FINANCIAL STATEMENT
OF THE
MINISTER FOR FINANCE
MR. BRIAN LENIHAN, T.D.

7 DECEMBER 2010

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STATEMENT OF THE MINISTER FOR FINANCE

MR. BRIAN LENIHAN, T.D.

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INTRODUCTION

A Cheann Comhairle,

This has been a traumatic and worrying time for the citizens of our country. They are concerned that we had to seek external support to help us with our economic and financial difficulties. They are worried about the impact of this momentous and difficult decision on their lives.

Yet, in fact, even in this most intractable and complex crisis, there are clear signs of hope.

Amid the turmoil in the financial sector over recent months, it is easy to lose sight of the fact that economic activity in this country has stabilised. From a drop of 7.6% in 2009, GDP will record a small increase this year. Recovery in the real economy is beginning to take shape.

As anticipated, this recovery is being led by exports. Our exports increased by nearly 7% in real terms in the first half of this year. Output in the manufacturing sector was up 12% in the third quarter, while surveys point to continued strong growth in export orders for both goods and services.

Agriculture and the agri-food sector has strengthened this expansion.

The growth is broadly based and is being driven not only by a pick-up in demand in our trading partners but also by the significant improvements in competitiveness we have achieved over the last two years.

Yes, domestic demand remains weak, as households and businesses continue to work off the excesses of the boom. But continued export growth will protect and expand high-value employment and stimulate domestically trading sectors of the economy. This, in time, will reduce unemployment, help build confidence among households and firms and stimulate renewed growth in consumer spending and investment.

There are signs too that conditions in the labour market are beginning to stabilise. The Live Register has fallen for the third month in a row, the first time since early 2007. Redundancies in the last three months were over 30% lower than in the same period last year.

Our underlying budget deficit has stabilised at 11.6% of GDP. Our tax revenues are ahead of target despite a weak start to the year and our spending has been brought under control. So our actions to stabilise the public finances are making progress.

The balance of payments is expected to record a small surplus next year, meaning that the economy as a whole will be paying its way in the world.

These data taken together paint a picture of an economy that is returning to growth after a deep and prolonged recession. For the period out to 2014, real GDP is forecast by my Department to increase by an average of almost 2¾% per annum with real GNP growing by an average of just over 2% per annum over the same period.

So if the real economy is poised to grow, why do we need the help of the IMF and the EU?

The answer is: we need their support to break the vicious cycle that has threatened our national finances and our banking system since the second quarter of this year. Following the Greek crisis this spring, funding for the State and our banks became increasingly expensive. The rising costs of dealing with the banks that became evident during the autumn and the growing concerns about the prospects for the global economy reinforced doubts among international investors about the sustainability of our public finances and our capacity to fix the financial system unaided.

The Joint Programme of Assistance, involving stand-by resources of up to €85 billion, provides us with the firepower we need to restore market confidence, strengthen the financial sector and press ahead with our plans to reduce the budget deficit and facilitate the economy's return to sustainable growth.

Without this support, there would have been serious doubts about the ability of the State to raise funds at reasonable cost to pay for key public services and to provide a functioning banking system to support economic activity. That is the reality.

Yes, we are in a position to contribute one fifth of the fund ourselves from the National Pensions Reserve Fund and domestic cash balances. As I said last week, it is not credible to suggest we could have retained a sovereign wealth fund while expecting others to make resources available to us.

The policies set out in the Joint Programme, which closely reflect our National Recovery Plan, are not a new departure. They are, in fact, a continuation of the Government's strategy for recovery which has remained steadfast since the onset of the crisis.

Over the last two and a half years, the Government has worked hard to get its spending back under control. We have made very difficult decisions and our citizens have demonstrated enormous forbearance in accepting the need for those decisions. We have secured an overall adjustment of €14.6 billion. Without this adjustment, our underlying deficit would already have ballooned to more than 20% of GDP.

The budgetary adjustments we plan for the coming four years are large. But if we postpone them, even bigger and more wrenching adjustments will be needed at a later date. Our proposed budgetary measures have been laid out in considerable detail to give certainty to households and firms so that they can plan for the future.

