STATEMENT OF THE MINISTER FOR FINANCE

MR BRIAN LENIHAN, T.D.

7 APRIL 2009

INTRODUCTION

A Cheann Comhairle,

As your Minister for Finance for the past ten months I have submitted one Budget and two rounds of Expenditure Adjustments to this House. Economic turmoil globally and in Ireland dictated these measures. The measures that I am bringing forward today will complete this process for 2009. I want to assure the Irish people that we have the capacity and your Government has the will to bring us out of this period of severe economic distress. We can work our way through our problems. We have faced adversity in the past - and we have prevailed.

Many of the factors that made us an economic success story in recent years are still with us: social cohesion, political stability, a young, well educated, flexible workforce, a pro-enterprise, export oriented economy. All of this remains intact. What is wrong in our economy, we can fix if we take the right course of action now and if each one of us signs up for that course of action.

The economic boom this country has enjoyed in recent decades brought a remarkable rise in our living standards. Rapid growth in the early years was driven by exports. As in many other countries, the later stages were accompanied by a property bubble, fuelled in part by very low interest rates and the ready availability of credit. Some did warn that the housing market was unsustainable. Plenty did not. The consensus view suggested a soft landing. That prediction proved wrong. With the benefit of hindsight, it is clear that more should have been done to contain the housing market. We became too reliant on the construction sector for growth and tax receipts.

If all our difficulties related to the recent construction boom in Ireland, I would not be before you this afternoon. We are the living witnesses to the most dramatic collapse in the world financial order since 1929. We are a small open economy with a huge exposure to international economic trends. Our confidence, our finances, our exports and our banks have been dented. The depreciation in the value of the currency of our nearest neighbour has compounded this adverse international picture.

Recent data show that GNP declined by 3% last year. A more substantial contraction of the order of 8% is in prospect this year. This is a serious decline in national living standards: the sharpest fall on record.

Forecasts for 2010 are not as severe. But we must place our performance in context. Economic activity is shrinking in almost all of our main trading partners. In the OECD area which covers most high-income countries, incomes will decline by 4¼%

this year. The slowdown has been sharper in Ireland, reflecting the contraction of the property sector, and the openness of our economy.

Last October, forecast inflation for 2009 was 2½%. Like many forecasts this prediction has seen radical revision. It is expected that consumer prices will fall by close to 4% this year. As consumers, we are accustomed to rising prices. But prices of goods and services are now falling, moving back toward levels pertaining in other eurozone countries.

These declines in prices mitigate the effects on real household incomes of falling nominal wages and higher taxes on incomes.

With falling costs our economy is displaying remarkable agility. This will strengthen us in the eurozone. I am confident that sooner than many observers expect, we will position ourselves to take full advantage of a global upturn. This adjustment in our cost structure sows the seed for export-led economic recovery.

SIX ESSENTIAL STEPS TO RENEWAL

There are six steps we must take to restore and renew this economy.

First, and most urgent, we must stabilise our public finances.

Until we show that we can put our own house in order, we cannot expect those who have invested here and who might invest here in the future to have confidence in us.

Second, we must restore our damaged banking system to ensure credit flows to businesses and consumers. Credit is the life blood of the economy. Unless we take radical and bold action to resolve the crisis that has staunched the flow of credit, this economy will not recover.

Third, we must regain the competitiveness we have lost through over-reliance on domestic spending during the boom. The future of our economy lies in exports. We must work harder to gain market share. We must drive down our costs and improve the quality of our products so that we are well placed to gain when the tide changes.

Fourth, we must protect the jobs we have and invest in retraining those who have lost jobs. Already this year, 80,000 additional people have gone on the live register. At the end of the last year, there were 2 million people employed in this economy but this is falling and we must take all possible and sensible measures to protect and support existing jobs.

Fifth, we must support and stimulate economic confidence as much as we can within the resources available. But as I said earlier, stabilising our public finances is crucial to the recovery of confidence among investors, consumers and businesses.

Finally, we must restore our reputation abroad. We have been badly damaged by the actions of some in our financial sector. We have been damaged by our rejection of the Lisbon Treaty. We must show our EU partners that we, who have gained so much from the European Union, want to remain at its centre. We must show the world that our financial system is soundly based and governed by the highest standards of regulation.

