Returning to Economic Growth: The Next Steps

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Address to the Irish Taxation Institute

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We will continue to implement the plan for economic recovery

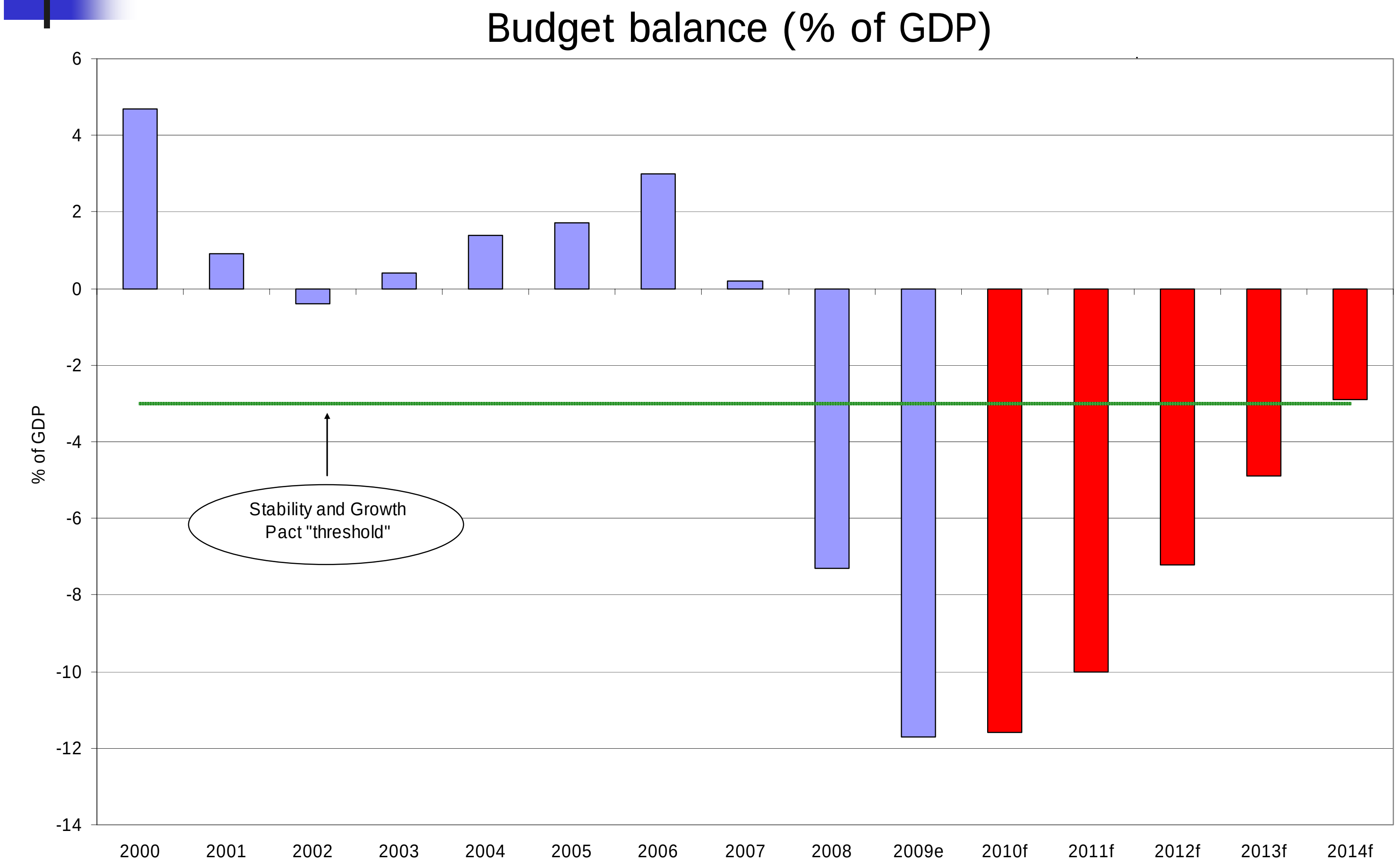
- Restoring order to the public finances.
- Repairing the banking system.
- Regaining competitiveness and investing to create new jobs.

