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THE MANAGEMENT OF IRELAND'S NATIONAL DEBT

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1. INTRODUCTION

Ireland's national debt is large both in absolute and in relative terms. It increased rapidly during the early part of the 1980s and it now stands at about £25.4 billion. As can be seen in Table 1 below the debt outstanding at the end of 1982 was £11.7 billion whereas just five years later, in 1987, it had more than doubled to £23.7 billion. Since 1987 this explosive growth in the debt has abated considerably so that its current level is about 7 per cent greater than in 1987.

Table 1: National Debt 1982 - 1991

	£m
1982	11,669
1983	14,392
1984	16,821
1985	18,502
1986	21,611
1987	23,694
1988	24,611
1989	24,828
1990	25,100 (estimate)
1991	25,400 (estimate)

A similar picture emerges when the debt is measured in terms of Gross Domestic Product, the normal yardstick used by the European Community, or in terms of Gross National Product, the more widely used domestic indicator, both measures of long term solvency:

Table 2: National Debt as a Percentage of:

	GNP	GDP
1982	94	87
1983	106	97
1984	114	103
1985	117	104
1986	128	114
1987	129	117
1988	128	113
1989	117	102
1990	110	98
1991	107	95

The 95 per cent debt/GDP ratio compares with a current average Debt/GDP ratio for the members of the European Community of about 60 per cent. The national debt as referred to above is the debt of the central government only. The debt of local authorities and non-commercial State bodies is not included in the national debt as currently reported. These items, which amount to close to £200 million, are included in the National Debt measurement used by the EC.

The currency composition of the debt is illustrated in Table 3. This shows the decline in the percentage of foreign currency denominated debt and, within the foreign currency debt, the increase in the portion denominated in EMS and EMS-related currencies.

Table 3: The currency composition of the National debt

	£m	£m	£m
Domestic	10,388	15,113	16,520
Foreign	8,114	9,498	8,880
Foreign as % of Total	43.9%	38.6%	35.0%
Currency Composition	%	%	%
US Dollars	31	19	15
Deutsche Marks	30	31	34
Swiss Francs	11	19	31
Japanese Yen	11	14	8
Sterling	10	4	2
Dutch Guilders	4	6	4
ECU	3	7	6

In an increasingly deregulated capital market the significance of the distinction between foreign currency and local currency denominated debt is declining. Of growing significance, however, is the distribution of ownership of the debt, irrespective of currency denomination. An increasing proportion of gilts is being held by non-residents, particularly major German institutions.

Table 4: Non Resident Holdings of Gilts

	£m
1984	830
1985	908
1986	1,117
1987	1,758
1988	2,665
1989	3,667
1990	3,859
1991	4,110

Source: Central Bank

An insignificant amount of exchequer bills are held by non-residents - £2 million at end 1991. The non-resident holdings of gilts has increased from £830 million in 1984 to over £4 billion in 1991. As a result approximately 51 per cent of our total debt is held by non-residents. I will return to this issue later.

During 1992 we will continue to look for opportunities to lengthen the final maturity of the debt particularly looking to reduce the proportion of debt with a remaining maturity below 5 years.

The maturity profile of the debt is summarised in Table 5 overleaf.

Table 5: The maturity profile

	Domestic	Foreign	Total	%
	£m	£m	£m	
1992-1996	7,100	4,438	11,538	50.8
1997-2001	3,267	4,046	7,313	32.2
Beyond 2001	3,453	397	3,850	17.0
Total	13,820	8,881	*22,701	100.0

*This figure excludes Small Savings (£1,798m), Exchequer Paper (£526m) and other miscellaneous, long and short term indebtedness (£1,954m), less liquid assets (£-1,579m).

2. DYNAMICS OF GROWTH OF THE NATIONAL DEBT

The factors underlying the growth of the national debt are familiar and there is not need for me to go into this area in great detail. During the early part of the 1980s there was a considerable exchequer borrowing requirement net of interest payments. Even though the rate of growth of nominal GDP was high over most of this period the high level of nominal interest rates in combination with the level of borrowing for non-interest purposes led to a significant increase in the Debt/GDP ratio over the period. The change in fiscal policy in the latter part of the 1980s led in each year since 1987 to a considerable surplus in the EBR net of interest payments which has resulted in a significant decline in the Debt/GDP ratio noted in Table 2.

