Financial Statement of the Minister for Finance Mr. Charlie McCreevy, T.D.

5 December 2001

CONTENTS:

INTRODUCTION

This is the fifth Budget that I have had the honour to present to this House during this Government's term in office. It is not only the last Budget of our current term, but it also comes at a pivotal point in terms of the uncertain world economic outlook.

This is a Budget designed to secure the future for us all in a fair and balanced manner. It will do this by carefully managing the public finances to sustain confidence in the economy. It is a Budget in which the resources available now and going forward are more constrained than we would wish. This requires us to match our spending plans and the resources we have to achieve them.

This is a Budget in which

- We must safeguard the vulnerable in society
- We must prioritise our needs and
- We must continue to invest for the future.

This is a Budget which will secure sustainable growth. It will ensure that Ireland emerges from this period of uncertainty stronger than ever, and ready to achieve our future potential.

Borrowing and Investing

In 2002 I will not be borrowing. I am budgeting for an Exchequer surplus and a General Government surplus.

My views on the imprudence of Exchequer borrowing are well known and of long standing. We got ourselves into a mire by borrowing for current purposes in the past. The legacy hung around our neck for over 20 years. I am not going to repeat the mistakes of the past.

I am a firm believer in investing for the future. I will be meeting the statutory requirement of providing 1 per cent of GNP for the National Pension Reserve Fund out of currently available resources.

I do not go along with those who call for us to cease providing for future aging costs by means of contributions to the National Pension Reserve Fund. If this concept is to work, what is required is a continuing commitment to resource it and not a fair-weather one. If we fail to do this, it becomes even more difficult to persuade the public to make provision for their own retirement and other aging costs. This Budget will ensure that the funding of this Reserve is not disrupted by the less favourable economic outlook for 2002.

Consequences of the Change to the Euro

An historic change in the economic life of the country will take place in 2002. Between 1 January and 9 February next, the new euro notes and coins will progressively displace the cash that we have all been used to, thereby completing the introduction of the single European currency.

The Central Bank of Ireland is at the centre of the cash changeover, both through its statutory role in the issue of banknotes and its involvement, as agent of the State, in the provision of coin. A corollary of this is that there are certain 'once-off' benefits to the finances of the Bank. There are two distinct aspects, one relating to the note issuance and the other to the provision of coin.

As regards the first, the replacement of Irish banknotes by their euro counterparts will, by reason of the way the note issuance has been treated in the accounts of the Bank in the past, generate a windfall boost to the Bank's 'surplus income'. I am advised by the Bank that the bulk of this windfall will materialise in 2002, when it will add an estimated €240 million to the surplus income. I propose that this amount will transfer to the Exchequer in 2002.

The introduction of euro coin has highlighted an anomaly in the way the 'seigniorage', or economic benefit, associated with the right to issue coin is brought to account in Ireland. The norm in other EU Member-States is that it is the State which receives the benefit and this is in line with the Maastricht Treaty. Unusually, under our legislation, that benefit is assigned to the 'Currency Reserve' of the Central Bank, although the Bank merely acts as agent of the State in the provision of coin. I propose to rectify the position by introducing legislation which will assign to the Exchequer the proceeds of future coin issue - that is, the issue of euro coin. This will, I am informed by the Bank, benefit the Exchequer to the extent of some €370 million in 2002.

These measures will together benefit the Exchequer to the extent of some €610 million next year. This will be applied towards the funding of the required contribution to the National Pension Reserve Fund.

The legislation, which I intend to bring forward at an early date, will contain all the provisions necessary to give effect to my intentions.

ECONOMIC AND BUDGETARY OUTLOOK

Budget Objectives

This Budget seeks to do four things:

To develop our infrastructure

To improve public services and promote equity

To encourage enterprise and investment, and

To do so in a way that sustains fiscal policy.

Achieving such goals would be a challenge even in settled times. It is a greater challenge when so much uncertainty prevails regarding the short-term international economic outlook. I have no crystal ball to see through the clouds of uncertainty. Nor do others. As I have said many times, economics is not an exact science. What has happened this year, in my view, is proof of that. This means that we should be cautious in our assessments going forward and that as a country we will need to take stock again of the situation when it comes to the next Budget.

