



Irish Fiscal Advisory Council

The Government's Balance Sheet after the Crisis: A Comprehensive Perspective

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How much do we owe?

- A “comprehensive” perspective
- Measurement is not straightforward
- Government balance sheet has changed radically since the crisis
- What is affordable?
- Defining –the limits of the State
- An example – the wind-up of IBRC



Net worth and risks

- Intertemporal solvency constraint implies that **Net Worth** is a key concept:

$$NW(0) = A(0) + \sum_{t=1}^{\infty} \frac{1}{(1+r)^t} T(t) - L(0) - \sum_{t=1}^{\infty} \frac{1}{(1+r)^t} G(t)$$

- **Net Worth** has an expected value, but there are risks around this:
 - leverage (absolute size of gross assets/liabilities tends to increase the risk exposures)
- **Net Worth** in the paper is a slightly narrower concept



Data sources

- Paper draws on new and improved data:
- CSO Government Financial Statistics (GFS)
- GFS looks at government assets and liabilities at market prices
- Eurostat used for international comparisons
- Differing measures of debt: public, net, net financial assets



Accounting definitions can obscure

- It may not matter much whether:
 - a claim is scored in the General Government sector or elsewhere
 - a claim is scored on the balance sheet or off-balance sheet
- Some key issues:
 - gross/net measures
 - consolidated/non-consolidated
 - valuation at market prices/bookvalue



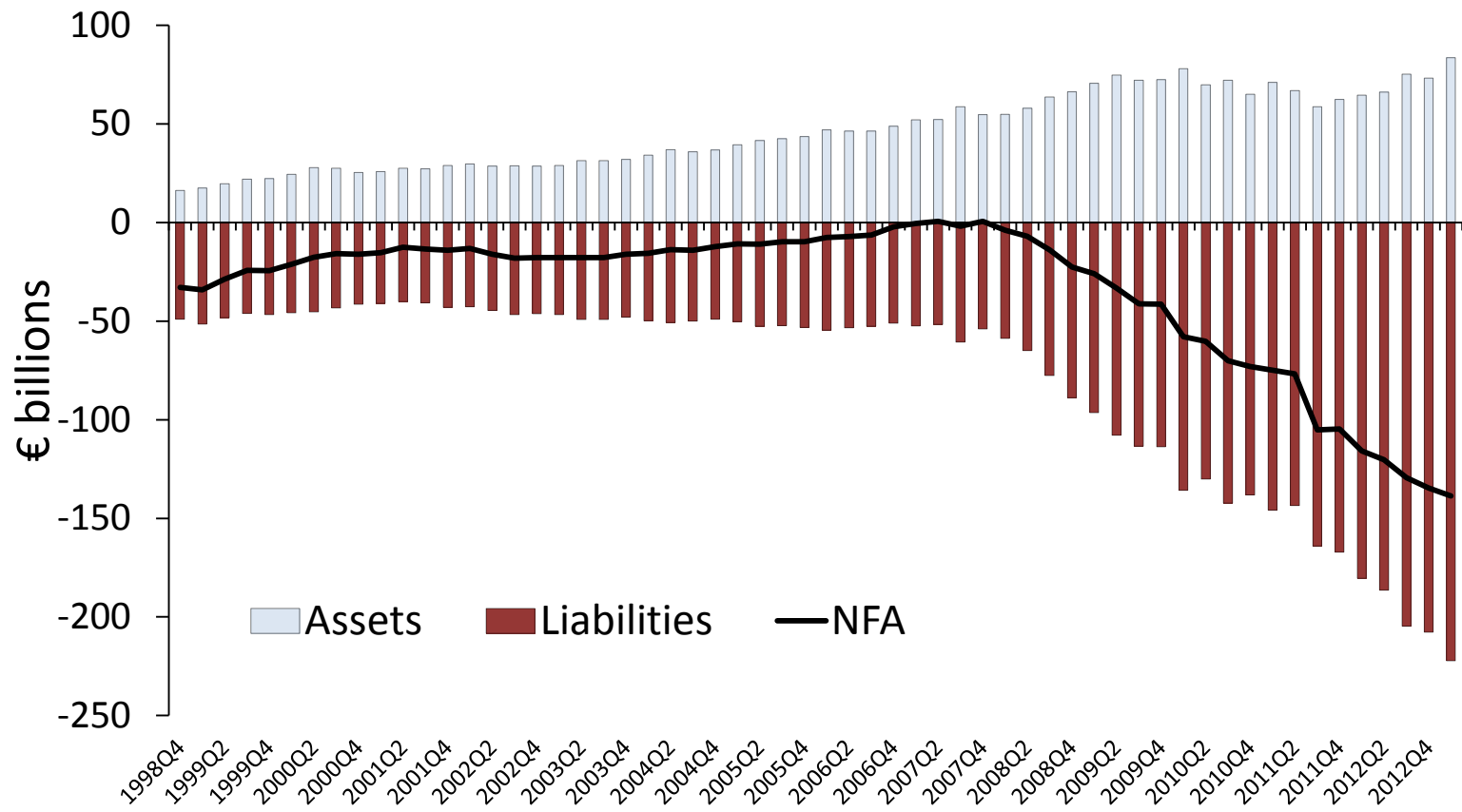
Government Balance Sheet

Government's Balance Sheet (end-2012)

Assets	€ billion	Liabilities	€ billion
Financial Assets	73	Financial Liabilities	208
		Net Financial Assets	135
Non Financial Assets	57		
		Net Worth	77



