NATIONAL TREASURY MANAGEMENT AGENCY

REPORT & ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 1993

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

CHIEF EXECUTIVE

Michael J. Somers

DIRECTORS

John C. Corrigan	Irish Pound Borrowing
Anne Counihan	Legal & Corporate Affairs
Jim Farrell	Operations
Adrian J. Kearns	Foreign Currency Borrowing
Paul Sullivan	Strategy & Risk Management

ADVISORY COMMITTEE

Joe Moran (Chairman)	Chief Executive, Electricity Supply Board
Gerold W. Brandt	Member of the Managing Board, Bayerische Landesbank, Munich
Paul Carty	Managing Partner, Deloitte & Touche
Sean P. Cromien*	Secretary, Department of Finance
John F. Daly**	Chairman, ICL Computers (Ireland) Limited
Donald C. Roth	Director, AIG Asian Infrastructure Management Limited, USA

* **Patrick Mullarkey**, Secretary, Department of Finance, was appointed to the Committee in June 1994 on the resignation of Sean Cromien.

** From April 1993

30 June, 1994

Mr. Bertie Ahern 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, 1993.

Yours sincerely

Michael J. Somers
Chief Executive

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SUMMARY OF ACTIVITY

PERFORMANCE OF AGENCY

This, the third Report of the National Treasury Management Agency (the Agency) covers the calendar year 1993.

The early part of the year was dominated by the European currency crisis which had commenced in mid-September 1992 and continued into 1993. It led to the 10% devaluation of the Irish pound central rate within the Exchange Rate Mechanism (ERM) on 30 January and culminated eventually in the widening of the fluctuation bands from 2.25 per cent, in the case of most countries, to 15 per cent on 1 August.

During the period of the crisis the Agency, acting in support of Government policy, successfully raised substantial sums on the international capital markets at highly competitive rates. The Agency helped to maintain international confidence in the Irish pound bond market by the support it provided during the crisis; the market experienced a resurgence of foreign investment and a consequential sharp fall in interest rates as soon as the crisis had passed.

The main features of the Agency's performance in 1993 were:

- Actual Debt Service costs IR£379 million below the 1993 pre-Budget estimate;
- Interest Costs in 1993 at their lowest since 1989 notwithstanding the increase in the debt over that period;
- Net Present Value savings of IR£141 million.

These favourable performance figures were the result of a number of factors. Of particular significance were the Agency's actions in switching, through a series of interest rate swaps, from fixed to floating rate debt to take advantage of an expected decline in interest rates, its foreign exchange exposure management activities and a lower than anticipated rate of encashment of small savings products.

In the Government's 1993 Budget, the Agency was given the cash target of reducing debt service costs by IR£100 million. This target was exceeded by IR£279 million. Of this

amount, IR£100 million was used to help reduce the Exchequer Borrowing Requirement (EBR) with the balance available to the Exchequer for 1994.

Actual expenditure on debt service in 1993 was IR£2,308 million. As well as interest payments, this figure included IR£195 million in sinking fund provisions. This is essentially a "circular" movement of cash; 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.

Notwithstanding the additional amount of some IR£2,100 million that had to be borrowed since 1989, the cost of interest on the National Debt in 1993 was lower than in each of the previous three years:

		IR£ million
•	1993	2,076
•	1992	2,106
•	1991	2,132
•	1990	2,109

In addition to the Budget debt service 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 1993, on the basis of this net present value measurement, show savings of IR£141 million.

The operating costs of the Agency in 1993 totalled IR£5.5 million. Of this, IR£1.6 million was paid to the Exchequer in the form of PAYE, Social Welfare contributions and VAT leaving a net cost of IR£3.9 million. This is equivalent to less than one and a half basis points (hundredths of one percent) of the National Debt.

In the three years of the Agency's operations, total debt service costs were IR£629 million below pre-Budget estimates, while net present value savings amounted to IR£288 million.

CURRENCY CRISIS

The actions of the Agency in support of Government policy during the currency crisis in the final months of 1992 were continued into the early part of 1993. With the massive outflow of funds from the State during that period, the Agency was obliged to make a fundamental change in its funding strategy. This change 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. The Agency's withdrawal from the domestic market, which continued into 1993, was dictated by the need for foreign currency borrowing to replace some of the outflow of funds, the very high level of Irish 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. Continuing recourse to foreign borrowing was undertaken in agreement with the Minister for Finance and the Central Bank; a primary objective of this was to bolster the official reserves held by the Bank. In line with this strategy, the Agency borrowed and passed to the Central Bank foreign currency sums equivalent to some IR£1,000 million (at pre-devaluation exchange rates) in the month prior to the devaluation of the Irish pound at end-January 1993. Over the balance of the year this Irish pound amount plus a further IR£60 million was repaid in order to reduce the foreign currency debt.

The large currency outflows during the crisis period were reflected in the decline of non-resident holdings of Irish pound Government securities which fell from some IR£4,000 million in mid-September 1992 to some IR£2,500 million at end January 1993. Following the devaluation foreign investors returned in force to the Irish Pound market and non-resident holdings recovered to some IR£4,000 million by end-1993 as bond market conditions improved.

The realignment of ERM currencies on 30 January and further exchange rate movements during the year increased the Irish Pound value of the foreign currency debt by some IR£1,368 million, calculated on the basis of end-1993 exchange rates. Largely as a result, the Debt/GNP ratio deteriorated by 2.5% to 102% and the Debt/GDP ratio — the one normally used in international comparisons — by 1.5% to 90.5%. Given current fiscal policy and the growth rate of the economy these ratios should show a significant decline in 1994 — thus resuming the steady downward trend of recent years.

Irish investors were net sellers of Irish pound bonds (Gilts) in 1993, with their sales and all Irish pound bond sales by the Agency going to non-residents. The only source of Irish pound funding from Irish residents was from the sale of Savings Certificates and other national savings products.

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 1993 activities under these headings are outlined below:

Funding

The Agency raised net new funds of IR£1,617 million as follows:

• Irish Pound Bonds and Notes	IR£1,379 million
• National Savings Schemes	IR£238 million

The total funds of IR£1,617 million were applied towards:

- Funding the Exchequer Borrowing Requirement of IR£690 million
- Repaying IR£60 million in foreign currency borrowing
- Increasing deposit balances by IR£867 million

Maturing Medium and Long Term Debt

The Agency repaid and refinanced:

- IR£1,674 million in maturing Irish Pound Bonds
- IR£765 million in maturing foreign currency debt

Prepayable Medium and Long Term Debt

The Agency prepaid and refinanced:

- IR£672 million in foreign currency debt

Short Term Debt

The Agency had gross cash flows of:

- IR£27 billion in respect of all short term borrowing programmes which were used mainly for cash management purposes.

Gross cash flows through the Agency, including all short term debt management activities, increased by almost 58% on 1992 levels and totalled IR£76.6 billion, consisting of gross borrowings of IR£32.8 billion, gross payments of IR£31.5 billion, flows on foreign exchange and derivative transactions of IR£9.9 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 four occasions during 1993. We were pleased to welcome John F. Daly, Chairman, ICL Computers (Ireland) Limited, who was appointed to the Committee by the Minister for Finance in April 1993. We are also pleased to welcome Patrick Mullarkey, Secretary, Department of Finance, who was appointed in June 1994 following the resignation of Sean Cromien to whom we express our thanks for his contribution as a member of the Committee since the establishment of the Agency.

STAFF

The Chief Executive and Directors wish to record their thanks and appreciation to all staff for their contribution to the Agency's success during a particularly difficult year and for their continuing commitment and professionalism.

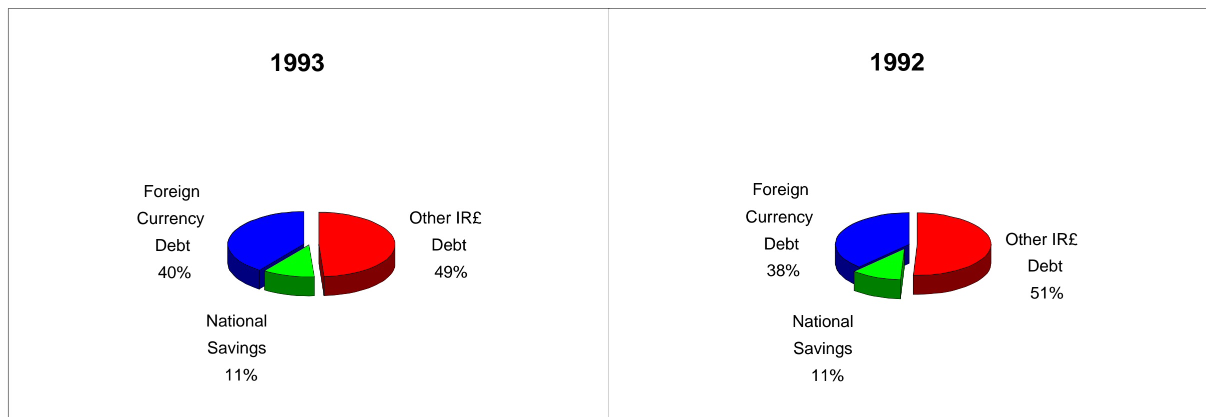
The Agency would like to pay tribute to our former colleague Hugo Dillon-Malone who died tragically last December. Hugo had played a key role in developing the Agency's portfolio management systems over the past couple of years and is greatly missed by his many friends at the Agency.

