Budget 2020

Opening statement by Mr Paschal Donohoe, T.D., Minister for Finance and Public Expenditure and Reform to the Budget Oversight Committee

17th September 2019

Introduction

Chairman, Members, I welcome the opportunity to be here today to discuss Budget 2020 which I will publish on 8th October.

The Budget will build upon the *Summer Economic Statement 2019 (SES)* which outlined in broad terms, the parameters for Budget 2020.

Economic backdrop

The Irish economy continues to grow at a robust pace, with GDP growth of 8.2 per cent recorded in 2018, and growth of 3.9 per cent forecast this year.

As a result, Ireland continues to be one of the fastest growing economies in Europe.

The public finances have significantly improved and last year the country ran an underlying surplus for the first time since 2006.

This year a General Government surplus of 0.2 per cent of GDP s projected.

The general government debt-to-GDP ratio is expected to ease further to 61 per cent by end-2019. This is comfortably below the forecasted Euro-area average of 86 per cent.

We are close to full employment with the unemployment rate currently at 5.2 per cent.

Notwithstanding the progress to date, there remain a number of significant risks to the outlook including the increasing likelihood of a no deal Brexit.

There is increasing evidence of a global economic slowdown with the decline in growth of advanced economies occurring at a more rapid pace than previously anticipated.

Given Ireland’s position as a small open economy with a high degree of integration in global value chains, any further escalation in trade protectionism would have a disproportionate impact on Irish growth prospects.

Vulnerabilities in the public finances arising from the high concentration of corporation tax receipts also remain.

Furthermore there is the domestic economic risk relating to overheating as the economy approaches full-employment.

In summary, the economy is caught between possible over-heating on the one hand and the very real possibility of significant economic disruption on the other.

Budgetary Policy

Given the risks, both at home and abroad, framing Budget 2020 is more challenging than usual.

The appropriate budgetary strategy must be to build up resources which can be deployed in the event of a slowdown.

Budget 2020 will aim to build on the success of recent years but will be delivered at a time of unprecedented uncertainty.

As a result of the level of uncertainty — not least around Brexit — two budgetary scenarios were set out in the *SES*.

The first scenario involves an orderly exit of the UK while the second involves a disorderly exit.

On 11th September the Government decided that the budgetary strategy would be formulated on the assumption of a no deal exit of the UK from the European Union at the end of October.

Consistent with the fiscal projections published in the SPU, the Budget 2020 framework involves a budgetary package of €2.8 billion for 2020.

Of the €2.8 billion budgetary package, €2.1 billion is already pre-committed (including a €0.7 billion or 10 per cent increase in capital investments), and an expenditure reserve of up to €0.2 billion, with the capacity to accommodate funding requirements for the National Broadband Plan and the National Children's Hospital.

This leaves €0.7 billion to be specifically allocated as part of the Budget.

In the event of a no deal Brexit, the Government has stated that it will provide counter-cyclical support to the economy through social protection payments occasioned by higher unemployment and on the revenue side, lower tax collections which help cushion aggregate demand.

The Government has also indicated that it will introduce timely, targeted, temporary measures for the sectors most exposed. Brexit contingency support may also be needed to address specific issues in the event of a 'worst case scenario' disorderly Brexit.

This could lead to a deficit of the order ½ - 1½ per cent of GDP next year amounting to a negative swing in the headline balance of over €6 billion.

In this context, the scope for budgetary measures, outside the Brexit support package, is extremely constrained.

As such, all Departments need to ensure that expenditure this year is managed within the allocations agreed by Government and voted by Dáil Éireann, and where expenditure pressures emerge that mitigating measures are put in place.

At the end of August overall gross voted expenditure of €42.0 billion was 0.6 per cent below profile, with gross current expenditure 0.3 per cent below profile and gross capital expenditure 3.7 per cent below profile.

Year-on-year expenditure growth was 6.5 per cent with current spending up by 5.1 per cent and capital spending up by 25.5 per cent. This year-on-year increase of 6.5 per cent at the end of August compares to the budgeted full year increase of 5.8 per cent.

Health current expenditure has a budgeted full year increase of 5.8 per cent and Health expenditure at the end of August is up by 6.7 per cent in year-on-year terms.

Given the priority placed on ensuring the delivery of sustainable improvements in the Health service, with an overall allocation of €17.1 billion this year compared to expenditure of €14.1 billion in 2016, it is crucial that Health expenditure, which was within profile at the end of August, continues to be proactively managed with all necessary measures implemented to mitigate the risk to the public finances from an overrun this year.

In this context, and taking into account the requirement to ensure that Government has the resources available to respond to the emerging challenges, in particular arising from Brexit, it is critical that the expenditure position for Budget 2020 is managed within the parameters set out in the Mid-Year Expenditure Report.

This places a requirement on all Government Departments to re-prioritise spending to ensure that offsetting measures can be put in place to mitigate the impact of emerging expenditure pressures and proposed new policy priorities.

Brexit Preparedness

The Government has always been clear that the UK’s exit from the European Union will have a detrimental impact on our economy and public finances whatever form it takes.

Work on no deal Brexit preparations has the highest priority across Government.