It is the Government's strong view that the economy can continue to grow while we make the budgetary adjustments outlined in the National Recovery Plan.

We need to ensure our economic growth is built on solid foundations: that are sustainable socially, economically and environmentally.

The Government has committed to the introduction of a new national performance indicator to allow a variety of quality of life measurements to be assessed and reported on a regular basis, complementing traditional economic data. This will be used to guide policy development. It will allow the public to assess the progress being made across a range of indicators.

The CSO is working on the development of this new national welfare index. Our attractiveness as a country in which to live is an important part of our overall competitiveness.

EXPENDITURE AND TAX ADJUSTMENTS

This time last year, it was assumed that an adjustment of €7.5 billion would lead to a deficit of 3% of GDP by 2014, the target year agreed with our European partners. Because medium-term growth prospects have been revised down and our debt interest costs have risen, this adjustment has had to be revised upwards to €15 billion.

In the National Recovery Plan, we have set out the timetable for achieving this adjustment over the next four years. These targets are reflected in the Joint Programme of Assistance. Because the European Commission has more conservative forecasts for the medium-term, we have been given an extra year to reach the 3% deficit target required under the Stability and Growth Pact. But this changes neither our targets nor our timetable for reaching them.

As outlined in the Plan, €6 billion of the overall adjustment is being made in today's Budget. The scale of this adjustment is demanding but it demonstrates the seriousness of our intent.

In simple terms, the gap between Government receipts and spending is almost €19 billion this year. This gap must be closed. We got into this position by seeking, with the full support of those opposite, to spread the benefits of the boom across every section of the population. Between 2000 and 2008, public spending increased by over 140%, while the consumer price index increased by just 35%. Working-age social welfare rates are now more than twice their rate in 2000. Over the same period, the State Pension almost doubled. These increases were well ahead of the cost of living.

At the same time, taxation was reduced and the proportion of income earners exempt from income tax increased from 34% in 2004 to an estimated 45% this year. All of this was made possible by the very large property-related tax intake during the boom years. In our dramatically changed budgetary circumstances, it is clear the State can no longer afford this level of social provision.

The changes I am announcing today are substantial but it is important to keep things in perspective. The current spending reductions set out in the National Recovery Plan out to 2014 will bring total gross voted current spending back only to 2007/2008 levels. The income tax measures in the Plan will bring us to levels prevalent as recently as 2006. Those years were not times of hardship. The reductions will impact on living standards but the fact is social welfare rates are still high in this country and much higher than our nearest neighbour.

Budget 2011 continues the task of bringing the cost of our public services back to levels that can be sustained by our economy. I do not propose to repeat here today the spending reductions that have already been outlined in the National Recovery Plan and are set out again in the Estimates published today.

SOCIAL PROTECTION ADJUSTMENTS

The only area of expenditure in which decisions have not yet been detailed is social welfare. First, I want to confirm that the Government has decided there will be no reduction in the State Pension this year. We have significantly increased the State Pension over the last ten years and it is the Government's view that the security this has brought to older people should be preserved.

In the case of working-age rates of payment, there will be a reduction of about 4%. The Government has maintained these payments at a rate which far exceeds total inflation since 1997. The 2011 basic working-age payment will be almost 117% more than it was in 1997. Cumulative inflation over the same period was around 40%.

Regrettable as they are, the impact of the reductions is lessened by continued low inflation. The rates in question will still be slightly ahead of the 2007 working-age rates of payment. The fact is we have built up a generous level of welfare provision over the last decade and though they must now be reduced somewhat, our record of commitment to those in need stands up.

Over the next four years, further reductions in social welfare spending are unavoidable if we are to reduce the budget deficit. The size, nature and composition of these reductions will depend on the rate of decline in unemployment; the effectiveness of anti-fraud and control measures; and the reform of the benefits system. Our number one priority for 2011 and onwards must be economic growth and maximising employment creation. That demands improved competitiveness which is at the heart of the social welfare and labour market measures we have proposed.

Child Benefit

There will be a €10 reduction on both lower and higher child benefit rates with an additional €10 reduction for a third child only. These reductions will bring rates of payment back to the 2006 rate for the first and second child and to 2005 rates for the fourth and subsequent children with the rate for the third child reflecting the 2004 rate. The new rates are still three times higher than they were in 1997.