I believe if we follow the six steps I have outlined we are well on the road to economic renewal.

FAIRNESS

Fairness must be the cornerstone of all our efforts to achieve economic renewal. Everyone wants fairness but there is less agreement about what it means. For many, it means the next person should pay. But the reality is everyone must give according to their means. Those who have most must give most. But before we ask anyone else to give, we in this House and in this Government must examine our own costs. Those of us in politics have been entrusted with a great privilege by the people. We must lead by example.

The Government has decided to introduce a number of additional changes to the remuneration of Deputies and Senators.

There will be a 10% reduction in all expenses other than mileage rates where a 25% reduction has already taken place.

Deputies will no longer receive long service payments or increments.

The arrangement whereby former Ministers are paid Ministerial pensions while they are still members of the Oireachtas will be discontinued.

Oireachtas members who are on paid leave of absence as teachers may no longer avail of the arrangement whereby they can keep the difference between their teachers' salary and the cost of employing a replacement.

The allowances paid to Oireachtas Committee chairs will be halved and the payments to whips and vice-chairs are to be abolished.

The Oireachtas Commission has put forward its own proposals for a reduction in the number of Committees and I am happy to leave that matter to these Houses.

Some of these changes will require legislation which will be introduced shortly.

The members of this Government reduced their salaries by 10% last October. Ministers of State made a similar reduction. The public service pension levy was applied to members of the Government and Ministers of State. As a result, Ministers have seen a reduction of one fifth in their incomes.

I have asked the Review Body on Higher Remuneration in the Public Sector to undertake a fresh review of top level pay rates to take account of the changed budgetary and economic circumstances, and the changed private sector pay environment and to benchmark rates against those of other EU countries of comparable scale. This Review will be completed by July. I believe pay at leadership levels in the public sector should be more in line with pay in other countries rather than with top level private sector pay in this country which had become over-inflated in recent years and is now falling in any event.

Yesterday, the Taoiseach announced that the number of Junior Ministers will be reduced from 20 to 15.

In framing this Budget, the Government has been guided by the principle that everyone should contribute according to their means. Tax increases are required and they will not be easy to accept but the measures I am announcing today are progressive. Those who can best afford it will pay most.

For example, as a result of the changes proposed today, a person earning the minimum wage, which is about €17,500 per year, will be asked to pay €350 per annum or €7 per week, representing 2% of their wages.

A person earning €50,000 per year will pay €1,500 or €29 per week, which is 4% of their income.

A person earning €300,000 per year will pay €15,655 or €300 per week, or 9% of their income.

Fairness requires that the real value of Social Welfare benefits should be protected as far as possible at this stage of the economic crisis.

It is for the Government and this House to adjudicate on fairness. But we all have a responsibility to accept a proportionate share of the burden of adjustment needed in this economy.

STABILISING OUR PUBLIC FINANCES

The Financial Context

The Pre-Budget data published last week show a €5 billion widening from the budget deficit projected this January.

A correction of this amount in a full year approximates to a €3¼ billion adjustment in the part of this year which remains.

The Government recognises that part of this shortfall relates to the global economic cycle. It is reasonable to expect part of the shortfall to disappear as economic activity recovers here and abroad. However, part of the gap between spending and revenues, derives from structural problems in the public finances. We must take firm actions to eliminate these problems within a reasonable period of time.

Our approach is rooted in a determination to control our own destiny. We cannot control developments abroad, and we cannot control what others think of us. But we can take decisive actions to put this economy on the road to renewal and demonstrate that we have the ability to make the right choices for everyone in this country.

The problem is our expenditure base is too high and our revenue base is too low. If we fail, refuse or neglect to address this structural problem we will condemn our generation and the next to the folly of excessive borrowing. Already, the share of tax revenues that go to service the national debt has risen from 5% in 2007 to more than 11% this year. As we accumulate more and more public debt, this figure increases. This is dead money that should be used to improve vital public services.

Without this supplementary Budget the general government deficit would have been 12¾% of GDP reflecting the large gap needed to fund the difference between spending and revenue. In the prevailing economic circumstances the natural preference should be to leave expenditure and taxation as they stand. This is not an option for this Government or this House because of the scale of the deterioration of the public finances. A difficult balance must be struck between the need to show a credible way forward on our structural problems and the need to protect our economy as far as we can this year. It is the considered view of the Government that a borrowing target of 10¾% strikes the correct balance.

