An Roinn Airgeadais
Department of Finance

ANNUAL REPORT ON PUBLIC DEBT IN IRELAND 2022 - Summary

February 2023

Prepared by the Economics Division
Department of Finance
finance.gov.ie

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SUMMARY[1]

> Public debt stood at an estimated €226 billion at the end of last year. Immediately before the pandemic, outstanding public sector liabilities were €203 billion (**figure 1a**).

> Last year's amount equates to 86 per cent of GNI*, 10 percentage points lower than pre-pandemic levels (**figure 1b**).

> Despite the downward trajectory of the debt-income ratio, war in Ukraine (and the associated energy price shock), the tightening on monetary policy and a slowdown in major trading partners are weighing on economic activity, with implications for the public finances (**figure 2**).

> Long-term structural changes, such as the fiscal impact of shifting demographics and climate change, also pose challenges for the public finances.

> The structure of Irish public debt insulates the public finances from the changing interest rate environment in the short-term. Approximately three-quarters of gross national debt is currently at rates below 2 per cent (**figure 3a**), while maturities remain relatively elongated, with the weighted average maturity of medium-and long-term stood at over 10 years (**figure 3b**).

> Nevertheless, the need to re-finance maturing debt over the medium-term will likely result in larger debt servicing costs; this is because newly issued debt will likely carry a higher coupon than that on maturing debt.

> Analysis set out in the report suggests the public finances are vulnerable to a shock to corporation tax receipts, particularly when combined with an underlying shock to domestic activity which might precipitate a fall in CT revenues (**figures 4a** and **4b**).

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[1] The data and analysis set out in this document are compiled by Department of Finance staff. Every effort is made to ensure accuracy and completeness. If errors are discovered, corrections and revisions are incorporated into the digital edition available on the Department's website. Any substantive change is detailed in the online version. Data presented are as of start of January 2023. Baseline scenario refers to the medium-term projections set out by the Department in its autumn 2022 forecasts. The better than expected end-of-year fiscal position is assumed to increase the State's financial assets and therefore reduce the net debt levels relative to the Budget 2023 projections.

Government debt – SWOT analysis

Strengths

- Maturity profile- long average life of debt
- Low interest burden despite shift in interest rate environment – effective interest rate around 1.5%
- Limited debt maturities in coming years
- Vast bulk of debt at fixed rates
- Strong credit rating
- Overall growth outlook remains strong

Weaknesses

- Certain debt metrics remain elevated
- Corporation tax concentration related risks
- Risk of over-heating/constraints in some sectors
- Age-related spending pressures to increase
- Climate-related costs to increase

Opportunities

- Strong growth potential
- Current favourable demographics
- Windfall Corporation tax receipts present opportunity to rebuild fiscal buffers (including National Reserve Fund)

Threats

- Elevated levels of uncertainty
- Permanent shift in interest rate environment
- Prolonged periods of high inflation and increased borrowing costs
- Tightening monetary policy and/or financial market correction raise market pressures on high-debt euro area member states
- Requirement to provide humanitarian aid related to Ukrainian crisis over prolonged period
- Future ageing and climate costs

