

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 himself. 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

Report and Accounts

for the year ended

31 December 1992

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SUMMARY OF ACTIVITY

PERFORMANCE OF AGENCY

This, the second Report of the National Treasury Management Agency (the "Agency"), covers the calendar year 1992. The most significant event affecting the Agency was the currency crisis which commenced in mid-September 1992 and continued into 1993. Notwithstanding the difficulties this created and the abrupt change in borrowing strategy which it necessitated, the Agency not only successfully managed through this difficult period but also exceeded its debt service target for the year. In support of Government policy, the Agency was able to raise substantial sums on the international capital markets at rates which were highly competitive with those paid by the world's major sovereign borrowers. Looking to its needs beyond the immediate crisis, the Agency took action to maintain domestic and international confidence in the Irish Pound bond market which contributed to a rapid resurgence of non-resident investment and a consequential sharp fall in yields as soon as the crisis passed.

The main features of the Agency's performance in 1992 were

- (i) cash savings of IR£152 million on budgetary debt service costs;
- (ii) interest costs at their lowest level since 1989;
- (iii) Debt/GNP and Debt/GDP ratios at end 1992 down by two percentage points to 103% and 92% respectively on the 1991 figures;
- (iv) net present value savings of IR£78 million.

In the Government's 1992 Budget, the Agency was given the cash target of saving IR£50 million on debt service costs. This target was exceeded by IR£102 million. Of this, IR£56 million was used to help reduce the Exchequer Borrowing Requirement (EBR) while the balance was set aside (together with certain other moneys) to establish a IR£50 million fund to be applied towards the financing of the County Enterprise Partnership Boards as announced by the Taoiseach on 1 October 1992.

Actual expenditure on debt service in 1992 was IR£2,319 million. As well as interest payments,

this figure includes IR£185 million in sinking fund provisions. This is essentially a "circular" movement of cash whereby a capital amount is charged as a debt service cost on the current budget and is then taken back in the budgetary arithmetic as a capital receipt and used to reduce the EBR.

The cost of interest on the National Debt in 1992, at IR£2,106 million, was lower than the figure in 1991 (IR£2,132 million) and 1990 (£2,109 million) notwithstanding that an additional amount of some IR£1,400 million has had to be borrowed since 1989.

In addition to the budget cash saving target the performance of the Agency is measured by J. P. Morgan, the U.S. investment bank. This measurement is carried out against an independent benchmark portfolio and takes account of the "net present value" of all future liabilities undertaken by the Agency 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 results for 1992, on the basis of this net present value measurement, show savings of IR£78 million.

The operating costs of the Agency in 1992 totalled IR£4.9 million. Of this, IR£1.4 million went to the Exchequer in the form of PAYE, Social Welfare contributions and VAT leaving a net cost of IR£3.5 million. This is equivalent to less than one and a half basis points (hundredths of one percent) of the National Debt.

CURRENCY CRISIS

Due to the severe effects in Ireland of the sudden and unprecedented turmoil on the international currency markets from mid-September 1992 onwards and the resulting massive outflow of funds from the State, the Agency was obliged to make a fundamental change in its funding strategy. Over the period that followed, the Agency's funding strategy was developed and implemented in close consultation with the Minister for Finance and the Central Bank and was driven by the priority of the national interest rather than by pure debt management considerations.

One of the principal developments during this period was the Agency's withdrawal from the domestic markets. A combination of factors dictated this course - the need for foreign currency borrowing to replace some of the outflow of funds, the very high level of interest rates which was already causing major problems for other borrowers and the inevitability that domestic borrowing by the Agency would have driven interest rates to even higher levels with devastating budgetary and economic consequences. Irish Pound Bonds (Gilts) and short-term Irish Pound paper maturing in the last quarter were not refinanced in the domestic market. Additionally, with a view to providing support for the market in extremely difficult circumstances and ensuring that investors would return rapidly, the Agency was a net purchaser of some IR£700 million in Irish Pound Bonds in the last quarter. To meet these requirements and to fund the Exchequer, cash balances with the Central Bank were utilised and foreign currency borrowing was increased. The extra recourse to foreign borrowing, undertaken in agreement with the Minister for Finance and the Central Bank, was intended also to bolster the official reserves held by the Bank. In normal circumstances the Agency would have borrowed a sum of the order of IR£500 million in Irish pounds; instead it repaid over IR£1,100 million, thereby leaving the market with about IR£1,600 million more liquidity than would otherwise have been the case. Non-resident holdings of Irish pound securities fell from some IR£4,000 million in mid-September to about IR£2,300 million at end year.

Following the currency realignment on 30 January 1993, foreign investors returned in force to the Irish Pound market and non-resident holdings recovered to some IR£3,550 million by mid-1993 as bond yields fell to their lowest level in decades.

FINANCIAL OPERATIONS

In the fulfilment of its borrowing and debt management objectives, the Agency raises funds for three main purposes;

- Funding the Exchequer Borrowing Requirement
- Refinancing Maturing Debt
- Refinancing Prepayable Debt.

