Post-Budget 2023 Debt Infographic

An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

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Introduction

This infographic sets out Ireland's debt position on a post-Budget basis, informed by estimates published by the Department of Finance in Budget 2023 and the PBO's own Debt Sustainability Analysis (DSA) Calculator. This document also provides a sensitivity analysis of the sustainability of Irish public debt.

Last year, the Government expected to run a deficit of €8.3bn (billion) in 2022. This deficit was revised to €2bn in the SPU (April 2022), and was further revised to a surplus of €0.97bn in Budget 2023. The Budget also indicates that, while the national debt on a per capita basis is significant by international standards, the debt-to-GDP ratio is expected to reduce out to 2025.

Furthermore, although suspended until the end of 2023, forecasts included in the Budget indicate that Ireland is on target to meet the core EU fiscal rules (i.e. a debt-to-GDP ratio below 60% and a general government deficit-to-GDP ratio below 3%).

However, the PBO welcomes the focus in Budget 2023 on measures of debt sustainability involving GNI* (an indicator designed to exclude the distortionary effects of globalisation on Irish GDP) which points to a more significant debt burden.

Ireland's Debt Sustainability

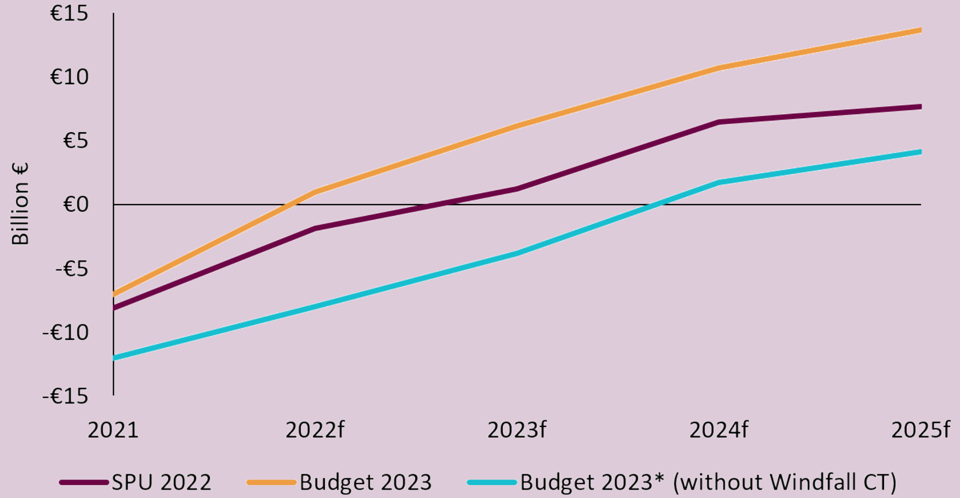
More aggressive moves toward monetary policy normalisation, in response to the significant inflationary pressures felt at present, will increase the cost of new borrowing for Government. As highlighted in Budget 2023, as of mid-September, ten-year sovereign borrowing carried an interest rate of 2.5% – the highest rate since mid-2014.

The maturity profile of Irish public debt helps to partially insulate the State against a tightening of monetary policy in the short term. However, as more of the debt matures and is refinanced in the coming years, the monetary policy context will be considerably less favourable than has been the case in recent years. This will also make the financing of budget deficits more costly for Government.

In this infographic, we use the PBO's *DSA Calculator* to stress test the sustainability of Irish public debt, against a significant loss in revenue combined with a sharp rise in interest rates (our baseline assumptions are detailed in the calculator file).

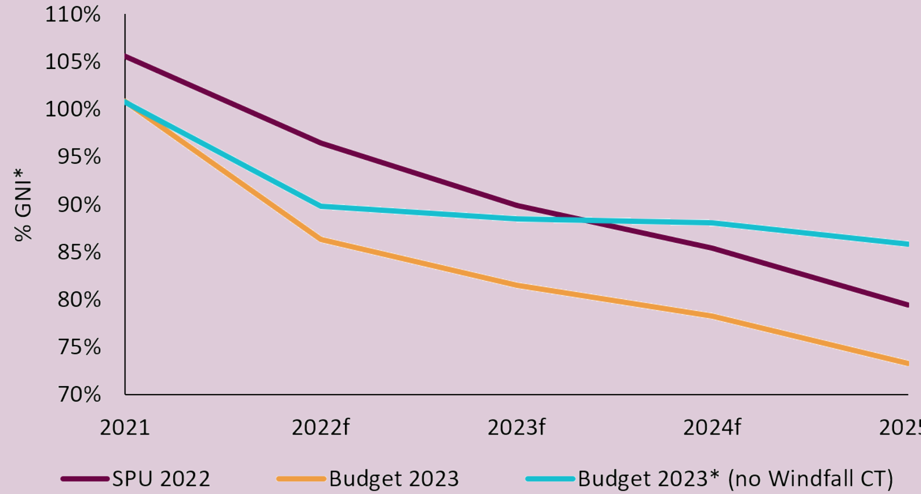
We model a loss in "windfall" corporation tax (CT) revenue in line with Budget 2023 estimates, over 2022 to 2025, and assume that this loss continues out to 2030. The result of a revenue shortfall of this scale, is a sharp deterioration in the debt ratio, undermining public debt sustainability. We further show how this effect would be exacerbated in the event of a significant rise in interest rates, and examine the implications for interest spending (as a proportion of national income).

