

Opening Statement
Michael McGrath TD, Minister for Public Expenditure and Reform
Budgetary Oversight Committee
15th July 2021

I welcome this opportunity to appear before the Committee today to speak on the Summer Economic Statement, published yesterday with my colleague the Minister for Finance.

The SES is a key element of the reformed budgetary process, and sets out the parameters for the forthcoming Budget and our medium term budgetary strategy out to 2025. The expenditure strategy outlined in the SES reflects the Government's commitment to return the public finances to a more sustainable position while addressing our infrastructure challenges, including in the key areas of housing and climate action; continuing to enhance our public services and social supports; and ensuring a balanced recovery from the pandemic.

In line with the approach in Budget 2021 and in the Stability Programme Update, expenditure to fund temporary measures to address the impact of the pandemic is dealt with separately from expenditure on the delivery of core programmes and infrastructure. This distinction between core and temporary funding is essential to ensure the medium term sustainability of the public finances.

The strategy in relation to core expenditure is to grow overall expenditure each year by c. 5 per cent on average over the period to 2025. The average annual growth rate in core current expenditure is just under 4¾ per cent with total capital spending, including that funded under the National Recovery and Resilience Plan (NRRP), growing by an annual average of over 8½ per cent, and reaching over €13½ billion in 2025.

These increases in capital investment in the period to 2025, follow the significant increases in 2020 and 2021 and would see total capital spending as a percentage of national income, as measured by GNI*, increase from 3.4 per cent in 2019 to 5 per cent in 2025. Over the five year period 2021 to 2025, on a cumulative basis total gross voted capital expenditure, core

and NRRP, would amount to over €59 billion compared to core capital spending of €29 billion over the period 2016 to 2020.

A key element of the medium term expenditure strategy will be setting out revised capital expenditure ceilings for the period to 2030 following completion of the review of the *National Development Plan* (NDP). Engagement with Departments on the review of the NDP is ongoing and the capital expenditure amounts in the SES provide the overall parameters for the NDP for the years to 2025.

Core current spending as a percentage of national income also grows, from 28.1 per cent of GNI* in 2019 to 29.9 per cent in 2025. The average annual growth rate of just under 4¾ per cent over the period 2022 to 2025 provides the resources to meet existing level of service costs and for new measures to enhance public services and social supports.

The level of resources being set aside for core spending is significant - almost €93 billion in 2025 compared to just over €70 billion in 2020. This level of resourcing requires an ongoing and enhanced focus on value for money and that we ensure that there is the capacity to deliver this significant investment. We must build on the budgetary reforms already in place to drive spending efficiency and effectiveness. As we look to ensure that the recovery from Covid-19 is fair and balanced it will be important to utilise these reforms to provide the evidence to inform decision making. The development of the Wellbeing framework for Ireland can support this approach, in terms of developing a shared understanding of what makes for better lives and influencing public debate on strategic priorities.

The careful phased withdrawal of Covid-19 supports is essential both to support society and the economy to recover from the impact of Covid-19 and to return our public finances to a sustainable position. Across 2020 and 2021, we will have made available over €31 billion for direct expenditure measures with approximately €15 billion this year. The SPU included €4 billion in relation to Covid-19 related expenditure in 2022. Including the expenditure funded under the NRRP (part of the EU's response to Covid), the SES now sets out €7 billion for temporary Covid spending next year, including an amount to be held in reserve to allow Government respond as the situation with the virus evolves. This is a prudent approach given

the uncertainty that still exists in relation to Covid-19 and the requirement to ensure that supports are carefully withdrawn in a manner that supports recovery in the economy.

The SES includes an amount of expenditure of €1.1 billion for measures funded by the Brexit Adjustment Reserve (BAR). Funding under the BAR will be used to support employment, businesses and local communities negatively affected by Brexit, including those in the fishing industry and will be allocated across Budget 2022 and Budget 2023.

The fiscal strategy underpinning the SES marries Government's commitment to deliver improvements in infrastructure and public services with the commitment to sustainable public finances. The strong position of the public finances before the Covid crisis put us in a position to deliver a significant fiscal response to support our people and businesses and key public services through the crisis. As the impact of the crisis recedes, we must start on the road to returning the public finances to a more sustainable position.