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Ireland's Public Debt Burden

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Introduction

This note examines Ireland's debt burden and also includes comparisons with other EU countries. Ireland's debt levels have increased significantly over recent years in order to support the financial sector and fund government deficits. The size of the debt burden is usually measured as the stock of debt as a percentage of GDP. However, this measure does not take account of the different rates of interest countries are charged on their debt. The debt burden may be better expressed in terms of debt servicing costs which are a function of the size of the debt stock as well as the interest rate. High debt results in an inevitable increase in the cost of its servicing. Table 1 shows Ireland's debt and interest cost since 2012.

Table1.

Debt Developments

	2012	2013	2014	2015	2016	2017	2018
General Government Debt %GDP	117.6	123.7	121.4	120.0	115.9	112.0	107.2
Total Interest €bn.	6.1	7.7	8.0	8.5	8.8	9.3	9.6
%GDP	3.7	4.7	4.7	4.8	4.9	4.9	4.8
% General government revenue	11	13	13	13	14	14	14
Implicit Interest Rate %	3.6	4.0	3.9	4.1	4.2	4.4	4.5

Source: Department of Finance, NTMA

Interest Costs

A historical analysis of interest costs reveals that although present debt levels are significantly higher than in the past, the burden of financing the debt is significantly lower.

- Interest payments on the general government debt are expected to absorb 13% of general government revenues in 2014. In 1985, 22% of tax revenues were allocated to servicing the debt. This is despite the fact that in 2014 projected debt levels of 121% of GDP are substantially above those of 94% in 1985.
- Interest payments in 2014 are comparable to those in the 1990s. In 1995 General Government Debt (GGD) interest consumed 14% of revenues, despite lower debt levels of 82%. Nevertheless, today's costs stand in stark contrast to those Ireland was enjoying in 2007, with a GGD of 25% - substantially below the 60% limit –and interest payments of 3% of GG revenues.
- Interest expenditure on the GGD is expected to stabilize in 2016 at 14% of government revenues.

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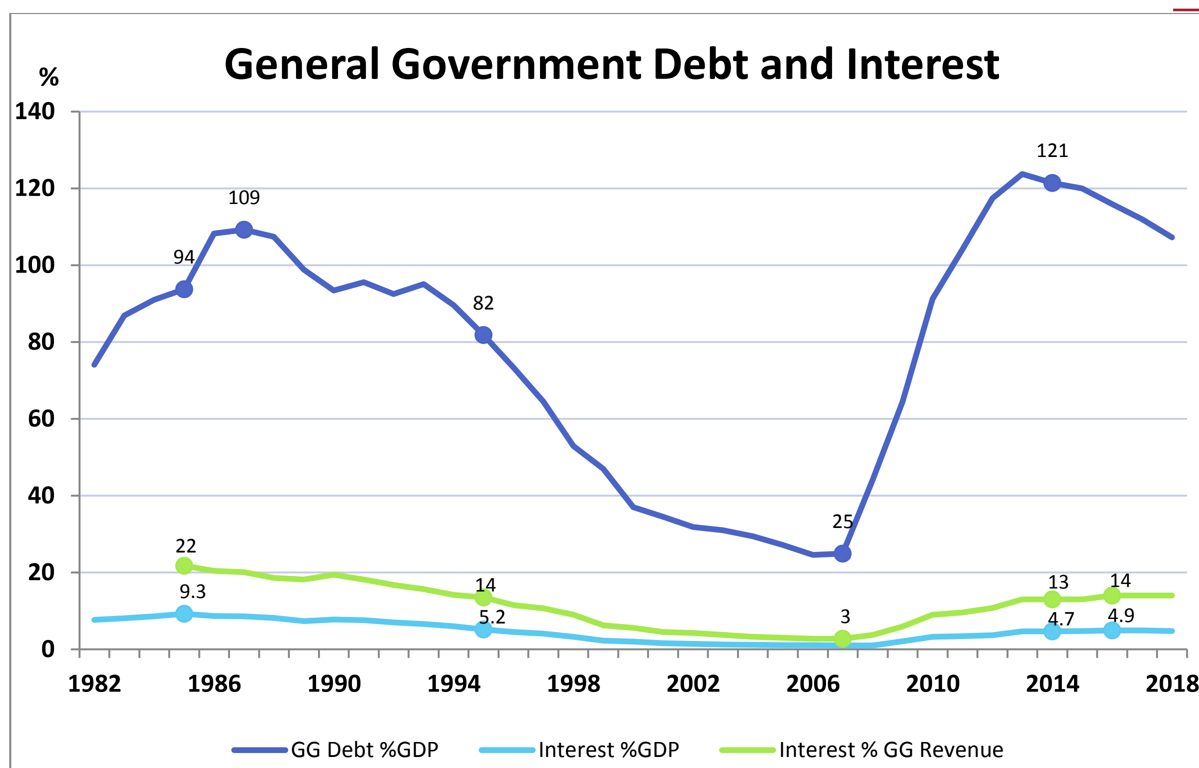

