt/GDP ratio to some 56 per cent at end 1998.



## International Comparisons

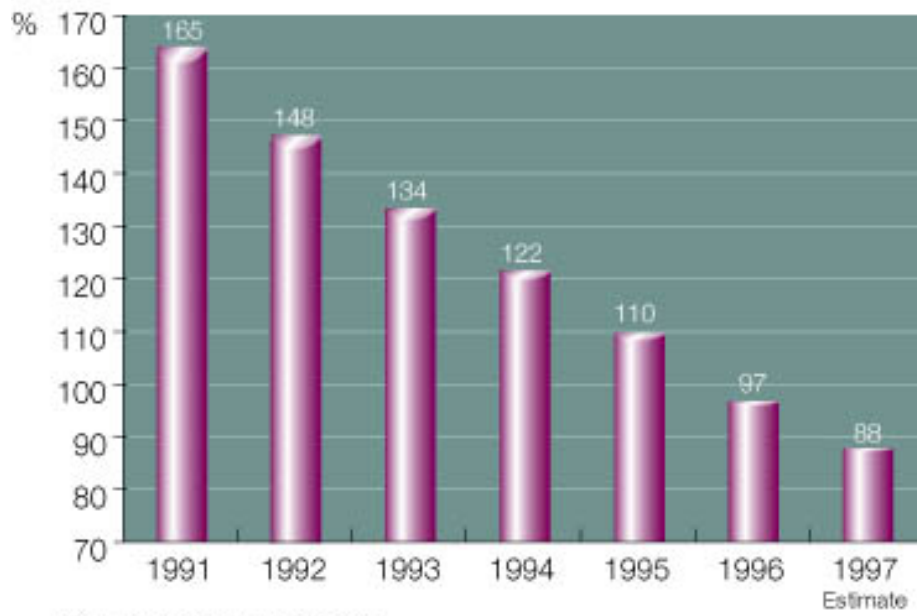
Ireland's comparative Debt/GDP position at end 1997, as measured by the EU convention, is shown below.



Source: European Commission & CSO

As a result of the substantial decline in Ireland's Debt/GDP ratio in recent years, Ireland's ranking relative to other EU countries has continued to improve; expressed relative to the average EU level of Debt/GDP, Ireland's indebtedness has fallen from 148% of the EU average at end 1992 to an estimated 88% at end 1997.

## Ireland's Debt/GDP Ratio Relative to EU Average



Source: European Commission



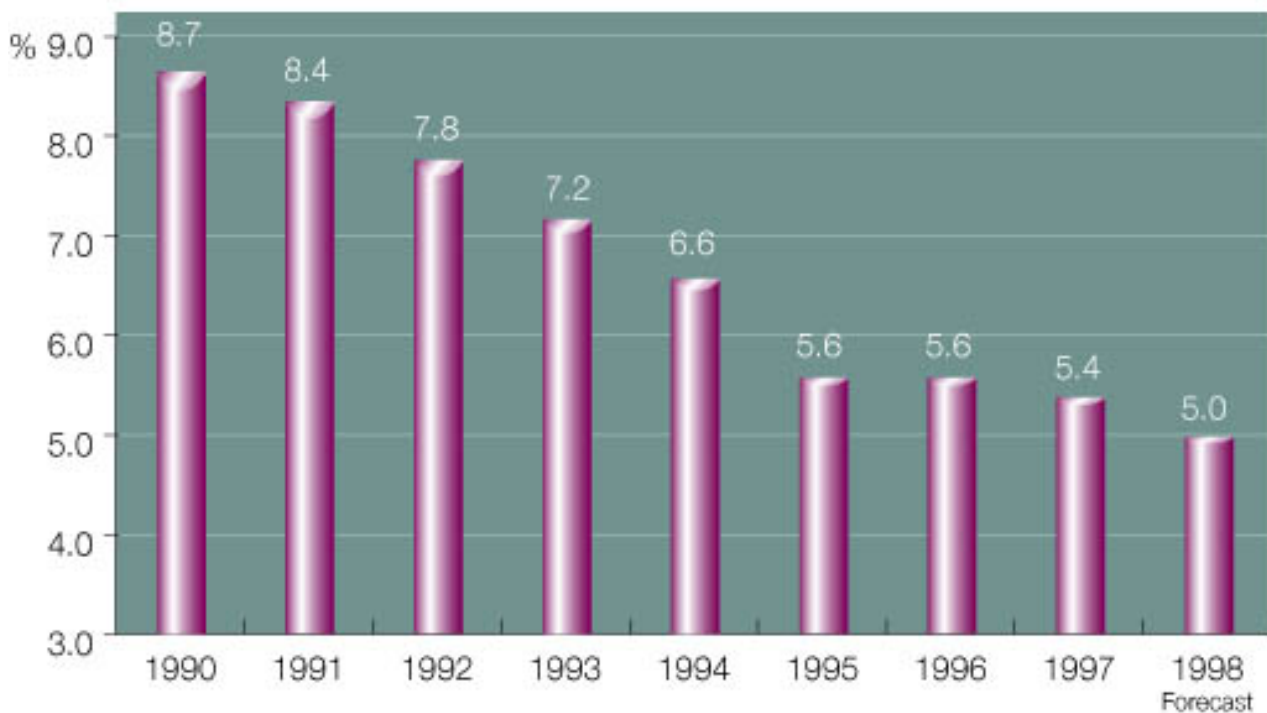
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## Debt Service Costs

The cost of servicing the National Debt in 1997 came to IR£2,755 million. This includes interest on the debt, payments into the National Savings interest reserve and payments to certain sinking funds. Of the total debt service cost, IR£2,198 million was in respect of interest, an increase of IR£146 million on the 1996 figure. These costs are affected not only by interest on borrowings to fund the current year's Exchequer Borrowing Requirement but also by timing factors, the cost of new borrowings undertaken to repay maturing debt and by changes in interest and exchange rates applicable to existing debt.

The burden of the interest bill relative to GNP has declined significantly in recent years, reflecting both the relative stability of the interest cost of the debt and the strong growth in the economy.

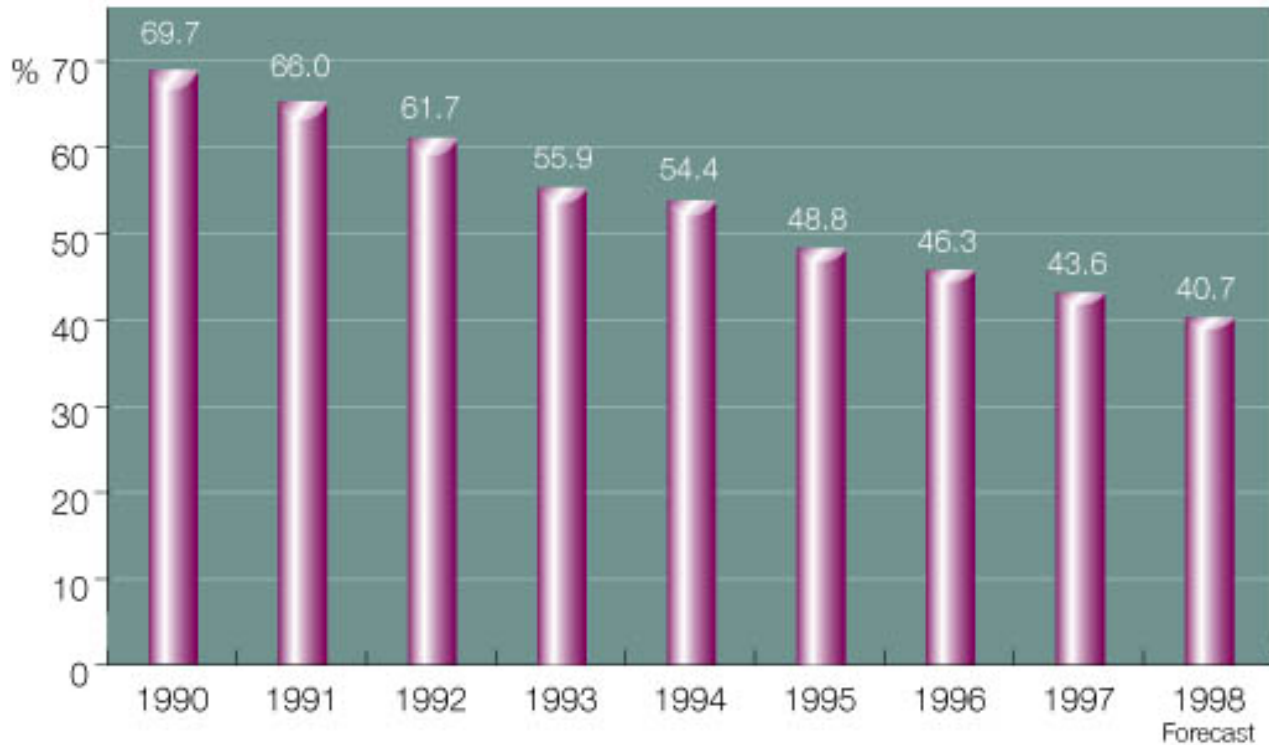
Interest Bill as % of GNP



Note: The 1995/96/97 figures exclude the extra non-budgeted payments to the National Savings interest reserve.

Expressed as a percentage of total income tax revenue the interest bill has also fallen in recent years; at end 1997, the percentage stood at 43.6 per cent as compared with 69.7 per cent in 1990.

Interest Bill as % of Total Income Tax Revenue



Note: The 1995/96/97 figures exclude the extra non-budgeted payments to the National Savings interest reserve.

This improving trend in the relative debt service burden reflects the continued achievement of high economic growth and primary budget surpluses; a further continuation of this trend is expected in 1998.

## Credit Ratings

In May 1998, Moody's Investors Service upgraded from AA1 to AAA Ireland's long term rating for debt denominated in foreign currencies. This brought the foreign debt rating into line with that of domestic debt. The revised rating was part of a series of adjustments made by Moody's in response to the announcement that Ireland and ten other countries would be founder Member States of EMU as of January 1999. Ireland has joined the group of EMU countries enjoying AAA credit status - Austria, Finland, France, Germany, Luxembourg and the Netherlands.

Also in May, Standard and Poor's simultaneously upgraded Ireland's foreign currency rating from AA to AA+ and applied the new rating to all of the country's long term sovereign debt. The converged domestic and foreign rating of AA+ compares favourably with a number of the EMU sovereigns. Of the five countries to whom the converged rating applies, Ireland was the only one to obtain an up-grade in the process. The difference between the ratings assigned by Standard and Poor's and Moody's reflects their distinct approaches to the implications of EMU for sovereign credit risk: because of the loss of monetary and exchange rate flexibility, Standard and Poor's take the view that the euro should be treated as a foreign currency; Moody's on the other hand regard the euro as a domestic currency.



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Ireland has a long term domestic currency rating of AAA and a foreign currency rating of AA+ from Fitch/IBCA and a AA+ foreign currency rating from Japan Rating and Investment Information Inc. (formerly the Japan Bond Research Institute).

Ireland's short term foreign currency debt is rated A1+ by Standard and Poor's and P1 by Moody's.

The Agency maintains close contact with the rating agencies to ensure that they are fully informed on all matters affecting the country's credit standing. In particular, the Agency has played an active role in initiating constructive debate and discussion with these firms on the implications of EMU.

## Risk

The management of the interest rate and currency profile of the total debt portfolio, combined with the issuance of new debt and the repayment of maturing debt, makes the management of risk a central and critical element of the Agency's business. The categories of risk arising from the Agency's activities are liquidity risk, market risk, counterparty credit risk and operational risk. In all of these areas, the Agency has comprehensive policies and procedures to measure and control the risks involved. These include value at risk, liquidity, currency and interest rate limits which are subject to internal and external audit.

In addition to these specific categories of risk, the Agency also faces major areas of business risk arising from changes in the structure of international markets consequent on the introduction of the euro.





Summer Sunshine, Stephen's Green, Dublin





# Irish Pound Debt

Irish Pound debt, excluding the National Savings Schemes, accounted for 59 per cent of the National Debt as at 31 December 1997.

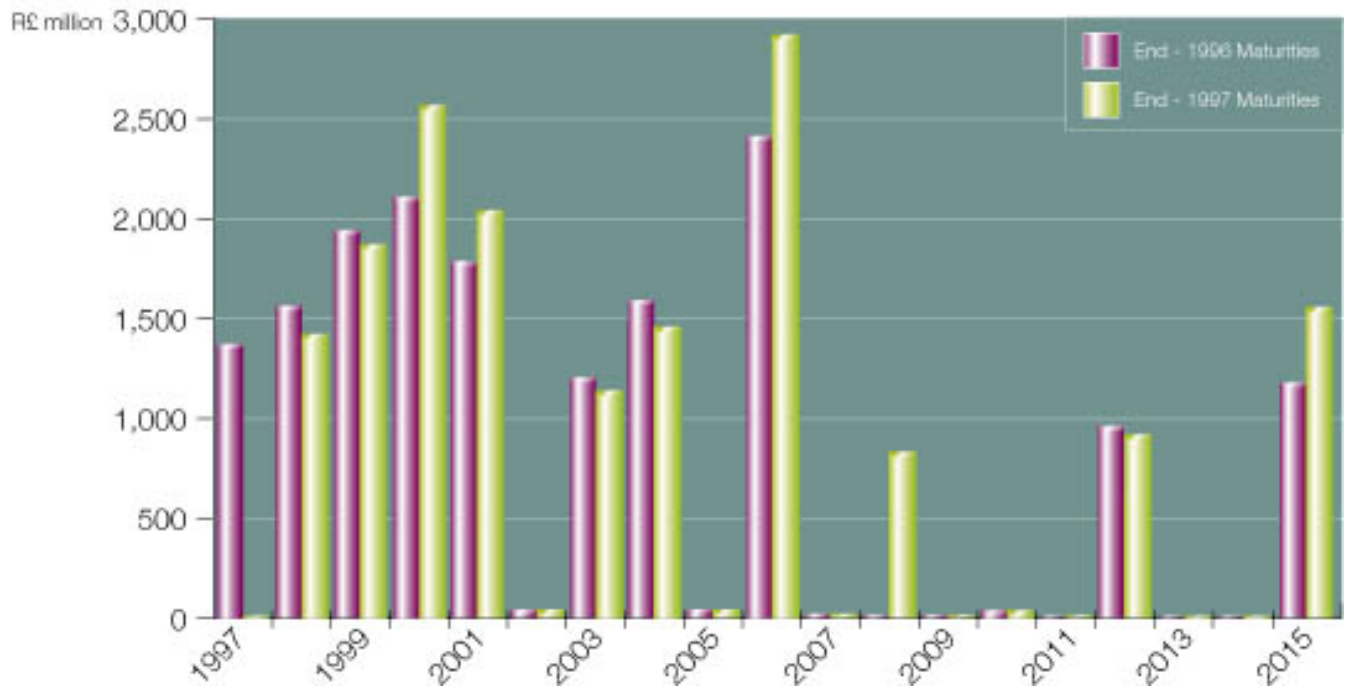
The amounts outstanding were:

|   | IR£ million (nominal) |         |                  |         |
|---|-----------------------|---------|------------------|---------|
|   | 31 December 1997      |         | 31 December 1996 |         |
| Irish Pound Bonds   |                       |         |                  |         |
| Domestic Holders  | 12,775                |         | 10,981           |         |
| Non-resident Holders                                      | 4,137                 | 16,912* | 5,370            | 16,351* |
| Exchequer Notes   |                       | 1,081   |                  | 893     |
| Exchequer Bills   |                       | 6       |                  | 7       |
| Notes issued under Section 69<br>of the Finance Act, 1985 |                       | 222     |                  | 127     |
|   |                       | 18,221  |                  | 17,378  |

\* excludes dual currency bonds amounting to IR£98 million (1996 : IR£96 million)

Bonds in issue have maturities ranging up to the year 2015 and Exchequer Notes have a maximum maturity of twelve months.

