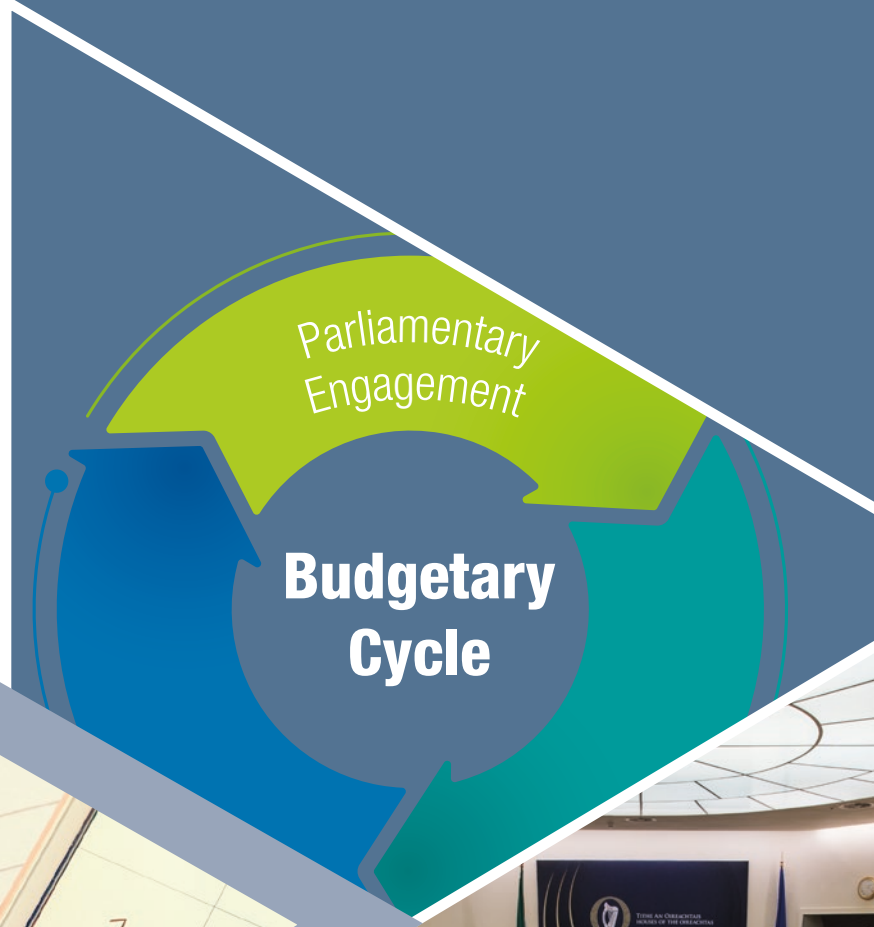

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An Tuarascáil Uasdátaithe maidir leis an gClár Réamh-Chobhsaíochta, 2022

Márta 2022

Select Committee for Budgetary Oversight

Pre-Stability Programme Update 2022 Report

March 2022

33CBO012

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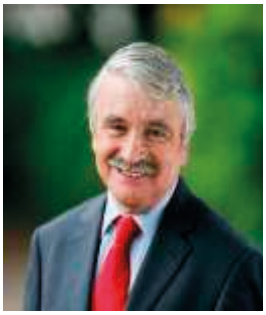

Willie O'Dea TD
Fianna Fáil

Kieran O'Donnell TD
Fine Gael

Patricia Ryan TD
Sinn Féin

Chair's Foreword

The Stability Programme Update (SPU) is an important part of the budgetary process. In its *Final Report on The Framework for Parliamentary Engagement Throughout the Course of the Budgetary Cycle* the Committee on Budgetary Oversight committed to greater scrutiny of the SPU.

Pre-SPU scrutiny is an annual component of the Committee's work programme and enables the Committee to have an informed engagement with the Minister of Finance on the medium-term fiscal strategy.

The initial recovery following the pandemic has been strong as seen in the growth in both GDP and modified domestic demand. However, the pandemic and now the Russian invasion of Ukraine have created a number of pressures on the economy. While these are global factors, they will impact significantly on the Irish economy.

