THE IRISH ECONOMY

Presentation
by
Dr. Michael J. Somers
Chief Executive
John C. Corrigan
Director
National Treasury Management Agency

JUNE 2000
CURRENT POSITION OF ECONOMY

- Background to the present economic growth
- Reasons for success
- Threats to continuing success
- Bond Market
### VITAL STATISTICS

<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>
</tr>
<tr>
<td>Area (sq. km.)</td>
<td>68,895</td>
<td>547,000</td>
</tr>
<tr>
<td>Population Density</td>
<td>53</td>
<td>107</td>
</tr>
<tr>
<td>(per sq. km.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban : Rural</td>
<td>58% : 42%</td>
<td>75% : 25%</td>
</tr>
</tbody>
</table>
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

General Government Debt (as % GDP)

- 1988: 120%
- 1989: 110%
- 1990: 100%
- 1991: 90%
- 1992: 80%
- 1993: 70%
- 1994: 60%
- 1995: 50%
- 1996: 40%
- 1997: 30%
- 1998: 20%
- 1999: 10%
- 2000: 5%
- 2001: 3%
- 2002: 2%

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
PARIS, FRANCE

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

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

Top Ten
1. Luxembourg $67,354
2. Belgium $64,082
3. USA $62,454
4. Italy $58,800
5. Ireland $58,021
6. France $56,356
7. Norway $52,414
8. Germany $51,487
9. Austria $51,382
10. Netherlands $50,088

Source: World Competitiveness Yearbook, 2000
PARIS, FRANCE

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
PARIS, FRANCE
IRELAND

RETAIL PRICE INFLATION

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
National Development Plan 2000-2006

Proposed Infrastructural investment (€mn)

- National roads          5,875
- Public transport        2,790
- Water & waste           3,120
- TOTAL                      11,785
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>£'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>
</tr>
<tr>
<td>Average Price</td>
<td>81</td>
<td>103</td>
<td>124</td>
</tr>
<tr>
<td>Average Loan</td>
<td>54</td>
<td>65</td>
<td>77</td>
</tr>
<tr>
<td>Ratio</td>
<td>0.67</td>
<td>0.63</td>
<td>0.62</td>
</tr>
</tbody>
</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
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
### CURRENT BENCHMARK BONDS - MAY 2000

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>Par Value</th>
<th>Millions of euro</th>
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<tbody>
<tr>
<td>6 1/2% Treasury 2001</td>
<td></td>
<td>2,055</td>
</tr>
<tr>
<td>2 3/4% Treasury 2002</td>
<td></td>
<td>3,031</td>
</tr>
<tr>
<td>3 1/2% Treasury 2005</td>
<td></td>
<td>4,774</td>
</tr>
<tr>
<td>4% Treasury 2010</td>
<td></td>
<td>6,322</td>
</tr>
<tr>
<td>4.6% Treasury 2016</td>
<td></td>
<td>3,606</td>
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## Bond Yield Spreads

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<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>
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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>
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<tr>
<td>France</td>
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<tr>
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<td>IRELAND</td>
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<td>Portugal</td>
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<td>AA+</td>
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<tr>
<td>Italy</td>
<td>Aa3</td>
<td>AA</td>
<td>AA-</td>
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</table>
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