Economic Research

Irish Budget 2020 — 8 Oct 2019

Economic activity this year has been stronger than initially anticipated by the Government (and the consensus) with GDP growth now projected at 5.5% against the 4.2% forecast which underpinned the 2019 Budget. The Government now expects tax revenue to come in some €700m ahead of target although this is due to an €800m expected overshoot from corporation tax . Indeed, tax from that source has overshot the budget forecast in every year since 2011, implying a systematic bias in forecasting and the difficulty in projecting the tax base for a revenue source highly dependent on a small cohort of multinational companies.

The 2019 outturn will also benefit from lower than projected debt interest and a much higher profit from the Central Bank (both, again, usually underestimated) leaving the General Government in surplus, at a projected €600m, instead of the broad balance initially projected and therefore in good shape facing in to what could be a turbulent year. In fact the Government has decided to base the 2020 Budget on a no-deal Brexit assumption, with the result that GDP growth is projected to slow sharply to just 0.7%, which results in much slower employment growth and a rise in the forecast unemployment rate, to 5.7% from an average of 5.2% this year. Nonetheless, tax receipts pre-budget were forecast to rise by 3.9% or €2.3bn, and further debt service savings contribute to a balance budget position,

What is surprising post-Budget is what is seen as a significant hit to the economy (a no-deal Brexit) leaves a scratch rather than a significant dent in the fiscal position, with the debt ratio actually falling from under 60% this year to a forecast 56.5%. The General Government balance does swing into deficit, but only a modest 0.6% of GDP, and that includes a €1.2bn contingency figure to be used if a no-deal Brexit actually materialises.

Fiscal Indicators (% of GDP)	**2018(e)**	**2019(f)**
General Government Balance	0.2%	-0.6%
Structural Balance	-1.3%	-0.8%
Primary Structural Balance	0.1%	0.4%
Debt/GDP	59.3%	56.5%

Absent that contingency money the 2020 Budget actually delivered modest changes relative to the expenditure and taxation projections outlined ahead of the speech. Expenditure increases of €931m were announced, alongside a net €340m increase in tax revenue. On the latter the most surprising change related to stamp duty on commercial property , which increased from 6% to 7.5%. The Minister also raised the Carbon Tax from €20 a tonne to €26 , as widely leaked, and outlined a new tax structure for Diesel cars, based on Nitrous Oxide emissions rather than CO2.

The post-Budget position is that tax receipts in 2020 are projected to rise by €2.5bn or 4.3% , including much higher customs receipts, with overall current revenue increasing by only €1.5bn due to a big fall in the projected surplus from the Central Bank. On the spending side further falls in debt service are more than offset by higher payments to the EU while day to day spending increases by €1.7bn or 3.6%. As a result the current Budget surplus falls from an expected €6.6bn this year to €5.8bn next, which is still remarkable strong. The capital deficit in 2010 is forecast at €6.1bn, leaving a small exchequer deficit of only €0.3bn, which climbs to €1.6bn when the Brexit contingency is included. The broader General Government deficit is a tad higher at €2bn or 0.6% of projected GDP

Perhaps the most striking feature of the Budget arithmetic is the fall in the debt ratio. The debt dynamics are favourable anyway– the average interest on the debt has fallen to 2%, which is still below nominal GDP growth in 2020– but the projections include a substantial fall in cash balances, such that the actual debt figure declines by €4.5bn to €198.5bn . In structural terms the economy is operating well above capacity and on the EU definition is running a fiscal deficit of 1.5% of GDP, which falls to 0.8% in 2020. The primary structural balance is in small surplus, however, which rises marginally in 2020, implying the budget is modestly contractionary, although the Department of Finance argue that the output gap is lower and will disappear in 2020 implying a much smaller structural deficit than under the EU's methodology.

Exchequer Statement (€bn)	**2019 (e)**	**2020 (f)**	**% change**
Current Expenditure	55.1	57.4	4.2
Voted	47.0	48.7	3.6
Non-Voted	8.1	8.7	
Current Revenue	61.7	63.2	2.4
Tax receipts	58.6	61.1	4.3
Other	3.1	2.1	
Current Budget Balance	6.6	5.8	
Capital Budget Balance	-7.6	-6.1	
Brexit Contingency		1.2	
Exchequer Balance	-1.0	-1.6	
General Government Balance	0.2	-2.0	
(% of GDP)	(0.0%)	(-0.6%)	