

**Committee on Budgetary Oversight**  
**Opening Statement of Minister Paschal Donohoe**  
**14<sup>th</sup> September 2022**

**Introduction**

Chair: thank you for the opportunity to attend the Committee today to discuss *Budget 2023*, which Minister McGrath and I will present to the Oireachtas on Tuesday, September 27<sup>th</sup>.

**Context**

I will begin by briefly outlining the economic and fiscal context for the Budget.

This is a challenging and deeply uncertain period for our economy. Over the last several years, we have found ourselves facing a series of unprecedented global shocks: Brexit, a pandemic and the conflict in Ukraine.

The pandemic which dominated our lives for two years has receded, and I think it is important we do not lose sight of the fact that, even with the challenges we are facing, we have recovered with remarkable speed and strength.

The strength of the recovery is a testament to the success of this Government's fiscal policy: during the pandemic, we made available resources in the region of one-fifth of national income to protect households, businesses and our health sector through the crisis.

This was the appropriate response for the specific circumstances of the pandemic.

It was this response which laid the foundation for the robust and broad-based economic recovery when the pandemic had finally been brought under control.

For a brief period at the start of this year, the prospects for the Irish economy appeared to be bright. But no sooner had we turned the page on the pandemic than the Russian invasion of Ukraine upended the economic situation and outlook.

This is most evident in energy and commodity prices. *In tandem* with the after-effects from the pandemic, headline inflation in Ireland, similar to other advanced economies, is now running at highs not seen in many decades.

The reduction in purchasing power will dampen consumer spending over the coming quarters, while increased uncertainty and weaker external demand will also see firms hold back on investment.

As a result, my Department will be revising down its projection for Modified Domestic Demand growth next year in the Budget.

However, there are many positive signs in the domestic economy. On foot of successful Government policy, the labour market has made a remarkable recovery over the past year, with 2½ million people in employment in the second quarter, the highest level on record, and an unemployment rate of 4.3 per cent recorded in August.

Looking ahead, employment growth is expected to slow in line with the outlook for domestic demand, but the unemployment rate is expected to remain at relatively low levels.

So we are facing into these challenges from a good starting point.

### **Cost of living**

It is clear that the cost of living challenge is the most immediate and urgent issue facing our country – though it is clearly not the only issue.

Government has already acted, swiftly and decisively, to provide support to households and businesses. In doing so, we have been mindful of the fact that the rising cost of living has hit those on lower incomes hardest.

In aggregate terms, supports of approximately €2.4 billion have been made available to help absorb some of the impact.

Of course, the drivers of the inflationary environment are primarily global in their nature, and are outside the ability of any one Government to offset in their entirety. I absolutely recognise the reality that many of our people are still struggling with rising costs.

That is why I have said that *Budget 2023* will be a ‘Cost of Living’ Budget, built around further interventions aimed at reducing the impact of inflation.

However, I would emphasise to the Committee that in drafting *Budget 2023*, Government has a responsibility to strike a delicate balance. We must provide the necessary assistance to those in need, but without adding fuel to the fire of inflation.

Government undoubtedly has an important role to play in helping to mitigate the impact of the current price shock. However, as we have seen from other countries, there are limits to what any one Government can do to address the effects of global pressures outside of our direct control. As we learned in the 1970s, chasing inflation can result in far bigger and more structural problems in the longer-term.

### **Fiscal context**

Chair, I will now turn to the fiscal position currently.

The strength of the economic recovery we have seen through this year has been reflected in our public finances, in particular, in tax revenue. At the end of last month, tax revenues stood at almost €50 billion, up by over €10 billion on the same period last year. This is a clear and encouraging demonstration of the underlying strength of our economy.

Income tax continues to perform well, and reflects the resilience of our labour market and the success of Government policy in maintaining the link between employer and employee throughout the pandemic. The strong performance of VAT receipts confirms the rebound in consumer spending once public health restrictions were lifted.

But it should be noted that much of the surge in tax revenue is due to windfall corporation tax receipts, which amounted to nearly €12 billion to end-August. My officials expect these receipts to top €20 billion this year.

Chair – this is a staggering figure. To put it in context – a decade ago, receipts from the corporate sector amounted to around €4 billion.

These receipts are a reflection of our success in ensuring that Ireland is a first-choice destination for highly profitable multinational firms and highly paid jobs.

But, as the Committee will recall, I have frequently warned that this is an extremely unreliable and volatile revenue stream. The surge in corporate tax revenues is disproportionately concentrated among a small handful of firms. Just one of these firms leaving Ireland would be a significant blow to our tax revenues.

To put it bluntly: the future growth of corporate tax receipts is not a one-way bet.

Compounding this risk are changes to the international taxation environment which, although taking longer than initially anticipated, will have a negative impact on our corporation tax revenue.

Positive headline figures can, as a result, serve to obscure very real vulnerabilities in our public finances. With this in mind, in *Budget 2023* my Department will publish an alternative measure of the fiscal position which excludes estimates of windfall corporation tax receipts.

### **Budgetary strategy**

In the *Summer Economic Statement*, the Government set out the parameters for the forthcoming Budget, as well as its medium-term budgetary framework.

In response to the increase in energy and other prices, the Government amended its fiscal strategy for 2023 – doubling the size of the tax package and increasing public expenditure in order to protect the real value of public services. This means that the total Budget package for next year stands at €6.7 billion.

In addition, and as both Minister McGrath and I have confirmed, a set of one-off measures will also be provided for this year.

As I have stated previously, one of my core objectives in this Budget will be to ensure that workers do not find themselves in a position where they pay more income tax solely because of inflation – so-called ‘fiscal drag’.

For future years, we will stay within the parameters of the medium-term budgetary strategy set out last year. This will allow us to provide for steady improvements in public services and sustainable reductions in personal taxation while still ensuring that our public finances remain on a positive trajectory.

## **Conclusion**

Chair, I will now conclude.

This is a challenging time. We have, yet again, found ourselves facing an unforeseen economic shock, and we in Government are very much aware that many are struggling to make ends meet as we head into a difficult winter.

But there are also reasons for hope. Employment is now at record levels and our public finances are back on the road to sustainability, giving us the fiscal firepower to help, on a very significant scale, with the cost of living challenge in *Budget 2023*.

We have shown time and time again over the last two-and-a-half years that we will act when necessary to protect households and businesses to as great an extent as possible.

*Budget 2023* will continue this proven track record.

It will be a Budget that takes action today to relieve the burden of inflation and keeps our public finances on a sustainable pathway over the medium-term.

Thank you.