SPU 2023 Debt Infographic

An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office

PBO Publication 18 of 2023
Publication date: May 2023

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Introduction

This infographic provides key information and analysis regarding Ireland's debt position. It is informed by estimates published by the Department of Finance in the *Stability Programme Update (SPU) 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 for changes to tax revenue and interest rates.

In last year's SPU 2022, the Government expected to run a surplus of €1.2bn (billion) in 2023. This was revised to €6.2bn in the Budget 2023, and was further revised to a surplus of €10.0bn in the SPU 2023. While the national debt on a *per capita basis* is significant by international standards, the debt-to-GDP/GNI* ratio is expected to reduce out to 2026, albeit, to a lesser extent, if one excluded the "excess" windfall corporation tax (CT).

Furthermore, although currently suspended, forecasts included in the SPU indicate that Ireland will 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%). This is due to Ireland's inflated GDP in comparison to its GNI*, which would otherwise point to a more significant debt burden. GNI* is an indicator designed to exclude the distortionary effects of globalisation on Irish GDP.

The Department of Finance has explored the possibility of a *long-term savings fund* to prudently manage windfall CT receipts, which would help with the expected additional fiscal costs of demographic and structural changes. The *NTMA* has set a funding range of €7-11bn in 2023. In Q1, approximately €4.9bn of *Government bonds have been issued*, with a weighted average maturity of over 18 years and a yield of around 3.2%, higher than previous norms.

Ireland's Debt Sustainability

More aggressive moves by Central Banks to raise the policy interest rate, in response to the continuing inflationary pressures, will increase the cost of new borrowing for Government.

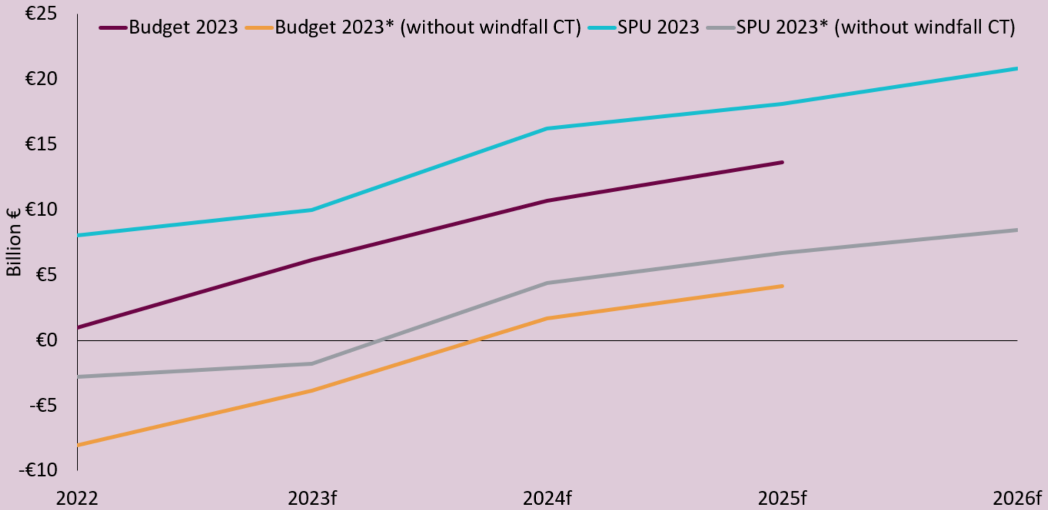
While a new *20-year green bond* was issued in 2023, it should be noted that traditionally private markets evaluate investing in Irish bonds by comparing the risk and return, such as Ireland's high credit rating and interest yields in comparison to other countries. As such, markets may not fully consider the "social implications" of spending and borrowing, instead focusing on the default risk of invested capital.

The maturity profile of Irish public debt helps to 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 continuation (or further escalation) of the current monetary policy will make the financing of potential budget deficits more costly for Government.

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

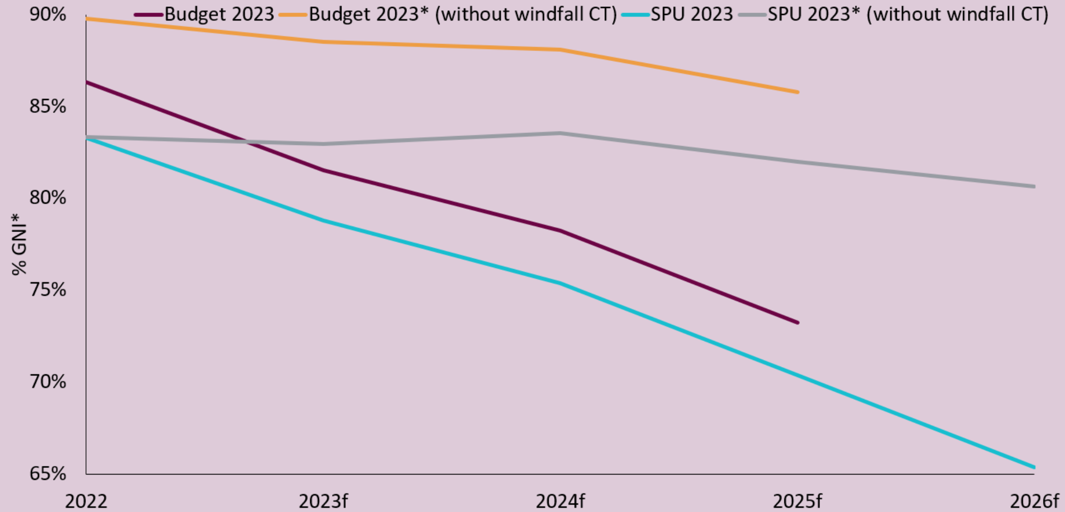
We model a loss in "windfall" CT revenue in line with SPU 2023 estimates, over 2023 to 2026, and assume that this loss continues out to 2031. The result of a revenue shortfall of this scale is a sharp deterioration in the debt ratio, undermining public debt sustainability. We further show how this effect would be exacerbated in the event of a significant rise in interest rates, and examine the implications for the debt dynamics.

