Opening Address by Mr Paschal Donohoe, T.D.

Minister for Finance and Public Expenditure & Reform

to the

Budget Oversight Committee

27th September 2017

Chairman,

At the outset, I wish to thank the Committee for the invitation to appear here today as part of your ex-ante scrutiny of Budget 2018 and I look forward to a fruitful and positive exchange.

During the course of the summer, two main elements of the pre-budgetary process took place with the National Economic Dialogue being held in June and the publication of the Summer Economic Statement the following month. The NED allowed for a positive, open and inclusive exchange to take place between a wide range of stakeholders on the differing economic perspectives in advance of this year's Budget. In line with last year's arrangements, the Department of Public Expenditure and Reform also published its Mid-Year Expenditure Report in July and the Department of Finance circulated the Tax Strategy Group papers. These elements all form an important part of the pre-budget cycle which has led to a more open, transparent and collaborative approach to the annual budgetary process.

Last year, my predecessor published the Finance Bill shortly after Budget Day and it is also my intention to publish the Finance Bill as soon as possible after Budget day again this year and not later than two weeks after the Budget.

The economy continues to perform strongly, as evidenced by developments in the labour market and highlighted in the Summer Economic Statement. Our GDP growth last year was 5.2 per cent, the highest rate in the European Union with the European Commission forecasting that the Irish economy will be among the fastest growing economies in the EU over this year and next.

Unemployment has fallen from a peak of over 15 per cent to 6.1 per cent in August, and is on track to fall below 6 per cent by the end of this year. Employment has also increased by over 230,000 from its lowest point – which translates into a 13 per cent increase. Domestic demand is likewise growing strongly, with private consumption up 10 per cent over the last three years. It now exceeds its pre-crisis peak.

Turning to the public finances, tax revenues at end-August are just 0.7 per cent or €209 million below profile. This equates to a solid year-on-year increase of 4.9 per cent and we are still targeting an overall annual tax take of €50.6 billion for 2017.

Ireland's debt levels are still high and we are committed to continuing to reduce this debt burden further as part of our budgetary strategy. As such, we must be cognisant of the potential risks to the economic outlook, in particular from the external environment and to plan accordingly.

In this context, the Government is maintaining its commitment to establishing a rainy day annual fund with an annual contribution of €500 million per annum, beginning in 2019. I will be circulating a consultation paper to the Oireachtas shortly to seek views on a range of issues. These issues include the nature or purpose of the fund, how to provision the fund, accessing the fund, the maximum size of the fund and so on.

In terms of the fiscal position, I have stated on previous occasions that our fiscal objective for next year is to achieve a balanced budget in structural terms. This will mean ensuring that Ireland reaches its Medium Term Budgetary Objective in 2017 by achieving a structural deficit of 0.5 per cent of GDP. As set out in the Summer Economic Statement, fiscal space available for Budget 2018 will be in the order of €1.2 billion, which will still enable us to reach our MTO and achieve a balanced budget next year. As you are all aware, only €350 million of this remains to be allocated to specific measures with the rest already spoken for, due to demographics, carryovers from Budget 2017, the Action Plan for Housing and the Lansdowne Road Agreement.

Turning to expenditure, the Mid-Year Expenditure Report outlines an increase of €2 billion in gross voted expenditure for 2018. This increase of 3½ per cent continues the approach of implementing moderate sustainable increases in public expenditure to facilitate targeted improvements in key public services and infrastructure.

This approach has seen increases for key priority areas. In 2017, the allocation for the Housing programme in the Department of Housing was increased by over €400 million or 50 per cent.

The Health allocation increased by almost €500 million or 3.5 per cent. The allocation for the Department of Children increased by over 15 per cent this year.

One key issue that must be addressed each year is demographic pressures which include additional numbers qualifying for the State Pension and the hiring of additional teachers to address the incremental increase in pupil enrolments. This can often be characterised as the cost of merely standing still. Given the need to meet these costs, and also to enhance public services to meet new priorities, there is a clear need for focus on value for money and policy effectiveness.

This is the context within which this year's Spending Review was carried out. Unlike previous review processes, where the focus was on identifying spending reductions, the aim of this Spending Review process was to systematically examine existing spending programmes to assess their effectiveness in meeting policy objectives. The spending review operates as a complementary process to the Budget Estimates process. The Spending Review was undertaken over the first half of the year in order to enable the output of the review in each area to feed into the consideration of expenditure proposals for Estimates 2018.

Investment in public infrastructure is essential to increase the long-run capacity of the economy and to support growth across all regions.The significant progress made in restoring the public finances has enabled Government to increase capital expenditure by a further €4.1 billion over the remaining period of the Capital Plan out to 2021.

This is in addition to the €2.2 billion already committed to support the delivery of the Action Plan for Housing along with other commitments made in Estimates 2017.

On Budget day I will be announcing the allocation of this approximately €4.1 billion in additional capital expenditure over the period 2018-2021. This reflects a significant planned increase in public capital investment, with public capital expenditure in Ireland more than doubling between 2014 and 2021. As confirmed by the Irish Fiscal Advisory Council in their pre-budget submission, this will result in public investment in Ireland moving to among the highest in the EU.

It is crucial that we don't repeat the mistakes of the past when capital expenditure was ramped up too quickly leading to inflation and poor value for money. That is why the Government has set out a planned and sustainable increase in expenditure which is based on robust evidence and analysis.

The Mid-Term Review of the Capital Plan, which was published on 14th September, provides that detailed evidence base. The review includes:

- detailed submissions by Departments and Offices;
- an extensive public consultation; and,
- an Infrastructure Capacity and Demand Analysis completed by the Irish Government Economic and Evaluation Service (IGEES) in the Department of Public Expenditure and Reform.

All of this analysis will be used to inform the allocations at Budget and subsequently for the new 10 year National Investment Plan, in light of the infrastructural deficits identified in the review. A key priority for the ten year plan will be to ensure the coherence of long-term and strategic sectoral objectives with the planned new spatial configuration in the National Planning Framework. That plan will be announced before the end of the year.

I would like to thank the Committee again for the opportunity to speak here today and I am happy to address any questions you may have.