# Maturity Profile of Irish Pound Government Bonds



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## 1997 Activity

Net funding by the Agency on the domestic market during 1997 is shown below:

|  | IR£ million<br>(Cash Amounts) |       |
|--|-------------------------------|-------|
| Sales of: Bonds                                    |                               | 3,204 |
| IR£ Section 69 Notes                               |                               | 96    |
| Exchequer Notes etc./Exchequer Bills (Net)         |                               | 182   |
|  |                               | 3,482 |
| Less: Redemption of Bonds maturing in 1997         | 1,387                         |       |
| Repurchase of Bonds (largely resold to the market) | 1,227                         | 2,614 |
|  |                               | 868   |

## Bond Issuance

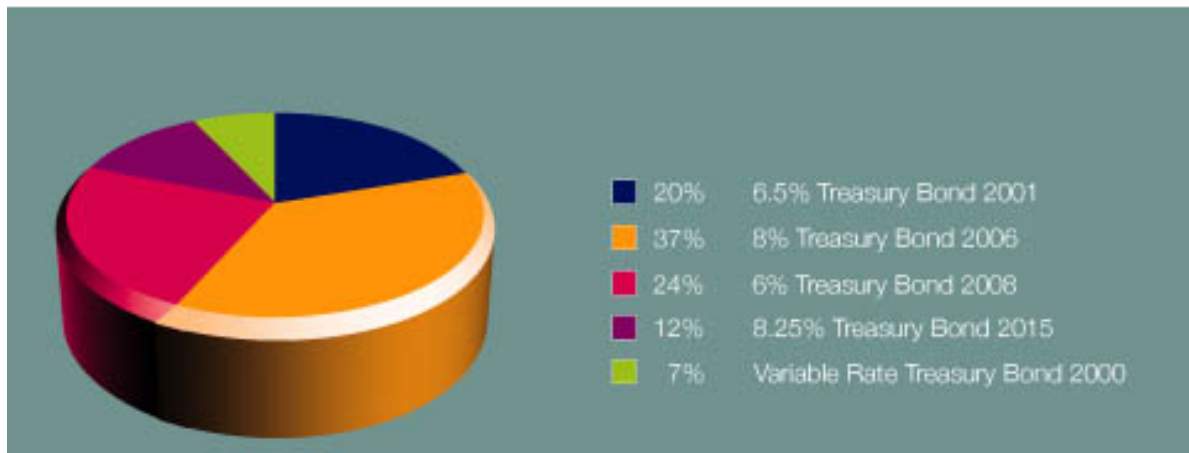
In January 1997, the Agency introduced revised procedures involving communication to the market of its gross funding requirement, together with a calendar of ten auctions in fixed rate bonds. Fixed-rate funding by the Agency was concentrated in designated benchmark bonds - maturing in 2001, 2006, 2008 and 2015 - all of which have annual coupons and are sold by tap or auction through the six Primary Dealers. There was one auction of a floating rate bond, allowing direct access to the Agency by investors.

Funding in 1997 included IR£1,646 million raised by auction and IR£460 million raised through taps. The average auction cover was 3.3 times and the cover for taps averaged 2.6 times.

In September 1997, the 8% Treasury Bond 2006 was replaced as the 10 year benchmark by the 6% Treasury Bond 2008. A feature of the new bond was that the interest payment calculations are on the annual actual / actual convention basis recommended by the European Monetary Institute.



Auction & Tap Issuance by Bond in 1997



## Irish Pound Bond Market

### Bond Yields (Annual) %

| Maturity  | End 1996 | 1997 Low | 1997 High | End 1997 | End June 1998 |
|-----------|----------|----------|-----------|----------|---------------|
| 2001      | 6.09     | 4.93     | 6.36      | 4.95     | 4.72          |
| 2006/2008 | 6.69     | 5.49     | 6.98      | 5.51     | 5.04          |
| 2015      | 6.97     | 5.72     | 7.21      | 5.72     | 5.33          |

The effect of convergence on bond yields can be gauged from the change in spreads between Irish and German Government bonds.

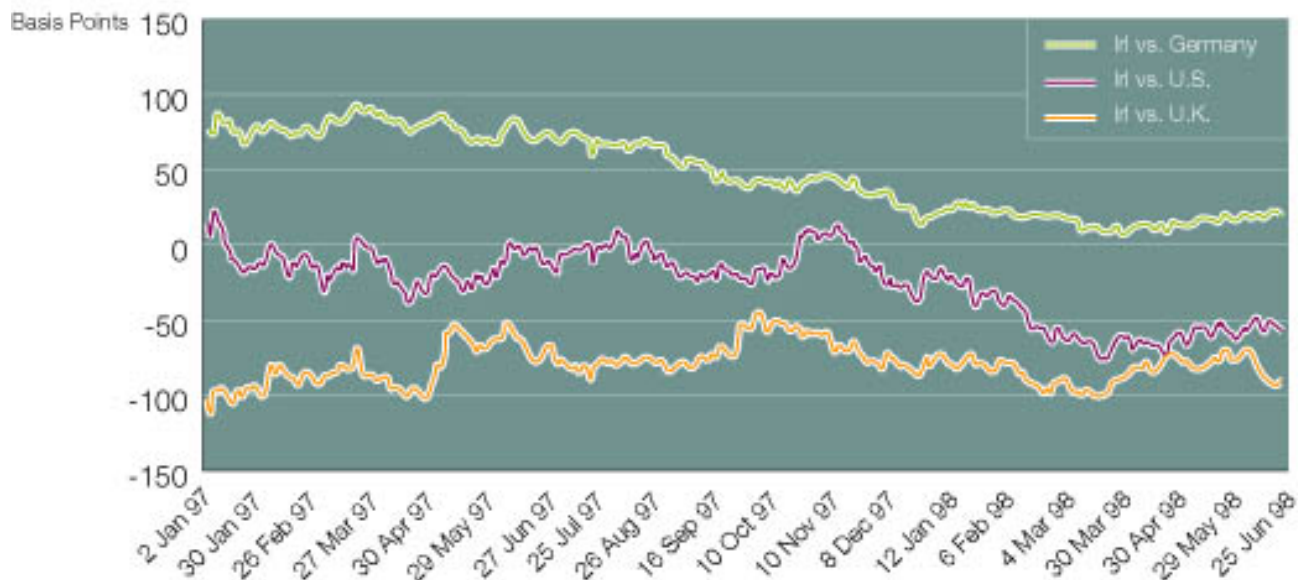
### Spread over German Government Bonds

| Bond      | 2 January 1997<br>basis points | 31 December 1997<br>basis points | 30 June 1998<br>basis points |
|-----------|--------------------------------|----------------------------------|------------------------------|
| 2001      | 147                            | 31                               | 45                           |
| 2006/2008 | 76                             | 21                               | 29                           |
| 2015      | 33                             | 10                               | 21                           |



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Irish Pound Ten Year Benchmark Bond Yield Differentials



Spreads narrowed appreciably notwithstanding the fact that non-residents were net sellers of IR£1,233 million Irish Pound bonds: their holdings fell during the year from some 33 per cent to 24 per cent of total bonds outstanding. These sales were absorbed by local institutions.

The Irish Pound bond market started strongly in 1998 with yields falling and spreads against Germany contracting on the back of investment by domestic institutions. Subsequently, the spread over Germany in the 10 year bond widened from 21 out to about 30 basis points. Uncertainty about the rate at which the Irish Pound would enter EMU weighed heavily on the market and, in particular, affected the sentiment of non-resident investors who remain sellers of Irish bonds. The decision to re-value the Irish Pound's central rate in early March rallied the market and the spread over Bunds contracted from the three year maturity out along the curve. Nevertheless, market conditions remained difficult and turnover is markedly lower than in 1997. Money market interest rates at 300 basis points over German rates continue to be a key deterrent to buying short-dated bonds at substantially lower yields.



## Primary Dealers

Market-making by six Primary Dealers continued through 1997.

The Primary Dealers are:

ABN AMRO Stockbrokers (Ireland) Limited (ABN AMRO)

AIB Capital Markets p.l.c. (AIB)

CS First Boston Limited (CSFB)

Davy Stockbrokers (Davy)

NCB Stockbrokers Limited (NCB)

UBS Limited (UBS)

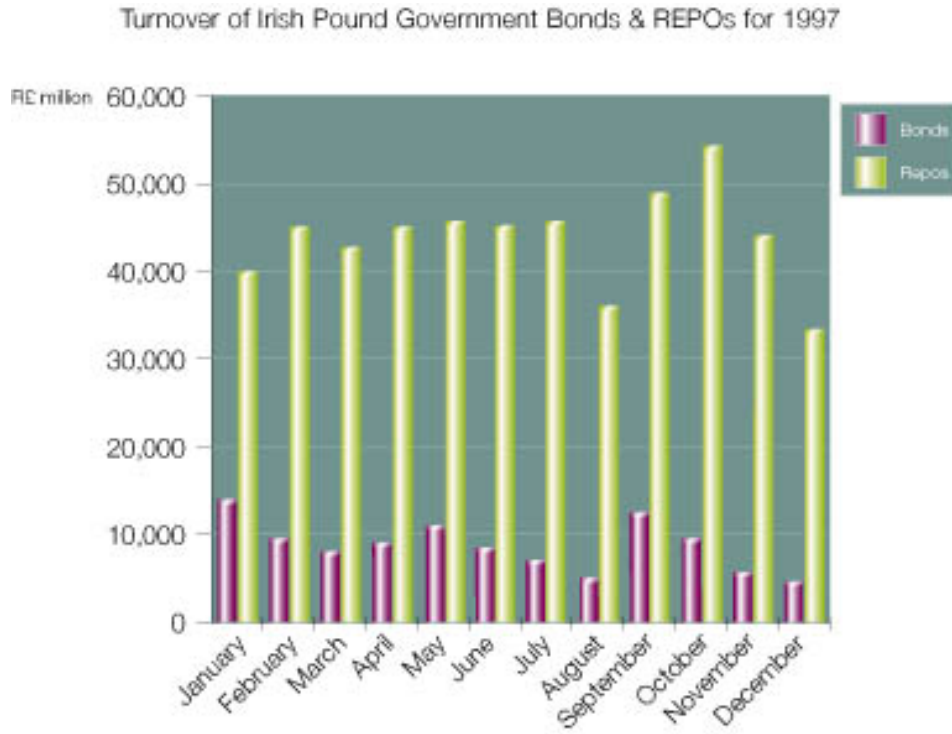
With effect from March 1997, AIB Capital Markets p.l.c. undertook primary dealer activities in place of Goodbody Stockbrokers.

The main objective in introducing a Primary Dealer system was to reduce funding costs by enhancing liquidity through increased turnover and tighter dealing spreads. The Agency keeps in regular contact with the Primary Dealers and investors through meetings of the Primary Dealers' Liaison Committee and the Investors' Liaison Committee respectively. The Agency has reviewed the market structure in consultation with these committees and some changes will be implemented later in 1998.

The Agency's market management activities, operated through the Primary Dealers, are designed to support liquidity. Switching facilities, more recently on a duration weighted basis, enable Primary Dealers to vary the duration of their bond inventories by exchanging with the Agency one security for another with an appropriate cash adjustment. The Agency also buys back bonds for cash from Primary Dealers, but usage of this facility has declined reflecting improved liquidity in the market. The Agency also operates REPO facilities (a REPO, or sale and repurchase agreement, allows a Primary Dealer to purchase bonds from the Agency on the condition that they will be sold back to the Agency at a predetermined price on a given date). The Agency's REPO facilities are confined to Primary Dealers and help to ensure that bonds are generally available for REPO purposes at a cost close to money market rates.



Turnover in bonds in 1997, as reported by the Irish Stock Exchange, was IR£111 billion; this compares with IR£116 billion in 1996. The fall, which has continued into 1998, with the monthly average running at some IR£6.8 billion (IR£9.3 billion in 1997), is attributable to reduced activity in the market by non-residents.



Source: The Irish Stock Exchange

The Agency, through its primary and secondary market transactions, accounted for 15 per cent of total turnover in bonds and 12 per cent of activity in the REPO market.





Market turnover in bonds for which Primary Dealers quote continuous prices:

|                          | IR£ million<br>(nominal) |
|--------------------------|--------------------------|
| 9.75% Capital Stock 1998 | 4,954                    |
| 6.25% Treasury Bond 1999 | 15,563                   |
| 8% Treasury Bond 2000    | 9,852                    |
| 6.5% Treasury Bond 2001  | 25,645                   |
| 9.25% Capital Stock 2003 | 5,059                    |
| 6.25% Treasury Bond 2004 | 8,389                    |
| 8% Treasury Bond 2006    | 24,943                   |
| 6% Treasury Bond 2008    | 4,496                    |
| 8.75% Capital Stock 2012 | 1,321                    |
| 8.25% Treasury Bond 2015 | 3,519                    |
| <b>Total</b>             | <b>103,741</b>           |

Source: The Irish Stock Exchange

Turnover in the above bonds represented 93 per cent of total bond market turnover.

Over the course of the year the average deal size tended to increase while, in general, spreads quoted by Primary Dealers remained unchanged. Dealing spreads of 5p for shorts (out to 5 years) and 10p for mediums (6 to 10 years) were typical and the normal deal size in both maturity ranges was around IR£10 million. Beyond 10 years, dealing spreads were somewhat wider and deal size smaller, reflecting the lower turnover in this area of the yield curve.

Activity between Primary Dealers through an Inter Dealer Broker (IDB) - which enables Primary Dealers to transact with each other on an anonymous basis - contributed also to the liquidity of the market.

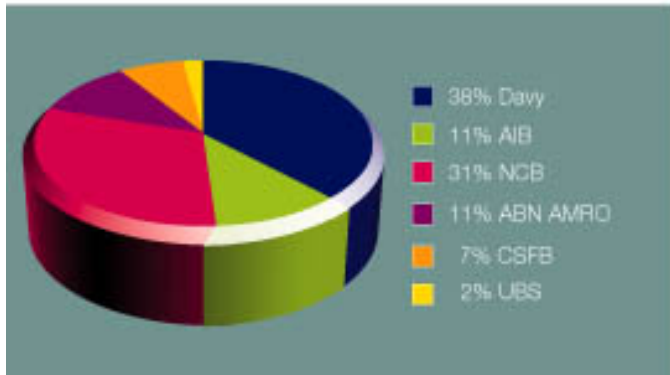




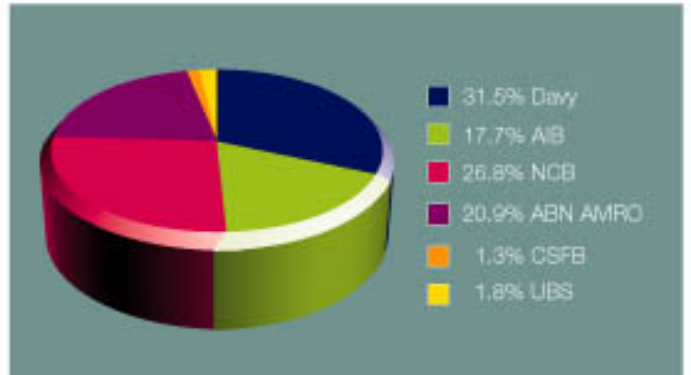
## Primary Dealers' Activities

Primary Dealers' shares of funding by taps and auctions, together with their individual shares of market turnover by Primary Dealers, were as follows:

Primary Dealers' Shares of Taps & Auctions 1997



Primary Dealers' Shares of Market Turnover 1997



Source: Primary Dealers' monthly reports to the Agency

## Bond Switching

The Agency provides a bond switching facility to Primary Dealers on request as part of its market management activities and from time to time offers switching facilities generally to the market to enhance the liquidity of a particular bond. Such switches are mainly used following the launch of a new bond to build up its issue size.



Switching activity by the Agency in bonds for which Primary Dealers quote continuous prices was:

|                              | IR£ million (nominal) |              |
|------------------------------|-----------------------|--------------|
|                              | Purchases             | Sales        |
| 9.75% Capital Stock 1998 (a) | 336                   | 183          |
| 6.25% Treasury Bond 1999     | 758                   | 745          |
| 8% Treasury Bond 2000        | 395                   | 700          |
| 6.5% Treasury Bond 2001      | 780                   | 685          |
| 9.25% Capital Stock 2003     | 908                   | 835          |
| 6.25% Treasury Bond 2004     | 506                   | 358          |
| 8% Treasury Bond 2006        | 798                   | 631          |
| 6% Treasury Bond 2008 (b)    | 70                    | 416          |
| 8.75% Capital Stock 2012     | 125                   | 66           |
| 8.25% Treasury Bond 2015     | 40                    | 135          |
| <b>Total</b>                 | <b>4,716</b>          | <b>4,754</b> |

(a) withdrawn from primary dealer system 1 June 1997

(b) launched 16 September 1997



Bonds in which Primary Dealers quote continuous two-way prices are:

|                                   | Coupon      | Minimum<br>Size<br>IR£ million | Maximum<br>spread<br>in pence | Outstanding<br>amount<br>30 June 1998<br>IR£ million |
|-----------------------------------|-------------|--------------------------------|-------------------------------|--|
| <b>Designated Benchmark Bonds</b> |             |                                |                               |  |
| 6.5% Treasury Bond 2001           | annual      | 2                              | 15                            | 2,019  |
| 6% Treasury Bond 2008             | annual      | 1                              | 20                            | 1,331  |
| 8.25% Treasury Bond 2015          | annual      | 1                              | 30                            | 1,794  |
| <b>Non-Benchmark Bonds</b>        |             |                                |                               |  |
| 6.25% Treasury Bond 1999          | annual      | 2                              | 15                            | 1,462  |
| 8% Treasury Bond 2000             | annual      | 2                              | 15                            | 1,572  |
| 9.25% Capital Stock 2003          | semi-annual | 1                              | 30                            | 1,212  |
| 6.25% Treasury Bond 2004          | annual      | 1                              | 30                            | 1,608  |
| 8% Treasury Bond 2006             | annual      | 1                              | 30                            | 2,472  |
| 8.75% Capital Stock 2012          | semi-annual | 1                              | 40                            | 1,022  |

## Bond Indices

With effect from 31 March, 1997 Irish Pound bonds were included in the Salomon Brothers World Government Bond Index, which is widely used by international investors as a performance benchmark. This is the seventh major international index in which Irish Pound bonds are included, the others being:

- Bloomberg / EFFAS - Government Bond Index
- Lehman Brothers - Global Bond Index
- Merrill Lynch - Global Government Bond Index II
- JP Morgan - Irish Government Bond Index
- Salomon Brothers - European Government Bond Composite Index
- UBS - Global Benchmark Bond Index





The Agency gives technical support to the index providers as required. The Agency expects that Irish Government bonds will be included in the new indices which are being compiled to reflect bond market activity in the eleven euro countries.