General Government Balance



A general government balance of €0.97bn is expected for this year. The total estimate of windfall corporation tax revenue for 2022-2025 is €37.5bn. Once this has been removed from the general government balance, a surplus is not expected until 2024.

Debt to GNI*



Ireland's debt ratio estimate is more favourable in Budget 2023 than at the time of April's Stability Programme Update. Although compliance with the EU fiscal rules is assessed in terms of GDP, the debt burden is substantially higher as a percentage of GNI*.

Source: PBO Calculations on *Budget 2023* and *Stability Programme Update 2022*. *Tableau Dashboard Version* Links to *PDF infographics* and *Data Visualisation and Analysis page*

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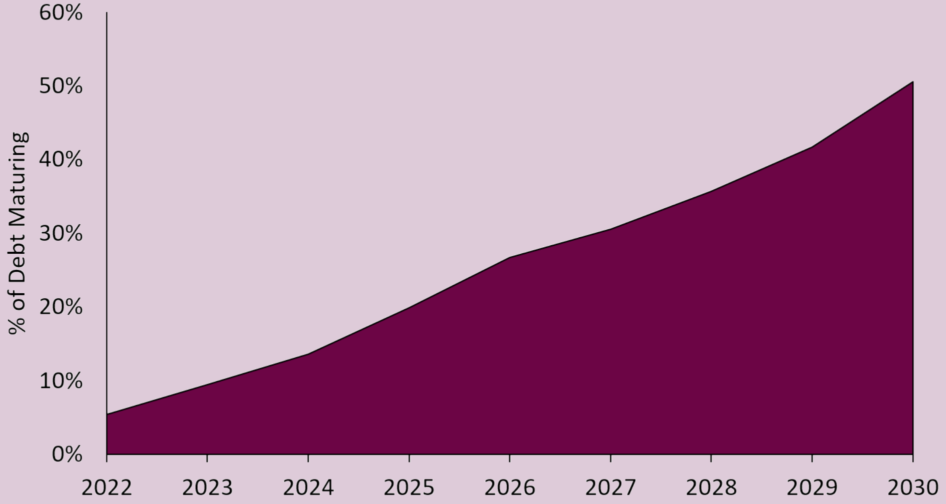
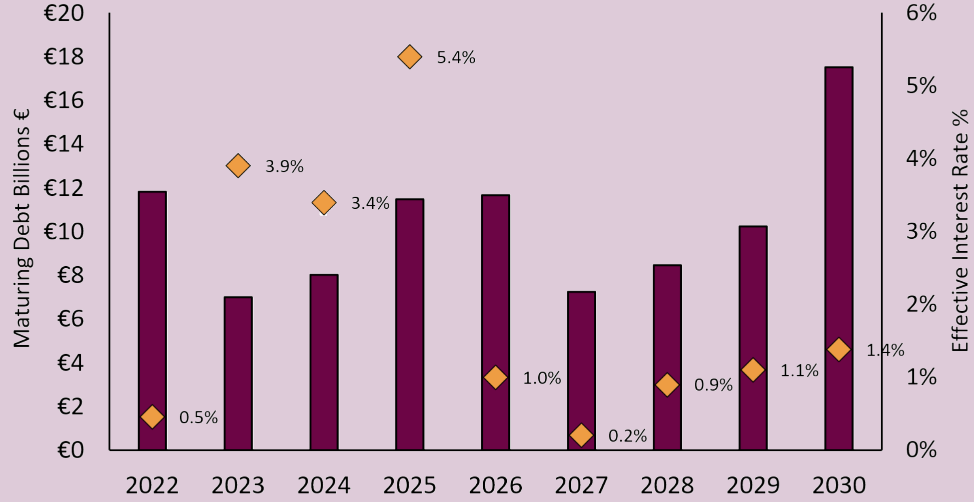
Maturity Profile of Irish Debt



