The National Recovery Plan
2011-2014

This document relates to the National Recovery Plan 2011-2014 published on 24 November 2010. However, the information within takes into account later data in 2010 as well as measures taken in Budget 2011.

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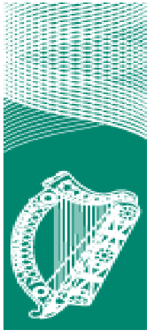


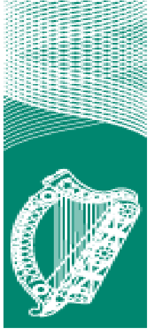
Overview

- The Plan provides a blueprint for a return to sustainable growth in the Irish economy.

- It outlines the measures that will be taken to put our public finances in order:
  - €15 billion budgetary adjustment over the period 2011 to 2014;
  - this will achieve a deficit of below 3 per cent by 2014;
  - adjustments must be viewed in the context of significant expenditure allocations over the period 2000 to 2008.

- It also specifies the reforms that the Government will implement to promote growth in output and employment in the coming years.

- Budget 2011 represents the first phase of implementation of the Plan. It brings forward adjustments to the value of €6 billion or 40% of the €15 billion adjustment committed to in the Plan.



Current Outlook:
The economy is stabilising after a very sharp decline in activity

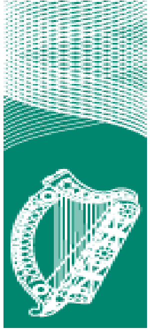
Level of Irish GDP and GNP, constant prices

Sources: CSO, Department of Finance

The Irish economy experienced an extremely sharp downturn over the period 2008-2009. This reflected three main factors: (1) the most severe global recession since the Second World War; (2) the correction in the domestic construction sector; and (3) the rapid deterioration in consumer and business confidence.

In overall terms, real GDP fell by nearly 11% over this period, while the fall in real GNP was even larger at almost 14%. The former compares with a contraction of around 3% for the OECD as a whole.

However, the Irish economy now appears to be coming out of this exceptionally deep and prolonged recession. The latest data suggest that for 2010 real GDP will be broadly flat, while the pace of decline in GNP is expected to have slowed sharply.



Current Outlook:

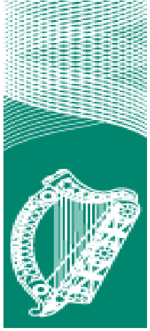
The underlying fiscal position stabilised in 2010

Source: Department of Finance

The underlying General Government Deficit – excluding the impact of banking support measures – stabilised in 2010 at an estimated 11.6% of GDP, down from 11.9% in 2009. This is in line with the Budget 2010 forecast.

On a headline basis, the provisional outturn for the deficit in 2010 is 31.5% of GDP (up from 14.4% in 2009). This reflects the inclusion of the full up-front capital support being provided by way of Promissory Notes to Anglo Irish Bank, INBS and EBS which has been classified as a capital transfer. Crucially, however, the financing of this €31 billion will be spread equally over a period of 10 to 15 years and there was no borrowing associated with this capital support in 2010.

The chart above highlights the large gap that currently exists between government spending and revenue, a gap that is currently being filled by borrowing. Such a gap is clearly unsustainable and spending and revenues must be brought much closer in line in the coming years. The measures outlined in the National Recovery Plan will help to achieve this and put both spending and revenues on a more sustainable trajectory.



Ireland’s fundamental strengths remain

- Young, well educated workforce
- Favourable demographics
- High quality physical infrastructure
- Very open economy with strong high-technology exporting base
- Pro-enterprise environment
- Very flexible economy.

Following substantial investment, the Irish economy benefits from a well-educated workforce and high-quality physical infrastructure.

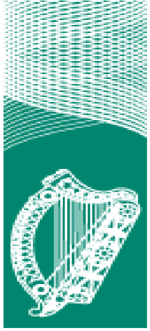
The Irish population is relatively young by international standards, especially by European standards.

Almost one-third of Irish exports are classified as high technology.

The economy scores well on entrepreneurship and the rate of business start-ups.

The flexibility of the economy has been evident from the rapid pace at which price levels, wages and asset prices have adjusted to the new circumstances.

Despite employment declining during the recession, the overall level of employment in the Irish economy remains relatively high.



Ireland's fundamental strengths remain:
Well educated workforce

Percentage of population aged 20-24 with at least upper second level education

Source: Eurostat

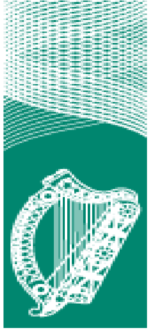
The Irish economy benefits from a highly educated and well qualified workforce. The education profile of the labour force has a number of positive characteristics, stemming from the large investment in education in recent years:

- data for 2009 show that the proportion of people aged between 20-24 in Ireland who are educated to at least upper secondary level is the highest in the EU15 and well above the euro area average;

- almost 45% of those in the 25-34 age cohort have at least third level education, above the OECD (38%) and euro area (30%) averages;

- the number of PhD students per 1,000 of population is close to the OECD average; and

- the latest data from the National Competitiveness Council reveal that Ireland produces the third highest number of maths, science and computer graduates per 1,000 of population (aged 20-29) in the euro area.



