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Speech for Minister of State Dick Roche at the Joint CBI Northern Ireland /Strategem Seminar, Tuesday 6 October 2009

How Small Countries Deal with the Downturn – The Irish Perspective

Good morning, I'd like to begin by thanking CBI Northern Ireland and Strategem for giving me the opportunity to speak here today.

I am pleased to be with you so soon after the people of Ireland made their democratic decision to so emphatically approve the Lisbon Treaty.

The fact that a Yes vote has been delivered in such difficult circumstances underlines the commitment of the Irish people to the European Union and the determination of the Government to keep Ireland at the heart of the EU. – The vote was important in the current context. - Ratification of Lisbon is important to Europe and to Ireland

The issues that we face in Ireland and in Europe are bigger than any state can resolve alone. An efficient and effective EU, an EU that is fit for purpose is of critical importance to all of Europe's 50 million citizens but it is of particular importance to a small open economy such as ours.

Ratification of Lisbon was one of 3 tasks that the Taoiseach said must be resolved in the next 100 days – are one down two to go.

Ireland's domestic challenges

In recent years Ireland's economic progress generated interest and admiration from around the globe. We had rapid and sustained growth and we have now suffered a major reverse. Although fortunes have changed we must remember that many of the sources of Ireland's prosperity are still in place:

- Our population is young, well-educated and adaptable
- Government policy is highly responsive to business needs
- We have invested heavily in the knowledge economy through research and development.
- Our industrial infrastructure is advanced and improving
- We now have a decisive result on Lisbon.

We face two very immediate challenges and there is no quick fix. We must

1 Rebuild the battered banking system

2 Restore order to the Public Finances

Rebuilding Confidence in the Banking Sector

When Lehmann Brothers hit the wall 13 months ago and the banking sector world wide looked like it was heading over the cliff, my Government moved quickly. We

(I) introduced the bank guarantee scheme – initially attacked but now widely copied – to guarantee deposits and prevent a run and collapse.

(II) We stepped in when the extent of the problems in Anglo Irish became public and effectively nationalised that bank.

(III) We injected capital into Allied Irish and Bank of Ireland and

(IV) now we are establishing NAMA

How will NAMA operate?

NAMA will operate by buying land and development property loans and certain associated loans from the banks. NAMA will purchase €77 billion of loans including personal loans from Banks and Building Societies for approximately €54 billion, an estimated aggregate discount on the book value of the loans of 30 per cent. NAMA will pay the banks concerned for these loans.

The payment for the loans will be in the form of Government securities and/or guaranteed securities. This method of payment will give the banks access to cash or near-cash assets in place of the much less liquid property loan assets they had before.

NAMA will manage these loans, either directly or indirectly, so as to obtain the best achievable return from them. In the meantime, it will collect interest due and pursue debts so as to ensure its own income

stream. NAMA in effect puts itself in the place of the bank that originated the loan, and will have all the same rights to pursue debts, where necessary.

NAMA will start with the largest systemic exposures across the institutions and it is expected that by the middle of next year most of the loans will be transferred. NAMA will leave behind smaller, cleaner and better funded banks that can focus their resources on their core function of lending to the productive economy.

The NAMA proposal has been supported by the IMF and the ECB. It will ensure the protection of our economy and welfare of our people. If we don't act now to free our banks of their higher risk loans, we will not be in a position to benefit from the economic recovery that appears to be emerging in the US and in Europe. The NAMA proposals are complex and not without risks – the aim is simple – strengthens bank balance sheets, rebuild confidence and get credit flowing.

Will NAMA get credit flowing to the Irish companies?

The flow of credit is essential to the proper functioning of the economy and all of the Government's actions to stabilise the banks have been undertaken in order to ensure that the financial system continues to fulfil its essential functions in providing credit for businesses and individuals.

The establishment of NAMA and the removal of identified risky assets from the balance sheets of participating institutions should in itself improve credit supply.

The Government has made small and medium-sized enterprise (SME) lending a major priority. Various actions have been taken to support viable business, to track the real situation, and to facilitate access to credit on a proper commercial basis. In terms of specific credit supply measures attaching to NAMA, the Government continues to examine options in this regard.

What are the implications of NAMA for the property sector in Northern Ireland?

Around 6 per cent of the potential portfolio to be transferred to NAMA is located in Northern Ireland. There is no indication that NAMA will prioritise sale of any assets on a geographical basis. NAMA can be patient in disposing of property assets that it acquires.