Economic Outlook

This year's Budget has been framed against the prospect of a significant slowdown in our economic growth in 2002, due mainly to international factors. The slowdown began earlier this year and was exacerbated by unfortunate and horrific events during the year. The key characteristic of the current global economic environment is uncertainty about the timing and pace of recovery. The estimates being made by market commentators for Ireland's GDP growth next year vary from as low as 1½% to as high as 7 per cent. The IMF, the OECD and the European Commission's forecasts are in the middle of this range. My estimate is in this range also. I expect GDP growth next year to slow significantly to 3.9 per cent. Going forward, I expect a pick-up to our medium–term potential growth rate of around 5 per cent. These forecasts represent our best estimate, but obviously they are subject to the risk of variation in view of the uncertain international outlook.

Employment is expected to increase by about 1½ per cent annually to 2004. Unemployment could average 4¾ per cent next year but the upward trend should reverse

as external conditions improve. After a temporary upturn early next year, Consumer Price inflation is projected to ease, helped by lower imported inflation, before falling to 2¼ per cent by 2004.

Full details of the economic projections underlying the Budget are included in the Stability Programme Update, which I am publishing today.

There is no point in wishful dreaming. The reality is that the future is particularly uncertain at present. Nevertheless, our economy is basically in good shape and that message should go out clearly. As long as we take account of the reality of the current situation and position ourselves to take full advantage of the recovery when it comes, we will have done well.

Budgetary Projections

The 2002 budgetary targets, which take account of the measures I am announcing today, are as follows:

- an increase in net current spending of 10½ per cent and in net capital spending of 10½ per cent over the 2001 projected out-turn;
- a current Budget surplus of €5,570 million;
- a capital Budget deficit of €5,400 million;
- an Exchequer surplus of €170 million, including a release of €500 million from the Capital Services Redemption Account to meet interest costs on the national debt;

- a General Government surplus of €837 million or 0.7 per cent of GDP, and
- a debt to GDP ratio of 34 per cent, the second lowest in the EU.

These targets are subject to the same caveats as to uncertainty as the range of forecasts I mentioned earlier.

The projected Exchequer surplus allows for a limited provision for the cost of benchmarking in 2002, since it is impossible at this stage to predict what costs will arise from this process.

PROGRAMME FOR PROSPERITY AND FAIRNESS

In the current economic climate, we must make clear choices if we are to continue to safeguard our future economic progress. We must also safeguard the position of the vulnerable and create scope for further economic growth to create jobs. This is consistent with the aims of the Programme for Prosperity and Fairness and this Budget will help deliver further on the goals of this Programme. In shaping our budgetary provisions for next year our focus has been on managing the challenges immediately ahead in order to secure our longer-term goals. These goals have been well captured by our agreement with the social partners under the PPF, which seeks to build a competitive, prosperous, fairer and more inclusive Ireland.

We have already made significant progress towards these goals over the period of the PPF but, as agreed with the social partners, the pace of progress has to reflect economic growth. The likelihood of growth below the PPF forecasts next year therefore requires us to be flexible, while maintaining our capacity to accelerate the rate of progress over subsequent years.

As envisaged in the PPF, we have developed frameworks which set out our ambition for the medium term. In the National Development Plan, we have outlined the scope of our vision for the development of the infrastructure required by a modern and dynamic society.

PUBLIC SERVICES

A key objective of this Budget is to continue to raise the quality of our public services. We have shown our commitment to this goal. Between 1997 and 2002, and taking account of the additional expenditure provided today, this Government will have increased net voted current expenditure by €10.3 billion or 79 per cent, and net voted capital expenditure by €3.7 billion or 195 per cent.

Now more than ever we need to continue to improve the overall management of public expenditure. We must focus on what we are achieving in terms of real outputs and outcomes. Such an approach will help deliver better public services. Increased expenditure is not always enough on its own.

It is also my view, based on my experience of the past five years, that we should move in the future to a unified tax and expenditure Budget in which all tax and spending decisions are announced as one on Budget day and not in two stages as happens now.

