

Ministers Opening Address to Budget Oversight Committee

20th September 2016

Chairman,

At the outset, I wish to thank the Committee for the invitation to appear here today to discuss revenue-raising proposals. Both Minister Donoghue, who you are seeing tomorrow and I are looking forward to a fruitful and positive collaboration with the Committee in the weeks and indeed years ahead. Innovations such as this will increase our collective understanding of the economic and fiscal challenges facing the country.

Since the publication of the Summer Economic Statement in June, the National Economic Dialogue has taken place. This provided a cross-section of stakeholders an opportunity to have an open and inclusive exchange on the competing economic perspectives in advance of Budget 2017. Subsequently in a new departure and in-line with commitments made to the Select Committee on Arrangements for Budget Scrutiny, the Department of Public Expenditure and Reform published its Mid-Year Expenditure Report and my Department circulated the Tax Strategy Group papers and the Income Tax Reform Plan to the Oireachtas earlier this year.

With the publication of the TSG papers and the Income Tax Reform Plan, I fulfilled two commitments in the new programme for Government to help make the annual budgetary process more

transparent and provide Oireachtas members with the ability to make proposals and this in part is why we are here today.

The Tax Strategy Group papers runs to some 250 pages and sets out existing measures across all tax heads, contain issues for discussion and costed options for tax changes. I believe the formulation of expenditure and taxation policy options will benefit from the discussion of both sets of documents and from the enhanced scrutiny and dialogue this Committee can provide.

The Income Tax Reform plan (which runs to 50 pages) sets out a menu of different options for reducing the Universal Social Charge over the coming years.

The plan details the existing income tax and USC systems and presents three possible options to continue the phasing out of the USC. While there are many potential options the Committee will also be aware that due to the limited Exchequer space available, it would not be possible to phase out the USC entirely over the next three years.

Both documents were circulated over the summer and are available on my Department's website.

It is also my intention that in line with the Oireachtas Budget Reform report that I intend to publish the Finance Bill as soon as possible after Budget day and not later than two weeks after the Budget.

Indeed, in line with the Oireachtas Budget scrutiny report and in order to allow more time the Finance Bill will be shorter than in previous years and focus on key items of budgetary importance.

The economy continues to perform strongly, as evidenced by developments in the labour market. Employment in the second quarter of 2016 has increased by 56,200 year-on-year while unemployment has fallen from a peak of over 15 per cent to 8.3 per cent in August. Domestic demand is also growing strongly, with private consumption up 3.5 per cent in the first half of the year.

However, the international outlook illustrates the need for caution. The recent UK vote to leave the EU has only added to those concerns. My Department is currently preparing a full macroeconomic projection, in advance of the Budget, which will take accounts of this and other international developments.

Turning to the fiscal position, the attainment of an underlying deficit of 1.0 per cent in 2015, which facilitated Ireland's successful exit from the Excessive Deficit Procedure, attested to the return of the public finances to sustainability. We can ensure this position is maintained

into the medium term by the achievement, of the medium term budgetary objective, of a structural deficit of 0.5 per cent of GDP.

Based on current assumptions, this should be accomplished by 2018. Once this goal is achieved, it will provide us with more flexibility to increase expenditure on priorities over the medium term.

Looking at the Exchequer position, this provides a real-time indicator of how the public finances are performing. After the first eight months of the year, tax revenues are now €449 million or 1.6 per cent above target. This equates to an annual increase of 6.2 per cent or €1.7 billion when compared to same period in 2015. This represents a reasonably solid performance, however, I would emphasise that we are not complacent to any challenges or risks which could emerge.

We are committed to complying with the fiscal rules, which are designed to ensure that increases in public expenditure are sustainably financed through the decoupling of increases in expenditure from cyclical or windfall revenues. We are not going to repeat the mistakes of the past because we know the price.

Notwithstanding that GDP now flatters the position to some extent, our debt to GDP ratio has come down strongly since the peak in 2012-2013, but as you discussed with the various bodies that have appeared before you, our debt level is still high. We are committed to continue

reducing this debt burden even further as part of our budgetary strategy.

As set out in the Summer Economic Statement, fiscal space available for Budget 2017 will be in the order of €1 billion. I note both the Fiscal Council and ESRI who have appeared before you already have indicated this is appropriate.

The fiscal space will be allocated between expenditure and revenue on a 2 to 1 basis. The split between expenditure and revenue recognises the need to boost the supply of critical infrastructure following the reduction in capital investment after the economic and financial crisis. On the revenue side, reform of the income tax system will incentivise and reward work.

Investing in our infrastructure and addressing expenditure priorities while encouraging labour market participation through reform of the income tax system will serve to facilitate continuing economic growth.

Looking to the future, as I mentioned earlier, there is some concern regarding global economic prospects at present and this Government is very cognisant of the risks that face us. Therefore, it is essential that we plan for the future in a prudent fashion. It is for these reasons that a contingency reserve or rainy day fund will be established, to which from 2019 onwards, when we expect to run a balanced budget, €1

billion will be remitted each year to provide a counter-cyclical buffer or fund to deal with any unforeseen circumstances that may arise.

Thank you.