Budget 2024 Debt Infographic

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Parliamentary Budget Office

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Introduction

This infographic provides key information and analysis regarding Ireland's debt position. It is informed by estimates published in *Budget 2024* 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.

Budget 2024, framed as a "Cost of Living Budget", revised up spending projections out to 2026, with core spending increasing by more than the planned 5% year-on-year increase. 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 estimated "excess" corporation tax (CT) receipts.

Furthermore, although currently suspended, and in the process of being *reformed*, forecasts included in the Budget 2024 indicate that Ireland will meet the core EU fiscal rules (i.e. a Debt-to-GDP ratio below 60% and a 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.

Central Banks' measures have led to a prolonged period of elevated interest rates, responding to persistent inflationary pressures. This is expected to raise the costs associated with new and renewing government borrowing. The *NTMA* (National Treasury Management Agency) has set a funding range of €7-11bn in 2023. By end September, €7bn of *Government bonds have been issued*, with a weighted average maturity of over 18 years and a yield of around 3.2%.

Future Ireland Fund & Infrastructure, Climate and Nature Fund

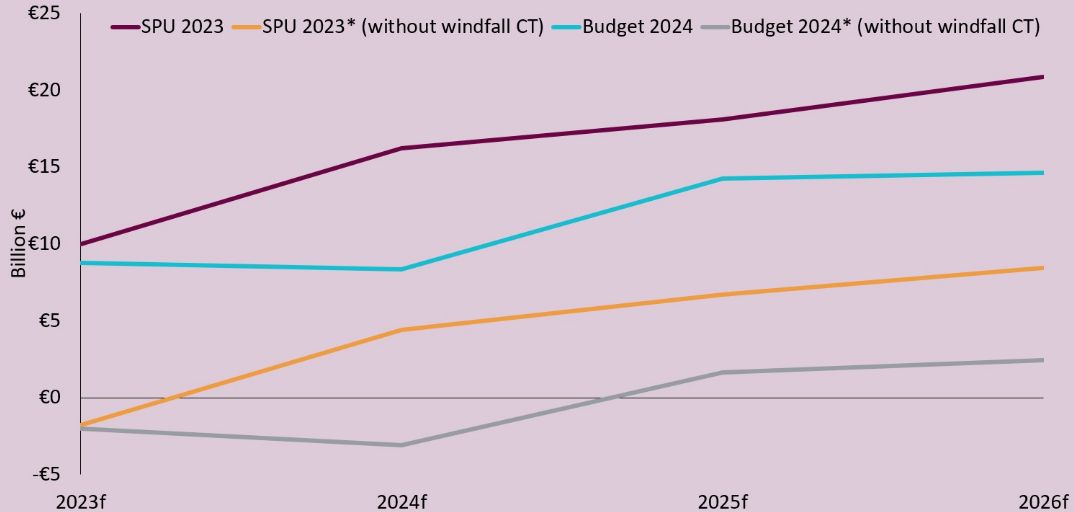
The Department of Finance has published the General Scheme of the *the Future Ireland Fund (FIF) and Infrastructure, Climate and Nature Fund* to prudently manage windfall CT receipts, addressing the anticipated fiscal challenges stemming from demographic and structural changes (particularly climate).

Contributions are scheduled to be made to the FIF until 2035, targeting €70 billion in total. This starts with €4.3bn in 2024 and targets €6bn per year (0.8% of GDP) from 2024 to 2035. €4.1bn will also be transferred from the dissolution of the National Reserve Fund in 2024. The NTMA also discontinued the final quantum of the Floating Rate Notes (FRNs) from the Central Bank of Ireland, issued in the wake of the 2008 financial crisis.

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 of the current monetary policy will likely make the financing of potential budget deficits more costly for Government.

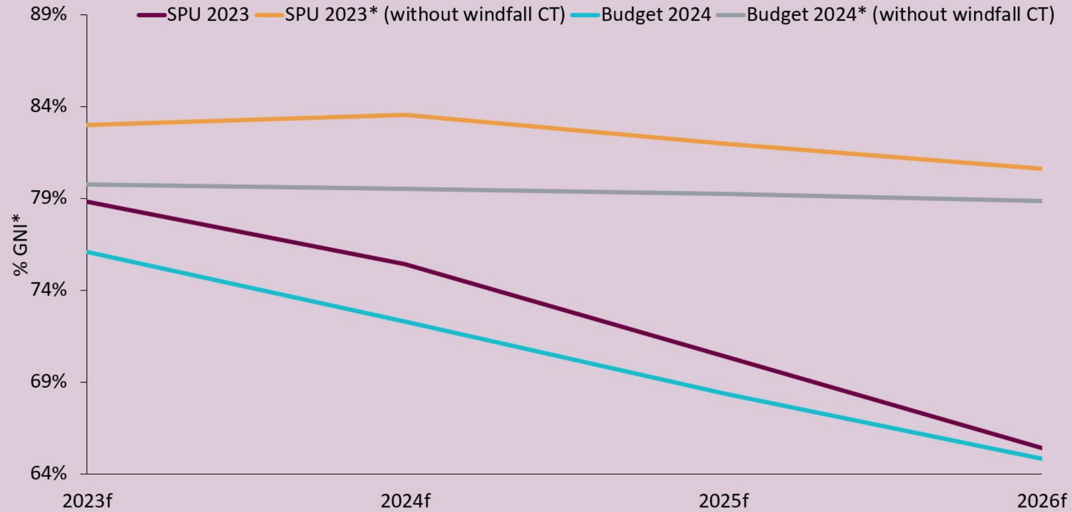
We use the PBO's *DSA Calculator* to stress test the sustainability of Irish debt, against a significant loss in revenue and a sharp rise in interest rates. We model a loss in "windfall" CT revenue in line with Budget 2024 estimates, over 2023 to 2026, and assume that this loss continues out to 2032. 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.

