# Ireland's Public Debt Burden

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## Key Point

While Ireland's public debt burden is still relatively high, it is declining and the cost of servicing it will decline further as a share of Government revenue.

## Introduction

This note examines Ireland's debt burden and also includes comparisons with other EU countries. The size of the debt burden is usually measured as the stock of debt as a percentage of GDP. However, this measure is no longer a useful guide for Ireland and 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 2013 when it peaked.

**Table 1. Debt Developments**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| | | | | | | |
| Total Interest €bn. | 7.7 | 7.5 | 6.7 | 6.2 | 6.1 | 6.0 |
| | | | | | | |
| % General government revenue | 12.6 | 11.4 | 9.6 | 8.6 | 8.1 | 7.7 |
| Average Interest Rate % | 3.6 | 3.7 | 3.4 | 3.1 | 3.0 | 2.8 |

(Source: Stability Updates)

## Interest Costs

An historical analysis of interest costs reveals that although present debt levels are high, the burden of financing the debt is significantly lower than in the past. Interest payments on the general government debt are expected to absorb 8.1% of general government revenues in 2017. In 1985, 22% of tax revenues were allocated to servicing the debt.

Our interest bill has been much lower than expected. For example, the 2016 interest bill was forecast to be €9,170 million in 2013 (Stability Update, April, 2013) whereas the outturn for 2016 is now forecast to be €6,205m - a fall of almost €3 billion.

## Cross Country Analysis

A comparison of projected debt and interest forecasts in 2015 (See Table 2) reveals the following:

- Interest expenditures vary across the Eurozone. Portugal's costs are highest at 10.4% of General Government Revenue.
- Ireland's expenditures are third highest in 2016. At 8.6 % of Government revenue, the interest burden is significantly above the Eurozone average of 5.2%.
- Ireland's debt burden is forecast to fall rapidly to 5.7 % of Government revenue by 2021.

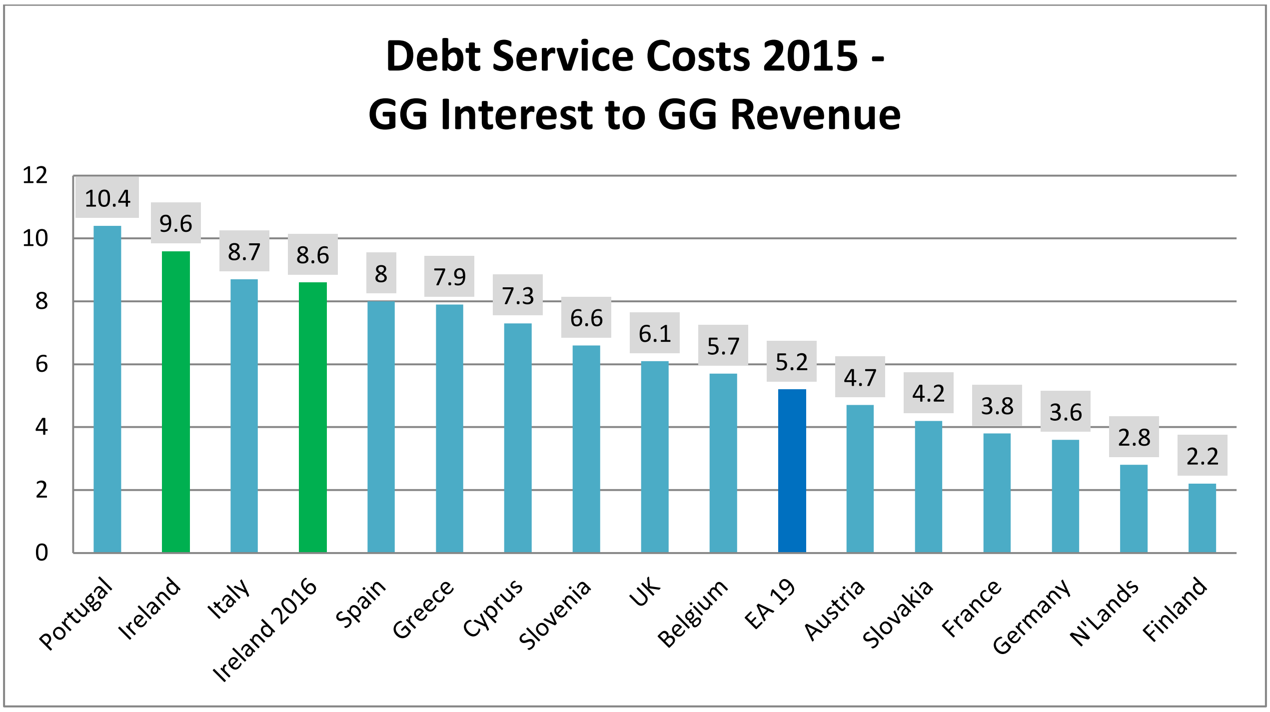
Table 2 shows debt and interest projections as a percentage of General Government Revenue for 2015.

**Table 2**

| **Debt Service Costs 2015** | |
|---|---|
| **GG Interest to GG Revenue** | |
| Portugal | 10.4 |
| Ireland | 9.6 |
| Ireland 2016 | 8.6 |
| Italy | 8.7 |
| Spain | 8.0 |
| Greece | 7.9 |
| Cyprus | 7.3 |
| Slovenia | 6.6 |
| UK | 6.1 |
| Belgium | 5.7 |
| Austria | 4.7 |
| Slovakia | 4.2 |
| France | 3.8 |
| Germany | 3.6 |
| N'Lands | 2.8 |
| Finland | 2.2 |
| EA 19 | 5.2 |

Source : Eurostat

**Figure 1**




(Source: Eurostat)

Ireland's debt burden as a share of Government revenue is among the highest in the Eurozone, just behind Portugal and broadly comparable with Italy. Surprisingly the burden in Ireland is higher than in Greece.

### Interest on Government Debt

Table 3 shows the implicit interest rate on Government debt for selected EU countries. While the rate in Ireland is projected to fall it is still significantly above that in other countries with the exceptions of Italy and the UK. It is worthy of note that Greece has a very low implicit interest rate on its debt.

**Table 3**

**Implicit Interest Rate on Government Debt**

| **Country** | **2015** | **2016** | **2017** |
|---|---|---|---|
| Ireland | 3.3 | 3.1 | 3.1 |
| Italy | 3.2 | 3.1 | 2.9 |
| UK * | 3.0 | 2.9 | 2.9 |
| Austria | 2.7 | 2.6 | 2.5 |
| France | 2.2 | 2.1 | 2.1 |
| Germany | 2.2 | 2.0 | 2.0 |
| N'Lands | 0.7 | 0.6 | 0.6 |
| Finland | 2.1 | 1.9 | 1.8 |
| Greece | 2.1 | 2.2 | 2.1 |
| Cyprus | 2.6 | 2.4 | 2.4 |
| Spain | 3.2 | 3.0 | 2.8 |
| Portugal | 3.9 | 3.6 | 3.5 |
| Estonia | 0.9 | 0.9 | 1.0 |
| Average | 2.5 | 2.3 | 2.3 |

Source: Stability Updates 2016 & EU Commission.

Notes: The Implicit interest rate if interest as a % of previous year's debt

* For UK year end is 31 March