Much has been achieved on the public finances

- Fiscal correction of 5 per cent of GDP in 2009 and 2½ per cent of GDP in 2010.

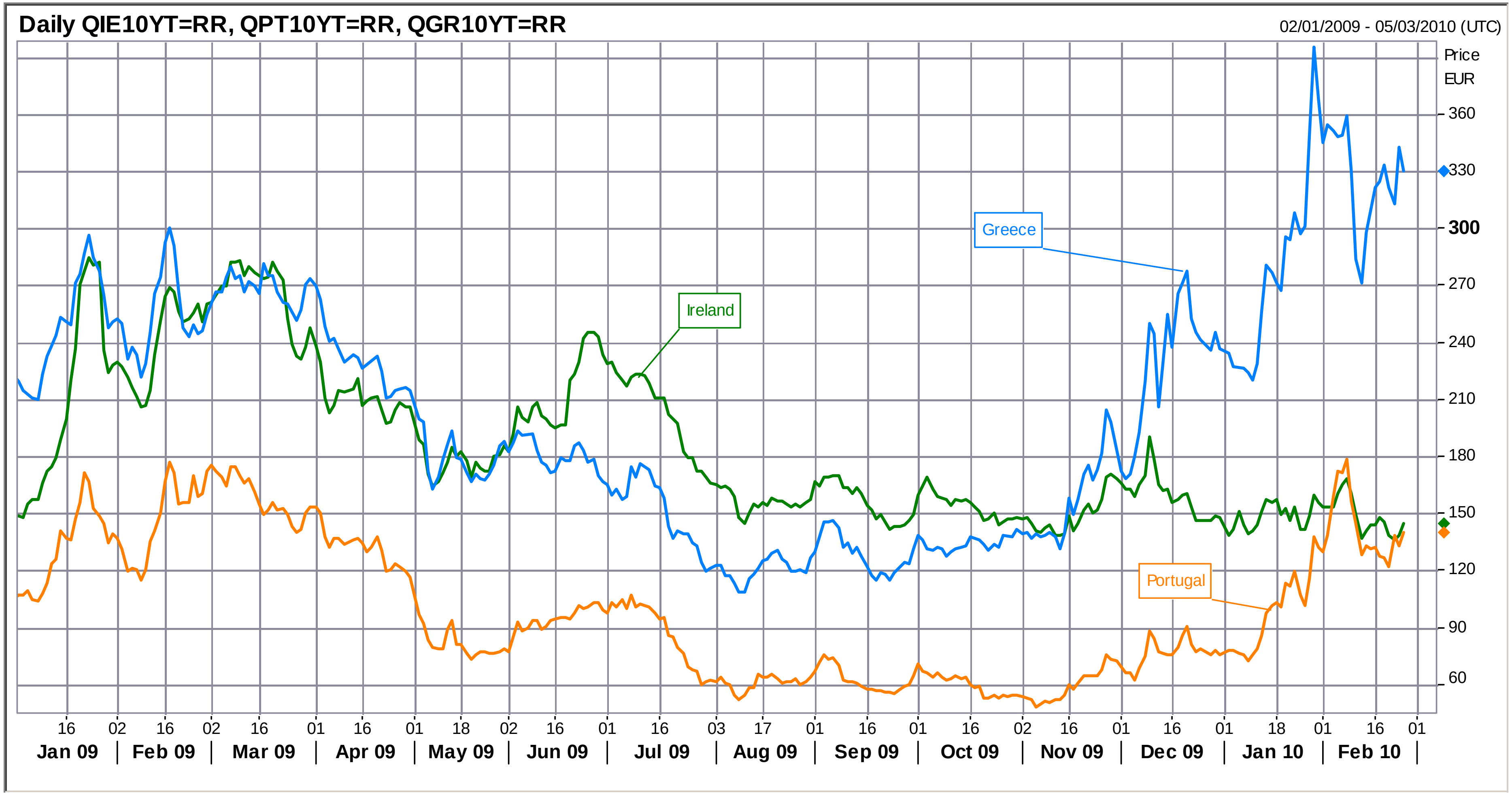
- Without these measures, budget deficit would have ballooned to 20 per cent of GDP.

