

Chapter 2

Central Government

National Debt

National Debt

2.1 The Net National Debt of Ireland at redeemable par values amounted to €75.2 billion at 31 December 2009. This liability is reported after taking account of liquid assets. Figure 3 sets out the composition of the National Debt in gross and net values over the past three years.

Figure 3 National Debt of Ireland 2007 – 2009^a

Year	2007	2008	2009
	€m	€m	€m
Gross National Debt	42,047	72,457	96,968
Liquid Assets	(4,487)	(22,059)	(21,816)
Net National Debt	37,560	50,398	75,152

Note:

a The National Debt is stated at redeemable par values (nominal values). The net present value of the Net National Debt at the end of 2009 was €78.4 billion (€52.5 billion at the end of 2008). The present value of the debt reflects the total of all future cash flows (both interest and principal) discounted using the appropriate market rates at the end of the year.

2.2 The Net National Debt increased by €24.7 billion between 2008 and 2009 of which €24.6 billion was applied towards funding the Exchequer deficit for the year⁴.

General Government Debt

2.3 In addition to borrowings reported in the financial statements of the National Treasury Management Agency (the Agency), further debt liabilities arise on foot of other borrowing activity. The relationship between the Gross National Debt and the General Government Debt⁵ (GGD) is set out in Figure 4.

Figure 4 Gross Government Debt 2007 – 2009

Year	2007	2008	2009
	€m	€m	€m
Gross National Debt	42,047	72,457	96,968
Other Debt Liabilities ^a	5,363	7,402	7,700
General Government Debt	47,410	79,859	104,668

Note:

a Other debt liabilities are derived mainly from the preliminary return to the EU made in March 2010 under the single currency rules.

⁴ The remaining €0.1 billion mainly relates to the effects of issuing bonds at a discount to the nominal value and foreign exchange rate movements.

⁵ The General Government Debt is the standardised measure of indebtedness of EU governments taking account of all liabilities included in the National Debt, without any offsetting of liquid assets, together with the liabilities of non-commercial State agencies and local authorities. In addition, it includes the build-up of accrued interest on certain government borrowings, in particular on the Government Savings Schemes.

2.4 Other Debt Liabilities comprise a range of borrowings by State bodies and local government, related assets, as well as financial obligations of the State. They are summarised in Figure 5 for the past three years.

Figure 5 Other Debt Liabilities^a 2007 – 2009

Year End	2007	2008	2009
	€m	€m	€m
Non-commercial State Bodies (including Housing Finance Agency)	4,929	5,914	5,895
Intra Government Balances and Deposits	(2,840)	(3,116)	(2,084)
Post Office Bank Fund Deposits (excluding government bonds)	1,205	1,616	1,580
Local Government Debt (excluding debt due to central government)	564	613	754
Coinage	653	697	674
Accrued Interest on Savings Schemes	780	653	341
Westlink Buy-out	—	532	482
Adjustment to nominal value of debt ^a	23	489	55
Miscellaneous	49	4	3
Total	5,363	7,402	7,700

Source: Department of Finance and NTMA.

Note:

- a General Government Debt reported to the EU is stated at nominal values. Where certain debt, such as Commercial Paper, is issued at a discount to its nominal value the General Government Debt figures must be adjusted to the nominal value.

2.5 As a percentage of Gross Domestic Product (GDP)⁶ the General Government Debt (GGD) was 66% at the end of 2009. In addition to funding Exchequer deficits, the accumulation of liquid resources equivalent to 14% of GDP at 31 December 2009 contributed to the increase in debt over this period. The Agency continued to maintain the large liquidity buffer it built up in 2008 which amounted to €1.8 billion at the end of 2009 (€2 billion: 2008). These funds are placed mainly on deposit with the Central Bank.

⁶ The ratio of General Government Debt (GGD) to Gross Domestic Product (GDP) is a standard measure applied for the purposes of the single currency.

Borrowings by the Agency

2.6 Net borrowings⁷ by the Agency in 2009 amounted to €24.5 billion (€30.4 billion: 2008). These were raised mainly through the issue of medium/long-term debt by means of auction and syndication. The National Debt is composed of a variety of borrowing elements with differing maturity profiles. Figure 6 sets out the break down of the debt by its major component types.

Figure 6 Composition of the Gross National Debt (in nominal terms)

At End of	2008	2009	June 2010
	€m	€m	€m
Government Bonds – maturity more than one year	41,863	70,858	84,747
Other Medium/Long-Term Debt – maturity more than one year	483	670	900
Short-Term Debt – maturity less than one year	21,783	16,261	7,932
Borrowings from the Minister for Finance ^a	2,605	1,783	2,160
Government Savings Schemes – maturity of up to 5½ years	5,723	7,396	8,785
Gross National Debt	72,457	96,968	104,524

Note:

a The main element of this borrowing relates to the Post Office Savings Bank Fund.

2.7 Most of the medium and long-term debt is borrowed in the form of government bonds which have differing maturities, the longest of which at the end of 2009 was fifteen years. Figure 7 compares the maturity profile of government bonds at the end of 2008, 2009 and at the end of June 2010.

