

2 Government Debt

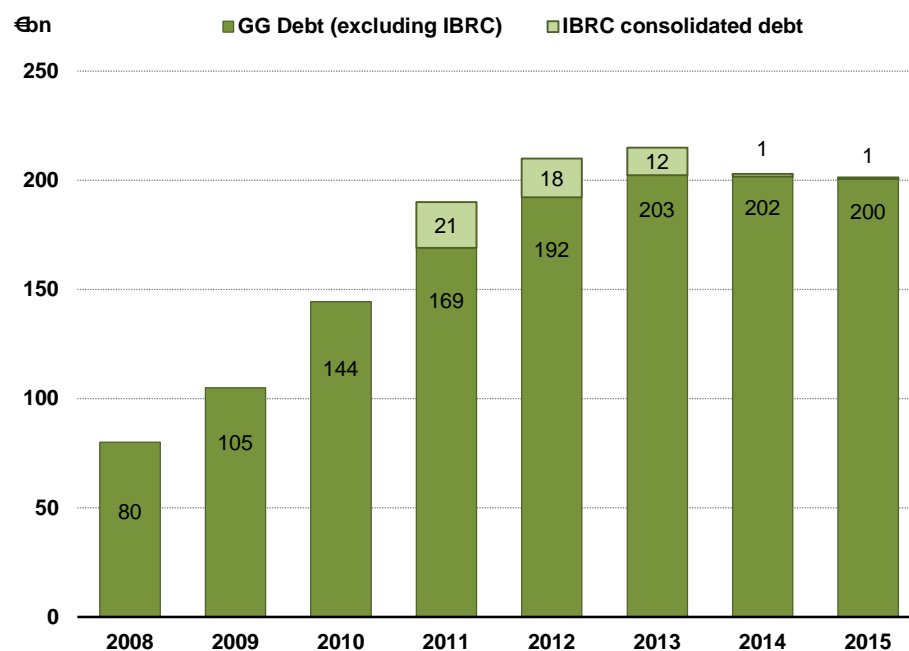
2.1 Revenues from taxation and other charges represent the primary source of State funding. However, the State has borrowed substantially to supplement its income from those sources. This report outlines the trend and composition of the government debt and the cost of debt service.

General Government Debt

2.2 The most comprehensive measure of government debt is general government debt (GGDebt), an internationally standardised measure of debt which all EU countries are legally obliged to use for their twice-yearly reporting of government deficit and debt under the Maastricht Treaty. The GGDebt is defined by EU regulations as the total gross debt at nominal value outstanding at year-end for the consolidated general government sector – that is, the total gross debt owed by all government bodies to third parties outside government.¹ Debt that one government body owes another does not count towards the GGDebt. In Ireland, the general government sector includes most public sector bodies, but not publicly owned banks, NAMA Investment Ltd., and those commercially-operated State companies which cover a majority of their operating costs through sales.²

2.3 Ireland's GGDebt at the end of 2015 is estimated at approximately €201 billion – a decrease of 1% year on year, as shown in Figure 2.1.

Figure 2.1 Trend in general government debt, 2008 to 2015^a



1 Specifically, GGDebt is defined as the consolidated liabilities of the general government sector in the following European System of Accounts (ESA2010) categories: currency and deposits; debt securities; and loans.

2 CSO Register of Public Sector Bodies can be viewed at <http://www.cso.ie/en/media/csoie/surveysandmethodologies/documents/pdfdocs/RegofPublicSectorBodiesinIreland2016April.pdf>.