3. CONSEQUENCES OF THE HIGH LEVEL OF THE NATIONAL DEBT

The most immediately obvious consequence of the high level of debt is the fact that interest payments on the national debt absorbed some 66 per cent of all income tax revenue last year and accounted for some 25 per cent of net Government current expenditure. The constraint which this places on all other areas of Government expenditure is enormous and the difficulties involved in reducing the overall level of taxation by any significant amount are well known and were noted in the recent budget speech. The effects on the general competitiveness of the economy will be felt in a number of different ways:

- first the general level of taxation is higher than it need otherwise be and,

- second the level of investment by the Government in infrastructural and industrial development areas will be less than in competitor countries.

When viewed in the light of the need for the economy to generate substantial numbers of new jobs in order to reduce the very high levels of unemployment - and all this in the context of the single European market and moves towards economic and monetary union - the debt can reasonably be looked on as the proverbial albatross of the economy.

4. POLICY RESPONSE

The main policy response to the high level of debt has been the shift in fiscal policy in 1987 and subsequent years away from a position where the debt was in danger of expanding at an exponential rate to the current position where the ratio of debt to GDP is declining. This change in policy has also contributed to the convergence of Irish interest rates with German rates. The spread at which Irish Government gilts trade over German Government bonds has fallen from 7.2 per cent in 1986 to about 1.2 per cent at present.

At least of equal importance to the progress achieved to date is that the Government have also adopted specific and publicly stated targets in relation to the EBR and the level of debt to ensure that this improvement in the public finances is maintained. The recent budget has confirmed the commitment to these objectives. This improvement will also be required in order to prepare for full membership of economic and monetary union within the EC as noted in Section 5 below. The Government's main targets for 1993 are:

- Current Budget - no more than 1 per cent of GNP
- Exchequer Borrowing Requirement - 1.5 per cent of GNP
- Debt/GNP ratio to be reduced towards 100 per cent (and to 75 per cent of GNP or lower by the year 2000).

Against this background the Government decided to set up the National Treasury Management Agency just over a year ago. In the recent years prior to that decision, the Department of Finance, operating within the staffing constraints of the civil service as a whole, was finding it increasingly difficult to recruit and maintain the skilled staff necessary to manage the increasing size and complexity of a debt portfolio of over £25 billion in a cost effective manner. I will discuss the Agency and its current activities further below.

5. EUROPEAN COMMUNITY CONTEXT

The treaty on economic and monetary union specifies a number of criteria to be used in assessing whether or not a member state is ready to move to the first stage of union. These are:

1. A rate of inflation that does not exceed that of the three best performing member states by more than 1.5 percentage points. At present, based on the data below, this would give a cut-off rate of 4.2 per cent. Ireland currently meets this criterion as Table 6 illustrates. On the basis of the 1992 Budget inflation projection of 3.75 per cent we would also qualify.

Table 6: Consumer Price Deflators - Per Cent - 1991

Country	Per Cent
Denmark	1.9
Belgium	3.1
France	3.1
Ireland	3.2
Luxembourg	3.5
Netherlands	3.6
Germany	4.3
UK	6.5
Spain	6.6
Italy	7.2
Portugal	14.6
Greece	20.0

Source: Financial Times 9th December 1991. For Ireland, the latest CSO figures.

2. A currency that "shall have respected the normal currency fluctuation margins provided for by the exchange rate mechanism of the EMS". Ireland also meets this criterion comfortably having been a member of the narrow-band since the EMS was established in 1979.

3. A nominal long-term interest rate that does not exceed that of the three best performing member states by more than 2 percentage points. Again Ireland meets this criterion as illustrated in Table 7.

