

Chapter 2

National Debt

Central Government

National Debt

2.1 The net borrowing by the State at redeemable par values amounted to €3.4 billion at 31 December 2010. This liability is reported after taking account of related assets. Figure 6 sets out the gross and net borrowing levels over the past four years.

Figure 6 Net National Debt 2007 – 2010

	2007	2008	2009	2010
	€m	€m	€m	€m
Gross National Debt	42,047	72,457	96,968	109,609
Related Assets	(4,487)	(22,059)	(21,816)	(16,164)
Net National Debt	37,560	50,398	75,152	93,445

2.2 While €2.6 billion of the related assets was available to the State immediately or at short notice, €3.6 billion of Housing Finance Agency Commercial Paper cannot be readily realised. The National Treasury Management Agency (the NTMA) continued to purchase this Commercial Paper throughout the first half of 2011 due to the nature of that agency's funding needs.

2.3 The composition of related assets at 31 December 2010 is set out in Figure 7.

Figure 7 Related Assets 2007 – 2010

	2007	2008	2009	2010
	€m	€m	€m	€m
Capital Services Redemption Account	–	–	–	(600)
Housing Finance Agency Commercial Paper	–	–	–	(3,585)
Bank Deposits	(490)	(790)	(790)	(580)
Exchequer Account	(3,997)	(21,269)	(21,026)	(11,399)
Related Assets	(4,487)	(22,059)	(21,816)	(16,164)

2.4 The Exchequer balance fell from €21 billion at the end of 2009 to €1.4 billion at 31 December 2010, a drop of €19.6 billion which was accounted for by

- the purchase of €3.6 billion of Commercial Paper from the Housing Finance Agency (HFA)
- the transfer of €0.6 billion to the Capital Services Redemption Account
- the application of €5.6 billion towards funding the State deficit of €18.15 billion⁸ offset by the liquidation of €0.2 billion in commercial deposits.

The balance of the State deficit was financed out of borrowing.

⁸ The gross deficit was €18.75 billion but €600 million of this was accounted for by a transfer to the Capital Services Redemption Account which is held in that account at 31 December 2010.

New Debt Instruments

2.5 As part of the process of bank capitalisation the State has also issued Promissory Notes. The net effect of this measure is to create State debt. The value of notes that had been issued at 31 December 2010 was €30.85 billion. In combination with direct State borrowing by the NTMA, the issue of Promissory Notes brought the overall gross central government debt to €140.46 billion before taking account of the other debt liabilities outlined in Figure 12.

2.6 The State does not have an immediate outlay of cash when it issues Promissory Notes. Interest is accrued annually on the Promissory Notes and is added to the outstanding balances at the end of March each year. Under the terms of the Promissory Notes, payments equal to 10% of the amounts outstanding at 31 December 2010 (€30.85 billion) are made annually on set dates⁹, starting in 2011. The annual payments will continue until the principal amounts and all of the accrued interest have been paid.

Profile of National Debt

2.7 Net borrowings¹⁰ by the NTMA in 2010 amounted to €12.5 billion (€24.5 billion: 2009). These were raised mainly through the issue of medium or long-term debt by means of auction and syndication. The cumulative borrowing is composed of a variety of elements with differing maturity profiles. Figure 8 sets out the breakdown of the debt by its major components.

Figure 8 Cumulative Borrowing at Redeemable Par Values

	2008	2009	2010
	€m	€m	€m
Government Bonds – maturity more than one year	41,863	70,858	90,102
Other Medium/Long-Term Debt – maturity more than one year	483	670	673
Short-Term Debt – maturity less than one year	21,783	16,261	6,972
Borrowings from other State Funds ^a	2,605	1,783	1,524
Government Savings Schemes – maturity of up to 5½ years	5,723	7,396	10,338
Gross National Debt	72,457	96,968	109,609

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

2.8 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 2010 was fifteen years. Figure 9 compares the maturity profile of government bonds at the end of 2008, 2009 and 2010.

⁹ The vast bulk of these are made in March each year.

¹⁰ The net borrowing, in this context, is the movement in the Gross National Debt.

Figure 9 Maturity Profile of Government Bonds

Duration	2008	2009	2010
	€m	€m	€m
Under 5 years	15,931	25,687	28,298
5 to 10 years	11,857	29,296	53,520
Over 10 years	14,075	15,875	8,284
Total	41,863	70,858	90,102

2.9 Short-term debt which is debt with a maturity of less than one year, is comprised mainly of borrowings using Treasury Bills, the NTMA's Euro Commercial Paper Programme and Exchequer Notes. At the end of 2009, the NTMA held around €4 billion in US Commercial Paper. By the end of 2010, the amount held had fallen to around €50 million. Figure 10 sets out the maturity profile of short-term debt.