Ireland's fundamental strengths remain:
Favourable demographics

Percent of total population 65 or over

	2005	2010	2015	2020	2030	2040
Austria	16.3	17.6	18.6	19.7	24.0	27.1
Belgium	17.2	17.2	18.2	19.4	22.8	25.0
Denmark	15.1	16.7	19.1	20.7	23.9	26.1
Finland	15.9	17.3	20.4	22.8	26.2	27.0
France	16.4	16.7	18.6	20.3	23.4	25.6
Germany	18.9	20.4	21.2	22.7	27.8	31.1
Greece	18.3	18.9	20.1	21.3	24.8	29.4
Ireland	11.1	11.9	13.3	14.9	18.5	22.4
Italy	19.6	20.6	22.1	23.3	27.3	32.3
Luxembourg	14.1	14.6	15.5	16.6	20.0	22.3
Netherlands	14.2	15.5	17.9	19.8	23.4	25.0
Portugal	17.1	17.5	18.7	20.1	23.9	28.2
Spain	16.7	17.4	18.6	20.0	25.1	31.6
Sweden	17.3	18.4	20.2	21.1	22.8	24.0
UK	16.0	16.5	18.0	19.0	21.9	23.7

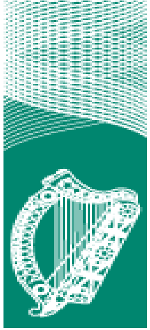
Source: OECD data and forecasts

Following a baby boom in the 1970s and early 1980s, the Irish population is relatively young by international standards, especially by European standards.

The OECD estimates that the percentage of the Irish population aged 65 and over at just 11.9% for 2010, compared to ratios of around 17% in Spain and France, and 20% in Germany and Italy.

Looking further ahead, the OECD has forecast that those aged 65 or over will account for around 15% of the Irish population in 2020 and just above 20% in 2040.

This suggests that Ireland's ability to reduce its debt burden will not be seriously undermined by a high level of expenditure on public pensions. It also points to higher labour force participation, which should boost the economy's labour supply, and higher savings rates over the longer term.



Ireland's fundamental strengths remain:
High quality physical infrastructure

Capital Investment as a % of GDP

6
5
4
3
2
1
0

2001 2002 2003 2004 2005 2006 2007 2008 2009

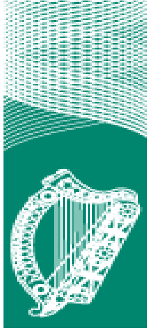
Ireland
Euro Area 16

Source: European Commission

After a decade of substantial investment expenditure, the Irish economy is supported by a stock of very high-quality physical infrastructure, which will underpin long-term growth.

Between 1997 and 2008 exchequer capital expenditure more than quadrupled, increasing from €2 billion to almost €9 billion per annum. As a result, there was a considerable addition to Ireland's stock of physical infrastructure over this period.

Notwithstanding the moderation in capital expenditure since 2009, the stock of physical infrastructure available now and planned will support a return to economic growth, and in future years will sustain continuing growth.



Ireland's fundamental strengths remain:
Very open economy…

Exports as a percentage of GDP

%

120
100
80
60
40
20
0

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

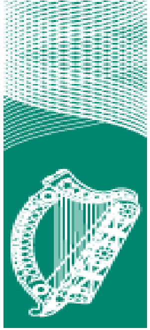
EU27 Ireland Greece Spain Italy Portugal

Sources: Eurostat, European Commission Autumn 2010 Forecast

Ireland remains one of the most open economies in the EU and indeed in the world. Irish exports increased to over 90% of GDP in 2009 and are forecast to strengthen further to 105% of GDP by 2012. This brings them above their level at the start of the last decade.

In the EU 27 as a whole, by comparison, exports as a percentage of GDP are forecast to increase to around 45% of GDP in 2012.

The openness of the Irish economy is especially important at a time of fiscal retrenchment because the deflationary effect of such retrenchment will be lessened by Ireland's high propensity to import and can be significantly offset by the growth of exports.



Ireland’s fundamental strengths remain:
… with high-tech export base

High-tech Exports as Percentage of Total Exports 2008

50
45
40
35
30
25
20
15
10
5
0

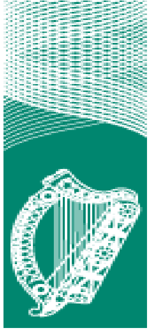
Bulgaria
Spain
Poland
Latvia
Slovakia
Slovenia
Romania
Greece
Italy
Portugal
Lithuania
Belgium
Estonia
Denmark
Austria
Germany
Sweden
Czech Republic
United Kingdom
EU27
Netherlands
France
Finland
Cyprus
Hungary
Ireland
Luxembourg
Malta

