An Roinn Airgeadais
Department of Finance

Budget 2021

#Budget2021

Budget 2021…

- Budget 2021 is framed on two key assumptions
  1) No vaccine is found for Covid-19 before end 2021
  2) Disorderly end to the transition period between the UK and EU

- The economic forecasts underpinning this Budget have been endorsed by the Irish Fiscal Advisory Council (IFAC).

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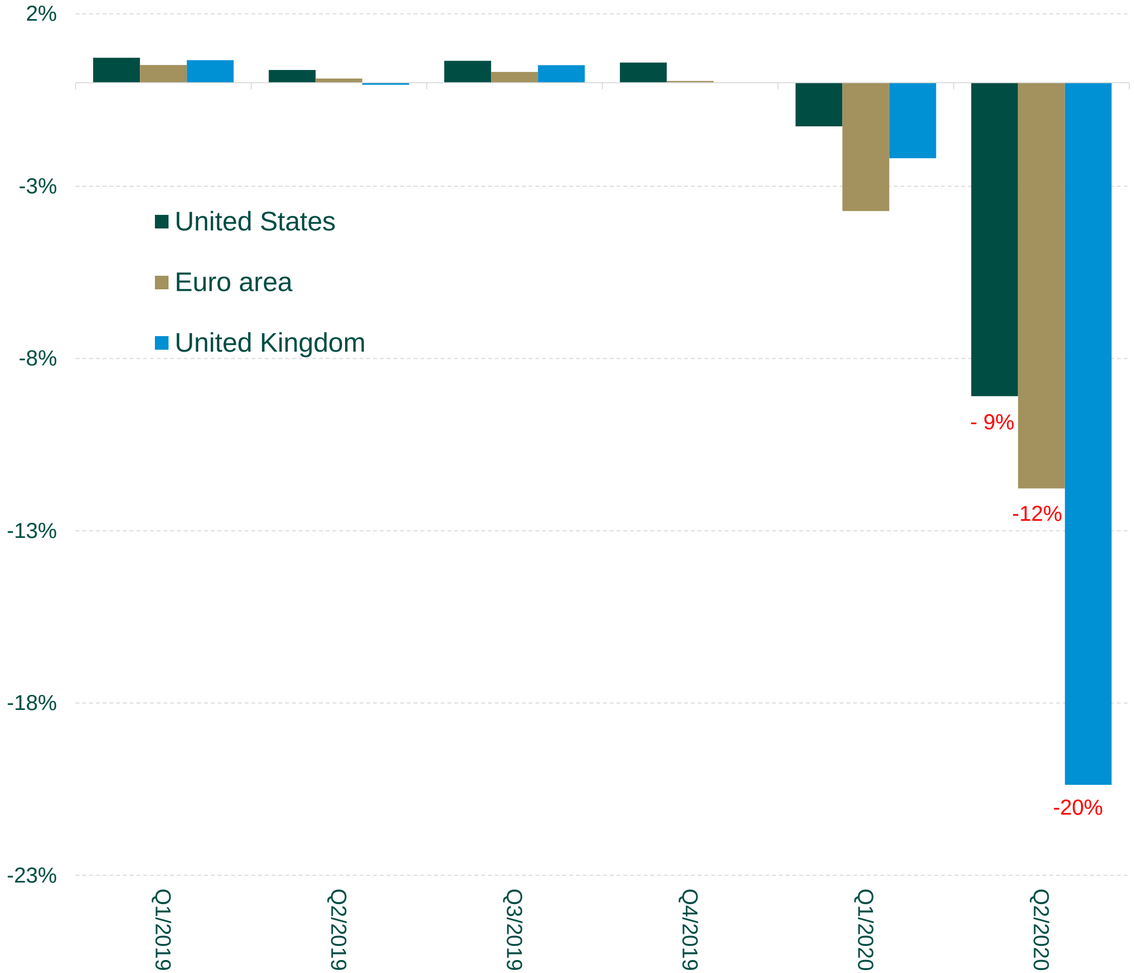
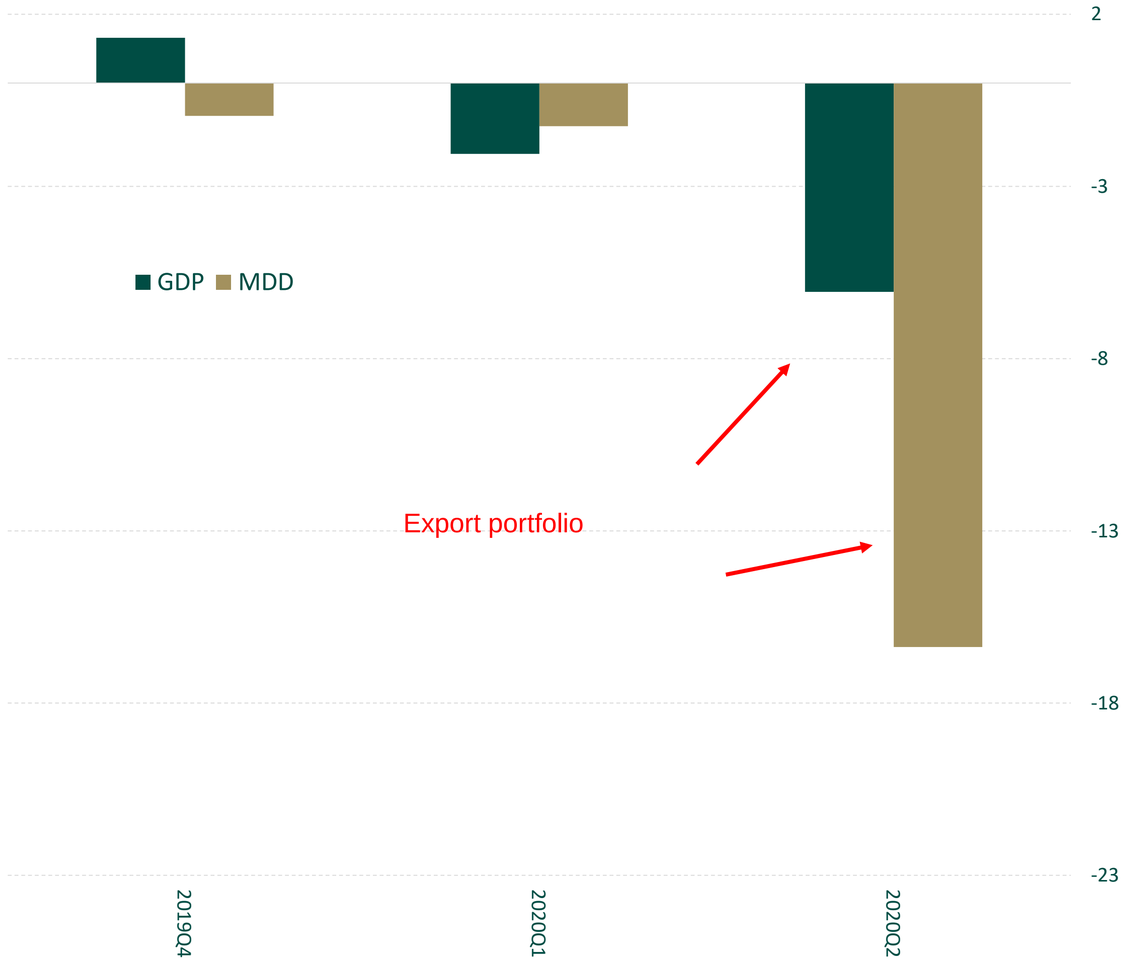
Truly global symmetric shock

Record GDP fall in key trading partners, q/q per cent change



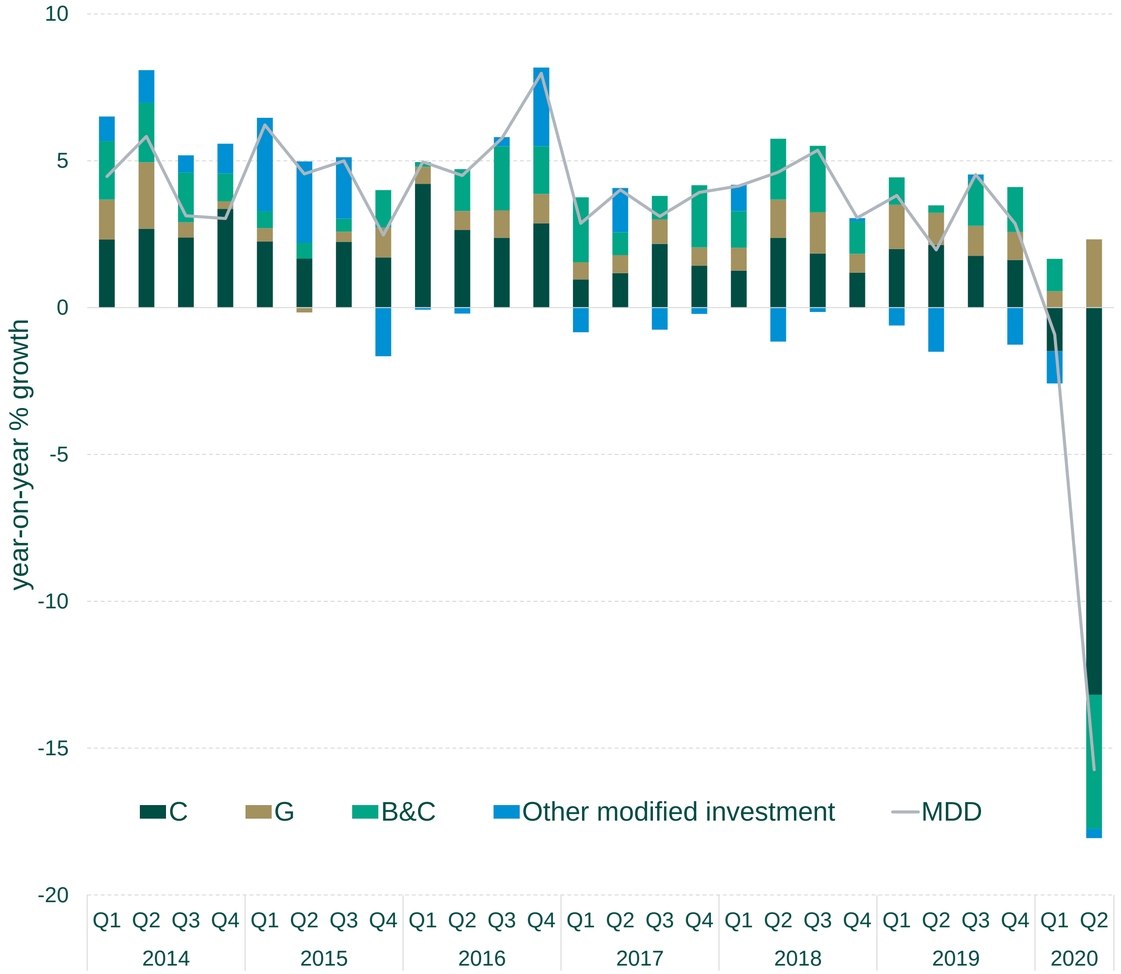
"Two-speed" economic impact, q/q per cent change



