Economic Commentary

Uncertainties abound ahead of 2014 Budget 2 Oct 2013

The latest Exchequer returns, to end-September, show tax receipts in line with profile, although the detail may provide less comfort for the Minister ahead of the 2014 Budget, due later this month. Income tax, Vat and excise duties, which most closely reflect activity in the economy, are behind profile by a total of €409mn, which is consistent with the GDP data this year, also running behind official expectations. That weakness in those specific receipts is being offset by very strong corporation tax (€239mn above profile), stamp duty (€107mn ahead) and receipts from the Local Property tax (€80mn) although the latter profile is at odds with the actual payment date of the tax.

Exchequer spending is running behind profile (the much talked about overruns in health are not evident in the returns) so it is reasonable to assume that the 2013 General Government deficit target will be met, at least in money terms, but the weakness in some of the key tax headings adds to the forecast uncertainty surrounding the 2014 Budget.

That is already high following the decision to present the Budget in mid-October instead of the usual December, That may comply with new EU rules but the Department of Finance will have to produce forecasts for GDP growth with only two quarters of data for 2013 available (and perhaps an ongoing US budget impasse) and to project tax receipts ahead of November, the largest tax month. They will therefore have to make a call as to whether the current weakness in some key tax headings will persist or whether they will recover and hence make the targets penciled in for next year realistic.

In that context the current debate on the level of adjustment required in the 2014 Budget is not well grounded in reality– the adjustment is supposed to be a residual required to hit a specific deficit ratio and not a target in itself. Yet the debate on whether the adjustment should be the original €3.1bn or something less ignores the fact that neither GDP nor the main tax headings are emerging as expected-real and nominal GDP will be lower than initially forecast, with the Central Bank the latest to reduce its projections for this year and next. It now appears highly likely that the debt and deficit ratios will be higher than projected this year, and that the planned fiscal adjustment for next year will result in a higher deficit ratio than currently foreseen. So making the adjustment the target may mean accepting a higher debt and deficit figure than envisaged earlier this year, which may be the real debate being held with the Troika.

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