The Committee has set out some risks to the economy that will have to be considered and addressed in fiscal policy. Inflation and the consequences of the Russian invasion of Ukraine will have a significant impact on the Irish economy and the require fiscal responses.

The Committee looks forward to engaging with the Minister of Finance on these issues and the draft SPU.

On behalf of the Committee, I would like to thank the ESRI and the Central Bank of Ireland for meeting with the Committee. These engagements have allowed the Committee to gain a better understanding of economic conditions and how they may evolve. I would also like to thank the Parliamentary Budget Office for their input into the Committee and their publications which have been very useful to the Committee.

Finally, I would like to thank the Members of the Committee for their input and insight throughout our engagements leading to this report.

Neasa Hourigan T.D.

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Summary of Observations and Recommendations

1. The Committee recommends that Corporation Tax receipts above what is considered a sustainable level be used only for one off spending or put into the Rainy-Day Fund.

2. The Committee recommends that any further measures to address the cost-of-living crisis should be targeted at lower income, rural and older households. This will help ensure that the most impacted households receive support and limit the potential of adding to inflationary pressures.

3. The Committee recommends that all future measures should be accompanied by an analysis of the expected impact on different households and income deciles. The Committee further recommends that the government undertake analysis as to what improved data collection is required to better target measures, and then proceed with implementing this. The Committee also recommends that such analysis is provided to the Committee to allow for sufficient parliamentary consideration.

4. The Committee notes that the pandemic exacerbated the trend for increasing public debt but agrees with the Central Bank that the debt ratio is no longer considered useful for the purposes of long-term fiscal sustainability, with borrowing costs a more suitable measure of risk, which could be exacerbated by higher interest rates in the future.

5. The Committee notes that there are ongoing discussions around the EU fiscal rules and recommends that the Government push strongly for certain well-defined expenditure areas, such as climate and public housing spending, be excluded from the fiscal rules. It also notes that member states like France and Italy are both urging for them to be made more accommodating toward public capital investment, which the Committee supports.

6. The Committee recommends that the budgetary implications of different scenarios related to risks be presented in the SPU in order to allow the State adequately prepare and be updated accordingly throughout the year.

7. The Committee notes that the impact of the current inflationary pressures impacts differently on different households and due to the make-up of the current pressures low-income, rural and older households are most impacted.

8. The Committee wishes to emphasise that additional expenditure to support the arrival of Ukrainian refugees is necessary and should be undertaken. The Committee notes that the impact of this spending on other budgetary issues will have to be monitored.

9. The Committee notes that due the construction cost inflation and the tight supply of labour it may be a challenge to fully deliver on capital spending plans. This Committee believes this gives added urgency to the state using its economy of scale to try to ameliorate such cost pressures and increase productivity through investments in modern methods of construction

Introduction

The publication of the Stability Programme Update (SPU) is considered as the beginning of the budgetary cycle for Budget 2023. The Committee on Budgetary Oversight undertakes ex-ante scrutiny of the SPU in order to understand the current fiscal outlook, to engage with stakeholders on these issues and to allow for greater parliamentary engagement and transparency to the budgetary process.

The Committee held two meetings in March 2022 as part of its Pre-SPU scrutiny (see table 1). The meeting transcripts and witnesses' opening statements are available on the Committee's webpage[1].

Table 1: List of Meetings and Stakeholders

Meeting Date	Witnesses
Wednesday 9 March	Economic and Social Research Institute (ESRI) • Professor Kieran McQuinn • Dr Conor O'Toole
Wednesday 23 March	Central Bank of Ireland • Dr Mark Cassidy • Dr Martin O'Brien

The SPU 2022 will be published in draft format by the Department of Finance in mid-April and will set out Ireland's medium-term economic outlook and its fiscal plans. A final version is then published in late April and issued to the European Commission.

Following publication of the draft SPU and prior to the publication of the final version, the Committee will engage with the Minister of Finance to discuss the draft SPU.

