

Summer Economic Statement

Press Conference

Opening Statement - Minister for Finance

The economic recovery is now firmly established. The latest data indicate growth of 7.8 per cent for 2015. The budgetary position is also set on a safe and sustainable path, with a headline deficit of 2.3 per cent recorded in 2015. Accordingly, we have now formally exited the Excessive Deficit Procedure. Under the Preventive Arm of the European fiscal rules, Ireland will have greater room for budgetary manoeuvre to accommodate increases in government expenditure and tax reductions in a prudent and sustainable manner.

The Summer Economic Statement outlines the broad parameters that will underpin discussions of economic and fiscal policy over the medium term. In the short term, it sets the framework for discussions on Budget 2017 over the coming months.

The Summer Economic Statement sets out that the estimated indicative fiscal space for 2017 is around €1 billion. The available fiscal space over the period 2017 to 2021 is in the region of €11.3 billion, based on current macroeconomic projections. . This is the amount that remains after providing for pre-committed policies such as demographics, the Lansdowne Road Agreement and capitals plans. The Summer Economic Statement outlines the headline macroeconomic and fiscal impact of using the fiscal space based on at least a 2:1 split between public spending increases and tax reductions, in line with the Programme for Partnership Government. A particular focus of tax reduction will be the continued phasing out of the USC with an emphasis on low and middle income earners. This will help us to incentivise work while maintaining a broad tax base.

My colleague, Minister Donoghue will outline how the expenditure commitments in the Programme for a Partnership Government are being addressed in the Statement. To emphasise how the last Government's prudent fiscal management of recent years is paying dividend, the General Government deficit, which is now set to be just 0.9 per cent in 2016, will be eliminated by 2018.

The Debt-to-GDP ratio is set to fall to 88 per cent of GDP in 2016 - below the euro area average - and will decline further to 72 per cent by 2021, on the basis of these numbers. This means that more of our resources can go towards paying for a fairer society rather than servicing our debt.

We are on course to achieve our Medium Term Budgetary Objective in 2018. For us this is defined as a structural deficit of 0.5 per cent of GDP. As this is defined in structural terms, budgetary policy is appropriately counter-cyclical, that is to say it is aimed towards smoothing peaks and troughs in the economic cycle. When we have extra money we can save so that when we need it we will have it to cover the expenditure needs of a fairer society even when times are tough.

Finally, we need to learn the lessons of the past, and recognise that our economy is more variable than elsewhere. That is why we are establishing a Rainy Day fund once we have achieved the Medium Term Budgetary Objective. We will assign €1 billion per year of the fiscal space to this to this from 2019 onwards as we committed to do in the Programme for a Partnership Government.

It is appropriate to set aside a certain amount each year which can be used to support activity and employment should it be necessary.