PARIS, FRANCE

THE IRISH ECONOMY

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Chief Executive
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Director
National Treasury Management Agency

JUNE 2000
PARIS, FRANCE

CURRENT POSITION OF ECONOMY

- Background to the present economic growth
- Reasons for success
- Threats to continuing success
- Bond Market
<table>
<thead>
<tr>
<th></th>
<th>IRELAND</th>
<th>FRANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (000s)</td>
<td>3,661</td>
<td>58,608</td>
</tr>
<tr>
<td>Per Capita GDP (€)</td>
<td>23,700</td>
<td>23,250</td>
</tr>
<tr>
<td>(OECD: current prices/PPP)</td>
<td></td>
<td></td>
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<tr>
<td>Area (sq. km.)</td>
<td>68,895</td>
<td>547,000</td>
</tr>
<tr>
<td>Population Density (per sq. km.)</td>
<td>53</td>
<td>107</td>
</tr>
<tr>
<td>Urban : Rural</td>
<td>58% : 42%</td>
<td>75% : 25%</td>
</tr>
</tbody>
</table>
PARIS, FRANCE

Ireland: Economic Background

REAL GDP GROWTH (ANNUAL PERCENT)

Source: Department of Finance
Ireland: Economic Background

GDP PER HEAD RELATIVE TO EU-15 AVERAGE
(at current market prices and Purchasing Power Standard)

Source: Eurostat
Ireland: Economic Background

UNEMPLOYMENT
(LABOUR FORCE SURVEY BASIS)

Source: Annual Budget 2000
Ireland : Economic Background
EMPLOYMENT
(percentage change per annum)

Source: Annual Budget 2000
Ireland: Economic Background

INFLATION (ANNUAL PERCENT)

Source: Department of Finance
Ireland: Economic Background

General Government Debt (as % GDP)

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</thead>
<tbody>
<tr>
<td>Value</td>
<td>120</td>
<td>110</td>
<td>100</td>
<td>90</td>
<td>80</td>
<td>70</td>
<td>60</td>
<td>50</td>
<td>40</td>
<td>30</td>
<td>20</td>
<td>10</td>
<td>5</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>
REASONS FOR IRELAND’S SUCCESS

- Significant investment in education
- Stable public finances with buoyant tax yield
- Favourable demographic change
- Foreign Investment in high value added industry
- Strong Productivity Growth
IRELAND

THE EDUCATION SYSTEM
(meets the needs of a competitive economy)

Source: World Competitiveness Yearbook, 2000
Ireland: Economic Background

GENERAL GOVERNMENT SURPLUS/DEFICIT (as % GDP)

Source: Annual Budget 2000
Ireland: Economic Background

HEADLINE RATES OF CORPORATION TAX

Source: Department of Finance
Ireland: Economic Background

Convergence of Irish Corporate Tax Rates (meets EU requirements)

Source: Annual Budget 2000
Ireland: Economic Background

LABOUR FORCE (000’s)
Favourable Demographics

Source: NCB Stockbrokers
Ireland’s Favourable Demographics

European Pension Costs
(Projected Cost as a % of GDP)

Source: OECD/FT 23/11/1999
INDUSTRIAL POLICY - 3C’s

- High value added
- Computers (e.g. Intel, Dell, Gateway, Oracle & Microsoft etc.)
- Communications (e.g. IFSC & call centres)
- Chemicals (e.g. US pharmaceuticals)
### PARIS, FRANCE

### IRELAND

**OVERALL PRODUCTIVITY (PPP) per person employed, in US$ Estimates**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>PPP (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Luxembourg</td>
<td>$67,354</td>
</tr>
<tr>
<td>2.</td>
<td>Belgium</td>
<td>$64,082</td>
</tr>
<tr>
<td>3.</td>
<td>USA</td>
<td>$62,454</td>
</tr>
<tr>
<td>4.</td>
<td>Italy</td>
<td>$58,800</td>
</tr>
<tr>
<td>5.</td>
<td>Ireland</td>
<td>$58,021</td>
</tr>
<tr>
<td>6.</td>
<td>France</td>
<td>$56,356</td>
</tr>
<tr>
<td>7.</td>
<td>Norway</td>
<td>$52,414</td>
</tr>
<tr>
<td>8.</td>
<td>Germany</td>
<td>$51,487</td>
</tr>
<tr>
<td>9.</td>
<td>Austria</td>
<td>$51,382</td>
</tr>
<tr>
<td>10.</td>
<td>Netherlands</td>
<td>$50,088</td>
</tr>
</tbody>
</table>

Source: World Competitiveness Yearbook, 2000
World Competitiveness Scoreboard 2000

1. US
2. Singapore
3. Finland
4. Netherlands
5. Switzerland
6. Luxembourg
7. Ireland
8. Germany
9. Sweden
10. Iceland

Source: World Competitiveness Yearbook, 2000
POTENTIAL PROBLEMS

- Retail Price Inflation
- Asset Price Inflation/Credit growth
- Infrastructural deficit
- Sustainable GDP growth rate
- Global economic environment
Inflation to average 4% in 2000

- Sharp increase in oil prices (+1.5%)

- Budget increase in excise duty on tobacco (+0.75%)