From a budgetary perspective, for Ireland, the EU Member State that will be most directly affected, it means ensuring we are prepared for whatever Brexit outcome emerges.

Since the referendum result in 2016, Brexit has been embedded in all of the Government’s economic decision-making, and in the management of our economy.

Steps have been taken to boost the resilience of the economy through:

- balancing our books;
- reducing our debt burden;
- capital investment plan of c.€8 billion;
- establishing the *Rainy Day Fund*; and
- broadening the tax base.

Government has also been taking steps to make sure that Irish citizens and businesses are as ready as possible for all scenarios.

This is why we have:

- Published two comprehensive Contingency Action Plans;
- Held over 1200 stakeholder preparedness events in all key sectors right across the country;
- Enhanced physical capacity at our ports and airports;
- Provided training and financial supports to increase our customs capacity;
- Recruited additional staff in key areas; and,
- Supported dedicated measures to get Ireland Brexit ready in Budgets 2017, 2018 and 2019.

Budget 2019 included an allocation of €115m on a number of specific Brexit measures across several Departments:

- Increased resources of €25 million across a range of Departments and Offices based on a Brexit central case scenario, to enable the Office of the Revenue Commissioners, the Department of Agriculture, Food & the Marine, the Department of Transport, Tourism & Sport, the Department of Health and the HSE implement necessary measures including in the areas of customs, SPS and food safety controls;

- A €71 million package for the Department of Agriculture, Food & the Marine and its agencies, Teagasc and Bord Bia, to further strengthen the agriculture sector's ability to become more resilient in addressing the challenges of Brexit. Of this, the majority (€43m) will go towards Farm Sector supports which are intended to build Brexit resilience and to improve emissions efficiency;

- An increase of €14 million to the current allocation for the Department of Business, Enterprise & Innovation, will include measures to enable the Department to continue to plan for the impact of Brexit on the business sector, including the expansion of Departmental and regulatory agency capacity, the expansion of its agencies global footprint and additional Brexit information campaigns and supports;

- €5 million has been allocated to the Department of Foreign Affairs & Trade to enable it to continue to address the challenges posed by Brexit across a range of headings, including building capacity across strategic European locations and developing outreach responsibilities through public and stakeholder engagement and EU alliance enhancement.

- In addition, funding of €13m will support the opening of new markets for our businesses and a higher international profile though our Global Ireland 2025 strategy, which aims to strengthen Ireland's global footprint.

Budget 2019 also introduced a longer-term loan scheme, the Future Growth Loan Scheme for terms of 8-10 years, to provide a longer-term scheme facility of up to €300m to support strategic capital investment for a post Brexit environment by business at competitive rates. This will be jointly funded by the Department of Business, Enterprise & Innovation and the Department of Agriculture, Food & the Marine.

Across Government, Departments and Agencies are continuing to engage with their stakeholders. This engagement includes:

- The launch of the 'Getting Your Business Brexit Ready – Practical Steps' campaign which focuses on the 9 steps every business – large and small - should take now to help prepare for the UK's departure from the EU. At this week's Ploughing Championships a dedicated Brexit Hub will engage with business and citizens on steps they can take now.

- Revenue have issued tailored letters to over 90,000 companies. Work is also underway to issue targeted letters to around 10,000 traders that have traded with the UK in Q1 2019 and which are either new operators or businesses that are newly trading with the UK.

- The Clear Customs initiative was launched in August as a new support measure to help customs agents, intermediaries and affected Irish businesses develop the capacity to deal with the additional customs requirements due to the UK's departure from the EU, notably under No Deal.

- The Department of Business, Enterprise and Innovation has had direct engagement with over 200,000 businesses via a tailored email being issued by the Companies Registration Office to encourage Brexit preparedness and promote use of the Practical Steps booklet.

- An Enterprise Ireland campaign aimed at encouraging businesses to contact their Local Enterprise Office and avail of their 'Prepare Your Business for Customs' Workshops has started. Enterprise Ireland also have a 'Diversification Into New Markets' campaign.

- Finally, the Intertrade Ireland 'Bitesize Brexit' campaign covers quick, practical steps for cross border traders and has produced positive digital performance indicators thus far, with strong rates of new visitors to the website as well repeat users. The campaign in ongoing to 31 October.

Fiscal Vulnerabilities

The high concentration of corporation tax receipts experienced in recent years represents a more vulnerable revenue stream.

I have said that public spending must only be financed by revenue that is predictable and sustainable. Basing public expenditure increases on transitory and unstable sources of funding would not be commensurate with the Government's commitment to a prudent budgetary policy.

With this in mind, and in terms of medium term fiscal planning, I gave a commitment in the SES to undertake and publish an assessment of the sustainability of receipts next year, in light of future multilateral policy changes in this particular area.

Conclusion

To conclude, Government's management of the economy means that Ireland is facing the challenge of Brexit from a position of economic strength.

Our job now is to build upon the progress made to date and ensure that we are ready to respond to the challenges, and opportunities, ahead.

In the forthcoming Budget we will use a well-run economy and the progress we have made of recent years to support and protect our people at a time of unprecedented uncertainty.

Thank you.

ENDS