

## **Opening Statement**

**Michael McGrath TD, Minister for Public Expenditure and Reform**

**Budget Oversight Committee**

**14th July 2022**

Chair, and members of the Committee, I would like to thank you for the opportunity to meet with you today.

### **Context**

The Summer Economic Statement is a key milestone in our annual budgetary timetable. It sets out the Government's fiscal and expenditure strategy for the year ahead and provides an outline of the resources that will be available in the context of Budget 2023.

The economy has emerged from the pandemic in a strong position. The budgetary measures that the Government took during the pandemic have made an enormous difference to the economy we see today. Unemployment stands at 4.8 per cent and over 2.5 million people are in employment, more than immediately prior to the pandemic. Businesses too have displayed remarkable resilience as critical business supports such as EWSS have been unwound.

As Minister Donohoe has highlighted, however, the backdrop to next year's budget is an increasingly challenging one. While the economic recovery from the pandemic has been rapid, as can be seen in the labour market, it has also led to a mismatch between demand and supply dynamics. This is putting upward pressure on prices of goods and services.

Exacerbated by the war in Ukraine, increased consumer prices mean many households, particularly those on lower incomes, are experiencing difficulties with the rising cost of living. The Government is acutely conscious of the burden this places on our people.

The challenging context has added further complexity to the formulation of our fiscal strategy for 2023. In finalising the fiscal and budgetary parameters for Budget 2023, we have sought to strike a balance between helping to mitigate cost of living pressures and ensuring sustainability of the public finances.

Overall policy must be responsive – we are aiming to design a budgetary package to protect the most vulnerable in society and those on middle incomes while also ensuring measures do not add to pre-existing inflationary pressures.

### **Cost of Living Response**

In recognition of cost of living pressures, Budget 2022 set out a €1.2 billion package of expenditure measures to support citizens across a range of sectors. Some headline measures included increases in weekly social protection payments as well as the Fuel Allowance and Working Family Payment; health affordability measures; social and affordable housing funding, and enhanced student and childcare supports. On the taxation side which Minister Donohoe has referred to, Budget 2022 had a substantial €597 million income tax package that increased the standard rate band and income tax credits.

In response to the evolving situation during the first half of 2022, over €½ billion in additional expenditure measures have been introduced this year to date. This included the €200 Electricity Credit, further lump-sum fuel allowance payments and the Back to School package announced just last week. In addition, a number of exceptional taxation interventions were made.

While public expenditure resources cannot be deployed at the scale that would be needed to fully compensate for all cost increases, the Government has committed and will continue to provide significant resources to mitigate cost of living pressures by assisting those most impacted by energy price inflation and those most vulnerable to price increases. This commitment has framed our preparations for this Summer Economic Statement.

### **Summer Economic Statement 2022**

Last year, the Medium Term Expenditure Strategy set out the dual objective of delivering sustainable expenditure over the medium term through:

- Setting the core expenditure growth rate at sustainable levels, and
- Providing ongoing improvements in public services

Our strategy must be responsive to the emerging economic landscape and take account of the exceptional and externally driven nature of the economic shocks we have endured. It is clear that in order to protect the real value of public services, a short-term adjustment to the Strategy is required.

In framing the SES and Budget 2023 parameters, we are seeking to balance the need to protect public services without feeding further inflationary pressures. While Government cannot absorb the full impact of the current inflationary shock, we can and will take concrete action to support households, protect public services and invest in our critical public infrastructure.

As set out by Minister Donohoe, this upward adjustment will result in an increased overall budgetary package of €6.7bn – approximately €5.7bn will be in the form of additional expenditure with a further €1bn for tax measures.

This package will see core spending increase by 6 per cent this year and 6.5 per cent next year and reflects the availability of an additional €1.7 billion in resources compared to the level set out in the Stability Programme Update.

### **Budget 2023 – Expenditure Strategy**

In terms of expenditure, a total expenditure ceiling of €90.3 billion will be set for 2023 to accommodate a range of different priorities, through core and non-core expenditure.

### **Core Expenditure**

In 2023, €85.8 billion of core expenditure will be available to provide for both ongoing costs of current service provision and additional public investment.

Approximately 3 per cent of the core current expenditure base will be available to meet existing levels of service (ELS) costs in 2023 compared to the current year.

This includes:

- Continued investment in the public sector workforce as the delivery mechanism for a wide range of critical services, as set out in Building Momentum;
- Funding for demographic developments including supporting a growing population and its changing profile and
- The full year impact of measures from Budget 2022 which are being implemented on a phased basis.

There will be a €0.8bn increase in capital expenditure. Overall core capital investment will reach some €11.7 billion in 2023, with an additional €0.2 billion as part of the National Recovery and Resilience Plan (NRRP).

This represents an increase of 7 per cent, in line with the National Development Plan 2021-2030. This funding will provide for key investment across sectors including housing, health, education and transport, while also investing in our climate goals. There is also likely to be a carryover from any unspent element of the capital budget this year.

€2.7 billion will be available for new current expenditure measures of which approximately €400 million will take effect in 2022. This overall envelope of

funding must accommodate priorities across a wide range of policy areas including:

- The public service pay bill which is a significant driver of current expenditure, amounting to close to a third of core current spending each year;
- Spending on Social Protection which accounts for around another third of core current spending; and
- Government commitments in relation to housing, climate change and health.

I would also note that separately a number of one off measures for implementation in 2022 are being developed by my officials and an announcement in relation to this will be made on Budget Day.

While the resources that are being made available are significant and will have a considerable impact, prioritisation will be required given the significant level of competing demands on public expenditure. As is always the case, resources are limited and we must prioritise.

### **Non-Core Expenditure**

In 2023, Government is also providing €4.5 billion in non-core expenditure for temporary measures. This follows on from the €7.5 billion in non-core expenditure provided for in 2022. This approach to expenditure management

has proved critical in recent years to helping Government respond to the numerous external shocks.

The 2023 funding will provide for the continuation of key Covid supports in certain sectors, the provision of supports to help counter the negative impacts of Brexit through the Brexit Adjustment Reserve fund (BAR) and key humanitarian supports for refugees arriving from Ukraine.

### **Prioritisation**

As I noted earlier, the 6.5 per cent increase in core expenditure for 2023 must accommodate a range of priorities. It also means ensuring that spending delivers sustainable improvements in public services and infrastructure. This will require decisions to be made across Government and prioritisation of demands.

A range of expenditure reforms have a role to play in supporting this process and ensure spending delivers efficiency, effectiveness and value for money. These reforms include the spending review process, performance budgeting and the use of IGEES resources across the system to provide key information and critical insights to inform decisions.

In that context, my Department will publish the Mid-Year Expenditure Report later this month. This is a key document setting out a clear and detailed view of the baseline expenditure position in advance of the upcoming Estimates

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process. I hope it will be of benefit to the Committee as part of our whole of year engagement on budgetary issues.

### **Closing**

While we are in a challenging situation, we have seen considerable improvements in the State's overall fiscal position. This allowed us and will continue to allow us to respond to these challenges in a fiscally sustainable manner, protecting public services, improving outcomes and investing in our future.

Thank you for this opportunity to address the Committee and I look forward to answering your questions.

ENDS