Details of the specific social welfare measures are set out in the Summary of Budget Measures along with a number of other changes to social welfare schemes and entitlements.

Extra Fuel Allowance Payment

In view of the harsh weather conditions experienced in recent weeks, I am allocating an additional €14 million to the fuel allowance scheme to enable a payment of €40 to households that receive the fuel allowance payment. The Department of Social Protection is putting measures in place to roll out this additional payment as soon as possible and many households will receive this payment this year.

Helping the Unemployed

We know from the 1980s the importance of equipping the unemployed with skills and keeping them close to the labour market. To that end, we are refocusing the National Employment Action Plan to establish clearer pathways to employment by ensuring that State agencies interact early and often with those who have lost their jobs to provide opportunities for education, training or work experience placements as appropriate.

Building on the work placements and training places that have already been introduced, I am providing for an additional 15,000 activation places and supports for the unemployed at a cost of about €200 million.

- The ***Skills Development and Internship Programme*** will provide up to 5,000 places in the private sector with a contribution from that sector of an additional €38 million or so to pay some of the costs of the internships.

- The ***Work Placement Programme*** will provide up to 5,000 places in the public service. The Tánaiste announced the scheme in the Education sector last week and similar announcements for other sectors will be made by Ministers over the coming months.

- A New ***Community Work Placement Scheme*** will provide up to 5,000 additional places in the community and voluntary sector.

The labour activation measures will be complemented by the extension of the Employer Job (PRSI) Incentive Scheme to the end of 2011 and by the transformation of the Business Expansion Scheme into a new Employment and Investment Incentive.

The National Recovery Plan provides for reform of the labour market and the removal of barriers to job creation resulting from the current level of the minimum wage and inflexible employment agreements. The aim here is to provide more job opportunities, especially for the young.

CAPITAL SPENDING

We will continue to spend significant sums on investment to sustain growth and jobs. The Exchequer capital programme will amount to some 3.6% of GNP in 2011. This

programme will be augmented by the investment programmes of the commercial State Sponsored bodies.

In addition, the National Pensions Reserve Fund has confirmed it is willing to invest in Irish infrastructure assets on a commercial basis in partnership with third party institutional investors. The Government will help identify opportunities for the NPRF and other private investors.

ADJUSTMENTS TO PUBLIC SERVICE PAY

I want to acknowledge the substantial contribution made by public servants to national recovery to-date. In my own Department, I see day in day out and at weekends the commitment, above and beyond the call of duty, shown by civil servants who have accepted significant pay cuts. More work is being done with less staff at lower cost. That is real public service reform.

To meet our targets, the cost of delivering public services must fall further. Savings will continue to be made through planned reductions in the number of public servants and through greater efficiencies in the way public services are delivered.

Despite the economic constraints, the Government has abided by the Croke Park Agreement on pay, compulsory redundancies and on pension terms. Public servants, their unions and their managers for their part must abide by their commitments to pursue flexibilities and reforms in every part and level of the public service. We have made commitments to a continued reduction in the cost of the public service. If the Government is to be held to its side of the Agreement, those reductions must be delivered.

The Taoiseach and Ministers have already taken substantial reductions in their pay. The effect of the pension levy and the pay cuts introduced earlier this year amount to 28% in the case of the Taoiseach and 23% in the case of Ministers.

The changes in PRSI introduced in this Budget as they affect office holders will bring about a further cut in their net pay. Nonetheless, the Government has decided to introduce another reduction in the salaries of the Taoiseach, Tánaiste and Ministers. The salary of the Taoiseach will be reduced by over €14,000 per annum and the salary of Ministers will be reduced by over €10,000 per annum. This brings the overall reduction in the gross pay of the Taoiseach to over €90,000 and in the case of Ministers to over €60,000. Details to changes in the Government's transportation arrangements and Ministers' pay and pensions are set out in the accompanying documentation.

The Government believes there should be a maximum salary rate of €250,000 in the public sector. Only a few office holder posts have salaries above this level at present but there is a larger number in the State Agencies.