We have stabilised the deficit with decisive actions. EU Commission have endorsed our plan to reduce the deficit to 3 per cent by 2014.



Decisive actions have earned this country credibility aboard. This has reduced our borrowing costs.

Spreads over German 10-year sovereign bonds (basis points)



We must stick with the programme and deliver €3 billion of adjustments in 2011

- €1 billion adjustment in capital spending already provided for.
  - Will still spend €5½ billion in 2011 to boost productive capacity in crucial growth sectors.

- Where will the other €2 billion adjustment be achieved?
  - Reduce cost of public services and reform of how we tax income.

We need to reduce spending further

- Payroll costs must be contained.
- Certain current expenditure programmes can be scaled back or eliminated.

Tax base needs to be broadened

- Little or no scope for increases in marginal income tax rates.
  - Nearly half of income earners will pay no income tax this year.
- New universal social contribution to be paid at a low rate on a wide base.
  - Replace employee PRSI, the Health Levy and the Income Levy.
- Water charges.

Our plan to fix the banking system is at an advanced stage

- State guarantee to stabilise funding.
- National Asset Management Agency to clean up banks' balance sheets.
- Recapitalisation of banks and restructuring of the banking system.
- Reform of the regulatory system.

We continue to implement our plan

- Extent of State ownership of the banks will depend on:
  - NAMA discounts.
  - Regulatory capital requirements.
  - Amount of new private capital.

- Government has never ruled out increased State ownership.

Those who argued for 100% nationalisation are wrong.

- Statutory State takeover of the banks.
  - Would have undermined confidence.
  - Dried up funding for the banks and the State.

- Banks de-listed from stock exchange.
  - Would have made the eventual exit from State ownership difficult and expensive.

- Only one country has followed this approach in this crisis: Iceland!

What do we want our banks to do?

- Support economic recovery by providing credit to viable businesses and households.
  - Guidelines under NAMA legislation for lending to SMEs.
  - Credit review system.