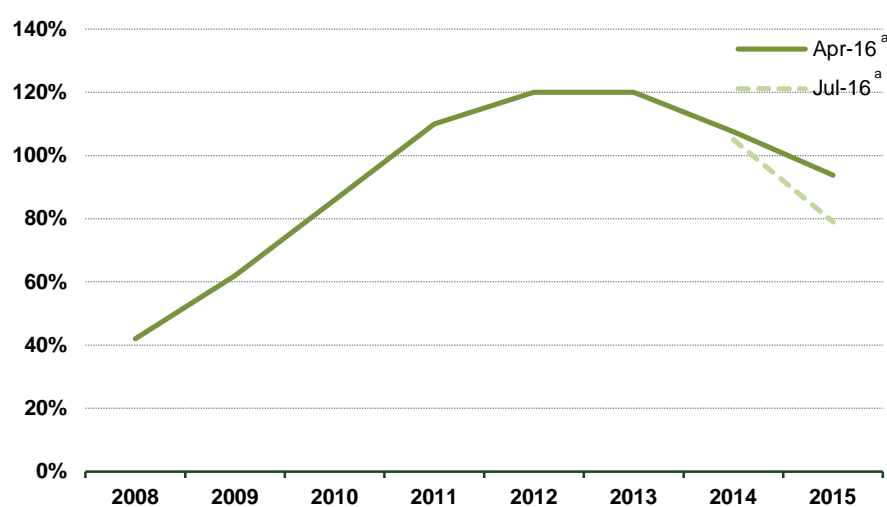
Source: Annex A, Figure A1

Note: a The GGDebt calculation is a statistical process. Consequently, amounts are subject to revision.

2.4 The ratio of GGDebt to gross domestic product (GDP) is a standard sustainability measure applied for the purposes of comparison across the EU. The GGDebt as a proportion of GDP rose from 42% in 2008 to a peak of 120% in 2012 and 2013.

2.5 In July 2016, the Central Statistics Office (CSO) published revised estimates of the 2015 GDP figures.¹ This indicated an exceptional increase in the estimated value of Ireland's GDP in 2015. As a result, the GGDebt ratio for end 2015 dropped to 79% as shown in Figure 2.2. The European Statistics Office (Eurostat) stated that the substantial upward revision to GDP for 2015 reflects the activities of a small number of large multinational firms and this is primarily due to the relocation to Ireland of a limited number of big economic operators.

Figure 2.2 GGDebt as a proportion of GDP, 2010 to 2015



Source: Annex A, Figure A2

Note: a Date of CSO publication.

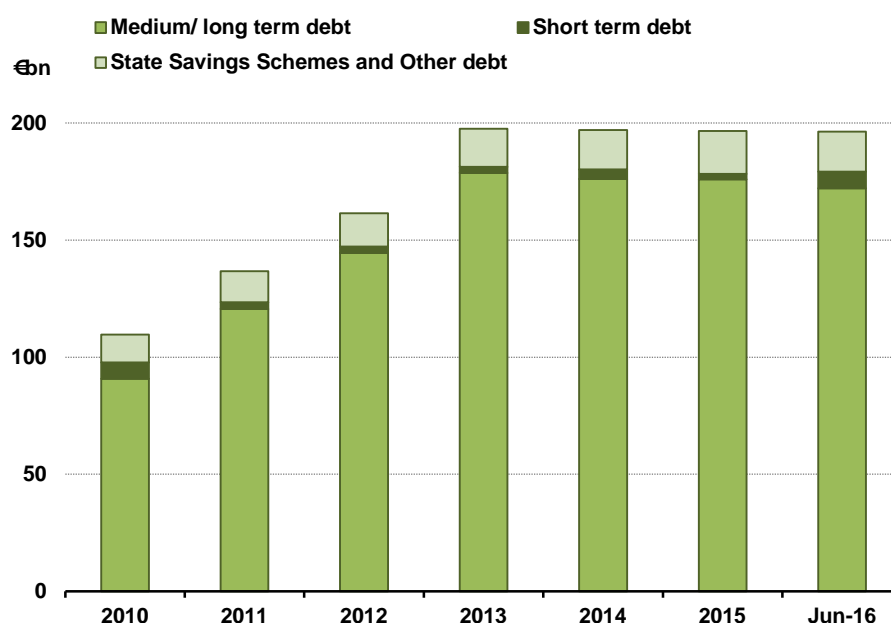
¹ CSO July 2016 publication 'Quarterly National Accounts Quarter 1 2016'.

2.6 The CSO is to form a group of experts to provide guidance on how a broader or more detailed suite of indicators could be produced and published alongside this data in the future.