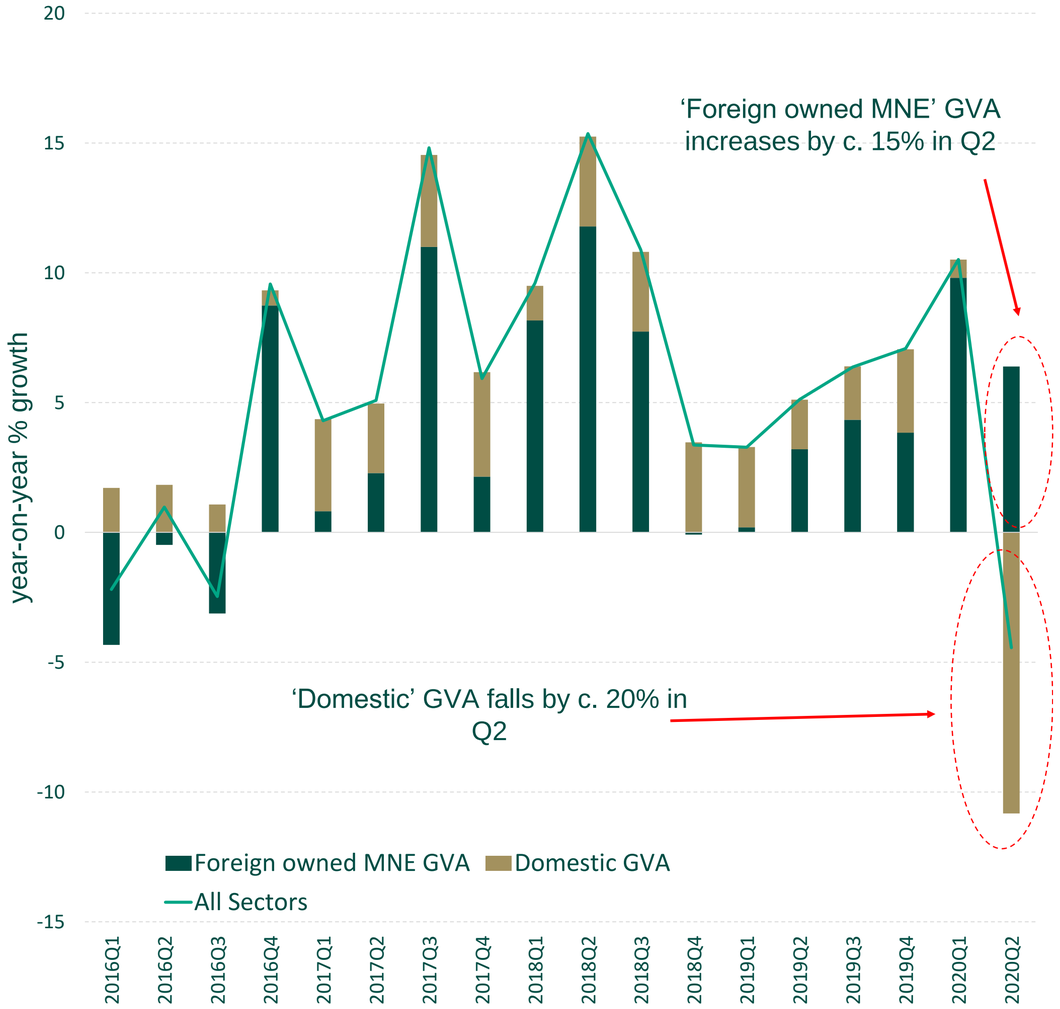
Source: a) Macrobond b) CSO

Impact on Domestic Economy

Q2: modified domestic demand = -16 per cent



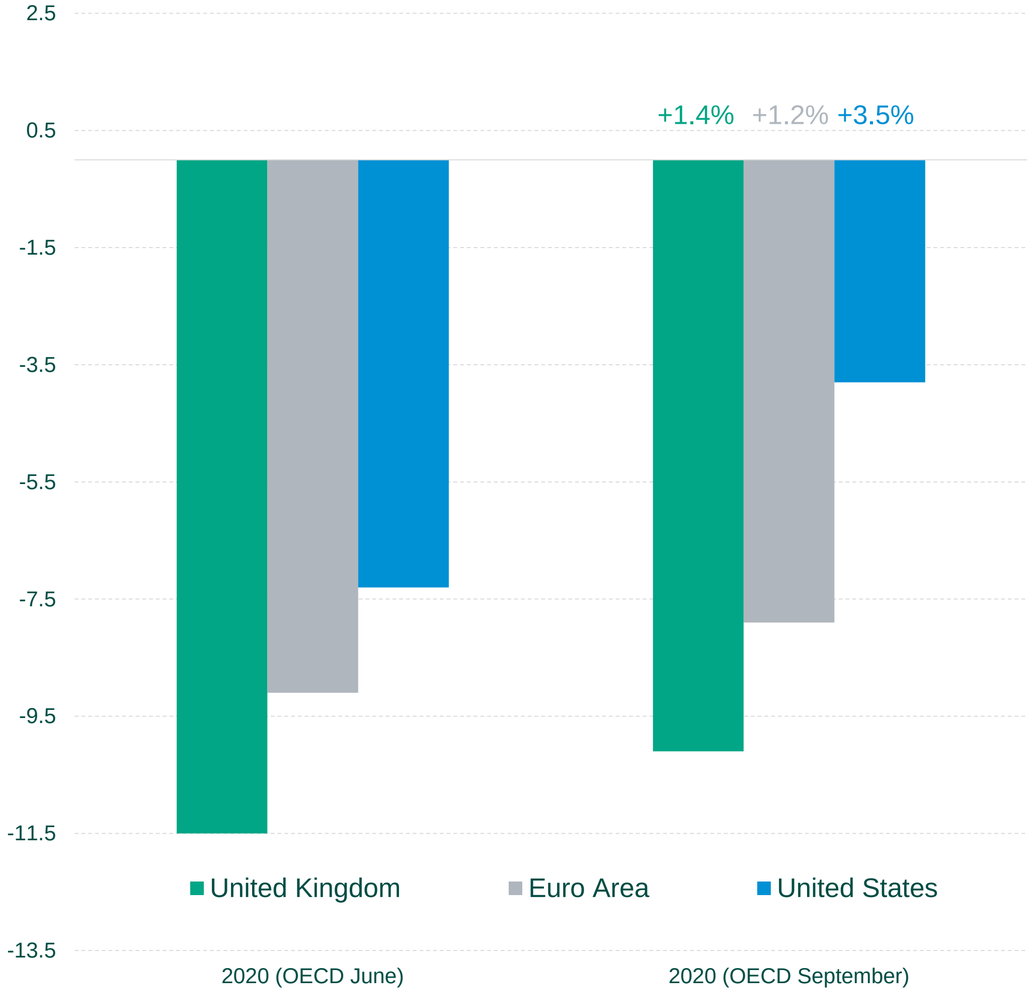
Contribution to GVA growth



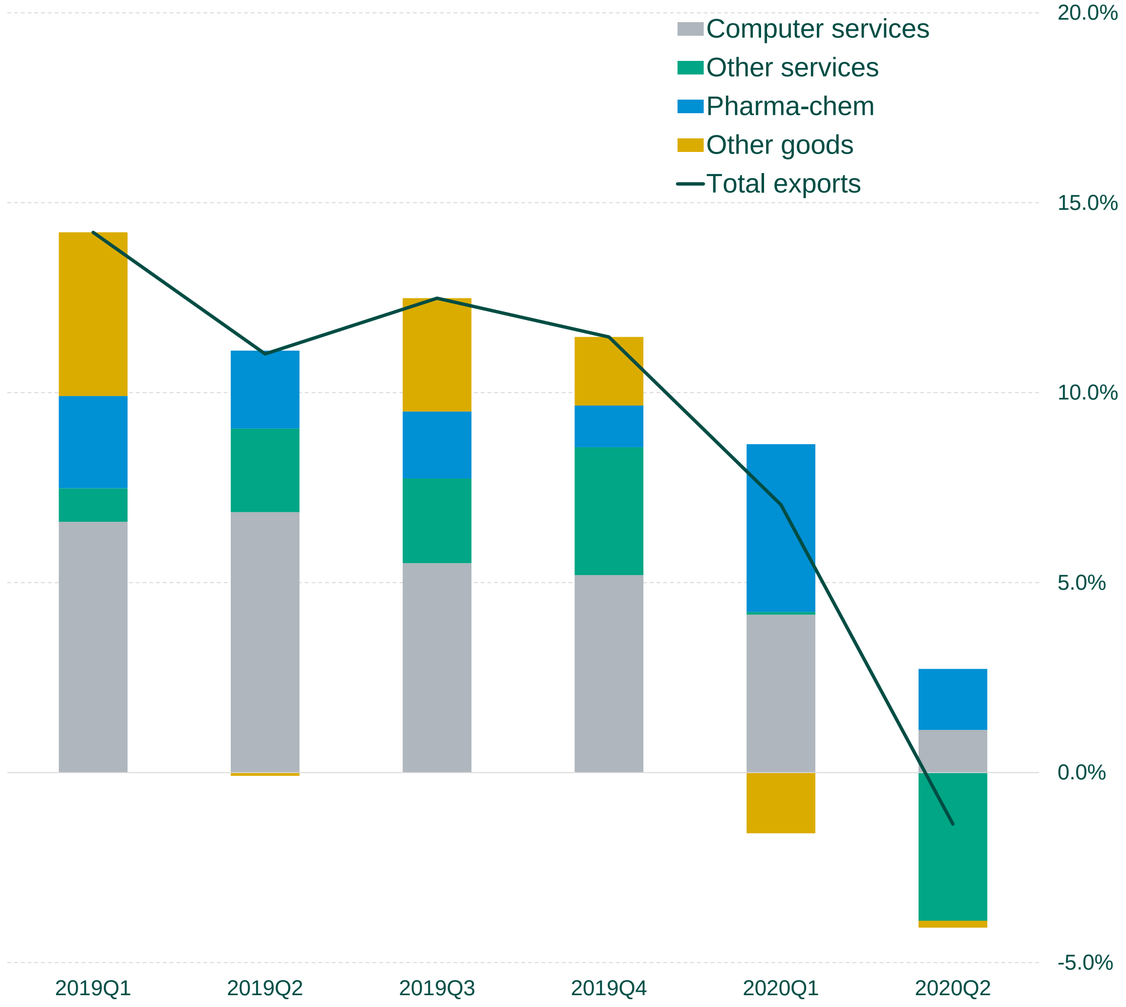
Source: a) CSO b) CSO

Exports proving resilient (so far) to fall in external demand

