

## Speech

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# Scene setter by Minister McGrath at the National Economic Dialogue (NED) 2023: Economic and fiscal context

From [Department of Finance \(/en/organisation/department-of-finance/\)](/en/organisation/department-of-finance/).

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## Check against delivery

Good morning.

At the outset, I would like to thank the Taoiseach for his opening remarks and I want to extend a very special thank you to Professor Carol Newman for chairing this year's National Economic Dialogue.

I also want to take the opportunity to thank Professor Alan Barrett for his service in chairing the National Economic Dialogue over the last number of years.

It is great to see so many of you here today. This year's National Economic Dialogue is focussed on the longer term and how our economy will look in 2030.

It presents an invaluable opportunity to engage in constructive discussions on the

It presents an invaluable opportunity to engage in constructive discussions on the economic and social course we want to chart in the coming years.

Before we break out into the individual sessions, Minister Donohoe and I will give you a summary of the economic and fiscal context for our discussions this morning.

In my remarks, I want to briefly touch upon three key points:

- firstly, the decidedly mixed economic outlook;
- secondly, the underlying vulnerabilities in our public finances;
- and finally, the structural pressures facing our public finances over the longer term

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## A mixed economic backdrop

The Irish economy has faced a number of severe headwinds over the past year.

As we emerged from the pandemic, the Russian invasion of Ukraine caused a severe energy price shock that resulted in inflation running at levels not seen in many decades, which soon spilled over into non-energy goods and services.

As central banks responded to this shock, the monetary policy environment has tightened rapidly, with the era of low-cost borrowing brought to an end.

Considering all this, the Irish economy has performed remarkably well. With some 2.6 million people at work in Ireland today our labour market is effectively operating at full employment and in spite of elevated price levels, consumer spending has continued to rise. In the first quarter of this year, the domestic economy grew by 2.7 per cent as measured by modified domestic demand.

However, the economic outlook remains clouded by uncertainty, and it is clear that the risks are very much tilted towards the downside.

Further disruption to energy supplies, geopolitical tensions or a downturn in the global economy could have severe implications for Ireland, while, closer to home, a shock to the multinational sector or the emergence of an inflationary spiral poses a risk to the domestic economy.

# Positive headline figures, but underlying vulnerabilities

The cost of living challenges facing households and businesses has meant that Government has needed to step in to help ease the burden.

Since last year, this government has acted repeatedly and decisively, to help insulate households and businesses from the most severe impacts of inflation.

All told, we have made available some €12 billion in direct relief, focusing primarily on measures that are temporary, timely and targeted towards those most vulnerable.

Even with fiscal support of this magnitude, the robust economic recovery, coupled with the withdrawal of the extraordinary levels of expenditure necessary during the pandemic, have led to a significant improvement in the headline fiscal position. A general government surplus of €10 billion, or 3½ per cent of national income, is now in prospect for this year.

This is, undoubtedly, welcome news. But if we look beyond the headline figures, we can see real vulnerabilities below the surface.

The most obvious is our increasing reliance on volatile corporation tax receipts. Corporation tax last year stood at five times its level ten years ago. This is, in some respects, a positive development.

It reflects well on Ireland as a top destination for highly profitable multinational firms that provide thousands of highly skilled jobs. But, as we know, this is also an extremely narrow and top-heavy tax base.

Last year, just ten firms contributed almost 60 per cent of all corporate tax receipts and I want to acknowledge the work of IFAC on this, which further highlighted to concentration risk with corporate tax receipts.

We know from experience just how dangerous it is to build permanent expenditure commitments on potentially transient revenues.

This government will not repeat the mistakes of the past. Indeed, we are actively working to mitigate this vulnerability.

In the last year, €6 billion in windfall tax receipts have been transferred to the National Reserve Fund, helping to build up our fiscal buffers while ensuring that these revenues do not become part of the expenditure base.

Of course, the best way to guard against the risks associated with windfall corporate tax is by pursuing a budgetary policy that is sustainable and balanced between continued investment in our public services and the long-term stability of our public finances.

I, along with Minister Donohoe, will be outlining the fiscal strategy for Budget 2024 in this year's Summer Economic Statement, which will be published in the coming weeks.

I very much welcome the progress that has been made in designing and monitoring the Well-being Framework.

We must continue to embed well-being considerations into our decision making process including the budgetary cycle.

My own department is preparing a paper, "Beyond GDP: A Quality of Life Assessment" which will review quality of life, sustainability and equality issues and I hope this paper will be available for publication on Budget Day.

### Long-term pressures on the public finances

Budget 2024 will come at a critical juncture. The headline budgetary surpluses that are in prospect provide us with a window of opportunity to address the long-term structural challenges that we know are on the horizon, but it is essential that we act now.

- demographic trends mean that age-related public expenditure is expected to be €7-8 billion greater per year by the end of this decade, just to maintain existing levels of service
- the pandemic and the Russian invasion of Ukraine have exposed the fragility of global supply chains. As a small open economy, Ireland has benefitted greatly from globalisation, but, equally, any reversal of international integration could have severe implications
- the nature of our economy is undergoing profound structural changes, trends that have been accelerated by both the pandemic and the recent spike in energy prices: the

digital and decarbonisation transitions will bring opportunities as well as challenges, but they will also necessitate significant investment

These structural challenges, the 'four Ds' of demographics, de-globalisation, de-carbonisation and digitalisation, must be navigated carefully. Decisions will have to be taken on the best way to employ the limited resources available to ensure we can meet these challenges from a position of strength.

That is why it is so important that we take action now. Last month, my department published a scoping paper outlining a range of options for the establishment of a long-term investment vehicle that will enable Government to make use of windfall tax revenues to prepare for long-term structural challenges.

The details of this fund are now being finalised and I will be shortly bringing proposals to Cabinet on how to proceed.

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## Conclusion

Over the last several years, we have encountered what has sometimes felt like an endless series of external shocks. We have weathered Brexit, come through a global pandemic and now find ourselves responding to a radically changed inflationary environment.

In this context, the performance of our economy has been very robust. It is a testament to the resilience of our people and to the underlying strength of our economic fundamentals.

But, as I have outlined this morning, there are real and urgent structural issues that must be addressed. We have faced unprecedented challenges and now have an unprecedented opportunity to prepare for the future, provided we take the right decisions today.

That is why this year's National Economic Dialogue asks the question of what kind of economy we want to build by 2030, and why this is such an important forum.

It provides a platform for all of us to play our part in an open and constructive debate on the best path forward, and to directly contribute to the formulation of government policy.

The policy decisions that will have to be taken in the coming months and years will not always be easy, but I have every confidence that, working together, we can navigate the challenges ahead and ensure that our economy remains prosperous for all.

Thank you.

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