

## Irish Exchequer Figures (Jan-Feb)

Tuesday, 2 March 2010

The Exchequer Returns released this evening show that the Government had an overall budget deficit of €2,407m in the first two months of 2010, that is €323m higher than the deficit of €2,085m in the same period last year. At end-January the deficit was €780m or €33m higher than in January 2009, meaning the underlying budgetary position deteriorated further last month.

Tax revenue in the opening two months of 2010 totalled €4,736m, down €1,023m from the figure of €5,759m in the January-February 2009. In the December Budget the Government projected tax revenue to amount to €31,050m in 2010, down €1,520m or 4.7% on the projected 2009 out-turn at the time of €32,570m. However, the actual tax-take for last year came in €473m higher than anticipated on December 9, which in theory suggests that the overall out-turn for 2010 should be better than forecast too given that it is starting from a stronger base, but that doesn't appear to be the case.

The January-February tax figures were €64m lower than the Department of Finance's monthly profile target of €4,800m. As regards the main individual tax components in the opening two months of the year: Income Tax was €115m lower than target; VAT €78m higher; Corporation Tax €24m lower; Excise Duties €38m lower and Stamp Duties €17m lower.

All in all, the economic indicators for the early part of 2010 have been mixed, but the poor weather, not just here at home in Ireland, but across the world, may have been a contributory factor. However, we remain optimistic that things will gradually improve in the coming months.

On the spending side, net voted current expenditure in January-February was €567m or 8.1% below the first two months of 2009. The underlying improvement in the Live Register in recent months has clearly helped contain social welfare spending, and we don't anticipate a major increase in the numbers signing on this year, which should limit excess spending on the Social Welfare vote in 2010. With the Government determined to keep a tight rein on the expenditure side, we expect day-to-day spending to come in on target.

In last December's Budget, the Government set an overall budget deficit target for the year of €18,780m as against an out-turn for 2009 of €24,641m, with a lower projected capital deficit the key reason for the big drop in the Exchequer balance. Even with the sharp reduction in day-to-day expenditure implemented in the Budget, the deficit on the current side in 2010 is forecast to be €2,349m higher than the 2009 out-turn of €11,369m, at €13,718m.

On the assumption that expenditure is kept under control this year, then the actual Exchequer out-turn for 2010 will be determined by the performance of tax revenue. With receipts running €64m below target at end-February, this suggests the overall budget deficit will be higher than the official target, but we still think things will get better as the year goes on. Although likely to be a lot lower than in 2009, a deficit in and around €19bn is still totally unacceptable, but at least it is a move in the right direction. We were encouraged by the fiscal austerity measures introduced in the December Budget, and if the Government can hold its nerve and continue to move in the direction it has taken, then there is every reason to be optimistic about its chances of stabilising the public finances over the next few years if global economic conditions improve. However, failure to do so, will see Ireland following in the path of Greece, paying a significantly higher premium over benchmark German bunds to raise funding on the bond markets, and adding further to the €5.2bn in debt servicing costs already pencilled in for 2010.

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