GDP – modest revisions in key trading partners



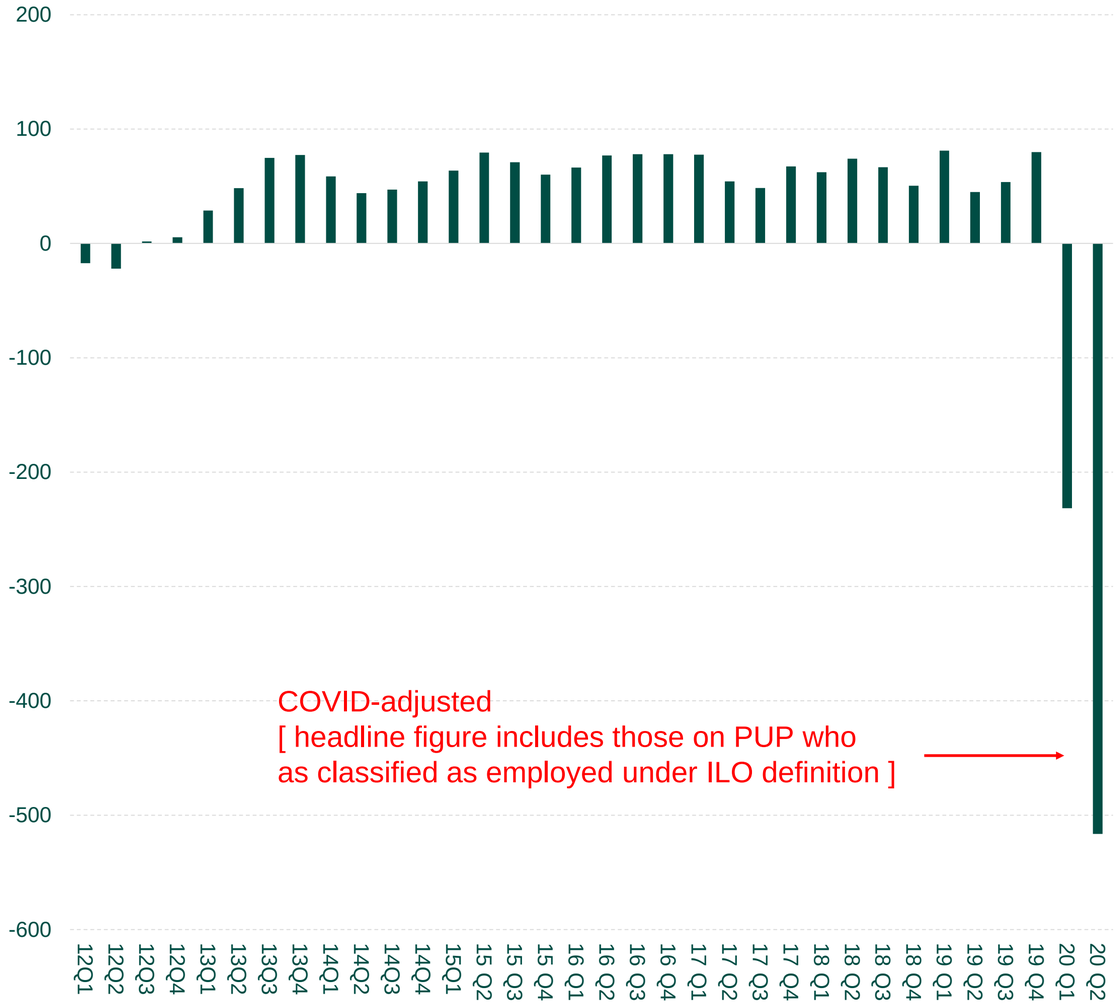
Contributions to Irish exports



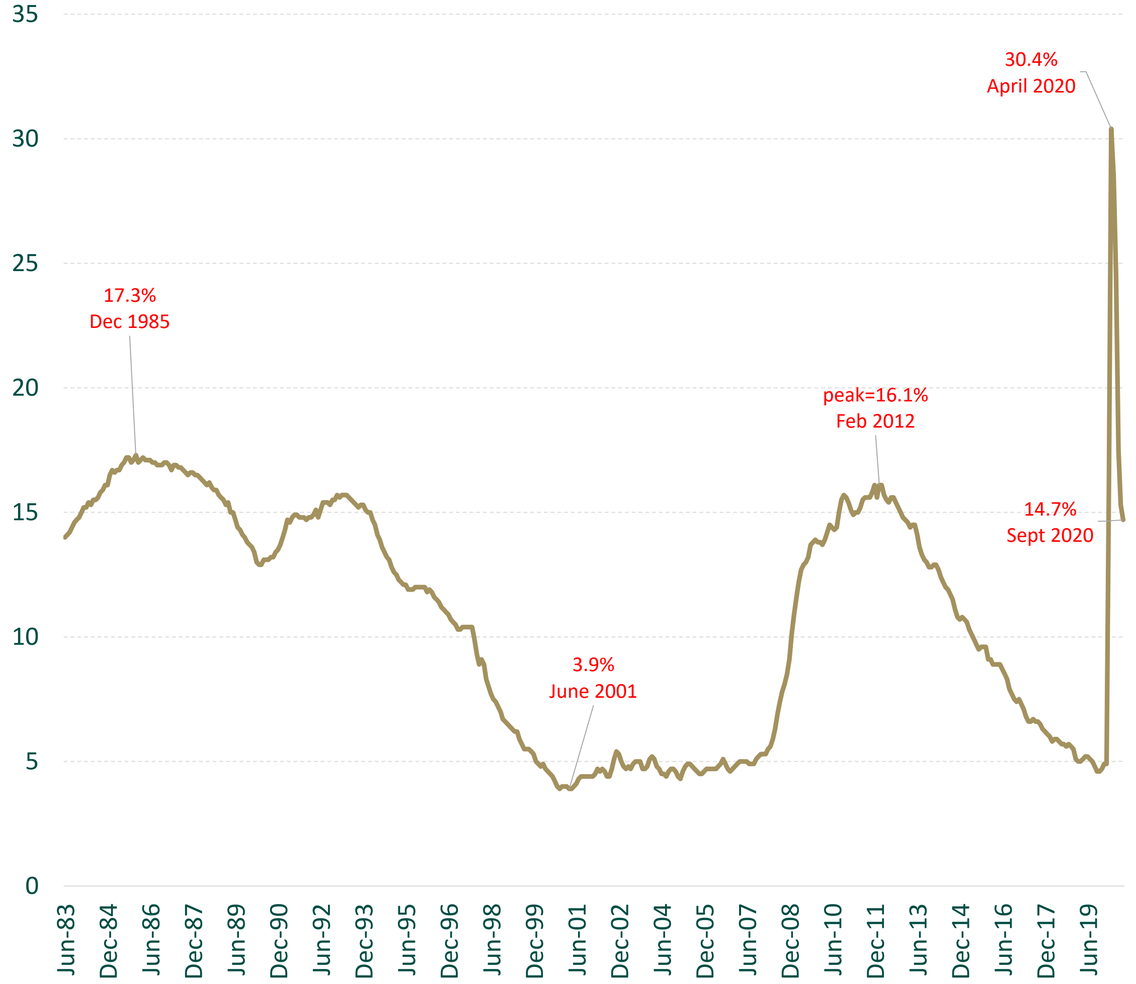
Source: a) OECD b) CSO

Fall-out in the labour market unprecedented

Change in employment levels (000's, y/y)



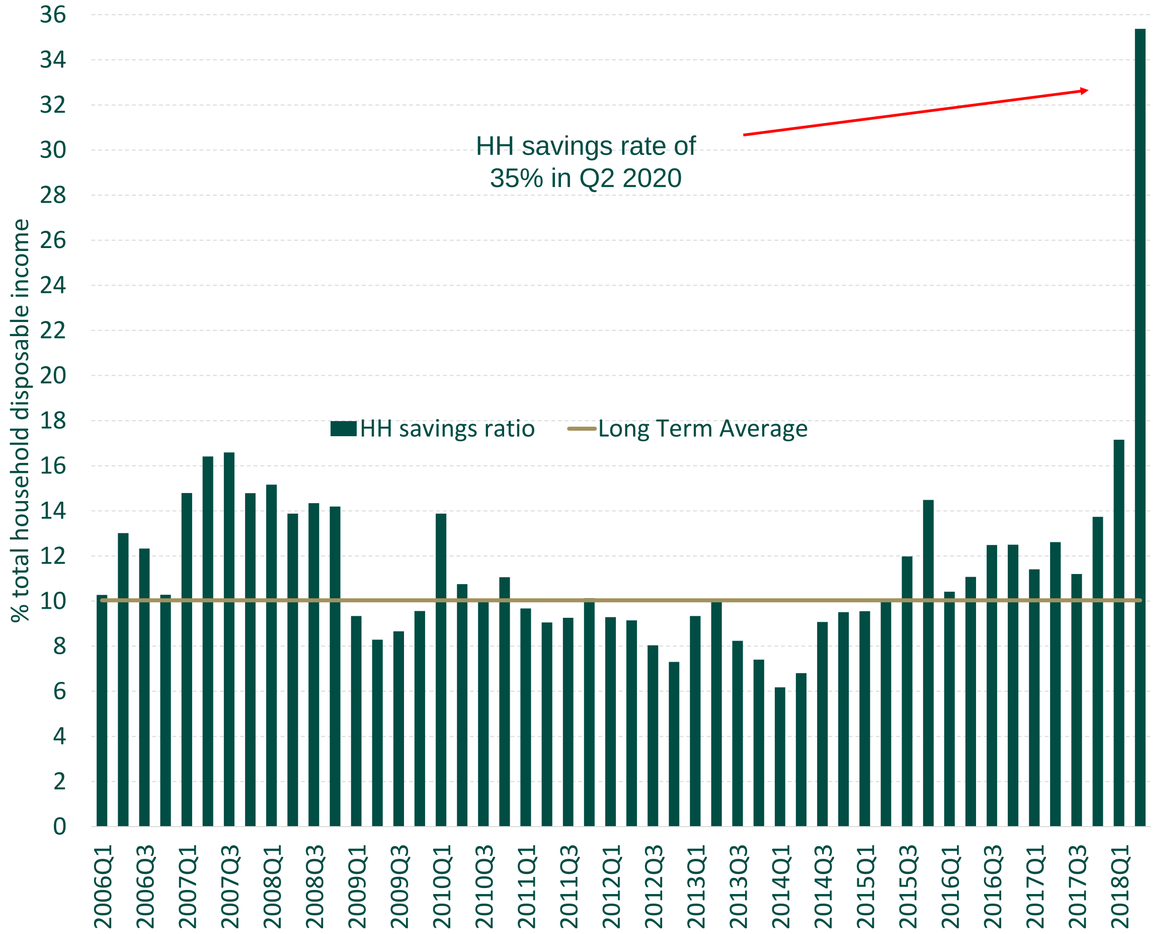
Unemployment rate, per cent = highest level ever [c. twice GFC rate]