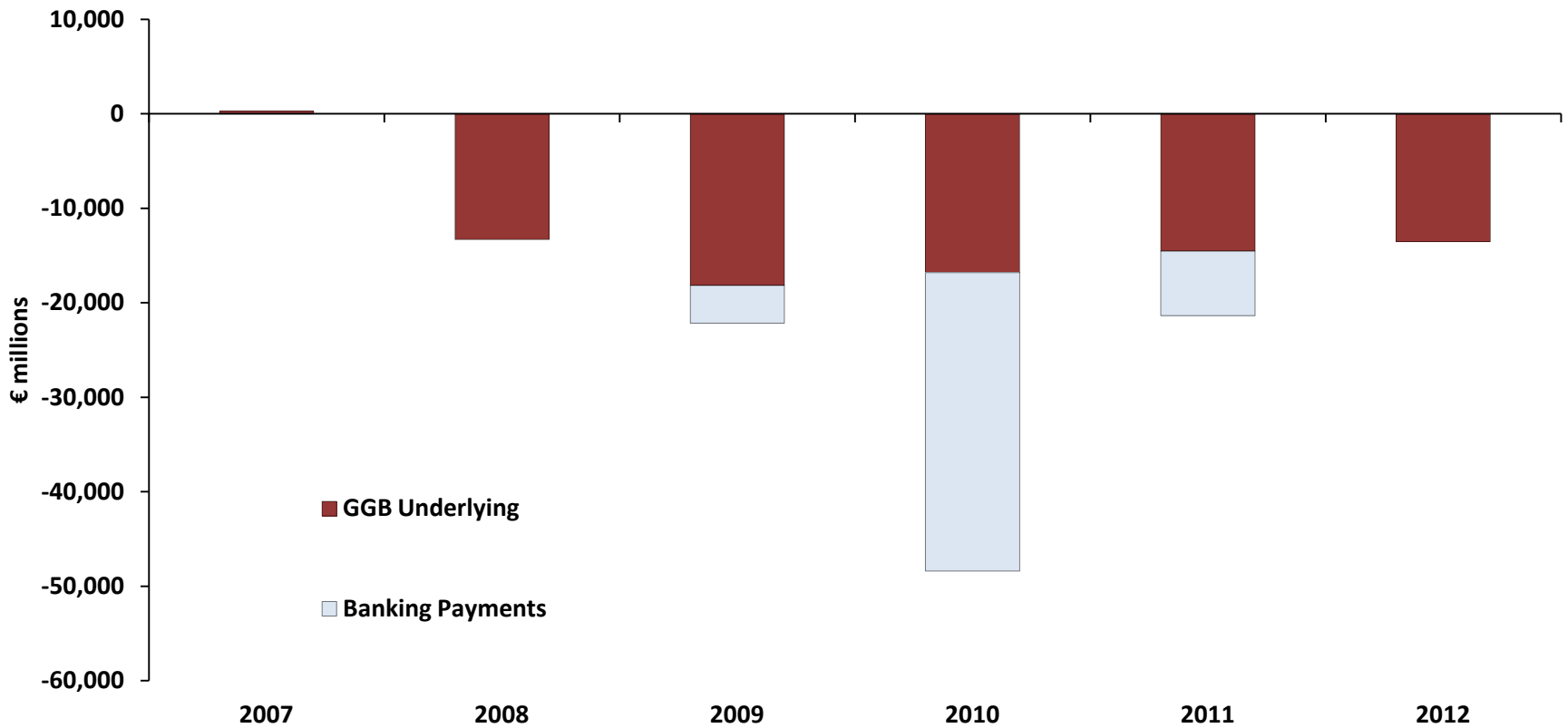
Financial Assets and Liabilities





General Government Balance

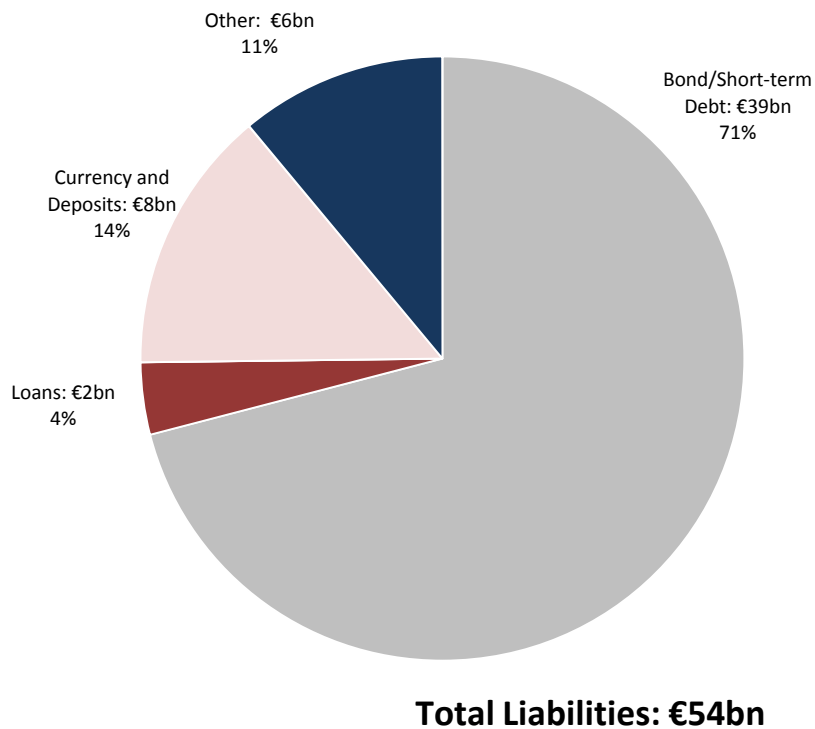
General Government Balance: Underlying and Banking