### STRIPS

The Finance Act, 1997 enables the Agency to introduce STRIPS (Separately Traded Registered Interest and Principal Securities) in Government bonds. The introduction of STRIPS is planned for 1998, subject to suitable market conditions. Unlike conventional bonds, STRIPS, because they are non-coupon bearing, do not have any reinvestment risk and therefore are particularly attractive to investment institutions, such as life assurance companies, who wish to match their long term assets and liabilities with a high degree of certainty.

### Exchequer Notes & Bills

During 1997 the Agency continued to sell Exchequer Notes to a broad range of investors, including corporates, banks and institutional investors, for maturities ranging from seven days to twelve months and in amounts of IR£100,000 upwards. Outstandings at end 1997 amounted to IR£1,087 million (nominal), an increase of IR£187 million from the end 1996 level.

The Agency itself makes a market in Exchequer Notes. The prices at which the Agency is prepared to sell and repurchase these Notes are quoted on Reuters and Bloomberg, page NTMA.





Heavy Downpour, Ha'penny Bridge, Dublin



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# Foreign Currency Debt

Although Ireland's foreign currency debt has been reduced in recent years, it still represents a substantial and complex portfolio of some IR£8 billion. The management of the foreign portfolio receives constant and detailed attention with a view to lowering cost within defined risk limits, where possible. The activities involved require close contact with the markets concerned and usage of the various derivative facilities available.

The Government's strong financial position and the substantial balance of payments surplus, coupled with significant investor interest in the Irish Pound bond market, enabled the Agency in 1997 to replace maturing and prepayable foreign currency debt with Irish Pound borrowings, thus eliminating the exchange rate risk on the amount involved - over IR£1 billion. This brings total net repayments of foreign borrowing over the past four years to more than IR£3.1 billion.

Although the vast bulk of Irish Pound funding was undertaken directly in the domestic market, a small number of cost-effective transactions were undertaken in foreign currencies and swapped into Irish Pounds. Notwithstanding the basis cost of the swap, reflecting the relative illiquidity of the Irish Pound swap market, it was still possible to negotiate sufficiently cheap funding in Japanese Yen and French Francs to produce Irish Pounds at a very competitive cost.

The Yen loan, for JPY 5 billion at a fixed interest rate for 10 years, was swapped into floating rate Irish Pounds at a rate significantly below DIBID. Competitive pricing below DIBID was also obtained through a swap in Ireland's first French Franc issue (a fixed rate 10 year Medium Term Note of FFr300 million) which was listed on the Paris Bourse. More recently, the Agency launched a 3 year GDr10 billion bond issue (swapped into Irish Pounds) in the newly opened Greek Drachma market. In so doing, Ireland became the first sovereign borrower to issue in the Drachma market - as it previously was in the Spanish Peseta and Portuguese Escudo markets.



Outstanding net foreign currency debt at end 1996 was IR£8,718 million falling to IR£8,288 million at end 1997 (this decline was due mainly to a combination of the net foreign currency repayments of IR£1,041 million, offset in part by adverse foreign exchange movements of IR£612 million reflecting the depreciation of the Irish Pound).

The following chart shows the currency composition and interest rate mix of the debt:

Foreign Debt Currency Composition End 1997\*(IR£ million)

|          | Stg£  | US\$  | DM    | Sfr   | Ffr   | Ecu  | Dfl  | Others |      |
|----------|-------|-------|-------|-------|-------|------|------|--------|------|
| Fixed    | 777   | 568   | 1,515 | 1,102 | 1,016 | 92   | 78   | (68)   | 182  |
| Floating | 1,408 | 1,144 | 106   | 29    | (112) | 86   | 87   | 207    | 71   |
| Total    | 2,185 | 1,712 | 1,621 | 1,131 | 904   | 178  | 165  | 139    | 253  |
|          | 26.4% | 20.7% | 19.6% | 13.7% | 10.9% | 2.1% | 2.0% | 1.7%   | 2.9% |
| Fixed    | 63%   |       |       |       |       |      |      |        |      |
| Floating | 37%   |       |       |       |       |      |      |        |      |

\* inclusive of swaps and other debt management instruments



## Foreign Currency Debt Maturity Profile End 1997

|                | IR£ million |
|----------------|-------------|
| 1998*          | 635         |
| 1999           | 1,123       |
| 2000           | 954         |
| 2001           | 956         |
| 2002           | 1,879       |
| 2003           | 1,661       |
| 2004           | 429         |
| 2005           | 293         |
| 2006 and later | 139         |

\* excludes IR£219 million in short term paper maturing in 1998

## EIB Borrowing

Ten year Irish Pound funding of IR£22 million was arranged with the European Investment Bank (EIB) in 1997. The loan, which was sourced out of foreign currency and swapped by EIB into Irish Pounds, provided funding at a cost well below DIBID, and also attracted a further interest subsidy under a European Economic Area financial mechanism.

A project-related facility of IR£55 million equivalent was also put in place which will enable the Agency to borrow from the EIB at short notice at attractive levels should the need arise. Proposals from the EIB enabling the Agency to draw on this facility are at present being considered.



## Debt Prepayments

During 1997 the Agency continued to look for opportunities to prepay foreign currency debt. A total of IR£115 million was prepaid through the exercise of call options. In addition the Agency was active, where feasible, in buying back foreign currency bonds and notes in the market and cancelling them. A total of IR£42 million, mainly US\$ paper, was repurchased in this way in 1997.

## Liability Management

Foreign currency liability management in 1997 continued to be directed at optimising the risk/cost trade-off associated with the foreign currency portfolio of over IR£8 billion. Minimising the cost of the portfolio while keeping risk within acceptable limits is a continuous and complex task bearing in mind the variety of currencies and yield curves involved. The broad strategy governing the different currency weightings in the portfolio, as well as the duration of each, is established initially in consultation with the Quantitative Finance Group of UBS and is, from time to time, discussed with other leading investment banks. Although the result is a medium term strategy, this is subject to review every six months in the light of trends in international capital markets. However, a general strategy, no matter how well grounded and even if reviewed every six months, cannot be expected to respond to the more frequent variations in financial market trends. In reality, the Agency makes regular tactical adjustments to the portfolio in response to the many and varied - sometimes daily - shifts in market sentiment.

Yield curves tended to flatten during 1997. The reduction in long term foreign bond yields afforded the Agency the opportunity to re-set some of its interest rates at these new levels. In addition, emerging trends of convergence between the interest rates of non EMU European currencies, such as Sterling, and those of core-Europe such as the Deutschemark, offered further opportunities for cost reduction while limiting risk. On the foreign exchange front, the Agency was active in hedging its risks as between the major currency blocks.



Movements in ten year bond yields in a number of key markets are summarised in the following graphs:

Deutschemark Benchmark 10 Year Government Bond 1997/1998



U.S. Dollar Benchmark 10 Year Government Bond 1997/1998



Japanese Yen Benchmark 10 Year Government Bond 1997/1998



Sterling Benchmark 10 Year Government Bond 1997/1998



## Commercial Paper & Section 69 Notes

Ireland has a US\$1 billion Euro Commercial Paper Programme, a US\$1 billion US Commercial Paper Programme and a DM2 billion German Commercial Paper Programme. These programmes offer quick and cost-effective access to foreign currency funds and provide a flexible source of bridging finance, as and when the need arises, to replace maturing longer dated issues. No amounts were outstanding on these programmes at end 1997. However the Agency expects to utilise the structure and investor base of the DM Programme when the euro becomes the common currency of Ireland and Germany.

Section 69 Notes are tax-exempt securities which are issued in a range of currencies (including Irish Pounds) to eligible foreign-owned companies located in Ireland. They have maturities from one day upwards and are sold directly by the Agency and also through designated banks in Ireland. Essentially, they offer multi-national companies a flexible short term investment product while producing cost-effective funding for the Exchequer.

The interest rates offered on Section 69 Notes are available on Reuters pages S69A and S69B and Telerate pages 7657 and 7658.

## Counterparty Risk

Interest rate and currency swaps are, in effect, an exchange of cash-flows between two counterparties.

The Agency maintains strict credit risk limits in respect of counterparties with whom transactions are undertaken. These limits are suitably weighted as to amount and maturity for each transaction. During 1997 the Agency varied certain of these limits to reflect changes in the credit ratings of certain counterparties, with exposures being suitably modified.





Shoppers caught in a Squall, Dublin City



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# National Savings Schemes

The National Savings Schemes grew by a relatively modest amount in 1997 reflecting the impact of reduced interest rates on the most popular of the Schemes and also intense competition within the savings market generally. Net additional funds raised in 1997 came to IR£185 million, excluding repayments to TSB Bank. The total outstanding on the Schemes at end 1997 was IR£4,255 million, representing an increase of 1.5 per cent over the end 1996 figure.

The Savings Schemes remain an important and stable element in the National Debt. They source funds from private investors for whom they have a unique mix of attractive characteristics : they are Government risk, carry no investment costs or commissions, allow repayment flexibility and offer competitive rates of return. The continuing appeal of the Schemes in an ever more competitive environment is based on these features. The Schemes are sold by the Post Office (An Post) acting on behalf of the Agency; a number of the products are also available through stockbrokers and other outlets.



Details of the totals outstanding for each of the Schemes at end 1997 and the net amounts raised during 1997 are:

|                                    | Total Outstanding<br>at end 1997<br>IR£ million | Money Raised<br>in 1997 (net)<br>IR£ million |
|------------------------------------|---|--|
|                                    | _____   | _____  |
| Savings Certificates               | 2,147   | 86   |
| Savings Bonds                      | 1,145   | 65   |
| Instalment Savings                 | 328   | 32   |
| Prize Bonds                        | 155   | 9  |
| Post Office Savings Bank           |   |  |
| 1. <i>Ordinary Deposit Account</i> | 407   | 1  |
| 2. <i>Deposit Account Plus</i>     | 58  | (13)   |
| TSB Bank, including interest       | 15  | (125)  |
| POSB Fund Investment Income        | -   | 5  |
|                                    | _____   | _____  |
| Total                              | 4,255   | 60   |

In addition, an estimated IR£1,573 million was outstanding at end 1997 in accrued but unpaid interest on Savings Certificates, Savings Bonds and Instalment Savings (IR£1,356 million at end 1996). In order to provide over time a reasonable level of cover for this accrued interest, an interest reserve was created in 1994. The sum of IR£272 million was paid into this reserve in 1997, bringing the total provision for outstanding accrued interest to IR£623 million, or almost 40 per cent of the total accrued interest outstanding. This represents significant progress over the position at end 1996 when the total provision represented only 26 per cent of the accrued interest then outstanding.

The cost of administration of the Schemes was IR£22.3 million in 1997. Of this amount, IR£19.6 million was paid to An Post and IR£2.6 million to the Prize Bond Company. The latter operates the Prize Bond



Scheme and is owned jointly by An Post and The Foreign Exchange Company of Ireland (FEXCO). IR£120,000 was paid to TSB Bank in respect of Instalment Savings. The details are as follows:

|                          | 1997 Cost<br>(IR£'000) |
|--------------------------|------------------------|
| Post Office Savings Bank | 12,309                 |
| Savings Certificates     | 3,096                  |
| Savings Bonds            | 1,219                  |
| Instalment Savings       | 1,755                  |
| Prize Bonds              | 3,057                  |
| Savings Stamps           | 868                    |
| Total                    | 22,304                 |

## Savings Certificates, Savings Bonds & Instalment Savings

Savings Certificates and Savings Bonds remain the most popular of the National Savings Schemes, contributing IR£151 million in net additional funds in 1997. Of this, Savings Certificates provided IR£86 million and Savings Bonds IR£65 million. These products offer investment opportunities for periods of five and a half years and three years respectively.

The expectation of much reduced interest rates after the introduction of the euro has put significant downward pressure on the rates of return on Savings Certificates and Savings Bonds. In 1997 these rates were reduced in line with market trends generally for products with a similar medium to long term tenor. Short term interest rates, however, remained relatively high. Savings Certificates and Savings Bonds have accordingly been at a competitive disadvantage vis-a-vis deposit products with a shorter investment period, especially Special Savings Accounts. This accounts for the significant fall in receipts in 1997 as compared to 1996 and earlier years.



Rates were also reduced in 1997 for the Instalment Savings Scheme. Whereas Savings Certificates and Savings Bonds are designed for lump sum investments up to certain limits, Instalment Savings enable investors to save over time by means of fixed monthly instalments. They are not, therefore, open to the same degree of fluctuation in receipts in response to market developments. Net inflows into Instalment Savings in 1997 were IR£32 million, only marginally down from the 1996 figure. The investment period for Instalment Savings, following the payment of instalments over twelve months, is five years.

The revised rates of return introduced in 1997 on the three products are as follows:

- **Savings Certificates:** 30 per cent after five years and six months, equivalent to an average annual rate of interest of 4.89 per cent;
- **Savings Bonds:** 14 per cent after three years, equivalent to an average annual rate of interest of 4.46 per cent; and
- **Instalment Savings:** 30 per cent after five years, equivalent to an average annual rate of interest of 4.89 per cent after allowance is made for payment of the instalments over twelve months.

Further reductions in the rates of return on Savings Certificates and Savings Bonds were introduced on 1 May 1998. The new rates, which follow interest rate reductions by other financial institutions on their longer term savings products, are:

- **Savings Certificates:** 25 per cent after five years and six months, equivalent to an average annual rate of interest of 4.14 per cent; and
- **Savings Bonds:** 12 per cent after three years, equivalent to an average annual rate of interest of 3.85 per cent.



## Prize Bonds

Net inflows from Prize Bonds fell in 1997 to IR£9 million, down from IR£16 million in 1996. Gross sales amounted to IR£28.4 million - as compared to IR£29.2 million in 1996. The total invested in Prize Bonds was IR£155 million at end 1997, up from IR£146 million at end 1996. The rate of interest used to determine the prize fund was maintained at 3.5 per cent throughout 1997.

The Prize Bond Scheme has regained momentum in 1998, with net inflows of approximately IR£10 million to date.

## Post Office Savings Bank

When accrued interest is taken into account, the book-based demand deposit account of the Post Office Savings Bank (POSB) grew by IR£4 million in 1997 to IR£407 million. There was, however, a net outflow of almost IR£10 million from Deposit Account Plus, the Special Savings Account of the POSB which carries the low rate of Deposit Interest Retention Tax. The POSB deposit base, therefore, declined by a net IR£6 million in 1997 - from IR£471 million at end 1996 to IR£465 million at end 1997.