[1] https://www.oireachtas.ie/en/committees/33/budgetary-oversight/

Economic Outlook

The ESRI outlined that the Irish economy was in a strong position prior to the pandemic, which provided the space to deal with the economic shock of the pandemic. The removal of public health restrictions has allowed for a "re-normalisation" of economic activity.

The ESRI Spring Bulletin estimates that GDP grew by 13.5% and modified domestic demand by 6.5% in 2021. The ESRI expects MDD to grow by 5% in 2022 and that the economy will continue to grow strongly.

The Central Bank's April Quarterly Bulletin[2] estimates a 13.5% increase in GDP for 2021 and forecasts GDP growth of 6.1% for 2022 and 5.5% in 2023. It also estimated that MDD grew by 6.5% in 2021 and forecast growth of 4.8% and 4.3% in 2022 and 2023 respectively.

The ESRI outlined to the Committee that without the Russian invasion of Ukraine, it was starting to see inflationary pressures in the economy. Unemployment was falling and wages were rising, which was welcome, but there was also rising prices. For example, the ESRI noted that when unemployment falls below 5% is typically when inflationary pressures build in the economy.

The Central Bank noted that overheating was less of a concern now that a number of months ago. However, it still forecasts the economy will reach full capacity around the end of 2024. While it is not forecasting overheating, the risk increases the better the economy does.

The Ukrainian crisis has, according to the ESRI, created a shock to growth that was not anticipated. The Central Bank also noted there were some vulnerabilities in the economy following the pandemic, which will be exacerbated by the Russian invasion of Ukraine. The Committee notes there were also significant vulnerabilities in the economy prior to the onset of the pandemic and these have been further exacerbated by the invasion.

[2] Quarterly Bulletin No.2 2022 (centralbank.ie)

Fiscal Outlook

The ESRI outlined there was significant growth in almost all tax headings in 2021. In particular, income tax, VAT and Corporation Tax saw strong growth. Expenditure in 2021 was 2.6% higher than in 2020 but 1.5% lower than had been allocated. As a result, the General Government deficit was 3.1% GNI*, significantly smaller than expected.

The ESRI's Spring Economic Commentary[3] forecasts the General Government Balance to be in surplus of €1.1 billion (0.2% of GDP) for 2022. The Central Bank indicated that it would probably forecast a deficit for 2022, before turning into to a surplus in 2023. However, the Central Bank noted there is a lot of uncertainty around these forecasts.

The Central Bank outlined that the better than expected 2021 outturn (-2.7% of GNI*) was due to better than expected VAT and income tax receipts, lower than expected Covid expenditure and increased corporation tax receipts.

The Central Bank's April Quarterly Bulletin[4] forecasts the General Government Balance for 2022 to be -0.8% of GNI* and -0.4% of GDP, before going into surplus in 2023. This represents as a significant drop compared to the January Bulletin[5] which forecast a deficit 1.5% of GNI* (-0.8% of GDP) General Government Debt is forecast to be 91.8% of GNI* and 49.4% of GDP.

However, the Central Bank noted that almost all the improvement in public finances is expected to be achieved through growth in nominal GNI*.

Questioned on the sustainability of tax revenues, the ESRI outlined the ongoing concern about the buoyancy of corporation tax revenue, noting that while it always forecasts conservatively for corporation tax it is still surprised by how large the increase is. The ESRI therefore consider it important to only base current expenditure on the elements of corporation tax considered sustainable.

[3] Quarterly Economic Commentary, Spring 2022 | ESRI
[4] Quarterly Bulletin No.2 2022 (centralbank.ie)
[5] Quarterly Bulletin Q1 2022 | Central Bank of Ireland

The Committee has previously reported[6] Corporation Tax is heavily concentrated in a number large multinationals. This increases Ireland's vulnerability to changes in multinationals global strategy. The Committee also acknowledges prior commentary from the Irish Fiscal Advisory Council[7], highlighting the vulnerability of future Corporation Tax receipts and its recommendation that such receipts are not enveloped into current spending but instead included in the Rain-Day Fund.

Observations and Recommendations

1. The Committee recommends that Corporation Tax receipts above what is considered a sustainable level be used only for one off spending or put into the Rainy-Day Fund.

