

Summer Economic Statement 2017

Opening Statement by Paschal Donohoe TD, Minister for Finance and for Public Expenditure and Reform

20 July 2017

INTRODUCTION

Good morning all - I welcome the opportunity to be here today to discuss the Summer Economic Statement.

The Statement outlines the broad parameters that will underpin discussions of economic and fiscal policy over the medium term and the main pillars of this approach.

In the short term, it sets the framework for discussions on Budget 2018 over the coming months.

A GROWING ECONOMY

Turning firstly to the economic situation, I am greatly encouraged by the latest data confirming that the economy grew by 5.1 per cent last year.

The positive momentum has continued into this year with annual GDP growth of 6.1 per cent recorded in the first quarter.

My Department is forecasting GDP growth of 4.3 per cent this year and 3.7 per cent next year.

Importantly, our recovery is jobs rich with over 230,000 additional jobs created since the low-point of the crisis.

As a result, there are now more than 2 million people at work for the first time since 2008.

My Department is forecasting a continuation of robust employment growth over the forecast horizon and, on this basis, by the end of this decade there will be more people at work in Ireland than ever before.

In this context, it is important that the policy mistakes of the past are not repeated and that budgetary policy does not contribute to overheating the economy. The Government is acutely aware of this.

REPAIRING THE NATIONAL FINANCES

Turning to the public finances, the latest Exchequer Returns were very positive.

Following a slightly disappointing performance in the first quarter of 2017, tax receipts in the second quarter have been much more robust, with cumulative receipts coming in only slightly below target and up 4 per cent year-on-year.

We are now well positioned in terms of achieving the overall annual tax target of €50.6 billion for 2017.

This provides further evidence that the public finances are being positioned on a sustainable footing.

A general government deficit of 0.4 per cent of GDP is projected for this year, which is unchanged from Budget 2017.

In addition, it is important to point out that our fiscal objective is to 'balance the books', which is to achieve a structural deficit of 0.5 per cent of GDP.

I am pleased to reiterate we will achieve this Medium Term Budgetary Objective next year.

RAINY DAY FUND

We must be conscious of the increasingly uncertain external environment in which we in Ireland operate.

At present there is considerable uncertainty related to, for instance, Brexit and the economic policy stance in the US.

It is therefore appropriate to plan for a 'rainy day' and to ensure suitable fiscal buffers are in place.

In this context, the Government will maintain a rainy day fund with an annual contribution of €500 million beginning in 2019.

This is half the size of the contribution originally envisaged, with the difference being used to finance capital investment, which itself will also help us prepare for future economic challenges.

However, as I said last week, the additional allocations will be subject to an assessment of the capacity of the economy to absorb the additional funding at the time.

DEBT

While the debt ratio has fallen considerably in recent years, this arises from distortions in our GDP data.

Last week the CSO published an alternative measure of the size of the Irish economy, so-called modified Gross National Income - GNI* - which adjusts for these distortions.

If this new measure is used to scale our debt, the debt ratio was 106 per cent last year.

This clearly illustrates the need to continue to reduce public debt to improve the resilience of the economy and underlines the importance of prudent and sensible management of the public finances.

The Government will continue to reduce the debt-to-GDP ratio until the 60 per cent legal threshold is achieved and, thereafter, work towards reducing the ratio to 55 per cent of GDP.

Thereafter, and once the major capital projects have been completed the Government will target a further reduction in the debt ratio to 45 per cent of GDP.

FISCAL SPACE

Finally, I would like to turn to the issue of fiscal space.

For next year, my Department estimates that net fiscal space amounting to €1.2 billion would be consistent with achieving a balanced budget.

Of this, around €700 million will be absorbed by the full-year cost of measures implemented this year.

Without offsetting measures, this would leave just over €500 million for new measures.

This means that overall public spending will be around €60 billion next year - it is crucial that we focus on the totality of expenditure and not just incremental changes.

We must also focus on the fiscal stance and not just the fiscal space.

In other words, we will ensure that budgetary policy is appropriate in supporting sound macroeconomic conditions and boosting potential growth.

CONCLUSION

While the short-term economic prospects are positive, a continuation of robust growth cannot be taken for granted given the significant challenges facing the Irish economy.

The best way of dealing with these challenges is to maintain an appropriate fiscal stance and adopt competitiveness-oriented policies.

That is what the Summer Economic Statement sets out and what the Government will continue to do.

I look forward to engaging with members now.

Thank you.

ENDS