To date this year, the Government has reduced public expenditure by €1.8 billion primarily through a reduction in the public service pay bill. Measures announced today will result in a further reduction of nearly €1.5 billion in gross public expenditure and additional revenue of €1.8 billion.

The scope for additional expenditure reductions at this stage of the year is limited. Further immediate reductions in expenditure today would have necessitated additional pay cuts for public servants, reductions in the rates of payments for welfare recipients and the cancellation of all contractually uncommitted investment projects.

The deterioration in tax revenues from €47¼ billion in 2007 to €40¾ billion in 2008 to an envisaged €34½ billion this year is a far greater decline than the decline in the economy. This illustrates that in recent years our tax system became over reliant on fast growing, construction heavy economic activity. As we move to the next stage of our economic development, we must restructure our tax system to suit an export led economy growing at a more sustainable pace.

Multi-Annual Plan

Last January, the Government proposed to the European Commission that we could fulfil our obligations to secure stability and growth over a 5 year period. I am glad to report to this House that following intensive discussions with the European Commission, agreement has been reached with the Commission that 5 years is the appropriate timeframe for addressing our structural problems. I want to express my gratitude to Commissioner Almunia and my colleagues amongst the eurozone Member States who have been supportive of our efforts to stabilise the public finances.

To bring sustainability to the public finances, the Government is today announcing the necessary multi-annual consolidation plan. In 2010 and 2011, the plan envisages greater reductions in expenditure than increases in revenue. I want to stress that the expenditure figures are the minimum that must be achieved and the figures mentioned for tax are the very maximum that can be imposed.

Spending reductions that the Government has decided on for 2009 to 2011 will have a cumulative full year effect on current spending of €2.7 billion in 2010 and €4.2 billion in 2011. Reductions in capital spending will accumulate to €1.3 billion in 2010 and €2.4 billion in 2011. The policy decisions underlying these reductions are already in train. They entail further reductions in pay costs, programmes and numbers. There is no provision for extra social spending, other than dictated by demography and unemployment. There will be a cap on capital spending and efficiencies will be found throughout the public sector.

Savings on day to day spending will be made through more targeted welfare provision and further reductions in public service costs and numbers and the wider application of charges. Sharper targeting of programme spending and more efficient use of resources across the board will be required. Difficult decisions in all areas of policy are in prospect.

In 2010, we will seek up to an additional €1.75 billion from taxation. In 2011, the target will be to raise up to an additional €1.5 billion. Options to raise this may include the taxation of Child Benefit, the introduction of a Carbon Tax, a form of property tax and significant further base broadening through the elimination of unnecessary reliefs and a review of all areas of tax exempt incomes.

Over the later years of the 5 year plan, further adjustments will be required. The scale and nature of these measures will depend to a great extent on the strength of the economic cycle. If growth is better than forecast, less will need to be done at that stage.

Public Spending

Public expenditure can be divided into four parts. The public sector payroll at €20 billion and welfare spending at €21 billion account for two-thirds of all spending. Non-pay programmes cost €15 billion and public investment will amount to €7.3 billion this year.

Public Sector Payroll

The Government has decided that a permanent reduction in the cost of the public payroll is an essential element of this plan. In February 2009, we introduced the Public Sector Pension levy which resulted in an average deduction of 7½% from the salaries of public servants delivering savings of €1.4 billion this year. This is a considerable contribution by public servants to the unavoidable economic adjustment. It is also necessary to control public sector numbers which have grown by 11% in the last five years alone.

A key part of such a policy is the ban on recruitment and promotion, with certain exceptions, announced by me on 27th March last.

Today, I am announcing a scheme whereby, in those areas of the public service where permanent reductions need to be brought about, staff aged 50 or over may retire from the public service without actuarial reduction of pension entitlements they have accrued to date. Ten per cent of the relevant lump sum will be payable immediately with the balance paid later at the normal retirement age of 60 or 65 without actuarial reduction and subject to current tax law provisions.

This scheme will be open to applications from the 1st May and will be subject to local management arrangements to ensure that the scheme operates in an orderly manner. Those leaving under the scheme will not be replaced except in specific cases or circumstances sanctioned by my Department. The continued availability of the scheme will be reviewed in the Budget for next year. The Government sees no scope for introducing other, more generous Early Retirement schemes in present budgetary circumstances.