ADDITIONAL SPENDING IN 2002

Over and above the figures provided in the published Expenditure Estimates last month, and including the social welfare package, I am providing an additional €1.35 billion in net current spending and a further €550 million in net capital spending for next year.

The full range of additions to both current and capital spending are included in the Summary. My Statement will deal with the main items.

Last month in announcing the Estimates, I indicated that I had decided to concentrate the available resources on a number of specific areas. Accordingly, my announcements today are concerned with infrastructure, the development of a quality healthcare service and enhanced social welfare provision.

INFRASTRUCTURE – CAPITAL SPENDING

Our economy has performed well in recent years. We have raised our income levels to above the EU average. However, our infrastructure needs to match up with the rest of the economy.

The Expenditure Estimates which were published on 15 November last provided significant capital allocations in 2002 for roads, public transport, water, housing and education.

The extra €550 million that I am announcing today for capital spending is mainly for roads, public transport, housing, water services, waste management, education, health, harbours and telecommunications infrastructure.

Total Exchequer capital investment next year in roads alone will be €1 billion, with over €450 million being invested in public transport. Total Exchequer capital spending on housing in 2002 will be almost €1.1 billion while capital funding for education, to build and refurbish schools and third level colleges, will amount to some €560 million.

By the end of next year, we will have spent €8.5 billion on the Economic and Social Infrastructure Programme of the National Development Plan, which is above that promised in the published Operational Programme. This Government is fully committed to the implementation of the National Development Plan, because it lays the foundation for our future growth. Details of the additional capital spending are set out in the Summary.

Public Private Partnerships

Public Private Partnerships will make a further contribution to the delivery of priority economic infrastructure projects under the National Development Plan. Construction work has begun on five post-primary schools following the signing of a PPP contract in recent weeks. A further 42 pilot projects are being developed in the areas of roads, rail, environment and education, with additional projects in these and other areas currently being assessed. Over the next three years these projects should contribute private finance in the region of €800 million to our infrastructure programme.

TOURISM

Tourism has made an important contribution to our economy, especially in creating jobs. It has also helped to spread the benefits of our economic growth throughout the country. Next year will be a very challenging year for tourism. In order to support the industry, I propose allocating an additional €11 million for tourism marketing on top of the provisions already contained in the Estimates. The

funding will be used for regional and sports tourism and for the international marketing of the island as a whole.

HEALTH

Last week, the Minister for Health and Children launched the Health Strategy. This Strategy represents a blueprint for the development of the health services over the next decade, with a particular emphasis on improving the quality of service delivery.

Today I am allocating additional Exchequer funding of €425 million, with a full-year cost of €613 million.

This brings gross health expenditure to nearly €8.2 billion for 2002. The Minister for Health and Children will be announcing the full details in due course. These will include spending on additional beds for acute hospitals, the setting up of a Treatment Purchase Fund to reduce waiting times for public patients and to add to the range of service delivery options. They will also include funding for the physically and intellectually disabled and older people, as well as the development of certain GP initiatives.

The development of the health services has been a priority for this Government. Between 1997 and 2002 we will have increased the gross Health and Children allocation by over €4.5 billion or 125 per cent. After many years when our expenditure on health trailed behind most of the rest of Europe, Ireland's position is now on a par with the EU average. As our population ages in future years, the pressures on health spending will increase further. Our planning must take account of this, as well as the pressures in many other areas.

This Government has put the funds into Health. The challenge now is to ensure that the quality and quantity of services that people receive match this investment. With over €8 billion now being spent on the health services, those managing the service must secure the effective delivery of this huge amount of resources. Against this background, I particularly support the organisational reform agenda signalled in the Health Strategy, notably the proposed independent audit of functions and structures.

I have a further initiative to mention in this regard. Following consultation with the Minister for Health and Children, I am establishing an independent Commission on Financial Management and Control Systems with a remit to examine, evaluate and make recommendations on relevant systems, practices and procedures throughout the health services. I will announce full details of the terms of reference and membership of the Commission shortly.