Source: Department of Finance

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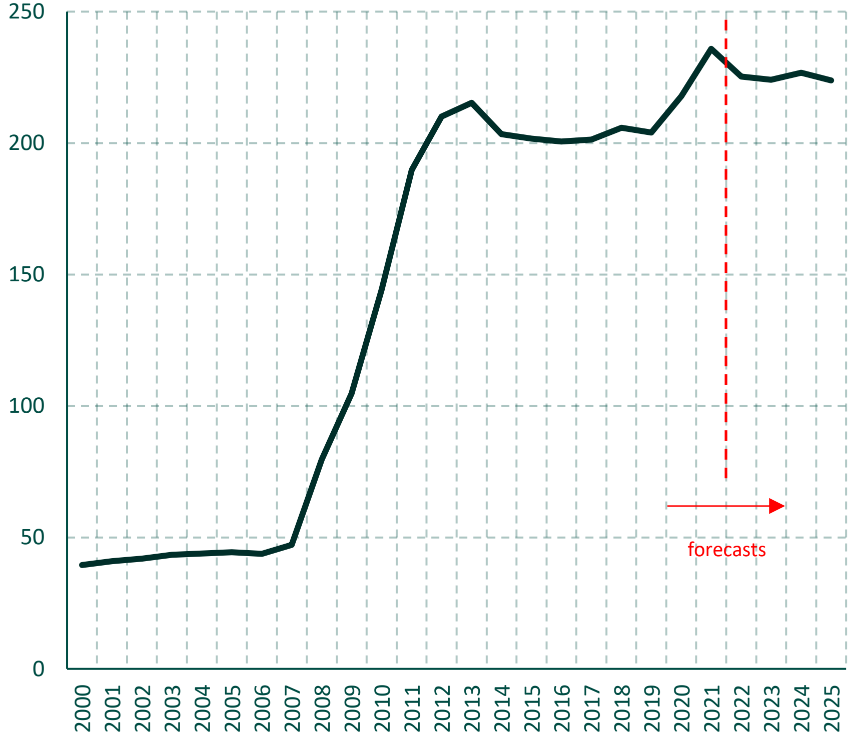
Table 1: public debt – baseline scenario	2019	2020	2021	2022	2023	2024	2025
Gross nominal debt, € bn	203.4	217.7	236.1	225.6	224.4	227.0	224.1
Gross debt-to-GNI*, per cent	96.5	108.9	100.9	86.4	81.6	78.3	73.3
Per capita, €^	41,300	43,750	47,100	44, 250	43,100	43,050	42,000
Financial assets, per cent GNI*	13.9	16.1	18.7	15.1	14.2	16.4	17.0
Net nominal debt, € bn	174.0	185.5	192.3	186.2	185.3	179.3	172.3
Net debt-to-GNI*, per cent	82.6	92.8	82.2	71.3	67.4	61.9	56.4

^ rounded to closest €50.
Baseline scenario refers to the medium-term projections set out by the Department in its autumn 2022 forecasts. The better than expected end-of-year fiscal position is assumed to increase the State's financial assets and therefore reduce the net debt levels vs the Budget 2023 projections.
Source: CSO and Department of Finance.

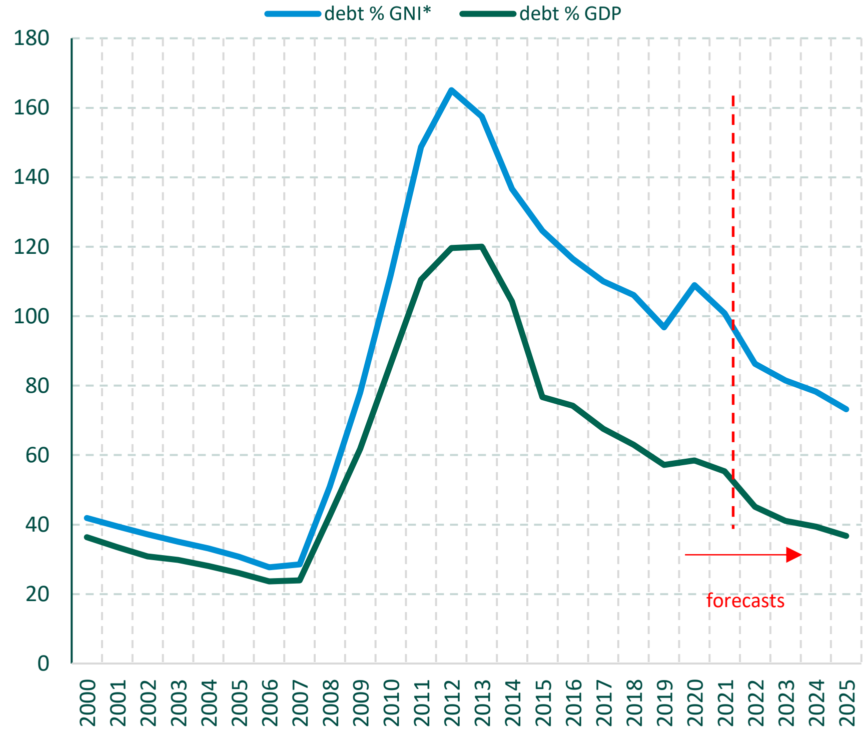
Figure 1: public debt over a quarter of a century