Table 7: Long Term Interest Rates - Per Cent

Country	Per Cent
Germany	8.6
Netherlands	8.9
France	9.0
Ireland	9.2
Belgium/Luxembourg	9.3
UK	9.9
Denmark	10.1
Italy	12.9
Spain	12.4
Portugal	17.1
Greece	24.2

Source: Financial Times, 9 December 1991.

4. Finally, a sustainable government financial position which, according to the Treaty, means the absence of an excessive budget deficit. The judgement as to whether or not an excessive deficit exists will be based on two criteria and an excessive deficit will be deemed to exist if one or both of the criteria are breached. The first relates to a government deficit/GDP ratio of 3 per cent although, in certain circumstances, a ratio above that level but close to it would also suffice. Ireland is currently meeting the deficit ratio criterion with a ratio of some 2.5 per cent as seen in Table 8.

Table 8: General Government Net Borrowing Requirement % GDP (1991)

Country	% GDP
Luxembourg	– 1.9
France	1.5
Denmark	1.7
UK	1.9
Ireland	2.5
Germany	3.6
Spain	3.9
Netherlands	4.4
Portugal	5.4
Belgium	6.3
Italy	9.9
Greece	17.3

Source: EC Commission.

The second fiscal criterion concerns the ratio of government debt to GDP and is focused on the trend in that ratio in relation to a reference value of 60 per cent of GDP. If a member State's ratio exceeds that value but is sufficiently diminishing, that member State will be observing the criterion. On the other hand, if a member State had a debt/GDP ratio of less than 60 per cent and that ratio was increasing rapidly, that member State could be held to be in breach of the criterion.

While Ireland's debt/GDP ratio at 95 per cent exceeds the reference value of 60 per cent, the recent budget, in line with what is required under this heading, points to continued progress in its reduction as shown in Table 2. The relative position of Ireland to other member States is illustrated in Table 9.

Table 9: Gross Public Debt % GDP (1991)

Luxembourg	4.7
France	37.3
UK	44.5
Spain	44.5
Germany	45.4
Denmark	62.3
Portugal	63.8
Netherlands	78.8
Greece	86.0
Ireland	95.0
Italy	103.3
Belgium	128.1

Source: EC Commission; NTMA.

6. CURRENT DEBT MANAGEMENT ACTIVITIES

I would like briefly to cover a number of the newer approaches and activities we have introduced in recent months and some of the areas on which we will be focusing particular effort during 1992.

Domestic Debt

In the domestic debt area I would mention the following:

- improved market liquidity
- new instruments
- issuance procedures.

Market Liquidity

The reduction in spreads between Irish and German yields has been noted. Further potential for narrowing these spreads exists. As long as Ireland is meeting or making continued progress towards meeting the EMU requirements, the major influence on further narrowing of spreads will be the relative liquidity of the Irish bond market relative to the German market. Significant progress has been made in this respect in 1991 and will continue through the introduction of specified Benchmark Stocks and the provision of attractive terms to encourage the switching out of small illiquid issues.

The following stocks have recently been designated as benchmark issues with the broad objective of building up the amounts outstanding to around IR£1 billion in each case.

Table 10: Amount of Designated Benchmark Stocks in Issue (IR£M)

Stock	IR£M
9% Capital Loan 1996	1,040
9% Government Bond 2001	830
9% Capital Stock 2006	650
8.75% Capital Stock 2012	520

A further contribution by the Agency to the liquidity of the market has been the recent introduction of a secondary trading desk. At the same time it will improve the Agency's market intelligence. The secondary trader's activities will be at arm's length to the Agency's primary market operations.

Prudence requires however that we remain vigilant on the potential risks inherent in the narrowing of spreads relative to other markets. While clearly a major benefit to the country and the tax payer, the high proportion of the debt held by non-residents mentioned in Section 1 above, and the increasing freedom of domestic investors to invest in overseas markets increase the potential exposure to any "shock" events as spreads narrow.

New Instruments

At the short end of the market the Agency recently launched a new short term borrowing instrument, called Exchequer Notes. Exchequer Notes are DIRT free quoted instruments with authorised trustee status which are available directly from the Agency in maturities of not less than 7 days and not more than 70 days. The new Note program is intended to supplement Exchequer Bills (now available on a weekly tender basis in 91 days and 180 days maturities only). The amount currently outstanding under the new program is IR£80 million, which has been raised at attractive sub-DIBID rates.