1) General Government Balance



A General Government balance (GGB) of €8.79bn is expected for this year. The total estimate of windfall corporation tax (CT) revenue for 2023-2026 is €44.4bn. If windfall CT receipts were removed from the GGB, a surplus would not be expected until 2025.

2) Debt-to-GNI* Ratio



Ireland's debt ratio estimate is more favourable in Budget 2024 than at the time of the SPU 2023, even with spending increased. 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 modelling using the PBO DSA Calculator alongside forecasts from *SPU 2023* and *Budget 2024*. The level and interest implications of windfall CT are included in the analysis.

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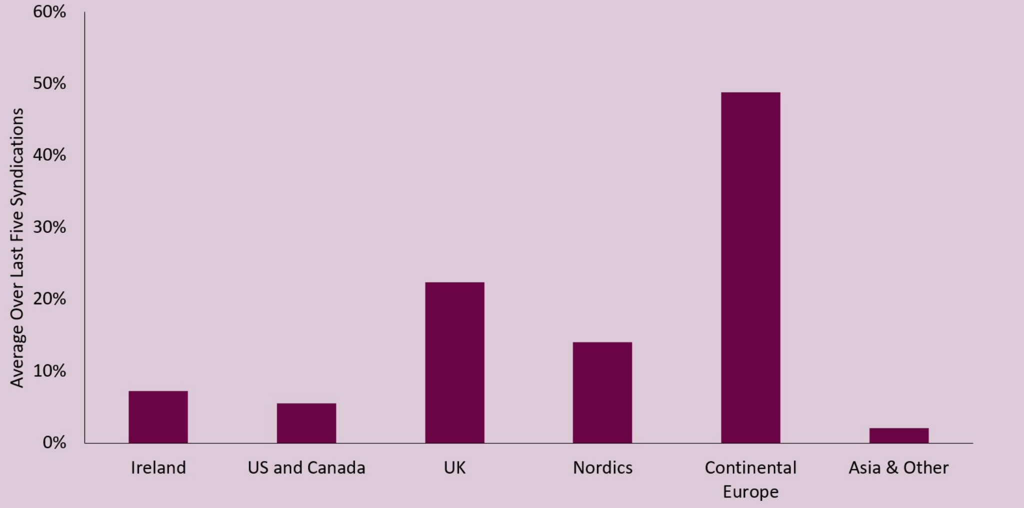
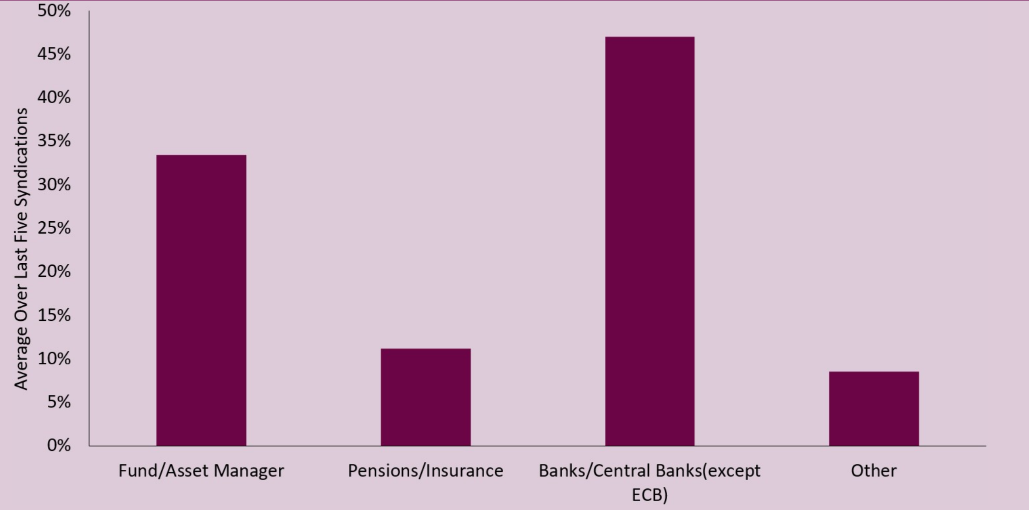
3) Demand for Irish Bonds by Country