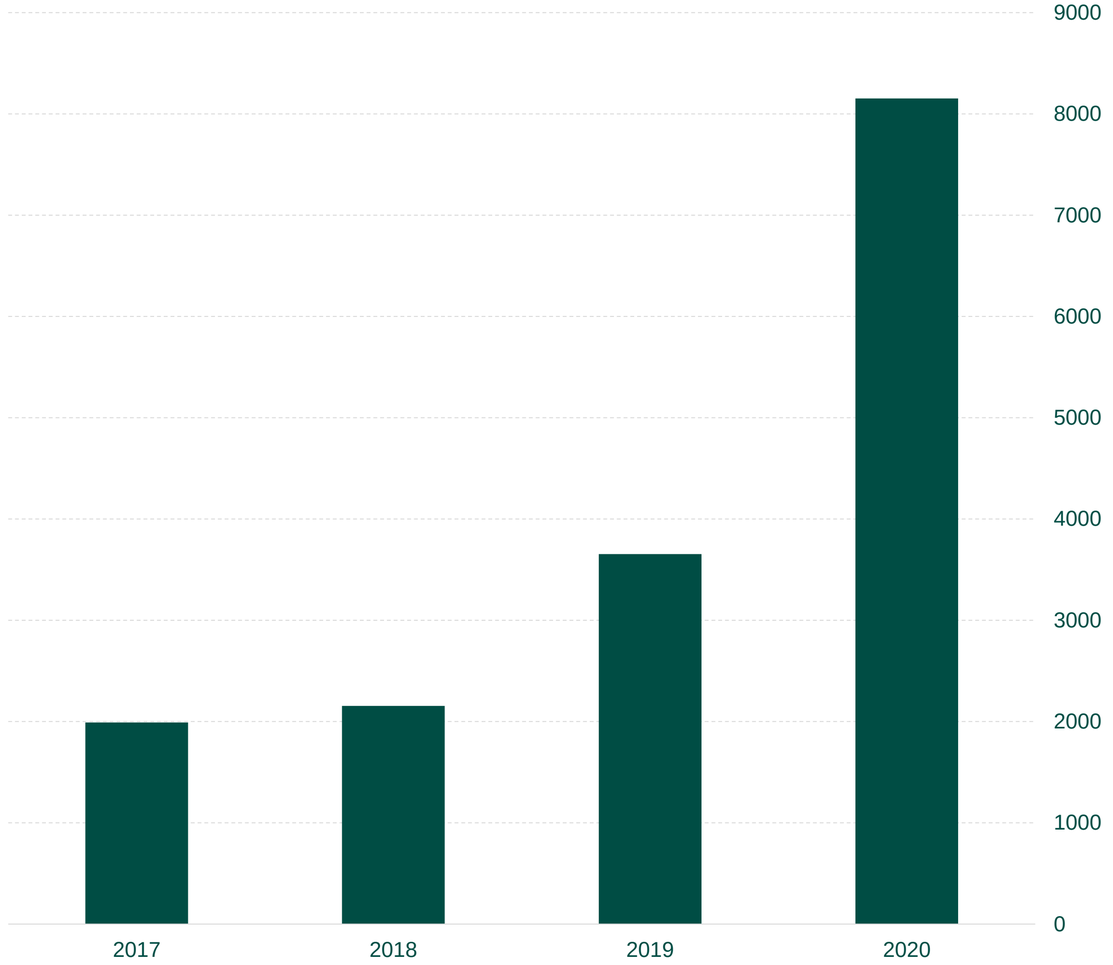
Source: a) & b) CSO

Significant increase in HH Savings: precautionary or delayed consumption?

HH Savings Ratio



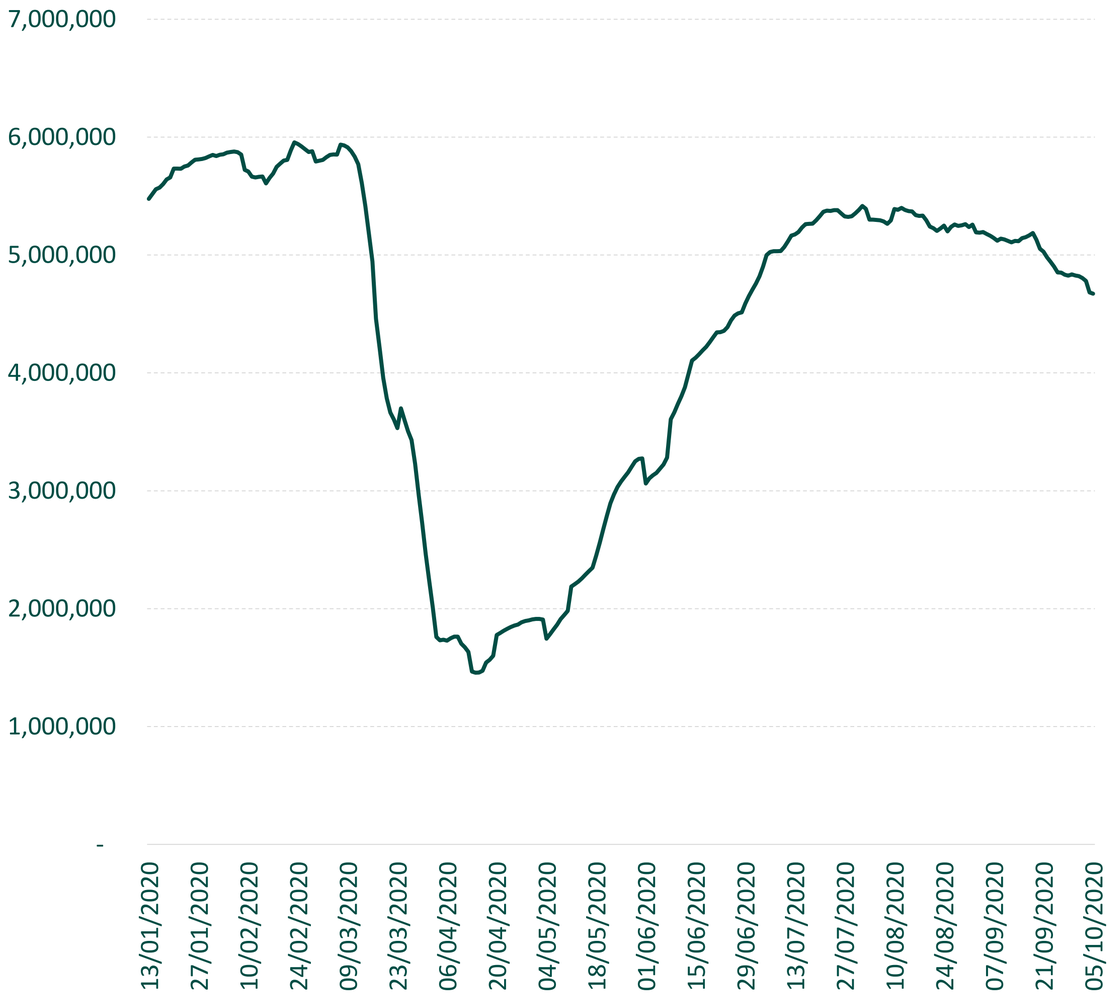
Change in household deposits, February to July, € million



