12 Oct 2021

# Irish Budget 2022: Big falls in debt ratio projected


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Events can render redundant any Budget arithmetic. The 2021 Budget delivered a year ago was predicated on GDP growth of just 1.7% and the Department of Finance now expects that figure to be over 15%, while nominal GDP is now estimated at €429bn, a full €70bn above the original projection. Employment and consumer spending are also much stronger than initially envisaged, despite the Lockdowns earlier this year, with the result that tax receipts are now expected to end the year at €65.7bn or €5.3bn above the Budget target. The Exchequer deficit is going to be much lower than planned as a result, at €12.2bn instead of €17.6bn, with the General Government deficit at €13.2bn or 3.1% of GDP, almost half the initial 5.7% expectation. The latter undershoot is even larger if one compares it to Budget revisions made in April, which had raised the expected 2021 deficit to over €20bn.

The higher than anticipated tax base has had a significant impact on the 2022 Budget revenue forecast, and economic growth is also expected to be much stronger in 2022 than previously forecast, at 5%, although this still appears low given the carryover effect from 2021. The net impact left the pre-Budget tax revenue projection at €70.4bn, compared with under €66bn forecast just two months ago. Pre-Budget spending is also higher but the forecast General Government deficit before any tax or spending announcements by the Minister was only 1.4% of GDP.

The Pre-Budget spending plans had included €3.2bn in previous commitments and the Minister announced an additional €1.4bn including over €500m on increased social welfare payments. Nonetheless, given the unwind of pandemic supports, day to day current spending actually falls in 2022, by €2bn or 3%. On the tax side the Budget announced tax cuts of €690m, largely in income tax, partly offset by increases of €375m, including an increase in the carbon tax, higher VRT rates, and additional duty on tobacco. The net result was only a modest change in the overall fiscal position relative to that pre-Budget, with the current budget in surplus of €3.3bn, offset by a capital deficit of €11bn, leaving an Exchequer deficit of €7.7bn. The broader General Government deficit is projected at €8.3bn.

*Table 1 Budget ratios*

| % of GDP | 2021(e) | 2022(f) | 2023(f) |
|---|---|---|---|
| General Government Balance | -3.1 | -1.8 | -0.2 |
| Primary Balance | -2.3 | -1.1 | 0.5 |
| Structural Balance | -0.2 | -0.2 | -0.1 |
| Debt ratio | 55.2 | 51.9 | 50.5 |

*Table 1 Budget 2022*

| Exchequer spending and receipts(€bn) | 2021(e) | 2022(f) | % change |
|---|---|---|---|
| Current Expenditure | 70.5 | 68.8 | -2.4 |
| Voted | 63.0 | 61.0 | -3.1 |
| Non-voted | 7.5 | 7.8 | 3.3 |
| Revenue | 68.1 | 72.1 | 5.8 |
| Tax | 65.7 | 70.2 | 6.8 |
| Other | 2.4 | 1.9 | -20.1 |
| Current Budget Balance | -2.4 | 3.3 | |
| Capital Budget Balance | -9.8 | -11.0 | |
| **Exchequer Balance** | -12.2 | -7.7 | |
| **General Government Balance** | -13.2 | -8.3 | |
| **(% of GDP)** | -3.1 | -1.8 | |

The Direct tax measures are deemed to boost household disposable income by an average 0.6%, but overall the budget deficit falls from 3.1% of GDP to 1.8% and so the net spending injection can be said to fall, implying the Budget will dampen demand. However, the Budget is itself impacted by the economic cycle and the Department of Finance estimates that the deficit would have fallen by 1% due to economic growth, and that the structural deficit is broadly unchanged on the previous year at 0.2% of GDP.

Irish GDP growth is substantially higher than the average interest rate on the debt , which is projected at only 1.4% in 2022. Consequently, the modest primary fiscal deficits run by Ireland are not sufficient to offset this 'snowball' effect and the debt ratio is plunging, falling to an estimated 55.2% of GDP in 2021 and 51.9% in 2022., with the latter also impacted by a large projected fall in NTMA balances (i.e. they will underfund) following a substantial overfund this year.

The EU's Stability and Growth Pact has been suspended but as Ireland's debt ratio is well below the stipulated 60% ratio the Government can effectively set its own fiscal rules. In the recent Summer Economic Statement a medium term path for spending was set out, incorporating a 5% annual increase in core expenditure, deemed in line with the trend growth in national income. Revenue would move with the economic cycle, so the budget balance would fluctuate with economic conditions, known as allowing automatic stabilisers to work. The spending emphasis has shifted to the capital side nonetheless, and in effect Ireland is adopting a UK style fiscal rule- avoid a current budget deficit while ensuring that the capital deficit and hence the overall deficit is low enough to keep the debt burden on a declining path.

The Budget projections also throw up a metric which captures the transformation of the Irish economy and the debt dynamic. Ireland is now a net contributor to the EU budget and its gross contribution in 2022 is set at €3.5bn, which is higher than the €3.4bn annual interest payable on the debt.