Minister Lenihan has already met with the Northern Ireland Finance Minister, Sammy Wilson, to discuss NAMA and they agreed to remain in contact as the NAMA legislation progresses and the Agency is established.

Restoring the Public Finances

The third major challenge that Ireland faces is restoring our Public Finances.

On Friday, 2nd October 2009, the Minister for Finance, Mr. Brian Lenihan, T.D., outlined the exchequer receipts and expenditure. They are not a pretty sight and they starkly present the extent of the challenge that we face over the period ahead.

At end September, an **Exchequer deficit of €20, 158 million** was recorded. Tax revenue, at **€23,706 million** was €65 million or **3.9 per cent** behind profile.

Expenditure is also behind profile – but by a lower amount.

Total net voted expenditure at €34.7 billion was €14 million or 1.5 per cent less than profile.

At the Minister for Finance commented on Friday “The end-September Exchequer returns show the stabilisation measures the Government has introduced so far are working”.

Total net voted expenditure is slightly less than anticipated for this stage of the year, demonstrating the Government’s effective management of public spending.

The likely taxation shortfall will be in the region of **€2 billion** for the year with **Income Tax and Vat** continuing to be weak. Taxes such as stamp duty which brought in €billions at the peak of the property boom are producing the lowest yield for a decade.

This weakness in taxation receipts reinforces the need for continued **expenditure reductions** to stabilise the position in the public finances.

As increases in taxation are not an option promoted by anybody we have no real option but to reduce public spending if we are to restore

sustainability over the medium-term and return to the path of economic growth.

On the basis of the emerging trends, the General Government Deficit for 2009 is now forecast to be in the region of -12% of GDP.

But there are some positive signs.

We have seen an easing in the rate of increase in unemployment. Thankfully this has been stable for the last two months. If this trend continues it produces some saving. That in turn will improve the underlying position.

The economic and financial conditions globally are showing signs of improvement.

The recent success of our two main banks in raising funds without the use of the State Guarantee is evidence of the improved conditions and positive international sentiment towards the Government's plan to deal with the crisis in our financial system.

The establishment of NAMA will position the banks to lend money into our economy.

The consensus of economic forecasters is that the outlook for the Irish economy is now better than it was at the last Budget.

But we are not out of the woods yet. We have no option but to continue to take policy decisions that while not politically popular are economically prudent.

We have to contain public expenditure. Bringing our public finances back to balance will require tough decisions. Fat has to be cut out of the system and more savings made.

At the same time we have to maintain the highest possible levels of capital investment in productive infrastructure.

If we keep on the path that we have set out and the slight improvement that exists internationally continues, we will see economic growth in the second half of 2010.

Some good news on the Economy

One of the strengths of the Irish economy is the flexibility and adaptability of its people in facing the challenges presented to them. This has led to some good news for Ireland on the economic front.

In response to the downturn, there has been a rapid adjustment of wage and price levels. Both public service and private sector pay rates are declining. Our inflation is now the lowest in the Euro Area and our price levels are converging towards the Euro Area average.

Our current account on the balance of payments is moving into balance this year and we are anticipating a current account surplus in 2010; exports are holding up in a very difficult trading environment.

These factors together with the steps taken by Government to address the immediate challenges are positioning the economy for future growth.

North-/South cooperation

However, no matter how astute the response of each Government to their own domestic issues, cooperation between communities, peoples and nations will be essential to pull the world out of this downturn.

When the Taoiseach addressed the CBI annual dinner in March he spoke of a shared responsibility to put our shoulders to the wheel to tackle the global crisis.

In this context it is important to recognise that cross-border relations on this island have never been better. Peace and good-neighbourliness were luxuries we never enjoyed in tackling economic downturns in times past and we must make sure now that we capitalise on the opportunities which this new era of cross border relations affords. Practical North/South cooperation to the mutual benefit of people North and South is in everyone's best interests.

We are delivering on joint initiatives through the North/South Ministerial Council and through a range of other contacts between key decision makers North and South. The frequency of Ministerial interaction on a North-South and indeed East-West basis is a critical new dimension working in our favour. It is, in particular, extremely helpful to have

regular discussions with Ministers in Northern Ireland who directly represent the interests of their constituents. Just as the stability of devolution promotes confidence in potential investors, so too do the now embedded institutions of devolution better protect the interests and priorities of the people of Northern Ireland.

We are together building the all-island infrastructure that will allow our economy to emerge at the front of the pack when the smoke of the current global turmoil disappears. There is a growing recognition that we must cooperate to compete internationally and to lay the foundations for a new era of sustainable and enduring growth.