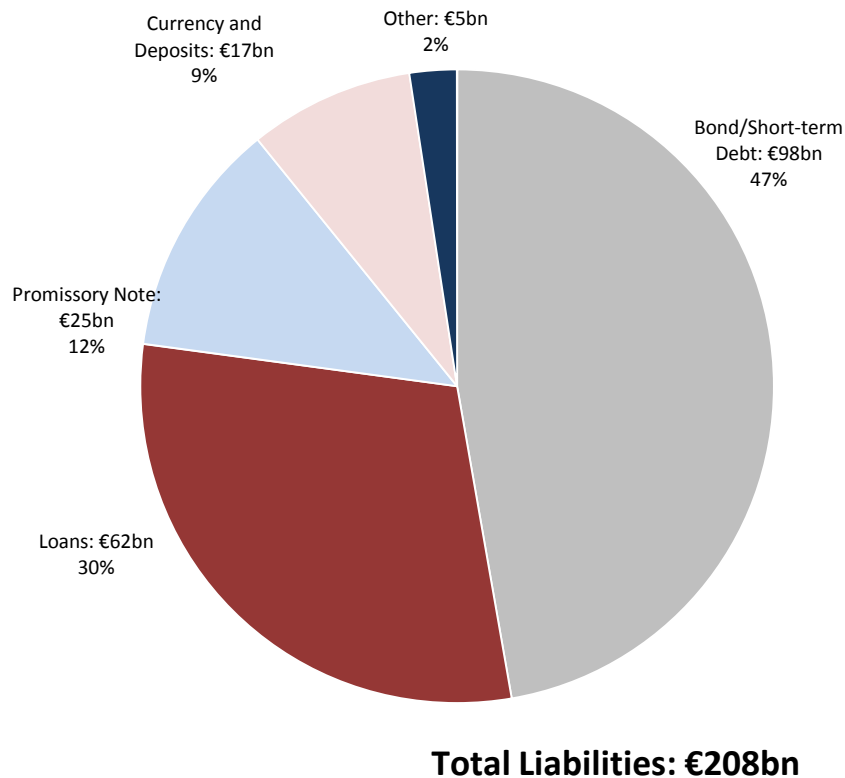


Financial Liabilities

Composition of Liabilities in 2007



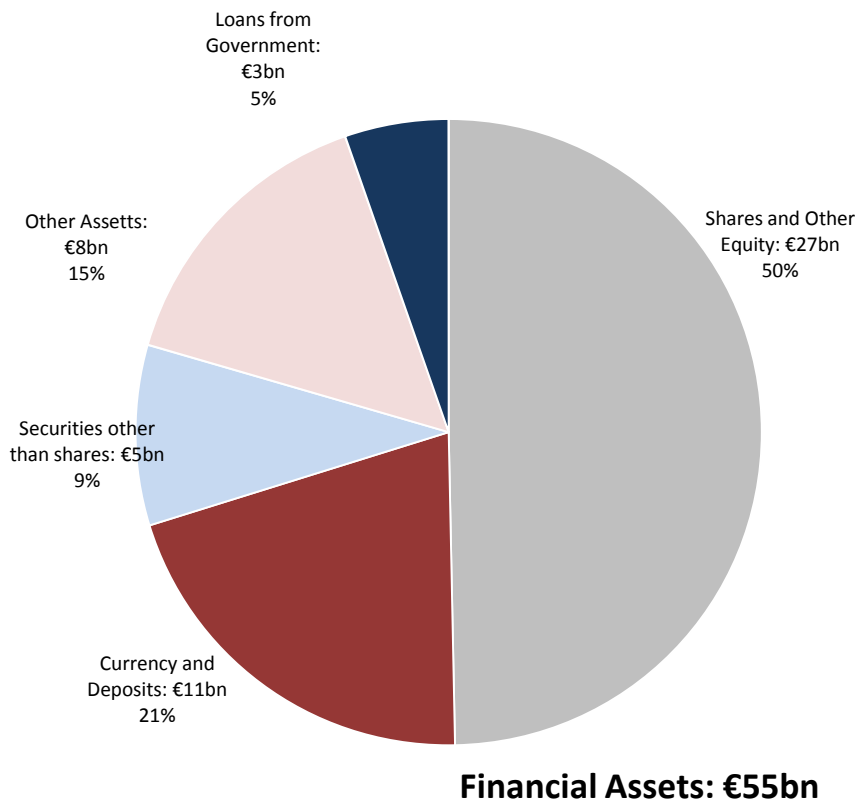
Composition of Liabilities in 2012



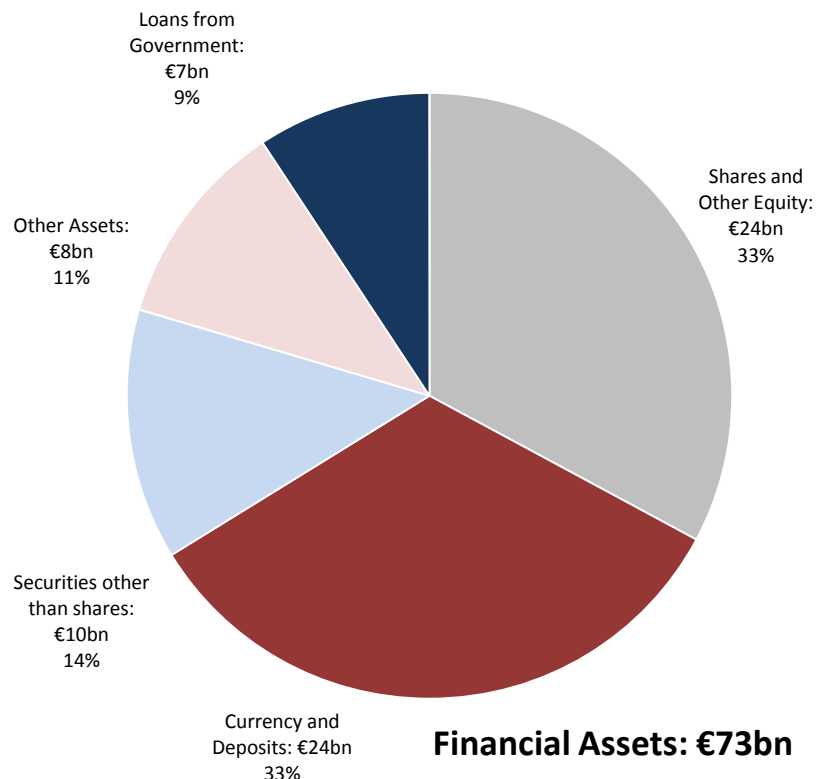


Financial Assets

Composition of Assets in 2007



Composition of Assets in 2012



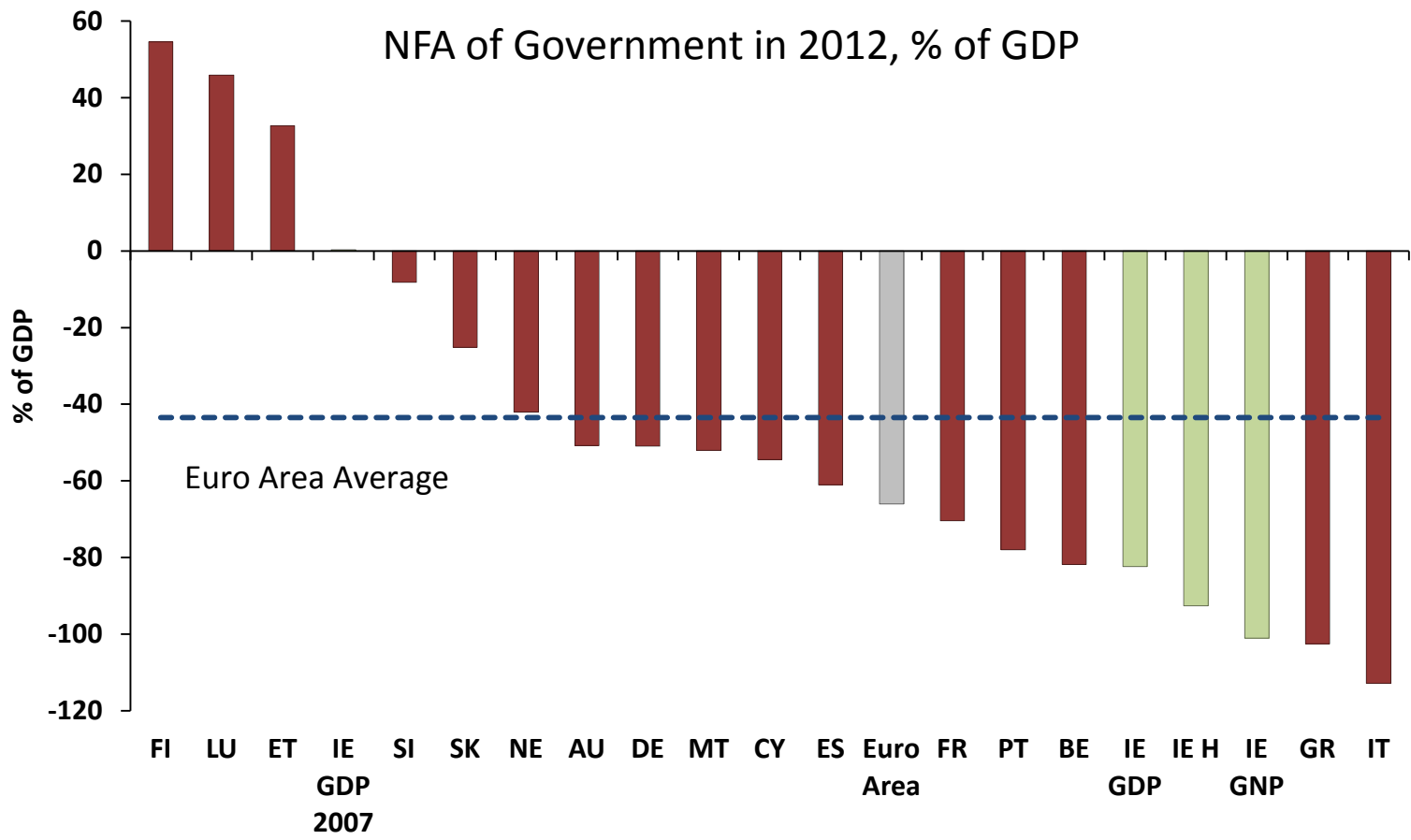


Norms for Solvency

- No clear norms for what level of debt/net worth is sustainable or prudent:
 - solvency depends critically on future revenue growth/interest rates
 - multiple equilibria
 - off balance sheet factors – banks, ageing, etc.
- International comparison based on *comparable data* is informative