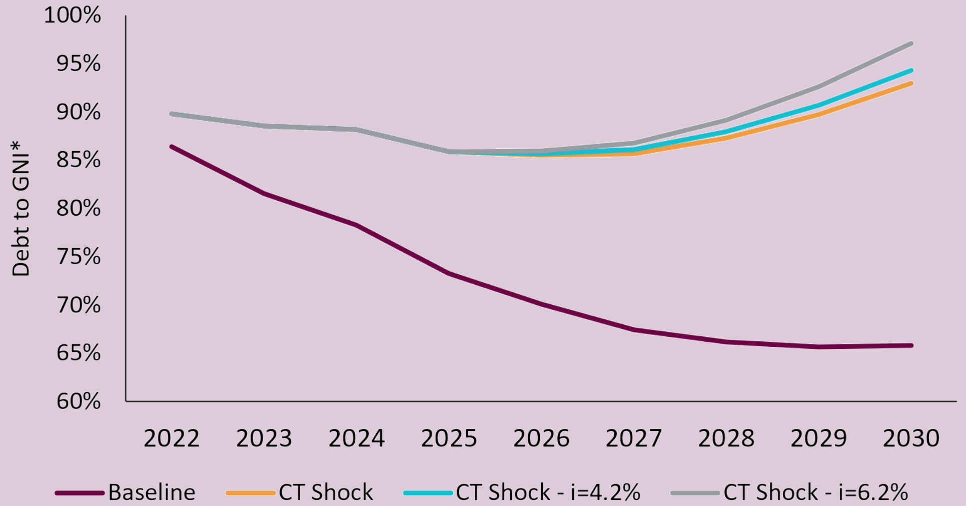
Ireland is impacted by interest rate changes if new debt is issued or existing debt matures. Shown here is the proportion of debt that is maturing each year to 2030. The maturity profile of Ireland's debt helps to partially insulate from short-term shocks.

Effective Interest Rate on Maturing Debt



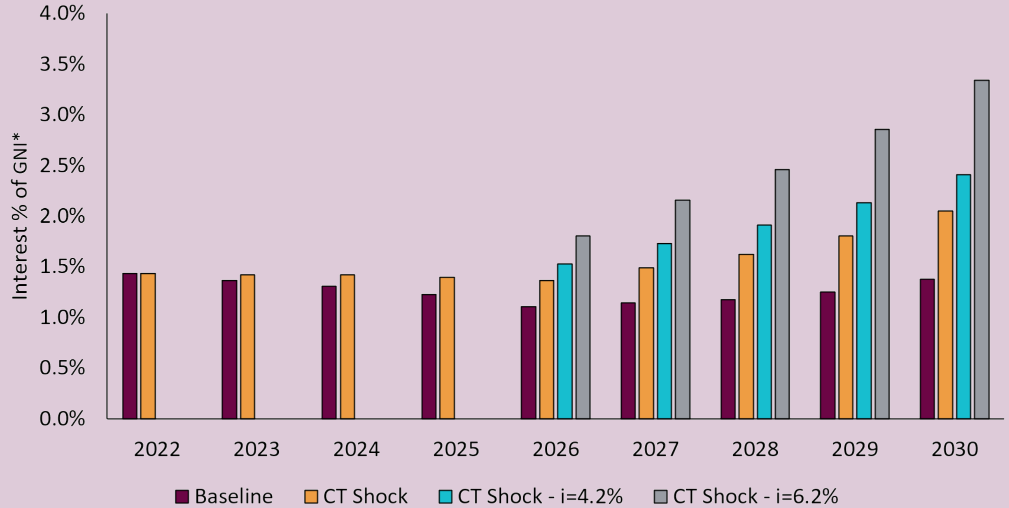
Globally, interest rates are rising and Ireland's ten-year government bond yield has increased from near 0% in 2021 to almost 3% in October 2022. This chart shows the effective interest rates of maturing ten-year fixed rate benchmark bonds.

Stress-test: Estimating the Impact of a Loss in Windfall Revenue



We model a loss in windfall CT revenue in line with Budget 2023 estimates to 2025, and extrapolate to 2030. Coupled with interest rate rises (to 4.2% and 6.2%), and holding everything else constant, this shock would cause a sharp deterioration in the debt ratio.

Stress-test: Isolating the Impact of Interest Rate Rises



Here, interest spending under each scenario is shown as a proportion of GNI*. As shown, under the most severe scenario where rates increase to 6.2%, interest spending would rise to almost 3.5% of national income by 2030.

Source: PBO Calculations on *Budget 2023* and *Stability Programme Update 2022*.

Tableau Dashboard Version

Links to *PDF infographics* and *Data Visualisation and Analysis page*