SOCIAL INCLUSION/SOCIAL WELFARE

This Government has done more than any other in the history of the State to promote social inclusion – far more than our immediate predecessor. Last year's social welfare package was a major leap forward in protecting the vulnerable in society. This year will continue that progress.

From the outset, it has been a central goal of this Government that everybody should have the opportunity and incentive to participate in the social and economic life of the country. Under our stewardship, employment opportunities have been greatly expanded. This has been the single biggest factor in advancing social inclusion in this country.

We have committed unprecedented amounts of money to delivering on social inclusion. In the Health Strategy, we have set out the developments and the restructuring which will be pursued over the coming years to provide the efficient and responsive health care system which our people require.

The review of the National Anti-Poverty Strategy is nearing completion. The Government's response to this review will provide the basis for action in this area into the future. In last year's Budget alone, I provided over €1.5 billion in full year terms for social inclusion measures across all Departments. This year, notwithstanding the greater constraints on the public finances, I am following this up with a further allocation of over €1.6 billion in full-year terms.

Social Insurance Fund

Since its inception in 1953 the Exchequer has assisted the Social Insurance Fund. For instance, in the ten years to 1996, the Exchequer contribution exceeded €2 billion. Thanks to this Government's record on employment, the Fund is now in such a healthy financial position that the Exchequer can recover some of this funding. The Fund will have about a €1.4 billion surplus at the end of 2001. I indicated last year that it is important to keep the surplus under review. Having regard to its strong financial position, I am satisfied that it is appropriate for that Fund to make a contribution of €635 million in 2002 towards the Exchequer. Taking account of the other changes I am announcing today, the Fund will still have €1.2 billion in hand at the end of 2002.

Social Welfare

Today's social welfare improvements will cost £850 million or €1,079 million in a full year.

This equals last year's record package for social welfare improvements and means that social welfare expenditure in 2002 will be some two-thirds higher than it was in 1997.

For 2002, all social welfare weekly increases will be paid with effect from 1 January. Implementation will be delayed for administrative reasons for some categories and these recipients will get a lump-sum payment in February. In effect, increases for those dependent on social welfare will now be payable more than five months earlier than when this Government came into office. For convenience, in describing these increases I will refer only to Irish pound amounts.

Old Age Pensions

Each of my Budgets has clearly demonstrated this Government's commitment to supporting the position of our old age pensioners. This year is no different. Today I am increasing the full personal rate of old age and related pensions by at least a further £10 per week. This will bring the Old Age Contributory Pension to £116 per week and the Old Age Non-Contributory Pension to over £105 per week. We have more than achieved our commitment to increasing all old age pensions to at least £100 per week over this Government's term. This means that with the proposed increase in the qualified adult payment, a contributory old age pensioner couple, both aged over 66 years, will next year receive over £205 per week. Taking my five Budgets together, the personal rate of Old Age Contributory Pension will have gone up by nearly 50 per cent, while a couple both over 66 years will be getting 54 per cent more. This is well ahead of inflation and represents a real improvement in the living standards of our older citizens.

Other Weekly Payments and Qualified Adult Allowances

I am also matching last year's record increases by providing at least a further £8 per week for other full-rate social welfare recipients. This increase is much greater than projected inflation for 2002 and allows for continued improvement in the position of all social welfare dependent households.

Two years ago, I commenced a phased increase in the rate of qualified adult allowances from 60 per cent to 70 per cent of the personal rate. I am providing today for a further substantial step towards this goal. Accordingly, this allowance will in general be increased by over £8 per week, so that next year payments for most social welfare couples under 66 years will rise by over £16 per week.

In my full term of office, the personal rate for most recipients under 66 years will have increased by at least 37 per cent, while the corresponding rate for a couple will have gone up by more than 44 per cent. Families with children will, of course, also receive the Child Benefit improvements which I am announcing today.

I am also providing for a special increase in the lowest social welfare payment rates. Accordingly, recipients of short-term Unemployment Assistance and Supplementary Welfare Allowance will benefit from a weekly increase of over £9.50. This brings the payment rate for these schemes up to the same level as applies to most other recipients under 66 years.