The principal features of the Agency's 1992 activities under these headings are outlined below:

Funding

The Agency raised new funds of IR£1,153 million as follows:

	IR£ million
Net Foreign Currency Borrowing	1,008
National Savings Schemes	<u>145</u>
	1,153

In addition, further funds of IR£674 million were obtained principally through a reduction in the Agency's deposits with the Central Bank. The total funds of IR£1,827 million were applied towards:

- The Exchequer Borrowing Requirement of IR£713 million
- Repayment of IR£1,092 million in domestic securities
- Repayment of B & I shipping company loans* of IR£22 million.

Maturing Medium and Long Term Debt

The Agency repaid and refinanced:

- IR£1,537 million in maturing Irish Pound Bonds
- IR£503 million in maturing foreign currency borrowings.

Prepayable Medium and Long Term Debt

The Agency prepaid and refinanced:

- IR£480 million in foreign currency borrowings.

* The loan liabilities of B & I Line plc amounting to IR£27 million were transferred to the Agency in January 1992 under the B & I Line Act, 1991.

Short Term Debt

The Agency had gross flows of:

- IR£18 billion in respect of all short term borrowing programmes used mainly for cash management purposes.

Gross cash flows through the Agency, including all short term debt management activities, increased by almost 28% on 1991 levels and totalled IR£48.6 billion, consisting of gross borrowings of IR£18.6 billion, gross payments of IR£18.8 billion, flows on foreign exchange and derivative transactions of IR£8.8 billion and interest and associated payments of IR£2.4 billion. These activities took place in Irish pounds and in a wide range of foreign currencies.

ADVISORY COMMITTEE

The Agency's Advisory Committee met on five occasions during 1992. There were no changes in the membership of the Committee during the year. We are pleased to welcome Mr. John F. Daly, Chairman, ICL Computers (Ireland) Limited who was appointed by the Minister for Finance on 8 April 1993.

STAFF

The Chief Executive and Directors wish to record their thanks and appreciation to all staff for their contribution to the successes of 1992 and for their continuing commitment and professionalism.

THE NATIONAL DEBT

The National Debt is traditionally defined as gross borrowings by the Government less liquid assets. It grew from IR£25,378 million at end 1991 to IR£26,344 million at end 1992, an increase of 3.8%. As a percentage of Gross National Product it fell to 103% at end 1992 compared with 105% a year earlier; the figures for Gross Domestic Product, the standard international basis for comparison, were 92% and 94% respectively. The composition of the Debt was as follows:

Debt Composition at year end

Of the Irish Pound portion of the Debt, approximately IR£2,300 million was held by non-residents at end 1992. Adding this to the foreign currency element means that some 47% of the total National Debt was held by non-residents.

The 1992 figures are based on exchange rates prevailing at end December 1992. Applying the exchange rates following the realignment of the Irish pound on 30 January 1993 increases the foreign currency debt, as measured in Irish pound terms, by some IR£830 million.

DEBT SERVICE COSTS

The cost of servicing the National Debt in 1992 came to IR£2,319 million, a decrease of IR£17 million on the previous year. Of the total, IR£2,106 million was in respect of interest, a decrease of 1.2% on the 1991 figure. These costs are affected not only by interest on borrowings to fund the current year's Exchequer Borrowing Requirement but also by the cost of new borrowings undertaken to repay maturing debt and by changes in interest rates and exchange rates applicable to existing debt.

BORROWING ENVIRONMENT

As a result of the steady elimination of Irish exchange controls and their final abolition on 1 January 1993, domestic investors now have complete freedom to invest overseas. This, coupled with the relaxation of obligations on the banks to invest in Irish Pound Bonds, has created an increasingly competitive domestic funding environment. On the foreign currency front, it continues to be uneconomic for sovereign borrowers with a high credit rating to borrow moneys from banks in the form of traditional loans. Most foreign currency debt is therefore now raised on the international capital markets, in the form of bonds, commercial paper and medium-term notes.

In 1992 therefore, the Agency continued to develop and expand its international investor base with a view to securing increased participation among a wider pool of institutional investors. During the year the Agency conducted a series of investor briefings in the main financial centres on Ireland's economic progress. This strategy proved itself when the Agency had to raise very substantial sums on the international capital markets at short notice during the currency crisis.

CREDIT RATING AGENCIES

Ireland's foreign debt has the top A1+ and P1 short-term ratings from Standard and Poor's and Moody's Rating Agencies. Ireland also has long-term ratings from the Japan Bond Research Institute (AA), Moody's (AA3) and Standard and Poor's (AA-). Irish Pound Bonds carry the top credit rating (AAA) from both Moody's and Standard and Poor's. The Agency maintained close contact with all three Rating Agencies during the year and contributed to their reviews of the

Irish economy. In particular, the Rating agencies were kept well informed about Government strategy during the period of currency turmoil in the latter part of the year.