- Fall in the value of the euro

- Domestic induced inflation
INFRASTRUCTURAL DEFICIT

National Development Plan 2000-2006

Proposed Infrastructural investment (€mn)

- National roads       5,875
- Public transport    2,790
- Water & waste       3,120
- TOTAL               11,785
PARIS, FRANCE
IRELAND

ASSET PRICE INFLATION/CREDIT GROWTH 1999

- Mortgage lending approvals +36%
- Number of mortgage loans +14%
- Average loan size +19%
- Average house price +20%
## ASSET PRICE INFLATION/CREDIT GROWTH 1999

### Loan to Value Ratios

<table>
<thead>
<tr>
<th></th>
<th>£'000</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Houses –</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Price</td>
<td>81</td>
<td>103</td>
<td>124</td>
<td></td>
</tr>
<tr>
<td>Average Loan</td>
<td>54</td>
<td>65</td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>Ratio</td>
<td>0.67</td>
<td>0.63</td>
<td>0.62</td>
<td></td>
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</table>
SUSTAINABLE GDP GROWTH RATE

- Labour force growth: +2.5%
- Productivity: +3.5%
- Sustainable trend: +6.0%
- OECD reference scenario = 6.5% annual average 2002 to 2005
IRELAND’S SUCCESS IS SUSTAINABLE

- Continuation of favourable trend in economic fundamentals
- Favourable demographic position in comparison to EU
PARIS, FRANCE

BUDGET SURPLUSES BEING APPLIED TO

- Debt reduction
- Prefunding Pension liabilities
PARIS, FRANCE

DEBT REDUCTION

- 1997 €979mn
- 1998 €1,430mn
- 1999 €1,608mn*
- 2000 €2,250mn (estimate)

Refinancing needs modest, if at all.

*before Securities Exchange Program
PARIS, FRANCE

PREFUNDING STATE PENSION LIABILITIES

- €5.3 billion in new State Pension Fund
- Annual contribution of 1% of GNP (c. €900mn p.a.)
- Possible proceeds from future State IPOs
- To be invested in REAL ASSETS
- To remain undrawn until 2025
<table>
<thead>
<tr>
<th>Bond Description</th>
<th>Millions of euro</th>
</tr>
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<tbody>
<tr>
<td>6 1/2% Treasury 2001</td>
<td>2,055</td>
</tr>
<tr>
<td>2 3/4% Treasury 2002</td>
<td>3,031</td>
</tr>
<tr>
<td>3 1/2% Treasury 2005</td>
<td>4,774</td>
</tr>
<tr>
<td>4% Treasury 2010</td>
<td>6,322</td>
</tr>
<tr>
<td>4.6% Treasury 2016</td>
<td>3,606</td>
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</tbody>
</table>
## IRELAND

### Bond Yield Spreads

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>France</td>
<td>0</td>
<td>+10</td>
<td>+10</td>
<td>+20</td>
</tr>
<tr>
<td>Germany</td>
<td>+5</td>
<td>+10</td>
<td>+25</td>
<td>+24</td>
</tr>
<tr>
<td>Finland</td>
<td>-2</td>
<td>-2</td>
<td>+5</td>
<td>N/A</td>
</tr>
<tr>
<td>Spain</td>
<td>-2</td>
<td>-6</td>
<td>-3</td>
<td>-6</td>
</tr>
<tr>
<td>Italy</td>
<td>-18</td>
<td>-20</td>
<td>-7</td>
<td>N/A</td>
</tr>
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</table>

As at 7th June 2000
<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Moody's</th>
<th>S&amp;P</th>
<th>Fitch IBCA</th>
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<tbody>
<tr>
<td>Austria</td>
<td>Aaa</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>France</td>
<td>Aaa</td>
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</tr>
<tr>
<td>Germany</td>
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<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>Luxembourg</td>
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<tr>
<td>Netherlands</td>
<td>Aaa</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td><strong>IRELAND</strong></td>
<td>Aaa</td>
<td><strong>AA+</strong></td>
<td><strong>AAA</strong></td>
</tr>
<tr>
<td>Finland</td>
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<td>AA+</td>
<td>AAA</td>
</tr>
<tr>
<td>Belgium</td>
<td>Aa1</td>
<td>Aa+</td>
<td>AA-</td>
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<tr>
<td>Portugal</td>
<td>Aa2</td>
<td>AA</td>
<td>AA</td>
</tr>
<tr>
<td>Spain</td>
<td>Aa2</td>
<td>AA+</td>
<td>AA+</td>
</tr>
<tr>
<td>Italy</td>
<td>Aa3</td>
<td>AA</td>
<td>AA-</td>
</tr>
</tbody>
</table>
EUROPEAN BOND SETTLEMENT SYSTEMS

- Central Bank of Ireland Securities Settlement System to be closed
- Euroclear appointed as official settlement & clearing system for Irish Government bond market
- Ireland positioned to meet ECB Requirement for Real time DVP settlement by 2002
PARIS, FRANCE

NON-RESIDENT HOLDINGS

IR£ Government Bonds
CONCLUSIONS

- Debt to continue to fall in absolute and relative terms to GDP

- Spread action
  - Widen?
  - Fall?
  - No change?

- Buy Ireland