Irish Government Debt and Implied Debt Dynamics: 2012 - 2015

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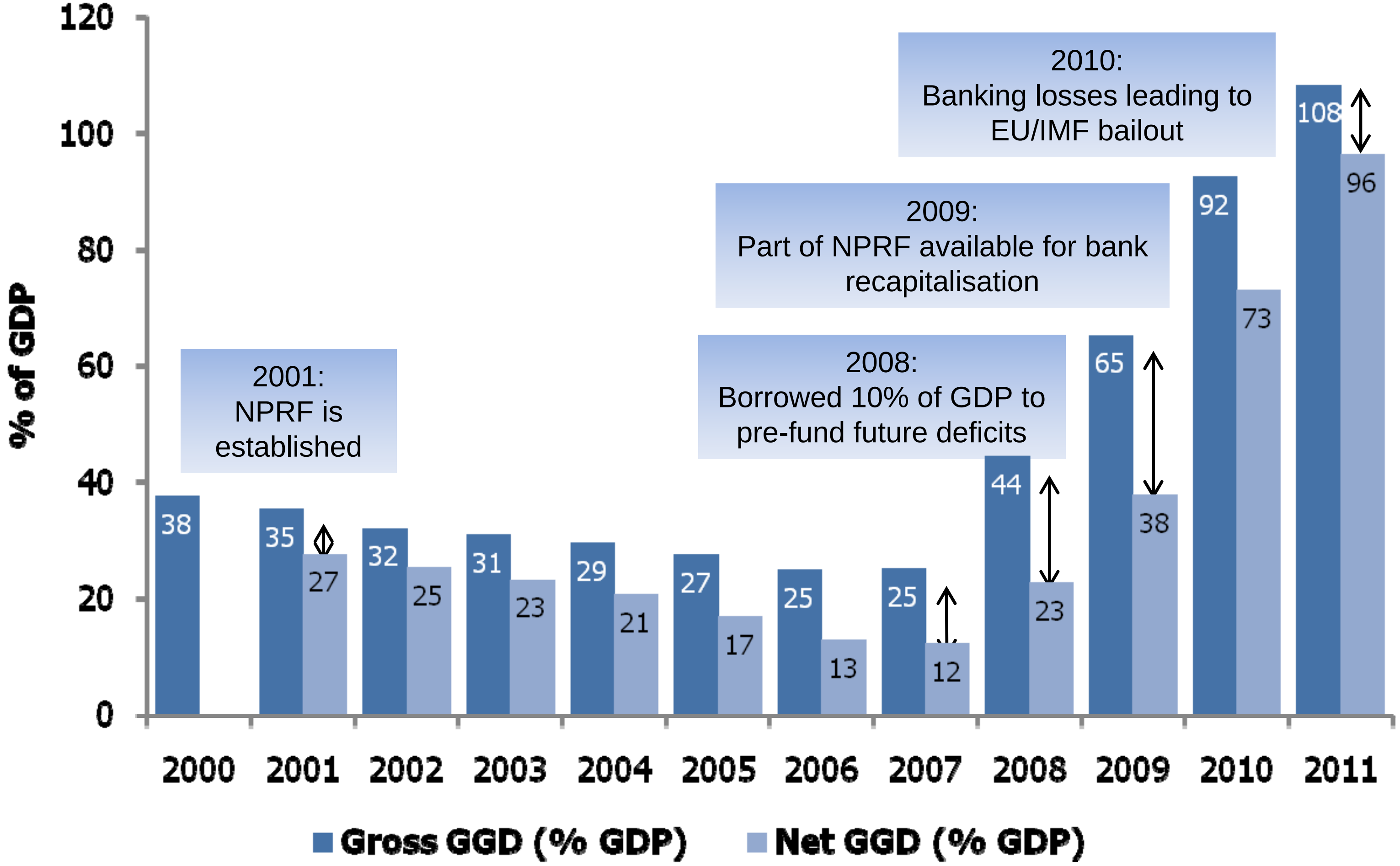
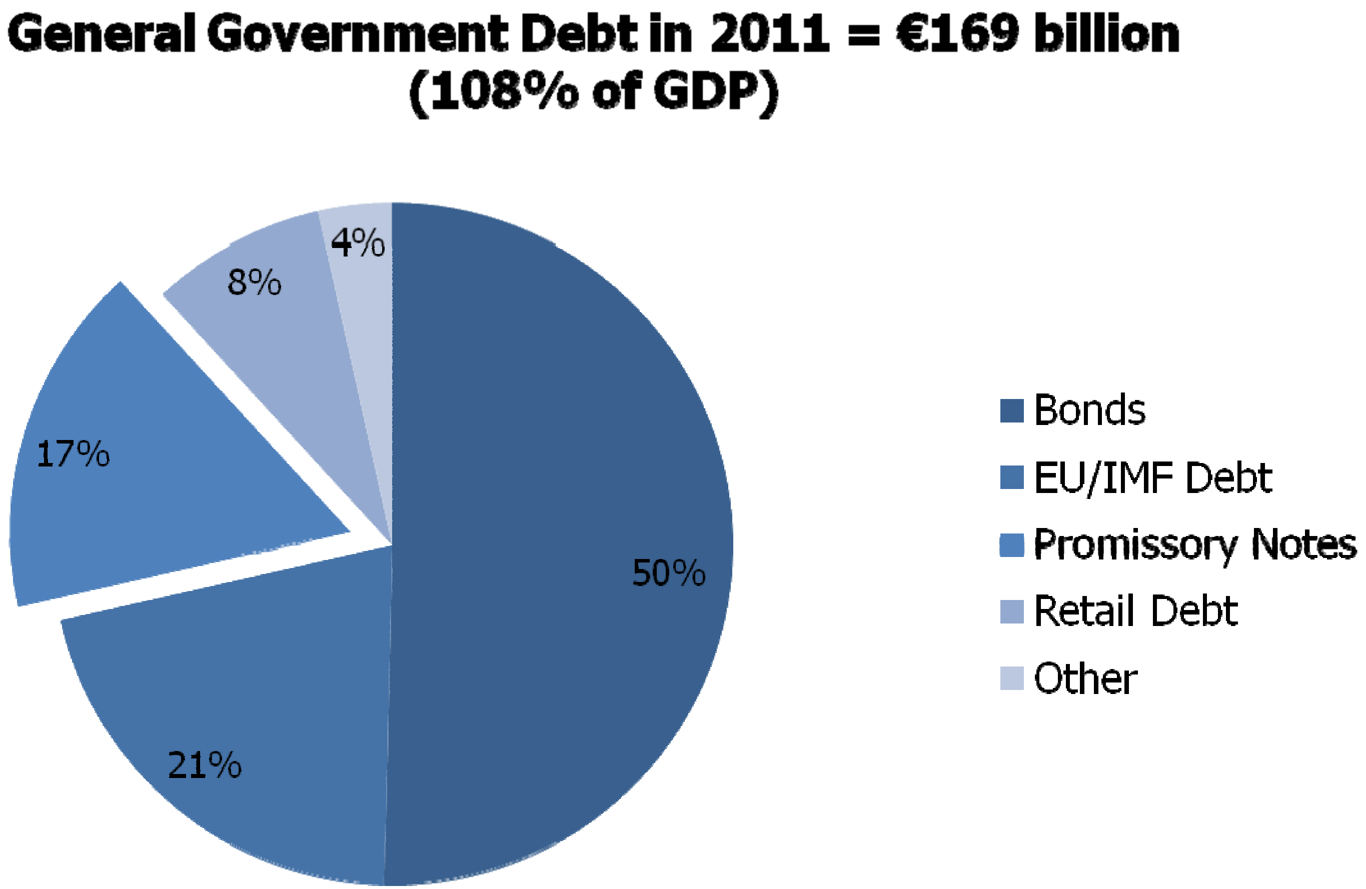
Outline

