

## **01. Opening statement**

### **Budgetary Oversight Committee Opening Statement by Minister Chambers**

**18th September 2024**

#### **Introduction**

Thank you for the invitation to appear before this Committee to discuss *Budget 2025*, which Minister Donohoe and I will present to the Oireachtas in a little under two weeks' time.

#### **Economic context**

To begin, I will briefly set out the economic and fiscal background for this year's Budget.

At an aggregate level, the Irish economy is in reasonably good shape. With over 2.75 million people in employment, our labour market has proved remarkably resilient: despite all the unprecedented challenges we have faced over the last few years, there are today more people at work in Ireland than ever before.

Indeed, since the end of the pandemic we have essentially maintained full employment: this is a noteworthy achievement and a reflection of the fundamental strength of our economy.

Since its peak in mid-2022, the rate of inflation has eased significantly. Last month, Ireland recorded inflation of just 1.1 per cent, the lowest in over three years and among the lowest in the Euro area.

After a challenging period, this easing in inflation will have a real and positive impact on the day-to-day lives of households, and will help to drive solid growth in the domestic economy over the short-term.

Of course, as has been evident in recent years, we are living in a far more shock-prone world. The reality is that, as a small, open economy, Ireland is particularly vulnerable to changes in the global economic environment.

## **Fiscal Background**

Strong and stable public finances are essential to ensure we have the capacity to respond as needed to external shocks, and, at the headline level, we are in a very good position.

The Committee will have noted the August Exchequer returns, which showed a surplus of €3.8 billion in our public finances. For

the most part, we are more or less where we expected we would be in terms of most of the tax heads. The steady growth in income tax and VAT receipts demonstrates the underlying strength in our labour force and our economy. It also speaks to the success of this Government's careful and balanced approach to fiscal policy.

Of course, the stand-out feature of the tax figures in the year to date is, once again, corporation tax. As I have said before, this a highly volatile and unreliable source of revenue. Corporation tax is now over €3½ billion ahead of the same point last year, but there is no guarantee that this will continue indefinitely.

These receipts are reliant on a small handful of large, highly profitable firms in a small number of highly profitable sectors. If estimates of 'windfall' corporate tax revenues, in other words those not linked to our domestic economy, are excluded there is an underlying deficit in our public finances.

We know from recent history the risks of relying on windfall tax revenues to fund day-to-day spending, and this Government is determined that we will not repeat the mistakes of the past.

That is why we have established the *Future Ireland Fund* and the *Infrastructure, Climate and Nature Fund*. Instead of using

potentially transient revenues to fund permanent spending, we will set aside a portion of the windfall to invest for the future, and in particular to help part-fund our response to the future structural challenges that we know are on the horizon: the ‘four Ds’ of demographic change, de-carbonisation, digitalisation and the risk of de-globalisation. This also prevents these revenues from becoming part of the permanent expenditure base.

Of course, while the establishment of the two new funds is a major step towards mitigating our exposure to windfall corporation tax, this must, as always, be coupled with the appropriate approach to budgetary policy.

In relation to the Apple case, the Irish position has always been that Ireland does not give preferential tax treatment to any companies or taxpayers. In 2016 the Commission issued a decision that determined that further tax should have been paid by the company. Both Ireland and Apple rejected the Commission’s decision and while the General Court annulled the Commission’s decision, the Court of Justice set that aside last week.

This judgment provides the final determination in this case and the process of transferring the assets in the Escrow Fund to Ireland will now commence in the manner prescribed in the Deed

governing the operations of the Escrow Fund. This is a complex process which is expected to take a number of months to conclude.

As I said last week, I want to make it absolutely clear that this one-off revenue will have no impact on the fiscal parameters for this Budget. We will not formulate budgetary policy on one-off revenues. Our fiscal strategy is based on what is the appropriate approach for our economy and society.

Separately, I am currently considering how the proceeds from the sale of the AIB bank shares may be used for an infrastructure injection to capitalise key strategic priorities, which are housing, energy and water.

## **Budget 2025**

As set out in the *Summer Economic Statement* in July, *Budget 2025* will consist of a total package of €8.3 billion, comprising €1.4 billion in taxation measures and new expenditure of €6.9 billion.

This is a significant budget package. It provides us with the necessary resources to address the pressing challenges of

today: it will allow the Government to continue to invest in our public services, boost the productive capacity of our economy, and shield workers from paying more in tax just because their wages have risen.

I believe that *Budget 2025* – the fifth and final budget of this Government – reflects a continuation of a sensible and sustainable approach to fiscal policy that has helped to deliver a resilient economy and budget surpluses. My Department will be updating the fiscal projections for this year as part of the Budget and forecasting both macro and fiscal numbers out to 2030.

For the first time this year, shortly after the Budget, Ireland will submit and publish its first medium-term fiscal plan, which will set out a binding pathway for net public expenditure growth. This plan, which forms part of the new European fiscal framework, will bring a welcome, longer-term perspective to budgetary planning. It will be a matter for the next Government to submit a new plan.

## **Conclusion**

*Budget 2025* comes at a critical juncture for Ireland. On the one hand, the picture is, in many respects, a positive one: our economy has, in the main, proven remarkably resilient in the face

of dealing with a pandemic, a cost of living crisis and the war in Ukraine, and our public finances are, at a headline level, performing very well.

But it is also a time of considerable uncertainty. The international environment seems ever more prone to economic shocks. We know that our public finances remain exposed to volatile windfall tax revenues and that structural changes to our economy over the coming years while bringing new opportunities, will also bring new challenges. We need to ensure that we continue to have the financial ability to react in as agile a manner as we have done to date.

This Budget will build upon the progress we have made in guiding our economy through a series of unprecedented global shocks and returning the fiscal position to health. It will provide further investment in our public services and infrastructure and shield households from an increased tax burden. It will reinforce our economic resilience and ensure that we will be in the strongest possible position to address future challenges over the medium-term.

**ENDS**