RISK

The nature of the Agency's business is such that the management of risk is always central to its activities. The main types of risk arising from the activities of the Agency can be categorised as:

- market risk
- liquidity risk
- counterparty credit risk
- operational risk.

The Agency has put in place extensive controls to enable it to monitor and manage these risks.

Market Risk

Market Risk is the risk of variance in debt service costs over a particular time period and in the total market value of the debt arising from changes in financial market conditions. For the Agency's debt portfolio this principally relates to the impact of movements in foreign exchange rates or in either domestic or international interest rates. The Agency has to have regard to both medium and short term objectives given its task of not only managing near term fiscal debt service costs but also the present value of all future payments of principal and interest arising from the debt.

Borrowings in currencies which are within the European Exchange Rate Mechanism (ERM) in the normal course carry less exchange rate risk than other currencies but are affected by unilateral changes in the value of the Irish Pound, as happened in January 1993. Moreover, changes within the permitted fluctuation ranges of the ERM, even without any re-alignment, can give rise to significant alterations in the value of the foreign currency debt, particularly given the substantial borrowings in ERM and related currencies. However, with generally lower volatility

against the Irish Pound, these currencies will normally account for the major portion of the foreign currency debt portfolio. Nonetheless, non-ERM currencies are also important and can be expected to remain so either for reasons of current or expected cost, market presence or economic linkage.

Neither are borrowings in Irish Pounds free of risk. As with borrowings in any other currency, Irish Pound fixed interest rate borrowings are subject to a market valuation risk in the event of a decline in interest rates. However, while carrying less market valuation risk, floating rate borrowings carry a higher risk to the near term fiscal cost of servicing the debt.

The exposure to risk arising from the currency and interest rate profile of the debt is controlled both through internal risk measures and also by guidelines laid down by the Minister for Finance limiting the currency and interest rate concentration of the portfolio.

Against this background, the Agency seeks to achieve the best trade-off between cost and risk over both the short term and the longer term. Moreover, as conditions in and the outlook for the relevant financial markets constantly change, the Agency must continually review and reassess the appropriate interest rate and foreign exchange profile of the portfolio.

Liquidity Risk

A major requirement of the Agency is to ensure that current and future funding needs, arising from refinancing maturing debt as well as new Exchequer funding, can always readily be met. Ultimately the protection of liquidity is one of the Agency's most critical tasks. Risks to liquidity can arise from events impacting on the cost and availability of funding in financial markets, which events may be unconnected with either the Agency in particular or indeed Ireland in general.

The Agency manages this risk by controlling the amount of debt maturing in any particular period of time and by further developing a well informed diversified international investor base, through maintaining its presence in all major capital markets and by extending the range of debt instruments which it issues.

Counterparty Credit Risk

Counterparty credit risk arises in derivative product transactions such as interest rate or cross currency swaps as well as in foreign exchange transactions and deposits. Credit limits have been established for each approved institution and the Agency's credit exposure to each counterparty is measured and reported daily.

Operational Risk

Operational risk is managed by the implementation of a comprehensive control environment within the Agency. Specific controls include the segregation of duties between dealing, processing, payments, reporting and control and the adherence to bank mandates for funds transfers.

IRISH POUND BORROWING

Irish Pound borrowing, excluding the National Savings Schemes, is still the largest component of the National Debt at 51% of the total. This is down by some 3% from end 1991 as a result of an increase in foreign currency borrowing and a reduction in Irish Pound funding during the currency crisis.

The amounts outstanding under the following instruments were:

	IR£ million (nominal)		
		<u>31 Dec 1992</u>	<u>31 Dec 1991</u>
Irish Pound Bonds (Gilts)			
Domestic holders	10,858	9,540	
Non Resident	<u>2,321</u> *13,179	<u>4,110</u>	*13,650
Exchequer Notes		83	36
Exchequer Bills		27	509
Notes issued under Section 69 of Finance Act, 1985	<u>125</u>	<u>113</u>	
TOTAL		13,414	14,308

* excludes dual currency bonds amounting to IR£169 million (1991: IR£171 million).

Bonds in issue have maturities ranging up to 20 years while the maturities of Notes and Bills have a maximum maturity of twelve and six months respectively.

Bonds held by non-residents declined from 30% of the total outstanding at end 1991 to 18% by end 1992 as a result of sales during the currency crisis. Since then, there has been a very substantial inflow -of the order of IR£1,250 million - from non-residents into Bonds which has helped push down yields to levels not seen in Ireland for a number of decades.

While most Bonds carry fixed rates of interest payable twice yearly, a proportion (16% at

end 1991, 13% at end 1992) carries a variable rate of interest, fixed by reference to the Dublin Interbank Offered Rate (DIBOR) and payable quarterly.