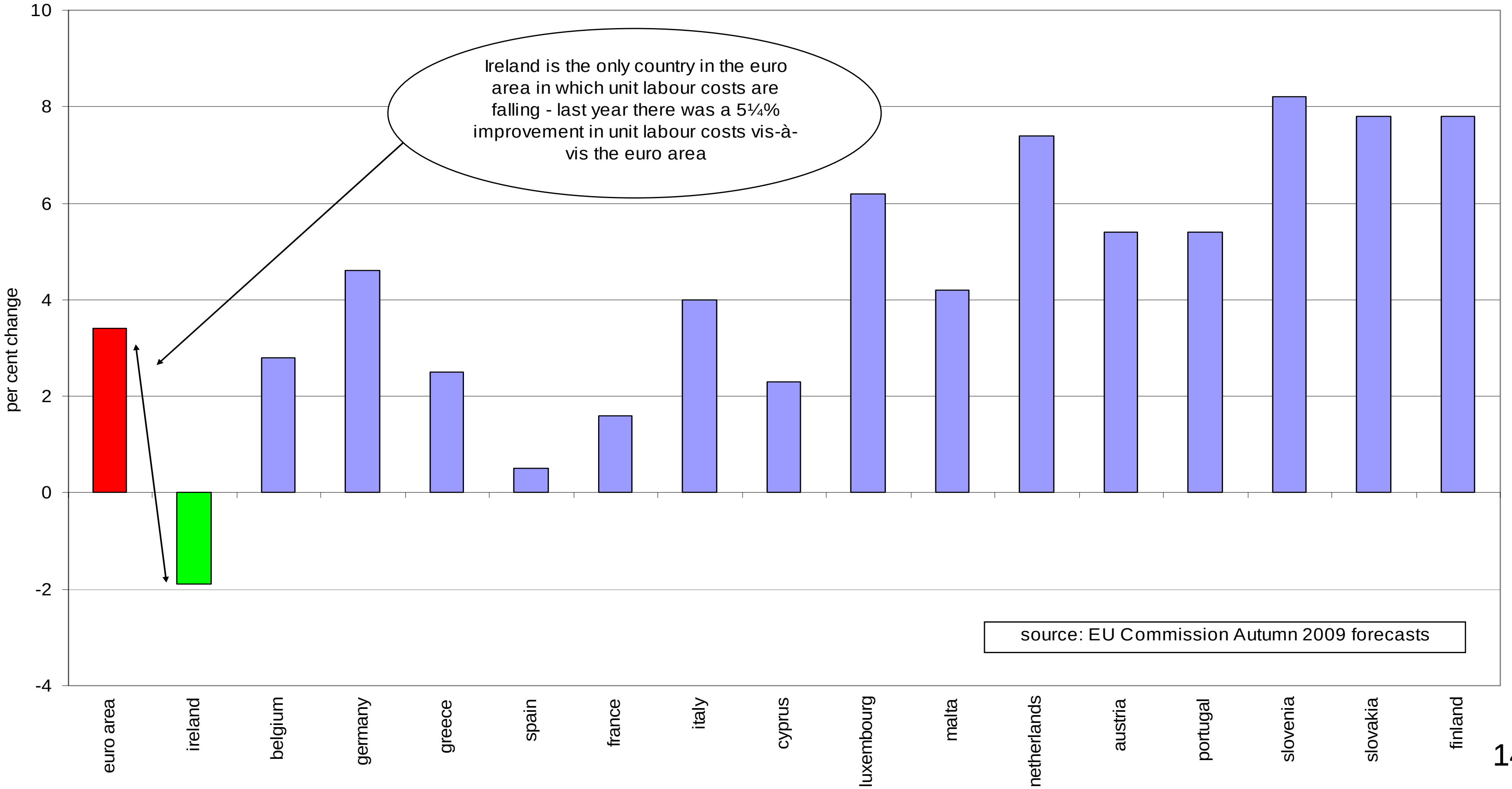
- No return to the unsustainable credit-driven growth of the past.

Stabilising the economy and setting the seeds for renewed growth and new jobs

- Consensus forecast is for a return to positive growth in the second half of this year.
- Growth projected to strengthen next year and beyond, led by exports.
- Net job creation of 20,000 next year, and 45,000 each year thereafter.
  - SMEs will be crucial in creating new jobs.

Improving competitiveness will spur exports

Unit labour costs (annual change in 2009, %)