While there are issues about the contractual position of incumbent post holders, I think the position of the Minister for Finance as a shareholder or statutory stakeholder

in these companies can be used to enforce the objective of the maximum salary within a reasonable timeframe.

The 10% reduction in the pay of new entrants to the public service contained in the National Recovery Plan will be applied to the salary rate of those appointed to hold office in the Judiciary in 2011. The €250,000 maximum will be applied to all such offices.

A reduced maximum rate of pay of €250,000 will apply to the next President of Ireland. I want to record the significant contribution made by the current President who, since this downturn began, has waived a significant portion of her remuneration.

I intend to make provision for these reductions in legislation.

In addition to reduced pay rates, all new recruits to the entry grades of the public service must start at the first point of the relevant pay scale without exception. Although recruitment will necessarily be limited over the next number of years, this measure will ensure a medium-term reduction in the overall cost of public service pay.

PUBLIC SERVICE PENSIONS

The cost of providing public service pensions has increased significantly in recent years. Pensioner numbers have grown from 76,000 in 2006 to about 103,500 in 2010, an increase of 36%, while expenditure has risen by 56% from €1,433 million to €2,235 million in the same period.

Public service pensioners have so far been unaffected by the reductions imposed on serving staff. The Government considers it appropriate that those pensioners who can afford to should now share the burden of adjustment.

Accordingly, public service pensions above €12,000 a year will be reduced by an average of 4%. Those on a pension below €12,000 a year, roughly equivalent to the value of the social welfare pension, will be exempted. The reduction will be applied fairly: those on higher pensions will pay most. It will apply to former political office holders, retired members of the Judiciary, and their survivors or dependants.

Public service pensions have until now been unaffected by the pay reductions. The grace period, under which previous salary levels are to be used to calculate pension entitlements, was due to expire by the end of 2011. This is being extended by two months so as to prevent a log jam of public service retirements in 2011 and to spread the extra pension lump sum costs over a more manageable period in both 2011 and 2012.

But I want to make clear that public servants or office holders retiring during the grace period will be subject to the pension reduction I am introducing today. Legislation to provide for this reduction will be brought before the Oireachtas very shortly. Further details are provided in the Summary of Budget Measures.

Reducing the income of pensioners is an exceptional measure. But these are exceptional times. The Government has to make savings and pensions costs are a very significant part of public expenditure. Failure to reduce the cost of pension provision could undermine the longer-term viability of the public service pension system. Furthermore, it would be unfair if highly-paid pensioners remained unaffected while serving staff on low pay have had their pay reduced.

The new single pension scheme for new entrants, which I announced in last year's Budget, will come into effect in 2011. This will bring future public service pensions more in line with private sector provision. Pensions will be based on career average earnings rather than final salary; the pension age will be increased; and post-retirement increases will be linked to retail price inflation rather than to pay.

This new scheme is a crucial part of the longer-term reform required to put the public finances on a sound basis. The legislation will be published very shortly to ensure that the new scheme can be put into operation for new entrants in 2011.

TAXATION

A Cheann Comhairle, the primary purpose of the tax system is to provide the resources to pay for the services the public expect from the State. Our tax system no longer fulfils that purpose well. The line of least resistance would be to increase the rates. But revenue is generated by economic activity: not by increased tax rates. High tax rates on a narrow base of economic activity may raise far less revenue than lower rates on a much wider base.

We cannot have a tax system that damages our potential to grow. That is why the Government has decided in the National Recovery Plan that two thirds of the required budgetary adjustment over the period 2011-2014 should be through expenditure reductions and one third should be raised by taxation.

Our income tax system, as it stands today, is no longer fit for purpose. At one level, too few income earners pay any income tax. This year, just 8%, earning €75,000 or more, will pay 60% of all income tax while almost 80%, earning €50,000 or less will contribute just 17%. At another level, too many high earners have opportunities to shelter their income from tax. We must address both these structural defects.

Our system is also unduly complex. With four separate charges on income, each rational in its own terms, it contains too many distortions, steps, and discontinuities. Our goal must be to create a system that is rational, sustainable and fair, and that delivers the resources needed for essential public services.