Gross National Debt

- 2.7** The largest component of Ireland's GGDebt is the gross national debt. This is debt arising from Exchequer borrowings undertaken by the National Treasury Management Agency (the NTMA).
- 2.8** Gross national debt stood at €196.6 billion at the end of 2015, the second consecutive year of marginal decline (see Figure 2.3). By end-June 2016, gross national debt stood at €196.3 billion.¹

Figure 2.3 Gross national debt at redeemable par values, 2010 to 2015 (year-end) and at end-June 2016



Source: Annex A, Figure A3

Short-term debt

- 2.9** Short-term debt is debt with an original maturity of less than one year. It accounted for €2.3 billion of gross national debt at end-2015 compared with €4.1 billion at end 2014 (Annex A, Figure A6).² Short-term instruments are used to provide liquidity and flexibility in the timing of long-term funding operations.
- 2.10** The main forms of short-term borrowings are treasury bills, exchequer notes and the euro commercial paper programme. Three treasury bill auctions took place during 2015. Exchequer notes and euro commercial paper are sold through reverse enquiry.

¹ End-June 2016 figures are not audited.

² This excludes borrowing by the NTMA from other State funds e.g. overnight balances.

Medium and long term debt

- 2.11** Medium and long-term debt at end-2015 accounted for 90% (€176 billion) of the gross national debt. It comprised mainly borrowings in the form of government bonds, and loans received under the EU-IMF Programme of Financial Support for Ireland.

Fixed rate treasury bonds

- 2.12** Of the €125.1 billion in government bonds outstanding at end-2015, fixed rate treasury bonds accounted for €101.5 billion or 81%.
- 2.13** Included in the €13 billion¹ (nominal) of bond market funding raised by the NTMA during 2015 were the following significant transactions
- €4 billion raised in January from the syndicated sale of a new seven year benchmark bond, at a yield of 0.87%
 - €4 billion raised in February from the syndicated sale of the first 30-year benchmark bond, at a yield of 2.09%
 - six scheduled auctions were held for tranches of the 2022, 2030 and 2045 treasury bonds which raised a total of €5 billion – yields ranged from 2.22% in the June auction of the 2030 bond to 0.81% in the May auction of the 2022 bond.
- 2.14** In March 2016, the NTMA issued Ireland's first ever 100-year note selling €100 million of the note, at a yield of 2.35%.
- 2.15** The register of holders of Irish government bonds is maintained by the Central Bank of Ireland. Irish residents held 41% of government bonds at end-2015, down from 44% at end-2014.

Floating rate government bonds

- 2.16** During 2015, the NTMA bought back from the Central Bank and cancelled €2 billion of the 2038 and 2041 floating rate government bonds, reducing the aggregate balance outstanding across the entire floating rate bonds to €22.5 billion at end-2015, from the €25 billion originally issued in February 2013. Given the increase in market value of the bonds since issuance, the NTMA paid just under €2.8 billion to the Central Bank. Between March and July 2016, the NTMA bought back and cancelled a further €1.5 billion of the 2041 bond. The NTMA paid close to €2.1 billion to the Central Bank. The Central Bank distributes a percentage of profits back to the Exchequer and holds the remainder as reserves.²
- 2.17** On 20 November 2015, an EBS promissory note termination agreement was entered into between the Minister for Finance, the NTMA, EBS and AIB which provided for the redemption and subsequent cancellation of the EBS promissory note. The promissory note was redeemed from the EBS³ at its carrying value of €225 million on 17 December 2015 and subsequently cancelled.⁴

¹ This figure excludes funding raised in non-competitive auctions.

² SI No. 93 of 1943 Central Bank of Ireland (Surplus Income) Regulations provides that the Central Bank may retain up to a maximum of 20% of its profit each year.

³ EBS merged with AIB in July 2011.

⁴ See Chapter 17 for further details regarding the redemption of the promissory note.