- Government debt: 2007 – 2011
  - Explosion in fiscal debt
  - Liquid assets – Cash balances and NPRF
  - Bank debt – Direct intervention in banking system
  - Contingent liabilities – Guarantees
- Debt Dynamics: 2012 – 2015
  - Components of debt & refinancing schedule
  - Simulation of dynamics
  - Sustainability
- Strategy on Funding

Gross & Net Government Debt: 2000 - 2011



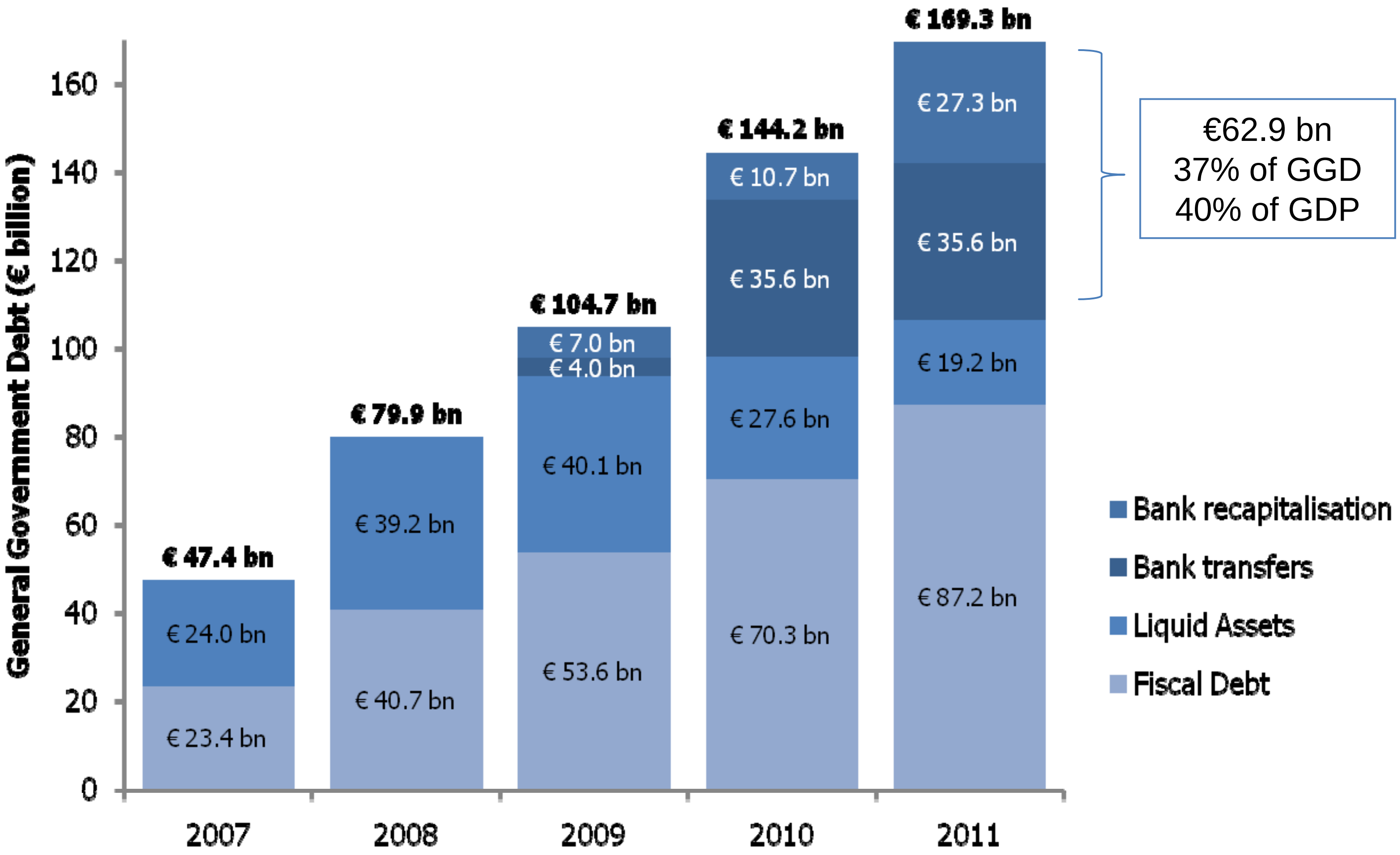
Composition of Government Debt in 2011



Government Liabilities in Banking System

- Liabilities included in the government debt:
  - Direct government interventions in the banking system
- Contingent Liabilities
  - Senior NAMA bonds
  - Guarantees for ELA
  - Deposit Protection Scheme
  - Eligible Guarantee Scheme

Govt. Liabilities in the Banking System: Impact of Direct Interventions on GGD



Contingent Liabilities in the Banking System

Type	% of 2011 GDP
Senior NAMA bonds	19
Guarantees for Emergency Liquidity Assistance	10
Deposits covered by Deposit Protection Scheme	52
Other bank liabilities covered by ELS	32
TOTAL	**113**

Source: *IMF Country Report March 2012*

Components of Debt: 2012 - 2015

- Future funding needs of the government:
  - Deficit in the public finances
  - Repayment of past borrowing
    - Government bonds
    - Promissory notes
    - EU/IMF loan