A: pandemic-related expenditure, € billions



Source: CSO and Department of Finance

B: debt as share of national income, per cent



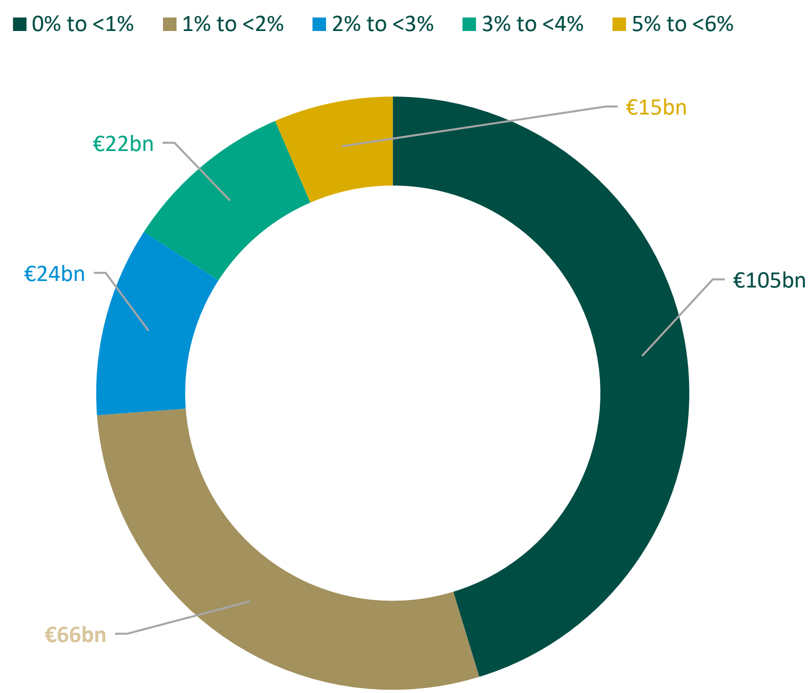
Source: CSO and Department of Finance

Figure 2: impact of inflation on the public finances

Source: Department of Finance illustration.