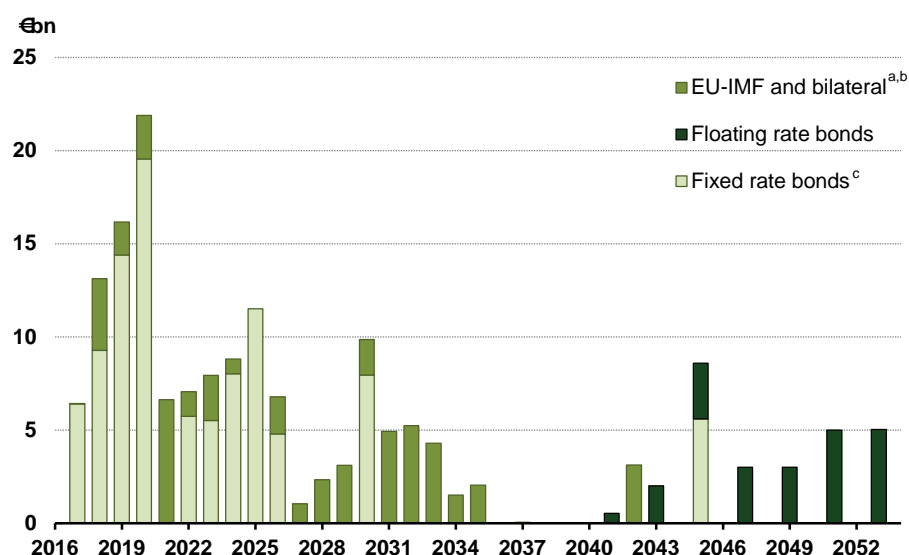
EU-IMF programme of financial support

- 2.18** Ireland's EU-IMF programme provided for loan funding from EU lending facilities and the IMF, and for bilateral loans from the UK, Sweden and Denmark. The outstanding EU-IMF programme loan balance totalled €49.7 billion at end-December 2015.
- 2.19** Ireland made early repayments, over the period December 2014 to March 2015 totalling just over €18 billion or 81% of the original €22.5 billion IMF loan facility granted under the EU – IMF Programme.¹ The repayment was of the more expensive portion of the IMF facility. The NTMA has estimated that the early repayments will generate interest savings in excess of €1.5 billion over the original life time of the loans. These repayments were made with the agreement of the IMF and no penalties or charges were incurred.
- 2.20** The terms of the EU-IMF funding have been amended several times since the first drawdowns were made to reduce interest margins on bilateral, European Financial Stability Facility (EFSF) and European Financial Stabilisation Mechanism (EFSM) loans and to extend maturities for loans granted by the EFSF and EFSM.

Maturity profile of debt

- 2.21** Figure 2.4 shows the maturity profile of government bonds and EU-IMF programme debt (totalling €171 billion) at end-June 2016. Almost 34% of outstanding debt at end-June 2016 is scheduled to mature in the period 2017 to 2020.

Figure 2.4 Maturity profile of government bonds and EU-IMF programme funding held at end-June 2016^a



Source: Annex A, Figure A4 and Figure A5

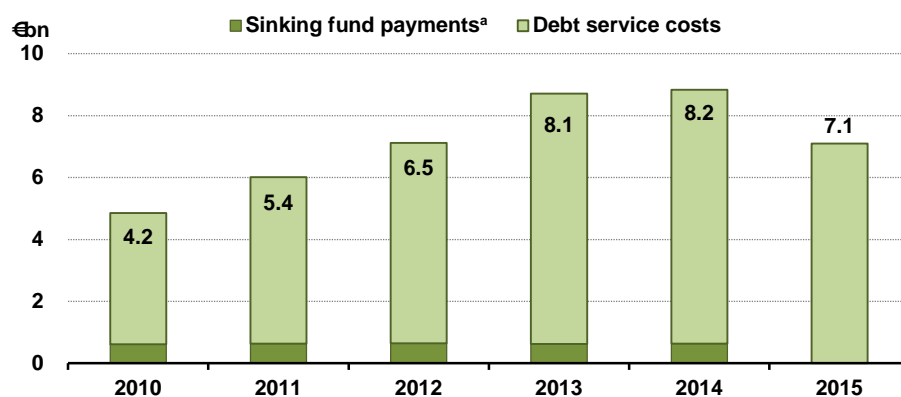
- Notes:
- a The EU-IMF programme balances are shown net of currency hedging transactions where relevant.
 - b Maturity extensions to EFSM loans were agreed in 2013 but the revised maturity dates will be determined as they approach their original maturity dates. The residual maturity reflects only the maturity extensions agreed to date. It is not expected Ireland will have to refinance any of these loans before 2027.
 - c Includes amortising bonds.