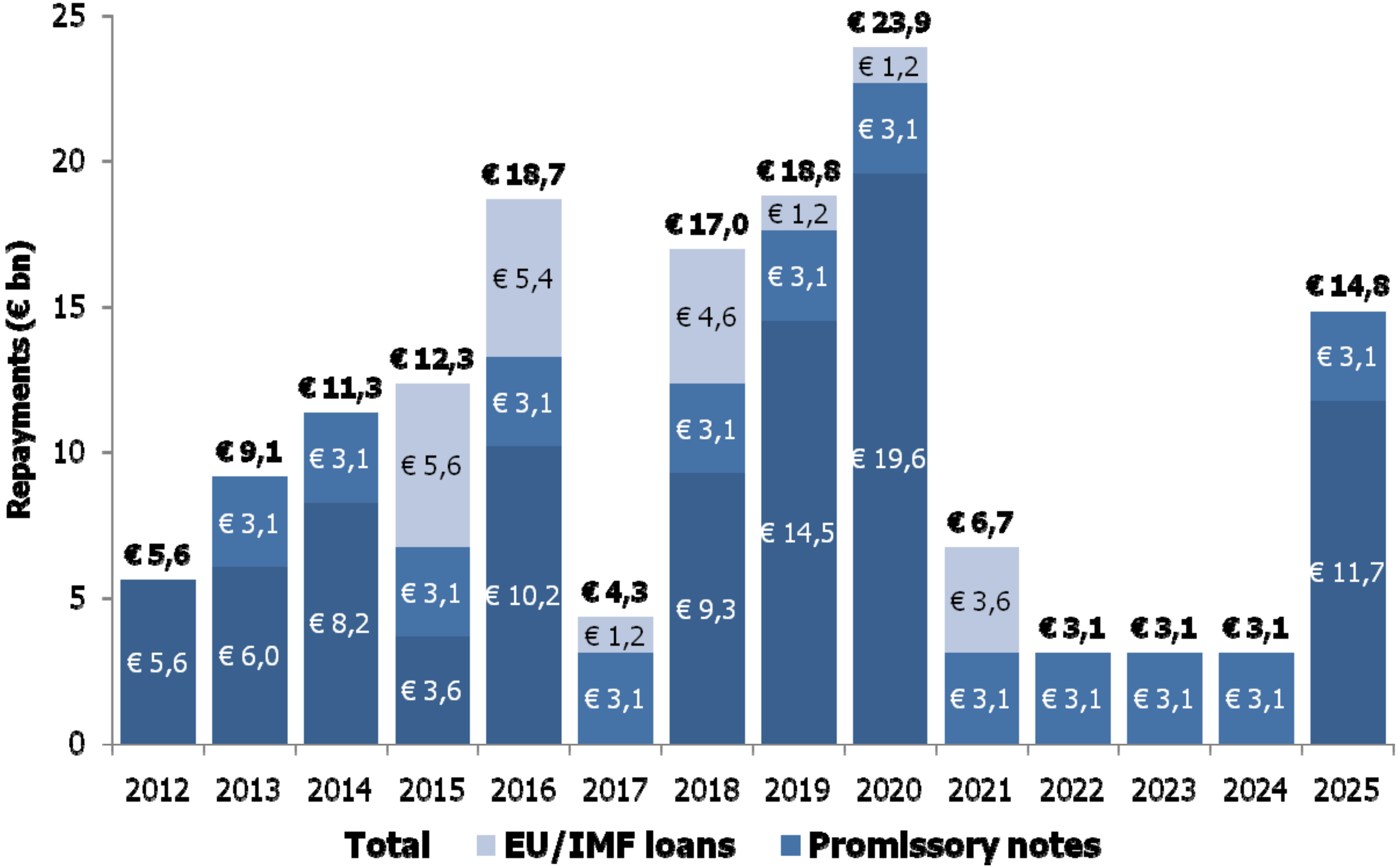
Austerity Package 2008-2015 = 20% of GDP

(€ billion)	2008-2011	2012	2013	2014	2015
Revenue €bn	7.0	1.6	1	1.1	
Expenditure €bn	13.1	2.2	2	2	
of which Capital €bn	3.4	0.75	1	0.1	
Total €bn	20.1	3.8	3	3.1	2
% of 2011 GDP	**13**	**2.5**	**2**	**2**	**1.3**

Target Primary Surplus 2.8% in 2015

% of GDP	2011	2012	2013	2014	2015
General Government Deficit	13.1	8.3	7.5	4.8	2.8
Debt interest payments	3.4	4.1	5.6	5.5	5.6
Primary Balance	-9.7	-4.2	-1.9	0.8	2.8