Balance of payments is moving toward surplus

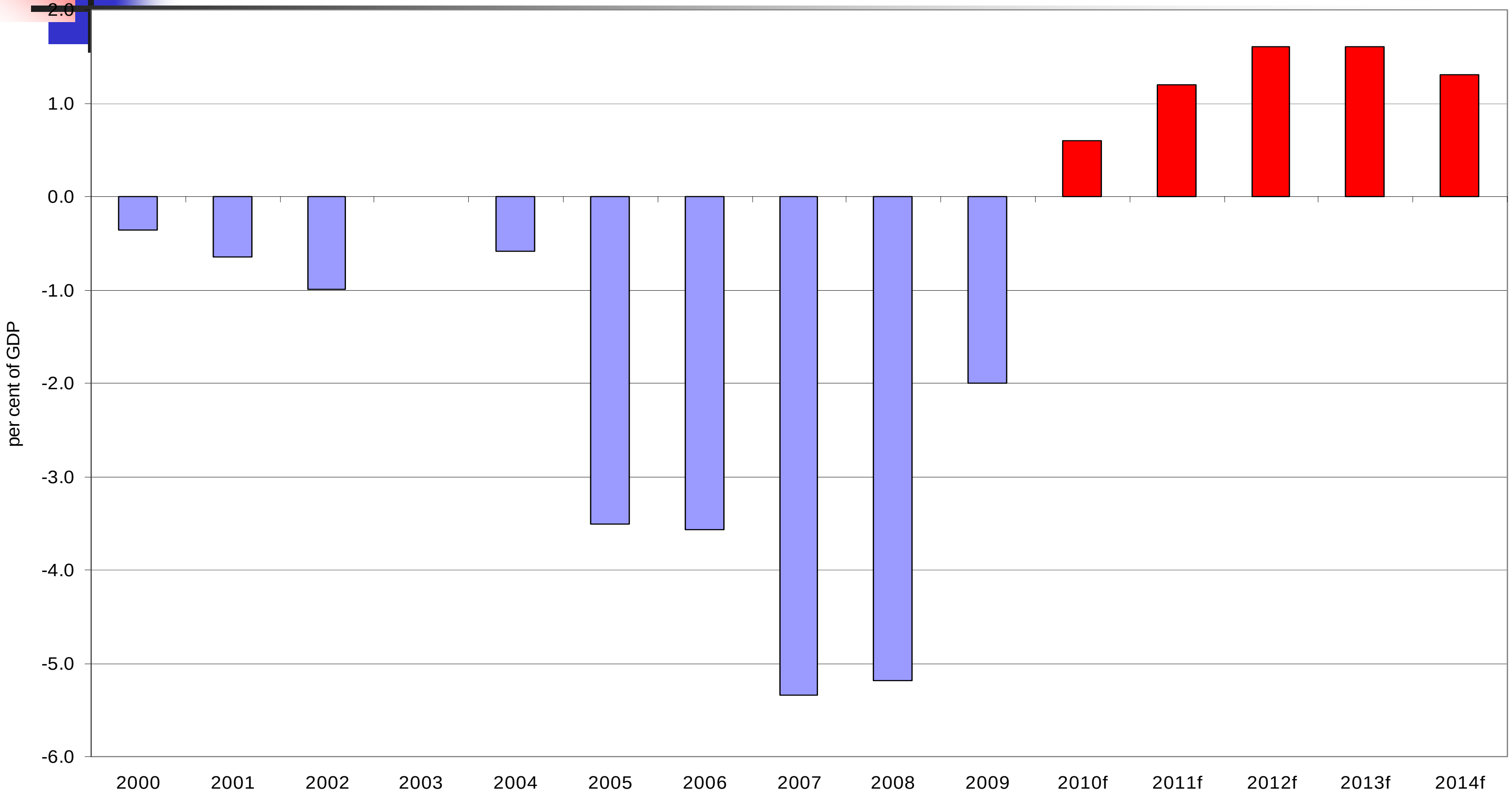


Chart shows: current account of balance of payments (inc D/Finance forecasts)

Finance Bill 2010 measures to boost growth

- Car Scrappage.
- Extension of Tax Exemption for new start-up companies.
- Islamic Finance.
- Improved R&D tax credit.
- Tax treatment of Dividends.
- Withholding Tax on Royalty Income.
- Improvements to Remittance Scheme.
- Measures to improve Tax offering on internationally traded services.

Consumer spending to rise next year as confidence returns and employment rises

- Household savings last year reached €10½bn (11% of disposable income).
  - Savings used to pay down debt and increase financial assets.
  - Long-term average savings rate = 7%.

- Domestic sectors (e.g. retail) will benefit from expected decline in savings rate over coming years.

Conclusions

- Plan for economic recovery is working.
  - Positive growth later this year, leading to employment growth next year.
  - Confidence is returning – externally and domestically.

- The full implementation of the plan will restore sustainable growth, create new jobs, and deliver economic prosperity.