

Opening Statement to the Oireachtas Committee on Budgetary Oversight

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Introduction

I would like to begin by thanking the Chair for the invitation to Ibec to appear before the Committee this afternoon. I am Fergal O'Brien, Director of Lobbying and Influence at Ibec and I am joined by my colleague Hazel Ahern-Flynn, economist with Ibec. We are grateful for the opportunity to appear before the Committee today in advance of budget 2023.

Backdrop to the Budget

Budget 2023 takes place at a 'turning point' in the global economy. Changes in the global environment – in commodity, energy, and financial markets – are reshaping the global economy from the one we have recognised over the past decade. The era of record low interest rates, low inflation, and spare capacity that we have lived through since the global financial crisis is being overturned. For Ireland, as a small open economy, shifts in the flow of capital through the global economy can have an outsized impact on our growth model. Our members are already experiencing these changes through tighter capital markets and rapidly rising costs.

The outlook for Irish business is marked by growing concern at rapid shifts in our competitive position. This underlines the importance of controlling what we can here at home in Budget 2023. In the short term, the focus of the business community will be on dealing with the impact of a sudden escalations in costs, ongoing trade and supply chain disruption, and major changes in our business model.

Energy is now the biggest challenge facing our society and economy. We are clearly already in an energy affordability crisis with growing concern also in relation to the security of supply. For many of our member companies, energy costs are now four to five times higher than would have been the case a year ago. Despite this, Irish business is committed to playing a proactive role in facing up to the multitude of challenges and commitments which will arise in the coming decade.

Budget 2023 must provide a robust response to the immediate inflationary difficulties whilst also meeting the long-term challenges we face as a society. It is crucial that the undoubted pressures of the here and now do not lead to us abandoning our focus on crucial long-term investments which raise living standards and quality of life.

While the Government is aiming for a modest surplus in 2023 there remains a danger of overcorrecting given volatile economic dynamics. The path of energy prices and security, the pace of global monetary tightening and momentum in the broader global economy are all extremely volatile. If the economic environment continues to deteriorate over the winter, a more significantly expansionary fiscal stance may be needed to robustly protect households and businesses. Government will need to be flexible and responsive to these trends regardless of the stance on Budget Day.

Amongst the key asks detailed in Ibec's Budget 2023 submission are:

- Firstly that, in light of high inflation and rising uncertainty, fiscal policy continues to be flexible to volatile economic conditions throughout this year and next.
- To deal with the rapid escalation in energy costs for businesses, Ibec is calling for a significant, immediate package of emergency energy supports to be made available under the new EU State Aid framework. These supports to help offset spiralling business energy costs are urgently needed and should be implemented as soon practicable, in advance of Budget 2023 if possible. In terms of labour costs, Government policy in the labour market is loading significant cost pressure onto businesses, particularly SMEs. While Ibec acknowledges the merit of many of these policies individually, the lack of coordination in their rollout means that businesses will face rapid and considerable increases in their labour costs over the coming years. Government must do much more to control and offset the policy related labour costs which are impacting business. The most exposed businesses will need concrete support through this period of transition. This should take the shape of a time limited labour market transition rebate, funded from the National Training Fund (NTF) with a payment break element and a rebate for training, upskilling or productivity vouchers.
- In regards to the low carbon transition, Ibec supports Government's commitment to a continued increase in the level of the carbon tax. However, this must also be balanced by offsetting incentives for energy efficiency, the adoption of low carbon technologies and alternative energy sources. This includes significant resourcing of SEAI grant schemes, considering further super deductions for energy efficient investments, 'greening' our VAT rules and support schemes for micro and mini generation.
- Irish companies of all sizes have the potential to compete in an economy driven by mobile skills and intangible assets, but for this to happen we are calling for crucial investments in education, skills, childcare, research and innovation and digital of over €400 million in 2023.
- Finally, Ireland must continue to invest in the competitiveness and productivity of the sectors worst impacted by Covid such as the Experience Economy, with investments in town centres and skills and appropriate use of the €1 billion Brexit Adjustment Reserve to support investment, upskilling and competitiveness in the worst exposed sectors.