The ESRI noted that there will be substantial increases in the cost of living across the board will create a challenge for the public finances.

Government Measures

The ESRI outlined that the Government has taken a number of initiatives in response to the cost-of-living issues, which carry additional costs. Both the ESRI and Central Bank stated further measures may be required. The ESRI noted that the fiscal position gives scope to the Government to deal with these issues.

The ESRI told the Committee a key challenge of any additional measures to meet cost-of-living challenges will be ensuring they are targeted as much as possible.

The ESRI outlined that as it is difficult for the Government measures to deal with the global drivers, measures should be targeted at supporting incomes and ensuring that the least privileged in society are protected. The ESRI were also of the view that targeted measures should be aimed directly at lower-income households as they spend a larger portion of their income energy and food costs.

[6] Committee on Budgetary Oversight – Interim Pre-Budget Report 2022 (oireachtas.ie)
[7] Fiscal-Assessment-Report-December-2021-Managing-the-Recovery.pdf (fiscalcouncil.ie)

Targeting the measures at those that need them the most will also help reduce the potential of the measures contributing to inflationary pressures.

The Central Bank also stated that targeted policies will be more effective, outlining that policies targeted at lower income groups (such as fuel allowance) and those at the consumption of energy are example of targeted measures.

The Central Bank outlined the difference in policy response between temporary and permanent shocks. For example, if the higher energy prices are permanent the Irish economy, as an energy imported, will become permanently worse off and no Government policy can restore energy prices to the previous level or borrow indefinitely to cover the additional costs. Temporary measures, such as reducing VAT on energy, will not be a solution is energy prices remain high.

In relation to the potential to reduce VAT on energy costs the Central Bank noted that there are issues with EU rules as Ireland currently has a derogation for lower rates that could not be returned to if they were temporarily reduced.

Observations and Recommendations

2. The Committee recommends that any further measures to address the cost-of-living crisis should be targeted at lower income, rural and older households. This will help ensure that the most impacted households receive support and limit the potential of adding to inflationary pressures.
3. The Committee recommends that all future measures should be accompanied by an analysis of the expected impact on different households and income deciles. The Committee further recommends that the government undertake analysis as to what improved data collection is required to better target measures, and then proceed with implementing this. The Committee also recommends that such analysis is provided to the Committee to allow for sufficient parliamentary consideration.

Government Debt

The Department of Finance's Annual Report on Public Debt in Ireland 2021 notes that public debt increased by €33 billion during the two years of the pandemic, representing a 106% of national income (GNI*) compared to 95% just before the pandemic. However, it is forecast to drop to 95.6% in 2022 and 81.6% by 2025.[8]

The Central Bank outlined that the effective borrowing rate on Irish debt is currently around 1.5%, around half the rate of four or five years ago.

The Central Bank is of the view that the Ireland's debt is on a sustainable path and has improved over a number of years. The Central Bank outlined that while putting an exact figure on the ideal debt ratio is no longer considered useful, it would like to see it reduced over time. However, it also noted that it would not like to see a sudden reduction in debt. The Central Bank further stated that a reduction in the ratio will occur through increasing income (e.g., GNI*), therefore it is not a case of seeking to reduce the nominal debt but rather increase income.

The Central Bank noted that increasing spending during a crisis is warranted and this highlights the need to lower the debt ratio during the good times.

Observations and Recommendations

4. The Committee notes that the pandemic exacerbated the trend for increasing public debt but agrees with the Central Bank that the debt ratio is no longer considered useful for the purposes of long-term fiscal sustainability, with borrowing costs a more suitable measure of risk, which could be exacerbated by higher interest rates in the future.

Fiscal Rules

The ESRI outlined that reforms to EU fiscal rules are being discussed. Removing certain measures from the fiscal rules gives a degree of certainty in spending and helps ensure funding is not impacted by urgent issues that arise. The exclusion of

[8] gov.ie - Annual Report on Public Debt in Ireland 2021 (www.gov.ie)

expenditure such as climate related expenditure would give enable multi-annual commitments to climate measures.