The Commission on Taxation is examining various aspects of pension tax treatment including the treatment of lump sums and I expect to be dealing with their recommendations in the 2010 Budget next December.

Social Welfare Spending

Over the last decade, we have been able to provide very significant increases in welfare payments. For example, the payment of Child Benefit has increased from less than €44 to €166 per month. The State contributory pension has gone from around €113 to more than €230 per week. And the weekly rate of long-term job seekers allowance was raised from €93 to €204. These payments compare very well internationally, particularly with payments in Britain and Northern Ireland.

It was right that when times were good, we increased payments to those who are vulnerable. Now that we are in recession, we must look at how we can use the €21 billion welfare budget to afford maximum protection to those most in need.

The Government has examined very carefully how we might make savings in welfare. In the Budget last October, we increased payments by around 3%. Notwithstanding the fall in consumer prices which we expect to be close to 4% this year, we have decided not to reduce welfare rates in this Supplementary Budget. However, it may be necessary to review rates of payments in future years if reductions in the cost of living materialise.

However, we do need to make some savings in order to absorb the additional expenditure of over €2.8 billion due to the sharp rise in unemployment since December. For this reason the Government is not in a position to pay the December bonus which it has been able to deliver in previous years.

We are also making limited changes in eligibility to certain benefits. Specifically, jobseekers allowance for the under twenties will be halved to €100 a week so as to incentivise the young unemployed to participate in training programmes. Payments under the rent supplement scheme will be reduced to reflect the fall in prices in the rental market. We will also intensify the campaign against welfare fraud by allocating increased staff to the Department and by targeting, in particular, the fraudulent claiming of Child Benefit and other payments by those who are no longer resident in this country.

We will continue to target the available resources on those most in need. The Government does not think that it is fair to pay the same level of benefit irrespective of the level of income of the recipient. For that reason, the Government has decided that Child Benefit will be means tested or taxed in the Budget for next year.

Programme Spending

The scope for changes in expenditure programmes in mid year is limited. Changes over the next three years will be informed by the Report of the Special Group on Expenditure and Numbers which is currently evaluating all programmes. We need to achieve better results with fewer resources. One example of how this has been done in this Budget is the changes we have introduced to the Early Childcare Supplement. This scheme was introduced to help people with the cost of childcare at the height of the boom. While appropriate to the time, it cost the State €480 million last year.

The Programme is now being replaced by a free Early Childcare & Education year for pre-school children at an estimated cost of €170 million. Pre-primary education significantly enhances the subsequent educational achievement of students and in turn increases the return for State investment in education generally. The free preschool year will start next January. The existing rate of Early Childcare Supplement will be halved with effect from 1st May next and abolished at end 2009. More details are set out in the Summary of Budget Measures.

This is an example of how a programme can be reshaped and made more effective at a lower cost to the taxpayer. We need to see more such initiatives in the public sector.

The other elements of spending reductions are set out in the Summary of Budget Measures. These reductions affect a broad range of vote headings so as to spread the burden of adjustment as fairly as possible.

Capital Spending

The Government is determined to maintain high levels of public investment. However, spending cannot be maintained at the levels envisaged when the economy was in rapid expansion. We must progress projects that maximise economic and social returns. The Government has decided to set the Exchequer capital allocation at €7.3 billion for 2009, which is greater than 5% of projected GNP.

The Government has also fixed the overall Exchequer capital allocation for public investment for the next four years

€6.6 billion in 2010,

€5.5 billion in 2011 and

€6 billion in 2012 and 2013.

This represents an average of 4% of projected GNP over the period out to 2013. Significant reductions in tender prices mean that we will be able to deliver a very large part of the NDP programme within the envisaged timescale. The Government has already re-allocated money to more labour intensive areas and will be putting in place further measures to prioritise the more productive and more labour intensive elements of capital investment.

Details of the revised capital envelope are set out in the Summary of Budget Measures.

I believe that there is scope to access significant private funds for infrastructure projects in order to sustain as many construction jobs and as much activity as possible. Discussions are in train with the pension industry about an initiative that seeks on a value for money basis to unlock additional private capital to complement debt financing provided by banks and the capital markets. This would support existing PPP projects and other projects previously funded by the Exchequer.

