



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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Mr Sean Fleming T.D.
Chairman, Committee of Public Accounts,
Leinster House
Kildare St
Dublin 2

25 November 2016

Dear Deputy Fleming,

I refer to your letter concerning state organisations that lodge money with the Central Bank and the outcome of this investment, which was sent following a meeting with the Department of Social Protection on 20 October 2016. While the data request in your letter is not specific as regards reference dates, I now attach, for the Committee's convenience, a short note on the amounts of interest credited or deducted in respect of State organisations' deposits with the Central Bank covering the period from the start of January 2014 to the end of October 2016.

I would, however, like to make two general and important points on this issue.

First, as you will be aware, the Central Bank is a member of the Eurosystem and is responsible for contributing to the formulation and implementation of Eurosystem monetary policy. In this context, the Governing Council of the European Central Bank has decided on various standard and non-standard monetary policy measures aimed at achieving its goal of inflation being close to but below 2 per cent over the medium term. One component of this has been the unprecedented lowering of its official interest rates. These rate reductions are part of a package of measures designed to stimulate activity through a variety of channels including lowering the costs of borrowing for households, corporations and, indeed, governments. This policy is implemented through various asset purchase programmes as



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well as incentivised lending to commercial banks to facilitate the flow of credit, in addition to lower policy rates. As part of this package, the ECB's Deposit Rate was lowered into negative territory on 11 June 2014 and to its current rate of -0.40% on 16 March 2016. The rate applies to funds lodged by credit institutions and state organisations that make deposits with the Bank. All these decisions have been made on a Eurosystem-wide basis and the same negative deposit rate applies to similar deposits in other euro area member states.

Second, while under law the Bank is independent in the exercise of its ESCB functions, it is nevertheless publicly owned¹. In addition, at least 80 per cent of its profits must be returned to the Exchequer annually. Any profits that are retained go towards protecting its own balance sheet. The interest deducted from the deposits of state organisations contributes directly to the profits of the Central Bank. In fact, at the current time, the entire amount deducted is effectively added to the profits of the Bank and either transmitted back to the Exchequer or retained (up to a limit of 20 per cent of profit) to bolster the financial buffers of the Bank's publicly-owned balance sheet. The money is, therefore, not "lost" to the public sector as a whole.

The fact that the net cost is effectively zero, when looked at from a macro-perspective, is important in considering alternatives, i.e. in order to be preferable, any alternative would require a positive return, not just one that is above -0.40%. Alternatives could also have higher risk, lower liquidity or other features that would have to be borne in mind. I make these points solely for purposes of clarity, of course, as investment decisions are entirely a matter for those charged with the management of these funds.

The attached note provides details of the interest paid or deducted in respect of the various state organisations' accounts since the start of 2014. In order to make the analysis clearer, a break is made on 11 June 2014 when there was a discrete change in the interest rate framework (explained in the note) and the Deposit Rate became negative for the first time. This information has been provided with the consent of the organisations involved.

Please feel free to contact me if you have any further queries.

Yours sincerely,

¹ Under the Central Bank Act 1942, the Treaty on the Functioning of the European Union and the Statute of the European System of Central Banks (ESCB), the Central Bank of Ireland is independent in the exercise of its ESCB-related functions.

The Central Bank of Ireland Interest Accruals

The table below shows details of the interest that accrued on specific state bodies' overnight deposit accounts held at the Bank during the period from 1 January 2014 to 31 October 2016. Interest is typically paid on a bi-annual basis in April and October. In order to put these figures into context, the average daily deposit balance over the relevant period for each body has also been provided.

Up until 10 June 2014, the vast majority of government deposits held at the Bank were remunerated at the Euro Over Night Index Average (EONIA) rate. From 11 June 2014, following the publication of the European Central Bank's (ECB) Domestic Asset and Liability Management (DALM) Guideline, all eligible deposits* attracted the ECB Deposit Facility rate. All figures provided below are denominated in euro (€):

State Body	Interest 1 Jan – 10 Jun 2014	Interest 11 Jun – 31 Dec 2014	2014 Average Deposit	Interest 2015	2015 Average Deposit	Interest 2016** YTD	2016 YTD Average Deposit
Exchequer Deposit and Current Accounts (managed by the National Treasury Management Agency)	5,423,449	-894,135	6,405,028,141	-15,895,204	8,949,472,352	-29,428,475	10,540,173,490
Other NTMA Accounts (incl. NAMA & ISIF)	2,763,765	-1,183,820	1,981,724,522	-3,180,355	1,524,708,986	-5,820,036	1,865,914,322
Department of Finance***	291,755	-278,643	310,514,081	-96,197	47,439,139	-347	103,180
Department of Education	125,853	-102,428	125,548,811	-192,618	93,279,617	-228,525	71,777,147
Department of Public Expenditure & Reform	77,260	-75,851	84,262,630	-158,301	75,696,403	-241,230	75,854,214
Office of the Revenue Commissioners	46,137	-53,332	56,750,383	-40,133	15,108,025	-3,502	720,427
Department of Arts & Heritage	196	-192	217,785	-455	217,773	-691	217,228
Office of Public Works	27,090	-27,202	31,079,100	-46,690	25,111,673	-37,979	12,584,715
Department of Agriculture	1,704	0	8,864,196	-26,335	8,859,755	-1,992	654,031
Total of above accounts	8,757,209	-2,615,603	9,003,989,649	-19,636,288	10,739,893,723	-35,762,777	12,567,998,754

See footnotes on following page.

*As per the DALLM Guideline the Bank can remunerate up to the higher of €200m or 0.04% of GDP, of the NTMA's total deposits, at the EONIA rate. On any calendar day, the total amount of overnight deposits exceeding this threshold will be remunerated at the ECB Deposit Facility rate or 0%, whichever is lower. A negative Deposit Facility rate entails a payment obligation of the deposit holder to CBI. NTMA deposits relating to the European Union/International Monetary Fund financial support programmes will be subject to the EONIA rate or 0%, whichever is higher.

**Please note that 2016 interest accruals have not yet been formally audited.

***The Social Insurance Fund referenced in the Committee of Public Account's transcript, dated 20 October 2016, forms part of the Department of Finance's total deposits and interest accruals. The Fund was transferred to Bank of Ireland on 2 January 2015.