Widows

Following on last year's increase, I am again providing for a special weekly increase for recipients of the Widows Contributory Pension aged 66 years and over to further narrow the gap with the rate of the Old Age Contributory Pension. Accordingly, next year the Widows Contributory Pension will rise by £12, bringing the payment rate to £114 per week. I am also providing for the Widowed Parent Grant to be almost doubled to just under £1,970 with effect from today.

Fuel Allowance

Last year, I announced an extension of the period for which the fuel allowance is payable. This year I am increasing the rate. With effect from January next, recipients of this scheme will get an extra £2.09 per week, bringing the total payment under this scheme to over £7 per week.

Child Benefit

Last year I announced the Government's intention to invest around £1 billion in increased Child Benefit over a three year period. As I said at the time our central objective is to support parents in whatever choices they make in looking after their children. Child Benefit also offers a most effective means of channelling income support to low-income families in order to tackle child poverty.

In line with the record increases which I provided last year, I am now announcing the second step in this three year programme. This will see Child Benefit rates increased by a further £25 per month for the first and second children to £92.62, and by £30 per month for third and subsequent children to £116.

These increases will be paid in May but back-dated to April, or five months earlier than when we came into office. The increases mean that Child Benefit will have gone up by £62.60 per month for first and second children, and £77 per month for third and subsequent children since 1997 – a trebling of the payment rates. From next year, a family with four children will be receiving over £417 per month in Child Benefit. By any measure, this is a very substantial level of support to parents in fulfilling their caring duties.

In addition, I am proposing improvements to the Back to School Clothing and Footwear Allowance. From next year, over 70,000 children aged 12 years and over will benefit from an increase in the payment rate which will rise to over £94 per child. In addition, some 8,000 more children will be eligible for this payment next year due to an easing of the means test which I am also providing for today.

Other Social Welfare Measures

The Summary of Budget Measures contains a range of other social welfare improvements, full details of which will be announced by the Minister for Social, Community and Family Affairs.

These measures include:

- A further easing of the income disregards for the Carers Allowance to benefit about 3,400 new carers and 2,300 existing ones;
- An increase in the annual respite care grant to £500;
- A 20 per cent increase in the number of free units under the Free Electricity Allowance;
- A relaxation in the qualification criteria for the Free Telephone Allowance;
- The extension of the Free Travel Companion Pass to Invalidity Pensioners;
- An increase in the income thresholds for Family Income Supplement to bring the average payments to recipients up to around £59 per week;
- An increase in the earnings disregard for recipients of Disability Allowance.

PERSONAL TAX PACKAGE

I will now turn to taxation measures.

The personal tax reductions which I will shortly announce will have a full-year cost of £500 million or €634 million and will consolidate the strategy of removing more low-paid earners from the tax net and more middle-income earners from the top rate.

These measures take effect from 1 January 2002. Revised tax credit certificates incorporating the changes will issue from mid-February. The relevant tax rebates will be made by employers to their employees shortly afterwards.

Personal Taxation

This Government in its term in office has rewarded work and enterprise, as it set out to do, by substantially reducing the tax burden on ordinary taxpayers.

In particular, the Government has delivered on what it promised the electorate in 1997 in

relation to income taxation. As a result of our five Budgets:-

- over 380,000 taxpayers will have been removed from the tax net;
- both tax rates have been reduced substantially, along with PRSI and levies;
- all taxpayers and especially those on lower pay have benefitted;

· the tax system has been made fundamentally more equitable through the introduction of tax credits in Budget 1999 – something those opposite spoke of but did not do when they had the chance.

After this Budget there will be over 690,000 income earners outside the tax net or 37 per cent of all those on Revenue's records. The corresponding figures when we took office were 380,000 or 26 per cent.

Of the €4.8 billion in tax reductions in these five budgets,

· 43 per cent has gone on increasing the basic tax allowances, or credits as they are now, including the PAYE allowance;

· a further 22 per cent went in taking over 370,000 taxpayers off the top rate of tax;

· over 16 per cent went to reduce the standard rate of tax paid by all taxpayers, and

· just 11 per cent went to cut the top rate of income tax.

