

Rainy Day Fund – Budget 2018

Current Scenario

A Budget Stabilisation Fund, also known as a ‘Rainy Day Fund’ is a form of state saving to ensure that surplus revenue is invested into a fund to be used

The Government committed to establishing a Rainy Day Fund as part of the agreed Programme for Partnership Government. The Minister for Finance then announced in Budget 2017 that the Government would introduce a ‘Rainy Day Fund’ once a balanced budget is achieved in 2018 of €1 billion annually.

There is a political importance to this commitment as Fianna Fáil view it as a fundamental measure agreed as part of the Confidence and Supply Agreement whereby they will facilitate the Fine Gael led minority Government to develop the annual Budget once consistent with the agreed principles.

The fiscal space in Budget 2018 is limited with €700 million of the €1.2 billion available already committed from previous spending commitments. The Government has announced that it will deliver a balanced Budget in 2018.

Despite media speculation and discussion as to the merits of a Rainy Day Fund and the speculation of the political implications if it is not included, the Minister for Finance announced in the Summer Economic that the Rainy Day Fund would be established from 2019 onwards to be capitalised with annual contributions of €500 million. This is half the amount that had been previously commitment.

What are we asking for in Budget 2018?

A Budget Stabilisation Fund or ‘Rainy Day Fund’ can help to protect the vital investments required during a period of economic recession. Such funds have been used in many countries across the world as means of continuing investment in an economy during economic downturns. As a small, open economy, Ireland is particularly vulnerable to external shocks and facing the challenges and uncertainty arising from the UK withdrawal from the EU it is important that Ireland plans to protect essential state capital spending in the future.

The lack of investment in infrastructure during the recent financial crisis and economic downturn has left Ireland with significant infrastructure deficits. Beginning a Budget Stabilisation Fund now can help to ensure that a similar situation does not occur in the future, where investment grinds to a halt, and that we have the reserve capital in place to maintain and develop essential infrastructure projects. The European Commission Country Specific Recommendation for Ireland 2017

recommends that Ireland ensure the economy is more resilient to fluctuations and advises that the Fund be advanced.¹

Our Budget 2018 recommendation is that Government should consider establishing the Budget Stabilisation Fund in 2018 with an initial lower contribution to begin and increasing the contribution gradually in 2019 and 2020 to approximately 0.5% of GDP.

How this will benefit the economy

A Rainy Day Fund won't have an immediate benefit for the economy but it will ensure that there is provision for the future that in the event of an economic downturn funds will be available and the fund can be accessed in order to continue investment in infrastructure. Critics of the Rainy Day Fund concept feel that it takes money out of the economy that could be invested now. However, it is an important reality that Ireland is a very open economy and vulnerable to global economic downturns. The Irish economy is currently performing strongly and now is the time to consider using some of the revenue being generated to save for potential future need. Therefore the benefits to the economy are more long-term.

During the economic crisis of recent years, the ability of the Government to invest in capital spending was inhibited and overtaken by the more pressing spending needs and fact that the state was borrowing to maintain and deliver essential services. With limited investment in infrastructure over the course of a decade, significant infrastructural deficits emerged across the country. Chambers Ireland would hope that

Summary – What we're asking for

Rainy Day Fund should be established in 2018 with an initial first contribution depending on the fiscal space available. When a balanced budget is achieved and as higher levels of investment are possible we recommend a gradually increased contribution to the fund to be made in 2019 and 2020 to approximately 0.5% of GDP.

¹ https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-specific-recommendations-commission-recommendations_-ireland_0.pdf