



Northern Ireland
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Northern Ireland's fiscal deficit in real terms

Introduction

The Department of Finance and Personnel (DFP) recently published its latest estimate of Northern Ireland's net fiscal balance.¹ DFP's publication presents estimates of the fiscal deficit for the years 2009-10 and 2010-11.

The purpose of this short Briefing Note is to show the impact of presenting the figures for Northern Ireland's net fiscal balance in real terms.

Real or nominal terms?

It is common practice when comparing expenditure figures across years to adjust for inflation. For example, when the Office for National Statistics (ONS) releases its *Trends in household expenditure over time* data it does so in real terms to allow comparison between survey years.²

¹ DFP (2012) 'Northern Ireland Net Fiscal Balance Report 2009-10 and 2010-11' available online at: <http://www.dfpni.gov.uk/northern-ireland-net-fiscal-balance-report> (accessed 11 December 2012)

² See ONS website: <http://www.ons.gov.uk/ons/rel/family-spending/family-spending/family-spending-2012-edition/art---chapter-4--trends-in-household-expenditure-over-time.html> (accessed 11 December 2012)

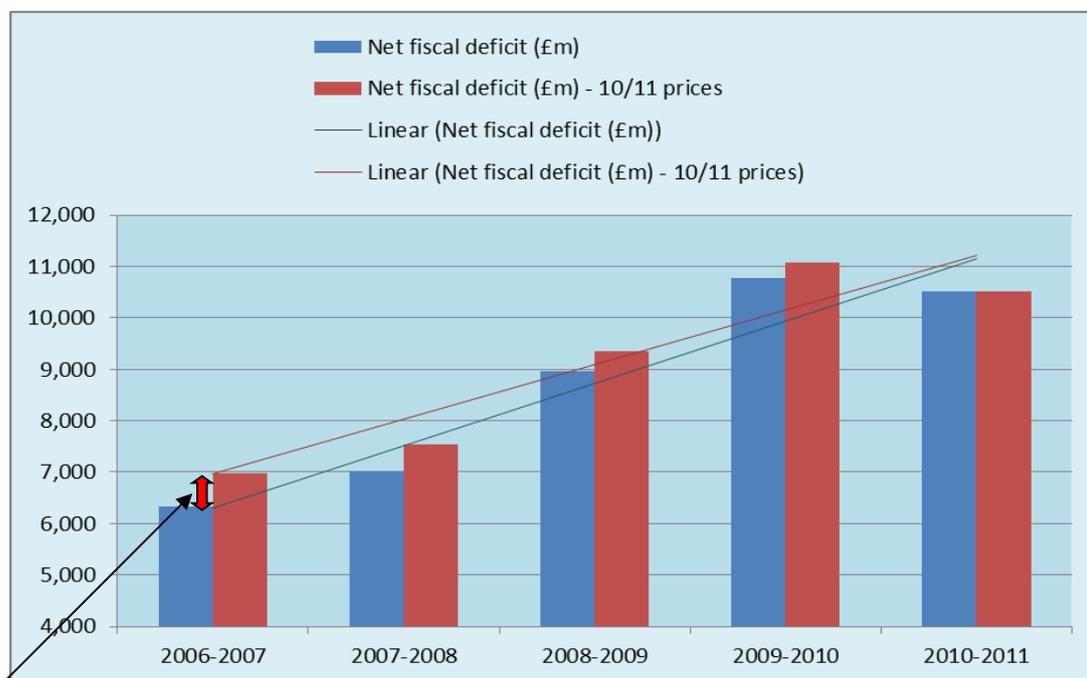
The **nominal** value of expenditure is its value in terms of money. The **real** value is its value in terms of some other good, service, or bundle of goods – i.e. the purchasing power of that money. As money loses value over time, its purchasing power decreases.

Table 1 and Figure 1 below show the effect on the estimates produced by DFP of adjusting the expenditure data for inflation – thereby allowing a real-terms comparison over time.

Table 1: Northern Ireland's net fiscal balance 2006-07 to 2010-11 in nominal and real terms³

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Net fiscal balance (£m)	-6,338	-7,027	-8,965	-10,770	-10,526
Net fiscal balance (£ per capita)	-3,639	-3,994	-5,051	-6,020	-5,850
Net fiscal balance (£m) - 10/11 prices	-6,968	-7,538	-9,361	-11,079	-10,526
Net fiscal balance (£ per capita) - 10/11 prices	-4,001	-4,284	-5,274	-6,193	-5,850

Figure 1: Northern Ireland's fiscal deficit 2006-07 to 2010-11 in nominal and real terms (2010-11 prices)⁴



Note: the difference in height in the bars represents the effect of inflation on the fiscal deficit.

³ Source RaiSe calculations based on DFP estimates.

⁴ Using HMT deflators available at: http://www.hm-treasury.gov.uk/d/gdp_deflators.xls (5 December 2012 release)

Observations about Figure 1

The following observations may be made about the chart:

- Adjusting the fiscal deficit figures for inflation increases the estimated deficit for the years 2006-07 to 2009-10;
- The impact of this on the trend in growth is to slow it. In other words, when looking at the deficit in real terms **the deficit has grown more slowly** than when looked at in nominal terms; and,
- Viewed in both real and nominal terms, the estimated deficit for 2010-11 is lower than the trend would have led you to anticipate.

Discussion: what does this mean?

In many ways, presenting of the net fiscal balance in real terms does not make an enormous difference: though when viewed in 2010-11 prices, the fiscal deficit is larger in each of the years from 2006-07 to 2009-10. But arguably, it makes an important contextual difference to understanding the latest estimate, and how it relates to previous years.

Simply viewing the estimated deficit in nominal terms may be somewhat misleading. It appears as if the deficit has increased at a rapid rate. Part of that growth rate, however, can be accounted for by the reducing value (purchasing power) of money. By viewing the deficit in real terms it is arguable that a truer picture can be seen.