These are the facts. They are a reality that will make some commentators uncomfortable. It robs them of a much-loved fiction that this Minister favours only the better-off. This is not the case. All taxpayers have benefitted substantially from the major tax reforms and tax reductions which this Government has carried out.

This Government has succeeded in transforming the income tax system to give the country a simpler, fairer and more rewarding system. I have done more than most to close off certain abusive tax loopholes through which the very well-off could reduce their taxable income to almost nil. Tax reliefs are still required to stimulate enterprise and investment, but they must be carefully focussed to ensure that they hit their targets.

Changes in Tax Credits and Bands

Last year I indicated that the Government intended to increase the income tax entry point towards the level of the minimum wage. The Programme for Prosperity and Fairness made it clear that it was an agreed policy objective of the Government and the social partners to make this happen over time.

I am pleased to say that further substantial progress is being made this year by increasing the basic personal tax credit by €123 to €1,520 and the PAYE tax credit by €152 to €660. The effect of this will be to raise the entry point to the tax system for a single person to £165 per week or over €209 and to remove 68,000 low-income earners from the tax net. When we came into office the relevant entry point was £77 per week.

This entry point to the income tax system will now be at 90 per cent of the current minimum wage. I am also increasing the single standard rate band by €2,605 to €28,000 with relevant changes to the married bands as set out in the Summary of Budget Measures. The impact of these changes will be to remove 57,000 taxpayers from the higher rate of income tax in 2002.

Tax Relief for the Elderly

When we came into office, the income tax exemption limits for those aged 65 and over were as low as €5,840 per annum single and €11,680 married. I have increased these substantially in my first four Budgets. I propose to increase them again. The new limits will be €13,000 and €26,000 – an

increase of over 120 per cent in my period in office. This will remove over 11,000 elderly taxpayers from the tax net.

This is in addition to the 68,000 low-income earners already removed from the tax net by the tax credit changes just announced.

INDIRECT TAXES

The Government has decided to restore the standard rate of VAT to 21 per cent from 1 March 2002. I had reservations about cutting that rate last year. I said that I would be looking to see if it was fully passed on. I am not convinced that this was the case. The VAT-inclusive excise duty on petrol and diesel will be increased by 5p per litre from midnight tonight. The VAT-inclusive excise duty on cigarettes will be raised by 10p per packet of 20, with pro rata increases in other tobacco products, also from midnight tonight. I am also increasing the excise duty on cider to the same level as that for beer. This will better align the duty rates by reference to the alcoholic content of the products and take account of the increase in cider's market share.

The overall impact on the Consumer Price Index of the increases in VAT and excises is estimated at 0.9 per cent, giving an average inflation rate for next year of 4.2 per cent. The revenue raised will help towards funding the extra spending on the important public services developments I announced a short time ago. We also need to maintain revenue from indirect taxes if we are to be serious about reducing the burden of other taxation on effort and enterprise.

BUSINESS TAXATION

Employers' PRSI

In the area of business taxation, I am reducing the top rate of Employers PRSI from 12 per cent to 10¾ per cent with effect from 1 March 2002 at a full year cost of €347 million. I had planned more wide-ranging reforms of the PRSI system to simplify the system and rationalise its application, but the changed situation in the public finances has put the completion of these plans beyond reach at this stage.

Corporation Tax

The standard rate of corporation tax on trading profits will fall to 16 per cent from 1 January 2002 and to 12½ per cent the following year. I am now providing that over the next five years companies will move to a situation in which their main corporation tax payments will be made on a current year basis, instead of the existing system under which all tax is paid well after the end of the accounting year. This change will yield a large cash-flow benefit to the Exchequer in each of those five years. This will amount to €792 million in 2002. The current year basis is common in other OECD countries, like the USA, and it makes sense for us to move in that direction. Details of this measure are in the Summary of Budget Measures.

BES and Seed Capital

The current Business Expansion and Seed Capital Schemes of tax relief are being extended for a further two years beyond 31 December 2001. The limit on investment in any one firm under the BES will be raised from €317,500 currently to €750,000. The increased limit will also apply to the Seed Capital Scheme.