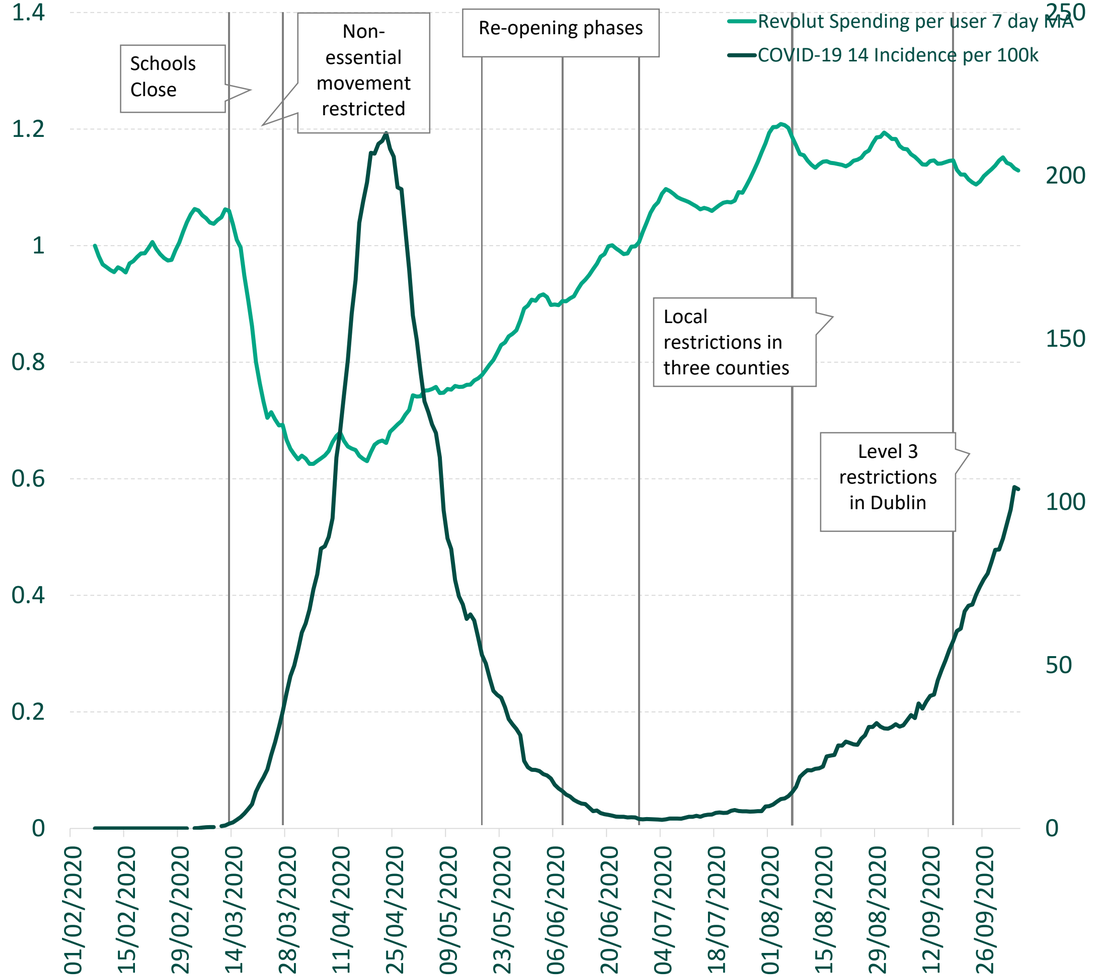
Source: a) CSO, b) CBI

Ultra-high frequency / real-time data confirm rebound in q3

Number of cars on Irish roads



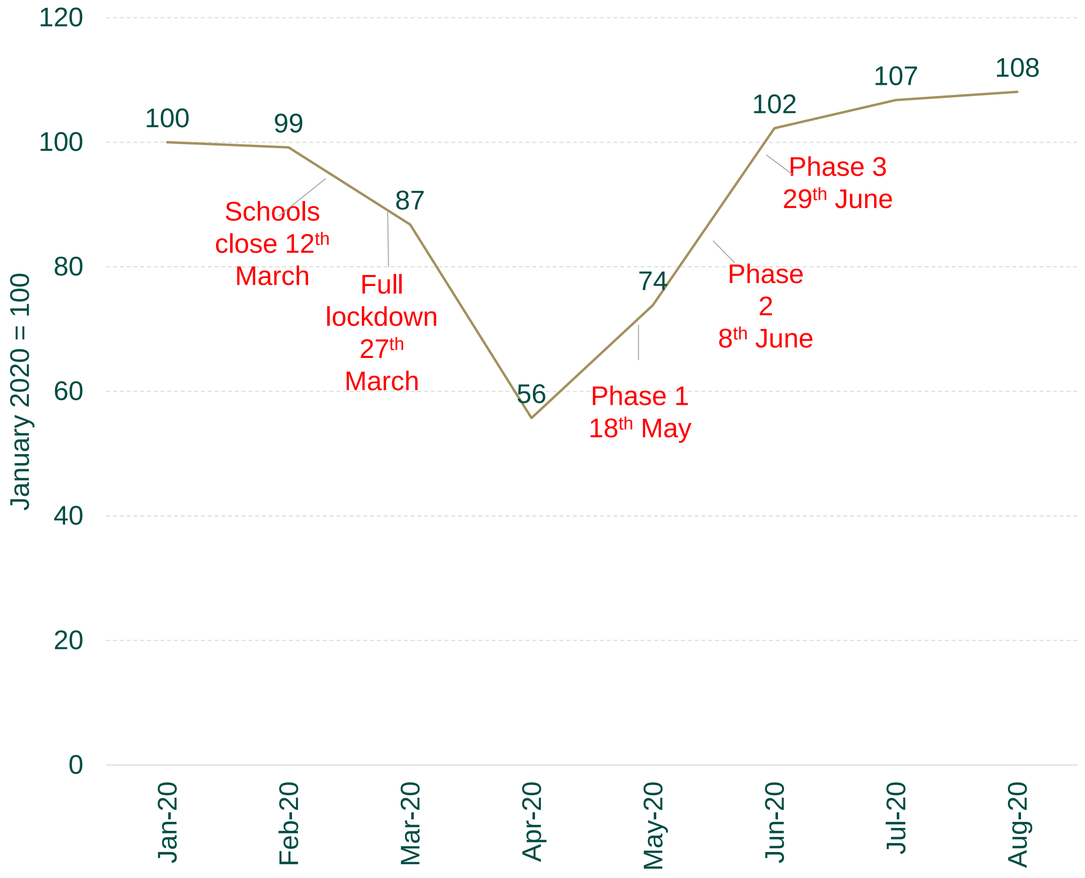
Daily *Revolut* transactions vs daily new infections (7 day ma)



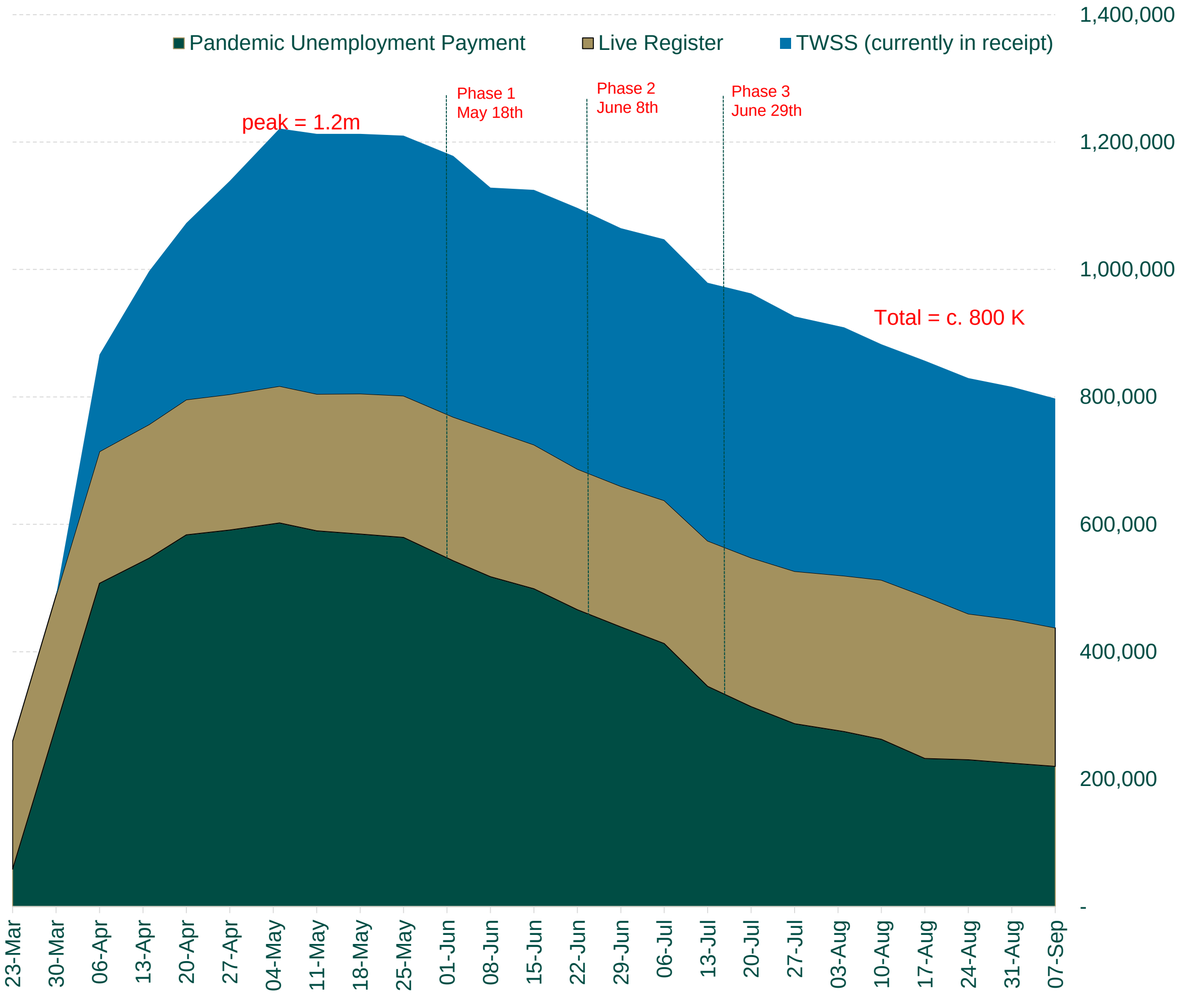
Source: a) TII and b) Revolut

‘Unofficial data’ broadly confirmed by ‘official data’