Net Financial Assets in 2012: International Perspective

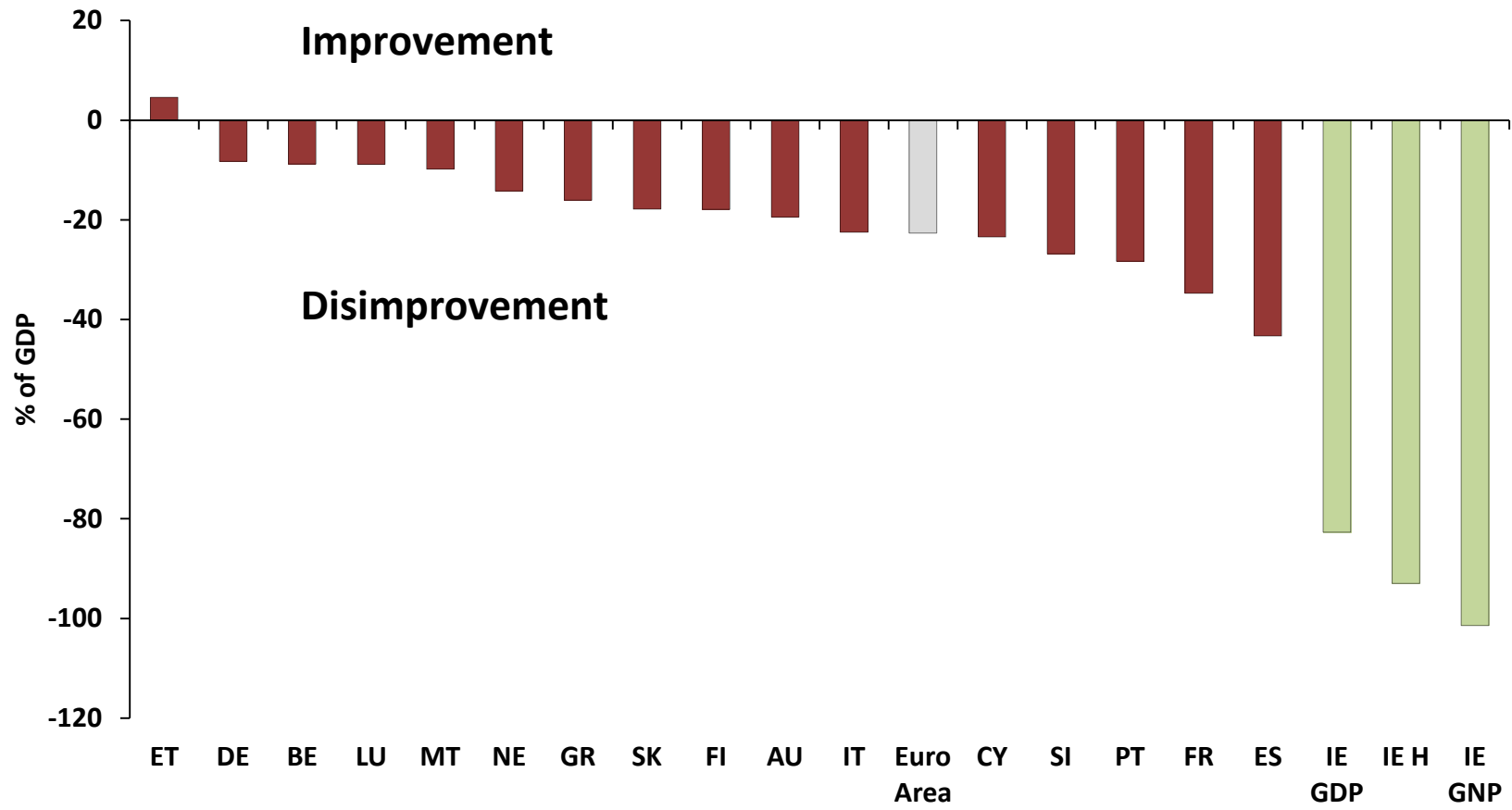




Impact of the Financial Crisis : International Perspective



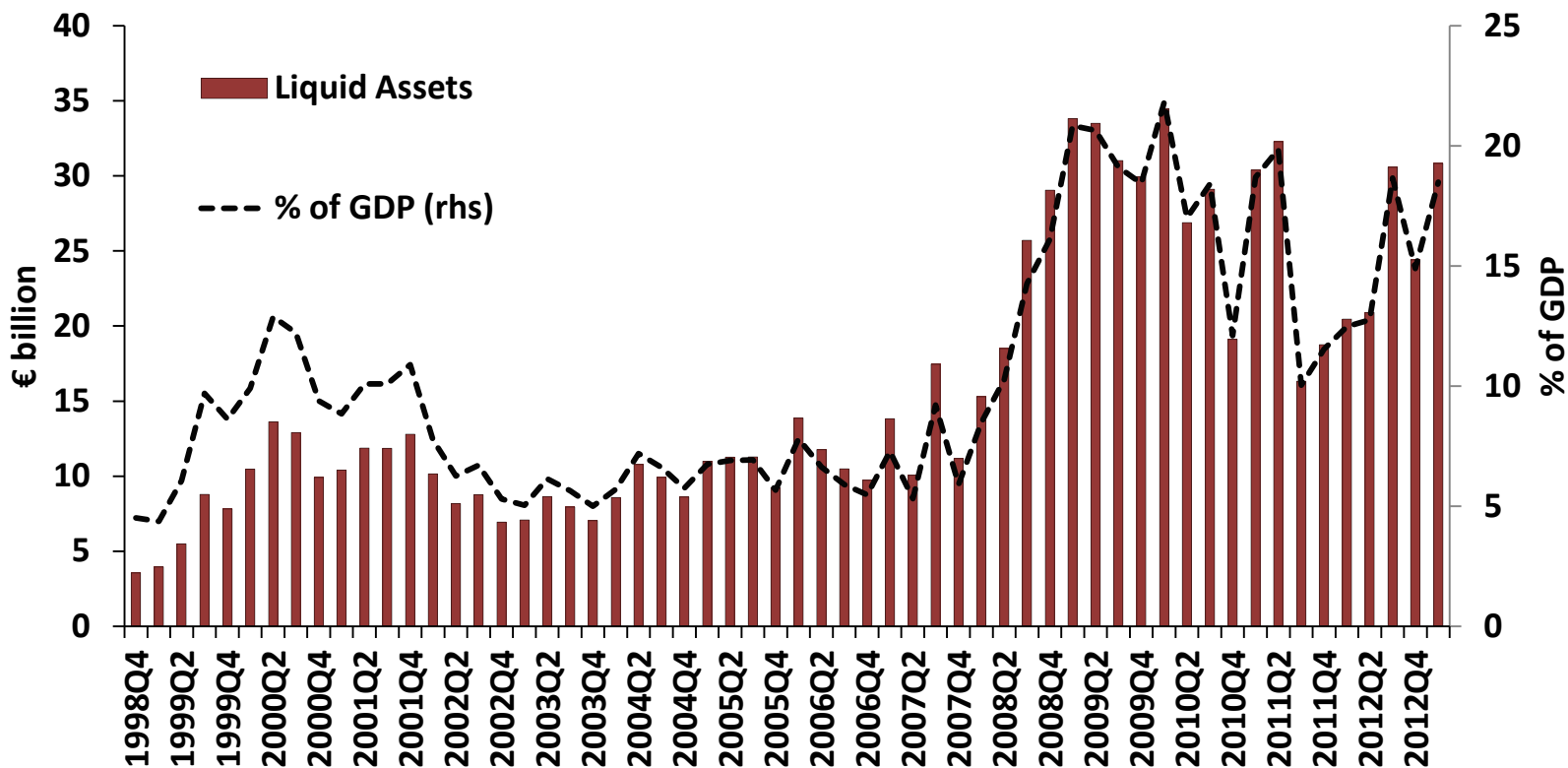
Change in NFA: 2007 to 2012, % of GDP





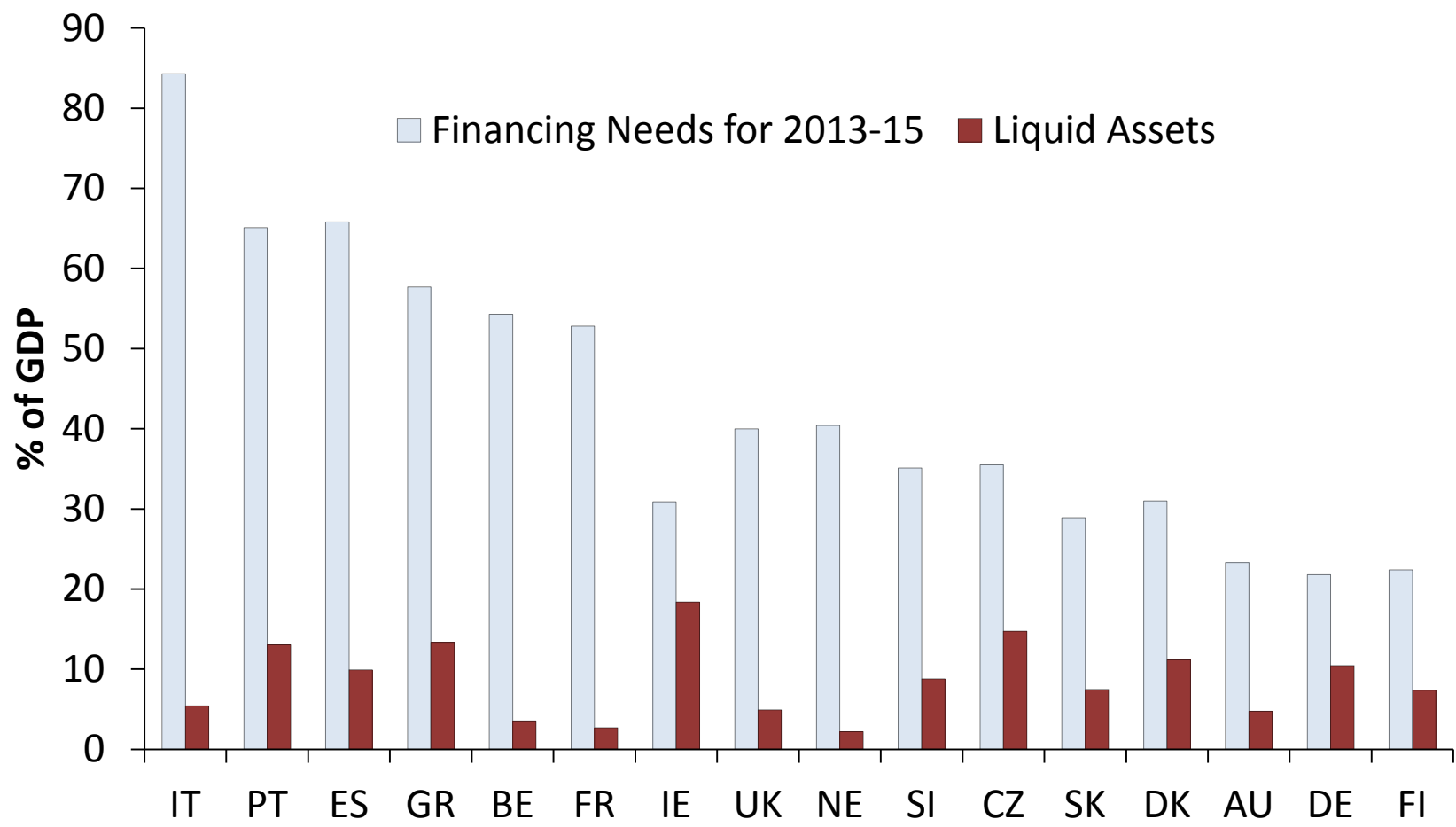
Financial Assets

Irish Government Liquid Assets





Maturing Debt and Liquid Assets





Off-Balance Sheet Liabilities

- The financial health of Government depends on more than just financial assets and liabilities.
- Off-Balance sheet liabilities have the potential to impact directly on Net Worth
- Contingent liabilities: commitments/guarantees that *could* result in a liability in the future
- Implicit liabilities: can arise from implicit Government commitments
- Uncertainty surrounds off-balance sheet liabilities: definition and measurement