¹ These repayments discharge IMF principal repayment obligations that were originally to fall due from July 2015 to January 2021.

Debt service costs

- 2.22** The debt service cost disclosed in the NTMA's accounts for 2015 was just over €7.1 billion when measured on a cash basis, down 13% year on year (see Figure 2.5). This is net of €37 million interest and other income received and includes fees and expenses of €128 million.

Figure 2.5 Debt service costs and sinking fund payments, 2010 to 2015 (cash basis)



Source: National Treasury Management Agency

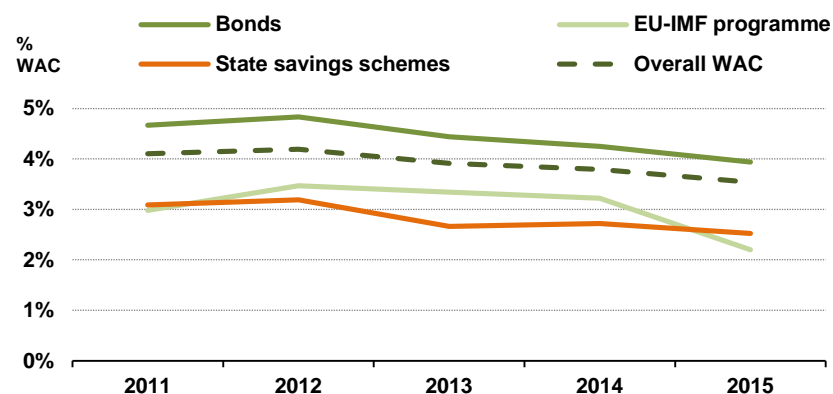
Note: a The sinking fund payment ceased from 2015 in accordance with section 99 of the Finance Act 2014. This was previously used to repay debt.

- 2.23** When the debt service cost is measured on an accruals basis, the servicing cost for 2015 was €6.9 billion.¹ The equivalent cost for 2014 was €7.6 billion – 9% decrease year on year.

Average cost of borrowing

- 2.24** At end-2015, the overall weighted average cost of servicing the gross national debt was estimated at 3.5% (end-2014: 3.8%), as shown in Figure 2.6. The NTMA estimates the overall weighted average cost of servicing the gross national debt at 3.4% at end-June 2016. At end-June 2016, around 92.5% of gross national debt was at fixed rates, including debt where hedging had been undertaken.² The balance of the debt was at floating interest rates.

Figure 2.6 Weighted average cost (WAC) of borrowing 2011 to 2015



¹ The accruals basis recognises the debt service costs incurred in the year, rather than those paid and excludes sinking fund movements up to 2014.

² Fixed rate debt also includes EFSF loans disbursed as part of the EFSF's pooled funding mechanism. The cost of these EFSF pooled loans is related to the EFSF's cost of funds in managing the pool and can change from time to time.

Source: National Treasury Management Agency

Cash and other financial assets

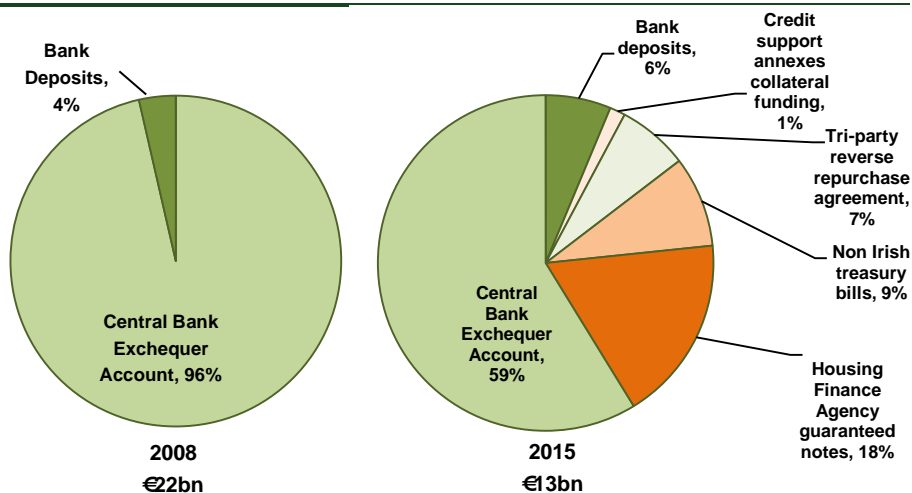
2.25 The NTMA defines the 'net national debt' as gross national debt incurred by the Exchequer, less cash balances and other financial assets held.

