

## **Budget Oversight Committee: Opening Statement by**

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**Plan Delivery and Reform**

**Summer Economic Statement**

**12th July 2023**

Chair and members of the Committee I would like to thank you for the opportunity to discuss the Government's fiscal strategy for Budget 2024 as set out in the Summer Economic Statement which was published on Tuesday.

### **Context**

The Summer Economic Statement is an important part of the overall budgetary calendar. It sets out our fiscal and expenditure strategy for the year ahead, outlining the overall resources available in the context of Budget 2024.

Once again this year our economy, and the labour market in particular, showed resilience in the face of external challenges. At the end of June, monthly unemployment remained at 3.8 per cent. This is the lowest unemployment rate recorded in Ireland and demonstrates how far we have rebounded from the Covid 19 pandemic only a short few years ago. There are now more than 2.6 million people in employment.

Inflation placed considerable pressure on households and businesses throughout 2022 and into this year. Thanks to Government policy, we helped insulate the most vulnerable households from the worst effects of these price

pressures through a combination of temporary and permanent support measures. In total €12 billion was allocated between 2022 and 2023 to tackle the impact on our cost of living caused by price inflation; the result of supply chain constraints, demand pressures, and of course, the global knock on effects from the war in Ukraine on energy prices in particular.

The last two budgets utilised a dual approach of revising our Medium Term Expenditure Strategy while utilising supplementary non-core funding for the external challenges. This combination of temporary and permanent support measures was a conscious attempt to avoid adding to the inflationary pressures. The Government will continue with this balanced approach to the public finances.

In line with best practice, as the overall economic picture improves, we are committed to smoothing a path back to the Medium Term Expenditure Strategy growth rate of 5%. However, we are also acutely aware that price pressures remain in the short term, and on that basis, the strategy for Budget 2024 will be to continue to help society deal with the challenge of higher prices in the economy. Therefore, in drafting our fiscal policy, we will once again strike a balance between the need to maintain services and improve living standards, while consciously trying to avoid adding to inflation.

It is in the context of these short and medium term considerations of the economy that have framed our strategy for this Summer Economic Statement.

## **Summer Economic Statement 2023 – Overview**

The objectives of the Medium Term Expenditure Strategy (MTES) are twofold, to ensure that the level of core expenditure growth is sustainable long-term and that investment in expenditure protects and delivers improvements to public services. The framework must be responsive to the economic landscape and therefore is reviewed as part of the whole of year budget process including during the SES.

When the MTES was developed it was designed against the backdrop of a long term trend inflation rate of 2 per cent. With a rate of 8.1% in 2022 and an expected rate of 4.9% for 2023, adjustments were made to the strategy in those years to respond to the economic landscape; principally external shocks. The present strategy will take account of the nature of, and the residual effects of, exceptional globally driven events. In order respond to the impact of higher prices another adjustment to the Strategy is required.

As we did last year, we are taking a balanced approach in maintaining and improving public services while trying to avoid adding to inflation. Since late 2021 / early 2022 inflation has increased above the trend rate of 2% and this poses a risk to the value of public services and the purchasing power of households. The Government is conscious that while price pressures remain elevated now, the forecast rate is for a drop for 2024. The adjustment to the expenditure growth strategy takes account of the expectation that the inflation rate will gradually return to the trend.

## Budget 2024 – Expenditure Strategy

The Summer Economic Statement sets out the key parameters for Budget 2024. The parameters are comprised of three main components, each of which I will outline separately in more detail later on. These components are;

- **Core expenditure**, the day to day operation and services delivered across the public service and the investment in the capital assets that produce them. This is the vast majority of annual public expenditure,
- **Non-Core expenditure**, the spending on non-routine and temporary exceptional items such as the response to the war in Ukraine, Covid and Brexit, and
- A new, temporary component of limited **windfall receipt capital investment** that will be invested in capital and long term public priority projects like the Climate Action Fund. This is separate but additional to the core and non-core elements that the Committee will have discussed in the past.

Compared to the position set out in Budget 2023 the new parameters will see core spending increase by **6.1 per cent** for 2024 and 5 per cent in 2025.

This results in a total *expenditure* ceiling of €95.5 billion for 2024 as set out in the SES. This funding will;

- support and improve core services to households and business,
- continue the extensive humanitarian response to refugees from Ukraine through non-core funding,

- continue to support an economy dealing with the legacy impacts of the Covid pandemic and Brexit.

This adjustment will result in an increased overall expenditure package of €5.2 billion – this is approx. €1 billion additional over that set out in the Stability Program Update last April.

A further €1.1bn is provided for tax measures and additional amount of €250 million from windfall receipts is being made available for additional capital investment.

### **Core Expenditure**

The first and by far the largest component of the expenditure element of the Budget is core expenditure. This is the expenditure on public services that occurs every year (i.e. current spending) and the investment in capital assets that delivers these services. For 2024, €91.2 billion of core expenditure will provide for both the ongoing support of and improvement in public services and additional public investment.

