

## The National Recovery Plan 2011-2014

### What does the National Recovery Plan do?

The Plan provides a blueprint for a return to sustainable growth in our economy. In particular, it:

- Sets out the measures that will be taken to restore order to our public finances.
- Identifies the areas of economic activity which will provide growth and employment in the recovery.
- Specifies the reforms the Government will implement to accelerate growth in those key sectors.

### Why do we need this Plan?

The gap between Government receipts and spending will be €18.5 billion in 2010.

- This gap must be filled by borrowing. Unless the rate of borrowing is reduced, the burden of debt service will absorb a rapidly increasing proportion of tax revenue.
- Moving towards a balanced budget is a prerequisite for future economic growth.

Reducing the budget deficit is necessary, but it will not, by itself, solve our economic difficulties. We must grow our economy by improving our competitiveness and build on our strong export performance.

### Can we be optimistic about our economic prospects?

Yes, certainly. Our economy is emerging from recession:

- GDP will record a moderate increase this year on the back of strong export growth.
- Exports are expected to grow by about 6% in real terms this year, driven by improvements in competitiveness and a strengthening of international markets.
- Conditions in the labour market are beginning to stabilise.
- However, domestic demand remains weak as households and businesses continue to save at elevated rates and pay down debt.
- The current account of the balance of payments will record a small surplus in 2011, meaning that the economy as a whole is paying down external debt.

The conditions for sustainable export-led growth are in place:

- Good infrastructure.
- High-quality human capital.
- Tax policies which are favourable to entrepreneurship, investment and work.
- Adequate credit availability for viable businesses.

The Plan projects that real GDP will grow 2.75% on average over the 2011–2014 period.

- 90,000 (net) new jobs will be created over the period 2012-2014.
- Unemployment will fall to below 10% by 2014.

### How much more budgetary adjustment is needed?

- Adjustments of nearly €15 billion have already been implemented over the past two years. These measures have succeeded in stabilising the budget deficit.
- An additional €15 billion package of measures is required to bring the deficit back below 3% of GDP by 2014.
- This package will comprise  $\frac{2}{3}$  expenditure and  $\frac{1}{3}$  revenue measures.
- €6 billion will be front-loaded in 2011.
- Deficit will be reduced to 9.1% of GDP in 2011. Debt to GDP ratio will peak at 102% in 2013 and will fall to 100% by 2014.

### Won't budget adjustments of this scale kill off any potential recovery?

No, the economy is projected to grow 2.75% on average over the 2011–2014 period.

The adjustment will weigh on domestic demand, but its overall effect will be mitigated by:

- The economy's high propensity to import.
- Positive effect of budget adjustments on competitiveness and confidence.

### What can the Government do to boost growth?

There are two pillars to the strategy for competitiveness, growth and employment:

- Remove potential structural impediments to competitiveness and employment creation.
- Pursue appropriate sectoral policies to encourage export growth and a recovery of domestic demand.

Specifically, the Government will:

- Reduce the minimum wage by €1 to €7.65.
  - High minimum wage is a barrier to job creation for younger and less skilled workers where unemployment rates are highest.
  - Will still be among the highest rates in the EU.
- Reform welfare system to incentivise work and eliminate unemployment traps.
- Re-invigorate activation policies to ensure that unemployed people can make a swift return to work.
- Promote rigorous competition in the professions and measures to reduce legal costs.
- Take decisive actions to reduce waste and energy costs faced by businesses.
- Enhance availability of technological infrastructure, in particular next generation broadband networks.
- Lead efforts to reduce office rents in both the private and public sectors.
- Increase efficiency in public administration to reduce the costs for the private sector.
- Implement sector specific measures to assist an increase in exports as well as an increase in domestic demand.
- Support innovation through the innovation fund and other enterprise supports and through our tax system.

### Why must we reduce Expenditure?

- Significant increases in public expenditure during the boom.
- Ratio of day-to-day expenditure to GNP has jumped from 28% during the boom years to 44% in 2010 – this is unsustainable.

Current expenditure will be adjusted by €7 billion and capital expenditure by €3 billion.

Social welfare, pay and programme spending each account for around one third of total expenditure - reductions in each of these areas are unavoidable.

Government will:

- Reduce the cost of the public sector pay and pensions bill, social welfare, and public service programmes.
- Achieve savings in social welfare expenditure of €2.8 billion through a combination of control measures, labour activation, structural reforms, further reductions in rates as necessary and a fall in the Live Register.
- Cut public service staff numbers by 24,750 from end-2008 levels, back to levels last seen in 2005.
- Implement overall payroll adjustments of €1.2 billion by 2014.
- Introduce a reformed pension scheme for new entrants to the public service and reduce their pay by 10%.
- Make more effective use of staffing resources with redeployment of staff within and across sectors of the public service to meet priority needs.
- Reform work practices to provide more efficient public services with scarcer resources.
- Increase the student contribution to the costs of third level education.
- Introduce a charge for domestic water by 2014.
- Reform and update the existing budgetary architecture.

These reductions will bring expenditure back to its 2007/2008 level. Working age welfare rates will be reduced to slightly above 2007 levels.

### **Why do taxes have to rise?**

Tax receipts in 2010 will be around 35% lower than in 2007, the steepness of the fall reflecting the over-dependence on property and construction-related revenue sources during the boom years.

Nearly half of income earners in 2010 will pay no income tax. This is not sustainable.

A fundamental principle of the reform outlined in this Plan is that all taxpayers must contribute according to their means. Those who can pay most will pay most but no group can be sheltered.

### **Is Ireland about to become a high-tax economy?**

No, tax burdens are not going back to 1980s levels. The changes in the Plan will bring the income tax structure back to what existed in 2006.

### **What taxation measures will the Government introduce?**

Government will:

- Maintain the 12½% corporation tax rate; this will not change.
- Raise an additional €1.9 billion through income tax changes.
- Implement pension-related tax changes to yield €700 million, with €240 million in tax savings on the public sector pension related deduction.
- Abolish/curtail a range of tax expenditures yielding €755 million.
- Increase the standard rate of VAT from 21% to 22% in 2013, with a further increase to 23% in 2014. These changes will yield €620 million.
- Introduce a local services contribution to fund essential locally-delivered services. This will yield €530 million.
- Increase the price of carbon gradually from €15 to €30, yielding €330 million.
- Reform capital acquisitions and capital gains tax to yield an additional €145 million.
- Transform BES into a new Business Investment Targeting Employment Scheme.

### **Why should we support this Plan?**

Our economy will recover. Detailed policy measures identified in the Plan will build on our strengths and develop other sectors to provide a balanced economy and employment for our citizens. Our future prosperity rests upon the implementation of this Plan over the next four years.