Composition of financial assets

2.26 The NTMA has held significant balances of cash and other financial assets over the past number of years. At end-2015, a total of €13.6 billion (2014: €14.8 billion) was held. This had decreased by 15% to €11.5 billion at end-June 2016.

2.27 The composition of the Exchequer's cash balances and financial assets has changed significantly in recent years. Prior to the financial crisis, almost all were held in the form of deposits at the Central Bank (see Figure 2.7). At end-2015, 59% of overall cash and financial assets was held in the Central Bank. This represented an increase of 95% when compared to end-2014.

Figure 2.7 Cash and other financial assets, 2008 and 2015



Source: Annex A, Figure A7

1 This is the net of collateral posted of €986 million and collateral received from NAMA (€256 million), IBRC (€36 million) and other counterparties (€491 million).

2 In order to manage counterparty credit risk, the NTMA receives collateral such as Government bonds for cash placed on deposit.

3 A reverse repurchase agreement is where one party buys an asset from another party and commits to sell the asset back to the second party at a future date.

4 This applies to government deposits exceeding the higher of either €200 million or 0.04% of gross domestic product.

2.28 Around 80% (€10.9 billion) in cash and other financial assets held at end-2015 was available to the State immediately or at short notice. The remainder is not readily realisable. It comprises

- Housing Finance Agency (HFA) guaranteed notes of €2.4 billion
- €0.2 billion deposited with derivative counterparties as collateral under credit support agreements.¹

2.29 Since 2012, the NTMA has invested available cash balances in short-term bank deposits (including collateralised deposits,² tri-party reverse repurchase agreements³ and in non-Irish Treasury Bills). These investments earn a higher rate of return than cash held at the Central Bank but may also carry a higher risk.

2.30 In June 2014, following a decision of the European Central Bank, all Government deposits held in the Central Bank are remunerated at zero per cent or at the deposit facility rate, whichever is lower.⁴ The deposit rate was reduced to minus 0.2% from September 2014 until December 2015 when it reduced further to minus 0.3%. In March 2016, it was reduced further to minus 0.4%.

Post Office Savings Bank Fund surplus

- 2.31** Under guidelines issued by the Minister for Finance to the NTMA, the accumulated surplus of the Post Office Savings Bank (POSB) Fund (the Fund) must be kept above €5 million. The accumulated surplus does not form part of the financial assets of the Exchequer. However, under section 19 of the Finance Act 1930, an accumulated surplus of the Fund can be appropriated to the Exchequer, once appropriate provision has been made for depreciation in the value of the Fund's assets available to meet the liabilities to the depositors.
- 2.32** In the period 2000 to 2011, the Fund's accumulated surplus ranged in value between €7 million and €13 million. Over the period 2012 to 2014, the surplus increased significantly, rising to €67 million in 2012, €96 million in 2013 and €190 million in 2014. The POSB had an accumulated surplus at 31 December 2015 of €165 million, a decrease of around 13% on the prior year. This decrease reflects a decline in investment income due to both a reduction in bond holdings and bond yields.
- 2.33** Currently, the NTMA does not plan to transfer any of the surplus to the Exchequer.