The ESRI also told the Committee that such exemptions could include housing as the need for more social and affordable housing is an issue across the eurozone.

Questioned on the reintroduction of the fiscal rules, the ESRI noted that the European Institutions had learnt from the financial crisis and reacted to the pandemic in a good way. The ESRI were of the view that given the current situation it would be difficult to ask governments to accept the full implications of the fiscal rules.

The Central Bank noted the opportunity to make the fiscal rules framework more simple and effective and able to take into account the peculiarities of national economies.

Observations and Recommendations

5. The Committee notes that there are ongoing discussions around the EU fiscal rules and recommends that the Government push strongly for certain well-defined expenditure areas, such as climate and public housing spending, be excluded from the fiscal rules. It also notes that member states like France and Italy are both urging for them to be made more accommodating toward public capital investment, which the Committee supports.

Labour Market

The ESRI outlined that there was sustained improvement in the labour market throughout 2021, with unemployment falling to 7% in February 2022, having peaked at 27% in February 2021. The ESRI expects the unemployment rate to fall to 5% by the end of 2022.

The Central Bank's April Quarterly Bulletin[9] forecast unemployment to fall to 6% in 2022. It also noted that employment levels returned to pre-pandemic figures in eleven of the fourteen NACE[10] sectors in Q3 2021. In its opening statement, the Central Bank forecasts that the labour market will tighten further, with unemployment remaining relatively low to 2024. The Central Bank also discussed wage levels, outlining that as the labour market tightens wage growth will likely become more broad based across the economy.

The labour market has improved significantly compared to the peak of the pandemic and that it has returned to the pre-pandemic levels much quicker than was the case after the financial crisis.

The ESRI noted there are a number of sectors that may experience labour supply bottlenecks. The construction sector will require particular attention labour supply will pose a challenge in achieving housing targets. The hospitality and accommodation, entertainment and recreations sectors could also face capacity constraints as the sectors the sectors recover following the pandemic. The Committee notes that measures will need to be taken to redirect the construction workforce away from commercial activities (hotels, office blocks, etc) toward the public infrastructural projects outlined in the National Development Plan if it is to meet its targets.

[9] Quarterly Bulletin No.2 2022 (centralbank.ie)
[10] Economic activity sectors group producers according to what their output is using the Statistical Classification of Economic Activities in the European Communities to define the different groups.

Risks

The Central Bank outlined that the main risks can be grouped into three inter-related groups:

- The escalation or prolongation of the war could worsen global supply conditions and dampen foreign demand.
- The scope for, and implications of, second-round or cost-push drivers of inflation emerging more forcefully.
- Structural challenges for the public finances in light of already existing and emerging priorities that raise demands on government resources. Already existing priorities include the need to address infrastructure deficits in housing, climate action, and the long-term costs of an ageing population. These risks will be heightened if construction sector capacity is not increased, if the ageing workforce is not replenished, and new modern methods of construction are not rolled out on a wide scale.

Observations and Recommendations

6. The Committee recommends that the budgetary implications of different scenarios related to risks be presented in the SPU in order to allow the State adequately prepare and be updated accordingly throughout the year.

There also remains additional risks such as the full implications of Brexit and the potential for further disruption due to Covid-19 that must continue to be monitored.

Inflation

The ESRI noted that inflation is a particularly pressing issue, forecasting an average inflation rate of 4% for 2022. However, it highlighted that these forecasts were published before Russia's invasion of Ukraine and that the price of gas and oil has already risen. It also stated it seems likely that energy prices will rise further. The ESRI outlined that the increased inflationary pressures could lead to a recalibration

of monetary policy by the ECB. The PBO[11] noted that rising energy prices will have a significant impact as Ireland import's most of its energy.

The Central Bank stated that the latest data available shows inflation (HICP) of 5.7% in February 2002, the highest since the late 2000s. The energy component of the HICP rose by 30% over the year to February. Higher inflation will increase pressure on real incomes and businesses operating costs. The Central Bank also noted that prices for energy and fuel do not yet fully reflect the implications of the conflict in Ukraine and will therefore see a further uptick of inflation.