THE NATIONAL DEBT

The National Debt is traditionally defined as gross borrowings by the Government less liquid assets. It grew from IR£26,344 million at end 1992 to IR£28,357 million at end-1993, an increase of 7.6%. Reflecting the impact of the currency crisis and currency movements during the year the National Debt as a percentage of Gross National Product increased to 102% at end-1993 compared with 100% a year earlier; ratios for Gross Domestic Product, the standard international basis for comparison, were 90.5% and 89% respectively. On the basis of current growth and fiscal targets it is anticipated that by the end of 1994 these ratios will have fallen below their end-1992 levels.

The composition of the Debt was as follows:

DEBT COMPOSITION AT YEAR END



Of the Irish Pound portion of the Debt, approximately IR£4,000 million was held by non-residents at end-1993.

DEBT SERVICE COSTS

The cost of servicing the National Debt in 1993 came to IR£2,308 million, a decrease of IR£11 million on the previous year. Of the total, IR£2,076 million was in respect of interest, a decrease of IR£30 million on the 1992 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 and exchange rates applicable to existing debt.

BORROWING ENVIRONMENT

With the final abolition of exchange controls on 1 January 1993, Irish investors are not confined in any way to the Irish pound bond and equity markets but have numerous other markets open to them competing for their capital. The Irish pound bond market has therefore to be attractive by international standards if it is to compete and has to be seen to provide value to non-resident as well as domestic investors. Moreover, with an increase in global demand for capital, the competition for Irish pound funds can be expected to intensify further. In this context, the Agency introduced further changes in the Irish pound bond market to increase its liquidity and attractiveness to investors.

On the foreign currency front, it continues to be expensive for sovereign borrowers with a high credit rating to raise moneys from banks in the form of traditional loans. It is more cost effective to borrow foreign currency through public bond issues, private placements, medium term notes and commercial paper and this is the route that the Agency has followed. Most of the Agency's funding is done on the major capital markets as well as on more local or regional markets where, from time to time, particularly favourable pricing conditions may prevail.

The Agency has continued its marketing programmes and held investor briefings in several overseas financial centres with the aim of encouraging investment in both its Irish pound denominated bonds and in its bonds denominated in other currencies.

CREDIT RATING

A recent development of major significance has been the revision by the international Rating Agencies, Moody's and Standard & Poor's, of Ireland's long term credit rating position from "stable" to "positive outlook". The present long term ratings are as follows:

Moody's	AA3
Standard & Poor's	AA-
Japan Bond Research Institute	AA

In addition, Ireland continues to have the top AAA credit rating from both Moody's and Standard & Poor's for Irish pound bonds and the top A1+ and P1 ratings for short-term foreign debt.

The Agency maintains a close dialogue with all three Rating Agencies, ensuring that they are kept fully informed on all major developments in the Irish economy and on Government economic policy.

BENCHMARK

Overview

One of the Agency's key objectives is to ensure that Exchequer funding needs can always be readily met. Funds are needed not only to refinance maturing borrowings but also to meet the annual Exchequer Borrowing Requirement. As well as managing and protecting current and future liquidity the Agency has responsibility for ensuring that, so far as possible, the Government annual debt service budget is met. Indeed the legislation establishing the Agency specifically imposes this responsibility on it.

In addition, the activities of the Agency are assessed by reference to a Benchmark. The Benchmark represents a shadow portfolio against which the cost of the real portfolio is measured. This measurement takes account not just of the payments actually made in the year in question but also the mark to market value, in Irish pound terms, on a specific date, 31 December, of all future principal and interest payment liabilities that are undertaken by each portfolio. As such, the Benchmark seeks to measure the full economic cost of all portfolio decisions over their total lifespan rather than over just a single year.

The very substantial uncertainty and volatility of capital market conditions, clearly evident both in the European currency turmoil of 1992 and early 1993 and through the first half of the current year, can result in conflicts between the objectives of managing liquidity and debt service on the one hand and the Benchmark on the other.

For example, during the early part of 1993, as a result of the effects of the overall European monetary crisis, the Benchmark was suspended as it was based on assumptions which were no longer appropriate to the changed environment in which real world funding and debt management decisions had to be made.

The potential conflict between the Benchmark and debt service objectives has been further highlighted in 1994 by the major sell-off in bond markets over the past few months which has resulted in a sharp increase in capital market yields. Whereas the Government's debt service

budget is based on market interest and exchange rates prevailing on a single day in January, both actual debt service costs and the Benchmark are governed by market rates as they evolve through the year. As a result, the recent rise in bond yields has led to a situation where the Benchmark portfolio would not be able to satisfy the obligation of meeting the 1994 debt service budget target; aiming to match or outperform the Benchmark in such circumstances would result in a significant over-run on the budget estimate. For this reason, and given its statutory obligations, the Agency must always aim primarily to achieve its budgetary target with the non-statutory Benchmark being an important but secondary consideration.

1993 Benchmark Review

When the Benchmark was originally established in 1991, it was agreed by the parties involved — the Agency, J.P. Morgan, the US bank that acted as adviser, and the Department of Finance — that it should be assessed over time and modified as deemed appropriate in the light of experience. A review of the original Benchmark was therefore undertaken in the Autumn of 1993 with a view to implementing a revised Benchmark framework from the beginning of 1994.

This new Benchmark embodies a strategic target portfolio determined at the beginning of the measurement period based on the market environment prevailing at that time. Subject to this, it represents a more optimally diversified and low risk portfolio, more closely aligned with the changing economic linkages of the Irish economy and the currency. Similarly, reflecting the view that the downward trend in global interest rates had already reached a relatively advanced stage, the new Benchmark itself incorporates a strategic bias towards a lengthening of its interest rate profile. During the year the benchmark portfolio will gradually increase its reliance on fixed rate liabilities, thereby locking in increased fiscal certainty over the medium term but at a higher cost, at least initially.

The new Benchmark is, therefore, designed to be normative and to represent an inherently appropriate target portfolio profile, particularly in a stable environment. It should, therefore, in normal circumstances serve as a more useful guide to the portfolio decision-making process than was the case with the initial model. The new Benchmark also takes on board the many reductions in the cost of debt achieved by the Agency through its domestic and foreign portfolio switching and refinancing activities over the past three years. Because of this and its more optimal profile it will, however, be increasingly difficult to outperform in the future.

Finally, it should be clearly understood that any benchmark is an artifice which must reflect specific expectations as to the future market and strategic environment; should the actual

environment be materially different from what was expected, closely following any benchmark could result in suboptimal decisions.

RISK

The Agency's debt management activities necessarily involve it in the management of several areas of risk inherent to the business. These areas of risk — which include risks relating to liquidity, interest and exchange rate fluctuations, counterparty-credit and operations — are all the subject of management policies and controls which are kept under ongoing review.

IRISH POUND BORROWING

Irish Pound borrowing, excluding the National Savings Schemes, accounts for 49% of the National Debt.

The amounts outstanding under the following instruments were:

		IR£ million (nominal)		
		31 Dec 1993		**31 Dec 1992**
Irish Pound Bonds (Gilts)				
Domestic holders	10,097		10,858	
Non Resident holders	4,047	*14,144	2,321	13,179
Exchequer Notes		433		83
Exchequer Bills		15		27
Notes issued under Section 69 of Finance Act, 1985		146		125
TOTAL		**14,738**		**13,414**

* excludes dual currency bonds amounting to IR£102 million (1992 IR£169 million).

Bonds in issue have maturities ranging up to 18 years while Bills and Notes have a maximum maturity of six and twelve months respectively.

Bonds held by non-residents increased substantially from 18 per cent of the total outstanding at end-1992 to 29 per cent by end-1993 as a result of purchases following the currency crisis.

While most Bonds carry fixed rates of interest payable semi-annually or, in the case of certain recent issues, annually, a proportion (13 per cent at end-1992, 12 per cent at end-1993) carries a variable rate of interest, fixed by reference to the Dublin Interbank Offered Rate (DIBOR) and payable quarterly.