Retail sales [=goods] suggest release of pent-up demand



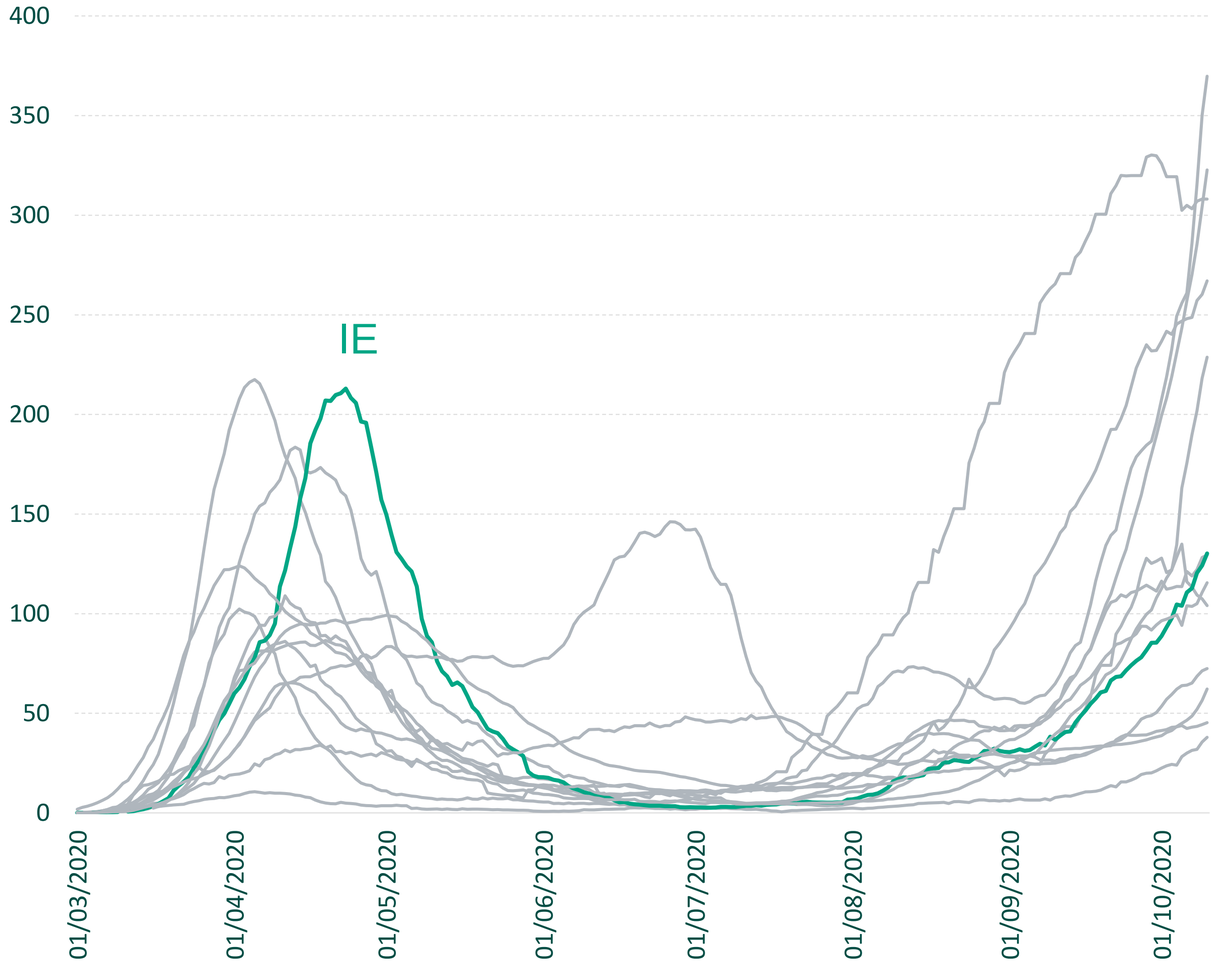
Unemployment / under-employment falling but v. high



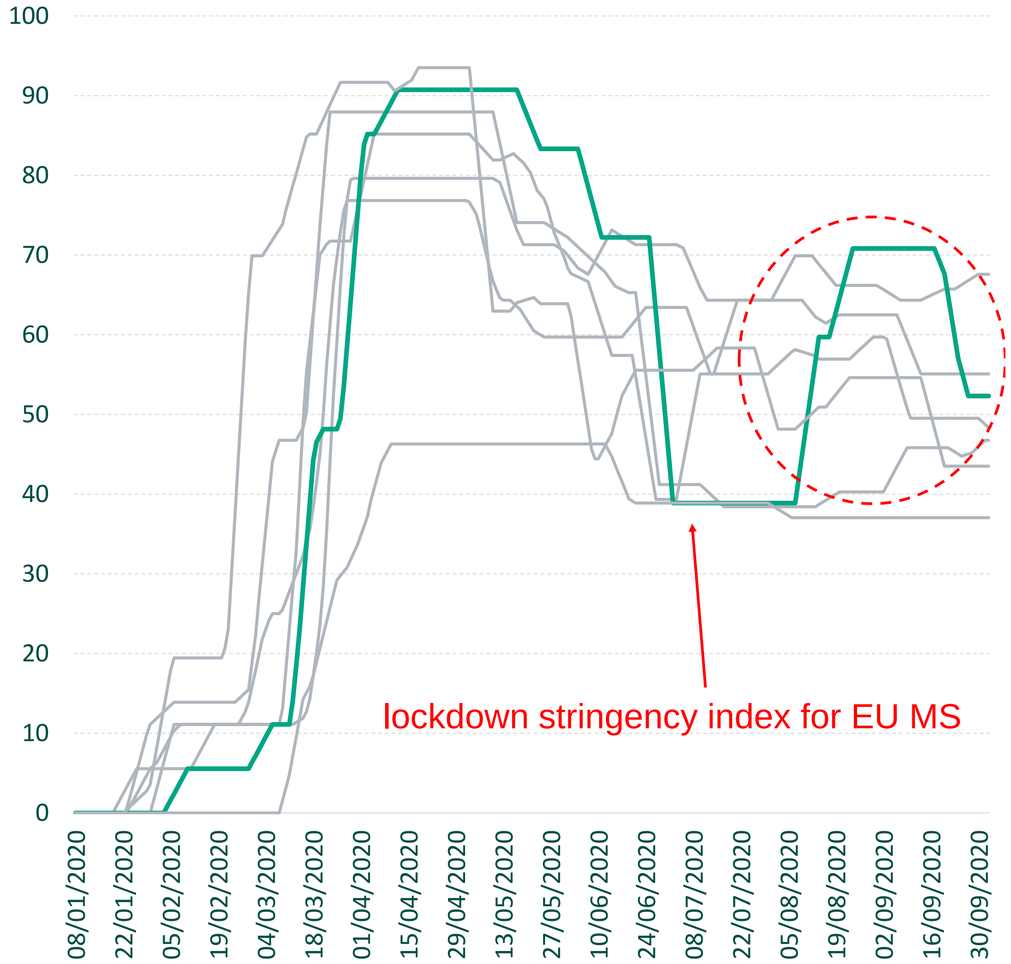
Source: a) & b) CSO & DoF calculations

Virus-resilience: Ireland and elsewhere

Up-tick in infection rate in EU (no. infections per 100k, 14 day m.a.)



Re-introduction of restrictions in several EU MS



Source: a) ECDC and b) Oxford University

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Methodological approach

- Calibration = challenging
  : no historical precedent for (1) pandemic or (2) IE-UK bilateral trade on WTO terms

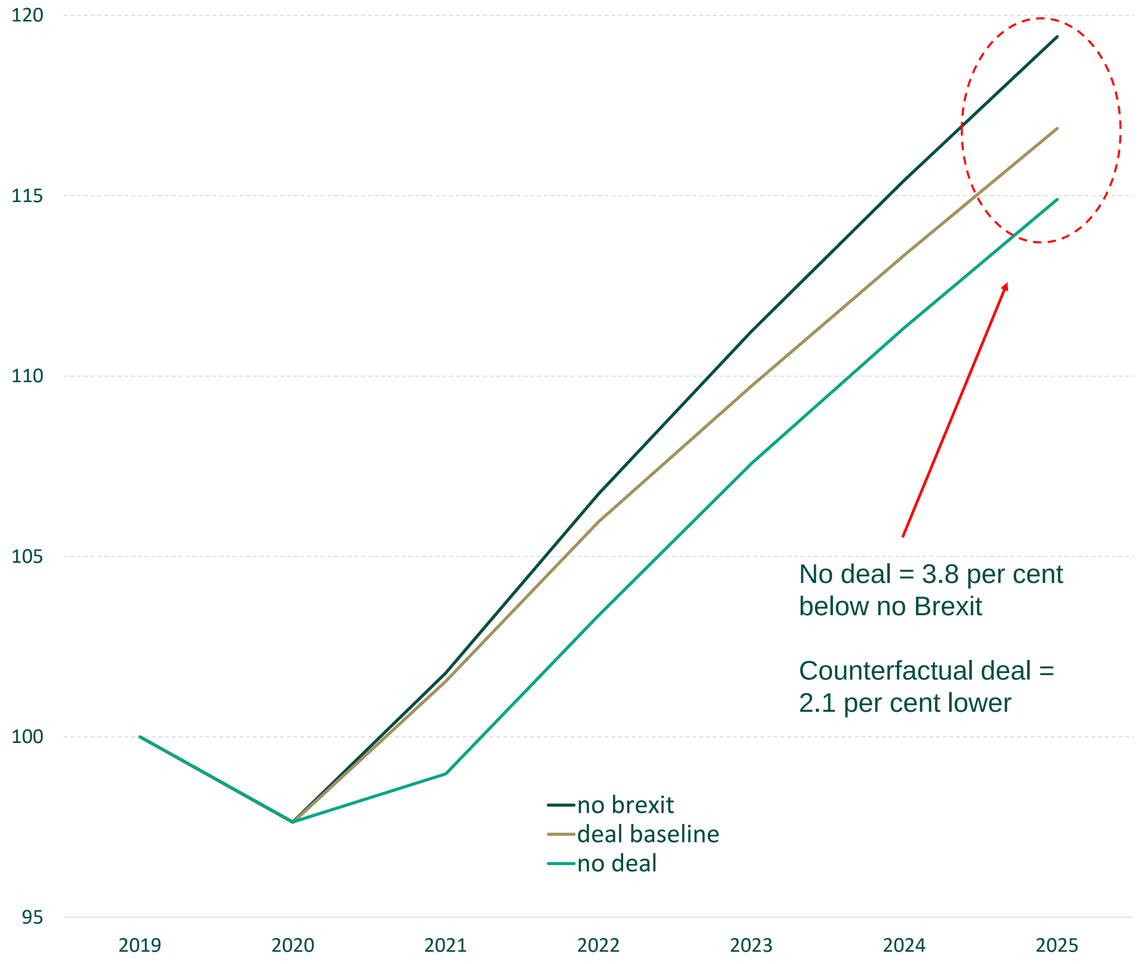
- Construct initial ‘baseline’ forecast = no vaccine in 2021
  : social distancing [supply and demand effects]
  : heightened risk aversion / uncertainty [impacting on savings and investment decisions]
  : take account of sector-specific [+ve. and –ve.]
  : Brexit = **limited** FTA [less benign than previous assumptions]

- Layer-in disruption to EU-UK trade
  : “no-deal shock” treated as additive [evidence base = DoF/ESRI]
  : First year impact mostly on traded side

- Consultation with third parties
  : Central Bank, IMF, ESRI on forecast approach and methodological issues

Impact of no trade deal UK exit – medium term

GDP levels – 2019 = 100



GDP - pp difference to hypothetical no UK exit baseline

Source: a) & b) DoF and ESRI calculations

Dual shocks: Covid and disorderly ‘Brexit’

Evidence base:

Examination of the sectoral overlap of COVID-19 and Brexit Shocks (Daly & Lawless, 2020)

Approach:

- Sectoral impact of both shocks
- Sectoral overlap
- Domestic supply chain interactions

Main Findings:

- Limited overlap in the sectors exposed to both Covid-19 and Brexit shocks
- Adding shocks together
  - broader range of at risk
  - but sectors do not appear to be impacted by interaction effects
- Important: impacts likely to vary at firm level.
- SME revenue shortfall of €8-15bn by end-year (ESRI, 2020)
  - reduced capacity to absorb an additional shock?