1992 Activity

The Agency markets Bonds on the Stock Exchange through the Government Broker and trades in these instruments through its primary and secondary domestic dealers. As a result of the currency crisis the Agency, instead of being a net seller, was a net purchaser of domestic securities during 1992 as shown by the following:

		IR£ million
		cash
Redemption of Bonds	(1,537)	
Repurchase of Bonds	(1,409)	
Redemption of Exchequer Notes and Bills		<u>(419)</u>
		(3,365)
Less Bond Sales	2,261	
IR£ Section 69 Notes Sales	<u>12</u>	<u>2,273</u>
Net Purchase of Domestic Securities		<u>(1,092)</u>

The timing of sales of Bonds and Exchequer Notes and Bills up to September 1992 was largely influenced by the desire to achieve a relatively even pattern of funding while taking account of payments to meet the Exchequer Borrowing Requirement and to redeem maturing Bonds. However, from the onset of the currency crisis, the Irish market, in common with many other markets, experienced exceptional volatility with money market rates reaching unprecedented levels.

The Agency effectively withdrew from the market as a seller of Bonds and Exchequer Notes and Bills during the crisis. In line with this policy and to help underpin the stability and liquidity of the Bond market, the Agency maintained firm bid prices in its Benchmark Bonds and in Bonds maturing within a year. As a result, some IR£700 million (net) in Bonds was

repurchased by the Agency after mid-September and IR£489 million in Exchequer Notes and Bills was not rolled over.

Bond Yields

Bond yields increased significantly in the final few months of the year and the key ten year Benchmark Bond ended the year at just over 100 basis points above its end 1991 level.

BENCHMARK YIELDS %				
Maturity	End 1991	Low	High	End 1992
5 year	9.28	9.06	10.91	10.66
10 year	9.10	8.77	10.38	10.12
15 year	8.93	8.63	9.82	9.52
20 year	8.79	8.52	9.90	9.40

The spread at which Irish Pound Bonds trade over key ten year German Government bonds, which had fallen steadily since 1986, increased significantly towards the end of 1992, due in large part to the sale by non-residents of Bonds totalling IR£1,700 million. This spread subsequently declined to about 70 basis points as Irish ten year yields fell towards 7.25 per cent during the second quarter of 1993.

Benchmark Bond Yields January 1992 to June 1993

Bond Maturity Profile

The maturity profile of outstanding bonds at 31 December 1992 is shown in the table below:

Bond Turnover

Reported Stock Exchange turnover in the primary and secondary market in 1992 at IR£48.5 billion was up 12% on the 1991 outturn of IR£43.2 billion. The Agency, through its primary dealing and repurchase activities accounted for IR£3.7 billion of this while its secondary trader, operating with an IR£50 million book, accounted for IR£2.4 billion - equivalent to forty eight times turnover.

Bond Management Activities

Bond sales are effected in tap form, supplemented by auctions in the 8¾% Capital Stock 2012. Instead of making an active market in all outstanding Irish Pound Bonds, the Agency concentrates its activity in four Benchmark stocks with maturities of 5, 10, 15 and 20 years quoting firm prices for at least IR£5 million of each stock. This policy has facilitated a build-up in the amount outstanding in these Bonds, thereby improving their liquidity. Holders of Bonds with relatively small outstanding amounts and consequently poor liquidity continue to be given

opportunities to switch from these stocks into the Benchmark issues; switching in 1992 was nearly IR£300 million. The Agency had, by year end, a number of other issues in which the amounts outstanding exceed IR£800 million. These are also actively traded.

Inclusion of Bonds in International Bond Indices

During the year Irish Pound Bonds were admitted to the following bond indices :

Salomon Bros.	-	Global Composite Bond Index
Lehman Bros.	-	Global Bond Index
Bloomberg/EFFAS	-	-Government all Bond Index
UBS Phillips & Drew	-	Global Benchmark Bond Index

Cedel / Euroclear

Both Cedel and Euroclear have agreed to provide settlement facilities for Irish Pound Bonds subject to finalising arrangements for domestic custodial services. It is expected that the new facilities will be operational in the second half of 1993.

Exchange Controls

While Irish investors have been free to invest their funds outside Ireland for several years, the removal of the remaining foreign exchange controls on 1 January 1993 permits foreign investors to fully hedge the currency exposure of their Irish Pound Bond holdings if they so wish. As many international fund managers only invest overseas on a currency-hedged basis, this development opens the Irish market to a wider base of potential investors.

Exchequer Bills and Notes (nominal amounts)

At end 1991 there was IR£509 million outstanding in Exchequer Bills and IR£36 million in Exchequer Notes. During the year demand for Exchequer Bills declined sharply with outstandings falling by mid-September to IR£170 million. In contrast, demand for Exchequer

Notes was strong following a successful marketing programme which attracted a broad range of investors, including banks, corporates and fund managers. By mid-September, Notes outstanding amounted to IR£429 million. With the onset of the currency crisis and the resultant high level of Irish interest rates, the weekly Exchequer Bill tender was suspended and Exchequer Notes were available only at pre-crisis yields. By end 1992 Exchequer Notes and Bills outstandings had fallen to IR£110 million. Once domestic interest rates approached their pre-crisis levels in early 1993, the weekly Bill tender and the Notes programme were resumed.