Income Tax

Such a system cannot be created in one Budget. But today we take a major step forward in the reform process. In this Budget, we will:

- abolish the Income Levy and the Health Levy;
- replace both with a single Universal Social Charge, governed by one set of rules on a broad base;

- remove the employee PRSI contribution ceiling;
- increase the PRSI rate for the self-employed, higher earning public servants and office holders;
- reduce the value of bands and credits by 10% in line with overall reductions in incomes;
- tackle excessive reliefs associated with private pension provision;
- abolish or restrict many tax reliefs that higher earners use to shelter income unfairly, and
- target the remaining reliefs more clearly on employment growth.

By broadening the base at both ends of the income spectrum, the nominal rates of tax can be kept lower while the effective rate can be raised in a way that is fair to all.

In the measures I am presenting today, those on the new reduced minimum wage will not be brought into the tax net. The top marginal tax rate will be kept at 52% for all taxpayers.

As I said in the 2010 Budget, the Universal Social Charge requires that everyone makes some contribution, however small, to the provision of services. This charge is separate from income tax which is levied proportionately as income increases.

The changes made today generally either maintain or enhance the incentive to work relative to social welfare. For a married couple with no children earning €25,000, their net income will fall by 2.8% or €12 per week. For a similar family with two children, net income will fall by just 1% or €5 a week. We must always ensure an appropriate balance between the rewards from work and income support from welfare. I believe that in these most difficult of circumstances we have struck the right balance in today's Budget.

Our objective is to move steadily in the direction of an income tax system that is fair, universal in its application and more easily understood. This Budget marks a decisive step towards a unified income tax system with a minimum of tax shelters, the broadest base and competitive rates. A unified income tax system with appropriate tax credits will facilitate the closer integration of tax with the welfare system.

Broadening the Tax Base

In last year's Budget, I said high earners availing of tax incentive schemes must contribute more in the current difficult circumstances. The restriction of reliefs measure, which increased from 20% to 30% last year, is already having a significant impact. But we can and must do more.

The National Recovery Plan contains a commitment to the abolition or the curtailment of tax expenditures and to the phased abolition of property-based legacy reliefs. The 16 measures identified in the Plan will be given full legislative effect. Today, I will abolish or restrict a further nine reliefs bringing the total to 25.

Full details are set out in the Summary of Budget Measures.

Many property-based reliefs have already been abolished, but some legacy costs remain. Such costs will be further restricted as a result of today's changes. Three new measures in particular will be targeted at passive investors:

- Restrictions on the carry forward capital allowances will start in 2011 and impact progressively over the next few years.
- From 2011, Section 23 relief will be restricted to income from Section 23 property, and
- A "guillotine" provision will ensure that all unused capital allowances after 2014 and Section 23 reliefs are lost.

This last provision will effectively terminate all property-based reliefs in 2014. Again, full details are set out in the Summary of Budget Measures.

The base for Capital Acquisitions Tax is being broadened by reducing the tax-free thresholds by 20%. This reduction follows the economy-wide fall in asset values in recent years and builds on a similar measure introduced in Supplementary Budget 2009.

Finally, I am increasing the Deposit Interest Retention Tax rate on ordinary deposit accounts by 2% to 27% and on longer-term deposit accounts by 2% to 30%.

Tax Treatment of Pensions
The National Recovery Plan contains a commitment to significant reform of pension tax relief. Today, I am abolishing employee PRSI and Health Levy relief on pension contributions. I am reducing the annual earnings cap for tax-relievable pension contributions. The portion of retirement lump sums above €200,000 will be subject to tax and the maximum allowable tax-relieved pension fund will be reduced.

Employer PRSI relief on employee pension contributions is being reduced by 50% from 1 January next.

The effective tax rate on Approved Retirement Funds will be increased by raising the deemed annual distribution of assets in those Funds from 3% of end-year assets to 5% per annum with that distribution subject to full income tax each year. Details of all these measures are in the Summary of Budget Measures.

Business and Employment
Two weeks ago, all political parties in this House supported a motion calling for the maintenance of the 12½% corporation tax rate. Our commitment to the 12½% rate was restated in the National Recovery Plan. I welcome recent comments by European finance ministers who understand the importance of this issue to Ireland. There will be no change to Ireland's corporation tax rate.