There are tiered interest rates on both POSB accounts, and the rates which applied throughout 1997 are set out below:

### Demand Account

|                   |            |
|-------------------|------------|
| under IR£5,000    | 0.50% p.a. |
| IR£5,000 and over | 1.00% p.a. |

### Deposit Account Plus

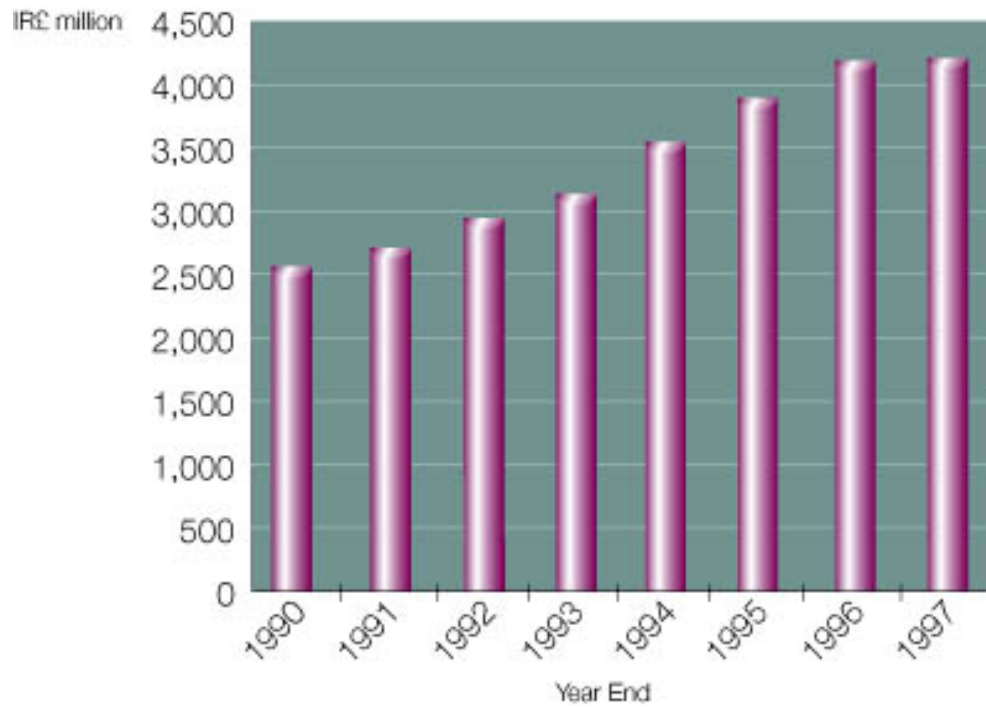
|                       |            |
|-----------------------|------------|
| under IR£5,000        | 3.50% p.a. |
| IR£5,000 - IR£24,999  | 4.50% p.a. |
| IR£25,000 - IR£39,999 | 4.75% p.a. |
| IR£40,000 - IR£50,000 | 5.00% p.a. |

## TSB Bank

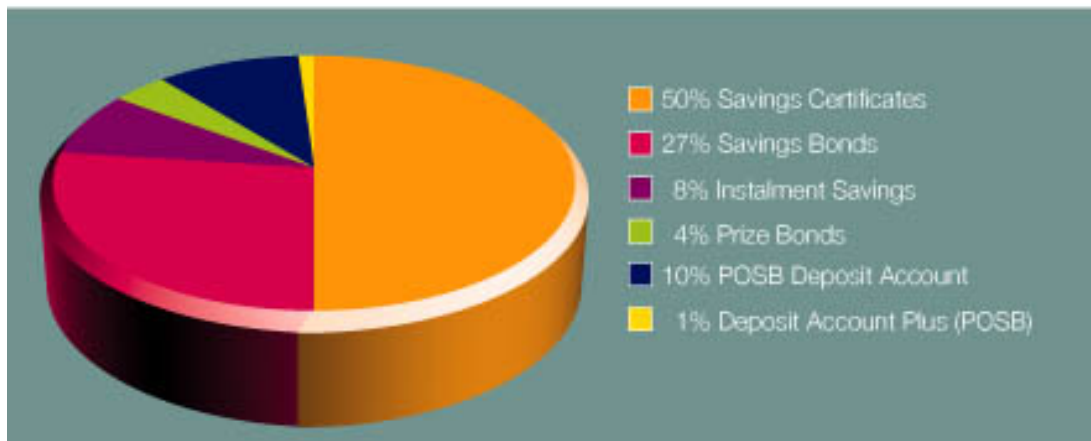
TSB Bank reduced its deposit with the Agency from IR£137 million at end 1996 to IR£15 million at end 1997. This final amount on deposit was repaid early in January 1998. The complete withdrawal of the TSB Bank deposit from the Agency has been effected in a gradual and orderly fashion in accordance with agreed arrangements in place since October 1992, at which point the amount on deposit was IR£564 million. It results from changes in the legislation governing the operation of TSB Bank which have allowed it to diversify the allocation of its resources into other classes of assets.



National Savings Schemes: Amounts Outstanding 1990 -1997



Composition of National Savings Schemes at 31 December 1997





Evening Rain, O'Connell Street, Dublin



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# Strategy & Risk Management

The management of the National Debt by its nature involves the management of risk. The volatility of financial markets exposes the cost of servicing the debt to risk. Fluctuations in interest and exchange rates can cause significant swings in the annual Irish Pound cost of servicing the debt and also in the Irish Pound value of the Debt itself.

Refinancing or liquidity risk is a major area of importance; refinancing ability can be dependent not just on Irish financial market conditions and policy decisions but also, given the increasingly global nature of markets, on market conditions and events overseas quite unrelated to developments in Ireland.

The Agency recognises the need for professional management information systems and risk controls to ensure that liquidity and market risk exposures are both identified and contained in a timely and ongoing manner.

The Agency has developed a number of risk management models that measure the sensitivity of future debt service costs and of the net present value of the debt to possible future movements in interest rates and exchange rates. These models incorporate both sensitivity and Value at Risk (VAR) measures, enabling risk to be analysed both from the perspective of particular interest rate or exchange rate scenarios and from an overall volatility perspective. In the case of Value at Risk analysis, the Agency uses both a historical simulation approach, essentially applying actual historical market swings to current exposures, as well as a variance/covariance statistical method. Running the two systems in parallel provides a check on any critical dependence on particular assumptions; in practice they have provided similar results, supporting the robustness of the approach. The Agency has in place risk control limits to contain, within an acceptable range, the Agency's debt service and Benchmark performance exposure to such market fluctuations. Exposures against these limits are measured on a regular basis and limits are kept under ongoing review by senior management.



In managing liquidity the Agency ensures that the pattern of maturities is well spread over future years, avoiding excessive concentration of maturities in any particular time period. In addition, within the current or upcoming year, the Agency maintains a detailed funding plan outlining all expected financing needs and projected funding sources. The Agency manages the timing of issuance and its cash management activities to ensure that the Exchequer has ample liquidity available at all times during the year, taking account of the projected seasonality of the Exchequer's own income and expenditure flows.

In addition to being assessed by reference to debt service budget and liquidity criteria, the Agency's performance is also measured by reference to an independent and externally approved benchmark portfolio (the Benchmark).

The measurement of performance relative to the Benchmark takes account of the net present value, in Irish Pound terms, of all liabilities; in effect it calculates the impact of the Agency's actions over the full life of the debt. The measurement of performance against the Benchmark is carried out by the Quantitative Finance Group of UBS based on data audited by Price Waterhouse.

The Benchmark reflects the medium term strategic debt management objectives of the Exchequer and consists of a diversified low-risk portfolio which takes account of the economic linkages of the Irish Pound and the Exchequer. The Benchmark is designed to represent an appropriate target portfolio profile, serving as a strategic framework for portfolio decision-making. Revisions to the Benchmark are made from time to time (subject to appropriate external approvals) to take account of significant changes in structural economic relationships but not in response to short term market movements.

A comprehensive analysis to determine a new strategic Benchmark for the debt portfolio was undertaken towards the end of 1996. This sought to identify a portfolio composition, in terms of both currency and interest rate mix, that would result in a robust cost and risk performance across a range of market scenarios over a medium term horizon. This is important given the Benchmark's role in determining strategic policy direction. The recommended portfolio, which became the 1997 Benchmark, was in fact very close to the previous Benchmark portfolio, although no constraint to this effect was imposed.



A review of the Benchmark was undertaken in the first half of 1998, in conjunction with UBS, the Advisory Committee and the Department of Finance, to take account of the decisions of the European Council on the initial membership of the single currency and the determination of exchange rates for entry. Following this review, the Minister for Finance has approved the new Benchmark which will be implemented over the coming months.

Detailed performance and risk management information is calculated and networked daily to the desktop PCs of the Agency's portfolio managers and senior management. This includes real time mark-to-market valuation using live market-price data feeds. The Agency's risk management and information technology groups are currently finalising with the Quantitative Finance Group at UBS the installation of a new enhanced version of the performance and risk analysis system based on the latest internet web technology.





Wet Afternoon, St. Patrick's Park, Dublin



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# Legal & Corporate Affairs

## Legal

The legal unit provides support for the Agency's borrowing and debt management functions including, principally, negotiating the documentation for the Agency's borrowing programmes and the agreements used for hedging against adverse interest and exchange rate movements.

During the course of the year, the Agency's US\$2 billion Euro Medium Term Note Programme was substantially amended to enable new issues to be made under the Programme in a more streamlined and cost effective manner. Changes were also made to bring it into line with a number of regulatory developments taking place internationally. One new issue was completed under the revised programme.

As part of its general functions, the legal section advises on legislative and regulatory developments, of which EMU, and in particular the redenomination into euro of the National Debt, occupied much of its time. It is also responsible for ensuring compliance with professional conduct rules in the area of confidentiality, conflicts of interest and other procedures associated with best business practice which all Agency staff are required to observe.

## Personnel

The continuing growth in the Irish economy created a heavy demand for skilled personnel in 1997. During the year the Agency lost nine out of sixty staff, mainly in the operations area. This outflow of personnel was countered by a strong recruitment campaign and by year end most of these staff had been replaced. The annual safety audit confirmed that health, safety and welfare standards continued to be maintained at a high level.





Rainy Night, O'Connell Street, Dublin



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## Operations

The Operations group comprises three units: Financial Control, Information Technology and Transaction Processing. The common objective of all three is to support the business units in the most efficient and cost effective way possible, consistent with high standards of control.

Given the importance of quality information, appropriately formatted, and available to management on a timely basis, the task of improving systems and information flows remains a high priority. Added to this task is the requirement that all systems are year-2000 compliant as well as being capable of meeting the business needs arising from membership of EMU.

The Agency's core systems were built in-house which makes it easier to manage the modifications required for EMU. Furthermore, as most of the systems were built within the past five to six years they are, to a large extent, already programmed to deal with the year-2000 requirement. However, packages purchased from external suppliers still require a considerable amount of work.

In order to deal with the above needs, a plan was prepared over a year ago to address year-2000 and EMU issues. This plan is being implemented and is on course for completion within the requisite timeframe.

Audits covering specific areas of the Agency's activity were carried out during the year by an external firm. The annual audit was, in accordance with legislation, carried out by the Comptroller and Auditor General. In all cases the results were satisfactory with no significant issues being identified.

The Agency has applied for membership of the Irish Real Time Interbank Settlements System to ensure that it has at its disposal the most up to date settlement facilities. This will enable the Agency to settle transactions up to the same deadlines as apply to banks.



Accounts prepared by the National Treasury Management Agency in accordance with

Section 12 of the National Treasury Management Agency Act, 1990

1. National Debt of Ireland
2. National Treasury Management Agency - Administration Account
3. Post Office Savings Bank Fund
4. Capital Services Redemption Account
5. National Loans Advance Interest Account
6. National Loans (Winding Up) Account
7. Deposit Monies Investment Account
8. Account of the National Loans Sinking Fund
9. Account of Stock Accepted in Payment of Inheritance Tax and Death Duties
10. Small Savings Reserve Fund





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| <u>Report of the Comptroller and Auditor General</u> | 67       |
| <u>Accounting Policies</u>                           | 68       |
| <u>Service of Debt Statement</u>                     | 69       |
| <u>National Debt Statement</u>                       | 70       |
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| <u>Notes to the Accounts</u>                         | 72 - 82  |
| <u>Other NTMA Accounts</u>                           | 83 - 106 |



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# National Treasury Management Agency

## Statement of Agency's Responsibilities

The Agency is required by the National Treasury Management Agency Act, 1990 to prepare financial statements in respect of its operations for each financial year.

In preparing those statements, the Agency is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial accounts on the going concern basis unless it is inappropriate.

The Agency is responsible for keeping in such form as may be approved by the Minister all proper and usual accounts of all moneys received or expended by it and for maintaining accounting records which disclose with reasonable accuracy at any time the financial position of the Agency, its funds and the national debt.

The Agency is also responsible for safeguarding assets under its control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Michael J Somers, [Chief Executive](#)  
National Treasury Management Agency

26 June 1998



# National Treasury Management Agency

## Report of the Comptroller and Auditor General

I have audited the financial statements on pages 68 to 88.

### **Responsibilities of The Agency and of The Comptroller and Auditor General**

The accounting responsibilities of the Agency are set out in the Statement of Agency's Responsibilities on page 66. It is my responsibility, under Section 12 of the National Treasury Management Agency Act 1990 to audit the financial statements presented to me by the Agency and to report on them. As the result of my audit I form an independent opinion on the financial statements.

### **Basis of Opinion**

In the exercise of my function as Comptroller and Auditor General, I plan and perform my audit in a way which takes account of the special considerations which attach to State bodies in relation to their management and operation.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made in the preparation of the financial statements, and of whether the accounting policies are appropriate, consistently applied and adequately disclosed.

My audit was conducted in accordance with auditing standards which embrace the standards issued by the Auditing Practices Board and in order to provide sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. I obtained all the information and explanations that I required to enable me to fulfil my function as Comptroller and Auditor General and in forming my opinion, I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion, proper books of account have been kept by the Agency and the financial statements, which are in agreement with them properly present the results of the Agency's operations for the year ended 31 December 1997 and its balances at that date.

John Purcell  
Comptroller and Auditor General

29 June 1998



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# National Debt of Ireland

## Accounting Policies

### Background

The National Treasury Management Agency (NTMA) was established under the National Treasury Management Agency Act, 1990 to perform the borrowing and National Debt management function on behalf of the Minister for Finance and other such functions as the Government may delegate to it.

The financial accounts set out on pages 68 to 82 are for the National Debt of Ireland. The form of the accounts has been approved by the Minister for Finance under Section 12 of the National Treasury Management Agency Act, 1990.

### Basis of Accounting

The measurement base adopted is that of historical cost except where otherwise stated.

Transactions are recognised using the cash basis of accounting.

The National Debt Statement is a statement at redeemable par values of the total amounts of principal borrowed by Ireland not repaid at the end of the year, less liquid assets available for redemption of those liabilities at the same date. The Minister for Finance under various statutes also guarantees borrowings by State and other agencies. These guarantees are not included in these accounts.

### Reporting Period

The reporting period is for the year ended 31 December 1997.

### Reporting Currency

The reporting currency is the Irish pound which is denoted by the symbol IR£.

### Receipts and Payments

Receipts and payments relating to the National Debt effected through the Exchequer Account, the Foreign Currency Clearing Accounts and the Capital Services Redemption Account (CSRA) are recorded at the time the money is received or payment made.

### Liability Valuation

Debt balances are recorded at redeemable par value.

## Derivatives

Swap agreements and other financial instruments are entered into for hedging purposes as part of the process of managing the National Debt. The results of those hedging activities linked with specific borrowing transactions are recognised in accordance with the underlying transactions. The net fund flows arising on hedging activities not linked with specific borrowing transactions are included in debt service costs at the time the funds are received or payment made. Where swaps are terminated and converted into other swap instruments the fund flows impact upon the debt service in accordance with the terms of the revised instrument.

## Foreign Currencies

Receipts and payments in foreign currencies are translated into Irish Pounds at the rates of exchange prevailing at the date of transaction. Liabilities and assets in foreign currencies are translated into Irish Pounds at the rates of exchange ruling at the year end dates.



# National Debt of Ireland

## Service of Debt Statement

|   |       | Year ended 31 December 1997              |  |
|---|-------|--|--|
|   |       | Total<br>Service<br>Cost 1997<br>IR£'000 | Total<br>Service<br>Cost 1996<br>IR£'000 |
|   | Notes |  |  |
| <b>Interest paid</b>                                      |       |  |  |
| Irish Government Bonds                                    | 2     | 1,275,697                                | 1,303,319                                |
| Foreign Currency Borrowings                               | 1     | 536,597                                  | 657,102                                  |
| Other Irish Pound Borrowings                              | 4     | 74,415                                   | 70,315                                   |
| Small Savings   | 5,13  | 369,500                                  | 234,424                                  |
| Other Movements   | 1,6   | 296,369                                  | 13,557                                   |
| Sinking Fund payments                                     | 7     | 266,542                                  | 243,316                                  |
| Fees and Expenses   | 1,8   | 12,150                                   | 12,193                                   |
| Expenses of NTMA  | 9     | 5,915                                    | 5,765                                    |
| Deposit interest received                                 | 1     | (82,638)                                 | (64,820)                                 |
| Net cash paid   | 1     | <u>2,754,547</u>                         | <u>2,475,171</u>                         |
| <b>Interest and sinking fund payments included in the</b> |       |  |  |
| Issues for Supply Services                                | 11(b) | <u>65</u>                                | <u>183</u>                               |
| Total Service Cost  | 1     | <u>2,754,612</u>                         | <u>2,475,354</u>                         |



Michael J Somers, Chief Executive  
National Treasury Management Agency

26 June 1998

The notes on pages 72 to 82 form part of these accounts.



# National Debt of Ireland

## National Debt Statement

31 December 1997

|                                | Notes  | 1997<br>IR£million | 1996<br>IR£million |
|--------------------------------|--------|--------------------|--------------------|
| <b>Irish Pound Debt</b>        |        |                    |                    |
| Irish Government Bonds         | 10     | 17,009.9           | 16,446.4           |
| Medium/Long Term Indebtedness  | 11     | 240.2              | 155.7              |
| Short Term Indebtedness        | 12     | 6,122.7            | 5,383.1            |
| Less Irish Pound Liquid Assets | 14     | (972.5)            | (792.1)            |
| Net Short Term Indebtedness    |        | 5,150.2            | 4,591.0            |
| Net Irish Pound Debt           |        | 22,400.3           | 21,193.1           |
| <b>Foreign Currency Debt</b>   |        |                    |                    |
| Foreign Currency Borrowings    | 15, 16 | 8,288.2            | 8,718.4            |
| <b>National Debt</b>           |        | 30,688.5           | 29,911.5           |

Michael J Somers, [Chief Executive](#)

National Treasury Management Agency

26 June 1998

The notes on pages 72 to 82 form part of these accounts.