Sectoral impact of dual shock: evidence base

		BREXIT			
		Green	Amber	Red	Sum Covid-19 Sectors
COVID-19	Green	7	10	6	23
	Amber	2	11	5	18
	Red	12	4	0	16
	Sum Brexit Sectors	21	25	11	57

Budget 2021 forecasts, annual per cent change unless stated

	2019	2020	2021
GDP	5.6	-2.4	1.7
Modified Domestic Demand	3.3	-6.1	4.9
Modified gross national income (current prices)	7.6	-5.1	2.7
Personal consumption	3.2	-7.5	7.0
Government consumption	6.3	15.2	-1.6
Modified investment	1.2	-19.3	6.6
Exports	10.5	1.9	1.0
Modified imports	12.4	2.0	2.6
Modified current account	7.7	6.5	2.6
Employment	2.9	-13.7	7.6
Unemployment (rate)	5.0	15.9	10.3

Risk matrix – firmly tilted to downside

Downside	Upside
Second national lock-down	Widespread deployment of vaccine earlier than expected
National lockdowns in main trading partners	Significant progress on effective treatments limit mortality rates
Premature fiscal tightening in main trading partners	Brexit trade agreement concluded (this year or next)
Financial sector becomes “amplifier”	Faster-than-expected recovery in trading partners
Brexit impact leads to non-linearities	
Beyond short-term:	
“Scarring” effects [labour market mismatch / productivity]	
Legacy effects [debt (public & private) / re-shoring / de-globalisation	

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Headline Budget figures

- Budget package – €17.7 billion

- Including:

    - *8 ½ billion covid*
    - *3 ½ billion in core current expenditure*
    - *1 ½ billion in capital expenditure – largest capital budget ever @ over €10 billion*
    - *3 ½ billion for the Recovery Fund*
    - *€300 million tax package*

- Budget strategy – to continue to use counter-cyclical fiscal policy to protect workers, businesses and communities from the twin threats of the pandemic and Brexit

Budget 2021 Summary

	2020	2021
taxation	56,695	60,390
other revenue	22,820	19,025
TOTAL REVENUE	**79,515**	**79,415**
voted expenditure	87,070	84,415
incl. covid contingency		*2,100*
non-voted expenditure	9,140	9,240
TOTAL EXPENDITURE	**96,210**	**93,655**
EBR (pre-recovery fund)	**-16,695**	**-14,240**
Walk	-4,920	-2,845
GGB (1)	**-21,615**	**-17,085**
GGB (1) as a percentage of GDP	**-6.2%**	**-4.8%**
Recovery Fund		3,400
GGB (2)	**-21,615**	**-20,485**
GGB (2) as a percentage of GDP	**-6.2%**	**-5.7%**

Expenditure Strategy

- Expenditure Priorities;
    - *Protect existing services while commencing delivery of key PfG commitments.*
    - *Once off funding to meet the challenges of Covid-19 and to support economic recovery.*

- Core current expenditure to increase by 6% and capital to increase to highest ever level (€10.1 bl)

- Core health current expenditure up by 10% versus REV 2020 allocation. Focus is on meeting Covid-19 demands with an allocation that builds capacity and resilience into the health service.

- Housing current expenditure up 10% to support delivery of additional HAP, leased, and RAS units.

- €8½ billion in funding to support public services to meet Covid-19 expenditure requirements.

- This includes Covid contingency fund of over €2 billion to fund unknown Covid service costs in 2021.

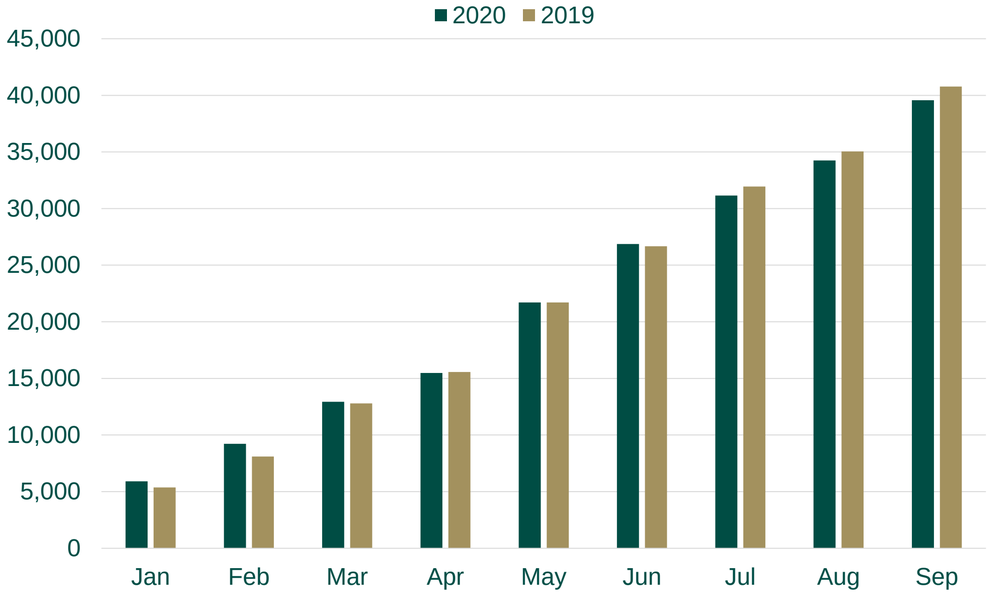
- If required additional Measures to support the economy to be funded from the Recovery Fund of €3.4 billion.

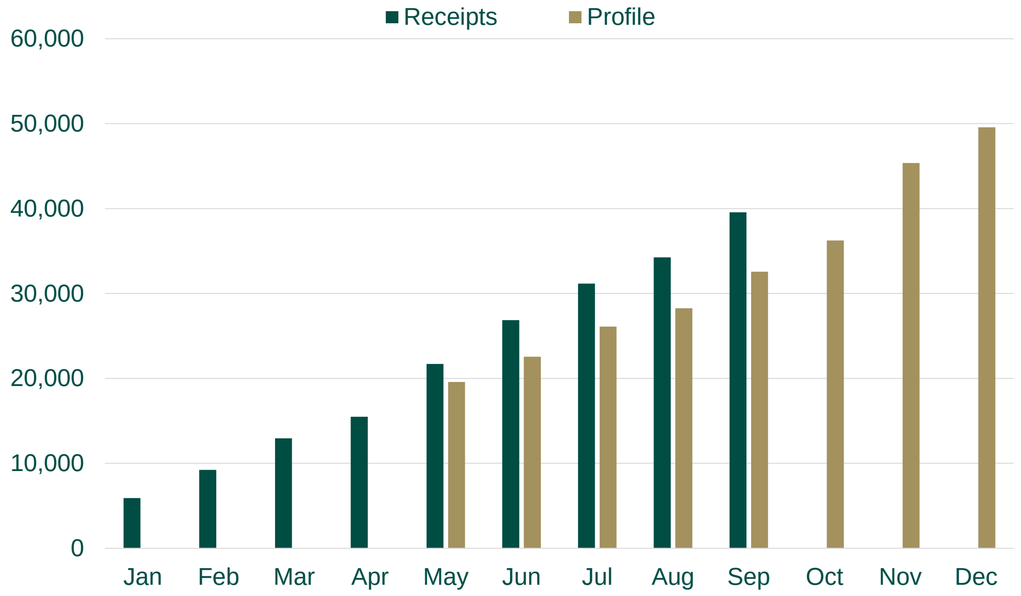
Key Tax Changes

- **Carbon Tax:** €7.50 increase in carbon tax rate
- **VAT:** Temporary reduction of VAT for Tourism and Hospitality items from 13.5% to 9%
- **CRSS:** Introduction of a temporary support scheme for businesses which have either been prohibited from operating or are trading at significantly reduced levels as a result of restrictions imposed in response to Covid-19
- **Income Tax:** Increase in Earned Income Credit (up €150 to €1650) and Dependent Relative Credit (up €175 to €245)
- **USC:** Increase in 2% band ceiling (up €203 to €20,687). Reduced rate for medical card holders extended for a further year
- **Help to Buy:** Extension of additional measures to end-2021
- **Tobacco Products Tax:** Increase of 50c on a pack of 20 cigarettes

Tax Performance Year to Date

Tax revenues of €39.6 billion were received to end Q3 2020, down 3.0% or €1.2 billion year-on-year, and significantly ahead of the revised profile.