Source: IMF, NTMA, Reuters, Department of Finance

Cross Country Analysis

Eurozone Member States have recently made available their Stability Programme Updates – a requirement under the 'Two-Pack' legislation. A cross-country comparison of projected debt and interest developments in 2014 reveals the following:

- Interest expenditures vary across the Eurozone. Italy's costs are highest at 5.2% of GDP and Estonia's are lowest at 0.1%.
- Ireland's expenditures are third highest. At 4.7% of GDP, the interest burden is significantly above the Eurozone average of 2.8%.
- Of countries in the Eurozone, Greece has the highest debt at 174%, followed by Italy (135%), Portugal (127%), Cyprus (122%), Ireland (121%), and Belgium (101%). The average GGD stands at 86%.
- The implicit interest rate on Irish debt ranks fifth highest at 3.9% - again above the 3.2% average.
- Estonia ranks lowest for debt (10%), interest costs (0.1%) and implicit interest rate (1.5%).
- The low Greek interest rates are due to subsidies and debt-reliefs. In February 2012 Greece received a second financial support scheme of €130bn. However, worsening macroeconomic conditions lead to concerns over the sustainability of this debt. In November 2012, Eurogroup introduced a number of measures[2] to ease the Greek debt

[2] European Commission, Nov 2012, Eurogroup Statement on Greece.

burden. These included: a reduction of interest rates[3] to 0.5%; cancellation of fees[4]; Maturity extensions[5]; and deferral of interest payments for 10 years, amongst others[6]. The aim of these measures is to lower Greek debt to 124% of GDP by the year 2020.

Eurozone Comparison, 2014 projections

	Interest Expenditure %GDP	General Government Debt %GDP		Implicit Interest Rate %
Italy	5.2	135	**Slovenia**	4.9
Greece	4.8	174	**Latvia**	4.4
Ireland	4.7	121	**Malta**	4.2
Portugal	4.3	127	**Italy**	4
Cyprus	4	122	**Ireland**	3.9
Spain	3.5	100	**Spain**	3.8
Slovenia	3.4	81	**Cyprus**	3.5
Belgium	3.1	101	**Portugal**	3.4
Malta	3	79	**Slovakia**	3.4
Austria	2.6	79	**Austria**	3.2
France	2.4	96	**Belgium**	3.1
Germany	2	76	**Greece**	2.7
Netherlands	1.8	75	**France**	2.6
Slovakia	1.8	55	**Germany**	2.5
Latvia	1.6	39	**Finland**	2.4
Finland	1	60	**Netherlands**	2.3
Luxembourg	0.5	23	**Luxembourg**	2.1
Estonia	0.1	10	**Estonia**	1.5
Average	2.8	86		3.2

*Source: European Commission (2014), Stability Programme Updates; European Commission (2014), General Government Data Part*1; IMF

[3] Interest rates on GLF (Greek Loan Facility) and EFSF loans were reduced to 0.5% plus the Euribor.
[4] Cancelation of the EFSF guarantee commitment fee.
[5] Maturity extensions of a further 15 years were provided for GLF and EFSF loans.
[6] Income from the ECB's Securities Market Program can now be transferred to the Greek State.