The Central Bank outlined that increases in energy costs are driven by significant increases in international oil and gas prices. While previous energy crises have been driven by oil prices, such fluctuations in in gas prices is quite new. The Central Bank noted that the futures prices for both oil and gas gradually moderate for the second half of 2022.

The ESRI noted that the current inflationary shock is external, as the price rises in international markets are feeding into the domestic economy.

While most of the drivers of inflation are external, the ESRI notes that the cost of housing is a key domestic element in the cost of living. Based on CSO estimates, house prices are growing by 14% a year and rents (based on ESRI/RTB indicators) are growing by 8%. Housing supply has also been identified by a number of domestic and external agencies as a significant challenge to Ireland's competitiveness.

The Central Bank outlined to the Committee that it expects its inflation forecasts to be between 1% and 2% higher than forecast before the Ukraine crisis. It forecast an average rate of 4.5% in its previous bulletin, but this will likely be 5.5%-6% in its next bulletin, peaking at 7.5%-9% over the summer. The Central Bank also expects inflation in 2023 to be higher than previously expected. These figures were confirmed in the Central Bank's April Quarterly Bulletin, even exceeded, with a

[11] Inflation Issues for Ireland 2022 (oireachtas.ie)

forecast of 6.5% inflation (4.3% when energy is excluded) in 2022 before dropping to 2.8% in 2023.

The Central Bank considers it appropriate fiscal policy to reduce the impact of inflation on those less able to cope with it and notes that the measures in Budget 2022, and more recently, will help alleviate some of the cost-of-living increases.

The Central Bank outlined it is not yet seeing evidence of second-round effects, whereby higher inflation leads to higher wages which in turn passes through to higher prices.

The Central Bank outlined that increasing interest rates would have no impact on the current inflation levels, as monetary policy acts with a lag. However, current inflation rates along with medium headline and core underlying (which excludes energy) will inform ECB decisions.

The ESRI that the inflationary period is being prolonged due to the Russian invasion of Ukraine. In the ESRI's view it is highly unlikely the inflationary issue will subside in the short-term.

The ESRI outlined that the ECB has been reluctant to increase interest rates as it conscious of the risk of choking the post-pandemic economic recovery. However, the ESRI also noted that if current energy prices feed into high prolonged inflation across the economy it will ultimately feed into higher interest rates.

The Central Bank told the Committee that the full pass-through of increased costs into food prices has yet to be seen and therefore it expects to see further pressures over the coming months. The Central Bank warned that household food bills could increase significantly.

Differential Inflation

The Central Bank outlined that the experience of current inflation rates is not uniform across the economy, with lower income, older and rural households most impacted due to the nature of the increases. For example, the Central Bank outlined that average portion spent on food is 21% but is 26% and 16% respectively for the lowest

and highest 20% of incomes. It is a similar pattern for energy with the average being 10% but 8% for the highest incomes and 10% for the lowest.

The Central Bank has estimated a differential inflation rate 6.2% for those most impacted, compared to the average rate of 5.7% and the lowest differential rate of 5.1%. Given current circumstances, the Central Bank expects that the inflation rate will be around 0.5% higher for the most impacted groups.

The Central Bank outlined that currently inflation rates are somewhat similar across the euro area, though noted it can vary across the Member States.

Observations and Recommendations

7. The Committee notes that the impact of the current inflationary pressures impacts differently on different households and due to the make-up of the current pressures low-income, rural and older households are most impacted.

Ukraine

The ESRI outlined that the change in the geo-political landscape will result in increased international business uncertainty, which is likely to drive growth lower. Preliminary estimates from the ECB, cited by the ESRI, indicate that the Russian invasion of Ukraine could reduce euro area output by up 0.4%. The ESRI told the Committee that other work has suggested closer to a 1% reduction in economic activity due to the crisis.

The Central Bank outlined that the Russian invasion of Ukraine will have long-term economic effects and will result in changes in global financial, energy and other markets.

The ESRI also noted that the full impact of the Russian invasion of Ukraine was difficult to fully understand as how the conflict unfolds is unknown, in particular how long it lasts and how widespread it becomes. However, the ESRI also noted it has

created a massive degree of uncertainty which will impact on businesses investment and household consumption decisions. Businesses may hold off on investment decisions until the situation becomes clearer.