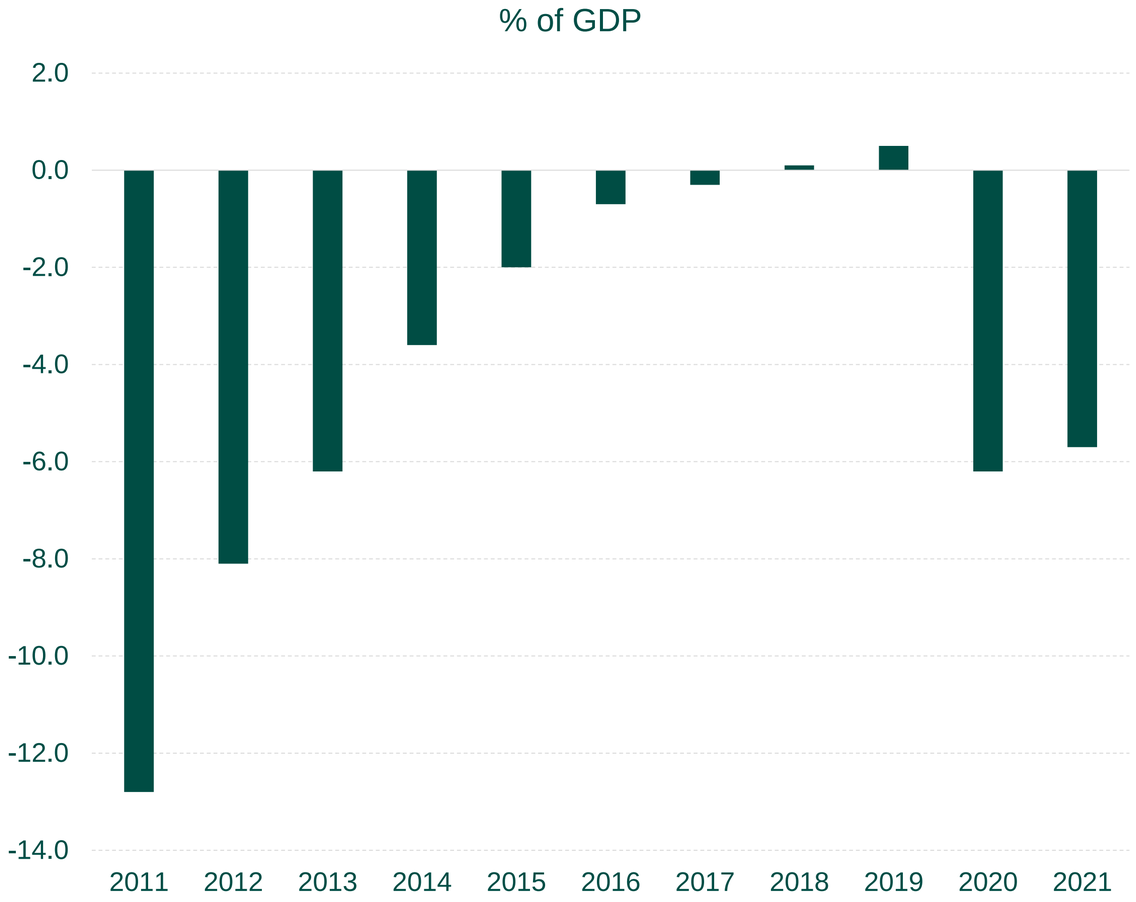


Budget 2021 Fiscal Outlook

	2019	2020	2021
General government balance (% of GDP)	0.5	-6.2	-5.7
General government primary balance (% of GDP)	1.8	-5.1	-4.7
Debt-to-GDP ratio	57.4	62.6	66.6
Debt-to-GNI* ratio	95.6	107.8	114.7
Structural Budget Balance (% of GDP)	-0.4	n.a	n.a

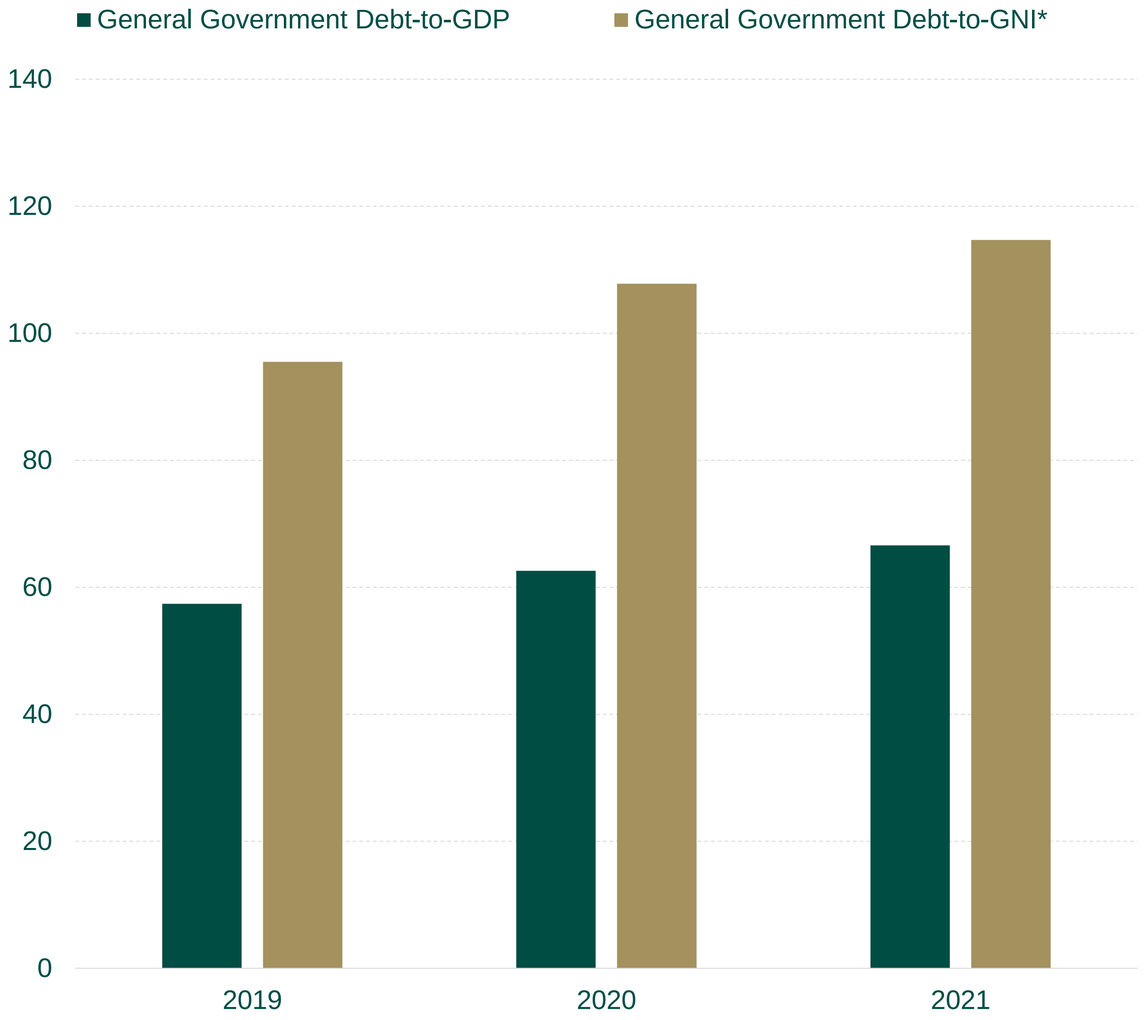
General Government Balance

- General government balance of -6.2% of GDP forecast for 2020, improving to -5.7% of GDP in 2021.
- The deterioration in the general government balance next year reflects the impact of Covid-19 on the economy and increased expenditure to support affected sectors.



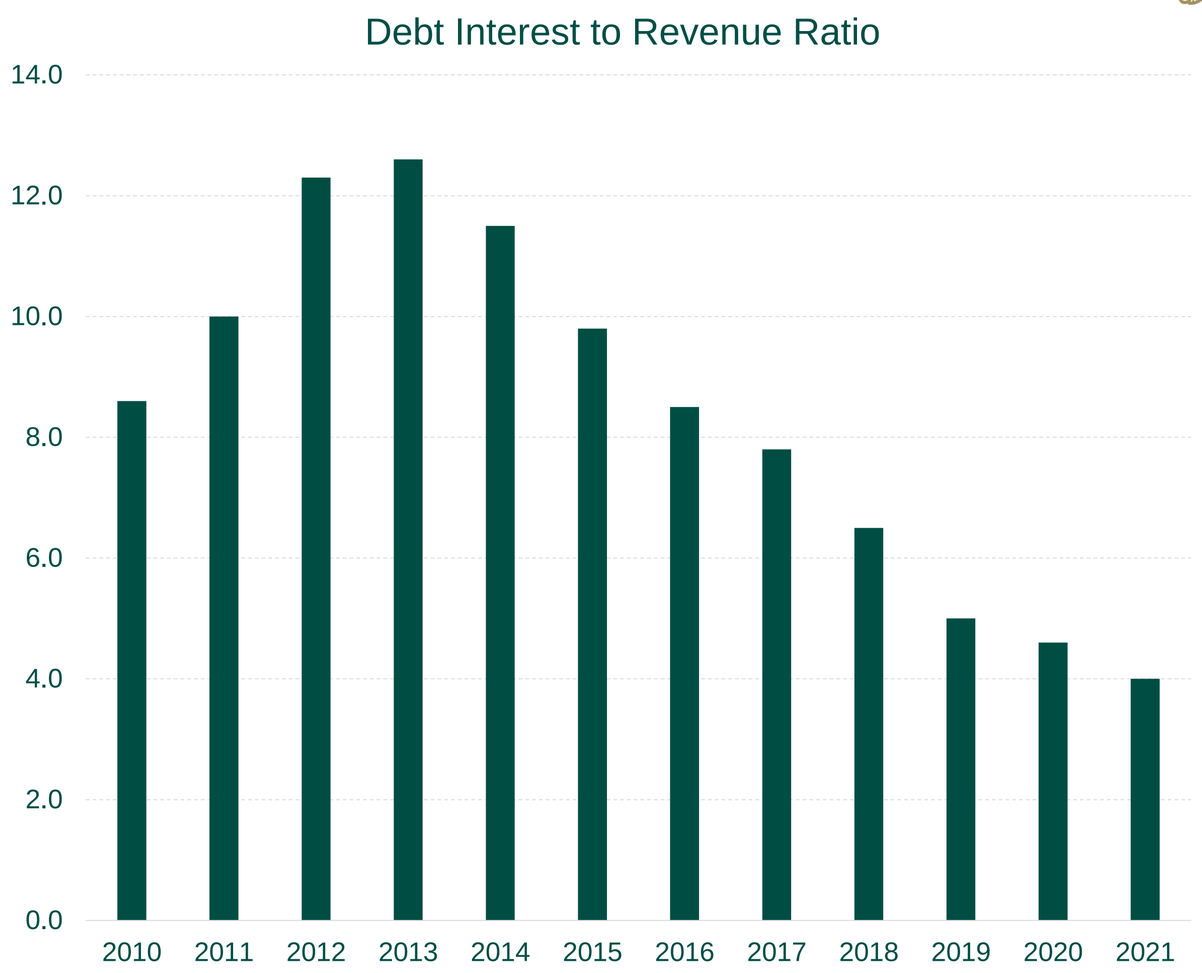
General Government Debt

- General government debt of 62.6% of GDP forecast for 2020. This represents a 5.2 percentage point deterioration on the end-2019 position. This compares to an expected 10.3 percentage point decline at the time of the spring forecasts.
- This further deteriorates to 66.6% of GDP in 2021.
- As a percentage of GNI* our debt ratio for 2020 is 107.8, increasing by 6.9 percentage points to 114.7 in 2021.



General Government Debt

- Debt interest payments as a percentage of total general government revenue is a useful way of assessing debt sustainability.
- As this measure is dependent on domestic revenue streams, it is less prone to distortion by the effects of globalisation on the Irish economy.
- Using this and alternate measures, such as debt-to-GNI* gives a more accurate read of Ireland's level of indebtedness.
- Despite improvements the level of public debt in Ireland remains high by both historical and international standards.
- That is why it is crucial that we prioritise the reduction of this burden – a key factor in ensuring the continued stability of the public finances.



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