Source: Eurostat

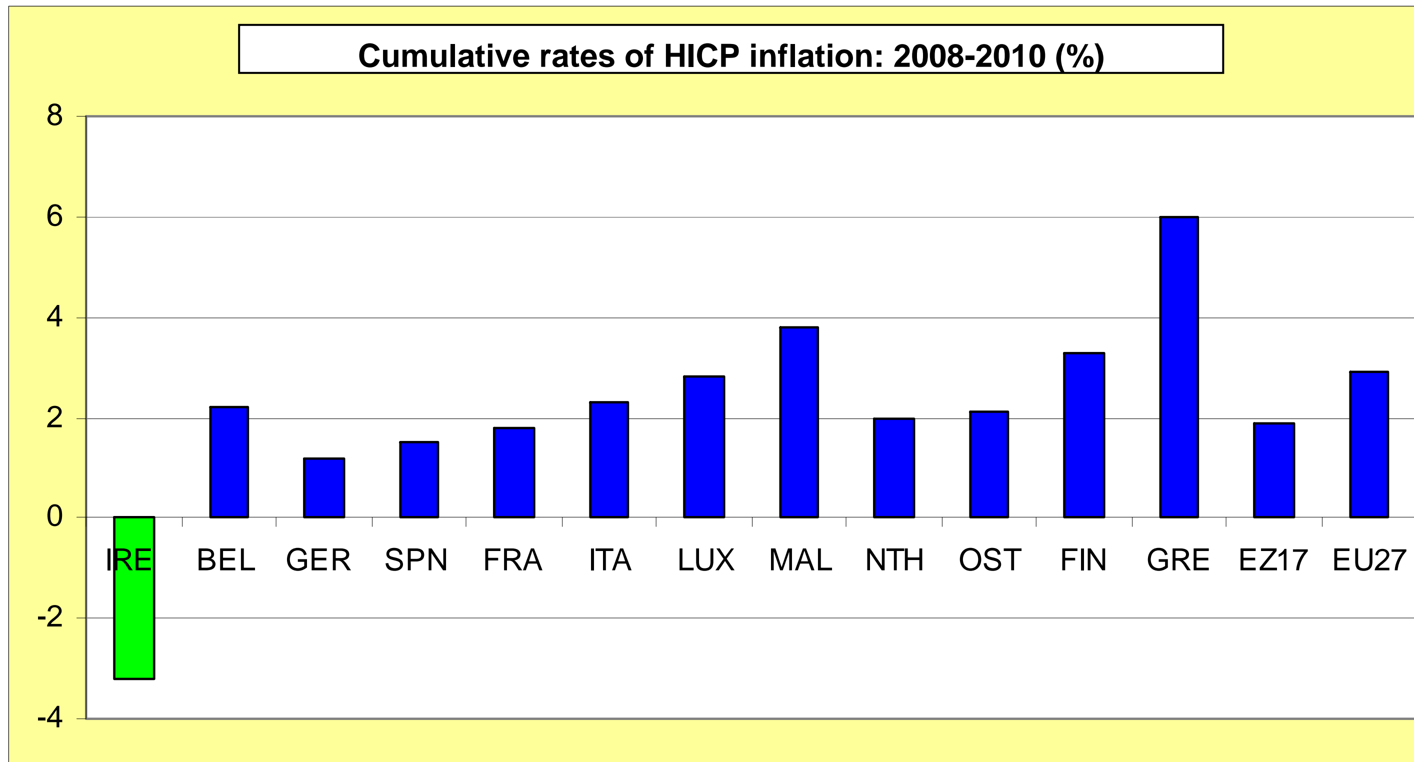
Ireland has achieved critical mass in a number of high-technology sectors. Nearly one-third of Irish exports are classified as high tech (such as IT and chemicals) - compared with an average of 17% in the EU as a whole – as business functions shift to higher value-added activities.

The high concentration of our exports in high technology sectors is a key factor behind our resilient export performance despite the economic downturn.

Ireland continues to attract inward FDI. Almost 1,000 companies – including Google, eBay and Facebook – have chosen Ireland as the hub of their European networks. Foreign Direct Investment in Ireland increased significantly in 2010, despite global economic uncertainty. The momentum developed in 2010 will be carried through in 2011.



A remarkably flexible economy



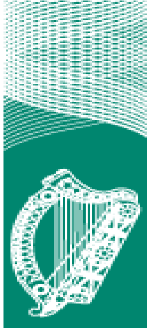
Source: European Commission Autumn Forecasts

Absent an independent currency, Ireland must regain lost competitiveness by reducing its costs relative to its main trading partners. This process is well in train. Ireland is the only EU member state in which the level of consumer prices has fallen in recent years. Between 2008 and 2010, the cumulative rate of HICP inflation was minus 3% in Ireland, 5 percentage points below the euro zone average and 6% points below the average for the EU as a whole.

Price reductions have occurred not only in areas exposed to international competition but also in relatively sheltered sectors. The CSO's index of producer prices in services fell by 7% between its peak in Q3 2008 and the corresponding quarter of 2010.

Utility and construction costs have fallen. There has been a significant reduction in the cost of electricity for large users. The construction cost of prime industrial and commercial sites has fallen appreciably, as have office rental costs.

Wages have been significantly reduced in all the main branches of economic activity. Average hourly earnings in the public sector in Q3 2010 were 6% below their Q2 2009 peak. On average across the private sector hourly earnings in Q3 2010 were 4.2% lower than at their Q1 2009 peak.



Employment also remains high…

Irish employment level

Sources: CSO, Department of Finance

While the number in employment has fallen against the backdrop of a sharp decline in activity, the level of employment remains relatively high – in the first half of the year there were just under 1.9 million people at work in Ireland compared to around 1.2 million in the mid-1990s.

Employment is anticipated to increase once economic growth resumes. The pace of annual employment growth is expected to strengthen in the coming years, to around 2% by the end of the forecast horizon. Over the period of the Plan, employment is expected to increase by about 90,000.