Figure 10 Maturity Profile of Short-Term Debt

Duration	2008	2009	2010
	€m	€m	€m
Less than one month	3,880	4,561	2,186
One to three months	5,518	8,628	3,286
Three to six months	5,803	2,913	1,392
Over six months	6,582	159	108
Total	21,783	16,261	6,972

Debt Service Costs

2.10 The debt service cost disclosed in the NTMA's accounts for 2010 is €4.2 billion (2009: €3.2 billion) when measured on a cash basis. However, when account is taken of a transfer of €17 million (2009: €73 million) from current funds to a sinking fund¹¹ the current servicing outlay was €3.6 billion (2009: €2.6 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 basis¹², the servicing cost for 2010 was €4.2 billion (2009: €3.2 billion).

2.12 The gross national debt rose by 160% between the end of 2007 and the end of 2010. The cost of servicing the debt, when measured on an accruals basis, rose by approximately the same percentage.

Market Value of Debt

2.13 The net present value of the National Debt at the end of 2010 was €80 billion (€78.4 billion at the end of 2009). The present value of the debt reflects the total of all future cash flows (both interest and principal) discounted using the market rates at the end of the year.

¹¹ This sinking fund is used to repay debt.

¹² The accruals basis recognises the costs incurred rather than those paid and does not take account of sinking fund movements.

General Government Debt

2.14 In addition to central government debt which comprised of borrowings reported in the financial statements of the NTMA and Promissory Notes issued by the State, further debt liabilities arise on foot of other public borrowing and funding activities. Taking account of these additional elements the overall public debt is €148 billion as set out in Figure 11.

Figure 11 General Government Debt 2007 – 2010

	2007	2008	2009	2010
	€m	€m	€m	€m
Gross National Debt	42,047	72,457	96,968	109,609
Promissory Notes	–	–	–	30,850
Other Debt Liabilities ^a	5,350	7,380	7,815	7,615
General Government Debt	47,397	79,837	104,783	148,074

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

2.15 Other debt liabilities comprise a range of borrowings by State bodies and local government, related assets, as well as financial obligations of the State. The extent of those borrowings and obligations at the end of the last four years is summarised in Figure 12.

Figure 12 Other Debt Liabilities 2007 – 2010

	2007	2008	2009	2010
	€m	€m	€m	€m
Non-commercial State Bodies (including voluntary hospitals and HSE)	605	943	875	865
Housing Finance Agency	4,319	4,957	4,932	4,511
Intra Government Balances and Deposits	(2,840)	(3,116)	(2,084)	(1,654)
Post Office Bank Fund Deposits (excluding government bonds)	1,205	1,616	1,580	1,489
Local Government Debt (excluding debt due to central government)	550	599	825	791
Coinage	653	697	674	673
Accrued Interest on Savings Schemes	780	653	346	368
Westlink Buy-Out	–	534	482	433
Adjustment to Nominal Value of Debt ^a	23	489	55	72
National Loans Advance Interest	5	5	127	64
Miscellaneous	50	3	3	3
Total^b	5,350	7,380	7,815	7,615

Source: Department of Finance

Notes: 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.

b In addition, the State had future commitments of €4.3 billion in respect of Public Private Partnership contracts in place at end of 2010.

2.16 As a percentage of Gross Domestic Product (GDP)¹³ the General Government Debt was 95% at the end of 2010. This is stated without taking account of related financial assets equivalent to 10.4% of GDP at 31 December 2010¹⁴.

Conclusion

Overall, public borrowing increased to €148.1 billion at the end of 2010 with the Gross National Debt accounting for €109.6 billion of that liability. The balance is made up of Promissory Notes issued in connection with bank stabilisation (€30.9 billion) and other miscellaneous public borrowing of €7.6 billion. When account is taken of €6.2 billion in related assets the net public debt amounted to €131.9 billion at 31 December 2010.

The market value of Irish National Debt, on a net present value basis, was around €80 billion at 31 December 2010.

Debt service costs when measured on an accruals basis increased by €1 billion (or 31%) in 2010 principally due to the increase in the amount of the debt.

The State funding developments after 31 December 2010 are outlined in Chapter 3.

¹³ The ratio of General Government Debt to Gross Domestic Product (GDP) is a standard measure applied for purposes of comparison within the Eurozone.

¹⁴ The NTMA continued to maintain the advance funding it built up from 2008 onwards but it reduced to €11.4 billion by the end of 2010.