Exchequer Paper Outstanding

Section 69 Notes

Irish Pound denominated Notes outstanding at end 1992 totalled IR£125 million. Details of Section 69 Notes which are also issued in foreign currencies are given in the Foreign Currency section of this Report.

Details of Bonds Purchased and Sold in the Primary Market (cash amounts)

		Purchases	Sales
		IR£m	IR£m
Variable Rate Finance Stock 1993		506	75
Variable Rate Capital Stock 1994		35	50
Variable Rate Funding Stock 1995		27	117
Variable Rate Government Bond 1996		-	271
7½% Development Stock 1988/93		59	-
8% Capital Stock 1993		99	14
7% Capital Stock 1994		1	162
9½% Conversion Bond 1995	19	10	
12¼% Capital Stock 1995		12	-
12% Conversion Stock 1995	31	-	
9% Capital Stock 1996		-	18
8 ¾% Exchequer Bond 1997*		220	810
9 ¾% Capital Stock 1998		36	11
11½% Development Loan 1997/99		41	-
9% Government Bond 2001*	88	335	
13% Finance Stock 1997/2002		98	-
9¼% Capital Stock 2003		-	113
9% Capital Stock 2006*		73	133
8 ¾% Capital Stock 2012*		30	140
Other Bonds		34	2
Gross Purchases/Sales		1,409	2,261
Net Sales Before Redemptions		852	
Less Redemptions		1,537	
Net Purchases	685		

* Benchmark stocks. Amounts outstanding as at 31 December 1992 were IR£755 million, IR£1,113 million, IR£711 million and IR£625 million respectively.

FOREIGN CURRENCY BORROWING

Outstanding foreign currency debt was IR£10,122 million at 31 December 1992, based on exchange rates on that date. The following chart shows the currency composition and interest rate mix of the debt.

Foreign Debt Composition 31 December 1992

The proportion of debt in each currency and the division between fixed and floating interest rates are kept under constant review by the Agency having regard to likely movements in both exchange rates and interest rates.

The maturity profile of the debt is set out below. In determining the maturity of new borrowings, a major factor is the need to ensure that scheduled repayments over the short term are kept to manageable proportions. A major challenge for the Agency is to achieve a smoothing out of the repayment profile over the rest of this decade. Cost savings are a driving

force in establishing the most appropriate refinancing opportunities but liquidity management is also important to ensure that annual refinancing needs are kept within reasonable limits.

Medium to Long-Term Foreign Currency Debt Maturity Profile* 31 December 1992

Liability Management

In 1992, the Agency used currency swaps and forwards in order to diversify the currency mix of the foreign debt portfolio. Interest rate swaps were used to avail of the steeply positive curve in US Dollars and to take advantage of the expected fall in short-term rates in European currencies and in Japanese Yen. Swaps were also used during the currency crisis to alter the currency and interest rate risk profile of the large amount of borrowing undertaken during that period.

1992 Borrowing Activities

Up to mid-September 1992, foreign borrowing activities were concentrated on re-financing maturing debt and pre-paying debt ahead of schedule where this made sense either from a cost or maturity-lengthening viewpoint.

With the switch in strategy following the onset of the currency crisis, the Agency embarked on a major foreign currency borrowing programme. As part of debt management activity and to have

maximum flexibility in dealing with the markets the Agency had earlier in 1992 increased the size of its commercial paper programmes in Europe and the U.S. By early September the Agency had in place a new Euro Medium Term Note programme. These facilities totalling USD 3 billion allowed Ireland immediate and cost-effective access to short and medium term funds when it became necessary to raise foreign funds quickly.

Large syndicated bank credits and capital market issues were particularly expensive in the early stages of the currency crisis as the markets absorbed the shock of greatly increased demand for capital by major sovereign borrowers. Underwritten public debt issuance required sizeable compensation for the prevailing uncertainties, and sovereign borrowers who went into these markets had to pay a significant premium. The Agency deliberately stayed away from most public markets during the initial phase of the currency crisis, using instead a combination of the facilities mentioned above as well as private placements. By the end of December 1992 the Agency had increased its net foreign borrowing to over IR£1 billion (equivalent) from a negative IR£75 million (equivalent) in mid-September. During the same period it arranged further borrowings and an additional amount equivalent to almost IR£1 billion was drawn in January 1993 to help in the Government's efforts to defend the Irish pound. New temporary stand-by facilities were also put in place.

The table at the end of this section outlines the various foreign currency borrowings arranged in 1992.

Deutsche Mark Market

The German market has traditionally been Ireland's most important source of foreign funds. In 1992 extensive relationships continued to be developed in Germany, particularly with mortgage banks. These contacts enabled the Agency to tap the Schuldschein market both at short notice and for large volumes, including a single transaction of DM 500 million. Private placements were also arranged with individual German banks, all of whom expressed keen interest in Irish sovereign debt on behalf of their investors.