This funding *includes* €2.3 billion, or approximately 3 per cent of the core current expenditure base, to meet existing levels of service (ELS) costs. This includes:

- Funding for demographic developments including supporting a growing and aging population and the changing profile of our citizens;
- Funding carry over costs from previous Budget decisions;
- Meeting existing public service pay commitments such as the extension to Building Momentum;

There will be a €0.9bn increase in National Development Plan capital expenditure. This will result in the overall core capital investment reaching some €12.6 billion in 2024, with an additional €0.2 billion as part of the National Recovery and Resilience Plan (NRRP). This represents an increase of approximately 8 percent, in line with the National Development Plan 2021-2030. This funding will provide for key investment across sectors including health, housing, education and transport while also investing in our climate goals.

€2 billion will be available for new current expenditure measures next year. This must accommodate priorities across a wide range of policy areas including:

- Spending on Social Protection, which presently accounts for around a third of core current spending; and
- Government commitments in relation to housing, climate change, childcare and health.

I will be working with my Government colleagues in the coming months to agree on the various measures to be included in the Budget in line with Government priorities, to ensure we sustain our investment in public services and deliver the right supports to society.

### **Non-Core Expenditure**

The next component of the Budget is non-core expenditure. For 2024 the Government is providing €4 billion of non-core expenditure; spending that is not part of the day to day recurrent expenditure, or core, of a Department. This

reflects the Government's two-pronged approach to fiscal policy and expenditure management, where non-core funding has been used as an additional tool to strengthen our response to economic and social issues.

This funding will provide mainly for the continuation of our extensive humanitarian support for refugees from the war in Ukraine (€2.5 billion), and continued Covid measures where required (€750 million).

### **Prioritisation**

The revised strategy provides an increase of 6.1 per cent increase in **core** expenditure for 2024. This is a €1 billion increase in funding and resources for Budget 2024 but must accommodate a range of priorities. Of course we cannot meet all the competing demands on public expenditure but we can provide support to those most in need, continue to invest and improve our public services and invest in our collective futures.

This will require decisions to be made across Government and the prioritisation of demands in the run up to the Budget. In terms of the next step after the publication of the Summer Economic Statement, my Department will publish the Mid-Year Expenditure Report later this month. This document will set out a clear and detailed view of the baseline expenditure position in advance of the upcoming Estimates process and help us define our requirements going into the Budget negotiations.

## **Additional Capital Investment**

The final component for the 2024 Budget strategy is for the provision of additional capital investment from existing budget surpluses. Following discussions with my Government colleagues I am also pleased to announce that for 2024 and 2026 there will be an additional €2.25 billion of capital funding allocated to delivery of vital infrastructure projects and other Government priority projects such as the Climate Action Fund. This funding is additional investment that will be sourced from the exchequer windfall receipts. This will facilitate the progression of vital projects in the Programme for Government in key sectors such as Education, Health and climate action.

Recognising the capacity constraints across the economy, it is intended that the additional funding will target suitable projects that are ready for development.

## **Closing**

While 2023 has presented further challenges for the economy, none more so than the endurance of higher prices, the forecasts and outlook are tending towards the positive compared to when we stood here last year to deliver the previous SES.

Careful management of our economy and public finances over the past number of years has allowed Government to do the following:

- Provide increased resources for core public services, investing in quality of life in Ireland to support a strong, fair and equal society into the future,
- Deliver significant and essential infrastructural projects through our National Development Plan. Critical projects that support our employment prospects, economic development and regional growth,



- Put in place considerable support measures that provide assistance to households and businesses to counter the challenges we have faced and continue to face, from the war in Ukraine, to price pressures to the Covid pandemic,

Our economy and people continue to show resilience and this has helped Government to respond in a fiscally sustainable way. The policy path set out in today's Summer Economic Statement continues the dual strategy of adjusting public expenditure growth with the use of supplementary non-core funding for external challenges.

Importantly the strategy signals that with price pressures forecast to ease as we move into 2024, we can plan for a smooth return to the overarching anchor of 5% public expenditure growth per annum from 2025 onwards.

END

## Changes in Core Ceilings by Year – Summer Economic Statement Figures

	2023	2024	2025	2026
Current (€bn)	74.2	78.6	82.3	86.3
Capital (€bn)	11.7	12.6	13.4	14.2
<b>Total Core (€bn)</b>	<b><u>85.9</u></b>	<b><u>91.2</u></b>	<b><u>95.7</u></b>	<b><u>100.5</u></b>
Growth in Core Spending (€bn)	5.9	5.2	4.6	4.8
Growth in Core Spending (%)	7.4%	6.1%	5.0%	5.0%
<b>Non-Core expenditure</b>	<b><u>5.2</u></b>	<b><u>4.0</u></b>	<b><u>0.4</u></b>	<b><u>0.2</u></b>
<b>Additional Capital funded by windfall receipts (€bn)</b>		<b>0.25</b>	<b>0.75</b>	<b>1.25</b>

*Note: The 7.4% is above the original 6.5% planned in the Summer Economic Statement 2022 due to being measured on out-turn (not allocation). 2022 saw an underspend on the allocation, mainly in capital, so the percentage increased.*