SUMMARY OF MAIN MESSAGES

- The financial crisis has transformed the public finances in Ireland. Substantial government deficits and costs related to rescuing the banking sector have led to a large increase in government debt and created significant contingent liabilities.

- While discussion often focuses around the debt-to-GDP ratio as referenced by the EU Stability and Growth Pact, the reality is far more complex. This paper takes a comprehensive look at the Government's balance sheet following the financial crisis. This involves assessing assets and liabilities of the General Government sector, off-balance sheet contingent and implicit liabilities as well as the wider public sector.

- The comprehensive analysis draws on multiple sources but is by no means exhaustive. While there is often a search for a single number of "how much is owed?", there is no simple answer as adding up different categories of assets and liabilities can be misleading. In any analysis of the Government's balance sheet, it is important to be clear as to what is being included and how it is measured.

GENERAL GOVERNMENT BALANCE SHEET

- General Government financial liabilities have increased four-fold since 2007, reaching €208 billion (127 per cent of GDP) in 2012. Over this period, Ireland experienced the largest increase in the indebtedness (relative to GDP) of any Euro Area country.

- The Government has substantial holdings of financial assets. These increased modestly over the same period to reach €73 billion (45 per cent of GDP) in 2012. The main assets are cash balances, holdings of semi-state entities and investments in the banking sector. The Government injected approximately €64 billion, including more than €30 billion in promissory notes, into the banking sector during the financial crisis. However, these investments have been heavily written down and were valued in the National Accounts at around €11 billion at end-2012.

- The Government's net financial assets (NFA), subtracting financial liabilities from financial assets, gives a broader measure of the financial position of government. NFA have declined from a position of balance in 2007 to a net liability of €135 billion (82 per cent of GDP) in 2012.

  Using this broader measure, the Irish government was the third most indebted country in the Euro Area in 2012 (as a share of GDP).

- The Government also has substantial holdings of non-financial (physical, intangible) assets, amounting to almost a third of GDP. Adding these assets to NFA gives overall General Government Net Worth. The Central Statistics Office (CSO) estimate that Net Worth was in a negative position at €77 billion (47 per cent of GDP) in 2012 (Summary Table).

SUMMARY TABLE: GOVERNMENT BALANCE SHEET INDICATORS IN 2007 AND 2012

	2007		2012		Change	
	€bn	% of GDP	€bn	% of GDP	€bn	% of GDP
1. Financial Assets	55	29	73	45	19	16
2. Financial Liabilities	54	29	208	127	154	98
3. Net Financial Assets (=1-2)	1	0	-135	-82	-135	-82
4. Non-Financial Assets	n.a.		57	35		
5. Net Worth (=3+4)	n.a.		-77	-47		

Source: Central Statistics Office and Eurostat end-year figures.
Note: numbers may not sum due to rounding.

LOOKING BEYOND THE GENERAL GOVERNMENT BALANCE SHEET

- The General Government is only part of the wider more comprehensive public sector, which includes the semi-state enterprises and financial corporations such as the Central Bank of Ireland. There can be important interactions between institutions inside and outside of the General Government sector. This has become more relevant since the banking crisis, as many of the vehicles used to help resolve it have been drawn from the wider public sector. From a comprehensive perspective, the impact of these operations on the Government's Net Worth and its exposure to risks is important.

- The Government and wider public sector have potentially important off-balance sheet (contingent and implicit) liabilities that should feature in any comprehensive analysis. Contingent liabilities are commitments, such as guarantees, that could lead to liabilities if

triggered, while implicit liabilities have no contractual basis but could nevertheless lead to expenses for the Government in the future. The CSO has estimated that exposure to contingent liabilities (which include bank guarantees and Public Private Partnerships) and pension liabilities amounted to €235 billion (144 per cent of GDP) at end-2012.

THE WINDING-UP OF IBRC FROM A COMPREHENSIVE PERSPECTIVE

- In February 2013, the Government announced a set of transactions related to the liquidation of the state-owned Irish Bank Resolution Corporation (IBRC). This marked an important step in dealing with the legacy of the banking crisis. The transactions are complex and involve a number of instruments, including the promissory notes, and government and related bodies including the Exchequer, the Central Bank of Ireland, the National Asset Management Agency (NAMA) and IBRC itself.

- A comprehensive analysis shows that a number of elements of both pre- and post-2013 support for IBRC and its loan book were effectively offsetting each other. Indeed, support was based in part on a somewhat circular flow of funds between the Exchequer, IBRC and the Central Bank. To the extent that Exceptional Liquidity Assistance (ELA) funding for this arrangement substituted for non-Irish sources, these arrangements amounted in part to borrowing from the Eurosystem through the TARGET2 payments system.

- Viewed from a comprehensive perspective, the impact on the net worth of the public sector of the liquidation of IBRC depends on a range of assumptions about future outcomes. A model developed and outlined in this paper suggests that the February transactions could lead to substantial gains over a range of reasonable assumptions. Relative to the size of government debt, however, the gains are small. The gains could increase substantially if the risk spread on Irish government debt were to narrow before the new bonds are sold to the market; conversely a deterioration in risk spreads could eliminate any gains.

- A key gain from the liquidation of IBRC and the ending of ELA will be to provide greater certainty about future funding needs. This gain is difficult to quantify but should be borne in mind when assessing present value calculations. While the Government faces short-run costs from the liquidation of IBRC and the acceleration of additional losses on its involvement, this may largely amount to drawing a line under costs that are likely to have been incurred in any event at a later date.