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 is significantly below expectations.

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 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.

Table 1. Debt Developments

	2013	2014	2015	2016	2017	2018
General Government Debt %GDP	123.7	109.7	105.0	100.3	97.8	93.6
Total Interest €bn.	7.6	7.5	6.9	6.8	6.9	7.0
%GDP	4.7	4.0	3.5	3.2	3.2	3.1
% General government revenue	13	12	10	10	9	9
Average Interest Rate %	4.0	3.7	3.3	3.2	3.2	3.3

(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 10% of general government revenues in 2015. In 1985, 22% of tax revenues were allocated to servicing the debt. This is despite the fact that in 2015 projected debt levels of 105% of GDP are substantially above those of 94% in 1985.

The fall in projected interest costs has been dramatic.

Table 2. Interest Developments (€ millions)

	2014	2015	2016	2017	2018
Stability Update 2014	7965	8450	8835	9250	9570
Stability Update 2015	7500	6860	6750	6890	6950
Reduction	465	1590	2085	2360	2620

(Source: Stability Updates General Government Interest)

Cross Country Analysis

A comparison of projected debt and interest forecasts in 2015 (See Table 3) reveals the following:

- Interest expenditures vary across the Eurozone. Portugal's costs are highest at 4.9% of GDP and Estonia's are lowest at 0.1%.
- Ireland's expenditures are joint fifth highest. At 3.6 % of GDP, the interest burden is significantly above the European average of 2.4%.
- Of countries in the EU, Greece has the highest debt at 180.2% of GDP, followed by Italy (133.1%), Portugal (124.4%), Ireland (107.1%), and Cyprus (106.7%). The average General Government Debt (GGD) stands at 88%.
- The implicit interest rate on Irish debt ranks tenth highest at 3.4% - again above the 2.8% average.
- Estonia ranks lowest for debt (10.3%), interest costs (0.1%) and implicit interest rate (1%). Table 3 shows debt and interest projections as a percentage of GDP for 2015.

Table 3 – EU 28 Comparisons of Debt and Interest Projections, 2015

	Interest Expenditure % GDP	General Gov. Debt % GDP		Implicit Interest Rate %
Portugal	4.9	124	**Hungary**	4.9
Italy	4.3	133	**Croatia**	4.3
Greece	4.2	180	**Romania**	4.3
Croatia	3.7	90	**Malta**	4.2
Hungary	3.6	75	**Slovenia**	3.9
Ireland	3.6	107	**Portugal**	3.9
Spain	3.1	100	**Poland**	3.7
Slovenia	3.1	81	**Lithuania**	3.7
Cyprus	2.9	107	**Bulgaria**	3.5
Belgium	2.8	107	**Ireland**	3.4
Malta	2.7	67	**Denmark**	3.3
United Kingdom	2.7	90	**Spain**	3.3
Austria	2.3	87	**Italy**	3.3
France	2.1	96	**Latvia**	3.2
Poland	1.8	51	**United Kingdom**	3.1
Romania	1.6	40	**Slovakia**	3.1
Slovakia	1.6	53	**Czech Republic**	3.0
Germany	1.6	72	**Austria**	2.8
Denmark	1.5	39	**Belgium**	2.7
Lithuania	1.4	42	**Cyprus**	2.7
Netherlands	1.4	70	**Greece**	2.4
Finland	1.2	63	**France**	2.2
Latvia	1.2	37	**Germany**	2.2
Czech Republic	1.2	41	**Finland**	2.1
Bulgaria	1.0	30	**Netherlands**	2.0
Sweden	0.7	44	**Sweden**	1.7
Luxembourg	0.4	25	**Luxembourg**	1.5
Estonia	0.1	10	**Estonia**	1.0
Average	2.4	88		2.8

Source : EU Commission