Better Focusing Tax Reliefs to Create More Jobs
Small and medium sized companies are the wellspring of employment and innovation in the economy. The Business Expansion Scheme has helped companies to gain access to capital investments. But given that job creation and protection is our top priority, it is essential that schemes like the BES and the 3 year corporation tax

exemption for start-up companies are targeted and evaluated against jobs created or retained.

Accordingly, the BES is to be revamped and renamed as the Employment and Investment Incentive. This incentive will come into operation once the necessary approval from the European Commission has been received. In the meantime, the existing scheme will continue to operate.

Under the new incentive, the limit that can be raised by companies will be increased from €2 million to €10 million, and the amount that can be raised in any twelve-month period will be increased from €1.5 million to €2.5 million. In addition, the certification requirements will be simplified. The new incentive will expire on 31 December 2013.

I have decided to extend the three year corporation tax exemption for start-up companies commencing a new trade in 2011 and to amend it so that the relief will be linked to the amount of employers' PRSI paid by the company. This change will focus the relief on employment creation, rewarding new companies that create jobs.

I have also decided to extend the accelerated Capital Allowance Scheme for Energy Efficient Equipment for a further three years.

Further details of the changes are set out in the Summary of Budget Measures.

Bringing Confidence to the Housing Market

I am undertaking a fundamental reform of Stamp Duty on residential property transactions with immediate effect. This has three aims: to stimulate the property market, to provide necessary valuation information and to increase market transparency for the smooth operation of the market.

There will be a flat rate of 1% on all residential property transactions up to a value of €1 million with 2% applying to amounts above €1 million.

In line with the base-broadening approach adopted in this Budget, I am abolishing all existing reliefs and exemptions for Stamp Duty on residential property. This means that 1% will be paid on all residential property sales, new or old. If this system had been in place instead of the previous volatile one, it would have lessened the effect on tax revenue of the booms and busts in the market. The information gathered from this new regime can be used to compile data on house valuations to inform a valuation database. This data will bring a greater degree of transparency to the operation of the housing market that has been previously absent. Markets operate best where buyers and sellers have reliable information available to them.

The new rates will apply to property transfers on or after 8 December 2010. A transitional provision will be put in place to ensure that anyone who has entered into a binding contract to purchase a residential property before 8 December 2010, and who executes the transfer of that property before 1 July 2011, will not lose out.

The Tenant Purchase Scheme allows local authority tenants to purchase their homes at a discount. Today, I am announcing a short-term improvement in this Scheme. This

will allow greater access to tenant purchase by introducing a higher discount for existing tenants.

The details of this enhanced scheme will be set out by the Minister for Housing.

Fostering Compliance Within the Economy

The construction sector has been at the vortex of this economic downturn. It will be some time before the sector returns to a sustainable level of output. In the meantime, the Government wants to ensure that existing employment levels are protected and allowed to grow by reducing black economy opportunities in the industry. Today, I am proposing significant reform of the Relevant Contracts Withholding Tax regime which applies to contractors in the construction, meat-processing and forestry sectors of the economy.

To foster compliance, a new withholding rate of 20% will apply to subcontractors registered for tax with an established compliance record, with the existing 35% rate retained for subcontractors not registered for tax. In addition, the system will be strengthened to enhance its effectiveness and reduce the opportunities for fraud.

The proposed changes provide a cash flow benefit to registered subcontractors that will enable them to compete for business on a level playing field.

The recent cold weather conditions, once again, demonstrate the benefits of ensuring that homes are as energy efficient as possible. Today, I plan to introduce a new tax incentive in this area which will support employment while improving energy efficiency in homes.

The new incentive will complement the grant aid that is available through the Home Energy Savings Scheme currently available from the Sustainable Energy Authority of Ireland.

Standard rated tax relief will be available on expenditure up to €10,000 on a list of approved works. The total relief available under the scheme in any one tax year will be €30 million which would allow for remedial works to be carried out on a minimum of 15,000 homes.