The Agency sells and repurchases Bonds on the Stock Exchange through the Government Broker who acts for the Agency on the primary market. The Agency also trades actively on the secondary market.

1993 ACTIVITY

Net funding by the Agency on the domestic market during 1993 is shown below:

			IR£ million (cash amounts)
Sales of:	Bonds		4,044
	Exchequer Notes		344
	IR£ Section 69 Notes		22
			4,410
Less:	Redemption of Bonds	1,674	
	Repurchase of Bonds	1,345	
	Redemption of Exchequer Bills	12	3,031
			1,379

In the early part of 1993, when yields were high as a result of the currency crisis, the Agency concentrated its funding in the five year maturity area. A new five year benchmark stock, the first annual coupon Irish Pound stock, was launched in April 1993 and by year end had IR£986 million outstanding. The Agency hedged most of its fixed rate five year funding in early 1993 into floating rate debt, by executing interest rate swaps. Floating rate payments by the Agency fell in line with reduced interest rates later in the year, thereby contributing substantially to the Agency's 1993 performance. During the latter part of 1993, funding was concentrated in the longer dated maturities. A new ten year benchmark annual coupon stock was launched in mid-October and by year-end had IR£857 million outstanding. Quarterly auctions were held in the long dated benchmark stock — 8¾% Capital Stock 2012. The auction amount in the final quarter was IR£100 million, the largest to date with cover of 3.75 and an average yield of 6.94 per cent.

BOND YIELDS

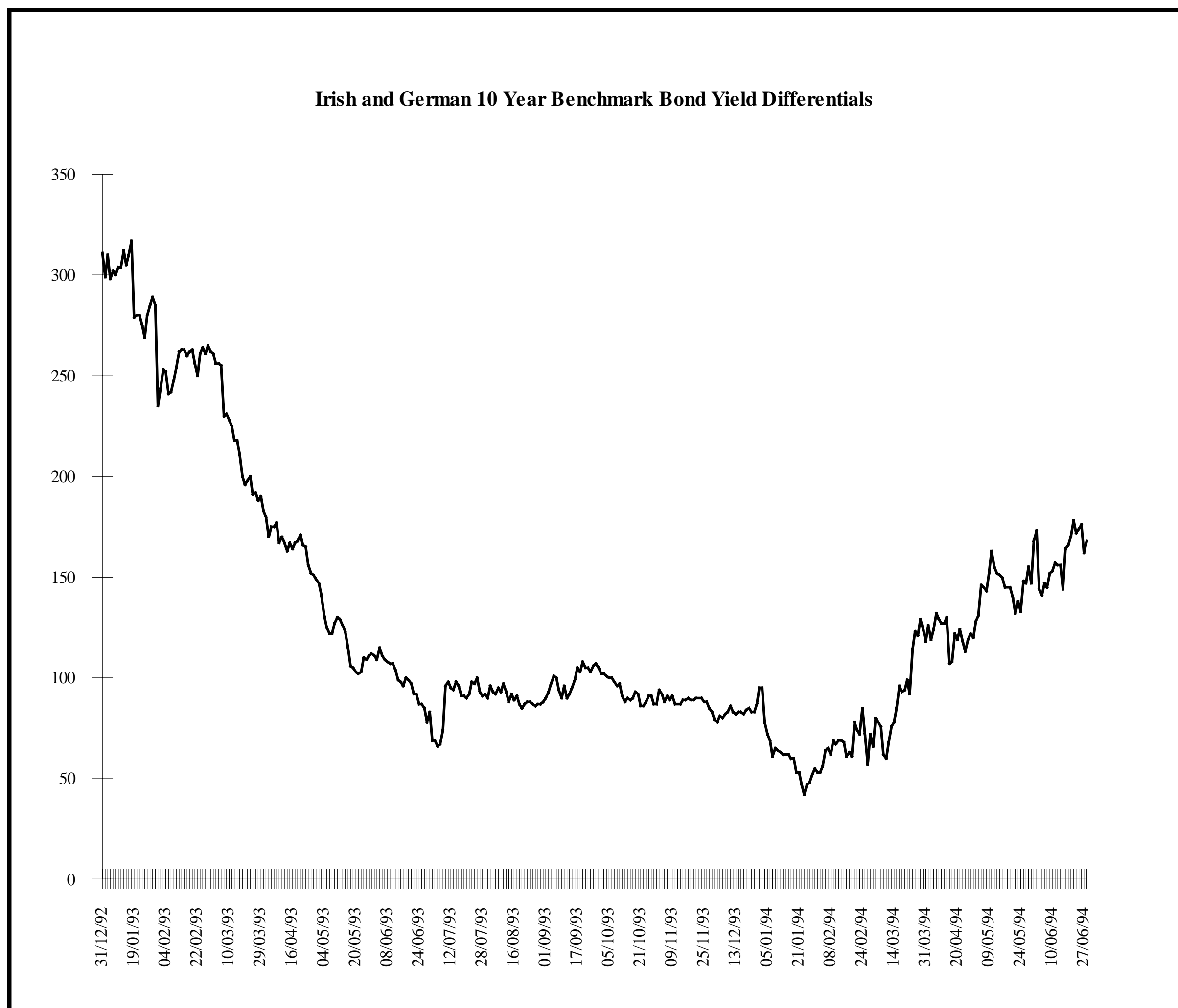
Following the end of the currency crisis in the Exchange Rate Mechanism bond yields in Ireland towards the end of 1993 fell to their lowest levels for many years and the key ten year benchmark Bond ended the year at 372 basis points below its end 1992 level.

BENCHMARK YIELDS (Semi-Annual) %

Maturity	End 1992	Low	High	End 1993
5 year	10.66	5.90	10.68	5.90
10 year	10.12	6.40	9.89	6.40
15 year	9.52	6.46	9.63	6.46
20 year	9.40	6.56	9.51	6.56

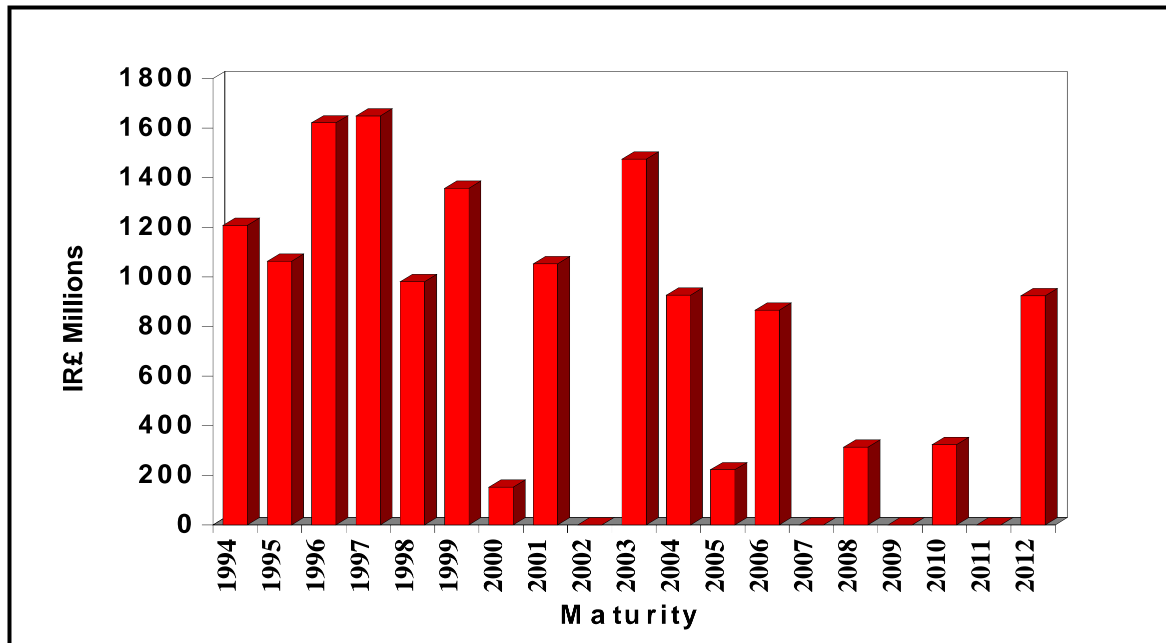
Adjusting for semi-annual payments, the spread at which Irish Pound Bonds trade over key ten year German Government bonds declined to a low of 66 basis points in early July. By year-end the spread had risen to 95 basis points, despite the fact that the Irish ten year yield at 6.40 per cent had reached its lowest level for the year. Yields rose sharply in the first half of 1994 with the ten year yield reaching a high of 9.11 per cent in June, some 180 basis points over German Government bonds.