Refinancing & Timing of Repayments



New Borrowing Needs and Financing: 2012 - 2015

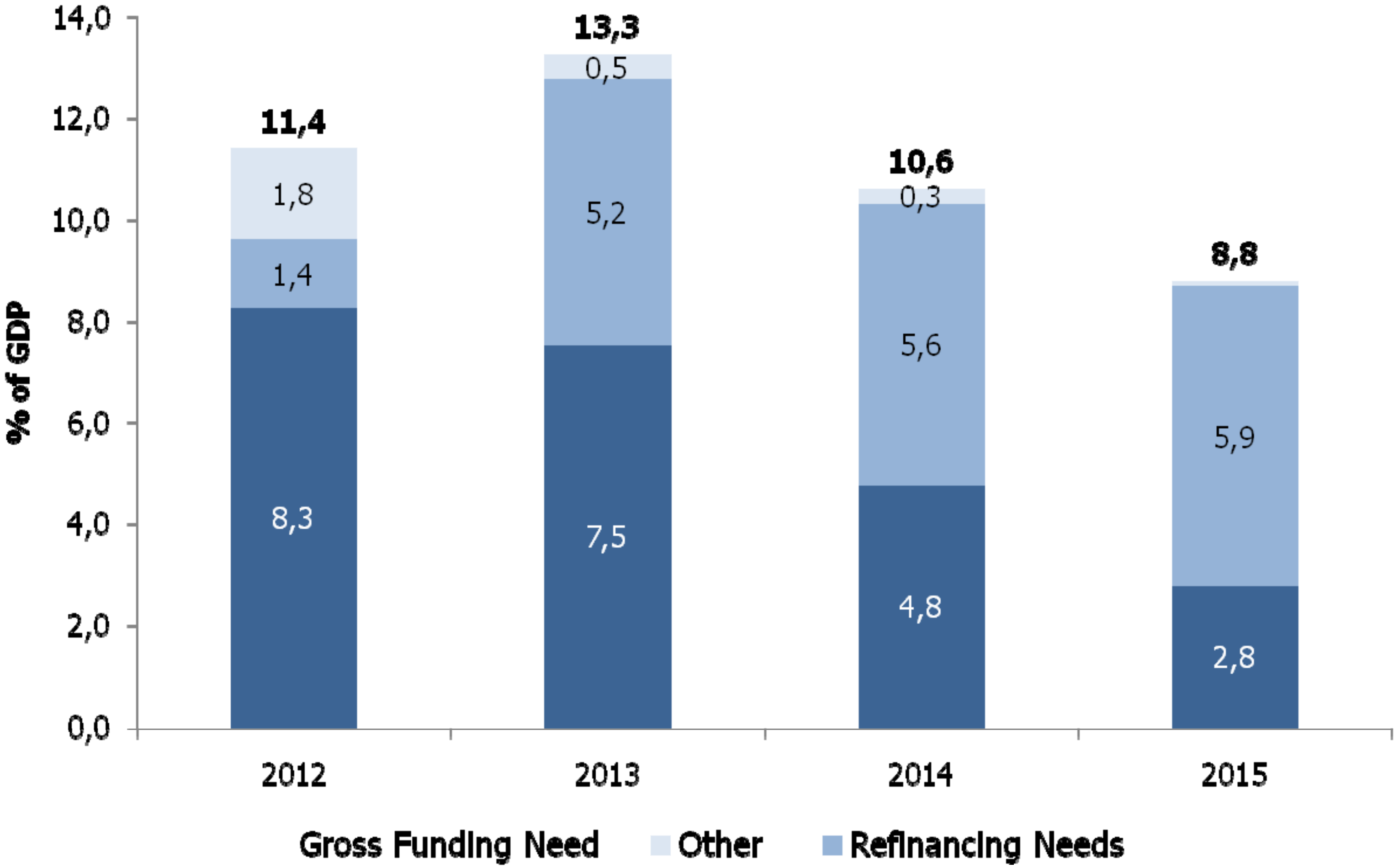
- Determinants of future path of the debt/GDP:
  - Growth in nominal GDP
  - Borrowing needs
  - Policy of holding liquid assets

- Use official forecasts from the Department of Finance (Stability Programme Update April 2012)