Issuance Procedures

The Agency recently announced significant changes in its gilt issuance arrangements. The long standing practice in the market has been for the authorities to sell gilts by a tap system through the Government Broker on the floor of the Stock Exchange. However, no indication was given as regards the funding target when a tap stock was opened, the prices quoted by the Broker were essentially indicative, and no size was specified.

In the changes announced the Agency stated that the gilts funding program would be met through a modified form of tap, supplemented by auctions from time to time, with a commitment to offer for sale during 1992, by auction only, the 20 year benchmark issue - 8.75 per cent Capital Stock 2012.

Foreign Currency Debt

A major focus during the current year will be on the restructuring of a considerable portion of the foreign currency debt to take account of Ireland's improved position in the capital markets. This will involve the early repayment and refinancing at lower cost of a considerable amount of old, largely bilateral, debt.

As with the domestic debt, continued emphasis will be placed on enhancing the liquidity of the debt through the lengthening of final maturities.

Sourcing of debt will be managed with a view to maintaining and developing an appropriate presence in the various important capital markets. In this respect the Agency's first issues in the Yankee and Domestic US Commercial Paper markets are notable milestones. A medium term note program has recently been finalised and will be utilised during the current year.

The use of the derivative markets will allow the management of market presence and liquidity to be separated from the management of the interest and currency risk of the portfolio.

Portfolio Management

Another significant milestone also has been the introduction of the use of net present value and risk measures in the management of the portfolio. Traditionally the principal focus was on the cash cost of servicing the debt in a particular year. Given the significance of debt service costs in the government finances this obviously remains an important issue. However, it is nonetheless a limited measure of performance, particularly taking a medium term perspective. The introduction of the use of net present value as a major part of our debt management approach will achieve a greater focus on total economic cost and, I believe, thereby contribute to better medium term debt management performance. It is not without its difficulties, however, in that conflicts do arise between near term and longer term debt service costs and also between the reduction of risk from a longer tern NPV perspective and greater volatility to near term fiscal debt service costs.

7. NATIONAL TREASURY MANAGEMENT AGENCY

The Agency was established under the National Treasury Management Agency Act, 1990 and came into existence by Ministerial Order on 3 December 1990. The powers of the Minister for Finance for borrowing and debt management were delegated by Government Order to the Agency. The Agency operates under the control of the Minister and subject to such directions and guidelines as he gives it in regard to the conduct of its activities.

The Chief Executive is appointed by and reports directly to the Minister for Finance. The Chief Executive is the Accounting Officer for the purposes of the Public Accounts Committee and the accounts are audited by the Comptroller and Auditor General.

Staff (approximately 60) are not civil servants. Department of Finance staff - approximately 25 - resigned from the Civil Service to join the Agency. Other senior staff came from financial and professional organisations both in Ireland and the UK. Of the five persons reporting to the Chief Executive, one came from the Department of Finance with the others coming from AIB Investment Managers, Citibank, Chase London and Manufacturers Hanover London.

For constitutional reasons the Agency has an Advisory Committee rather than a normal company board. The Chairman of the Committee is Mr. J. Moran, ESB Chief Executive. Other members are

G. Brandt	Member of the Executive Board, Bayerische Landesbank, Munich
P. Carty	Managing Partner, Deloitte and Touche
S. Cromien	Secretary, Department of Finance
D. Roth	Treasurer, World Bank, Washington D.C.

The 1991 Budget included a provision for savings of £40 million by the Agency. Because of its actions and also due to external developments the outturn figure showed cash savings of £96 million. Part of this was due to management activities by the Agency while it also benefited from a reduction in interest rates. For 1992 a figure of £50m. has been included in the budget for savings by the Agency. Apart from the cash savings, however, the performance of the Agency is being measured against a benchmark agreed with the Department of Finance by J.P. Morgan in London. This uses the net present value method of assessment and is a more accurate basis for measuring the Agency's performance than annual cash savings.