The first public bond issue by the Agency after the initial phase of the currency crisis had passed

was in the Deutsche Mark market. The issue launched in late October 1992 was for DM 300 million, subsequently increased to DM 500 million, with a maturity of 10 years. The DM public bond issue was a notable success for Ireland and its spread over German Government bond yields (Bunds) tightened appreciably after launch. It consolidated Ireland's position in this important market and paved the way for Ireland's largest and most successful issue there, the DM 1.5 billion 10 year public bond issue launched in early 1993 at a spread of 25 basis points over Bunds, the lowest ever achieved by Ireland. Total borrowing arranged in Deutsche Marks in 1992 came to some IR£1.4 billion (equivalent), including temporary stand-by facilities.

US Dollar Market

In July 1992 the Agency launched a 10 year bond for US\$300 million in the Yankee dollar market at a spread of 40 basis points over US Treasuries. This was Ireland's tightest ever spread in this market and was similar to terms obtainable by borrowers with higher formal credit ratings.

A further US\$100 million was issued under the Agency's US domestic Medium-term Note Programme during the year. The attractive issue terms enabled the Agency, through the use of derivative products, to achieve significant cost savings.

On the Euro Dollar market, four private placements totalling US\$385 million were arranged at significant sub-libor rates of interest.

Swiss Franc Market

One public bond issue for SFr150 million and three private placements totalling SFr350 million were arranged of which two were not drawn until 1993. Ireland's name continues to be well received in Switzerland.

Japanese Yen Market

Ireland has been a regular issuer on the Japanese markets since 1977. Two Samurai public bond issues totalling ¥45 billion and one Euroyen issue of ¥10.5 billion were successfully completed during the year while two loans totalling ¥25 billion were finalised.

Spanish Peseta Market

The Agency also took the opportunity to re-visit the Matador market for its second public bond issue there raising Ptas10 billion. In the early part of 1992, this market gave certain borrowers good arbitrage opportunities and allowed the Agency to obtain, using the currency swap market, low-cost floating rate US Dollars for use in its prepayment programme.

Italian Lira Market

Excellent arbitrage opportunities existed in the Lira market for a short time in 1992. The Agency took advantage of this to issue Lire 150 billion which was swapped at very attractive sub-libor rates into floating rate Deutsche Marks.

Euro-MTN Market

One of the Agency's innovations was the launch of the Euro-Medium Term Note Programme totalling US\$ 1 billion. This Programme enables the Agency to issue in a broad range of maturities on a continuously offered basis. The Agency's expertise allows it to evaluate and undertake structured transactions under the Programme, leading to keenly priced deals.

Refinancing Operations

Under the Agency's re-financing operations, call options were utilised wherever it was advantageous to do so. Particular use was made of such options in the US Dollar and Yen markets which led to substantial savings in 1992 and will lead to further savings in subsequent years.

European Investment Bank

During the year the Agency drew down four loans from the EIB totalling IR£138 million (equivalent). Two of these loans were denominated in fixed rate Deutsche Marks, one in fixed rate ECU and one in floating rate US Dollars.

Commercial Paper

The Agency's Euro and US Commercial Paper Programmes, which total US\$ 2 billion, were used extensively in the early stages of the currency crisis. As soon as the Bundesbank opened up the Deutsche Mark commercial paper market, the Agency arranged for Ireland to become the first sovereign issuer in that market. In December 1992, the Agency finalised a DM 2 billion Deutsche Mark Commercial Paper Programme and some important trades have already taken place.

Section 69 Notes

These tax-exempt securities, available to qualifying foreign-owned companies with a presence in Ireland, are denominated both in Irish Pounds and in foreign currencies. They have maturities from seven days upwards and are sold mainly through certain designated banks in Ireland with small amounts being sold directly by the Agency. The following graph shows the amounts outstanding since they were first launched in 1987.

Section 69 Outstandings (IR£ and foreign currency)

At end 1992 the amount outstanding was IR£203 million equivalent in foreign currencies and IR£125 million in Irish Pounds, giving a total of IR£328 million compared with IR£354 million at end 1991. Whereas outstandings in the period to September averaged considerably above 1991 levels, they fell substantially in the final quarter primarily because the Agency withdrew from issuing Irish Pound Notes.

A total of 240 foreign-owned companies, as compared with 180 a year ago, are now registered to invest in these Notes which are available in all major currencies.

FOREIGN CURRENCY BORROWINGS* 1992

Public Bond Issues, Other Issues and Loans

1992

February	US\$75 million Note Issue due 1997
February	Ptas10 billion Matador Bond Issue due 2002
March	US\$160 million Note Issue due 2002
April	LIT150 billion Euro Bond Issue due 2002
April	¥10.5 billion 5.5% Euroyen Note Issue due 1995
May	US\$100 million Note Issue due 1995
July	US\$300 million 7.125% Yankee Bond Issue due 2002
August	DM100 million Floating Rate Note Issue due 2002
August	US\$50 million 6.1% Schuldscheindarlehen due 1999
September	DM100 million Floating Rate Note Issue due 2001
September	¥15 billion 5.7% Samurai Bond Issue due 2002
October	SFr100 million 7.25% Notes due 2002
October	DM300 million 7.75% Bond Issue due 2002
October	SFr150 million 6.625% Bond Issue due 2002
November	¥30 billion 5.2% Samurai Bond Issue due 1997
November	¥15 billion 5.7% Loan due 2002
November	DM200 million 7.75% Bond Issue due 2002
November	¥10 billion 5.7% Loan due 2002
December	DM500 million 7.55% Schuldscheindarlehen due 2002
December	DM200 million 7.6% Schuldscheindarlehen due 2002
December	DM200 million 7.5% Schuldscheindarlehen due 2002