Annex A

Figure A1 Composition of General Government Debt at year-end, 2010 to 2015^a

	2010	2011	2012	2013	2014	2015
	€m	€m	€m	€m	€m	€m
Central Government – Exchequer						
Gross national debt	109,609	136,774	161,482	197,547	197,069	196,618
Less liabilities to other central government bodies, local authorities and ETBs	(2,472)	(2,635)	(2,330)	(2,346)	(2,551)	(3,362)
Adjustment for nominal value of debt ^b	72	4	6	4	2	8
European Financial Stability Fund prepaid margin	–	530	530	530	530	530
Liability for coinage in circulation	673	694	670	675	693	701
Accrual adjustment ^c	368	464	548	604	599	504
Other adjustments ^d	(10)	153	1440	996	1,042	808
National loans advance interest	64	12	12	5	49	24
Promissory notes	30,850	28,333	25,261	215	201	–
Exchequer contribution	139,154	164,329	187,619	198,230	197,634	195,830
Other Central Government						
IBRC consolidated debt	–	20,927	17,797	12,660	1,237	735
Post Office Savings Bank Fund deposits	2,328	2,506	2,774	2,646	2,672	2,747
Other State bodies ^e	545	535	456	381	519	1,088
Westlink buy-out	460	410	360	310	260	221
Other central government contribution	3,332	24,377	21,387	15,997	4,688	4,792
Housing Finance Agency						
Gross debt	4,512	4,414	4,501	4,423	4,209	3,609
Less liabilities to central government bodies and local authorities	(3,833)	(4,030)	(4,106)	(3,997)	(3,796)	(3,389)
Housing Finance Agency contribution	679	384	394	427	413	221
Local Government						
Gross debt	5,617	5,054	5,106	4,920	4,984	4,150
Less liabilities to Housing Finance Agency and other central government bodies	(4,556)	(4,437)	(4,521)	(4,276)	(4,424)	(3,727)
Local government contribution	1,062	617	585	644	560	423
Total^f	144,227	189,707	209,986	215,298	203,296	201,266

Source: Central Statistics Office

- Notes:
- a Information for the years 2010 to 2015 sourced from the CSO April 2016 publication 'Government Finance Statistics Annual results'.
 - b GGDebt reported to the EU is stated at nominal values. Certain debt, such as commercial paper, is issued at a discount to its nominal value, but the nominal value is reported for GGDebt purposes.
 - c Savings Bonds, Savings Certificates and Instalment Savings interest.
 - d Repurchase agreements, collateral and OPW contracts.
 - e Includes voluntary hospitals, HSE, National Oil Reserve Agency.
 - f This excludes other exchequer liabilities including commitments in respect of public private partnership contracts in place at year-end and accrued pension entitlements.

Figure A2 GGDebt as a proportion of GDP, 2010 to 2015^a

Ratio	2008	2009	2010	2011	2012	2013	2014	2015
	€m	€m	€m	€m	€m	€m	€m	€m
GGDebt	79,604	104,667	144,227	189,707	209,986	215,298	203,295	201,266
GDP	187,687	169,704	167,124	173,070	175,754	180,209	193,160	255,815
GGDebt:GDP	42%	62%	86%	110%	120%	120%	105%	79%

Source: Central Statistics Office

Note: a Information for the years 2010 to 2015 sourced from the CSO July 2016 publication 'Quarterly National Accounts Quarter 1 2016'.

Figure A3 Cumulative borrowing at redeemable par values, at year-end 2010 to 2015 and end- June 2016^a

	2010	2011	2012	2013	2014	2015	End June 2016
	€m	€m	€m	€m	€m	€m	€m
Medium/long-term debt^b							
Government bonds	90,102	85,310	87,853	111,007	116,339	125,086	120,916
EU-IMF programme funding ^c	–	34,629	55,898	66,942	58,793	49,747	49,765
Other medium/long-term	673	673	772	772	927	1,168	1,468
Short-term debt^d							
Short-term debt	6,972	2,920	2,690	2,645	4,102	2,347	5,035
Other debt							
Borrowings from other State funds ^e	1,524	1,696	786	676	523	1,579	2,087
Government savings schemes ^f	10,338	11,546	13,483	15,506	16,384	16,692	17,077
Gross national debt	109,609	136,774	161,482	197,548	197,068	196,619	196,348

Source: National Treasury Management Agency

Notes: a End-June 2016 figures have not been audited.

b Original maturities of more than one year.

c The balances are stated net of currency hedging transactions.

d Original maturities of one year or less.