BENCHMARK BOND YIELD DIFFERENTIALS JANUARY 1993 TO JUNE 1994



BOND MATURITY PROFILE

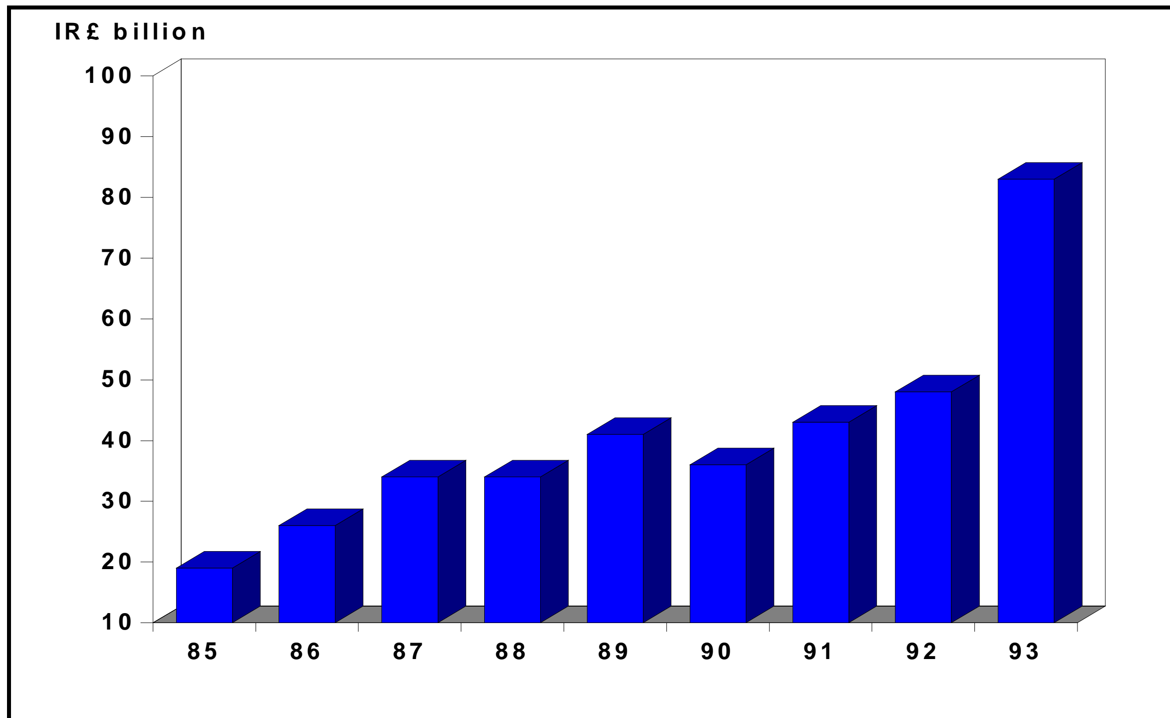
The maturity profile of outstanding Irish Pound Bonds at 31 December 1993 is shown in the table below:



BOND MARKET TURNOVER

Reported Stock Exchange turnover in the primary and secondary market in 1993 at IR£83 billion was the highest level ever recorded and represented an increase of 73 per cent on the 1992 outturn of IR£48 billion. The Agency, through its primary dealing and repurchase activities, accounted for IR£5.4 billion while its operations in the secondary market accounted for an additional IR£4.9 billion.

IRISH GOVERNMENT BOND MARKET TURNOVER



BENCHMARK BONDS

The Agency has designated benchmark bonds close to the five, ten, fifteen and twenty year maturities. The following are the current benchmarks:

Coupon	Name	Maturity	Outstanding 1 June 1994
			IR£ million
6.25% (annual)	Treasury Bond	01 April 1999	1219
6.25% (annual)	Treasury Bond	18 October 2004	1326
9.00% (semi-annual)	Capital Stock	01 September 2006	941
8.75% (semi-annual)	Capital Stock	30 September 2012	925

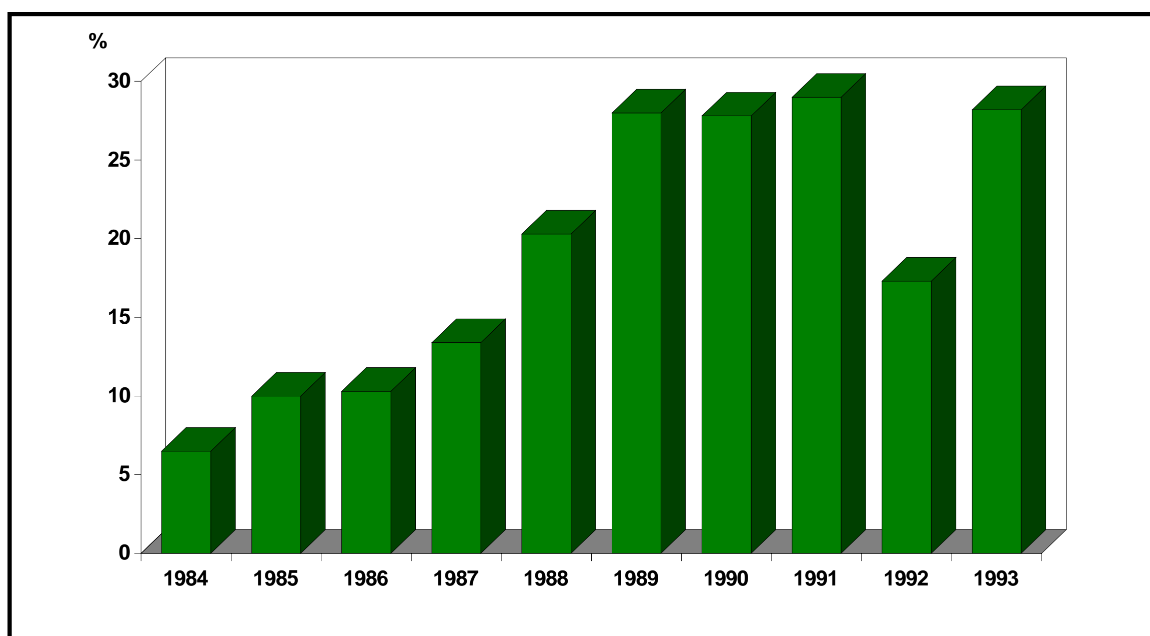
The five and ten year annual coupon bonds introduced during the course of 1993 proved popular with investors, enabling outstanding balances and thus liquidity to be built up quickly. It is expected that new benchmark bonds will in future carry annual coupons with a view to bringing the Irish Pound Bond market into line with most European bond markets. For annual coupon bonds, yields are calculated in accordance with the ISMA (International Securities Market Association) method.

The Agency continued to facilitate switching by investors from relatively illiquid issues into the benchmark issues; switching in 1993 totalled IR£870 million.

NON RESIDENT HOLDINGS

Investment by non resident institutions in the Irish Pound Bond market has grown substantially in recent years. The sell off during the currency crisis which saw non resident holdings fall to 18 per cent of outstanding bonds was reversed during the year as these holdings increased to 29 per cent by year-end. Investors in the United States, mainland Europe and the United Kingdom account, in approximately equal proportions, for the majority of non resident holdings.

NON RESIDENT HOLDINGS OF IRISH POUND BONDS



INCLUSION OF BONDS IN INTERNATIONAL BOND INDICES

During the year Irish Pound Bonds were admitted to the Merrill Lynch Global Government Bond Index II, the fifth index to admit the bonds. J.P. Morgan recently decided to publish a daily Irish Pound Bond index and to include Ireland in a new global government bond index at a later date.

EUROCLEAR/CEDEL

Both Euroclear and Cedel introduced arrangements to provide settlement facilities for Irish Pound Bonds. The Euroclear facilities were put in place from 1 February 1994 and those with Cedel took effect from 1 June 1994.

The inclusion of Irish Pound Bonds in international bond indices and the provision of Euroclear and Cedel facilities for the bonds will widen the potential investor base and enhance liquidity in the Irish market.

MARKET MAKING

The present agency-only broking arrangement in the Irish market, which dates from a 1799 Act, is almost unique among OECD countries. Most competitor markets have a market making structure where adequately capitalised intermediaries, acting as principals, can promptly satisfy investors' transaction needs. With a view to further improving the competitiveness of the Irish market the Agency has held detailed discussions with market participants on the introduction of a market making system appropriate to the Irish market. On 1 June, 1994 the Agency published its proposals for a market making system in Irish Pound Bonds and invited comments from market participants.