The Plan will return the public finances back to a sustainable level

€ billion	2011	2012	2013	2014
Total Consolidation	**6.0**	**3.6**	**3.1**	**3.1**
Expenditure	3.9	2.1	2.0	2.0
- Current	*2.1*	*1.7*	*1.6*	*1.6*
- Capital	*1.9*	*0.4*	*0.4*	*0.4*
Taxation	1.4	1.5	1.1	1.1
Other Measures	0.7			
Forecast General Government Deficit (% of GDP) ^	9.4*	7.3*	5.8	2.8

Rounding may affect totals

* Projected GGDs for 2011 and 2012 take full account of the interest holiday on the Promissory Notes which are providing capital support to Anglo Irish Bank, INBS and EBS.

^ Budget 2011 forecast (December 2010)

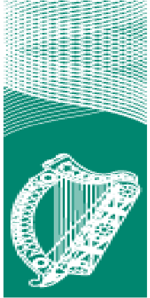
Source: Department of Finance

The Plan will see a cumulative budgetary adjustment of €15 billion occur over the period 2011 to 2014. To demonstrate the seriousness of its intent, the Government has decided that 40% or €6 billion of this adjustment will be made in 2011.

Total consolidation sums to more than €15 billion due to inclusion of largely non-recurring once-off items that impact in 2011 only. The full-year impacts of expenditure and revenue measures are also taken into account in the figures.

The widely-held view amongst economists is that adjustments are more damaging to future economic growth if they rely heavily on taxation measures. Accordingly, the burden of adjustment will fall more heavily on expenditure measures, with only a third of the adjustment coming from taxation and revenue-raising measures.

The adjustment will ensure a gradual reduction in the General Government Deficit to below 3% of GDP by 2014.



The Plan will return the public finances back to a sustainable level

48
36
24
12
0
-12

% of GDP

2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

Year

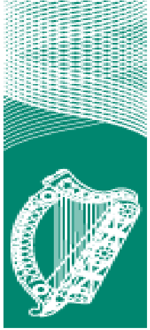
Underlying General Government Balance (% of GDP)
General Government Revenue (% of GDP)
General Government Expenditure (% of GDP)

Source: Department of Finance

The Plan will reduce the large gap that currently exists between Government spending and revenue, a gap that is being filled by borrowing. Spending will decrease and revenues will increase, placing the public finances on a sustainable trajectory.

In 2009, General Government revenues had fallen to 34.5% of GDP, while General Government expenditure had increased to 46.4% of GDP. As a result, the underlying General Government Deficit increased to 11.9% of GDP.

By 2014, revenues will have increased to 36.8% of GDP and expenditure will have fallen to 39.7% of GDP, resulting in a General Government Deficit of 2.8% of GDP.



Average GDP growth of 2¾% forecast over this period

Department of Finance real GDP forecasts

% change

12.0
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

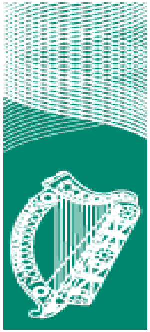
average 2011 - 2014 = 2¾% p.a.

Sources: CSO, Department of Finance

Having broadly stabilised in 2010, real GDP is forecast to grow by an average of 2¾% over the period 2011 to 2014.

Consistent with the typical recovery path in a small open economy, the upturn is being led by an increase in exports, reflecting stronger global growth and significant improvements in Ireland's competitiveness.

Over the period as a whole, the external sector will remain the driving force behind the expansion. Given the necessary fiscal consolidation and unwinding of private sector imbalances, domestic demand will make only a limited contribution to growth over the forecast horizon.



Exports supported by improving competitiveness

Forecast change in unit labour costs, 2009 to 2012

Source: European Commission Autumn 2010 forecasts

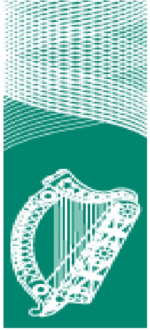
Unit labour costs are a key indicator of competitiveness in an economy, showing how wages are moving after adjusting for productivity.

European Commission data show that, following a 0.6% decline in 2009, Irish unit labour costs are estimated to have contracted by a substantial 5.6% in 2010.

Furthermore, this trend is expected to continue. Commission forecasts show that Ireland is the only country in the euro area in which unit labour costs will fall over the period 2009 to 2012, thereby improving our competitiveness.

The expected fall in Irish unit labour costs over this period is around 9%. Unit labour costs in the euro area as a whole are forecast to increase by 5% over the same period. In other words, economic projections show that Ireland's relative position will have improved by 14% since 2009.

This also illustrates the flexibility of the labour market – wages are adjusting to the new environment.



As a result, current account will move back into surplus

Current account as a percentage of GDP

4.0
3.0
2.0
1.0
0.0
-1.0
-2.0
-3.0
-4.0
-5.0
-6.0

%

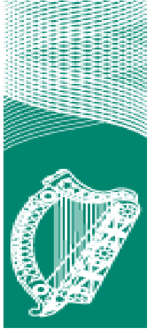
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

Sources: CSO, Department of Finance

One consequence of the export-led recovery is that the Irish current account balance is expected to turn positive in 2011, having been in deficit almost continuously since 1999.

The current account is forecast to move from minus 1.4% of GDP in 2010 to 0.2% in 2011, and to average 2.0% of GDP over the period 2012 to 2014. As recently as 2008 the deficit was minus 5.6% of GDP.

The return of the current account position to surplus is an important development. It means that the Irish economy will no longer be accumulating liabilities, but will once again be paying its way in the world.



