Opening Statement by the Minister for Finance and Public Expenditure and Reform, Paschal Donohoe TD to the Budget Oversight Committee

Stability Programme Update 2018

INTRODUCTION

Chairman, members, I welcome the opportunity to be here today to discuss the draft *Stability Programme Update*.

The *Stability Programme* sets out the Governments macroeconomic and fiscal forecasts for Ireland and is the first update of the Government's projections since Budget 2018 in October of last year.

The *Stability Programme* is presented in draft form - I am of course willing to take on board constructive suggestions from members of the Committee.

The final version will be submitted to Brussels later this month.

I wish to stress that the macroeconomic forecasts underpinning the *Stability Programme* have been endorsed by the Irish Fiscal Advisory Council.

The Council also welcomes the progress my Department has made towards developing alternative models for its medium-term forecasts.

ECONOMIC DEVELOPMENTS

Turning firstly to the economic situation, I am greatly encouraged by the latest data showing that the economy grew by 7.8 per cent last year.

I would stress that while the headline GDP figure can be exaggerated in an Irish context, other indicators such as consumer spending, labour market trends and taxation receipts confirm the strong recovery.

My Department has increased its GDP growth forecast this year to 5.6 per cent reflecting the stronger economic momentum in the second half of last year.

For next year, GDP growth of 4.0 per cent is forecast.

So the economy is in good shape. However, yesterday I stressed that this growth cannot be taken for granted and I want to emphasise this again today.

The UK's impending exit from the EU, changes to the international corporation tax landscape and rising geopolitical tensions could all potentially derail the recovery.

From 2020 onwards, the economy has the capacity to grow by around 3 per cent per annum with positive contributions from both exports and domestic demand.

THE LABOUR MARKET

The economic recovery is perhaps most clearly evident in the labour market with employment growth of 2.9 per cent recorded last year, representing the addition of some 61,000 jobs.

As a result, there are now more than 2.2 million people at work for the first time since 2008.

In other words, we have now recovered 9 out of every 10 jobs lost during the crisis.

The labour market will continue to benefit from strong growth in domestic demand, with employment growth of 2.7 per cent forecast for this year.

On this basis, there will be more people at work in Ireland this year than ever before.

Accordingly, unemployment is set to fall further to 5.8 per cent this year and to 5.3 per cent by 2019 - down from a peak of 16 per cent in 2012.

Indeed, the economy is fast approaching full employment. In this context, it is important that Governement policy does not overheat the economy.

THE PUBLIC FINANCES

Turning to the public finances; they continue to move in the right direction.

In terms of the underlying General Government deficit targets, progress continues to be made.

I am pleased to outline that, notwithstanding the additional expenditure, as a result of the reclassification of approved housing bodies, the deficit of 0.3 per cent of GDP recorded last year is in line with the Budget day estimate. This provides further evidence that the public finances are becoming increasingly sustainable.

Furthermore, a prudent approach to fiscal policy is being implemented, with tax revenue in 2017 growing by 6 per cent year-on-year, while gross voted expenditure is up by 4½ per cent.

This demonstrates the Government's commitment to maintaining sound public finances, thereby ensuring that the policy mistakes of the past are not repeated.

Turning to this year, the latest Exchequer Returns to the end of the first quarter show that the Government continues to deliver on its commitments.

It is also important to point out that annual growth has been strong with tax receipts 3.5 per cent higher compared to the same period in 2017 and positive annual growth witnessed across most tax heads.

Turning to expenditure, it is being managed by Departments within their allocations thus far, with overall expenditure slightly below profile (2.3 per cent).

Capital investment to enhance our growth potential and address key infrastructural bottlenecks is slightly behind profile but still well up on last year, reflecting the substantially increased resources allocated at Budget 2018.

These are resources to improve our society by building the houses, schools, roads and hospitals our people need.

For next year, €2.6 billion in expenditure has already been committed. Included in this is €1.5 billion for additional capital spending, €0.4 billion to provide for demographic-related costs, €0.4 for public sector pay and €0.3 billion for carry-over costs associated with measures introduced this year.

A key Government priority is to reduce the level of public indebtedness we are experiencing and we are making significant progress in this respect.

However, it must be acknowledged that the recent evolution of the debt to GDP ratio present an overly benign view of our public indebtedness.

The debt to GDP ratio has decreased only because GDP has increased.

Other measures, notably the ratio of debt to GNI* show that while declining – public debt still remains high in Ireland.

The legacies of the crisis persist with the total stock of debt amounting to €206 billion this year.

This represents around €40,000 worth of debt for every man, woman and child.

It is essential that we start to reduce this burden so that the economy can withstand adverse developments if, and when, they occur.

CONCLUSION

Despite the strong momentum, a continuation of robust growth cannot be taken for granted as there are a number of significant external and domestic risks on the horizon that could potentially derail the recovery.

Principal among these are the potential fallout from the UK's impending exit from the European Union and the possibility of a significant disruption to world trade from increasing protectionism.

Domestically, notwithstanding the well-known limitations with GDP, it is clear that the recovery continues to outperform expectations and while this is to be welcomed, it creates its own challenges.

Indeed, if the economy continues to grow in excess of its potential, capacity constraints will begin to emerge.

In these circumstances, it is essential that budgetary policy does not contribute to overheating and that the pro-cyclical policies of the past are not repeated.

The best way of dealing with these risks is through prudent management of the public finances and competitiveness-oriented policies.

This is what the Government will continue to do.