US Medium Term Notes

August	US\$50 million 7.17% MTN due 2002
October	US\$50 million 5.75% MTN due 1997

* excludes all commercial paper transactions

Euro Medium Term Notes

October	LIT50 billion due 1999
November	£Stg25 million due 1994
November	DM40 million due 1993
December	DM150 million due 1997
December	DM40 million due 1998

Revolving Credits

September	US\$270 million Revolving Credit Facilities
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EIB Borrowing

May - December	Various currencies maturing between 1997 and 2002
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Stand-by Facility

December	DM 1 billion short term stand-by facility
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NATIONAL SAVINGS SCHEMES

The National Savings Schemes are geared primarily towards private individuals. These Schemes offer attractive returns which are risk-free, free of any investment costs or commissions, enjoy complete repayment flexibility and are in many cases tax-free. They are sold on behalf of the Agency by the Post Office (An Post) through its nationwide network of outlets. At end 1992, 11% of the National Debt was held by investors in National Savings - this includes funding contributed by TSB Bank.

The amounts raised during 1992 and the total outstanding for each of the National Savings instruments at 31 December 1992 are as follows:

	Raised in 1992 IR£ million	Total Outstanding IR£ million
Savings Certificates	121	1,369
Savings Bonds	8	308
National Instalment Savings (NIS)	17	177
Prize Bonds	5	94
Post Office Savings Bank (POSB) }	(6)	413
TSB Bank }	—	<u>564</u>
	145	2,925

In addition, accrued interest in respect of Savings Certificates, Savings Bonds and National Instalment Savings came to IR£751 million at end 1992.

Breakdown of the National Savings component of the National Debt

at 31 December 1992

During the first half of 1992, the National Savings Schemes enjoyed quite considerable success in attracting funds - with total receipts to end June, excluding TSB Bank funds, amounting to over IR£150 million. The second half of the year and in particular the last quarter produced a small net outflow due to the very high short term interest rates on offer by banks and building societies during the currency crisis. The Schemes were perceived at that time to be at a serious competitive disadvantage. However, it would have been inappropriate to alter the rate of return by reference to short term considerations since many of the Schemes carry interest rates fixed for several years ahead with investors able to get their full cash back on demand.

In the case of the Post Office Savings Bank, the Agency decided not to match the high short term rates available elsewhere because of the excessive costs that would have ensued.

It remains the policy of the Agency to offer attractive rates of return to investors over the full term of their investment and to maintain the proportionate share of the total savings market enjoyed by the Schemes.

As well as the problems caused by high interest rates, the Schemes were also threatened towards the end of 1992 by the new tax regime applicable to deposit interest and in particular the new Deposit Interest Retention Tax (DIRT) rate of 10% on savings which now applies to financial institutions generally. This narrowed the advantage of the tax-free status of many of the Schemes. However, the erosion of competitive advantage has eased somewhat with the recent dramatic fall in interest rates. The Post Office Savings Bank, in line with other financial institutions, has also now introduced special savings accounts carrying the 10% DIRT rate.

Savings Certificates, Savings Bonds & National Instalment Savings

Savings Certificates are the most important and successful of the Schemes. They account for 47% of the National Savings Schemes and the amount outstanding has grown by an average of almost 20% per annum over the five years since 1987. Savings Certificates are designed especially for lump-sum investments up to certain limits, as are Savings Bonds. The National Instalment Savings Scheme, on the other hand, enables an investor to save by means of fixed monthly instalments. Many companies facilitate savings through Group Savings Schemes under which staff members pay their monthly instalments by way of deductions from salary.

The total amount raised through Savings Certificates, Savings Bonds and National Instalment Savings in 1992 was IR£146 million, of which IR£121 million is attributable to Savings Certificates. This compares with a total of IR£166 million for all three Schemes in 1991.

Prize Bonds

Prize Bonds, instead of attracting interest, are entered in weekly draws for a range of tax-free cash prizes of up to IR£15,000 and one monthly prize of IR£100,000. The Scheme is operated on behalf of the Agency by the Prize Bond Company Limited, a joint venture company owned by An Post and the Foreign Exchange Company of Ireland (FEXCO).

During 1992, a new computerised Prize Bond draw was introduced which facilitated a major promotional campaign relaunching the Prize Bond Scheme. Gross sales of Prize Bonds in 1992

were IR£10 million, up by one third on 1991.