Two-thirds of adjustment to come from expenditure measures over the Plan period to 2014

- Government expenditure will be reduced by €10 billion by 2014:
  - Current and capital expenditure approximately €7 billion and €3 billion lower, respectively;
  - Total Government expenditure will fall from 49% of GNP to 36% by 2014.

- Reductions should be seen in context of a rapid increase in spending over 2000-2008 – total public expenditure went up by 141%.

- Expenditure decisions will be based on a set of principles to ensure they take account of their impact on medium term developments.

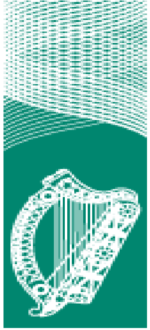
- Comprehensive reform of the budget system to bring greater sustainability to the management of the public finances.

Given the decline in GNP and its impact on Government revenues, the State is no longer in a position to afford the same level of public services and social welfare rates as in recent years.

Expenditure choices will be based on a set of underlying principles, including:
- more employment-focused capital investment;
- Ministers and Public Service managers prioritising expenditure within cash ceilings; and
- protecting the vulnerable as far as possible.

Reformed budgetary arrangements will include:
- a Budget Advisory Council to provide monitoring of fiscal policy; and
- a Fiscal Responsibility Law to ensure that the principle of keeping the public finances on a sustainable footing is binding in law.

The Government is determined that administrative streamlining and efficiencies will play their full role in delivering the required level of savings.



Increases in Public Service Allocations 2000-2008

	2000 €m	2008 €m	% change 2000 - 2008
Social Welfare	6,829	17,741	+160 %
Education	3,716	8,465	+128 %
Health	5,362	15,356	+186 %
Capital Investment	3,930	9,011	+129 %
Total Expenditure	25,925	62,395	+141 %
GDP	105,018	179,989	+71%

The planned reductions in Government expenditure should be seen in the context of the rapid increase in spending that took place over the period 2000-2008. Over this period, total expenditure grew by 141%, with even stronger increases in social welfare and health spending.

Reflecting the sharp fall off in growth since 2008, however, this ratio has risen markedly and is expected to be around 44% of GNP in 2010. It is clearly not sustainable for public spending to absorb such a high proportion of national income.

Composition of Expenditure Savings 2011-2014^

	2010	2011	2012	2013	2014
	€bn	Cumulative Change (€bn)			
Public service pay	16.0	0.3	0.7	0.9	1.2
Public service pensions	2.8	-0.1	0	0	0
Social protection expenditure	20.9	0.9	1.5	2.3	2.8
Other expenditures	15.0	1.0	1.6	2.2	3.0
of which Administration	*1.2*	*0.1*	*0.1*	*0.1*	*0.1*
of which Subsidies, Grants & other schemes, Procurements	*13.8*	*1.0*	*1.6*	*2.2*	*3.0*
Current Total	54.7	2.1	3.8	5.4	7.0
Capital Total	6.4	1.8	2.2	2.6	3.0
Total Expenditure	**61.1**	**3.9**	**6.0**	**8.0**	**10.0**

^ Figures as presented in the National Recovery Plan, Tables 3.1 and 4.1 on Pages 54 and 62, respectively.

The public service pay bill has been reduced by about €1.4 billion in gross terms in 2010 over the 2009 outturn, with further savings of €1.2 billion expected by 2014.

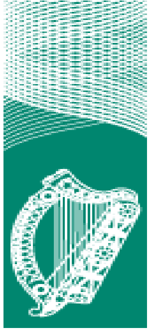
There will be a cut in public service staff numbers by 24,750 over 2008 levels – back to levels last seen in 2006 – while pay rates will be reduced by 10% for new entrants.

Social welfare expenditure will be €3 billion lower in 2014 compared with the opening position in 2010.

Government will reduce non-pay and non-social welfare expenditure by €3 billion over this period. Measures introduced will include a scheme for the metering and charging of domestic water by 2014, and increasing the student contribution to the costs of higher education.

Measures to reduce the costs of delivering public services will yield overall savings of up to €1 billion a year by 2014.

Capital spending will be reduced by €3 billion by 2014, consistent with the lower level of growth and demand in the economy.



Specific expenditure measures announced in Budget 2011 include…

- 4% reduction in working age rates of social welfare payments
- Reduction in child benefit rates
- Additional 15,000 activation places and supports for the unemployed
- Maximum salary rate introduced for public sector
- Public service* pensions above €12,000 per year reduced by an average of 4%
- New pension scheme and pay reduction for new entrants to public service.

* The public service differs from the public sector as it excludes commercial State bodies.

Working-age social welfare payments will be reduced by about 4% from the first week in January 2011, keeping them slightly ahead of their 2007 level.

There will be a €10 reduction on child benefit rates from January 2011, with an additional €10 reduction for the third child only.

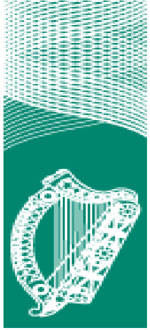
The Skills Development and Internship Programme, Work Placement Programme and Community Work Placement Scheme will provide an additional 15,000 activation places and supports for the unemployed.

There will be a maximum salary rate of €250,000 in the public sector.

Public service pensions above €12,000 per year will be reduced by an average of 4% with effect on and from 1 January 2011, ensuring those on higher pensions will pay most.