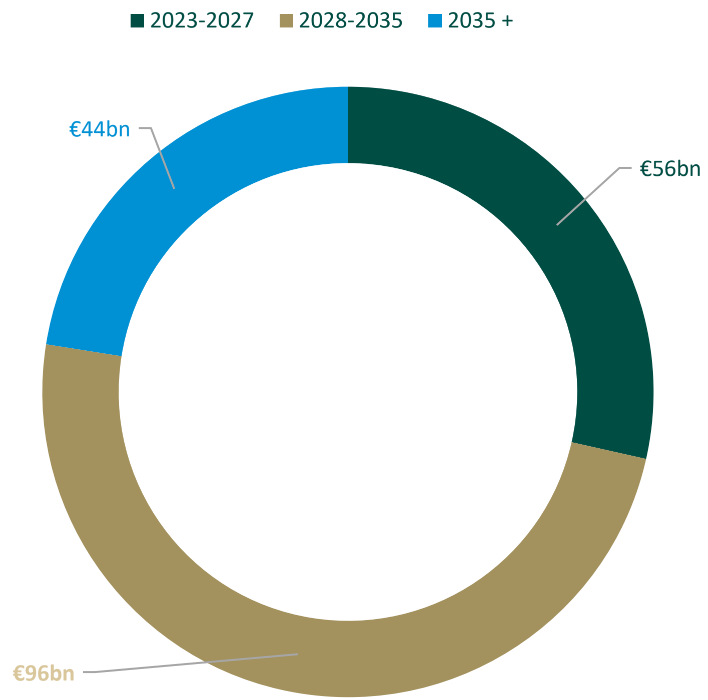
Figure 3: structural aspects of debt

A: gross national debt by interest rate at end-December 2022



Source: NTMA

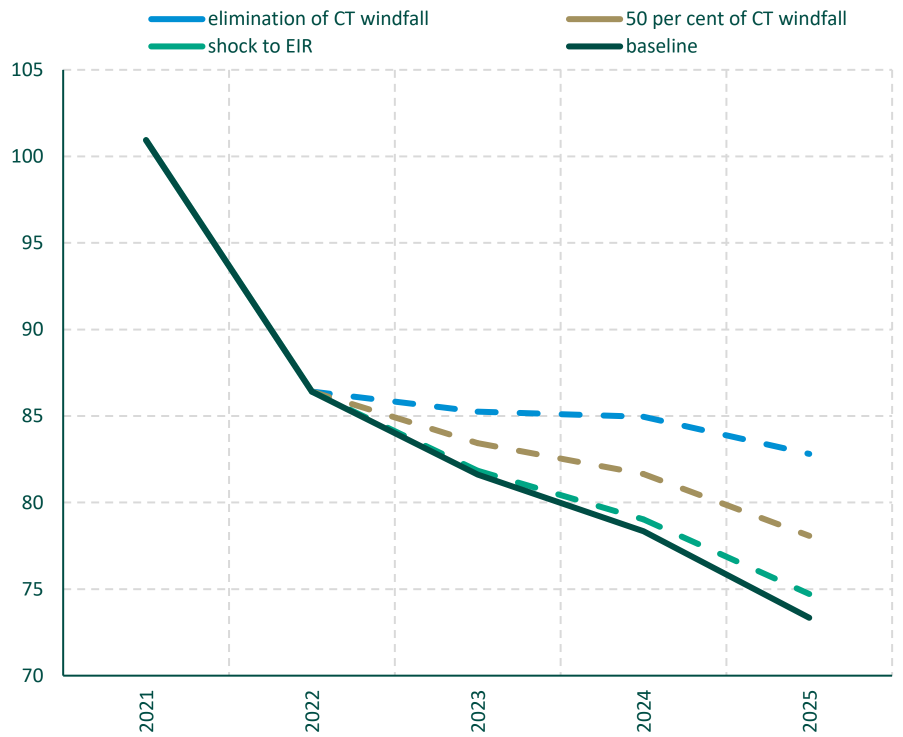
B: maturity profile of medium and long-term debt



Source: NTMA

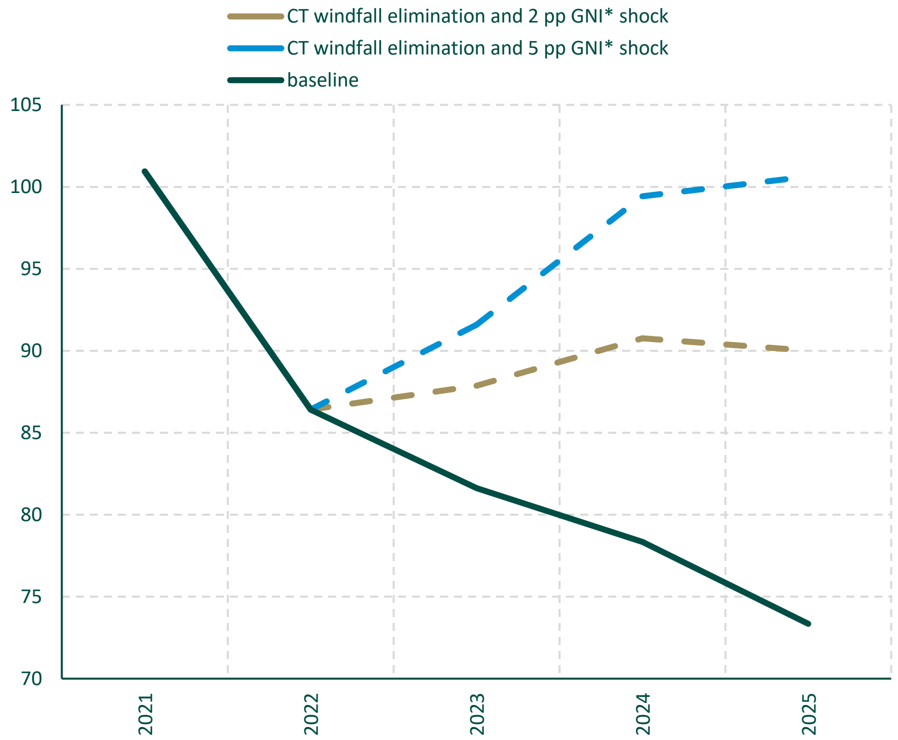
Figure 4: scenario analysis for debt-income ratio, per cent of GNI*

A: shock to effective interest rate and CT receipts



Source: Department of Finance calculations.

B: combined CT and output shock



Source: Department of Finance calculations.

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