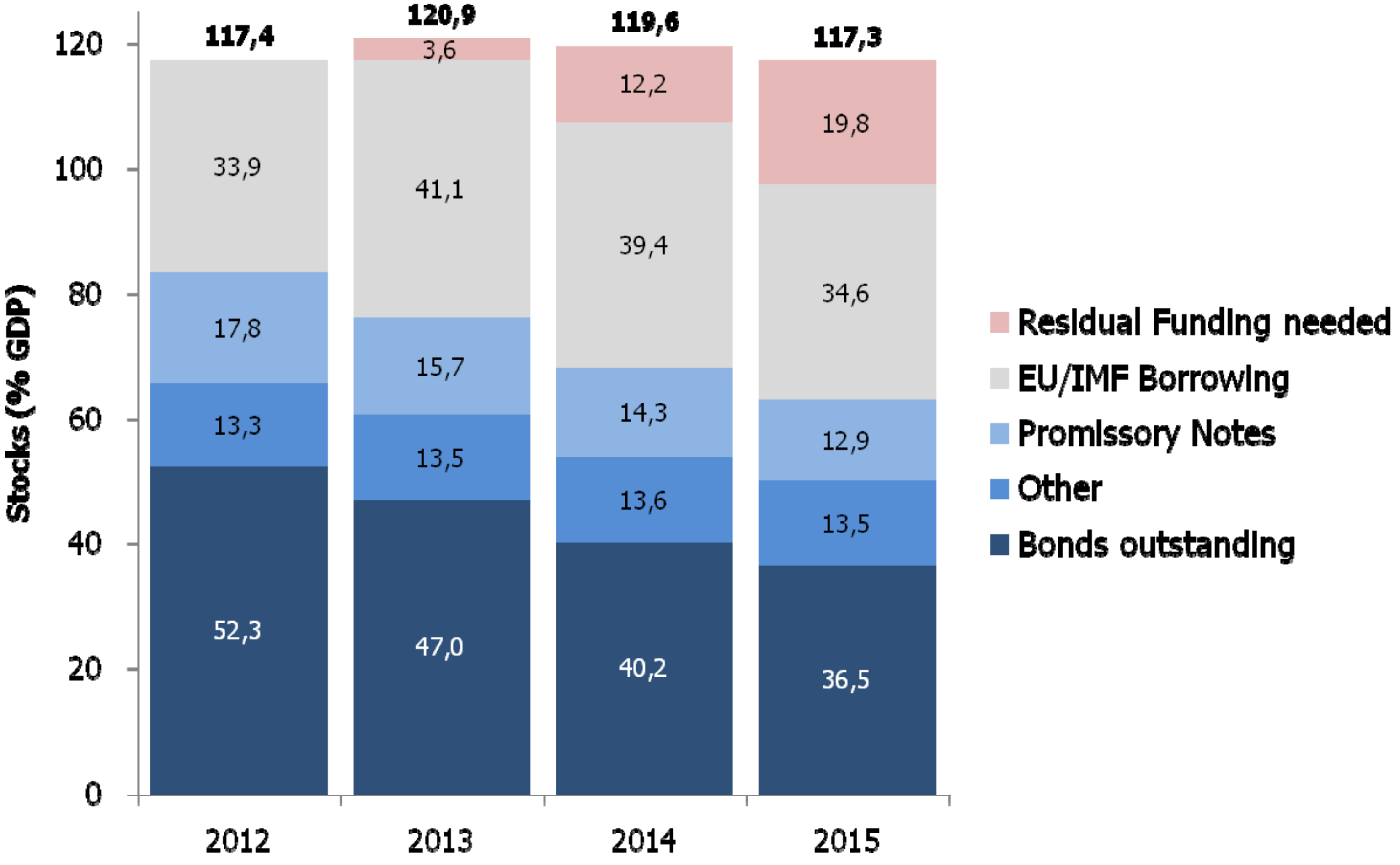
Growth & Borrowing Requirements

	2012	2013	2014	2015
Growth Rates (%):				
Real GDP	0.7	2.2	3.0	3.0
Nominal GDP	1.6	3.3	4.3	4.5
Borrowing Requirements (% of GDP):				
General Government Deficit	8.3	7.5	4.8	2.8
Primary Balance	4.2	1.9	-0.8	-2.8
Debt Interest	4.1	5.6	5.5	5.6