We need to explore all options to fund our infrastructure needs including the disposal of assets, sale and leaseback arrangements, franchising arrangements and the proposal from ICTU for a National Recovery Bond. My officials have been asked to examine these options with the relevant Departments and agencies.

The total reduction in gross spending for 2009 comes to €886 million in current spending and €576 million in capital. This is equal to €1.8 billion in a full year. Further savings of €4.8 billion will be required over the period 2010-2011.

TAXATION

We need to broaden our tax base so that everyone makes a contribution. We will remove unjustified reliefs and we will ensure that capital is taxed in a fair manner. We will retain our 12.5% corporation tax rate as a key aspect of our inward investment strategy.

A key structural weakness of the Irish taxation system is the narrow base. Too many people did not pay tax at all and there were too many ways in which those who had wealth could shelter their income. Many of these reliefs were abolished in 2006 by my predecessor, An Taoiseach. Today I will continue this process by reducing those tax expenditures that can have an impact this year.

I propose to reduce the level of tax relief investors can claim on the interest for mortgages and loans on residential rental properties to 75% of the interest with immediate effect.

I propose to abolish the current special 20% rate applied to the trading profits from residential development land and restrict the treatment of trading losses. The profits will be charged at the relevant marginal rates of income tax or at the 25% rate of corporation tax.

I will terminate the property-related accelerated capital allowance schemes in the Health Sector. This scheme covers private hospitals, registered nursing homes, convalescent homes and associated residential units as well as mental health centres. Schemes for palliative care units and childcare facilities will remain in place.

The Government has decided that from the 1st of May, Mortgage Interest Relief for principal private residences should only be available for the first seven tax years of the mortgage. I believe this move is justified given the significant recent reduction in interest rates and in house prices. The relief will now be targeted on those who bought their homes when prices were at their peak. It will also support those who now wish to move, improve or buy for the first time. As house prices fall the provision of mortgage interest relief will be kept under review with a view to eventual abolition. In this regard, I look forward to the recommendations of the Commission on Taxation which I will receive later this year. I would like to take this opportunity to thank the Commission for their work.

At this stage of the annual tax year it is not possible for technical reasons to restrict or abolish further reliefs. It is the intention of the Government to continue to remove unnecessary reliefs and shelters from the tax system in successive budgets.

Capital Taxes and Savings

It is important that we treat all sources of income in a similar manner. I am increasing the rates of Capital Gains Tax and Capital Acquisitions Tax to 25% with immediate effect. In the light of declining asset values, I am reducing the CAT thresholds by 20%. The details are contained in the Summary of Budget measures.

I am increasing the DIRT rate on ordinary deposit accounts to 25% and to 28% on certain other savings products.

The existing 2% levy on non-life insurance premiums will increase to 3% and I am also introducing a new levy of 1% on life assurance policies.

Income Tax

In good times, it was possible for us to keep minimum wage earners outside the tax system. This is no longer sustainable. With up to 40% of income earners paying no income tax at all, we can no longer meet our fiscal needs. The challenge is to spread the burden in a fair manner to a wider range of income earners while avoiding economic disincentive effects.

The scope for income tax changes half way through the income tax year is limited. To raise the necessary revenues, the Government must use the various levies and charges already established in the tax code.

Accordingly, the Government has decided to double the rates of the Income Levy and to reduce the entry points for each rate. The new rates will be 2%, 4% and 6%. The new entry points will be €15,028, €75,036 and €174,980 per annum, with the weekly equivalents being €289, €1,443 and €3,365 respectively.

Health Levy rates will also double to 4% and 5% and the entry point for the higher rate will be reduced to €1,443 per week which is €75,036 per annum.

Finally, the PRSI ceiling will be raised to €1,443 per week or €75,036 per annum.

These measures will reduce all our living standards. I am acutely aware of that. The Government has taken care to ensure they are fair, equitable and highly progressive. I would point out that notwithstanding all the increases made today, Ireland will continue to have one of the lowest tax wedges within the OECD. All of these measures will take effect from 1st May 2009.

I indicated previously that I was prepared to review the operation of the public service pension levy to address any issues of fairness. Taking account of the impact of the tax measures which I have now announced, I am proposing a slight recasting of the structure of the levy to reduce somewhat the impact on the lowest paid public servants with a small increase at the higher levels. The net cost of this is €100 million in 2009.