Post Office Savings Bank

An Post operates the Post Office Savings Bank for the Agency. Moneys raised are paid into a special fund known as the Post Office Savings Bank Fund, which is managed by the Agency.

The Bank offers an ordinary demand deposit account carrying a variable rate of interest. In addition, the Bank's special savings account - the "Deposit Account Plus" - was launched on 1 January 1993.

The Agency reached agreement with An Post on a major development plan for the automation of An Post's counter facilities. This will provide savers with a more efficient and professional service including computerised lodgment and withdrawal facilities and immediately accessible account records.

TSB Bank

TSB Bank - which was formed in June 1992 through the merger of Cork and Limerick Savings Bank and TSB Dublin - places a very substantial proportion of its deposits with the Agency. These moneys are also paid into the Post Office Savings Bank Fund. Following the merger, the Agency's relationship with TSB Bank was restructured primarily to achieve certainty of funding levels for the Agency while, at the same time, affording TSB Bank greater freedom to manage its resources.

LEGAL & CORPORATE AFFAIRS

Legal

The main focus of legal activity in 1992 was in the negotiation of the exceptional amount of legal documentation associated with the Agency's foreign currency borrowing programme, notably during the currency crisis. An essential requirement was to ensure that they complied with local securities laws and financial services regulations in the relevant jurisdictions. Local regulatory developments were also monitored in order to take advantage promptly of the liberalisation of any regulations in the various international markets. For example, on 1 December 1992 Ireland became the first sovereign issuer to launch a Deutsche Mark Commercial Paper Programme in Germany after the liberalisation of that market by the Bundesbank. An important objective has been to obtain agreement by the international banking community to the documentation policies which the Agency has developed both in the borrowing and derivative products area.

The legal unit also provides on-going advice to the Agency with respect to existing Agreements, domestic legal issues and legislative changes in Ireland. It is also responsible for ensuring compliance with the professional conduct rules which all staff are required to observe.

Personnel

To meet the complexities of its business the Agency has put together a team of professionals with proven experience in financial services in Ireland and overseas. Their expertise covers a wide range of disciplines including capital markets, dealing in Government securities and derivatives, risk management, information technology, financial control, personnel and domestic and international law.

Following an active recruitment campaign throughout 1991, a further 4 permanent staff were appointed during 1992, bringing the total to 58. During the year, temporary staff were engaged as required for the performance of specific projects. At end 1991, there were 61 staff (including

temporary personnel) employed in the Agency.

A funded Pension Scheme was set up under an interim trust deed in December 1992 and approved by the Revenue Commissioners. Contributions to the Pension fund covering the period from the date of the Agency's establishment in December 1990 up to the end of 1992 were paid into the fund in December 1992.

The performance measurement system introduced in 1991 for Directors and senior specialists was extended to all professional and supervisory staff in 1992.

In line with the provisions of the Safety, Health and Welfare Act, 1989 the Agency's commitment to a safe working environment was re-inforced by the appointment of a staff Consultative Group to monitor standards in this important area. An independent safety audit was also carried out.

OPERATIONS

During 1992, the focus in the operations area was on systems development, refinement of processing and control procedures and staff training and development.

The Agency's IT strategic plan was finalised and the first phase, which caters to the needs of the short term paper business, was completed. Work is now proceeding on the second phase, with completion of its major elements timed for the third and fourth quarters of 1993. The benefits of this systems development work will be more timely and better quality information plus more streamlined processing. Once the basic integrated systems are in place, a major objective is to install an electronic funds transfer system in parallel with the opening of foreign currency accounts. This will further enhance productivity as well as improve security.

The evolving nature of the business, combined with the introduction of more sophisticated information systems, demands that a considerable amount of staff training and development be undertaken. Considerable progress was made in this area during 1992 through a combination of internal training and external courses.

AUDIT AND CONTROL

The accounts of the Agency are audited by the Comptroller and Auditor General, the official State auditor. In addition, internal audit reviews are conducted periodically during the year using specialised financial and computer audit techniques. An independent control officer, reporting directly to the Chief Executive, monitors day to day activities and control systems.

STRATEGY AND RISK MANAGEMENT

Activities under this heading during the year included:

- Analysis of interest and foreign exchange market developments and outlook as input to debt management strategy.
- Management of the fiscal debt service budget.
- Management of a comprehensive portfolio performance measurement system measuring the performance of the Agency's debt portfolio against a benchmark portfolio, under the supervision of J.P. Morgan, the US investment bank.
- Development and implementation of portfolio management analytical tools to facilitate better strategic management of the debt.

During 1992 considerable progress was made in further developing and enhancing portfolio management and portfolio measurement capabilities. Development in the areas of systems, data control, staff development and the bringing in-house of performance measurement capability were particularly significant in this respect.

Last year's report indicated that the development of the Agency's analytical and modelling capability would be an area of major focus during 1992. Considerable progress was achieved in this area during the year. Examples of these developments include debt service cost sensitivity analysis and the capability of monitoring performance on an intra-month basis, taking account of up to date movements in interest and exchange rates.

Private & Confidential

By Hand

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