There is potentially huge benefit to combining our efforts, our talents and our time to achieve critical mass.

The current downturn also compels us to examine where we can achieve economies of scale by working and planning together. We have made a good start – some GP and cancer services are now available to patients in the other jurisdiction, for example – but more can be done, and precious financial resources can be saved, if we invest and plan together. We need to achieve greater synergies between the Regional Development Strategy in Northern Ireland and the National Spatial Strategy in the south.

Co-operation within the European Union

On a range of global issues, from climate change to energy security to financial regulation, it is self evident that cooperation within the EU is of key importance. It is simply not possible for any country no matter how big, try to resolve the issues that we face today alone. That is why

membership of the European Union has been so important to Ireland, and that is why we have placed so much emphasis on ratification of the Lisbon Treaty.

Our membership of the European Union has played a key role in the creation of the modern Irish economy. It has contributed substantially to the rapid period of growth we experienced over the last fifteen years and for the remarkable rise in our standard of living. It has, most importantly in today's context, contributed in so many ways to the peace process that has brought this island into a new era.

Last week we sent a strong message to the world that we want to combine with our fellow Europeans in creating a peaceful, prosperous and sustainable Europe. We are determined to play our full part in this process, working actively at EU level to address the big issues facing us now such as climate change, energy security and the global economic crisis.

EU leaders have already approved a European Economic Recovery Plan, which amounts to around 5% of GDP. The European Council has also agreed on economic stimulus package worth €5bn as part of that plan. These funds will be used to upgrade energy and internet connections across the Union. Ireland will benefit from funding of around €10 million for the Ireland-Wales East-West electricity interconnector. The European Investment Bank very recently approved a loan of €500 million which will enable work to get underway immediately. This is an important project and the provision of EU funding underlines once again the value to Ireland of being at the heart of Europe.

At last month's European Council, Heads of State and Government agreed significant steps to improve the regulation and supervision of financial institutions. The days of non regulation are ended, Gordon Gecko has had his day, "Greed is Good" is no longer the motto. At EU level actions underway include the establishment of a European Systemic Risk Board and a European System of Financial Supervisors.

Addressing the failures exposed by the present crisis will contribute to preventing future ones and will help restore confidence in the financial system. This is crucial to facilitating the recovery of the European economy. Steps by the European Union towards a low-emissions economy can also help to promote new investment and employment in environmental goods and services and encourage growth.

Looking to the Future - Building Ireland's Smart Green Economy

In Ireland North and South we need to work closer together on European issues. We need to have a common view as to what is in the best interest of all of the people on this island and we need to have a common approach to promoting those interests.

Indeed, one of the key elements of my Government's framework for economic renewal, entitled "Building Ireland's Smart Economy: A Framework for Sustainable Economic Renewal", is a 'new green deal' to move us away from fossil fuel-based energy production through investment in renewable energy and to promote the green enterprise sector and the creation of "green-collar" jobs.

The framework also outlines the steps to create an *innovation island*; that is an environment in which innovative companies, from Ireland and

abroad, will thrive. We aim to make Ireland an innovation and commercialisation hub of Europe – a country that combines the features of an attractive home for innovative multinationals while also being a highly-attractive incubation environment for the best entrepreneurs from Ireland and overseas.

To support this plan a new “Innovation Fund” is being established for early stage R&D-intensive SMEs, and the tax credits for R&D have been increased. We are also incentivising intellectual property through tax measures and an Innovation Taskforce has been established to advance this strategy.

This framework will build on the considerable commitment that the Government has already made to supporting Research and Development through its 7-year Strategy for Science and Technology and Innovation (SSTI), adopted in June 2006. Ireland has seen total R&D spending almost trebled over the last 10 years and has developed world class R&D infrastructure while considerably strengthening our R&D capability. These developments provide the solid foundations on which we will build a smart, green innovation based economy.

Conclusions

The Government believes that by continuing to take the difficult decisions and implement the necessary measures to address our immediate economic challenges, strengthening our relations on North/South basis and working in coordination with our partners in the European Union, Ireland will be well placed to benefit when the global economy turns around.

There has been much talk of green shoots, and indications that a turn around in the global economy is coming. Last week the IMF Chief Economist announced that “the recovery has started”.

Many challenges still lie ahead of us and the road to recovery will be by no means smooth but I am convinced that working together bi-laterally and as part of the European Union we will be able to create an environment for companies such as those represented here today to grow and prosper and to do so in a sustainable way.

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