Off-Balance Sheet Liabilities

- Contingent Liabilities – estimated at €125 billion at end-2012 (€288 billion at end-2009)
 - Bank guarantee and ELA
 - NAMA
- Off-Balance sheet liabilities
 - Pensions – estimated liability of €116 billion
 - Public Private Partnerships – estimated at €5 billion
- Implicit Liabilities
 - Ageing costs
 - Other sectors (insurance, pensions, etc)
- Risks to Government Net Worth



A case study - IBRC

- Implicit liability lead to:
 - Contingent liability through guarantees
 - Government capital injections
 - Public ownership
 - Funding from Central Bank through ELA under Government guarantee, ultimately supported by TARGET2 balances
 - NAMA SPV purchase of assets funded by Government-guaranteed bonds



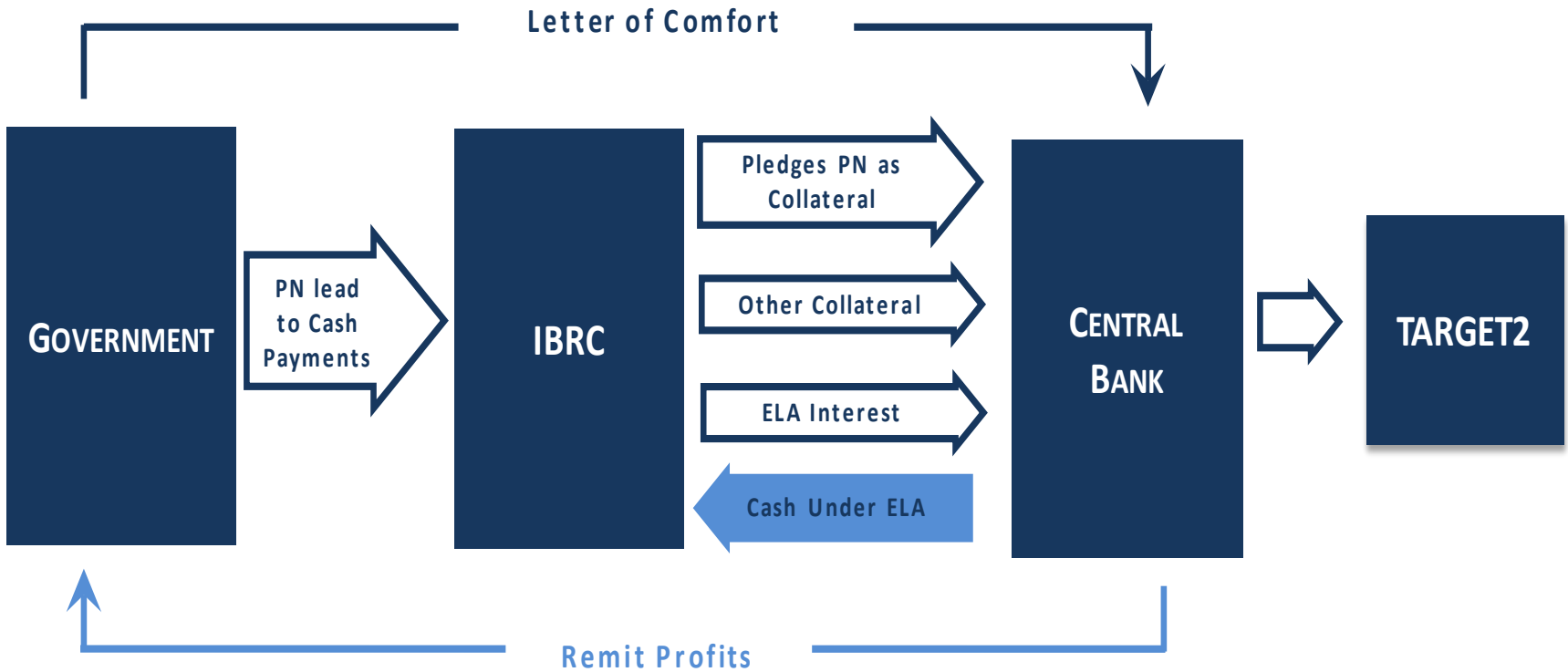
IBRC's Balance Sheet

Summary of IBRC Balance Sheet, 2011-2012, € billions

Assets	End-2011	June-2012	Liabilities	End-2011	June- 2012
Promissory Notes	30	28	Bank Deposits	43	45
Loans	18	16	<i>Of which ELA</i>	40	42
Other	8	9	Debt Securities	5	1
			Other (incl. equity)	8	7
Total	56	53	Total	56	53