# National Debt of Ireland

## Cash Flow Statement

|                              | Receipts<br>IR£'000 | Payments<br>IR£'000 | Year ended 31 December 1997 |                        |
|------------------------------|---------------------|---------------------|-----------------------------|------------------------|
|                              |                     |                     | 1997<br>Net<br>IR£'000      | 1996<br>Net<br>IR£'000 |
| <b>Borrowing Activity</b>    |                     |                     |                             |                        |
| Irish Government Bonds       | 36,481,165          | 35,849,777          | 631,388                     | 1,054,721              |
| Ways and Means Advances      | 49,593,061          | 49,322,634          | 270,427                     | 113,979                |
| Savings Certificates         | 214,492             | 128,812             | 85,680                      | 131,329                |
| Exchequer Notes              | 5,439,347           | 5,256,292           | 183,055                     | 27,031                 |
| Savings Bonds                | 158,509             | 93,742              | 64,767                      | 277,918                |
| National Instalment Savings  | 58,096              | 25,445              | 32,651                      | 38,837                 |
| Prize Bonds                  | 27,657              | 18,851              | 8,806                       | 15,472                 |
| Exchequer Bills              | 11,190              | 12,648              | (1,458)                     | (8,301)                |
| Foreign Currency Borrowings  | 8,571,201           | 9,611,786           | (1,040,585)                 | (1,360,963)            |
| Other Irish Pound Borrowings | 6,437,032           | 6,256,758           | 180,274                     | 58,462                 |
|                              | <u>106,991,750</u>  | <u>106,576,745</u>  | <u>415,005</u>              | <u>348,485</u>         |

## Application of Borrowings

|   |           |                |                 |
|---|-----------|----------------|-----------------|
| Financing of State Deficit                                  | (501,168) |                |                 |
| Less: Sinking Fund payments<br>included in deficit (note 7) | 266,542   | (234,626)      | (436,135)       |
|   |           | <u>180,379</u> | <u>(87,650)</u> |

## Represented by:

|  |         |           |
|--|---------|-----------|
| Increase in Exchequer balances (note 14)   | 180,379 | 266,547   |
| Decrease in Foreign Currency Liquid Assets | -       | (351,854) |
| Decrease in CSRA capital balance           | -       | (2,343)   |

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180,379

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(87,650)

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## Reconciliation with National Debt Statement

Increase / (Decrease) in National Debt (nominal)

777,016

(297,894)

Represented by:

New borrowings

415,005

348,485

Movement in liquid balances

(180,379)

87,650

Movement in CSRA current balance (note 17)

(35)

106,228

Nominal movements (note 19)

542,425

(840,257)

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777,016

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(297,894)

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Michael J Somers, Chief Executive

National Treasury Management Agency

26 June 1998

The notes on pages 72 to 82 form part of these accounts.



# National Debt of Ireland

## Notes to the Accounts

### 1. Central Fund, Foreign Currency Clearing Accounts and Capital Services Redemption Account

National Debt servicing transactions may be effected through the Central Fund, the Foreign Currency Clearing Accounts or the Capital Services Redemption Account.

Payments effected through the Central Fund represent amounts paid through the Exchequer Account maintained at the Central Bank of Ireland.

Foreign Currency Clearing Accounts were established by Section 139 of the Finance Act, 1993. The accounts are used to effect transactions in relation to borrowing and debt servicing in currencies other than the currency of the State.

The Capital Services Redemption Account (CSRA) was established by Section 22 of the Finance Act, 1950. It provides for the amortisation over 30 years from current revenue of Government borrowing for voted capital services. Each year's Finance Act makes provision for the required annuity to be paid from the Central Fund into the Account. The Finance Act, 1988 also provided that amounts received by the Minister for Finance arising out of certain debt management transactions together with deposit interest shall be paid into the Account and applied towards defraying the interest and expenses on the public debt.

|                              | Notes   | Foreign Currency<br>ClearingAccounts<br>IR£'000 | Central Fund<br>IR£'000 | CSRA<br>IR£'000 | Total<br>Service<br>Cost 1997<br>IR£'000 |
|------------------------------|---------|---|-------------------------|-----------------|--|
| Interest paid                |         |   |                         |                 |  |
| Irish Government Bonds       | 2       | -   | 456,156                 | 819,541         | 1,275,697                                |
| Foreign Currency Borrowings  | 3,18    | 536,597   | -                       | -               | 536,597                                  |
| Other Irish Pound Borrowings | 4       | -   | 66,929                  | 7,486           | 74,415                                   |
| Small Savings                | 5,13    | -   | 369,500                 | -               | 369,500                                  |
| Other Movements              | 6,17,18 | (1,578,408)                                     | 1,896,340               | (21,563)        | 296,369                                  |

|   |         |                    |                  |                |                         |
|---|---------|--------------------|------------------|----------------|-------------------------|
| Sinking Fund payments   | 7,17    | -                  | 713              | 265,829        | 266,542                 |
| Fees and Expenses   | 8,17,18 | 1,576              | 10,402           | 172            | 12,150                  |
| Expenses of NTMA  | 9       | -                  | 5,915            | -              | 5,915                   |
| Deposit interest received                                     | 17,18   | (350)              | -                | (82,288)       | (82,638)                |
|   |         | <u>(1,040,585)</u> | <u>2,805,955</u> | <u>989,177</u> |                         |
| Inter Account movement  | 17      | -                  | 989,212          | (989,212)      |                         |
| Net cash paid   |         | <u>(1,040,585)</u> | <u>3,795,167</u> | <u>(35)</u>    | <u>2,754,547</u>        |
| Interest and sinking fund payments included in the Issues for |         |                    |                  |                |                         |
| Supply Services   | 11(b)   |                    |                  |                | <u>65</u>               |
| Total Service Cost  |         |                    |                  |                | <u><u>2,754,612</u></u> |



# National Debt of Ireland

## Notes to the Accounts (Continued)

The Combined Exchequer Debt Service Cost of IR£2,754.9 million, as published in the White Paper on 1997 Estimates of receipts and expenditure, has been decreased by IR£0.271 million to a revised figure of IR£2,754.6 million (net of IR£3,795.2 million charged on Central Fund and IR£1,040.6 million credited to Foreign Currency Clearing Accounts) to reflect a reclassification of Small Savings amounts between interest and debt balances.

## 2. Interest on Irish Government Bonds

|                                     | Charged on<br>Central Fund<br>IR£'000 | Charged on<br>CSRA<br>IR£'000 | Total<br>Cost<br>IR£'000 |
|-------------------------------------|---------------------------------------|-------------------------------|--------------------------|
| 7.75% Capital Stock, 1997           | 9                                     | 18,986                        | 18,995                   |
| 8.75% Exchequer Bond, 1997          | 463                                   | 79,135                        | 79,598                   |
| 9.75% Capital Stock, 1998           | 7,126                                 | 69,071                        | 76,197                   |
| 6.25% Treasury Bond, 1999           | 19,122                                | 99,640                        | 118,762                  |
| 7.5% Capital Stock, 1999            | -                                     | 1,954                         | 1,954                    |
| 11.5% Development Loan, 1997 - 99   | -                                     | 10,410                        | 10,410                   |
| 8% Treasury Bond, 2000              | 12,779                                | 104,964                       | 117,743                  |
| 11.75% Capital Stock, 2000          | 2,358                                 | 2,358                         | 4,716                    |
| 14.5% Finance Loan, 1998 - 2000     | -                                     | 4,014                         | 4,014                    |
| 6.5% Treasury Bond, 2001            | 32,707                                | 84,776                        | 117,483                  |
| 8% Capital Loan, 2001               | 720                                   | 720                           | 1,440                    |
| 9% Government Bond, 2001            | 132                                   | 11,555                        | 11,687                   |
| 13% Finance Stock, 1997 - 2002      | -                                     | 6,165                         | 6,165                    |
| 8.25% Exchequer Bond, 2003          | -                                     | 2,677                         | 2,677                    |
| 9.25% Capital Stock, 2003           | 14,058                                | 91,231                        | 105,289                  |
| 12.25% Development Stock, 2000 - 03 | -                                     | 3,549                         | 3,549                    |
| 6.25% Treasury Bond, 2004           | 91,747                                | 3,000                         | 94,747                   |
| 14.75% Development Stock, 2002 - 04 | -                                     | 3,016                         | 3,016                    |
| 6.5% Exchequer Stock, 2000 - 05     | 2,841                                 | 6,640                         | 9,481                    |
| 12.5% Capital Stock, 2005           | -                                     | 1,651                         | 1,651                    |
| 8% Treasury Bond, 2006              | 98,287                                | 100,000                       | 198,287                  |
| 9% Capital Stock, 2006              | 6,232                                 | 6,193                         | 12,425                   |
| 6% Treasury Bond, 2008              | 461                                   | -                             | 461                      |

|   |         |         |           |
|---|---------|---------|-----------|
| 8.25% Capital Stock, 2008                             | -       | 355     | 355       |
| 8.5% Capital Stock, 2010                              | 694     | 694     | 1,388     |
| 8.75% Capital Stock, 2012                             | 43,640  | 43,064  | 86,704    |
| 8.25% Treasury Bond, 2015                             | 104,302 | -       | 104,302   |
| 7.25% DM 500m. Dual Currency Bond Issue due June 1999 | 1       | -       | 1         |
| Variable Rate Treasury Bond, 1998                     | 10,301  | 29,565  | 39,866    |
| Variable Rate Treasury Bond, 2000                     | 8,176   | 34,158  | 42,334    |
|   | <hr/>   | <hr/>   | <hr/>     |
| Total interest on Irish Government Bonds              | 456,156 | 819,541 | 1,275,697 |
|   | <hr/>   | <hr/>   | <hr/>     |

Investors in the 7.25% DM 500m. Dual Currency Bond Issue due June 1999 can opt to receive interest in IR£ or DM (see note 3).





# National Debt of Ireland

Notes to the Accounts (Continued)

## 3 Interest on Foreign Currency Borrowings

| Original Facility   | Charged on<br>Foreign Currency<br>Clearing Account<br>IR£'000 |
|---|---|
| 6.5% DM 300m. Bonds due April 1997                            | 7,300   |
| 7.75% DM 150m. Bonds due May 1997                             | 4,501   |
| 5.875% SF 100m. Bonds due June 1997                           | 2,707   |
| 5.2% Yen 30Bn. Bonds due November 1997 - 14th Series Samurai  | 8,432   |
| 6.2% Yen 20Bn. Bonds due November 1998 - 7th Series Samurai   | 6,628   |
| 8.75% PTE 15Bn. Escudo Bonds due November 1998                | 1,737   |
| 6.5% DM 300m. Bonds due March 1999                            | 6,261   |
| 5.1% Yen 15Bn. Bonds due March 1999 - 10th Series Samurai     | 4,170   |
| 4.9% Yen 20Bn. Bonds due May 1999 - 8th Series Samurai        | 5,376   |
| 7.25% DM 500m. Dual Currency Bond Issue due June 1999         | 13,931  |
| 6.1% \$ 50m. Schuldschein due August 1999                     | 2,001   |
| 8.5% NLG 42m. Loan due December 1999                          | 368   |
| 8% LUF 2Bn. Bonds due January 2000                            | 2,965   |
| 4.875% SF 200m. Bonds due April 2000                          | 4,288   |
| 9.5% \$ 250m. Bonds due April 2000                            | 14,965  |
| 5.2% Yen 15Bn. Bonds due May 2000 - 9th Series Samurai        | 4,255   |
| 6.5% SF 150m. Notes due January 2001                          | 4,306   |
| 7.25% SF 100m. Bond Issue due February 2001                   | 3,141   |
| 8.625% \$ 200m. Bond due April 2001                           | 11,483  |
| 8.75% DM 100m. Loan due August 2001                           | 3,271   |
| 8.75% DM 100m. Loan due August 2001                           | 3,273   |
| 8.7% DM 50m. Schuldschein Loan due September 2001             | 1,623   |
| 8.85% DM 100m. Loan due September 2001                        | 3,346   |
| 7.875% \$ 200m. Yankee Bond due December 2001                 | 10,511  |
| 5% SF 150m. Bonds due June 2002                               | 3,459   |
| 7.375% SF 150m. Bonds due July 2002                           | 4,967   |
| 7.125% \$ 300m. Yankee Bond due July 2002                     | 13,536  |
| 5.7% Yen 15Bn. Bonds due September 2002 - 13th Series Samurai | 4,634   |

|   |         |
|---|---------|
| 6.625% SF 150m. Public Bond Issue due October 2002                                    | 4,682   |
| 7.25% SF 100m. Loan due October 2002  | 3,380   |
| 7.75% DM 500m. Public Bond Issue due October 2002                                     | 14,566  |
| 5.7% Yen 15Bn. Loan due November 2002   | 4,595   |
| 5.75% SF 100m. Notes due February 2003  | 2,517   |
| 7.25% DM 1.5Bn. Eurobond due March 2003   | 36,931  |
| 6.875% \$ 500m. Eurobond due March 2003   | 16,785  |
| 3.75% Yen 10Bn. Euroyen due January 2004  | 1,960   |
| 6.875% NLG 250m. Bond due June 2004   | 2,658   |
| 12.5% Sterling Loan Stock 2008  | 3,863   |
| \$ 100m. Floating Rate Notes due August 1997 - 2000                                   | 2,854   |
| DM 500m. Floating Rate Notes due February 2000  | 1,882   |
| Medium Term Notes   | 48,613  |
| European Investment Bank Loans  | 67,502  |
| Other Borrowings  | 166,374 |
|   | <hr/>   |
| Interest on Foreign Currency Borrowings charged to Foreign Currency Clearing Accounts | 536,597 |
|   | <hr/>   |



# National Debt of Ireland

## Notes to the Accounts (Continued)

### 4. Interest on Other Irish Pound Borrowings

|  | Charged on<br>Central Fund<br>IR£'000 | Charged on<br>CSRA<br>IR£'000 | Total<br>Cost<br>IR£'000 |
|--|---------------------------------------|-------------------------------|--------------------------|
| Discount on Exchequer Bills                    | 352                                   | -                             | 352                      |
| Discount on Exchequer Notes                    | 56,645                                | 339                           | 56,984                   |
| Central Bank Borrowings                        | -                                     | 1,703                         | 1,703                    |
| Other Borrowings                               | 9,926                                 | 3,208                         | 13,134                   |
| Ways and Means Advances                        | 6                                     | 2,236                         | 2,242                    |
|  | <hr/>                                 | <hr/>                         | <hr/>                    |
| Total interest on Other Irish Pound Borrowings | 66,929                                | 7,486                         | 74,415                   |
|  | <hr/>                                 | <hr/>                         | <hr/>                    |

### 5. Interest on Small Savings

|   | Charged on<br>Central Fund<br>IR£'000 |
|---|---------------------------------------|
| Prizes in respect of Prize Bonds        | 5,159                                 |
| Interest on National Instalment Savings | 10,348                                |
| Interest on Savings Bonds               | 24,952                                |
| Interest on Savings Certificates        | 57,041                                |
| Small Savings Reserve (note 13)         | 272,000                               |
|   | <hr/>                                 |
| Total interest on Small Savings         | 369,500                               |
|   | <hr/>                                 |

### 6. Other Movements

These reflect the net cashflows associated with debt management activities.