General Government Balance



A General Government balance (GGB) of €10.0bn is expected for this year. The total estimate of windfall corporation tax (CT) revenue for 2023-2026 is €47.4bn. If windfall CT receipts were removed from the GGB, a surplus would not be expected until 2024.

Debt to GNI* Ratio



Ireland's debt ratio estimate is more favourable in SPU 2023 than at the time of Budget 2023 or SPU 2022. 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 based on data in *Budget 2023* and *SPU 2023*.

Tableau Dashboard Version

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

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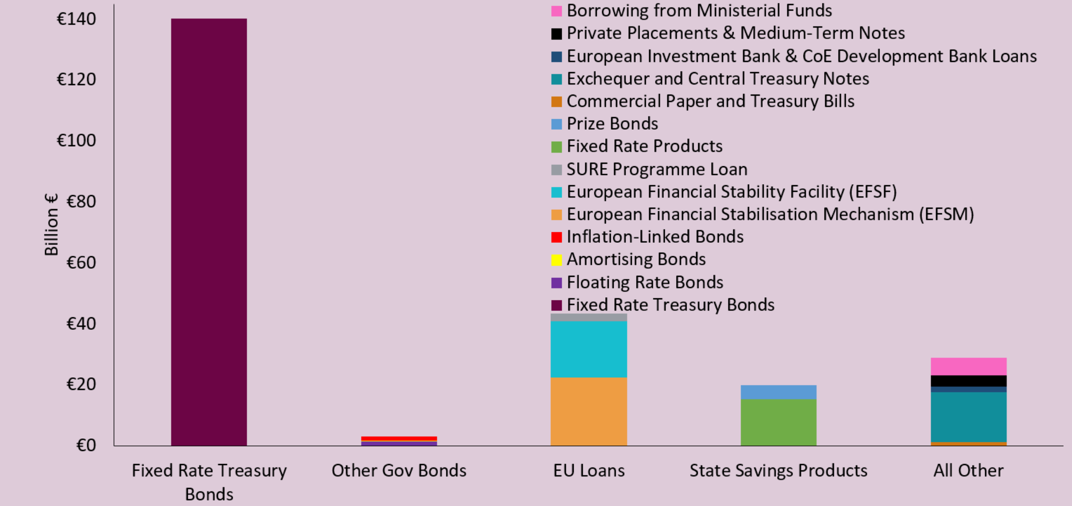
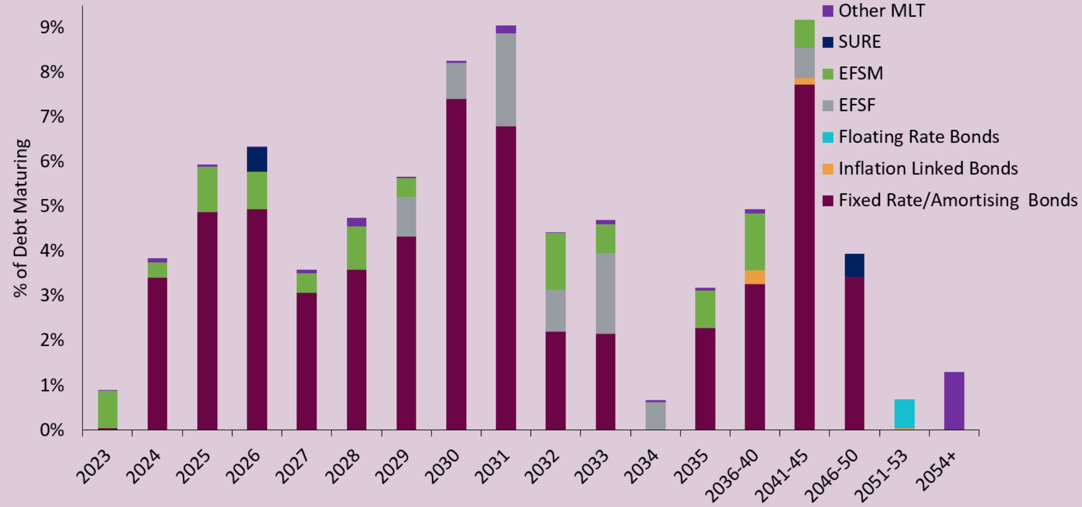
Composition of Gross National Debt (Source: *NTMA* End April-2023 Data)