As mentioned earlier the national debt at end December 1991 was £25.4 billion net. Of this, some £9 billion is in foreign currencies. Of the Irish pound portion some £4.1 billion is held by non-residents. The cost of interest and certain sinking fund payments but excluding capital repayments is estimated at some £2.4 billion for 1992.

In 1992 the Agency will have to repay and refinance some IR£1.6 billion in maturing gilts and £0.5 billion in foreign currency loans as well as roll over some £1 billion in Irish pound and foreign currency short-term borrowings. In addition it should refinance at least another £1.0 billion in foreign and domestic currency debts as well as finance the 1992 EBR - in all a total of about £5 billion. In addition it will engage in trading on the gilt market and constant refinancing of short-term paper (7 days upwards).

The Agency's operations are as follows:

- Domestic

  1. Issuing and trading gilts on the Dublin Stock Exchange - turnover in 1991 in gilts was some £100 billion (by way of comparison, turnover in equities was only about £3 billion)
  2. Issuing Exchequer bills - 3 and 6 months maturity with some £0.5 billion outstanding at any time
  3. Issuing and trading in Exchequer notes (from 12 December 1991 onwards) - these have a maturity of 7 to 70 days and are sold directly to purchasers (rather than through the banks or the Stock Exchange)
  4. Issuing IR£ Section 69 bonds - these are short-term notes issued to multinational corporations with the aim of retaining some of their profits in Ireland
  5. Dealing with all the individual saving schemes - saving certificates, prize bonds, instalment saving, Post Office Savings Bank, Trustee Savings Bank etc.

- Foreign

  1. Bank loans (individual and syndicated) from banks in most of the established financial centres; they are now more difficult to obtain and more costly than used to be the case because of problems in the banking sector
  2. Public bond issues - Ireland is a frequent issuer in Germany, Switzerland, Japan, United States and also has issues in Spain, Belgium, Netherlands, UK and Luxembourg
  3. Private placements - these are smaller amounts of bonds issued to one or a small number of investors without being quoted on the relevant stock exchange
  4. Commercial paper - funds can be raised for periods from a few days to several months in a variety of currencies. A programme for $1 billion is now in place in the United States and a further programme for $1 billion in Europe has recently been established also. Funds can be drawn under these arrangements as required, subject of course to availability and cost
  5. Issuing foreign currency Section 69 bonds

6. Medium-term notes etc. in a variety of currencies together with derivative products e.g. interest and currency swaps. A $500m programme is now operational in the United States and a further $500m programme in Europe will be finalised shortly.

The Agency undertakes all the payment, accounting and control operations arising from the above as well as the necessary computer systems. The internal control and internal audit services are being provided at present by specialists from the ESB.

The Agency's primary objective is to have cash available to meet debt repayment obligations and to fund the Exchequer's day to day borrowing needs. Closely linked to this objective is the need to ensure that obligatory debt repayments in any one year, particularly in foreign currencies, are kept to a level that can be readily refinanced - to avoid the risk that new money might not be forthcoming or available only at exorbitant cost. With this in view, there is an ongoing programme to prepay a proportion of loans several years before their final maturity and refinance them with loans of longer maturity. Where possible the replacement loans are obtained at lower cost.

The Agency has to maintain constant contact with the international credit rating agencies - Moodys and Standard and Poors in the United States and the Japan Bond Rating Agency in Tokyo. Without satisfactory ratings from these Agencies it would be impossible to borrow money on many of the international capital markets. These Agencies are concerned with the political and economic scene as well as debt levels and debt management, unemployment, relations with the EC., Northern Ireland etc. In addition the Agency has to maintain ongoing contact with overseas investors, give presentations on Ireland to overseas groups etc. With the removal of exchange controls Irish fund managers are free to invest abroad. To counteract this loss of money it is necessary to attract foreign investment into Irish pound denominated investments principally gilts. At present foreign investors hold some £4 billion worth of Irish gilts on which they take foreign exchange risks. It is essential to ensure that these investors continue to purchase gilts, or at the very least do not withdraw funds - particularly bearing in mind that Ireland's external reserves (foreign exchange holdings) are of the order of £3 billion. Constant contact with these investors is essential also.