EXCHEQUER BILLS AND NOTES (NOMINAL AMOUNTS)

At end 1992 there was IR£27 million outstanding in Exchequer Bills and IR£83 million in Exchequer Notes. During the currency crisis, sales of Bills and Notes were effectively suspended but resumed at the end of the first quarter of 1993 when domestic interest rates were falling rapidly. A marketing programme was implemented to regain the Agency's market share and attracted strong interest from a broad range of investors. Outstanding levels of short-term Exchequer Bills and Notes had risen to IR£353 million by the end of the second quarter and to IR£448 million by year-end.

DETAILS OF BONDS PURCHASED AND SOLD IN THE PRIMARY MARKET (CASH AMOUNTS)

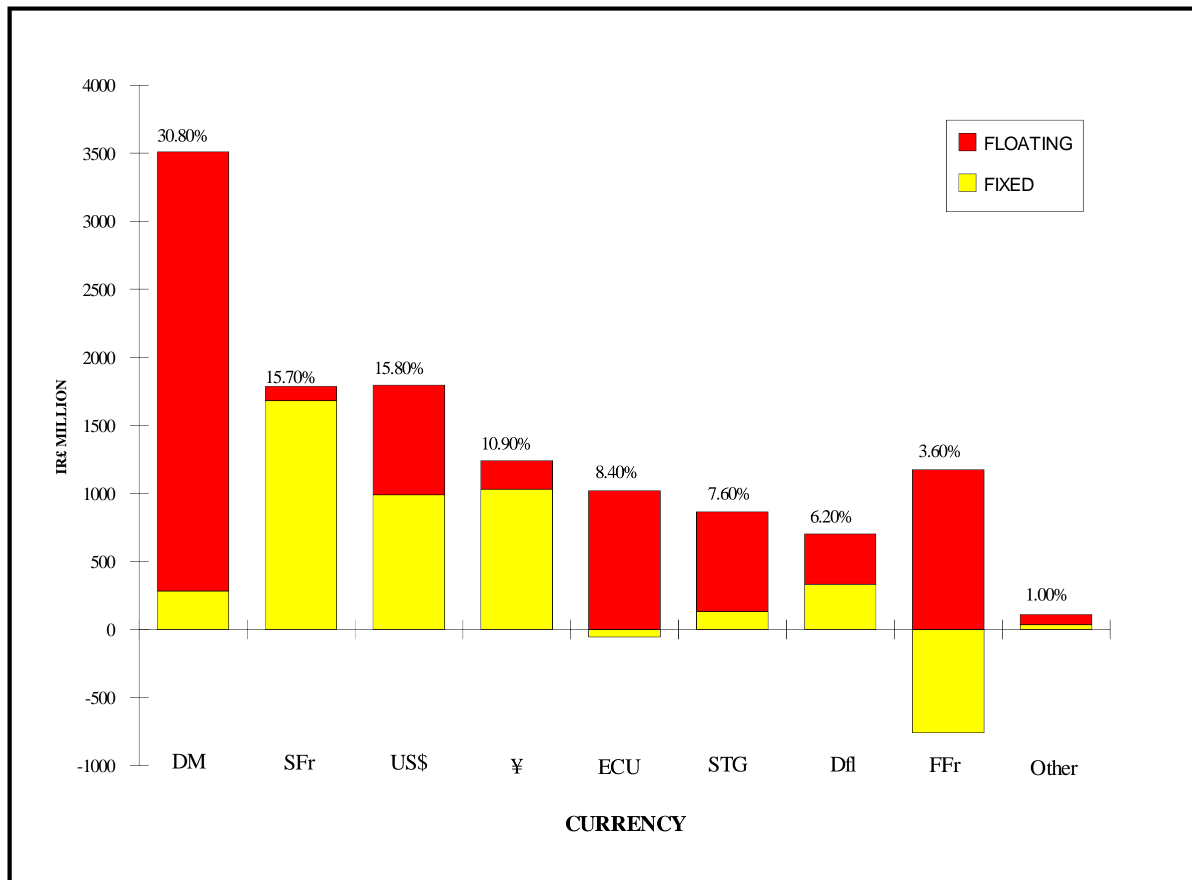
	Purchases	Sales
	IR£m	IR£m
Variable Rate Funding Stock 1995	60	-
Variable Rate Government Bond 1996	-	196
7% Capital Stock 1994	279	-
9½% Conversion Bond 1995	-	29
7¾% Capital Stock 1997	96	-
8¾% Exchequer Bond 1997	81	778
11½% Development Loan 1997/99	29	-
7½% Capital Stock 1999	45	-
6¼% Treasury Bond 1999*	182	1134
14½% Finance Loan 1998/2000	59	-
9% Government Bond 2001	97	40
8% Capital Loan 2001	91	-
13% Finance Stock 1997/2002	47	-
8¼% Capital Stock 2003	183	-
9¼% Capital Stock 2003	-	520
6¼% Treasury Bond 2004*	-	801
6½% Exchequer Stock 2000/2005	57	-
9% Capital Stock 2006*	20	200
8¾% Capital Stock 2012*	-	331
Other Bonds	19	15
Gross Purchases/Sales	**1345**	**4044**
Net Sales Before Redemptions		2699
Less Redemptions		1674
Net Sales		**1025**

* Benchmark stocks. Nominal amounts outstanding as at 31 December 1993 were IR£986 million, IR£857 million, IR£867 million and IR£925 million respectively.

FOREIGN CURRENCY BORROWING

Outstanding foreign currency debt was IR£11,386 million at 31 December 1993 based on exchange rates at that date. The following chart shows the currency composition and interest rate mix of the debt.

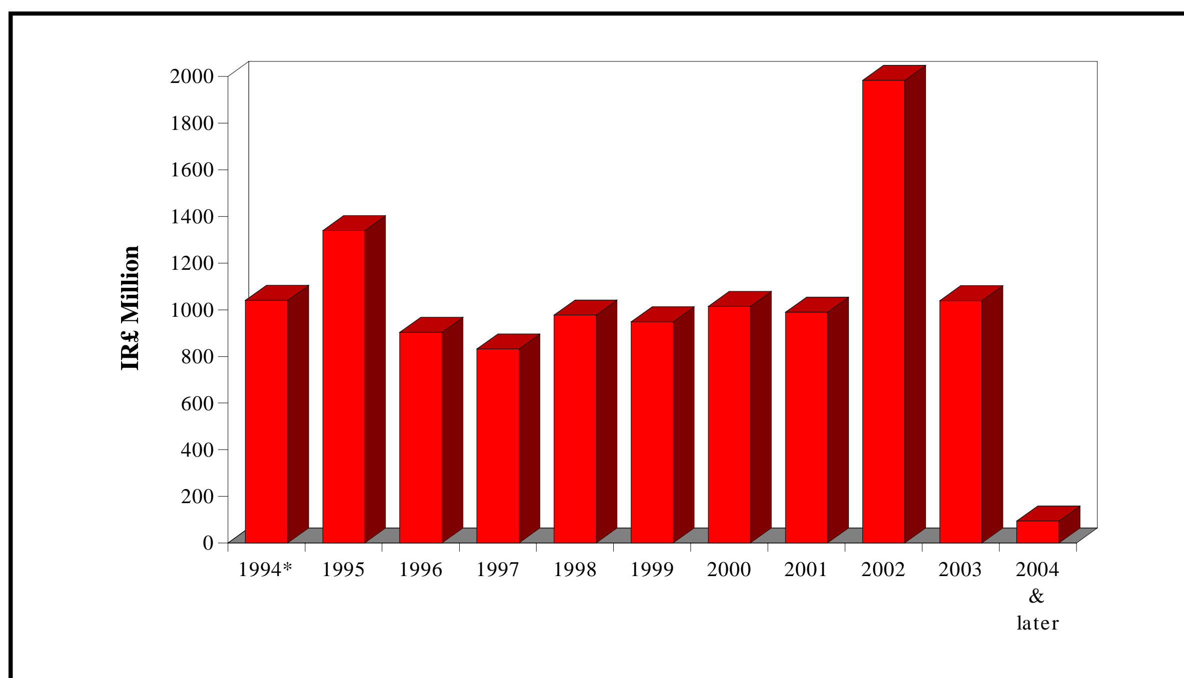
FOREIGN DEBT COMPOSITION 31 DECEMBER 1993



The proportions of debt in each currency and the split between fixed and floating interest rates are kept under constant review by the Agency and are actively managed taking account of likely movements in both interest and exchange 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 are kept to manageable levels particularly over the short term. While cost savings continue to be a driving force in assessing re-financing opportunities, an overriding requirement is the need to maintain a prudent maturity profile ensuring that repayments are spread relatively smoothly into the future.

MEDIUM TO LONG-TERM FOREIGN CURRENCY DEBT
MATURITY PROFILE 31 DECEMBER 1993



* excludes IR£223 million in Short Term Paper maturing in 1994.