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

f Maturities up to ten years.

Figure A4 EU-IMF programme of financial support for Ireland, December 2015 and end-June 2016^a

Lender	December 2015		End-June 2016	
	€m	Residual maturity (years) ^b	€m	Residual maturity (years) ^b
IMF	4,348	6.0	4,354	5.5
EFSF ^c	17,881	17.1	17,881	16.6
EFSM ^d	22,500	11.1	22,500	10.6
Bilateral loans ^e	5,018	4.4	5,030	3.7
Total	49,747		49,765	

Source: National Treasury Management Agency

- Notes:
- a The liability outstanding at end-June 2016 differs from the drawdown amount due to repayments, the effects of hedging instruments to hedge currency risk, exchange rate movements and adjustment for below par issuance. The balances are stated net of currency hedging transactions.
 - b Weighted average term to maturity.
 - c The EFSF figures are shown net of a prepaid margin of €530 million. Following the rebate in July 2016 of the pre-paid margin deducted from the EFSF drawdown of February 2011, the total aggregate liability increased to €50.3 billion.
 - d Maturity extensions to EFSM loans were agreed in 2013 but the revised maturity dates will be determined as they approach their original maturity dates. The residual maturity reflects only the maturity extensions agreed to date. It is not expected Ireland will have to refinance any of these loans before 2027.
 - e The bilateral loans are with the United Kingdom, Denmark and Sweden.

Figure A5 Maturity profile of government bonds, at year-end 2010 to 2015 and end-June 2016^a

	Under 5 years	5 to 10 years	Over 10 years	Total
	€m	€m	€m	€m
2010	28,298	53,520	8,284	90,102
2011	33,670	43,356	8,284	85,310
2012	30,548	44,733	12,572	87,853
2013	32,490	40,656	37,861	111,007
2014	40,659	34,653	41,027	116,339
2015	58,314	30,450	36,322	125,086
End-June 2016 ^b	49,642	30,817	40,457	120,916

Source: National Treasury Management Agency

- Notes:
- a End-June 2016 figures have not been audited.
 - b Maturity refers to the position at the end of the calendar year.

Figure A6 Maturity profile of short-term paper, at year-end 2010 to 2015 and end-June 2016^a

	Less than one month	One to three months	Three to six months	Over six months	Total
	€m	€m	€m	€m	€m
2010	2,186	3,286	1,392	108	6,972
2011	2,796	106	18	–	2,920
2012	1,147	1,417	93	33	2,690
2013	445	747	1,428	25	2,645
2014	1,114	1,554	1,074	360	4,102
2015	1,300	429	134	484	2,347
End-June 2016	2,307	1,650	1,069	10	5,036

Source: National Treasury Management Agency

Note: a End-June 2016 figures have not been audited.

Figure A7 Cash and other financial assets, at year-end 2010 to 2015 and end-June 2016^a

	2008	2009	2010	2011	2012	2013	2014	2015	End-June 2016
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Exchequer account	21,269	21,026	11,399	13,099	15,280	4,432	4,089	7,964	8,018
Capital services redemption account	–	–	600	–	–	–	–	–	7
Housing Finance Agency guaranteed notes	–	–	3,585	3,848	3,982	3,704	3,145	2,424	2,312
Bank deposits	790	790	580	30	2,680	3,679	2,984	853	403
Collateralised deposits	–	–	–	–	339	7,389	–	–	–
Non Irish treasury bills	–	–	–	–	1,046	3,041	1,474	1,184	50
Credit support agreements collateral funding	–	–	–	715	523	1,356	511	203	679
Tri-party reverse repurchase agreements	–	–	–	–	–	–	2,556	925	–
Total cash and financial assets	22,059	21,816	16,164	17,692	23,850	23,601	14,759	13,553	11,469

Source: National Treasury Management Agency

Note: a End-June 2016 figures have not been audited.