In carrying out its operations the Agency has to operate to ensure that while maximising Irish pound borrowings it does not do so at the expense of allowing the external reserves to run down unduly with the consequences this would have for domestic interest rates. It normally maintains substantial deposits in Irish pounds and deposits in foreign currencies (as well as rapid access to

such funds) as a measure of protection against heavy demands for cash.

As part of the move towards EMU, the Agency will over the next few years have to cope with

- the elimination of its overdraft facilities with the Central Bank (£250 million)
- the elimination of the £365 million in gilts held by the Central Bank (a reduction in this took place at end-1991)
- the release of the banks from their requirements to take up secondary liquidity assets (Government stocks) beyond the level required at 31 December, 1991.

This money will have to be replaced by funds from other sources.

The Agency also must engage in the management of its liabilities within a strategic framework so that exchange rate risk and interest rate risk levels are minimised over time. This cannot be looked at within an annual time-frame: the average maturity of the outstanding debt is over 5 years, with much of the debt up to 10 years maturity, and any planned liability management must have regard to that duration.

8. CONCLUSION

Despite what appears to be a fairly widespread view, the national debt has been increasing in absolute terms each year although, of course, it has fallen as a percentage of GNP. It is difficult to see the debt being reduced in absolute terms at least in the immediate future and refinancing and restructuring are likely to be an ongoing problem. Ireland will, therefore, continue to be in competition with other countries and increasingly with countries from Eastern Europe for funds on the capital markets of the world.

DISCUSSION

John Fitzgerald: In welcoming the most interesting paper by Dr. Somers I would like to broaden the discussion by considering the wider economic implications of the management of the National Debt. While the approach of EMU may simplify the issues involved in managing the debt in the future, in the past the management of the debt has had a significant effect on the economy. While the role of the NTMA may be to minimise the cost of the debt in some broad sense and to manage risk, its activities, and those of its precursor, have had a wider economic impact in the last ten years.

One area where decisions of the NTMA have had major economic implications in the past has been in the choice of exchange rate in which to borrow money and, a related matter, the extent of borrowing from abroad.

In 1982 excessive foreign borrowing drove domestic interest rates below the French level in spite of the very much worse economic position of the Irish economy at the time. This was the only year since 1980 when Irish interest rates were substantially below those of its EMS partner, France. The excessive foreign borrowing increased domestic liquidity. While the economy was even then quite open, market imperfections resulted in some of that increased liquidity sticking temporarily. The government, at substantial cost to the tax payer, managed to hold domestic interest rates temporarily below the level which would have been warranted by domestic economic conditions. One excuse for this policy failure may have been the substantial error on the balance of payments figures due to the *black hole*.

It is instructive to consider whether *ex post* the cost of borrowing for the Irish government in the 1980s was higher in Irish pounds or in DMs. Taking borrowing with a maturity of five years undertaken in DMs and in Irish pounds and allowing for exchange rate changes, the yields were, with one exception, always higher in Irish pounds than in DMs. The exception was 1982 when the ex post yields were fairly close. This means that if the Irish government had, at the margin, switched its borrowing from Irish pounds to DMs it would have reduced the cost to the exchequer of funding the debt. It would also have meant that, for some of the period, domestic interest rates would have been somewhat lower. This reflects the fact that market sentiment about the Irish economy and the Irish pound over the 1980s was persistently over pessimistic.

In 1984-5 too high a proportion of the borrowing was undertaken in Irish pounds. This greatly reduced domestic liquidity raising domestic interest rates. If capital markets had been perfect and foresight exceptional then this policy would have had little effect on domestic interest rates. In practice, po-

tential foreign investors lacked the information to assess the risks of investing in Irish pounds. Information about the economy was expensive to acquire. However, in early 1985 foreign investors acquired the necessary information and invested in Irish government debt. The inflow resulted in an appreciable reduction in domestic interest rates, a reduction which might have happened earlier if a different policy had been pursued. This pattern is reflected in the fact that the exchequer made record losses ex post through the policy of borrowing in Irish pounds in that period. The margin in 1984 between Irish and DM rates was 6.9 per cent. Ex post the Irish pound depreciated over the next five years by 3.0 per cent a year.