LIABILITY MANAGEMENT

During the year, the Agency stepped up its activities in the management of the foreign debt in line with forecasts of trends in interest and exchange rates. The proportion of debt denominated in Deutsche Marks and Swiss Francs was reduced from 62 per cent to 47 per cent over the course of the year while the proportion of foreign currency debt denominated in Sterling, French Francs, Dutch Guilders and ECU was increased from 11 per cent to 26 per cent. The strategy of further diversification within the spectrum of European currencies was particularly influenced by the decision of EU Finance Ministers to widen ERM fluctuation bands to 15 per cent in August 1993.

The Agency was also active in converting a significant amount of fixed rate debt into floating rate debt in order to benefit from declining yields in European currencies. This was accomplished largely through the execution of interest rate swap transactions in the three to five year maturity range in Deutsche Marks, Dutch Guilders, French Francs and ECU. As monetary authorities in the various European countries continued to ease policy in response to deepening economic recession and higher unemployment, short-term rates fell dramatically

from the levels prevailing at the start of the year. For instance, six month inter-bank rates fell by 5% in French Francs, 4% in ECU and 2.7% in Deutsche Marks and Dutch Guilders. Longer term rates also fell substantially, so that the market value of the fixed rate receivables which had been contracted by the Agency rose. This contributed substantially to the Agency's performance for 1993.

On the US Dollar market, however, long term yields which had reached twenty-year lows during the year, began to rise again in the last quarter as the pace of growth in the US economy accelerated. In order to take advantage of relatively low long-term rates, the Agency increased progressively the proportion of fixed rate US Dollar debt from 23 per cent at the start of 1993 to 55 per cent at year-end.

During the year the Agency maintained an active approach to the management of the short-term portfolio, using the foreign exchange market extensively to hedge currency risk.

1993 Borrowing Activities

Europe's currency turmoil which began in September 1992 still overshadowed the foreign currency markets through the beginning of 1993. From early January other sovereign issuers were already embarking on substantial borrowing programmes. In the case of some countries, the temporary demands for foreign capital due to the currency crisis were exacerbated by longer term problems with their balance of payments deficits and serious short-falls in their annual budgets. Although Ireland had no such underlying problems, the Agency still had to consolidate the short-term borrowings which had been drawn down in the latter part of 1992 and to broaden the funding base for the first quarter of 1993. A substantial war chest was required initially to defend the Irish pound exchange rate and, following the devaluation, to maintain the new exchange rate against possible further speculative attacks if the currency crisis had continued.

Just over IR£2 billion (equivalent) of foreign currency funding was arranged in 1993 of which all but IR£100 million (equivalent) was arranged in the first quarter, both prior to and following the devaluation. The Agency drew down IR£1 billion (equivalent) of this in January before the devaluation following a request by the Central Bank to the Minister for Finance to do so. The balance of this new borrowing was later applied to refinance maturing debt and to prepay more expensive existing debt, both throughout 1993 and into the current year. As these funds were held in foreign currency deposits overseas, they were not impacted by the devaluation.

During the remainder of 1993, with the return of funds into the Irish Pound Bond market, it became possible to repay foreign currency borrowings equivalent to IR£1.06 billion.

DEUTSCHE MARK MARKET

Of the IR£2 billion (equivalent) raised in foreign currency, IR£1.2 billion (equivalent) was sourced in Germany. These DM borrowings were arranged in the Schuldscheindarlehen, European Medium Term Note (EMTN) and public bond markets. In March 1993, the Agency arranged a public bond issue of DM1,500 million which was Ireland's largest ever single issue in a foreign currency. Although not the largest market issue in Deutsche Marks in 1993, it reflected the trend towards larger issues which has become evident in the major capital markets for reasons of liquidity and investor impact. The issue priced at Ireland's tightest ever spread of 25 basis points over German Government bonds, was well received and continues to trade actively in the secondary market.

At the short end of the maturity range the Agency availed of opportunities to enter into structured EMTN transactions which, after hedging, allowed it to obtain one year Deutsche Marks at spreads as low as 50 basis points below inter-bank rates.

US DOLLAR MARKET

The second public bond issue by the Agency in 1993 — a ten year US$500 million Eurobond — has also performed well in the secondary market. Although not a large issue by contemporary standards in the Dollar market, it has held sufficient liquidity and investor appeal to generate a consistently active trading performance. The spread over US Treasuries which was 50 basis points at launch has tightened significantly in comparison with other sovereign issuers. As such it represents a solid benchmark for future issuance by the Agency in the wider Dollar sector.

One half of the proceeds of the Eurobond was swapped into Swiss Francs at rates below those available directly in the Swiss market. The other half was swapped into floating rate Dollars.

Elsewhere in the Dollar sector, the Agency issued a total of US$180 million at attractive levels under the EMTN programme and through other private placement opportunities.

JAPANESE YEN MARKET

The Agency issued one private placement and arranged one loan (both ten years) totalling ¥30 billion.

SWISS FRANC MARKET

Three private placements totalling SFr 350 million in maturities ranging from 1997 to 2003 were completed.

PORTUGUESE ESCUDO MARKET

In the final quarter of 1993 the Agency became the first sovereign issuer in the Caravela market. The five-year issue of ESC 15 billion was priced at 8 basis points below AAA rated domestic Portuguese Government bonds, allowing the Agency to swap into Deutsche Marks at a substantial spread under LIBOR. The Deutsche Mark proceeds were used to enable more expensive Deutsche Mark debt to be repaid and refinanced at a more cost-effective level.

REFINANCING OPERATIONS

Scheduled repayments of IR£765 million (equivalent) were refinanced during 1993. Prepayments totalling IR£672 million (equivalent) were also made and a further IR£254 million (equivalent) in prepayments were arranged to take effect early in 1994. In addition, a total of IR£623 million (equivalent) in short term paper was redeemed in 1993 and refinanced with longer term debt.

EUROPEAN INVESTMENT BANK

In December 1993, Ireland signed an IR£50 million (equivalent) Open Rate Contract with the EIB. The timing of drawdowns can be decided by the Agency having regard to prevailing interest rates.

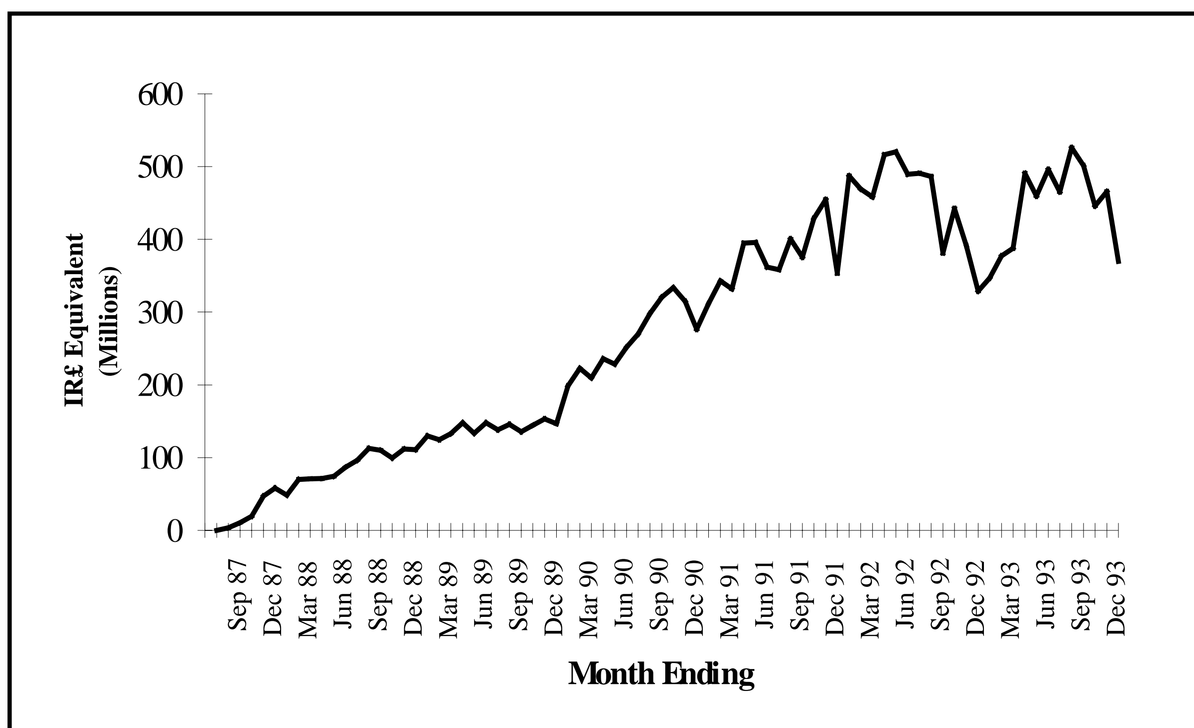
COMMERCIAL PAPER

The amount outstanding under the Agency's Euro and US Commercial Paper Programmes totalled IR£568 million (equivalent) at the beginning of 1993. The major portion of this was repaid by the end of the first quarter and the remainder by year-end. During the currency crisis these programmes proved themselves to be a means of quick and cost-effective access to foreign currency funds. They also continue to be a cheap and flexible source of bridging finance for longer-dated issues as and when the need arises.