Shipping Tax

Within the company tax system, I will be introducing a special shipping tonnage tax regime from 1 January next in recognition of the particular requirements of the shipping industry.

Other Investment and Area Renewal Schemes

I am also aware of the difficulties being encountered in completing projects under various tax relief schemes for property investment. Therefore, I am extending the deadlines for eligible projects under the Urban and Rural Renewal Schemes, the capital reliefs for student housing and the park and ride and multi-storey carpark schemes. These deadlines are being extended by two years or so, that is, to end-2004 in most cases. These measures will encourage investment and enterprise.

OTHER TAXATION MATTERS

I now wish to turn to a number of other taxation issues.

Property Taxation Measures

I am restoring interest relief as a deductible expense in calculating tax on rental income from residential property, with effect from 1 January 2002. Circumstances in the property market are much changed and the presence of investors is required to secure the future supply of housing to meet accommodation needs.

I am also altering the stamp duty system to align the investor rates for new and second-hand residential property with those for owner-occupiers of second-hand houses generally. The full details of this are set out in the Summary of Budget Measures.

Climate Change Policy

Last year the Government adopted the National Climate Change Strategy, recognising that climate change is now a threatening global environmental problem. We are all aware of the adverse effects of sulphur emissions. In Budget 2001 I indicated that I intended to introduce a new, higher rate for diesel with high sulphur content. This will apply from 1 March 2002 to allow for disposal of stocks and will be 6 cents per litre higher than the excise rate for low sulphur diesel.

Other Tax Changes

The Summary of Budget Measures contains details of other tax reliefs and changes, the more notable of which are:-

- A cut in betting tax from 5 per cent to 2 per cent from 1 May next to prevent jobs and revenue in that sector from moving offshore
- Increases in tax credits for blind persons, incapacitated children and the widowed
- Adjustments to reliefs for farmers affected by Foot and Mouth Disease to help with re-stocking
- New reliefs to assist the development of sports facilities in the State
- An increase in the donations limit for tax relief for heritage items
- Enhanced reliefs to encourage the development of medical facilities in the State
- A change in the aggregation period for Capital Acquisitions Tax

- A number of measures to combat tax avoidance.

LOOKING TO THE FUTURE

This country's future economic outlook is bright. All economic commentators share that view. We are, however, passing through a period of slower growth and no one can predict how long the economic downturn will last, no matter what school of forecasters one belongs to.

It is a time for cool heads and steady hands. We cannot reflate the world economy. We can, however, make sure that we are poised to exploit the global up-turn when it comes. Even if some eyes here are fixed on short-term issues and events, as leaders we must have a vision of where we are going.

In that context, what is happening now does not alter the medium to long-term cost implications of population aging for health, welfare and pensions. As I have made clear, I am making provision now through the National Pension Reserve Fund towards meeting these costs in the future.

This Budget presents the people with choices.

Fiscal policy is a national prerogative, as it is in all other EU Member States. This House decides the issues and as political parties we put our proposals to the electorate for their sovereign choice. This is as it should be. However, we don't make policy in a vacuum. As far as EU rules are concerned, we continue to meet the requirements of the Stability and Growth Pact. We always listen to fair advice but we decide ultimately what is best for Ireland. If we have to defend what we decide, then that is a natural consequence.

Economic theories and philosophies come and go. They are refined, changed and adapted. However, if you cannot create wealth, no State – irrespective of political ideology – can ever have sufficient or adequate resources to redistribute.

Careful economic and budgetary management provides the soundest basis for our future. That principle underpins my own political beliefs and the Government's aim of

- securing the basis for further growth
- rewarding work and effort
- developing our infrastructure
- distributing resources fairly and
- creating a society that can look forward with confidence to the years ahead.

In a time of difficulty, we have looked after the concerns of the low-paid, those in need of health care, and those reliant on social transfers. This is what real social inclusion means.

We promised five Budgets and we have delivered five Budgets and without borrowing.

My five Budgets to date are the five chapters in my first book.

While some famous authors can write only one book, others can write a second best seller. I look forward therefore to beginning my second book after Summer 2002.

I commend this Budget to the House.