A new single pension scheme for new entrants to the public service will come into effect in 2011. Pensions will be based on career average earnings rather than final salary; the pension age will be increased; post-retirement increases will be linked to price inflation.

Pay rates for new entrants will be reduced by 10%.



Remaining third reflects revenue raising measures

- Government revenues will increase by €5 billion over the period 2011 to 2014:
  - Approximately 40% of this adjustment frontloaded into 2011.

- Sustainable Structural Reform
  - Focus on broadening base across tax system:
    - System not sustainable when 45% of tax units pay no Income tax
    - Base also broadened by abolition or restriction of tax expenditures and reliefs
    - All taxpayers contribute.

- This approach allows nominal rates of tax to be kept lower, while the effective rate can be raised in a way that is fairer to all.

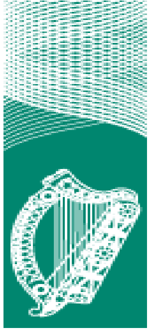
- The Government will maintain the 12½% rate of corporation tax.

It is important to copperfasten revenue stability. Measures must be credible; they must structurally reform aspects of the tax system and they must minimise distortions or undue impediments to economic recovery.

Emphasis on base-broadening across the tax system; currently 45% of tax units pay no income tax – this is unsustainable. Similarly, tax expenditures and reliefs will be abolished or restricted so that higher earners cannot shelter themselves from paying their fair share of tax.

The Government remains committed to the 12½% corporation tax rate; it will not be increased under any circumstances.

With some two-thirds of the total tax increases coming from sources other than direct tax (income or corporate), the Plan's overall objective is to minimise the impact of the adjustment on future economic prospects.



Main revenue increases over the period of the Plan^

	2011 €m	2012 €m	2013 €m	2014 €m	Total €m
Income Tax	1,245	260	210	160	1,875
Pensions	260	225	225	155	865
Tax Expenditures	405	100	100	60	665
Site Value Tax	-	180	175	175	530
Carbon Tax	-	220	-	80	300
Capital Tax	-	145	-	-	145
Value Added Tax			310	260	570
Other Measures	110	-	-	-	110
TOTAL	2,020	1,130	1,020	890	5,060

^ Figures as presented in the National Recovery Plan, Table 6.1 on Page 91.

On Income Tax, measures raising €1.9 billion, equivalent to a reduction of 16½% in the value of the credits and bands will be delivered over the Plan period. Approximately 65% of the total income tax adjustment will be delivered in 2011.

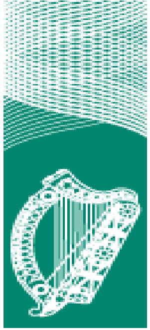
Reforms to pension tax expenditures – including the phased standard rating of income tax relief – will raise €940 million. Reforms to other tax expenditures will raise €755 million, with €355 million of this coming from changes to income tax expenditures*.

The standard VAT rate will be increased by 1% in 2013, and by an additional 1% in 2014.

An interim Site Value Tax of about €100 per annum will be introduced in 2012, excluding agricultural land and land subject to commercial rates, with a final Site Value Tax introduced in 2013 when valuations have been completed.

The price of carbon will be doubled over four years progressively from €15 to €30 per tonne, and the rate structures and thresholds in Capital Gains Tax and Capital Acquisitions Tax will be reformed in 2012.

* Figures differ from those in above table as they include additional savings made over the period 2015 to 2017.

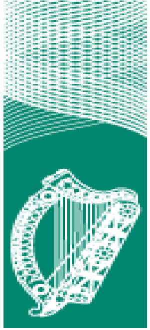


Specific taxation measures announced in Budget 2011 include…

- Introduction of Universal Social Charge
- 10% reduction in value of income tax bands and credits
- Phasing out of the age-related credits and exemptions over 4 years
- Abolition or restriction of 25 tax expenditures
- Removal of employee PRSI contribution ceiling of €75,036
- Major changes to tax treatment of pensions
- Increase in excise duties
- Fundamental reform of Stamp Duty on residential property transactions
- Reconfirm commitment to 12½% corporation tax rate.

Following through on the commitments contained in the National Recovery Plan, the following measures were given interim legal effect through financial resolutions on Budget night (7 December 2010). The measures will be confirmed in the Finance Bill 2011.

- Income and Health Levies are abolished and replaced with a single Universal Social Charge.
- The value of income tax bands and credits is reduced by 10%, returning them to 2006 levels.
- 25 tax reliefs are abolished or restricted to broaden the tax base; these include the tax treatment of share awards, patent royalties and rent relief. Legacy costs related to property-based reliefs are further restricted, leading to a termination in these reliefs by 2014.
- The PRSI contribution ceiling is abolished. The ceiling had previously been set at €75,036.
- Changes to the tax treatment of pensions include: the abolition of employee PRSI and Health Levy relief; a reduction in the annual earnings cap for tax-relievable pension contributions; a 50% reduction in employer PRSI relief on employee pension contributions; and the portion of retirement lump sums above €200,000 in value is now subject to tax.
- In place of the regime which existed up to now, a flat Stamp Duty rate of 1% will apply on all residential property transactions up to a value of €1 million and 2% will apply on amounts above €1 million.
- Increase in DIRT rates of 2% and reduction in Capital Acquisition Tax (CAT) tax-free threshold by 20%.
- Excise has been increased by 4 cent per litre on petrol and 2 cent per litre on auto-diesel.