Excise

From midnight tonight, excises on cigarettes will go up by 25 cent per packet of 20 and on auto-diesel by 5 cent per litre. These excise changes are VAT inclusive. There is no scope for increases in excise duties on alcohol or petrol because of the substantial risk of loss of revenue by the purchase of these items in Northern Ireland.

Full details of all of these and other taxation measures are contained in the Summary of Budget measures. The total tax and levies measures will raise €1.8 billion in 2009 and over €3.6 billion in a full year.

The measures I have outlined have necessarily concentrated on income. I am now giving notice that, in 2010 and 2011, I will turn to other areas of taxation to achieve the necessary adjustment in later years.

RESTORING THE CREDIT SYSTEM

The global financial crisis has caused extensive and rapid government interventions across the developed world. Governments have intervened time and again to preserve financial stability and maintain their banking systems. Here in Ireland, through the bank guarantee, bank recapitalisation and the protection of public ownership, we have provided very substantial support to the banking sector.

Our sole objective is to ensure that householders can access credit for homeloans and consumer credit, that small and medium sized business can fund their enterprises, that deposit-holders have confidence that their money is secure and protected, and that international investors are satisfied about the stability of our banking system.

A key pillar in our economic renewal is a well regulated financial system. This is essential for domestic and international confidence and credibility. The actions of those who have tarnished the reputation of Ireland will be dealt with through the appropriate processes.

The role of the Central Bank of Ireland will be reformed to place it at the centre of financial supervision and financial stability oversight, providing for full integration and co-ordination of the prudential supervision and stability of individual financial institutions with that of the financial system as a whole. The Central Bank of Ireland will in the future be headed by a Commission, chaired by the Governor.

These important structural changes will be complemented by significant new resources and additional expert staff, to widen skill sets and enhance market-based knowledge.

I have asked the former Deputy Governor of the Bank of England and former member of the UK Monetary Policy Committee, Sir Andrew Large, to advise on the process to select a new Head of Financial Regulation within the new institutional structure. This search will be wide ranging and the person chosen will be of the calibre, reputation, experience and expertise to lead the reforms of financial regulation that I have outlined.

The Government also believes that further radical action is necessary to stabilise the banking system and ensure the supply of credit to the real economy. Cleansing and repairing the banks' balance sheets is considered fundamental to achieving a sustained recovery of the banking system.

The Government has decided to bring forward measures to address the issue of asset quality in the banking system. A National Asset Management Agency will be established on a statutory basis, under the aegis of the National Treasury Management Agency. Assets will be transferred from the banks to the new National Asset Management Agency with the purpose of ensuring that banks have a clean bill of health, their balance sheets are strengthened and uncertainty over bad debts is reduced. This will ensure a sustained flow of credit on a commercial basis to individuals, households and businesses in the real economy. The Agency will have a commercial mandate and will have the central objective of maximising over time the income and capital value of the assets entrusted to it.

Because it is clear that the principal uncertainties in relation to asset quality in the Irish banking system lie in the banks' land and development loans and in the largest aggregate associated exposures in the banks, these will be transferred to the Agency. These assets pose the main systemic risk to the banking sector in Ireland and the most significant obstacle to the recovery and restoration of lending by the banking system.

The Agency will purchase the assets through the issue to the banks of Government bonds. This will result in a very significant increase in gross national debt, to be offset of course by the assets taken in. The cost of servicing this debt will be offset, as far as practical, from income accruing from the assets of the new Agency. The debt will be repaid from funds raised through the realisation of those assets over time.

The potential maximum book value of loans that will be transferred to the Agency is estimated to be in the region of €80 to €90 billion, although the amount paid by the Agency will be significantly less than this to reflect the loss in value of the properties. In the longer term, if the Agency were to fall short of recouping all of the costs, the Government intends that a levy should be applied to recoup any shortfall.

All borrowers will be required to meet their full legal obligations for repayment. There will be a hardening of the approach to these borrowers – taxpayer's money is at stake, and the Agency will be expected to protect it in a commercial way and with an independent remit.