Contractors employed to complete the work must be registered with the Revenue Commissioners. This incentive, together with the proposed changes in Relevant Contracts Tax will support construction businesses operating in the legitimate economy.

Full details of the new incentive will be provided in the Finance Bill.

Supporting Tourism

An air travel tax on passengers departing Irish airports was introduced on 30 March 2009. The tax is expected to yield €105 million in 2010 despite the impact of volcanic ash on air travel earlier this year.

Similar taxes apply in the UK, France, Australia, New Zealand and the US. An air travel tax will apply in Germany and Austria from January 2011.

There have been calls for the abolition of the tax which is blamed for the reduction in our visitor numbers. Having examined the issue in detail, I have decided to introduce a single revised rate of air travel tax of €3 to come into effect on 1 March 2011. But let me be clear: this reduced rate is being applied on a temporary basis until the end of 2011. The position will be reviewed next year and the rate will be increased unless there is evidence of an appropriate response from the airlines. I do not want to see the reduction in the tax being used by airlines as an opportunity to raise their fees and charges.

In conjunction with this initiative, the Dublin Airport Authority is prepared to introduce an incentive scheme for 2011, to provide, subject to certain conditions, a full rebate of airport charges for any additional traffic above the current levels. The DAA will provide further details of the scheme.

Indirect Tax

Excise will be increased by 4 cent per litre on petrol and 2 cent per litre on auto-diesel, both increases inclusive of VAT, from midnight tonight.

In the light of its success, the car scrappage scheme introduced last year will be extended for a further six months to 30 June 2011. The VRT relief provided in that period will be up to a reduced maximum of €1,250.

I have also decided to extend the VRT relief for series production hybrid and flexible fuel vehicles for two years to end-2012. The rate of relief provided will be up to €1,500. The VRT relief for plug-in hybrid electric vehicles will continue at up to €2,500 until 31 December 2012.

A review will be undertaken of the excise duty payable for licences for on-trade and off-licence sales of alcohol products during 2011 to ensure that the system is both transparent and fair.

I am making the necessary arrangements to ensure that bets placed on the internet by domestic punters are subject to the same level of betting duty as applies in high street betting shops. Details are set out in an annex in the accompanying documentation.

Full details of these measures and related measures are contained in the Summary of Budget Measures.

A NEW START

Public debate of our current difficulties is focused, almost exclusively on our banks. Much of what is said is plain wrong. For example, it is regularly claimed that the taxpayer will end up bearing most or all of the cost of the banks' bad loans. This is not the case. As the Governor of the Central Bank has previously indicated, over the period 2008 to 2012, the total loan losses of the domestically-owned banks are expected to reach €70-80 billion, equivalent to about half of this year's GDP. Loan losses on this scale are unforgivable. They reflect the recklessness of lending

decisions during the bubble years and the weakness of the previous regulatory framework. We must ensure they never happen again.

What is almost entirely overlooked, however, is the fact that tens of billions of these losses have been absorbed by the private shareholders in the banks. It is clear there has been no taxpayer bailout for bank shareholders.

Neither has there been a bailout for holders of banks' subordinated bonds. These bonds have absorbed losses of about €7 billion to date, and legislation to facilitate further burden-sharing by subordinated bondholders will be submitted to the Oireachtas next week.

There is a limit to burden-sharing. As I said in this House last week, there is simply no way this country, whose banks are so dependent on international investors, can unilaterally renege on senior bondholders against the wishes of the our European partners and the European institutions. That course of action has never been an option during this crisis.

It's true the State has had to inject large amounts of capital into the banks. In return, the State will own the bulk of the banking system. The use of funds in the National Pensions Reserve Fund to recapitalise the viable banks is necessary to ensure that these institutions can serve the needs of the economy.

The approach to fixing the banks agreed under the Joint Programme will not reverse any of the Government's banking policies. In fact, the very opposite is true. The Programme builds upon and intensifies the measures introduced to date. The most senior members of the international team negotiating the Programme have endorsed our policies.