Plan continues process of restoring sustainability to the public finances…

Adjustment package	Main consolidation form	Saving €m *
1. July 2008	Expenditure	1,000
2. October 2008 (2009 Budget)	Revenue	2,000
3. February 2009	Expenditure	2,100
4. April 2009 (Supplementary Budget)	Revenue Expenditure	3,600 1,800
5. December 2009 (2010 Budget)	Expenditure	4,100
6. November 2010 (National Recovery Plan 2011-2014)	Expenditure Revenue	10,000 5,000

* Figures in all cases are broad orders of magnitude.

Since mid-2008, the Government has already made budgetary adjustments totalling around €14½ billion. As a result, following the €6 billion adjustment in 2011, the economy will be two-thirds of the way through the total adjustment necessary.

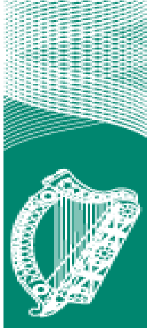
July 2008: Full-year expenditure saving of c. €1 billion through public sector payroll saving, reprioritisation of capital spending.

October 2008: Full-year revenue-raising of c. €2 billion through the introduction of an income levy and other measures.

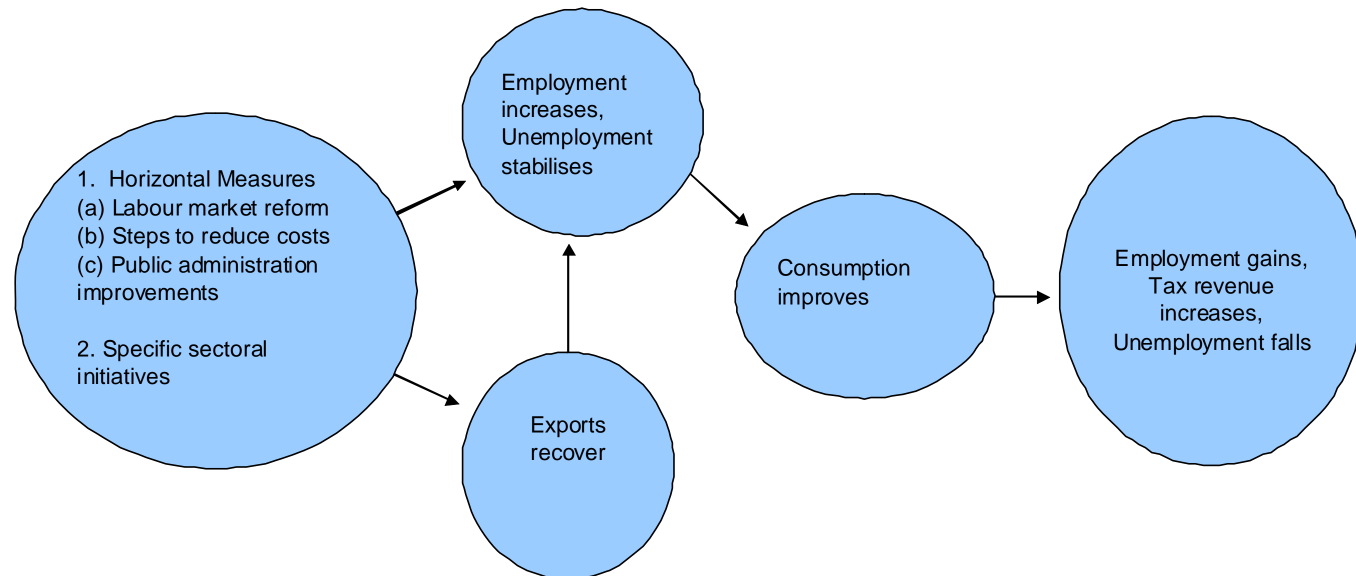
February 2009: Full-year expenditure saving of c. €2.1 billion through the introduction of a 7% public sector pension levy.

April 2009: Full-year expenditure saving of c. €1.8 billion largely through social welfare reductions, payroll savings and reductions in capital spending. Full-year revenue-raising of c. €3.6 billion through, for instance, a doubling of the income levy and increases in the health levy and social security ceiling.

December 2009: Full-year expenditure saving of c. €4 billion through, for example, public sector pay cuts of between 5% and 8% on salaries up to €125,000 (larger reductions on salaries higher than this), and an average 4% reduction in social welfare rates for working-age claimants.



The Plan also outlines reforms to support growth and employment over the medium term



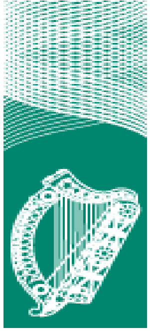
The National Recovery Plan does not just outline the measures necessary to put the public finances in order. It also identifies the areas of economic activity that will provide growth and employment in the next phase of our economic development and specifies the reforms the Government will implement to accelerate growth in these key sectors.

The essential conditions for growth are either already in place, or policies to achieve them are being pursued.

A range of specific policy actions will further support the process of recovery. These can be broadly categorised as follows:

- labour market reforms to remove barriers to employment and disincentives to work,
- reforms to improve the non-labour elements of cost competitiveness, and
- supportive sectoral policies to assist recovery across the enterprise base.

These policy actions will support the export recovery, which can, in turn, deliver high value employment and act to stimulate the domestically trading sectors of the economy. Given that Ireland is a small open economy, sustainable growth in the long-term must be export-led.