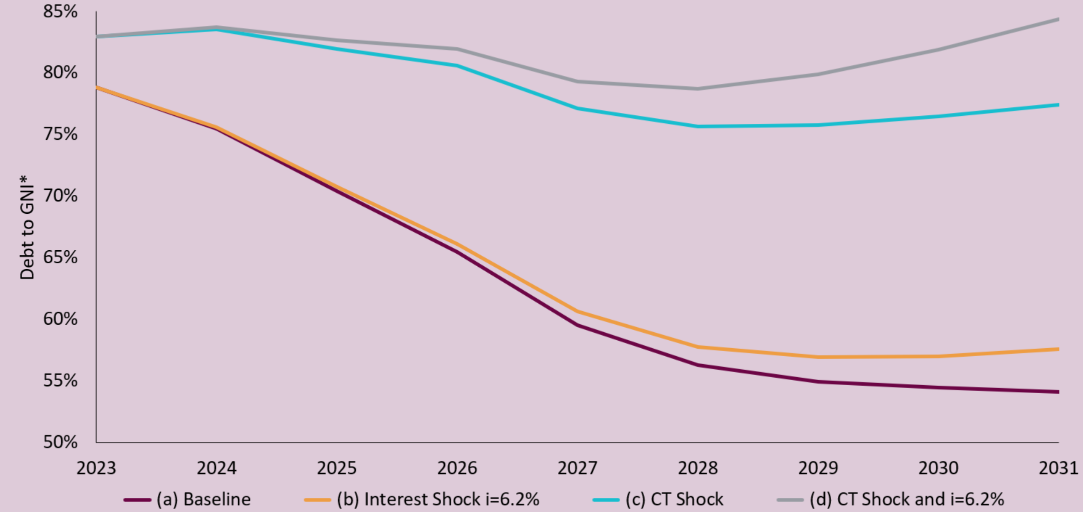
Globally, interest rates are rising, and Ireland's ten-year government bond yield has increased from near 0% in 2021 to almost 3% in May 2023. Shown is the composition of Ireland's debt by subcategory, highlighting the importance of marketable bonds.

Maturity Profile of MLT Debt (Source: *NTMA* End April-2023 Data)



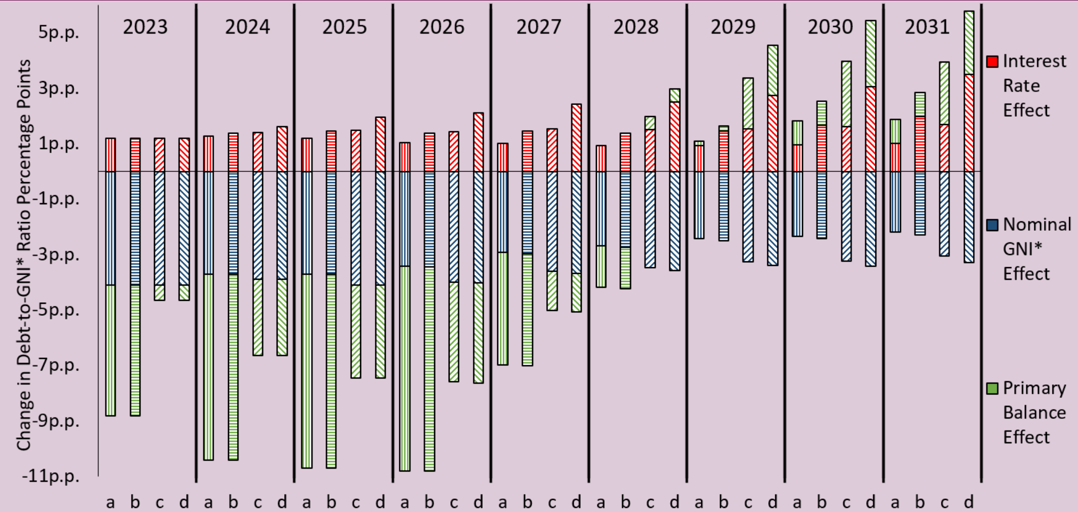
Ireland is impacted by interest rate changes if new debt is issued or existing debt matures. Shown here is the proportion of debt that is maturing each year to past 2050. The maturity profile of Ireland's debt helps to partially insulate from short-term shocks.

Stress-test: Estimating the Impact of CT and Interest Shocks



We model a loss in windfall CT revenue in line with SPU 2023 estimates to 2026, and extrapolate to 2031. Coupled with an interest rate rises to 6.2%, and holding everything else constant, this shock would cause the debt ratio to remain high.

Stress-test: Isolating the Debt Dynamics of the Scenario Shocks



Debt dynamic effects under the scenarios are shown as changes in the debt-to-GNI* ratio. The interest costs are highest when both CT and interest shocks are modelled (d), then just the interest shock (b), as the loss of the windfall CT results in more debt being needed.

Source: *PBO DSA calculator*. *Tableau Dashboard Version* Links to *PDF infographics* and *Data Visualisation and Analysis page*