



Economic Research

Irish Budget 2021

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It seems a different age but this time last year the Irish Government projected a modest €2bn General Government deficit (GGD) for Budget 2020, equivalent to 0.6% of GDP, and that included a €1.2bn contingency as the forecast was predicated on a no-deal Brexit. By April all had changed, with the Covid Pandemic expected to lead to a 10.5% contraction in GDP, a €10bn collapse in tax receipts and a GGD of €23bn (7.3% of GDP), including an Exchequer Borrowing Requirement (EBR) of €15.6bn. In the event tax receipts are now expected to end this year €7.3bn above that April projection, although the EBR expectation is unchanged as Government spending has soared, with Current day to day spending some €15bn (31%) higher than in 2019 and almost €6bn above the April projection. The GGD is expected to come in at €21bn or 6.2% of the revised GDP figure, with the latter contraction now put at 2.5%.

The Government faced two big unknowns in framing Budget 2021– the future path of Covid and the trade relationship with the UK, There may have been a case for postponing the Budget in the hope of some clarity on Brexit but the Government has assumed there will be no free trade deal and that a vaccine for Covid will not be widely available next year, with the result that GDP is forecast to grow by just 1.7%. Surprisingly, perhaps, tax receipts pre-Budget were expected to increase by 5.8%, helped by a big rebound in consumer spending, with Current day to day spending projected to fall by €5bn or 8%, so resulting in a lower EBR of €11.4bn and a fall in the GGD to €14bn or 4% of GDP. This latter figure is always an estimate as it has to be validated by Eurostat, while the EBR is cash based and tells us how much the Exchequer will have to borrow, which alongside redemptions determines how much debt Ireland will have to issue in the coming year. The NTMA can also run down its accumulated cash balances (i.e. underfund) or build up cash balances by overfunding, although the latter pushes up the debt figure.

Fiscal Indicators	2020(e)	2021(f)
General Government Balance	-€21.6bn	-€20.5bn
General Government Balance (% GDP)	-6.2%	-5.7%
Primary Government Balance (% GDP)	-5.1%	-4.7%
Debt/GDP	62.6%	66.6%

The Pandemic has prompted the EU to suspend its fiscal rules but in the event Ireland's debt ratio ended 2019 well below 60% , and the 2020 outturn is put at 62.6%, with Budget 2021 projecting a figure of 66.6%, following the Minister's decision to maintain a similar deficit to this year. Given the prospect of some GDP growth the deficit ratio is forecast to fall modestly, to under 6% of GDP.

The post-Budget growth GDP growth projection, at 1.7%, is marginally stronger than the 1.4% pre-Budget figure, implying that the fiscal announcements are deemed to be marginally expansionary, although one should note that the primary deficit (i.e. excluding interest payments) falls from 5.1% of GDP to 4.7%, indicating a modest contractionary impact. This reflects the fact that tax revenue as a proportion of GDP actually rises, in part due to non-indexation of the income tax system.

This seems at odds with the huge spending announcements on the day from the Minister, with Government expenditure rising by €7bn, while tax changes were marginal in total, amounting to a net €265m cut , albeit offset by the tax buoyancy generated by the forecast boost to growth. These changes relate to the pre-Budget White Paper , which as noted had incorporated a big fall in spending. A better gauge is to look at spending relative to the projected 2020 outturn,. although of course that was not planned this time last year. To that extent the 2021 Budget is unique in the scale of expenditure by the State, with General Government spending at a record €109bn, some €3.3bn above the 2020 level and a massive €22bn above the figure in 2019. . Judged by the recent past it is unlikely that the Budget path will unfold as outlined today, with growth perhaps much higher or suffering from a more prolonged downward shock. Fortunately, in the latter event the cost of borrowing is at record lows, with the average interest rate on Ireland's existing debt at 1.6%, and the average cost of the €21bn borrowed year to date marginally above zero.

Exchequer Statement (€bn)	2020 (e)	2021 (f)	% change
Current Expenditure	69.6	70.3	1.0
Voted	61.9	62.3	0.5
Non-Voted	7.8	8.0	
Current Revenue	59.4	61.5	3.5
Tax receipts	56.7	60.4	6.5
Other	2.7	1.1	
Current Budget Balance	-10.2	-8.8	
Capital Budget Balance	-6.5	-8.8	
Exchequer Balance	-16.7	-17.6	
General Government Balance	-21.6	-20.5	
(% of GDP)	(-6.2%)	(-5.7%)	