It is important to note the State will not assume all of the risk in the acquisition of these assets. The assets will be valued on a basis which is sustainable for the taxpayer. This will entail an assumption of losses by the financial institution whose assets are removed. The State has already capitalised the Bank of Ireland for a 25% stake and is completing a due diligence of the Allied Irish Banks prior to capitalisation for a similar stake. If the crystallisation of losses at any institution requires additional capital the State will insist on participation by way of ordinary shares in the relevant institution.

This initiative will be developed and implemented within the common EU framework detailed in the European Commission Guidance on the Treatment of Impaired Assets, working closely with the European Commission to obtain prior State aid approval. By drawing on the best advice and experience available internationally, we are committed to ensuring that this very significant measure will be an example of best practice and meets all of the objectives that the Government has set for it.

The Government also intends in line with its previous indication to put a State guarantee in place for the future issuance of debt securities with a maturity of up to five years. Access to longer-term funding in line with the mainstream approach in the EU - consistent with State aid rules – will contribute significantly to supporting the funding needs of the banks and to securing their continued stability.

The Government is determined through these reforms to restore our banking system and the reputation of our regulatory and supervisory structures. We want to send a strong signal that the types of practices followed in some of our institutions are unacceptable, that the regulatory structures will be strengthened, that decisive action is being taken to repair banks' balance sheets but that Ireland remains committed to the continued development of a soundly based, well-regulated and competently supervised financial services sector.

RESTORING COMPETITIVENESS

Our economy must return to being driven by sustainable export-led growth, rather than by domestic demand. To do so our price and cost structure must fall relative to our trading partners.

Private sector wages need to adjust and are adjusting. I am hearing examples every day of companies and employees reducing costs and changing work practices in order to safeguard employment.

It is this flexibility that will restore our competitiveness and provide the basis for future prosperity.

With the introduction of the pension levy, the public sector is also lowering its costs but much more is required in terms of changing work practices and driving efficiencies.

One of the main drivers of growth in output and employment in Ireland from the mid-1990s was flexibility and adaptability in the labour market. The willingness of employees to embrace change allowed a rapid reallocation of skills, expertise and knowledge to expanding economic sectors. Looking to the future, we need to recreate the same commitment to embrace change in the public service no less than in private enterprises.

As Minister for Finance, I must allocate and redeploy staff in the civil service to areas of highest priority. I have already made additional staff available to the Department of Social and Family Affairs to meet the needs of the growing numbers on the Live Register. I will use the same powers to redeploy staff to other priority areas in the future.

I will ensure that the redeployment of staff will be done with due consideration to geographical constraints and in a consistent and fair way.

I know that all those employed in the public service share the common goal of delivering excellent services.

We must also reduce costs in regulated sectors where we can.

The Government expects to see reductions of about 10% in energy costs for electricity and gas consumers by September. The Minister for Communications, Energy and Natural Resources will be seeking ways to lower costs further on an ongoing basis.

PROTECTING JOBS AND HELPING THOSE WITHOUT JOBS

Minimising the level of joblessness is crucial to the Government's integrated approach.

Enterprise Stabilisation Fund

The Government can help with the process of supporting employment by a redirecting of the NDP to support employment and enterprise.

The broad cost of each 1000 people who lose their jobs is now estimated at about €21 million. In order to support employment, the Tánaiste and Minister for Enterprise, Trade and Employment will set up an Enterprise Stabilisation Fund worth €100 million over two years. In conjunction with the banking sector this fund will provide direct financial support to eligible internationally trading enterprises.

Smart Economy

The Government will also implement measures to support the "Smart Economy" through investment and incentives to reach an R & D target of 2½% of GNP by 2013. We have already trebled our economy wide R&D spend over the last decade. It is now around €2.5 billion of which some two thirds comes from the enterprise sector. It is not just a matter of saving jobs where we can but of re-orienting the economy to produce the export-led growth we must achieve.

Activation through Training, Education and Work/Employment Experience

Increased unemployment carries a heavy human cost for individuals and families and threatens the aspirations of all our citizens. We must support those who have lost their jobs through retraining and further education. As an initial response, the Government has already introduced a number of measures in these areas.