## 7. Sinking Fund Payments

Under Finance Act 1950 and under the prospectus covering the issue of certain loans specified amounts were provided for the redemption of debt. The sums provided and applied in 1997 were as follows

|  | IR£'000 |
|--|---------|
| Central Fund (6.5% Exchequer Stock, 2000 - 05) | 713     |
| Capital Services Redemption Account (note 17)  | 265,829 |
|  | <hr/>   |
|  | 266,542 |
|  | <hr/>   |



# National Debt of Ireland

## Notes to the Accounts (Continued)

### 8. Fees and Expenses

|   | Charged on<br>Foreign Currency<br>Clearing Accounts<br>IR£'000 | Charged on<br>Central Fund<br>IR£'000 | Charged on<br>CSRA<br>IR£'000 | Total<br>Cost<br>IR£'000 |
|---|--|---------------------------------------|-------------------------------|--------------------------|
| Expenses on Irish Pound Borrowings      | -  | 133                                   | 168                           | 301                      |
| Expenses of Savings Certificates        | -  | 3,096                                 | -                             | 3,096                    |
| Expenses of Prize Bonds                 | -  | 3,057                                 | -                             | 3,057                    |
| Expenses of Savings Bonds               | -  | 1,219                                 | -                             | 1,219                    |
| Expenses of National Instalment Savings | -  | 1,755                                 | -                             | 1,755                    |
| Expenses of Savings Stamps              | -  | 868                                   | -                             | 868                      |
| Expenses of Foreign Currency Borrowings | 1,576  | 274                                   | 4                             | 1,854                    |
| <b>Total Fees and Expenses</b>          | <b>1,576</b>   | <b>10,402</b>                         | <b>172</b>                    | <b>12,150</b>            |

### 9. Expenses of NTMA

|  |         |
|--|---------|
|  | IR£'000 |
| Income (as per NTMA Administration Account)        | 6,002   |
| Movement in debtors - amount due from Central Fund | (87)    |
|  | <hr/>   |
| Expenses of NTMA charged on Central Fund           | 5,915   |
|  | <hr/>   |

### 10. Irish Government Bonds

|   |   |
|---|---|
| As at<br>31 December<br>1997<br>IR£'000 | As at 31<br>December<br>1996<br>IR£'000 |
|---|---|

|                                     |           |           |
|-------------------------------------|-----------|-----------|
| 7.75% Capital Stock, 1997           | -         | 245,225   |
| 8.75% Exchequer Bond, 1997          | -         | 956,614   |
| 9.75% Capital Stock, 1998           | 720,632   | 899,632   |
| 6.25% Treasury Bond, 1999           | 1,827,462 | 1,876,692 |
| 7.5% Capital Stock, 1999            | 26,050    | 26,050    |
| 11.5% Development Loan, 1997 - 99   | -         | 90,521    |
| 8% Treasury Bond, 2000              | 1,604,060 | 1,299,150 |
| 11.75% Capital Stock, 2000          | 39,750    | 40,130    |
| 14.5% Finance Loan, 1998 - 2000     | 27,685    | 27,685    |
| 6.5% Treasury Bond, 2001            | 1,893,600 | 1,585,666 |
| 8% Capital Loan, 2001               | 18,000    | 18,000    |
| 9% Government Bond, 2001            | 113,935   | 143,240   |
| 13% Finance Stock, 1997 - 2002      | -         | 94,840    |
| 8.25% Exchequer Bond, 2003          | 32,450    | 32,450    |
| 9.25% Capital Stock, 2003           | 1,167,340 | 1,239,950 |
| 12.25% Development Stock, 2000 - 03 | 28,971    | 28,971    |
| 6.25% Treasury Bond, 2004           | 1,466,459 | 1,590,459 |
| 14.75% Development Stock, 2002 - 04 | 20,446    | 20,446    |
| 6.5% Exchequer Stock, 2000 - 05     | 141,525   | 154,930   |
| 12.5% Capital Stock, 2005           | 13,208    | 13,208    |



# National Debt of Ireland

## Notes to the Accounts (Continued)

### 10. Irish Government Bonds (Continued)

|   | As at 31<br>December<br>1997<br>IR£'000 | As at 31<br>December<br>1996<br>IR£'000 |
|---|---|---|
| 8% Treasury Bond, 2006                                | 2,822,121                               | 2,282,211                               |
| 9% Capital Stock, 2006                                | 130,357                                 | 137,617                                 |
| 6% Treasury Bond, 2008                                | 860,890                                 | -                                       |
| 8.25% Capital Stock, 2008                             | 4,300                                   | 4,300                                   |
| 8.5% Capital Stock, 2010                              | 16,337                                  | 16,337                                  |
| 8.75% Capital Stock, 2012                             | 925,027                                 | 980,377                                 |
| 8.25% Treasury Bond, 2015                             | 1,559,814                               | 1,243,824                               |
| 7.25% DM 500m. Dual Currency Bond Issue due June 1999 | 97,515                                  | 95,877                                  |
| Variable Rate Treasury Bond, 1998                     | 668,900                                 | 668,900                                 |
| Variable Rate Treasury Bond, 2000                     | 783,100                                 | 633,100                                 |
|   | <hr/>                                   | <hr/>                                   |
|   | 17,009,934                              | 16,446,402                              |
|   | <hr/>                                   | <hr/>                                   |

### 11. Medium/Long Term Indebtedness

|   | As at 31<br>December<br>1997<br>IR£'000 | As at 31<br>December<br>1996<br>IR£'000 |
|---|---|---|
| Borrowings from Central Bank (a)  | 31,693                                  | 31,693                                  |
| Borrowings under Housing Acts, 1932 - 66 (b)  | 2,260                                   | 2,270                                   |
| State contributions towards loan charges of sanitary and miscellaneous services capitalised (b) | 1,697                                   | 1,730                                   |
| Borrowings under Insurance Act, 1964 (c)  | 100,000                                 | 100,000                                 |
| Other Irish Pound Borrowings  | 104,587                                 | 20,000                                  |
|   | <hr/>                                   | <hr/>                                   |
|   | 240,237                                 | 155,693                                 |
|   | <hr/>                                   | <hr/>                                   |

a) Borrowings for the purpose of funding share capital subscriptions arising out of Ireland's membership of various international organisations.

b) The National Debt includes liabilities of IR£3.9 million (1996: IR£4.0 million) representing amounts payable on future dates by the Exchequer to certain local authorities in respect of borrowings incurred by them. Their debt cost is included in the issues for supply services rather than charged directly on the Central Fund. The Department of Finance supplies the data under this heading.

c) Borrowings from the Central Bank in connection with the funding of the administration of the Insurance Corporation of Ireland p.l.c.





# National Debt of Ireland

## Notes to the Accounts (Continued)

### 12. Short Term Indebtedness

|   | As at 31<br>December<br>1997<br>IR£'000 | As at 31<br>December<br>1996<br>IR£'000 |
|---|---|---|
| Ways and Means Advances (see below and note 13) | 1,163,913                               | 893,486                                 |
| Exchequer Bills                                 | 5,356                                   | 6,814                                   |
| Exchequer Notes                                 | 1,056,183                               | 873,127                                 |
| Savings Certificates (note 13)                  | 2,146,682                               | 2,061,002                               |
| Prize Bonds                                     | 155,102                                 | 146,297                                 |
| Tax Reserve Certificates                        | 8                                       | 9                                       |
| 6.5% Investment Bonds                           | 4                                       | 4                                       |
| 7.5% Investment Bonds                           | 12                                      | 12                                      |
| Investment Bonds                                | 31                                      | 31                                      |
| 9.5% National Instalment Savings (note 13)      | 327,803                                 | 295,150                                 |
| Savings Bonds (note 13)                         | 1,145,228                               | 1,080,460                               |
| Other Borrowings                                | 122,420                                 | 26,733                                  |
|   | 6,122,742                               | 5,383,125                               |
|   |   |   |

Amounts shown in respect of Savings Certificates, National Instalment Savings, Savings Bonds and Prize Bonds are net of IR£5.9 million (1996: IR£9.3 million) being cash balances held by An Post, TSB Bank and the Prize Bond Company.

Ways and Means Advances are short term borrowings of the Exchequer drawn down as a "ways and means" of funding Exchequer requirements from a number of Funds under the control of the Minister for Finance. Examples of such Funds are the Post Office Savings Bank (POSB) Fund and Deposit Monies Investment Account.



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# National Debt of Ireland

## Notes to the Accounts (Continued)

### 13. Savings Bonds, Savings Certificates and National Instalment Savings

As these financial accounts are prepared on a cash basis the liabilities do not include the sum of IR£1,573 million (1996: IR£1,356 million), being the estimate of the amount of accrued interest at 31 December 1997 in respect of Savings Bonds, Savings Certificates and National Instalment Savings.

Section 160 of the Finance Act 1994 provided for the establishment of a fund to be known as the Small Savings Reserve Fund. It provided for IR£60 million to be paid into the fund in 1994 and in each year thereafter for such sums, if any, as the Minister for Finance may decide. Where in any calendar year interest payment on encashments of small savings exceed 11 per cent of total interest accrued on such savings at the end of the immediately preceding calendar year, the resources of the fund may be applied towards meeting so much of those interest payments which, as a percentage of the said total interest accrued, exceed 11 per cent.

|   | IR£million |
|---|------------|
| Estimated accrued interest at 31 December 1997                  | 1,573      |
| Small Savings Reserve Fund                                      |            |
| Balance at 1 January 1997                                       | (351)      |
| Amount provided during 1997                                     | (272)      |
|   | <hr/>      |
| Balance at 31 December 1997                                     | (623)      |
|   | <hr/>      |
| Estimated accrued interest not provided for at 31 December 1997 | 950        |

The balance in the Fund is transferred to the Exchequer as repayable ways and means advances.

### 14. Irish Pound Liquid Assets

|   | As at 31<br>December<br>1997<br>IR£'000 | As at 31<br>December<br>1996<br>IR£'000 |
|---|---|---|
| Exchequer Account                             | 971,623                                 | 791,244                                 |
| Capital Services Redemption Account (note 17) | 895                                     | 860                                     |
|   | <hr/>                                   | <hr/>                                   |
|   | 972,518                                 | 792,104                                 |

## 15. Foreign Currency Borrowings

| Original Facility  | As at 31<br>December<br>1997<br>IR£'000 | As at 31<br>December<br>1996<br>IR£'000 |
|--|---|---|
| 6.5% DM 300m. Bonds due April 1997                           | -                                       | 114,477                                 |
| 7.75% DM 150m. Bonds due May 1997                            | -                                       | 57,526                                  |
| 5.875% SF 100m. Bonds due June 1997                          | -                                       | 44,061                                  |
| 5.2% Yen 30Bn. Bonds due November 1997 - 14th Series Samurai | -                                       | 152,905                                 |
| 6.2% Yen 20Bn. Bonds due November 1998 - 7th Series Samurai  | 107,811                                 | 101,937                                 |
| 8.75% PTE 15Bn. Escudo Bond due November 1998                | 56,097                                  | 55,155                                  |
| 6.5% DM 300m. Bonds due March 1999                           | 100,488                                 | 98,800                                  |



# National Debt of Ireland

## Notes to the Accounts (Continued)

### 15. Foreign Currency Borrowings (Continued)

|   | As at 31<br>December<br>1997<br>IR£'000 | As at 31<br>December<br>1997<br>IR£'000 |
|---|---|---|
| Original Facility   |   |   |
| 5.1% Yen 15Bn. Bonds due March 1999 - 10th Series Samurai     | 80,858                                  | 76,453                                  |
| 4.9% Yen 20Bn. Bonds due May 1999 - 8th Series Samurai        | 107,811                                 | 101,937                                 |
| 7.25% DM 500m. Dual Currency Bond Issue due June 1999         | 97,515                                  | 95,877                                  |
| 6.1% \$ 50m. Schuldschein due August 1999                     | 35,100                                  | 29,549                                  |
| 8.5% NLG 42m. Loan due December 1999                          | 2,907                                   | 4,302                                   |
| 8% LUF 2Bn. Bonds due January 2000                            | 37,821                                  | 37,230                                  |
| 4.875% SF 200m. Bonds due April 2000                          | 96,145                                  | 88,121                                  |
| 9.5% \$ 250m. Bonds due April 2000                            | 175,500                                 | 147,745                                 |
| 5.2% Yen 15Bn. Bonds due May 2000 - 9th Series Samurai        | 80,858                                  | 76,452                                  |
| 6.5% SF 150m. Notes due January 2001                          | 72,108                                  | 66,091                                  |
| 7.25% SF 100m. Bond Issue due February 2001                   | 48,072                                  | 44,061                                  |
| 8.625% \$ 200m. Bonds due April 2001                          | 140,400                                 | 118,196                                 |
| 8.75% DM 100m. Loan due August 2001                           | 39,006                                  | 38,351                                  |
| 8.75% DM 100m. Loan due August 2001                           | 39,006                                  | 38,351                                  |
| 8.7% DM 50m. Schuldschein Loan due September 2001             | 19,503                                  | 19,175                                  |
| 8.85% DM 100m. Bond due September 2001                        | 39,006                                  | 38,351                                  |
| 7.875% \$ 200m. Yankee Bond due December 2001                 | 140,400                                 | 118,196                                 |
| 5% SF 150m. Bonds due June 2002                               | 72,108                                  | 66,091                                  |
| 7.375% SF 150m. Bonds due July 2002                           | 72,108                                  | 66,091                                  |
| 7.125% \$ 300m. Yankee Bond due July 2002                     | 210,600                                 | 177,294                                 |
| 5.7% Yen 15Bn. Bonds due September 2002 - 13th Series Samurai | 80,858                                  | 76,453                                  |
| 6.625% SF 150m. Public Bond Issue due October 2002            | 72,108                                  | 66,091                                  |
| 7.25% SF 100m. Loan due October 2002                          | 48,072                                  | 44,061                                  |
| 7.75% DM 500m. Public Bond Issue due October 2002             | 191,130                                 | 187,919                                 |
| 5.7% Yen 15Bn. Loan due November 2002                         | 80,858                                  | 76,453                                  |
| 5.75% SF 100m. Notes due February 2003                        | 48,072                                  | 44,061                                  |
| 7.25% DM 1.5Bn. Eurobond due March 2003                       | 528,533                                 | 519,655                                 |
| 6.875% \$ 500m. Eurobond due March 2003                       | 264,447                                 | 278,148                                 |

|   |           |           |
|---|-----------|-----------|
| 3.75% Yen 10Bn. Euroyen due January 2004            | 53,905    | 50,968    |
| 6.875% NLG 250m. Bonds due June 2004                | 86,517    | 85,347    |
| 12.5% Sterling Loan Stock due 2008                  | 33,034    | 28,945    |
| \$ 100m. Floating Rate Notes due August 1997 - 2000 | 51,246    | 43,142    |
| DM 500m. Floating Rate Notes due February 2000      | -         | 118,125   |
| Medium Term Notes                                   | 766,139   | 854,874   |
| European Investment Bank Loans                      | 819,819   | 857,081   |
| Other Borrowings                                    | 3,292,190 | 3,314,295 |
|   | <hr/>     | <hr/>     |
|   | 8,288,156 | 8,718,393 |
|   | <hr/>     | <hr/>     |



# National Debt of Ireland

## Notes to the Accounts (Continued)

### 16. Foreign Currency Debt

The composition of the foreign currency component of the National Debt at 31 December 1997, taking into account the treasury management transactions entered into by the Agency, is as follows:-

|                        | IR£million |
|------------------------|------------|
| Sterling               | 2,185      |
| US Dollar              | 1,712      |
| Deutschemark           | 1,621      |
| Swiss Franc            | 1,132      |
| French Franc           | 904        |
| European Currency Unit | 178        |
| Dutch Guilder          | 165        |
| Japanese Yen           | 139        |
| Others                 | 252        |
|                        | <hr/>      |
|                        | 8,288      |
|                        | <hr/>      |

### 17. Capital Services Redemption Account

|   | IR£'000  |
|---|----------|
| Balance at 1 January 1997                         | 860      |
| Received from Central Fund                        |          |
| Interest  | 723,383  |
| Sinking Fund                                      | 265,829  |
|   | <hr/>    |
| Deposit interest received                         | 82,288   |
| Amounts received under Finance Act 1988 [S67 (8)] | 115,108  |
| Amounts paid under Finance Act 1970 [S54 (7)]     | (93,545) |
|   | <hr/>    |

|  |           |           |
|--|-----------|-----------|
| Amounts applied in redemption of National Debt       |           |           |
| Irish Pound Borrowings                               |           | (265,829) |
| Amounts applied in meeting interest on National Debt |           |           |
| Irish Government Bonds (note 2)                      | (819,541) |           |
| Other Irish Pound Borrowings (note 4)                | (7,486)   |           |
| Expenses of borrowings (note 8)                      | (172)     | (827,199) |
|  | <hr/>     | <hr/>     |
| Balance at 31 December 1997                          |           | 895       |
|  | <hr/>     | <hr/>     |

The balances at the end of 1996 and 1997 were comprised entirely of current funds.





# National Debt of Ireland

## Notes to the Accounts (Continued)

### 18. Foreign Currency Clearing Accounts

|   |              | IR£'000     |
|---|--------------|-------------|
| Balance at 1 January 1997                             |              | Nil         |
| Deposit interest received                             |              | 350         |
| Amounts received under Finance Act 1988 [S67 (8)]     | 20,942,604   |             |
| Amounts paid under Finance Act 1970 [S54 (7)]         | (19,364,196) | 1,578,408   |
|   | <hr/>        |             |
| Foreign Currency Borrowing receipts                   | 8,571,201    |             |
| Foreign Currency Borrowing payments                   | (9,611,786)  | (1,040,585) |
|   | <hr/>        |             |
| Interest paid on Foreign Currency Borrowings (note 3) |              | (536,597)   |
| Expenses of Foreign Currency Borrowings (note 8)      |              | (1,576)     |
|   |              | <hr/>       |
| Balance at 31 December 1997                           |              | Nil         |
|   |              | <hr/>       |

### 19. Nominal Movements

|   | As at 31<br>December<br>1997<br>IR£'000 | As at 31<br>December<br>1996<br>IR£'000 |
|---|---|---|
| Valuation fluctuations - exchange rates                               | 611,790                                 | (859,029)                               |
| Tranching: net excess of proceeds over nominal liability              | (420,039)                               | (200,901)                               |
| Cancellations: net excess of cancellation cost over nominal liability | 350,730                                 | 210,176                                 |
| Other nominal movements   | (56)                                    | 9,497                                   |
|   | <hr/>                                   | <hr/>                                   |
|   | 542,425                                 | (840,257)                               |
|   | <hr/>                                   | <hr/>                                   |



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# National Treasury Management Agency - Administration Account

Financial Accounts for the year ended 31 December 1997



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# National Treasury Management Agency - Administration Account

## Accounting Policies

**Background** The National Treasury Management Agency was established under the National Treasury Management Agency Act, 1990 to perform the borrowing and National Debt management function on behalf of the Minister for Finance and other such functions as the Government may delegate to it.