SECTION 69 NOTES

These tax-exempt securities are issued in a range of currencies (including Irish Pounds) to eligible foreign-owned companies located in Ireland. They have maturities from seven days upwards and are sold mainly through designated banks in Ireland and by the Agency directly. Average monthly outstanding balances for the year were IR£444 million (equivalent) compared with IR£455 million (equivalent) in 1992.

SECTION 69 NOTES OUTSTANDING (IR£ AND FOREIGN CURRENCY)



FOREIGN CURRENCY BORROWINGS* 1993

PUBLIC BOND ISSUES, OTHER ISSUES AND LOANS

January	DM 115 million Loan 7.70% due 2003
	DM 100 million Schuldscheindarlehen 7.50% due 2003
	DM 100 million Schuldscheindarlehen 7.50% due 2003
	DM 130 million Schuldscheindarlehen 7.42% due 2003
	DM 100 million Schuldscheindarlehen 7.25% due 2003
	SFr 150 million Note Issue 6.5% due 2001
February	DM 50 million Schuldscheindarlehen 7.30% due 2003
	DM 50 million Schuldscheindarlehen 7.25% due 2003
	DM 150 million Schuldscheindarlehen 7.375% due 2003
	DM 100 million Schuldscheindarlehen 7.20% due 2003
	¥ 10 billion Loan 5.50% due 2003
	DM 150 million Schuldscheindarlehen 7.20% due 2003
	DM 50 million Loan 7.35% due 2003
	SFr 100 million Note Issue 5.75% due 2003
March	DM 50 million Schuldscheindarlehen 7.30% due 2003
	US$ 500 million Eurobond 6.875% due 2003
	DM 1,500 million Eurobond 7.25% due 2003
June	SFr 100 million Note Issue 4.75% due 1997
November	ESC 15 billion Bond Issue 8.75% due 1998

* excludes all commercial paper transactions

EURO MEDIUM-TERM NOTES

January	DM 5 million due 1994
	DM 100 million due 1997
	¥ 20 billion due 2003
February	DM 50 million due 2003
	US$ 10 million due 1994
	US$ 50 million due 1995
	US$ 10 million due 1994
	LIT 15 billion due 1998
	DM 24 million due 2003
March	US$ 10 million due 1994
	DM 15 million due 1994
April	DM 15 million due 1993
May	DM 5 million due 1994
June	DM 10 million due 1994
July	DM 20 million due 1994
August	DM 15 million due 1994
October	DM 10 million due 1994
November	DM 20 million due 1994
	STG 50 million due 1996

EIB Borrowing Facility

December	IR£ 50 million (equivalent) Open Rate Contract*

Stand-By Facility

January	DM 1 billion Short-Term Stand-by Facility*

* These facilities were not drawn down in 1993.

NATIONAL SAVINGS SCHEMES

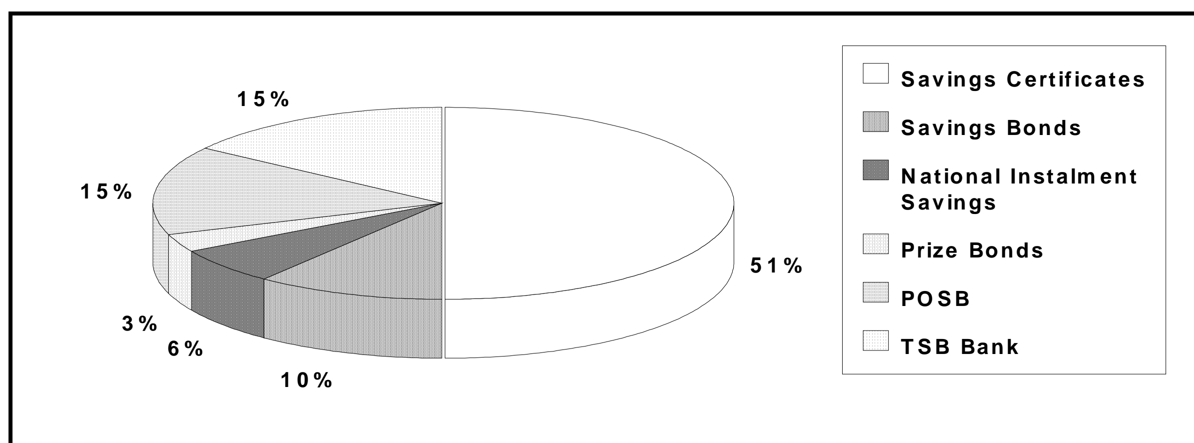
The National Savings Schemes attract funds primarily from private investors and accounted for over 11% of the National Debt at end-1993. These schemes appeal to investors for the attractive returns they offer — the range of savings instruments are all risk-free, free of transaction costs or commissions, allow 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.

The net amounts raised during 1993, and the total outstanding for each of the savings schemes at 31 December 1993, were as follows:

	Total Outstanding	**Cash Raised in 1993**
	IR£ millions	
Savings Certificates	1591	222
Savings Bonds	332	24
National Instalment Savings	193	16
Prize Bonds	101	7
Post Office Savings Bank (POSB):		
1. Ordinary Deposit Account	412	(14)
2. Deposit Account Plus	61	60
TSB Bank	483	(70)
POSB Fund investment income less interest paid to TSB Bank		(7)
Total	**3173**	**238**

In addition, accrued interest in respect of Savings Certificates, Savings Bonds and National Instalment Savings came to IR£845 million at end-1993 (IR£751 million at end-1992). In the Finance Act, 1994, provision was made for the creation of a reserve of IR£60 million towards meeting this liability.

BREAKDOWN OF THE NATIONAL SAVINGS COMPONENT OF THE NATIONAL DEBT AT 31 DECEMBER 1993



The net inflow of funds amounting to IR£315 million (excluding TSB Bank withdrawals) represented an extremely healthy performance for 1993. This was particularly so given that the first quarter of the year saw significant outflows due to the turbulence in the money markets and the unprecedented high levels which short-term interest rates reached at that time. Due to the excessive costs which would have been incurred, the Agency could not match these exceptional short-term rates but the benefit of the Agency's emphasis on the long-term nature and unique attractions of the National Savings products was demonstrated when stability returned to the markets and net inflows rapidly resumed. Inflows were particularly positive in the last quarter of 1993.

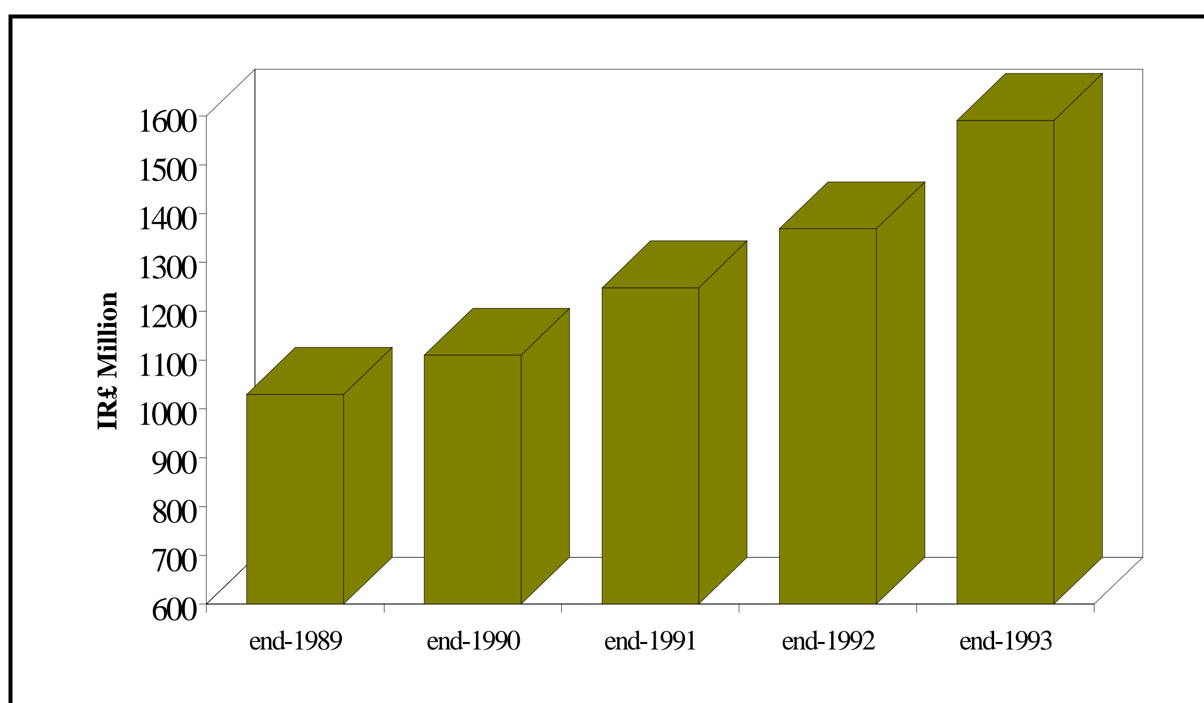
During 1993, the savings market became increasingly competitive as a result of the introduction of Special Savings Accounts (SSAs) at the low 10% rate of Deposit Interest Retention Tax (DIRT). This new DIRT rate had the effect of significantly narrowing the advantage of the tax-free status on certain of the National Savings Schemes. The Agency responded to this new competitive challenge in two ways. First, the Post Office Savings Bank was authorised to introduce its own SSA, known as Deposit Account Plus, which proved a considerable success and attracted some IR£60 million during the first year of its operation. Secondly, it was necessary to emphasise the unique investment features of Savings Certificates, Savings Bonds and National Instalment Savings by focusing on their long-term nature with rates of return fixed for five or three years. This approach proved successful in retaining market share of Ireland's growing personal savings market in 1993.