The Central Bank noted that the effect of the Russian invasion of Ukraine can be primarily characterised as a supply-side shock. This results in higher prices and lower availability of energy and other commodities.

The ESRI told the Committee that a direct trade effect will be seen in the grain and cereal market as Russia is a major exporter. The sanctions against Russia will also impact of trade. While Ireland does not have a significant volume of trade directly (imports or exports) with Russia, the ESRI outlined that there are potential spill over and knock-on effects.

The ESRI also noted that individual businesses or sectors (such as aircraft leasing) may be more exposed to the Russian economy and sanctions. The Central Bank noted that if aircraft leasing companies are impacted it will have an effect on the national account but much less so on the domestic economy.

There will also be knock-on effects on inflation, particularly in relation energy and food prices, including through the cost of fertiliser of which Russia is a major supplier. While Ireland does not import significant gas from Russia, energy prices will be affected by the shock to price levels at European level.

The ESRI stated there was an understandable desire to reduce dependence of Russian energy but that this comes with a large cost of transformation. Russia could also decide to stop supplying oil and gas to Western countries.

The ESRI noted that as a small open economy there is typically a 1:1 relationship between Irish economic activity and global activity, therefore if the global economy falls by 1% the Irish economy also tends to fall by 1%.

While direct trade between Ireland and both Ukraine and Russia are low, the Central Bank noted that there is relatively important exposure for some products (coal, fertiliser, and some cereals). However, as both Russia and Ukraine are important

suppliers of energy, metals, and food to the European market there will be knock-on effects for Ireland.

The Central Bank noted that the war in Ukraine raises a number of issues for the economic outlook and the conduct of fiscal policy. While there is high uncertainty, it is likely that the economy will reach capacity constraints. Therefore, the composition of fiscal policy may have to be adjusted to avoid excessive inflationary pressures in the domestic economy.

The Central Bank outlined some scenario analyses it has carried out where oil and gas prices are higher than currently expected. This would add an additional 1% or 2% to the inflation rate.

The Central Bank emphasised that the issues related to the costs of welcoming Ukrainian refugees were necessary and unavoidable. The impact will be primarily on the housing market. The Central Bank also noted that the demographic profile of those arriving was likely to be those who are most vulnerable, young children and older people. As a result, the impact on the labour market may not be as significant as if it was a more normal pattern of migration.

The ESRI stated that millions of people leaving Ukraine was a massive humanitarian issue. The ESRI stated that it was “right and proper” to welcome those fleeing the war but noted that it would inevitably lead to expenditure issues that would have to be managed.

Questioned on the exposure of the financial system to a potential Russian default, the ESRI noted that while there may be some exposure in the IFSC, it does not believe it poses a systemic risk to the stability of the Irish financial sector. However, the ESRI and Central Bank also stated that financial sectors of other EU countries (such as Austria, Italy, and France) are more exposed to potential defaults by Russian banks.

The Central Bank sees very little risk from a Russian State or bank default, outlining that Irish retail banks, which are important for the stability of Ireland’s financial system, have negligible exposure to Russia.

Observations and Recommendations

8. The Committee wishes to emphasise that additional expenditure to support the arrival of Ukrainian refugees is necessary and should be undertaken. The Committee notes that the impact of this spending on other budgetary issues will have to be monitored.

Climate

Climate change and the green transition is another significant challenge for the economy. The ESRI notes that the importance of the commitments around emissions reduction is widely recognised but also outlines that meeting the targets, along with delivering housing, will require significant State investment.

Housing

The ESRI outlined the imbalance between supply and demand. The ESRI stated that the fundamental issue for housing will be to ensure employment and material capacity can meet demand.

The Central Bank noted that the construction sector is experiencing higher costs partly due to supply chain disruption as a result of the pandemic and partly due the increase in energy prices and how it is passing through into other costs.