Information relating to the National Debt of Ireland is contained on pages 68 to 82. Financial information covering the Agency itself is set out on pages 84 to 88.

Under Section 11 of the National Treasury Management Agency Act, 1990 " the expenses incurred by the Agency in the performance of its functions shall be charged on and paid out of the Central Fund (Exchequer) or the growing produce thereof".

## Basis of Accounting

The financial accounts have been prepared under the historical cost convention. The form of the accounts has been approved by the Minister for Finance under Section 12 of the National Treasury Management Agency Act, 1990.

## Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Fixed assets are depreciated by annual instalments over their estimated useful lives.

## Leasing

Rentals under the operating lease are charged to the income and expenditure account on an accruals basis.

## Software

Computer software costs are charged to the income and expenditure account in the period in which they are incurred.

## Capital Account

The capital account represents receipts from the Central Fund which have been allocated for the purchase of fixed assets. The receipts are amortised in line with depreciation on the related fixed assets.



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# National Treasury Management Agency - Administration Account

## Income and Expenditure Account

|                                 | Notes | Year ended 31 December 1997 |             |
|---------------------------------|-------|-----------------------------|-------------|
|                                 |       | 1997<br>IR£                 | 1996<br>IR£ |
| <b>Income</b>                   |       |                             |             |
| Central Fund                    |       | 6,002,061                   | 5,747,191   |
| Other income                    |       | 57,346                      | 16,528      |
| Transfer from capital account   | 5     | 101,589                     | 105,274     |
|                                 |       | <hr/>                       | <hr/>       |
|                                 |       | 6,160,996                   | 5,868,993   |
| <b>Expenses</b>                 |       |                             |             |
|                                 | 1     | (6,160,996)                 | (5,868,993) |
|                                 |       | <hr/>                       | <hr/>       |
| <b>Net income/(expenditure)</b> |       | NIL                         | NIL         |

Michael J Somers, [Chief Executive](#)  
National Treasury Management Agency

26 June 1998

The notes on pages 87 to 88 form part of these accounts.



# National Treasury Management Agency - Administration Account

## Balance Sheet

|  | Notes | 31 December 1997<br>1997<br>IR£ | 1996<br>IR£      |
|--|-------|---------------------------------|------------------|
| <b>Fixed Assets</b>                            |       |                                 |                  |
| Fixed assets                                   | 2     | 1,085,443                       | 1,187,032        |
| <b>Current Assets</b>                          |       |                                 |                  |
| Cash at bank and in hand                       |       | 5,304                           | 77,762           |
| Debtors  | 3     | 481,853                         | 418,630          |
|  |       | 487,157                         | 496,392          |
| <b>Current Liabilities</b>                     |       |                                 |                  |
| Creditors                                      | 4     | 487,157                         | 496,392          |
| <b>Current Assets less Current Liabilities</b> |       |                                 |                  |
|  |       | -                               | -                |
| <b>Total Assets less Current Liabilities</b>   |       | <b>1,085,443</b>                | <b>1,187,032</b> |
| <b>Representing:</b>                           |       |                                 |                  |
| Capital account                                | 5     | 1,085,443                       | 1,187,032        |
|  |       | 1,085,443                       | 1,187,032        |

Michael J Somers, Chief Executive  
National Treasury Management Agency

26 June 1998

The notes on pages 87 to 88 form part of these accounts.



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# National Treasury Management Agency - Administration Account

## Notes to the Accounts

### 1. Expenses

|                                 | Year Ended<br>31 December 1997<br>IR£ | Year Ended<br>31 December 1996<br>IR£ |
|---------------------------------|---------------------------------------|---------------------------------------|
| Salaries and other remuneration | 3,379,893                             | 3,371,871                             |
| Establishment expenses          | 301,600                               | 301,600                               |
| Operating expenses              | 2,144,520                             | 1,836,120                             |
| Depreciation                    | 334,983                               | 359,402                               |
|                                 | <hr/>                                 | <hr/>                                 |
| Total expenses                  | 6,160,996                             | 5,868,993                             |
|                                 | <hr/>                                 | <hr/>                                 |

### 2. Fixed Assets

|                                    | Property<br>IR£ | Furniture,<br>Equipment &<br>Motor Vehicles<br>IR£ | Total<br>IR£ |
|------------------------------------|-----------------|--|--------------|
| Cost:                              |                 |  |              |
| Opening balance at 1 January 1997  | 951,708         | 2,042,336  | 2,994,044    |
| Additions at cost                  | -               | 240,320  | 240,320      |
| Disposals                          | -               | (223,726)  | (223,726)    |
|                                    | <hr/>           | <hr/>  | <hr/>        |
| Balance at 31 December 1997        | 951,708         | 2,058,930  | 3,010,638    |
|                                    | <hr/>           | <hr/>  | <hr/>        |
| Accumulated depreciation:          |                 |  |              |
| Opening balance at 1 January 1997  | 283,412         | 1,523,600  | 1,807,012    |
| Depreciation for the period        | 47,586          | 287,397  | 334,983      |
| Disposals                          | -               | (216,800)  | (216,800)    |
|                                    | <hr/>           | <hr/>  | <hr/>        |
| Balance at 31 December 1997        | 330,998         | 1,594,197  | 1,925,195    |
|                                    | <hr/>           | <hr/>  | <hr/>        |
| Net book value at 31 December 1997 | 620,710         | 464,733  | 1,085,443    |

|                                    |         |         |           |
|------------------------------------|---------|---------|-----------|
| Net book value at 31 December 1996 | 668,296 | 518,736 | 1,187,032 |
|------------------------------------|---------|---------|-----------|

The estimated useful lives of fixed assets by reference to which depreciation is calculated is as follows:

|                            |              |
|----------------------------|--------------|
| Property                   | 20 years     |
| Equipment & Motor Vehicles | 2 to 5 years |
| Furniture                  | 10 years     |

The property is leased under a long-term lease, which is subject to rent reviews. The annual rent is IR£301,600.



# National Treasury Management Agency - Administration Account

## Notes to the Accounts (Continued)

### 3. Debtors

|               | 1997<br>IR£ | 1996<br>IR£ |
|---------------|-------------|-------------|
| Central Fund  | 248,746     | 161,684     |
| Prepayments   | 210,998     | 241,642     |
| Other debtors | 22,109      | 15,304      |
|               | <hr/>       | <hr/>       |
|               | 481,853     | 418,630     |
|               | <hr/>       | <hr/>       |

### 4. Creditors

|           | 1997<br>IR£ | 1996<br>IR£ |
|-----------|-------------|-------------|
| Creditors | 40,707      | 55,407      |
| Accruals  | 446,450     | 440,985     |
|           | <hr/>       | <hr/>       |
|           | 487,157     | 496,392     |
|           | <hr/>       | <hr/>       |

### 5. Capital Account

|   | 1997<br>IR£ | 1996<br>IR£ |
|---|-------------|-------------|
| Receipts from Exchequer for capital expenditure | 233,394     | 254,128     |
| Amortisation for the period                     | (334,983)   | (359,402)   |
| Transfer to income and expenditure account      | (101,589)   | (105,274)   |
| Opening balance at 1 January 1997               | 1,187,032   | 1,292,306   |

## 6. Superannuation

Superannuation entitlements of staff are conferred under a defined benefits superannuation scheme set up under Section 8 of the National Treasury Management Agency Act, 1990. Those of the Chief Executive are provided under his contract of service. Contributions, including those of staff who have opted for dependant benefit arrangements, are transferred to an externally managed fund. The Agency contribution is determined on the advice of an independent actuary and is, at present, set at a level of 25% of payroll. Contributions by the Agency for the year ended 31 December 1997 amounted to IR£531,344 (1996: IR£526,987).

Liabilities arising under the scheme are provided for under the above arrangements, except for entitlements arising in respect of the service of certain members of NTMA staff recruited from other areas of the public sector. On 7 April 1997 the Minister for Finance designated the National Treasury Management Agency as an approved organisation for the purposes of the Public Sector (Transfer of Service) Scheme. This designation provides for, inter alia, contributions to be made, as and when benefits fall due for payment in the normal course, in respect of former civil servants employed by the Agency. No provision has been made for funding the payment of such entitlements.



# Post Office Savings Bank Fund

Financial Accounts for the year ended 31 December 1997



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# Post Office Savings Bank Fund

## Report of the Comptroller and Auditor General

I have examined in accordance with auditing standards the accounts set out in pages 91 to 95 which are in the form approved by the Minister for Finance.

I have obtained all the information and explanations which I considered necessary for the purpose of my audit.

In my opinion proper books of account have been kept by the National Treasury Management Agency in respect of the Fund and the accounts, which are in agreement with them, give a true and fair view of the state of affairs of the Fund at 31 December 1997 and of its transactions for the year then ended.

John Purcell  
Comptroller and Auditor General

29 June 1998

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## Accounting Policies

### Background

The Minister for Finance guarantees the repayment and servicing of moneys invested by depositors in the Post Office Savings Bank. An Post remits the net proceeds of such investment to the Agency. In addition deposits are received from TSB Bank. The Post Office Savings Bank Fund does not form part of the Exchequer. The fund has two main purposes :-

- to invest the moneys made available by investors, and
- to act as an intermediary through which the tranching, cancellation and sale and repurchase (repo)activity of the Agency can be transacted with the market.

The significant accounting policies adopted by the fund are as follows:-

### Historical cost convention

The financial accounts are prepared under the historical cost convention.

# Investments

Investments are stated at cost.



# Post Office Savings Bank Fund

## Income and Expenditure Account

|                              | Notes | Year ended 31 December 1997 |                  |
|------------------------------|-------|-----------------------------|------------------|
|                              |       | 1997<br>IR£                 | 1996<br>IR£      |
| Investment income            | 1     | 25,213,238                  | 32,174,986       |
| Interest paid and payable    | 2     | 9,159,329                   | 16,293,460       |
| Other expenses               | 3     | 12,312,276                  | 12,395,186       |
|                              |       | <hr/> 21,471,605            | <hr/> 28,688,646 |
|                              |       | 3,741,633                   | 3,486,340        |
| Balance at beginning of year |       | 23,366,386                  | 19,880,046       |
| Balance at end of year       |       | <hr/> 27,108,019            | <hr/> 23,366,386 |

Michael J Somers, [Chief Executive](#)  
National Treasury Management Agency

26 June 1998

The notes on pages 93 to 95 form part of these accounts





# Post Office Savings Bank Fund

## Balance Sheet

31 December 1997

|                                 | Notes | 1997<br>IR£ | 1996<br>IR£ |
|---------------------------------|-------|-------------|-------------|
| <b>Assets</b>                   |       |             |             |
| Advances                        | 4     | 64,076,823  | 69,575,506  |
| Investments                     | 5     | 55,502,233  | 32,858,135  |
| Debtors                         | 7     | 39,007,065  | 17,019,812  |
| Agricultural Intervention Paper |       | 100,000,000 | 100,000,000 |
| Cash at bank                    |       | 249,113,058 | 413,039,804 |
|                                 |       | <hr/>       | <hr/>       |
|                                 |       | 507,699,179 | 632,493,257 |
|                                 |       | <hr/>       | <hr/>       |
| <b>Liabilities</b>              |       |             |             |
| Deposits                        | 8     | 480,022,576 | 608,399,898 |
| Creditors                       | 9     | 568,584     | 726,973     |
| Accumulated Reserves            |       | 27,108,019  | 23,366,386  |
|                                 |       | <hr/>       | <hr/>       |
|                                 |       | 507,699,179 | 632,493,257 |
|                                 |       | <hr/>       | <hr/>       |

Michael J Somers, Chief Executive  
National Treasury Management Agency

26 June 1998

The notes on pages 93 to 95 form part of these accounts



# Post Office Savings Bank Fund

## Notes to the Accounts

### 1. Investment Income

|                                  | 1997       | 1996       |
|----------------------------------|------------|------------|
|                                  | IR£        | IR£        |
| Interest received and receivable | 22,447,987 | 28,245,121 |
| Profit on sale of investments    | 2,765,251  | 3,929,865  |
|                                  | <hr/>      | <hr/>      |
|                                  | 25,213,238 | 32,174,986 |
|                                  | <hr/>      | <hr/>      |

### 2. Interest Paid and Payable

|  | 1997      | 1996       |
|--|-----------|------------|
|  | IR£       | IR£        |
| Interest paid and credited to depositors of POSB               | 5,466,296 | 6,406,237  |
| Interest paid and payable in respect of deposits from TSB Bank | 3,693,033 | 9,887,223  |
|  | <hr/>     | <hr/>      |
|  | 9,159,329 | 16,293,460 |
|  | <hr/>     | <hr/>      |

### 3. Other Expenses

|                     | 1997       | 1996       |
|---------------------|------------|------------|
|                     | IR£        | IR£        |
| Management expenses | 12,309,034 | 12,367,501 |
| Miscellaneous       | 3,242      | 27,685     |
|                     | <hr/>      | <hr/>      |
|                     | 12,312,276 | 12,395,186 |
|                     | <hr/>      | <hr/>      |

### 4. Advances

Advances represent Ways and Means funds, which have been loaned to the Exchequer.

## 5. Investments

|                 | 1997<br>IR£ | 1996<br>IR£ |
|-----------------|-------------|-------------|
| At cost         | 55,502,233  | 32,858,135  |
| At market value | 56,079,656  | 33,037,541  |



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# Post Office Savings Bank Fund

## Notes to the Accounts (Continued)

### 5. Investments (Continued)

#### Schedule of Investment Holdings:-

| Nominal    | Stock                               | Cost<br>IR£ |
|------------|-------------------------------------|-------------|
| 652,847    | 9.75% Capital Stock, 1998           | 674,118     |
| 451,980    | 6.25% Treasury Bond, 1999           | 458,934     |
| 1,145,645  | 7.5% Capital Stock, 1999            | 1,185,293   |
| 209,197    | 11.75% Capital Stock, 2000          | 240,827     |
| 9,328,526  | 8% Treasury Bond, 2000              | 10,023,653  |
| 201,378    | 14.5% Finance Loan, 1998 - 2000     | 221,882     |
| 18,781,021 | 6.5% Treasury Bond, 2001            | 19,501,311  |
| 526,665    | 8% Capital Loan, 2001               | 562,527     |
| 1,210,751  | 9% Government Bond, 2001            | 1,344,410   |
| 95,843     | 12.25% Development Stock, 2000 - 03 | 112,858     |
| 2,641,665  | 9.25% Capital Stock, 2003           | 3,132,035   |
| 54,539     | 8.25% Exchequer Bond, 2003          | 57,607      |
| 5,335,262  | 6.25% Treasury Bond, 2004           | 5,573,726   |
| 181,829    | 14.75% Development Stock, 2002 - 04 | 239,851     |
| 312,182    | 6.5% Exchequer Stock, 2000 - 05     | 316,437     |
| 55,490     | 12.5% Capital Stock, 2005           | 72,097      |
| 1,466,233  | 8% Treasury Bond, 2006              | 1,707,039   |
| 225,123    | 9% Capital Stock, 2006              | 270,300     |
| 1,414,346  | 6% Treasury Bond 2008               | 1,487,953   |
| 196,022    | 8.25% Capital Stock, 2008           | 202,113     |
| 427,086    | 8.5% Capital Stock, 2010            | 451,260     |
| 1,195,097  | 8.75% Capital Stock, 2012           | 1,489,077   |
| 4,637,229  | 8.25% Treasury Bond, 2015           | 5,853,505   |
| 215,722    | Variable Rate Treasury Bond, 1998   | 215,882     |
| 107,314    | Variable Rate Treasury Bond, 2000   | 107,538     |
|            |                                     | 55,502,233  |



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# Post Office Savings Bank Fund

## Notes to the Accounts (Continued)

### 6. Sale and Repurchase Agreements

Sale and Repurchase agreements are transacted between the Post Office Savings Bank Fund and primary dealers in the bond market. The related income or interest cost arising from these transactions is reflected in investment income in the Income and Expenditure account.