Policies for growth: Labour market reform

- Removing barriers to employment creation and disincentives to work:
  - Reduction in national minimum wage by €1 to €7.65 per hour
  - Review of the framework REA and ERO agreements within 3 months
  - Reform of the welfare system to incentivise work and reduce unemployment traps.

- Strengthen labour market activation measures:
  - A community work placement programme (up to 5,000 places)
  - A skills development and internship programme (up to 5,000 places)
  - Additional placements on the work placement scheme (up to 5,000 places)
  - Extension of the PRSI Employers Exemption scheme to end-2011.

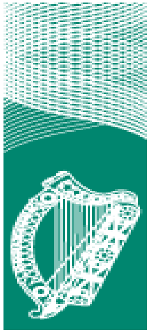
Given the scale of the unemployment problem, it is important that the State address any legislative and policy obstacles to job creation and act to enhance the incentives to the unemployed to take up potential job opportunities.

The National Minimum Wage (NMW) had increased six times since it was introduced in 2000 and is currently 55% higher than its original level. Even after the reduction of €1 per hour, it will remain in the top tier of EU minimum wage rates.

Other regulated wage levels also exist in certain sectors where employers and workers reach specific agreements about pay and conditions. A review of the framework of these agreements will be finalised within the first quarter of 2011.

A reform of the welfare system will reduce unemployment traps by incentivising employment and discouraging a long-term attachment to the social welfare system.

The Government will re-invigorate activation policies to increase the incentive to work, reduce the number of long term unemployed and increase aggregate employment.



Policies for growth: Boosting cost competitiveness

- Further improvement required in non-labour components of cost competitiveness, particularly in the locally trading sector of the economy.

- Measures will be introduced to boost competitiveness in a number of areas:
    - Energy costs
    - Professional services
    - Telecommunications
    - Office space / property
    - Waste management costs.

- Steps will also be taken to improve the efficiency of public administration for the benefit of business customers.

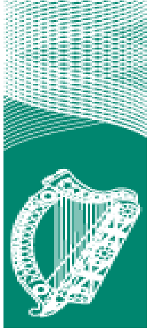
While labour costs are adjusting, improvements have been slower to materialise in other areas of competitiveness, principally in the locally trading sector.

In response, the Government will:

- promote rigorous competition in the professions and take measures to reduce legal costs,
- take actions to reduce energy costs faced by businesses,
- improve waste management performance,
- enhance the availability of technological infrastructure – in particular next generation broadband networks, and
- lead efforts to reduce office rents in both the private and public sectors.

Steps will also be taken to increase efficiency in public administration to reduce the costs for the private sector:

- a targeted 25% decline in regulatory burden on businesses will be achieved by end-2011,
- reduced development contribution charges will apply for high-value manufacturing and internationally-traded services,
- the 15-day prompt payment rule will be extended to the wider public sector, and
- local authorities will be required to improve their efficiency.

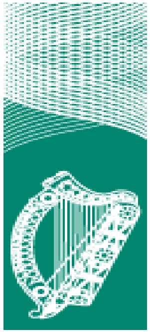


Policies for growth: Sectoral outlook

- Actions will be taken to support small businesses, promote Ireland as an innovation hub and embed science techology and innovation.
- Exports in manufacturing have improved this year. The sector can re-position itself by moving up the value chain and exploiting new opportunities.
- The services sector has increased in importance in recent years. The ESRI forecasts that services will make up 70% of total exports by 2025.
- Measures will be taken for the key labour intensive sectors where employment growth can take place:
  - Agri-Food
  - Tourism and Travel
  - Retail and Wholesale
  - Construction.

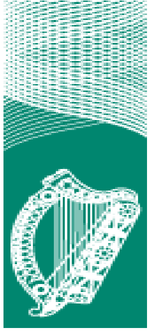
A range of sector specific measures will be introduced:

- In 2011 investment of €570m in science, technology and innovation and enterprise has been prioritised.
- This is key to driving the export performance of IDA and EI supported companies which between them aim to create 30,000 jobs in 2011.
- In addition policy will support specific key domestic sectors by, for example:
  - focusing on appropriate wage adjustments in sectors such as retail and construction which are covered by registered agreements,
  - improving the Agri-Food sector through implementation of Food Harvest 2020,
  - increasing tourism and travel through liberalising visa restrictions and reducing the air travel tax and
  - the reform of the stamp duty regime as announced in Budget 2011.
- The combined effect of improved cost competitiveness and labour market reform will help to retain and create jobs in labour intensive sectors, while specific measures are also proposed for these sectors.



In Summary

- Economy and fiscal position has stabilised.
- The Plan will return public finances to a sustainable level:
  - €15 billion budgetary adjustment over next four years
  - Two-thirds of adjustment will come from expenditure measures
  - General Government Deficit below 3 per cent by 2014
  - Gross debt position falling by end of period.
- The Plan enjoys the support of the IMF and the European Commission.
- The Plan outlines reforms to support growth and employment.
- Essential conditions for sustainable economic growth are in place, or policies to achieve them are being pursued.
- The Irish economy's fundamental strengths remain:
  - Highly educated workforce and high quality physical infrastructure
  - Strong high-technology exporting base
  - Pro-enterprise environment and very flexible economy.
- Average growth of 2¾ per cent is forecast for the period 2011 to 2014.
- Budget 2011 represents the first phase of implementation of the National Recovery Plan.



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