The ESRI also discussed the risk of rising energy price rises having direct effects on building costs and materials could not be underestimated. The increased cost of internationally traded commodities could feed directly into the ability to meet current planned investment in the housing sector.

The ESRI noted it will be a challenge to fully spend capital allocations and outlined that the capital allocation will not go as far as previously due to the cost pressures. For example, the output in terms of housing units will probably be less from the same capital allocation that previously thought. They previously noted that the private sector currently doesn’t have the capacity to meet the levels of production required. The Committee believes there needs to be an analysis undertaken on how capacity

can be increased, and how the state can use its economy of scale to increase production and reduce cost pressures.

Observations and Recommendations

9. The Committee notes that due the construction cost inflation and the tight supply of labour it may be a challenge to fully deliver on capital spending plans. This Committee believes this gives added urgency to the state using its economy of scale to try to ameliorate such cost pressures and increase productivity through investments in modern methods of construction.

Appendix – Orders of Reference

Committee on Budgetary Oversight.

219. (1) There shall stand established as soon as may be, following the reassembly of the Dáil subsequent to a General Election, a Standing Committee, to be known as the Committee on Budgetary Oversight, to examine and, where it considers it appropriate, report to the Dáil on—

(a) the overall fiscal position, including—

(i) the aggregated position on revenue and expenditure and the General Government Balance, including structural targets;

(ii) medium-term projections for the public finances;

(iii) macro-economic forecasts and developments;

(iv) general fiscal governance including the application of fiscal rules and risks to the fiscal position; and

(v) matters arising from the introduction of a supplementary Estimate or Estimates that, in its opinion, have or may have significant budgetary implications: Provided that the Committee shall advise the appropriate Committee or Committees of any decision on its part to undertake such consideration and the reason or reasons therefor;

(b) public expenditure policy, including— 109

(i) the expenditure position having regard to the Government Expenditure Ceiling and the expenditure benchmark under the Stability and Growth Pact;

(ii) Ministerial Expenditure Ceilings applying to individual Estimates or groups of Estimates for the Public Services where significant variations from the expenditure profile could potentially impact on the overall fiscal position; and

(iii) the adequacy of planned and actual aggregate levels of capital expenditure and the policies and practices in relation to capital expenditure, including public

procurement policy and public private partnership policy, intended to ensure the achievement of value for money.

(c) Exchequer receipts policy.

(2) The Committee may consider a matter of public policy with significant impact on the budgetary position or on the overall fiscal position: Provided that prior to the commencement of such consideration, the Cathaoirleach of the Committee shall consult with the relevant sectoral Committee established pursuant to Standing Order 95.

(3) The Committee may also consider the overall framework for parliamentary engagement throughout the course of the budgetary cycle and may make recommendations thereon to the Committee on Standing Orders and Dáil Reform for that Committee's consideration under Standing Order 119(1)(b): Provided that, in so doing, the Committee shall consult with—

(a) the Committees established pursuant to Standing Order 95 on any recommendations which, in the opinion of the Committee, impact on their role or remit; and

(b) the relevant Minister or Ministers on any recommendations which, in the opinion of the Committee, impact on the role or remit of a Department or Departments,

and shall notify the results of such consultations to Committee on Standing Orders and Dáil Reform.

(4) The Committee shall have the following powers:

(a) power to send for persons, papers and records as defined in Standing Orders 96(3) and 99;

(b) power to take oral and written evidence and submissions as defined in Standing Order 96(1) and (2);

(c) power to appoint sub-Committees as defined in Standing Order 96(4); (d) power to engage consultants as defined in Standing Order 96(14);

(e) power to travel as defined in Standing Order 96(15).

(5) Every report which the Committee proposes to make shall, on adoption by the Committee, be laid before the Dáil forthwith, whereupon the Committee shall be empowered to print and publish such report, together with such related documents it thinks fit. 110

(6) The Committee shall consist of fifteen members, none of whom shall be a member of the Government or a Minister of State, and four of whom shall constitute a quorum: Provided that—

(a) the Committee and any sub-Committees which it may appoint shall be constituted so as to be impartially representative of the Dáil; and

(b) the provisions of Standing Order 106 shall apply to the Committee.

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