CONCLUSION

This Budget is the first instalment of the National Recovery Plan. The Plan plots a course to sustainability for our country: sustainable public finances, sustainable public services, sustainable growth, and sustainable employment. It is a sensible, rational plan that is proportionate and equitable in the circumstances in which we find ourselves. Everybody pays and those who can pay most will pay most. The Plan calls on us all to take more responsibility for ourselves: to contribute to the support of local services and to pay more towards the support of college education. This Budget is not captured by any sectional interest. The focus in the distribution of the tax burden, in the reductions in public spending, and in the reforms it introduces is the common good.

I believe that politics in this country must put the common good at the centre of the stage in all that it does. The job of the Government on behalf of the State is to ensure that the common good is served: that requires saying "No" at least as often as saying "Yes".

There has been much public debate about political reform during the current crisis: some of it has been the stuff of cheap headlines; some of it has been constructive and

innovative. Any reform proposals, whether they relate to the Dáil electoral system, the future of the Seanad, the composition of Government Departments or the size of Government, must have as their objective, the pursuit of the common good.

Since I was appointed as Minister for Finance in May 2008, I have been dealing with the worst crisis in our history and one that has few international parallels. This is my fourth Budget in that period. In every measure I have introduced, on behalf of the Government, we have sought to stabilise our public finances. In doing so, we have sought to protect those most in need. Analysis using the ESRI model has shown that the measures I have introduced on the Government's behalf, have been progressive and have distributed the burden of adjustment fairly.

It is clear to us all what went wrong in our economy. In the period leading up to the crisis, the construction sector and property prices grew to unsustainable levels. The appetite of a rampant building industry for labour and other resources put upward pressure on our cost structure. As a result, our competitiveness was damaged and we lost market share for our goods and services. Excessive public spending on the back of the enviable but transient taxes of the boom added to the overheating of the economy. A huge expansion in bank borrowing for property and construction-related investment was the final and most lethal domestic ingredient in the causes of our crisis. The international financial crisis added pace and severity.

The Government has accepted that analysis: more should have been done to counter imbalances in our economy. I do not know if any alternative government would have done better.

We have taken steps to ensure that the mistakes that led to this crisis will never be made again. We have broken with precedent in key appointments: Professor Patrick Honohan, our foremost academic expert on banking, is a widely regarded Governor of the Central Bank. Mr. Matthew Elderfield, a highly qualified and experienced professional is our new Financial Regulator. We have introduced new legislation to reform the regulatory framework for our banks and the Central Bank has greatly increased its resources.

We have set out a programme of budgetary reform in the National Recovery Plan and legislation providing for a Fiscal Responsibility Law is in preparation. This will ensure that the principle of keeping the public finances on a sustainable footing is binding in law.

In other words: this Government has faced up to its responsibilities; we have acknowledged our mistakes; worked might and main to rectify them and we have put in place the measures to ensure that these mistakes can never be made again.

Our country must now move forward with confidence and purpose. The underlying strengths of our economy, built up over many years by our citizens and by the actions of successive Governments, have survived this crisis.

- We continue to have a highly skilled, flexible labour force with one of the highest levels of formal education in the OECD.
- During the boom, we built a world class road network; we invested in our public transport, our education and social infrastructure. Continued capital

investment over the next four years will ensure that the economy is well equipped for recovery.

- We have developed a highly competitive, pro-enterprise taxation system which incentivises innovation and high-value economic activity. The measures I have introduced today will benefit our domestic sectors that have been particularly badly hit by this downturn. We will defend our 12½% corporation tax rate against all comers.
- The actions we have taken in Government over the last two years have helped us to regain competitiveness. Wages have adjusted and costs have fallen. More needs to be done but we are pricing ourselves back into global markets and the performance of our export sector is the proof of our success.

We know we can have sustained, balanced, export-led growth in this economy. We had it in the 1990's and we have what it takes to win it back if we pursue the correct policies.

We have been through a tumultuous two years culminating in our application for external assistance. Today's Budget is our first step in ensuring that we can get back firmly on our own feet. It is a substantial down payment on the journey back to economic health. We can emerge from this dark time as a stronger and fitter economy to provide sustainable jobs and decent public services for all our citizens.

A Cheann Comhairle, there is every reason to be confident about the future of this economy and this country if we only have confidence in ourselves.

I commend this Budget to the House.