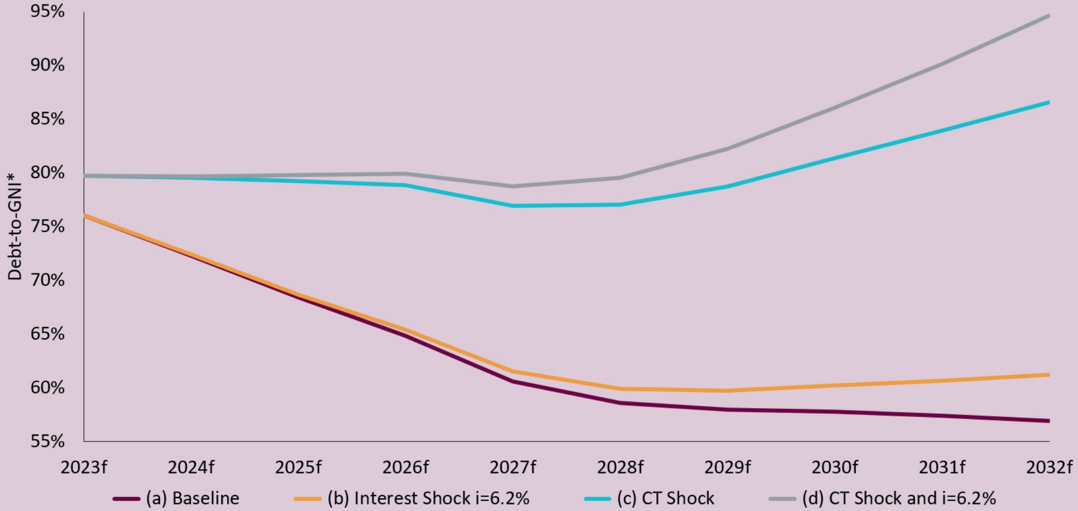
The demand for Irish Government bonds has recently come primarily from foreign investors, particularly from Continental Europe, with less than 10% being by Irish investors.

4) Demand for Irish Bonds by Investor



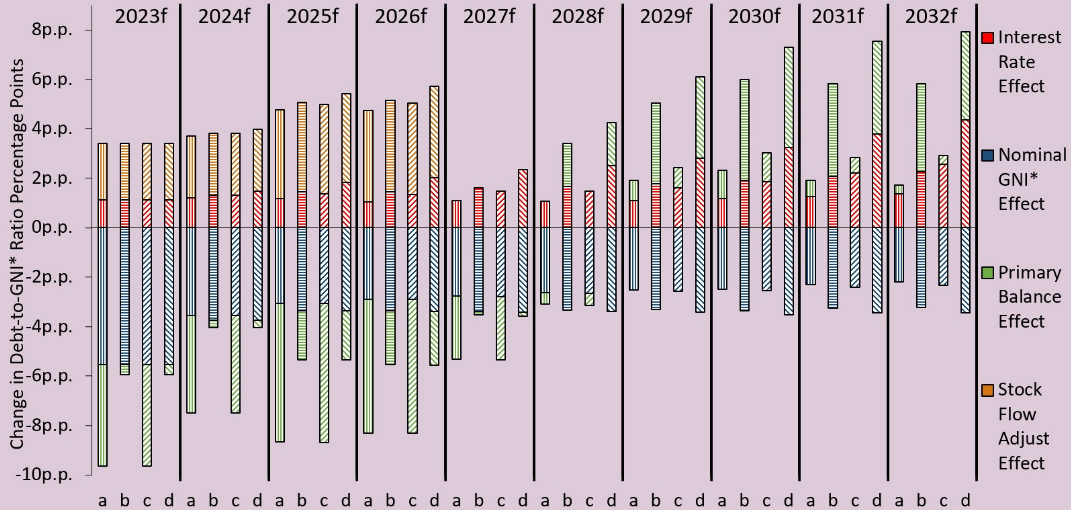
Irish Government bonds are demanded by a variety of investors, with half being by banks and central banks. Investment and pension funds judge investment risk by looking to Ireland's credit rating, which further improved in 2023 to AA by S&P (Aa3 by Moody).

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



We model a loss in windfall CT revenue in line with Budget 2024 estimates to 2026, and extrapolate to 2032. Coupled with an interest rate rises to 6.2%, and holding everything else constant, this shock would cause upward pressure on the debt ratio.

6) Isolating the Debt Dynamics of the Three Scenario Shocks



Debt dynamic effects are the changes in the Debt-to-GNI* ratio. As before, (a) is the baseline, while (c) is the CT shock. The interest costs are highest when both CT and interest shocks are modelled (d), then just the interest shock (b), meaning more debt.

Source for Figure 3&4: *NTMA* Investor Presentation October-2023. Source for Figure 5&6: Scenario modelling using the *PBO DSA calculator*.