Funding Needs

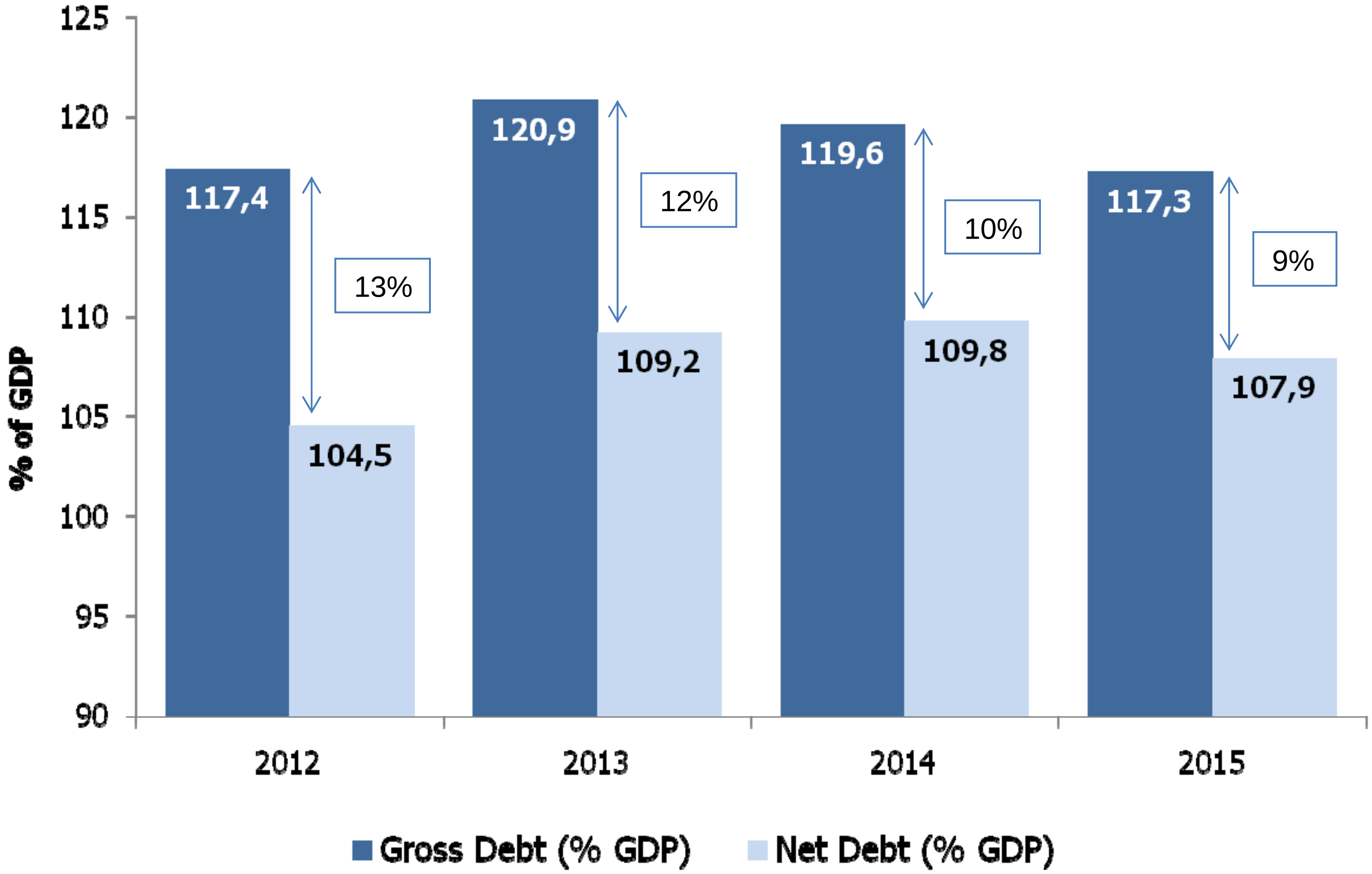


Stocks of GGD & Residual Funding Needs*



* Net of changes in liquid assets

Impact of Liquid Assets



Debt Sustainability: Analytical Framework

- Debt in year t will accumulate as follows:

$$D_t = D_{t-1} + r_t \times D_{t-1} - P_t + NDI_t$$

- Assuming $NDI_t = 0$:

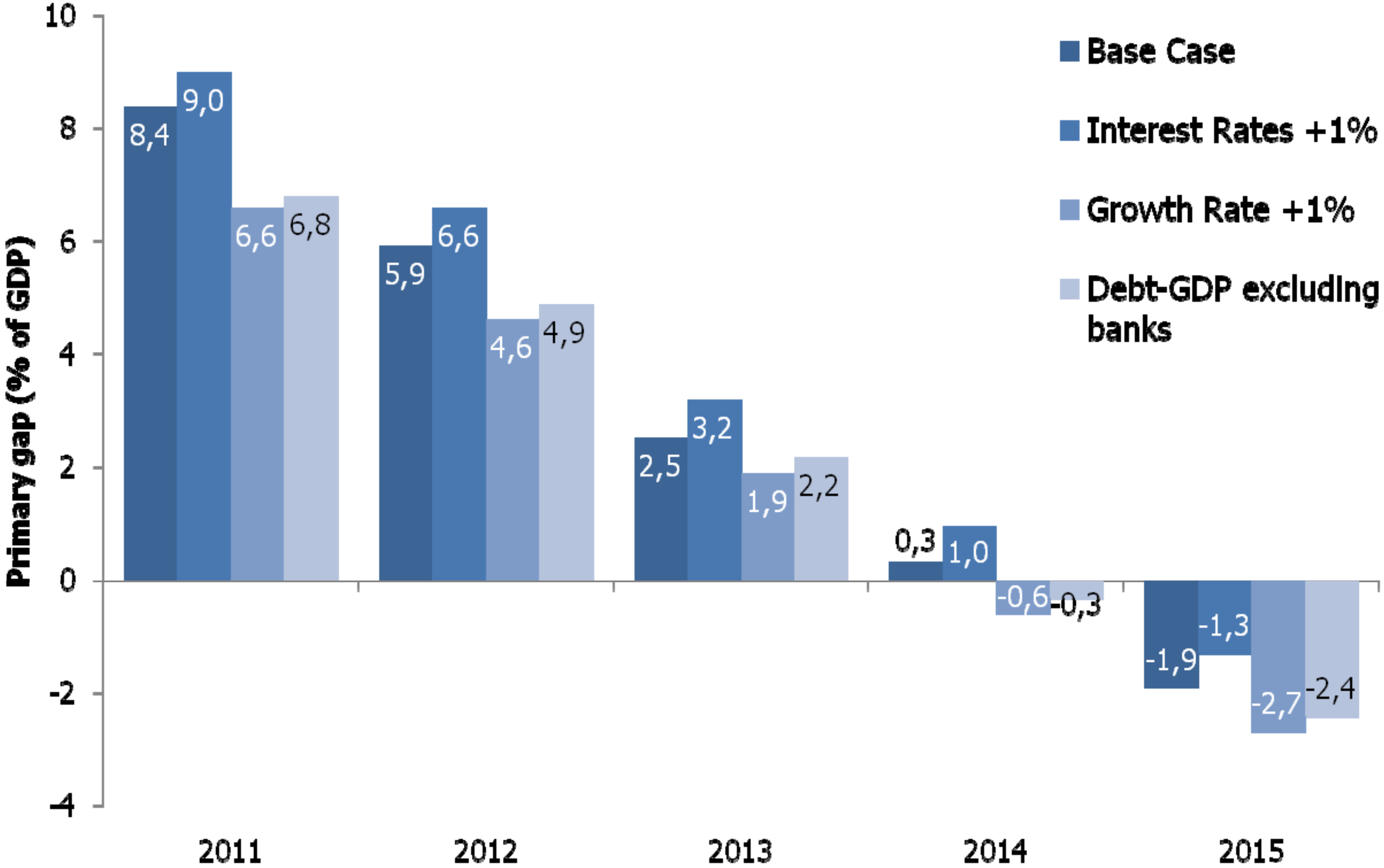
$$\Delta\, d_t = (r_t - g_t) \times d_t - p_t \qquad where\ d = \frac{D}{Y}, p = \frac{P}{Y}$$

- Debt is sustainable when $\Delta\, d_t \leq 0$:

$$p_t = (r_t - g_t) \times d_t$$

  - When primary balance offsets growth-adjusted interest cost of the initial level of debt
  - Primary gap: $(r_t \quad g_t) \times d_t \quad p_t$

Debt Sustainability: Primary Gap Estimates



Strategy on Funding

- Large repayments in 2014 and 2015:
  - Bonds: €12 bn in 2014 and 2015
  - Promissory notes: €12 in 2014 and 2015
  - IMF/EU loan: €6 bn in 2015
- Return to capital markets
  - Residual funding needs: €36 bn between 2013 - 15
    - 4% of GDP (€6 bn) in 2013
    - 9% of GDP (€15 bn) in 2014
    - 8% of GDP (€15 bn) in 2015