Economic Research

Irish 2017 Budget Outturn 3 Jan 2018

The Irish Exchequer finished 2017 in a stronger fiscal position that projected in the Budget and relative to expectations just a few months ago. At year-end the Exchequer recorded a surplus of €1.9bn, the first since 2006, against an initial projection of a €2.2bn deficit , later revised to a €1.4bn surplus following the sale of equity in AIB, which raised €3.4bn. The Exchequer figures are on a cash basis as opposed to the General Government Balance, the standard EU measure of the fiscal position, which is based on accruals and includes other adjustments, validated by Eurostat, and as such is not known with certainty at this point, although it is likely to emerge as a €600m deficit, or around half the original forecast.

Tax receipts were behind profile for most of the year but recovered in recent months, ending 2017 marginally (€100mn) above target , at €50.7bn, 6% up on the previous year. Most tax headings were actually behind profile, notably income tax, but this was offset by another very strong inflow from corporation tax, which climbed to €8.2bn, some €0.5bn above target. This tax component is the most volatile but has now exceeded expectations for six consecutive years, by a cumulative €4.1bn, implying that the Department of Finance is erring on the side of caution in its projections under this heading, perhaps wisely.

Current spending came in €300mn below the original Budget projection, with a €300mn overshoot on voted expenditure more than offset by a €600mn undershoot on non-voted outlays, the latter including lower than projected debt interest, a common occurrence and one also implying a forecasting bias. The net result was a current budget surplus of €2.7bn against an initial target of €2.2bn and highlighting how much the underlying Irish fiscal position has changed since the financial crash; the current budget deficit in 2010 was over €12bn, with tax receipts below €32bn.

On the capital side spending was broadly on target but receipts were much larger than initially anticipated as a result of the AIB sale, such that the capital account deficit was only €0.8bn instead of the €4.2bn Budget forecast, so giving an overall Exchequer surplus of €1.9bn.

The fact that tax receipts ended the year only marginally different from expectations means that the revenue growth required to hit the 2018 target is not greatly changed, declining to 5.8% from the previously assumed 6%, which implies that the announced fiscal targets are still valid. The debt ratio looks a little different though. Nominal debt is around €200bn and GDP growth last year now looks to have been much stronger than assumed, following the q3 national accounts. Real growth was probably at least 6.5%, as opposed to the 4.3% forecast by the Department of Finance, with nominal GDP perhaps €296bn against €289bn , implying a debt ratio of 68% rather than one over 70%. A much stronger growth outturn would also mean that more of the Budget improvement is down to cyclical rather than structural factors implying a higher structural budget deficit than currently assumed, although the EU may also decide that Ireland's potential growth rate last year was much higher than the 4.5% used in its calculations of the structural deficit..

Exchequer Statement (€bn)	2017 Budget	2017 Outturn	Difference
Current Expenditure	51.2	50.9	-0.3
Voted	41.7	42.0	0.3
Non-Voted	9.5	8.9	-0.6
Current Revenue	53.2	53.6	0.4
Tax receipts	50.6	50.7	0.1
Other	2.6	2.9	0.3
Current Budget Balance	2.0	2.7	0.7
Capital Budget Balance	-4.2	-0.8	3.4
Exchequer Balance	-2.2	1.9	4.1
General Government Balance	-1.2	-0.6 (e)	
(% of GDP)	(-0.4)	(-0.2%)	