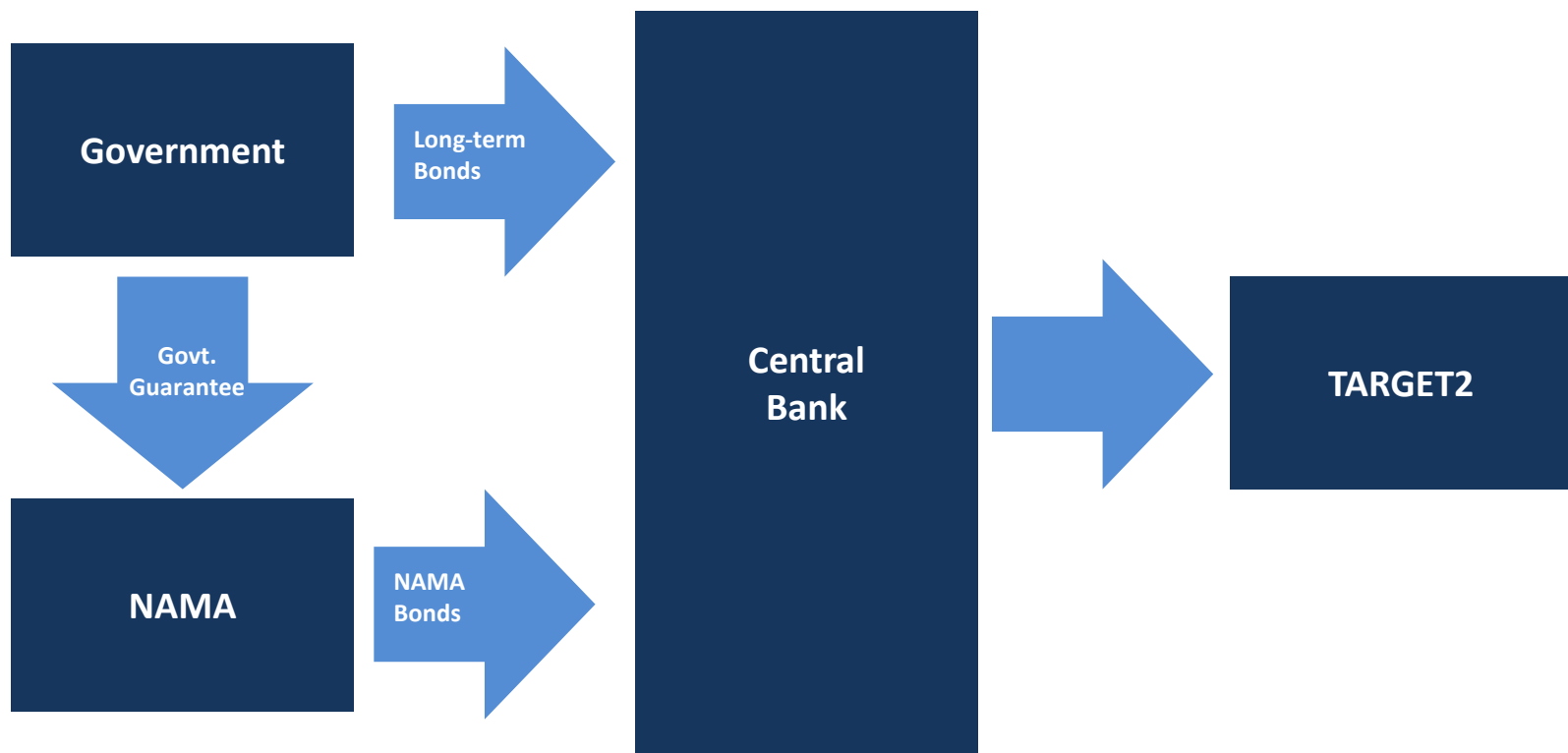


IBRC and the Promissory Notes





IBRC Post Transaction



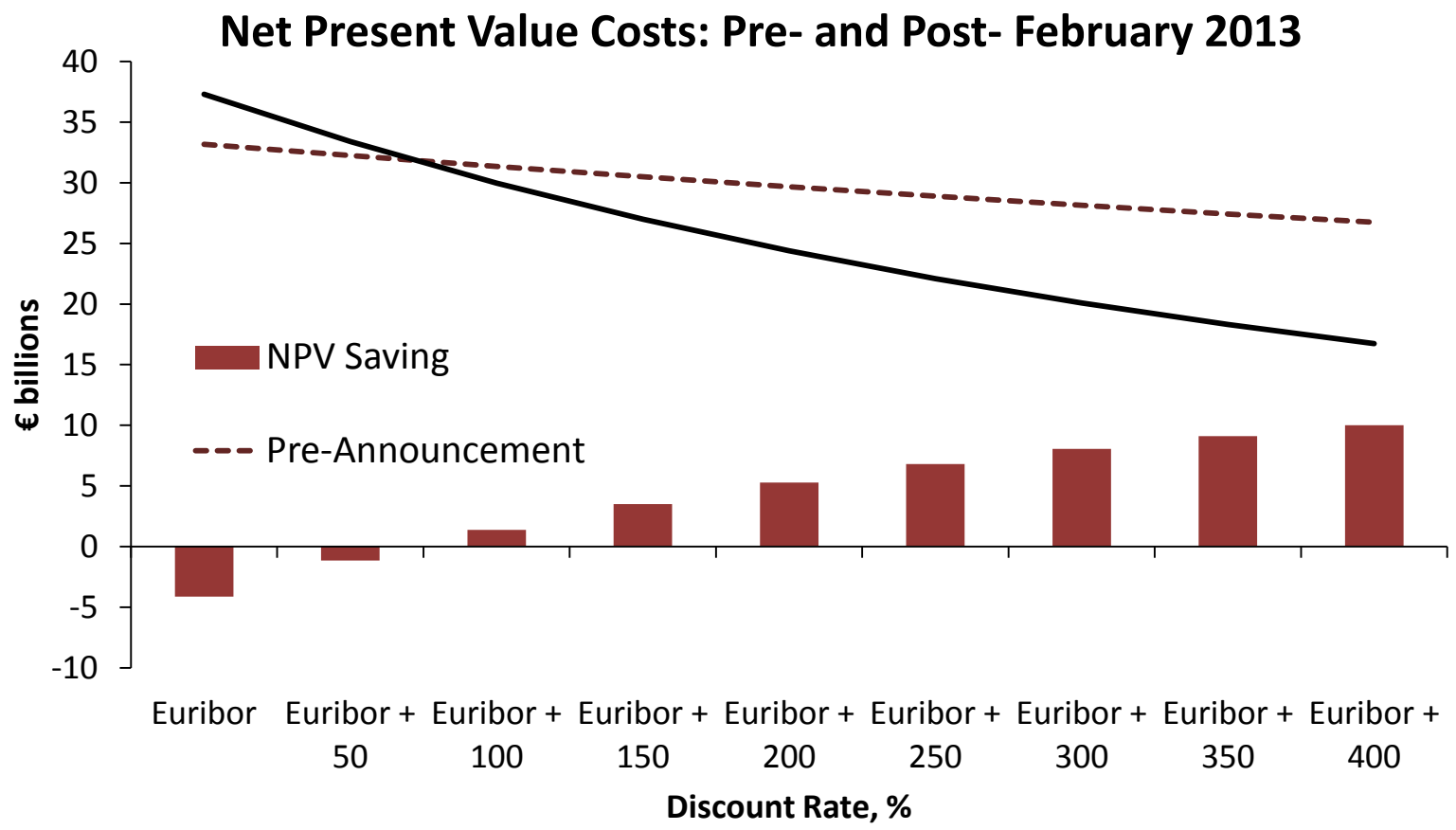


What does this cost?

- NPV costs of payments from 2013 of pre-IBRC resolution scheme with current situation
- Key technical model assumptions:
 - Interest rates
 - Promissory notes + other assets
 - (equity assumed away)
 - Promissory notes situation sustainable
 - TARGET2