SAVINGS CERTIFICATES, SAVINGS BONDS AND NATIONAL INSTALMENT SAVINGS

IR£262 million was raised through these three instruments in 1993, which represents an 80% increase on the 1992 figure.

Savings Certificates contributed the greater part of these funds and remain by far the most important and successful of the National Savings Schemes, accounting for over 50% of the total amount outstanding. Since 1989, the amount invested in Savings Certificates has increased by an average of 11.5 per cent per annum.

SAVINGS CERTIFICATES OUTSTANDING 1989 - 1993



In line with market trends, the Agency reduced the interest rates on Savings Certificates in January 1994. The new issue of Savings Certificates offers a guaranteed return of 40% tax-free after a period of five years and nine months, equivalent to an average rate of interest of 6% per annum. Already, over IR£100 million has been received in this new Issue.

Savings Bonds and National Instalment Savings continued their steady growth in 1993 with combined net inflows of IR£40 million.

PRIZE BONDS

This 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). The administration of the scheme is carried out at FEXCO's premises at Killorglin, Co. Kerry.

Gross sales of Prize Bonds amounted to almost IR£15 million in 1993, bringing Prize Bond funds for the first time to over £100 million. IR£5.3 million was paid out in prizes.

POST OFFICE SAVINGS BANK

An Post operates the Post Office Savings Bank (POSB) for the Agency. 1993 was a turning point for the POSB as it recorded the first net inflow of funds since 1985 — due primarily to the successful introduction of the new Special Savings Account, "Deposit Account Plus".

In addition, following the installation of certain computerisation facilities in An Post, the Agency was able, for the first time, to introduce tiered interest rates for both the POSB Demand Deposit Account and Deposit Account Plus — thereby providing an incentive to POSB customers to increase the size of their deposits. Further improvements in customer service and choice at the POSB are being implemented as progress is made on An Post's development plan for the automation of counter facilities at post offices nationwide.

TSB BANK

TSB Bank continued to reduce its deposits with the Agency during 1993 in accordance with arrangements made between the Bank and the Agency. Such arrangements are due for review in the latter part of 1994. The actual amount on deposit at end-1993 was IR£483 million, including accrued interest, down from IR£564 million at end-1992.

LEGAL & CORPORATE AFFAIRS

LEGAL

In early 1993, during the currency crisis, the main focus of legal activity was in the negotiation and documentation of the exceptional volume of transactions associated with the Agency's IR£2 billion foreign currency borrowing programme. The legal unit also documented a large number of structured transactions involving derivative instruments, particularly in relation to the transactions entered into under the Agency's US$1 billion Euro Medium-Term Note Programme. The legal complexities associated with the increased exploitation by financial institutions of Special Purpose Vehicles for transacting derivatives gave rise to additional demands. The legal unit also put forward proposals for a number of legislative changes to afford the Agency increased flexibility in its debt management activities. These changes were incorporated in subsequent Finance Acts. Among these changes were the expansion of the range of investments to which moneys of the Post Office Savings Bank Fund can be applied and the establishment of foreign currency clearing accounts to facilitate the processing of the rapidly growing number of foreign transactions.

The legal unit also provided day-to-day advice to the Agency with respect to existing Agreements and continued to monitor both domestic and foreign legal developments affecting the Agency. It was also responsible for ensuring compliance with the professional conduct rules which all Agency staff are required to observe.

PERSONNEL

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

No additional permanent staff were recruited in 1993. Temporary staff continued to be employed, as required, for project work especially in the development of computer-based applications. At year-end there were 57 permanent staff and 3 temporary employees.

Staff well-being is safeguarded through strict adherence to the objectives and procedures set out in the Agency's published safety statement. Performance in this area is monitored by an independent safety audit.

Following the establishment of a funded Pension Scheme in 1992, work continued on the Definitive Trust Deed and detailed Rules. Formal approval as an "exempt approved scheme" was received from the Revenue Commissioners in June 1994.

OPERATIONS

The growth in the Agency's business during the year resulted in higher transaction volumes encompassing a broader range of products. In all, a total of some 25,000 financial transactions were processed amounting in value to IR£77 billion. These transactions covered dealings in some seventeen product categories which the Agency currently uses in its funding and debt management activities.

The development of information systems continued in line with plan. Significant achievements included the completion of a new system for swaps, the analysis and design of a system for long term funding instruments, the modification of systems to cater to changing business needs and the upgrading of the network. The system for long term funding instruments was completed in April 1994 and represents a major element of the core systems development plan. Work is now in progress on the development and upgrading of systems for management reporting and decision support.

In a world of rapidly changing financial markets, where timely and quality information is becoming more critical, the task of developing and upgrading systems will be ongoing in order to keep pace with the business needs. Success in this area requires support and commitment from all areas of the business. In this regard it should be recognised that the support of the other business units, as well as transaction processing and financial control, has been critical to the success achieved to date.

Notwithstanding a major commitment to systems development projects during the year, the financial control and reporting standards were improved in terms of both quality and timeliness of information provided. In addition to the year-end audit conducted by the Comptroller & Auditor General, the Agency had three satisfactory audit reviews (two general and one computer) conducted by external parties.

Following the enactment of legislation in the Finance Act, 1993 the Agency is now in a position to open and operate its own foreign currency clearing accounts to cater for foreign currency transactions. These accounts will be opened later this year in conjunction with the installation of the Swift electronic funds transfer system. Significant benefits will accrue in the areas of cash management and foreign exchange dealing, as well as operational efficiencies and improved security on funds transfers.

STRATEGY & RISK MANAGEMENT

The principal responsibilities of the Strategy and Risk Management Unit include:

- Input to a portfolio strategy based on the outlook for domestic and international interest and exchange rates, taking account of both fiscal and total economic cost objectives

- Development of management information to support the prudent control of the portfolio risk profile in terms of liquidity risk, fiscal debt service stability and Benchmark risk

- Management of the Government's fiscal debt service budget which accounts for some 16% of Government current expenditure

- Management of a comprehensive portfolio performance measurement system which tracks the performance of the Agency's debt portfolio against a benchmark portfolio, under the supervision of J.P. Morgan, the US investment bank

- Continued development and enhancement of portfolio management analytical tools to facilitate better strategic management of the debt

The benefits of the development and implementation of improved portfolio management systems and techniques over the past couple of years were amply illustrated by the Agency's ability to respond quickly to changing market opportunities resulting from the exceptional volatility of both domestic and international capital markets during 1993.

The early months of the year were dominated by the European currency crisis. During this time the operation of the benchmark performance measurement framework was temporarily suspended by the Minister for Finance in order to ensure common focus and direction in the management of national priorities in the particularly difficult market conditions that prevailed. As markets settled down after the currency crisis the Benchmark framework was re-established. Much of the unit's activities during the remainder of the year centred on the development and control of a foreign exchange and interest rate strategy reflecting the new post-crisis environment of lower domestic and international short and long term interest rates.

Towards the end of the year analysis was concentrated on the specification of a new benchmark portfolio. The original Benchmark had been put in place in 1991 and was to be maintained for three years after which it was to be reviewed to take account of changes in the strategic environment.