Economic Commentary

November tax data implies lower than forecast deficit 3 Dec 2013

November is a crucial tax month in Ireland, with an expected inflow this year of €5.8bn against an average of under €3bn a month over the rest of the year. This increases the probability of forecast errors , as recently pointed out by the Fiscal advisory Council, as the Budget has been brought forward into mid-October to comply with new EU rules. In the event November's receipts were much better than expected, implying than the 2013 fiscal outturn will indeed emerge at variance with the official estimate, this time with a lower deficit in prospect.

Tax receipts in November came in €177mn or over 3% ahead of profile, driven by a strong performance from excise duties and Vat , the former no doubt boosted by duties increased in the Budget . As a result tax receipts over the first eleven months of the year are now €214mn or 0.6% ahead of profile, with excise duty ahead of target having been adrift for most of the year. Vat is still behind profile, by €102mn or 1%, but that represents an improvement relative to the previous trend. Income tax is also adrift but again the shortfall has diminished , while corporation tax, stamp duty and receipts from the Local Property tax have exceeded expectations, to give a total tax of €35.2bn to the end of November.

The weaker tone in receipts over the summer, particularly in excise duties and Vat, persuaded the Department of Finance to trim its forecast for receipts for the full year, with a €37.8bn tax take projected, some €200mn shy of the original target, implying that they did not envisage a strong November. In the event the latest figures imply that if December delivers the €3bn expected in the profile, tax receipts for the full year will then amount to €38.2bn, and therefore ahead of the initial Budget target and some €400mn ahead of the revised target.

There is no guarantee that this month's tax inflow will be on profile, of course, but a substantial miss is unlikely. In addition the Government has a lot of leeway on the spending side, with an undershoot year to date of €844mn or 2.1%, including a remarkable €375mn (15%) on the capital side.

The net result was a current budget deficit to end-November of €9.2bn against €9.6bn a year earlier. The latter rose by another half a billion to €10.1bn at the end of 2012, so the probability is high that this year's current budget deficit will come in well below the €10.8bn projected in October, with the size of the undershoot partly depending on whether the government decides to accelerate the pace of spending to bring it back up to profile. This is particularly true on the capital side, and that will determine the scale of the undershoot in the overall exchequer deficit, projected at €11.3bn .

In the absence of some unexpected developments the Government now appears to be in a position to spend heavily in December and still bring the deficit in below that projected just seven weeks ago..