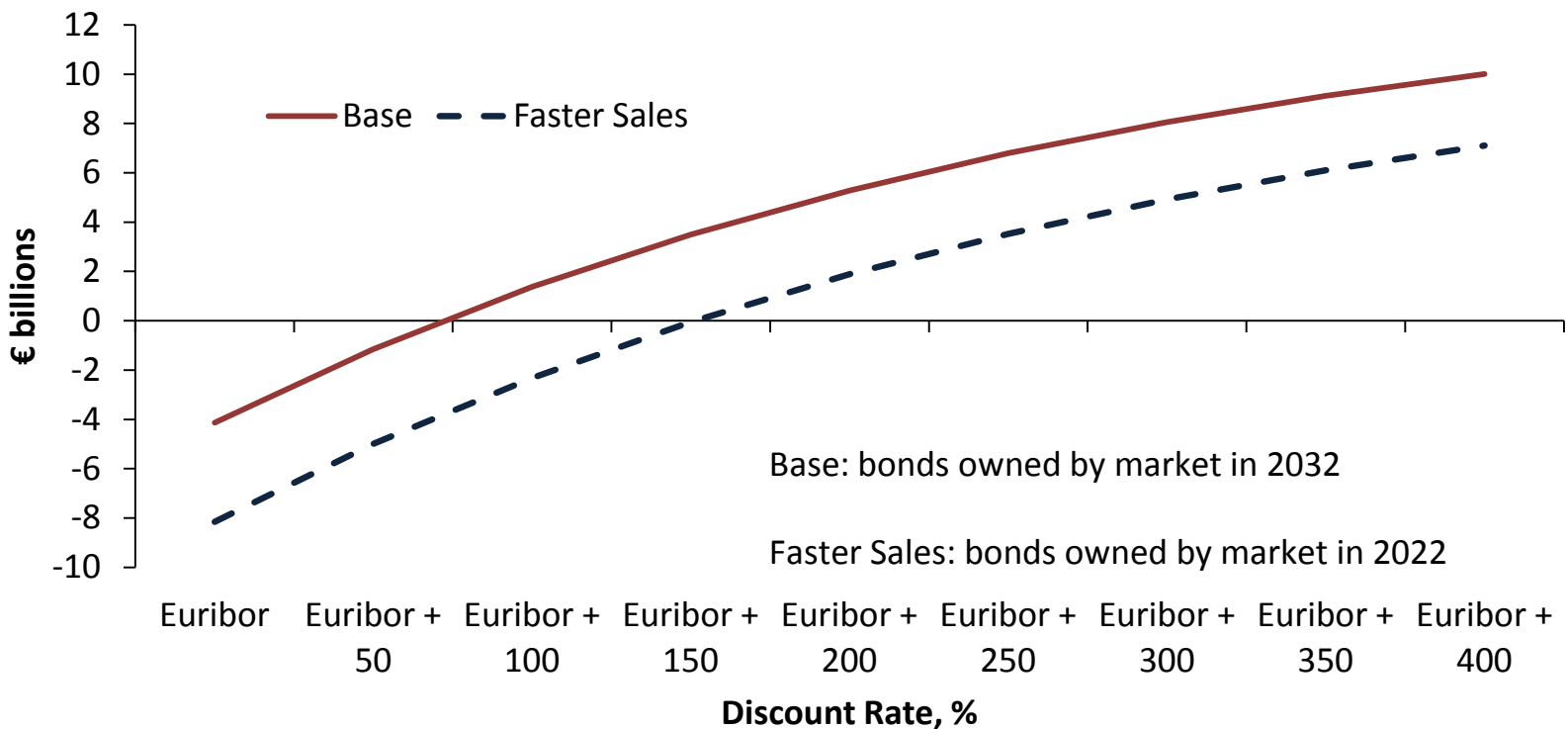
Base Case: NPV Gains





The Pace of Bond Sales

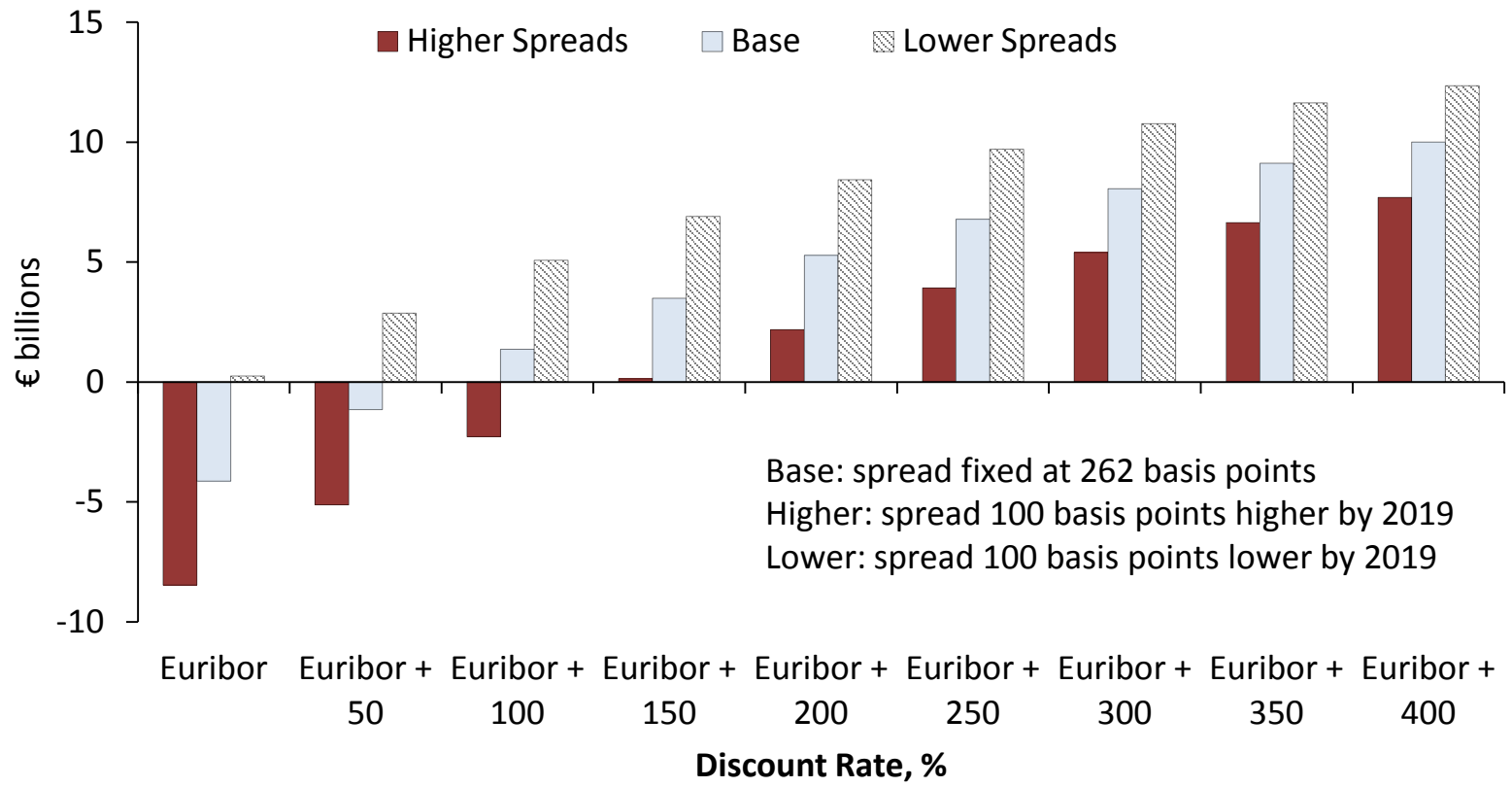
NPV Gains at Selected Discount Rates





Future spreads are key

NPV Gains at Selected Discount Rates





**Irish Fiscal
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Full paper available at:

[http:// www.fiscalcouncil.ie](http://www.fiscalcouncil.ie)