Figure 7 Maturity Profile of Government Bonds

Duration	2008	2009	June 2010
	€m	€m	€m
Under 5 years	15,931	25,687	26,849
5 to 10 years	11,857	29,296	32,009
Over 10 years	14,075	15,875	25,889
Total	41,863	70,858	84,747

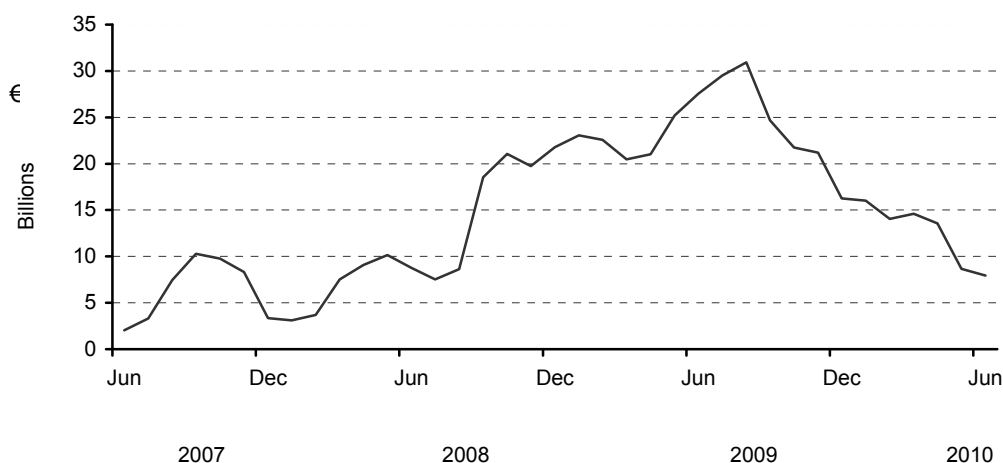
2.8 Short-term debt which is debt with a maturity of less than one year, is comprised mainly of borrowings under the Agency's European Commercial Paper Programme, as well as Treasury Bills and US Commercial Paper Programmes introduced in 2009. Figure 8 sets out the maturity profile of short-term debt.

⁷ Net borrowings represent the movement in the Gross National Debt.

Figure 8 Maturity Profile of Short-Term Debt

Duration	2008 €m	2009 €m	June 2010 €m
Less than one month	3,880	4,561	3,827
One to three months	5,518	8,628	2,548
Three to six months	5,803	2,913	716
Over six months	6,582	159	841
Total	21,783	16,261	7,932

2.9 Short-term borrowings had increased in the period since 2007 and had been mainly used to build up the liquidity buffer during 2008 and 2009. At the end of 2009 short-term debt accounted for 17% of the Gross National Debt compared with 30% at the end of 2008. This had dropped to 7.6% by mid-2010. By the end of 2009 borrowings raised through the issue of government bonds constituted part of the liquidity buffer of €1.8 billion. Figure 9 tracks the level of short-term funding included in the debt portfolio from mid-2007 to mid-2010.

Figure 9 Level of Short-Term Borrowings in the period 2007 to June 2010

Debt Service Costs

2.10 The debt service cost disclosed in the Agency's accounts for 2009 amounts to €3.2 billion (2008: €2.1 billion) when measured on a cash basis. However, this includes a transfer of €73 million (2008: €488 million) from current funds to a sinking fund to repay debt bringing the current servicing cost to €2.6 billion (2008: €1.6 billion).

2.11 Measurement of debt service costs on a cash basis masks the effect of servicing obligations which had accrued by year end but remained to be discharged. When the debt service cost is measured on an accruals basis⁸, the servicing cost for 2009 amounted to €3.2 billion (2008: €1.9

⁸ The accruals basis recognises the costs incurred rather than those paid and does not take account of sinking fund movements.

billion). The bond yield spreads⁹ on Irish debt compared to Germany, which had started to grow in recent times most significantly from September 2008 onwards, widened further in 2009. The increase of €1.3 billion in interest payable arises from a combination of the increase in borrowings in 2009 and from the increase in costs of issuing new debt. There was also an increase in fees on borrowings, which rose by €36 million due to an increase of €8 million in fees payable on saving schemes in line with the level of deposits in the schemes, and €28 million increase mainly relating to bond syndication fees due to the extra volume of issuance and higher fee rates.

Conclusion

The General Government Debt had increased to €104.7 billion at the end of 2009 with the Gross National Debt accounting for nearly €97 billion of that liability. When account is taken of €21.8 billion in liquid assets which was held as a liquidity buffer for the Exchequer, the Net National Debt amounted to €75.2 billion at 31 December 2009.

The increase of €24.5 billion in the Gross National Debt in 2009 was mainly due to the funding of the Exchequer deficit for 2009.

In the 18 months to June 2010 the structure of the debt, in terms of duration, has altered significantly. The proportion of the Gross National Debt made up of short-term borrowings had decreased from 30% at the end of 2008 to 7.6% at the end of June 2010.

Debt service costs when measured on an accruals basis increased by €1.3 billion in 2009 (or 68%).

⁹ Yield spread is the difference between the quoted rate of return on different investments.

