Budgetary Oversight Committee

Opening Statement by Minister for Finance

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Introduction

Chairperson, Members – let me begin by thanking the Committee for the invitation to appear here today to discuss preparations for *Budget 2022*. I look forward to a fruitful and positive exchange.

Taking Stock

Earlier this week marked a crucial milestone, with many returning to their workplaces for the first time in a year and a half. In around a month from now, almost all of the remaining public health restrictions will be lifted. So we can now be confident that – absent a vaccine-resistant variant emerging – the worst of the pandemic is behind us.

The past eighteen months have been extraordinarily difficult for all. The disruption to family life, the pain of losing loved ones and the impact of successive, but necessary, public health restrictions hindered, in an unprecedented and highly intrusive way, normal economic and social life.

Throughout the pandemic I have been overwhelmed by the resilience of the Irish people. Ordinary people, business owners and, especially, our front-line workers have risen to the challenge in an extraordinary way.

In particular, I want to acknowledge all those who were part of our vaccination programme. Let's be clear – this vaccine programme has been one of the most successful in the world. It is the key reason we are returning to some form of normality and we all owe a huge debt of gratitude to the staff and volunteers involved across all the relevant agencies.

Government Support

In Government, it has been our job to try to match the success of the vaccination programme with an economic and fiscal approach that protected incomes, supported business and invested in our health service. In my view we succeeded in doing that.

To date, the Government has made a total of €48 billion available to mitigate the worst impacts of the pandemic. The full suite of budgetary tools has been utilised: direct public expenditure, the taxation system and 'below the line' supports such as credit guarantees.

For example, over €17 billion has been spent on the three main income and business support schemes: the *Pandemic Unemployment Payment*, the *Employment Wage Subsidy Scheme* and the *Covid Restrictions Support Scheme*.

These schemes have been extraordinarily successful in protecting living standards and limiting the scarring, or lasting, effects of the pandemic.

The success of these and other schemes is clear from official data. Most economic indicators are now moving in the right direction and, crucially, people are returning to their jobs. For instance, there were over 480,000 people on the *Pandemic Unemployment Payment* in February, while today this figure is closer to 110,000.

Next phase

As we enter the next stage of the pandemic – and hopefully the final one – we need to move on to the next stage of our policy response to it.

The counter-cyclical budgetary stance has served us well over the past 18 months. Such an approach should continue to serve us well in the recovery. With all economic indicators suggesting that a strong recovery is in prospect, Government should not add 'fuel to the fire' by maintaining spending at an unprecedented and unsustainably high level.

This is particularly important given the recent increase in inflation, particularly in the construction sector.

Accordingly, temporary supports such as the PUP are being phased out in a deliberate, appropriate and equitable way. Similarly, employer supports such as the CRSS will also come to a natural end, as businesses re-open and normal activity resumes.

While the pace of the recovery has been quicker than many expected, I fully recognise that some businesses and employees will continue to need support. This is why the Government has committed to maintaining the EWSS until at least end of the year.

While absolutely necessary, these supports have not come cheap. Over the summer, my Department estimated a budget deficit of around €20 billion for this year. It is evident to all that this cannot continue indefinitely. It is also worth emphasising that a significant factor in our ability to respond to the pandemic was the strength of the public finances immediately prior to the emergence of the virus.

During the pandemic, borrowing costs were kept to a minimum as central banks in all major economies purchased government bonds. This looks set to continue for the next few months but, thereafter, borrowing costs are set to 'normalise'. Only time will tell whether the new norm will be different from the old, but it is fair to say that sovereign borrowing costs are set to increase sooner rather than later.

This highlights the importance of policy supporting a credible path towards fiscal sustainability. Our best assessment is that this can be achieved by phasing out temporary supports and allowing economic recovery to do the heavy lifting on the revenue. This, of course, is contingent on sustainable increases in spending that recognise trade-offs and prioritise accordingly.

Investment

Having said that, it is clear that there are real challenges which need to be addressed and additional public expenditure will be required to meet these challenges.

This is particularly true in respect of capital infrastructure. The forthcoming *National Development Plan* will outline Exchequer expenditure of over €136 billion over the next decade. Spending will reflect Government priorities including housing and climate action.

Borrowing to fund investment that raises long-term productivity in the economy is the right thing to do. Borrowing for day-to-day expenditure is not – it depresses the living standards of future generations who have to pay for it. And Government is determined not to lump an unwarranted debt-service burden onto our children.

However, the next generation will benefit from an improved stock of infrastructure and this is why the Government is willing to borrow for capital investment from 2023 onwards.

Public debt

Chair, let me elaborate for a minute on the issue of public debt, which is approaching a quarter of a trillion euros.

To put it in a more meaningful way, this is the equivalent of around €50,000 per person, a figure which is amongst the highest in the developed world.

This debt will have to be paid back, or more likely, rolled over at higher interest rates. The exceptionally low interest rates of today will not last forever.

As a burden on future generations it would simply be inequitable to saddle future taxpayers with large debt servicing costs. This is particularly true given our ageing population and the impending transformation of the economy away from fossil fuels.

Budgetary strategy

The budgetary strategy outlined in the *Summer Economic Statement* strikes the right balance between supporting recovery and boosting investment on the one hand, and narrowing the deficit and managing our debt burden on the other hand.

A total Budget package of €4.7 billion is available this year. On the expenditure side, core spending will increase by €4.2 billion including €1 billion for entirely new measures. The remaining €3.2 billion will allow for demographic pressures, public pay increases and a significant increase in capital spending of some €1.1 billion.

A further €500m tax package will be delivered as part of Budget 2022. The package will include a number of measures.

The SES outlined how, over the next two budgets, temporary Covid-related spending measures will be phased out, and provided a pathway to meet core objectives set out in the *Programme for Government*.

In practical terms this means the implementation of an expenditure rule whereby core expenditure growth is fixed at just over 5 per cent per year. This is in line with the trend growth rate of the economy.

The rationale for this approach is to ensure that temporary or windfall revenues are not used to finance permanent spending increases.

For next year, an expenditure ceiling of €88.2 billion has been fixed and agreed by Government. A key point to note here is that the SES committed to de-coupling expenditure from tax revenues, that is to say, lower-than-assumed or indeed higher-than-assumed tax revenues do not affect the spending outlay.

Let's be clear. Managing the public finances involves trade-offs.

There are only three options for new spending. Either we raise taxes, increase borrowing or reduce spending in other areas.

Budget 2022 will strike the right balance between these choices.

Conclusion

In conclusion, Chair, I think it is fair to say that difficult decisions will need to be taken over the coming weeks.

It is the job of Government to make those decisions, and I look forward to discussing some of these issues with the Committee this morning.

Thank you.

Ends ///