### 7. Debtors

|  | 1997       | 1996       |
|--|------------|------------|
|  | IR£        | IR£        |
| Dividends and interest receivable                  | 1,954,952  | 2,068,320  |
| Net funds due under Sale and Repurchase Agreements | 36,573,531 | 10,874,729 |
| Other debtors                                      | 478,582    | 4,076,763  |
|  | <hr/>      | <hr/>      |
|  | 39,007,065 | 17,019,812 |
|  | <hr/>      | <hr/>      |

### 8. Deposits

|                        | 1997        | 1996        |
|------------------------|-------------|-------------|
|                        | IR£         | IR£         |
| Deposits from POSB     | 464,775,723 | 471,522,369 |
| Deposits from TSB Bank | 15,246,853  | 136,877,529 |
|                        | <hr/>       | <hr/>       |
|                        | 480,022,576 | 608,399,898 |
|                        | <hr/>       | <hr/>       |

### 9. Creditors

|                 | 1997    | 1996    |
|-----------------|---------|---------|
|                 | IR£     | IR£     |
| Other creditors | 568,584 | 726,973 |
|                 | <hr/>   | <hr/>   |



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# Capital Services Redemption Account

(Finance Act, 1950 Section 22 (No 18 of 1950 as amended))

## Account of Receipts and Payments

|  | Year ended 31 December 1997 |               |
|--|-----------------------------|---------------|
|  | IR£                         |               |
| Balance at 1 January 1997  |                             | 860,200       |
| <b>Receipts</b>  |                             |               |
| Amounts received from Central Fund under Finance Act 1950, S 22 as amended:- |                             |               |
| - Interest   | 723,382,924                 |               |
| - Sinking Fund   | 265,829,034                 | 989,211,958   |
|  |                             | <hr/>         |
| Amounts received under Finance Act 1988 [S 67 (8)]                           |                             | 115,108,259   |
| Deposit interest received  |                             | 82,288,225    |
|  |                             | <hr/>         |
|  |                             | 1,187,468,642 |
|  |                             | <hr/>         |
| <b>Payments</b>  |                             |               |
| Amounts applied in the redemption of National Debt:-                         |                             |               |
| Irish Pound:   |                             |               |
| 7.75% Capital Stock, 1997  | 50,000,000                  |               |
| 8.75% Exchequer Bond, 1997   | 39,185,000                  |               |
| 11.5% Development Loan, 1997 - 99  | 827,209                     |               |
| 13% Finance Stock, 1997 - 2002   | 92,746,143                  |               |
| Exchequer Notes  | 83,070,682                  | 265,829,034   |
|  |                             | <hr/>         |
| Amounts applied in meeting interest on National Debt (note 2)                |                             | 827,199,675   |
| Amounts applied in respect of liabilities under Finance Act 1970, [S 54 (7)] |                             | 93,545,640    |
|  |                             | <hr/>         |
| Balance at 31 December 1997  |                             | 894,293       |
|  |                             | <hr/>         |
|  |                             | 1,187,468,642 |



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Michael J Somers, Chief Executive  
National Treasury Management Agency

26 June 1998

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## Report of the Comptroller and Auditor General

I have examined the foregoing account. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 1997 and the balance at that date.

John Purcell  
Comptroller and Auditor General

29 June 1998



# Capital Services Redemption Account

(Finance Act, 1950 Section 22 (No 18 of 1950 as amended))

## Notes to the Account

1. This account was established under Section 22 of the Finance Act 1950. Annuities are paid into it from current revenue charged on the Central Fund. A fixed amount may be used for servicing (interest payments) of the public debt. The balance must be used for principal repayments. Each year Finance Act makes an annuity provision which specifies a maximum amount to be used for interest payments. In addition, under the Finance Act 1988 receipts from transactions of a normal banking nature, e.g. forward exchange deals, swaps and interest on deposits, for which a foreign currency clearing account has not been established under Section 139 of the Finance Act 1993, must be received into the Capital Services Redemption Account and may be used towards defraying interest and expenses on the public debt and towards the making of payments and repayments in respect of such transactions.

## 2. Amounts applied in meeting interest on National Debt:

|                                     | Year ended 31 December 1997 |
|-------------------------------------|-----------------------------|
|                                     | IR£                         |
| 7.75% Capital Stock, 1997           | 18,985,577                  |
| 8.75% Exchequer Bond, 1997          | 79,134,662                  |
| 9.75% Capital Stock, 1998           | 69,070,674                  |
| 6.25% Treasury Bond, 1999           | 99,640,444                  |
| 7.5% Capital Stock, 1999            | 1,953,750                   |
| 11.5% Development Loan, 1997 - 99   | 10,409,961                  |
| 8% Treasury Bond, 2000 104,         | 963,689                     |
| 11.75% Capital Stock, 2000          | 2,357,637                   |
| 14.5% Finance Loan, 1998 - 2000     | 4,014,325                   |
| 6.5% Treasury Bond, 2001            | 84,776,451                  |
| 8% Capital Loan, 2001               | 720,000                     |
| 9% Government Bond, 2001            | 11,554,994                  |
| 13% Finance Stock, 1997 - 2002      | 6,164,610                   |
| 8.25% Exchequer Bond, 2003          | 2,677,125                   |
| 9.25% Capital Stock, 2003           | 91,231,444                  |
| 12.25% Development Stock, 2000 - 03 | 3,548,891                   |
| 14.75% Development Stock, 2002 - 04 | 3,015,726                   |
| 6.25% Treasury Bond, 2004           | 3,000,000                   |

|                                   |             |
|-----------------------------------|-------------|
| 6.5% Exchequer Stock, 2000 - 05   | 6,640,209   |
| 12.5% Capital Stock, 2005         | 1,650,975   |
| 8% Treasury Bond, 2006            | 100,000,000 |
| 9% Capital Stock, 2006            | 6,192,754   |
| 8.25% Capital Stock, 2008         | 354,750     |
| 8.5% Capital Stock, 2010          | 694,323     |
| 8.75% Capital Stock, 2012         | 43,064,247  |
| Variable Rate Treasury Bond, 1998 | 29,565,380  |
| Variable Rate Treasury Bond, 2000 | 34,157,880  |
| Other Irish Pound Borrowings      | 4,911,266   |
| Ways and Means                    | 2,236,449   |
| Exchequer Notes                   | 339,322     |
| Tax Reserve Certificates          | 12          |
| Expenses                          | 172,148     |
|                                   | <hr/>       |
|                                   | 827,199,675 |
|                                   | <hr/>       |



# National Loans Advance Interest Account

## Account of Receipts and Payments

|   | Year ended 31 December 1997 |               |
|---|-----------------------------|---------------|
|   |                             | IR£           |
| Balance at 1 January 1997                   |                             | 30,989,586    |
| Accrued interest received on National Loans |                             |               |
| - Tranches and Auctions                     | 181,077,724                 |               |
| - Cancellations                             | 863,142                     | 181,940,866   |
|   | <hr/>                       |               |
| Accrued interest paid on National Loans     |                             | (191,480,410) |
| Balance at 31 December 1997                 |                             | <hr/>         |
| - Cash with Paymaster General               |                             | 21,450,042    |
|   |                             | <hr/>         |

## Note to the Account

The Agency from time to time issues or cancels amounts of existing Irish Government Bonds. This is effected by means of sales or purchases by the Post Office Savings Bank Fund, which in turn settles with the Exchequer. The accrued interest element of the settlement amount for each bond transaction takes into account the fact that a full dividend is payable to the registered owner in cases where bonds are held on an ex-dividend date. The purpose of this account is for the Post Office Savings Bank Fund to compensate the Exchequer for the unearned element of the dividend arising on tranching bonds cum-dividend or on cancelling bonds ex-dividend. These amounts are then used to offset the related servicing costs of the Exchequer.

Michael J Somers, *Chief Executive*  
National Treasury Management Agency

26 June 1998

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## Report of the Comptroller and Auditor General

I have examined the foregoing account. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 1997 and the balance at that date.

John Purcell  
Comptroller and Auditor General

29 June 1998



# National Loans (Winding Up) Account

## Account of Receipts and Payments

|   | Year ended 31 December 1997 |             |
|---|-----------------------------|-------------|
|   | Note                        | IR£         |
| Balance at 1 January 1997                 |                             | 3,789,582   |
| Receipts from Exchequer                   |                             | 2,712,608   |
| Payments for redemption of National Loans | 2                           | (2,044,005) |
| Balance at 31 December 1997               |                             | <hr/>       |
| - Cash with Paymaster General             |                             | 4,458,185   |
|   |                             | <hr/>       |

Michael J Somers, *Chief Executive*  
National Treasury Management Agency

26 June 1998

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**Report of the Comptroller and Auditor General**

I have examined the foregoing account. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 1997 and the balance at that date.

John Purcell  
Comptroller and Auditor General

29 June 1998



# National Loans (Winding Up) Account

## Notes to the Account

1. When a National Loan is due for redemption, the full amount outstanding is payable to loan holders. Any amount not claimed at the end of the quarter in which redemption occurs is transferred into this account. Any further claims are met from this account.

## 2. National Loans redeemed during the year ended 31 December 1997

|  | IR£     |
|--|---------|
| 3% Exchequer Bonds, 1965 - 70              | 600     |
| 5% National Loan, 1962 - 72                | 200     |
| 8% Exchequer Stock, 1972                   | 2,000   |
| 4.25% National Loan, 1975 - 80             | 400     |
| 9% Conversion Stock, 1980 - 82             | 2,200   |
| 5.25% National Development Loan, 1979 - 84 | 2,718   |
| 13% Conversion Stock, 1984                 | 306     |
| 6% Exchequer Stock, 1980 - 85              | 3,745   |
| 7.5% National Loan, 1981 - 86              | 303     |
| 5.75% National Loan, 1982 - 87             | 4,889   |
| 12.75% Fund Stock, 1987                    | 1,909   |
| 15% Conversion Stock, 1988                 | 1,551   |
| 5.75% Exchequer Stock, 1984 - 89           | 6,287   |
| 9.75% National Loan, 1984 - 89             | 6,127   |
| 6% Exchequer Loan, 1985 - 90               | 9,100   |
| 11.5% Exchequer Stock, 1990                | 7,009   |
| 14% National Loan, 1985 - 90               | 608     |
| 6.75% National Loan, 1986 - 91             | 5,940   |
| 12.5% Finance Loan, 1991                   | 3,850   |
| 7% National Loan, 1987 - 92                | 15,319  |
| 8.5% Capital Bond, 1992                    | 1,414   |
| 7.5% Development Stock, 1988 - 93          | 4,140   |
| 7% Capital Stock, 1994                     | 4,393   |
| 9.25% National Loan, 1989 - 94             | 15,670  |
| 9.5% Conversion Bond, 1995                 | 161,940 |
| 12% Conversion Stock, 1995                 | 28,760  |



|  |           |
|--|-----------|
| 8.5% Exchequer Bond, 1996                  | 189,883   |
| 9% Capital Loan, 1996                      | 458,524   |
| 9.25% Exchequer Loan, 1991 - 96            | 18,122    |
| 7.75% Capital Stock, 1997                  | 376,571   |
| 8.75% Exchequer Bond, 1997                 | 66,686    |
| 9.75% National Development Loan, 1992 - 97 | 31,693    |
| 11% National Loan, 1993 - 98               | 16,767    |
| 13% Finance Stock, 1997 - 2002             | 594,381   |
|  | <hr/>     |
| Total                                      | 2,044,005 |
|  | <hr/>     |



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# Deposit Monies Investment Account

## Account of Receipts and Payments

Year ended 31 December 1997

IR£

|   |                 |
|---|-----------------|
| Balance at 1 January 1997                   | 407,595,000     |
| Ways and Means Advances paid to Exchequer   | 8,106,379,000   |
| Ways and Means Advances repaid by Exchequer | (8,114,084,000) |
| Balance at 31 December 1997                 | <hr/>           |
| - Ways and Means Advances to Exchequer      | 399,890,000     |

## Note to the Account

This account is used to transfer funds between the Supply Account of the Paymaster General (PMG) and the Exchequer Deposit Account. Should a surplus arise on the Supply Account of the PMG it is loaned to the Exchequer as "Ways and Means" by this fund. Repayments of "Ways and Means" fund any subsequent deficits until the total drawn in is exhausted.

Michael J Somers, *Chief Executive*  
National Treasury Management Agency

26 June 1998

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Report of the Comptroller and Auditor General

I have examined the foregoing account. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 1997 and the balance at that date.

John Purcell  
Comptroller and Auditor General

29 June 1998



# Account of the National Loans Sinking Fund

## Account of Receipts and Payments - 6.5% Exchequer Stock, 2000 - 05

Year ended 31 December 1997

IR£

|   |           |
|---|-----------|
| Balance at 1 January 1997               | 0         |
| Sinking Fund payments from Central Fund | 713,053   |
| Interest earned on Investments          | 6,391     |
| Amount applied in cancellation of Stock | (719,444) |
|   | <hr/>     |
| Balance at 31 December 1997             | 0         |
|   | <hr/>     |

Michael J Somers, *Chief Executive*  
National Treasury Management Agency

26 June 1998

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## Report of the Comptroller and Auditor General

I have examined the foregoing account. I have obtained all the information and explanations that I have required.

In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 1997 and the balance at that date.

John Purcell  
Comptroller and Auditor General

29 June 1998



# Account of the National Loans Sinking Fund

## Notes to the Account

### 1. Basis of the Account

The prospectus published at the issue of certain National Loans requires the setting aside of a specified percentage of the nominal value of such loans on interest days in each financial year to provide for sinking funds thereon. Only one such loan was extant at 31 December 1997 (6.5% Exchequer Stock, 2000 - 05).

The sinking fund payments, together with interest earned on the sinking fund outstanding balance lent to the Exchequer, are carried to the sinking fund to provide for cancellation or redemption of the Loan.

### 2. Investment of Balances

Funds available from time to time are advanced as Ways and Means lending to the Exchequer. Interest is paid on the amount advanced from the sinking fund only when the amount of the loan outstanding exceeds the balance in the sinking fund.

### 3. Cumulative Sinking Fund Provision

|   | 6.5% Exchequer<br>Stock, 2000 - 05<br>IR£ |
|---|---|
| Cumulative sinking fund provision (including interest earned thereon) | 30,052,339                                |
| Cumulative amounts applied in cancellations                           | (30,052,339)                              |
|   | <hr/>                                     |
| Sinking Fund balance at 31 December 1997                              | 0   |
|   | <hr/>                                     |
| 6.5% Exchequer Stock, 2000 - 05 outstanding at 31 December 1997       | 141,524,863                               |



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# Account of Stock Accepted in Payment of Inheritance Tax and Death Duties

## Account of Receipts and Payments

|  | Year ended 31 December 1997 |                |
|--|-----------------------------|----------------|
|  |                             | IR£            |
| Balance at 1 January 1997  |                             | 14,778         |
| Receipts   |                             |                |
| Interest received on stock holdings  | 20,690                      |                |
| Proceeds of stock sold for cancellation  | 645,421                     |                |
|  |                             | <u>666,111</u> |
| Payments   |                             |                |
| Paid to Revenue Commissioners for value of stock transferred to the Minister for Finance |                             |                |
| - Nominal  | (375,529)                   |                |
| - Interest   | (2,453)                     | (377,982)      |
|  |                             | <u>302,907</u> |
| Balance at 31 December 1997  |                             | <u>302,907</u> |

## Stock Account

|   |           |            |
|---|-----------|------------|
| Balance at 1 January 1997                                       |           | Nil        |
| Movement for the year   |           |            |
| Nominal amount of stock transferred to the Minister for Finance | 636,607   |            |
| Nominal amount of stock sold for cancellation                   | (636,607) | 0          |
|   |           | <u>0</u>   |
| Balance at 31 December 1997                                     |           | <u>Nil</u> |



Michael J Somers, Chief Executive  
National Treasury Management Agency

26 June 1998

## Report of the Comptroller and Auditor General

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In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 1997 and the balance at that date.

John Purcell  
Comptroller and Auditor General

29 June 1998



# Account of Stock Accepted in Payment of Inheritance Tax and Death Duties

## Notes to the Account

### 1. Purpose of the Account

This account established under the Finance Act 1953, amended by the Capital Acquisitions Tax Act 1976, is a vehicle for the handling of certain designated Irish Government Bonds which are accepted by the Revenue Commissioners at face value in lieu of death duties. The Irish Government Bonds are received by the Revenue Commissioners and transferred to the Minister for Finance. They are then cancelled and the proceeds (at market value) taken into the account. Any shortfall between this and the liability to the Revenue Commissioners (at face value) is made up by the Exchequer and the Revenue Commissioners are paid in full.

### 2. Stock Account

The Stock Account records transactions at nominal par value. Any balance on this account consists of bonds held by the Minister for Finance but not yet sold by the Minister to discharge a tax liability to the Revenue Commissioners.



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# Small Savings Reserve Fund

## Account of Receipts and Payments

|                             | Year ended 31 December 1997 |
|-----------------------------|-----------------------------|
|                             | IR£                         |
| Balance at 1 January 1997   | 351,000,000                 |
| Received from Exchequer     | 272,000,000                 |
|                             | <hr/>                       |
| Balance at 31 December 1997 | 623,000,000                 |
|                             | <hr/>                       |

## Note to the Account

Section 160 of the Finance Act 1994 provided for the establishment of a fund to be known as the Small Savings Reserve Fund. It provided for IR£60 million to be paid into the fund in 1994 and in each year thereafter for such sums, if any, as the Minister for Finance may decide. Where in any calendar year interest payment on encashments of small savings exceed 11 per cent of total interest accrued on such savings at the end of the immediately preceding calendar year, the resources of the fund may be applied towards meeting so much of those interest payments which, as a percentage of the said total interest accrued, exceed 11 per cent.

The balance in the Fund is transferred to the Exchequer as repayable ways and means advances.

Michael J Somers, *Chief Executive*  
National Treasury Management Agency

26 June 1998

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In my opinion the account, which is in agreement with the accounting records maintained by the National Treasury Management Agency in respect of this activity, properly reflects transactions for the year ended 31 December 1997 and the balance at that date.

John Purcell  
Comptroller and Auditor General

29 June 1998



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