In 1986 there was very extensive foreign borrowing. However, a substantial part of that borrowing was held on deposit and did nothing to offset the tightness in domestic liquidity. It was used in 1987 to *ambush* the markets and bring down interest rates in that year. As a result the gap between the yield on medium term DM and Irish pound bonds in 1986 was almost 7 percentage points. In the five years from the end of 1986 the Irish pound showed only a small change compared to the DM. Even if the exchange rate changes within 1986 are taken into account, Irish pound borrowing was still more expensive than DM borrowing. As a result, the borrowing undertaken in 1986 in Irish pounds if switched into DMs, would have cost the exchequer very much less.

In 1989 there were record sales of Irish pound debt to foreigners, much of it coming from Irish institutions which wished to adjust their portfolio by increasing the share of foreign investments in their assets. However, the capital inflow was not sufficient to maintain liquidity and the interest differential *vis a vis* Germany increased. In failing to borrow additional funds in foreign currencies and buy back more Irish debt, the exchequer contributed to this rise. It is hard to understand this decision as the official Irish policy was that the Irish pound would track the DM within the EMS yet the exchequer chose to borrow at a much higher interest rate in Irish pounds than in DMs. In this case there appears to have been a mismatch between the policy followed by two different arms of the executive.

The danger of borrowing in foreign currencies is that it locks the government into a particular stance on exchange rate policy in the future. However, the policy on foreign borrowing adopted in the period to 1990 suggests a considerable lack of faith in the government's commitment to the EMS.

In considering performance on the basis of ex post returns it is easy with hindsight to say policy was suboptimal. However, the issues discussed here were brought up already in 1986 in a paper on *National Debt and Economic Policy*.

For the future, with the move to monetary union, the issue of the exchange rate in which borrowing is undertaken will become less and less important. The corollary is that the interest rates should converge. However, until union has taken place there remains the danger that there could be one last hiccough on the foreign exchange markets.

The problem with the way the debt has been prolonged is that the NTMA has paid considerable attention to the maturity structure of the debt from their point of view but relatively little from the point of view of the Central Bank. The NTMA organise the maturity profile so that they will have the funds available to repay debt when it becomes due. However, the switch from foreign borrowing in foreign currencies to foreign borrowing in Irish pound terms using liquid instruments means that the Central Bank can not predict when the foreign debt will be presented to them for conversion into foreign currencies. It is only when the foreign debt is resold on the Dublin market to domestic investors that they will be presented with a demand for payment. Until monetary union, shocks for the Central Bank remain a possibility.

All this points to the desirability of keeping a relatively small margin between Irish and German interest rates through borrowing in foreign currencies and facilitating private capital outflows which may occur. It is only if the balance of payments were to deteriorate significantly that such a policy should be reconsidered. As outlined above, if would be better to facilitate such capital outflows through borrowing in foreign currencies rather than through reliance on foreign purchases of Irish government debt denominated in Irish pounds.

Finally, I think that there is a need for better information on the debt. In the mid-1980s the Department of Finance financed much of the borrowing through issuing low coupon debt. Much of the cost to the exchequer was given as a capital gain, maturing when the debt came to be repaid. This artificially reduced the interest bill and the borrowing requirement. It also meant that the value of debt outstanding rose more rapidly than the amount borrowed in any year. The corollary is that the rise of the nominal value of the debt was more rapid than was the rise in the market value of the debt.

While the change in practice by the NTMA on the coupon of instruments used to fund the debt means that this accounting problem is greatly reduced it is still desirable that more information on the debt and debt interest should be

published. For example, the capital gain/loss on domestic debt issued and the change in the market value of debt outstanding would be valuable additional information. This information may well become available as a by product of some of the novel internal monitoring procedures in the NTMA outlined in Dr. Somers paper.