Notwithstanding the pressures on the public finances, I am now announcing a further range of activation measures which will:

support individual enterprise through enhanced access to the Back To Work Enterprise Allowance Scheme, which will facilitate some 1,400 additional claims;

encourage further education through earlier eligibility for the Back To Education Allowance;

facilitate work experience through a new scheme, to include placement of graduates, which will cater for 2,000 people;

expand activation opportunities for over 14,000 people;

support redundant apprentices to receive additional training in the education sector – for up to 700 people;

enable participation in further and higher education for over 6,000 people; and

initiate pilot training schemes for workers on a three-day week.

The Tánaiste, the Minister for Social and Family Affairs, and the Minister for Education and Science will provide details on the initiatives in their respective areas.

The overall cost of this wide range of measures will be met through the reallocation of current resources towards supporting unemployed people. The full year cost of providing close to 25,000 additional places will be in the order of €128 million. Within available resources, the Government will continue to pursue the introduction of further training and education services.

CONFIDENCE AND STIMULUS

The most effective way to build confidence in this economy is to show that we can restore order to our public finances.

Measures to help Stimulate the Economy

Notwithstanding the increases today, our tax system remains competitive and pro-enterprise in character. Last October, I introduced a considerable enhancement to our R&D tax credit regime. I also mentioned the increased importance globally of intellectual property. Accordingly, I propose to introduce a scheme of tax relief for the acquisition of intangible assets, including Intellectual Property as a means of supporting the Smart Economy. The details of the scheme will be worked on by my Department, in conjunction with the Revenue Commissioners, and will be published in the legislation giving effect to the Budget provisions. This measure will help to attract high quality employment to this economy.

To address the overhang of unsold properties, I am proposing to establish a Stamp Duty “trade-in” scheme. This will enable a person purchasing a new house or apartment to trade-in their previous property with the seller who will not be liable to Stamp Duty until they subsequently sell the traded-in property on at a later stage. Full details of this initiative will be contained in the forthcoming Finance Bill and it is envisaged that the scheme will apply from the date of publication of the Finance Bill to 31 December 2010.

I am also changing the way in which car dealers can account for VAT on second hand cars from July next.

RESTORING OUR REPUTATION

As a small open economy, our reputation abroad matters in terms of our ability to attract foreign investment. Recent banking scandals have sullied our good name and may have prompted some investors to think twice about investing here. Measures presented in this Budget send a strong message around the world that we are determined to restore our reputation. The actions I outlined earlier to repair banks’ balance sheets and the proposed reforms of our regulatory and supervisory regime are aimed at rebuilding confidence in our financial system. The resolute actions we are taking to reduce the budget deficit and to boost competitiveness by driving down costs, prices and wages are needed to restore the confidence of prospective investors and foreign lenders. To reinforce these messages, I plan to visit financial capitals around Europe over the coming weeks along with representatives from the National Treasury Management Agency. These visits will give me the opportunity to communicate more effectively with foreign investors about our plan for renewal.

It was only last June when we surprised our EU partners by rejecting the Lisbon Treaty. Looking back, it would appear that economic success had fostered a false sense of invincibility. A lot has changed since then. Events over the past year have underscored how interdependent the world is and have reminded us that our fortunes are deeply intertwined with those of our European partners. We are a small trading nation on the edge of Europe, but our best interest is served by remaining at the heart of Europe.

CONCLUSION

A Cheann Comhairle, I want to acknowledge the serious and constructive documents put forward by the two main opposition parties in advance of this Budget.

Both documents contained good ideas, some of which we have adopted.

Let me say this: while there are many differences between us, there is also some important common ground. That in itself sends out a powerful signal to the rest of the world that we can overcome our difficulties.

As the many interest groups prepare, as is their right and duty, to defend their sectional interests in this Budget, I ask them to pause for thought. We are now facing the challenge of this nation’s life. This is a time to set aside those narrow, sectional interests. Yes, we must be fair and I believe we have been fair. But now is the time for the common good to prevail.

In our short history as a nation, we have demonstrated our capacity to overcome economic adversity. We have worked together to build this economy into one of the most successful in the world. We must now work to save it from a downward spiral.

Even with a crisis, opportunities arise. As we recast and restructure our fiscal policy, we can transform the way in which we do business in this country in the public and private sectors.

As I said at the outset, a Cheann Comhairle, we can work our way through this time of economic distress. More than that, we can be strengthened by it. Today, we have set out our plan for the renewal of our economy over the next five years. We are asking this House and the people we represent to work with us in its implementation. I commend these measures to the House.