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# Review of National Development Plan (NDP)

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5. Please indicate if you are submitting your proposal on behalf of an organisation: Yes

Name of Organisation: Banking and Payment Federation Ireland

**We need your views on:**

1. Is the overall level of public spending on capital investment correct?
2. What should the capital budget be spent on?
3. What types of capital investment should be prioritised?
4. How can the management and governance of public investment be improved?
5. How is the NDP is affecting your region?
6. What is your feedback on Project Ireland 2040 communications?
7. Is there anything else you would like to add?

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**1) Is the overall level of public spending on capital investment correct?**

**Answer:**

Public capital investment in Ireland reached its peak in 2008 with around €9 billion, just over 5% of GNP. After a decline until 2014 to around €3.4 billion, it increased significantly since then and it stood at €7.3bn as of 2019. As of 2019, government capital expenditure as a share of GDP at EU-28 level was around 3% with Irish levels at 2.3% of GDP, the third lowest after Spain and Portugal across countries with available data. However, given the presence of multinationals in the Irish economy and its effect on GDP numbers, GNP is seen as a better measure to use in this context. This brings the Irish public capital investment levels to 3% of GNP in 2019, similar to the EU 28 average. Latest exchequer figures show that net voted expenditure increased by around 25.3% resulting in an exchequer deficit of around €12.3 billion in 2020 which requires additional debt issuance compared to original estimated issuance levels.

Public capital investment decisions need to be taken in the context of government debt levels as it requires borrowing. As of 2019, Irish general government gross debt level was about 59% of GDP, whereas the EU-28 average was at around 80%. When this ratio is adjusted using GNP in Ireland, general government gross debt was at 77% of GNP in 2019, perhaps more aligned with EU 28 averages, noting the 60% threshold under the Stability and Growth Pact rules.

**Rationale:**

It is true that pandemic has led governments to implement unprecedented fiscal policy action to reduce the effect of the pandemic on the society. These extraordinary fiscal efforts are likely to continue over the short term. It is also true that the pandemic will lead to structural changes both in the society and the economy, for example with changing working patterns, changing consumer behaviour, different societal needs, higher use of digital etc. These changes present an opportunity for governments to structure their recovery and investment packages towards the low carbon transition as well as higher digital investment, which are main pillars of the significant available funds in the form of grants and loans at the EU level.

It is often argued that with the current low cost of public debt in financial markets, capital expenditure should be increased in order to borrow at lower interest rates that may not be available in the future, which in turn can lower the cost of planned investments. It is also known that Stability and Growth Pact (SGP) rules within the EU set out conditions as to what the deficit and borrowing levels should be across the Member States within their medium-term budgetary objectives.

However, with COVID-19 outbreak, the European Commission agreed to activate the general escape clause within the SGP which allows for higher debt and deficit ratios. It is likely that due to medium term effects of the pandemic on the European and global economies, this escape clause will be kept for a while and this can allow higher levels of borrowing for medium term capital investment projects.

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**2) What should the capital budget be spent on?**

**Answer:**

Before the pandemic, housing and infrastructure investment as well as health were under severe pressure requiring increased capital spending by the State. Housing, planning and local development has the largest allocation in the current national development plan. However, it is clear that the pandemic has changed the way we work for most parts of the Irish economy, where working from home became the only option for certain sectors. It is likely that this change in work practices will become a structural component of day to day working arrangements for many sectors of the economy in the medium to longer term. This in turn necessitates re-thinking around how priority areas for public capital investment are restructured.

It is timely to consider where housing should be located if government strategy is also to enable more at home working which in turn suggests that greater effort is needed to promote investment outside cities where land and house building costs are cheaper. Demand for housing in big cities where most of the economic activity takes place has put significant pressure on both the infrastructure and the cost of building and perhaps created affordability challenges, particularly for first time buyers. However, a continuation of working from home practices after the pandemic can reduce housing demand in big cities and may allow a better-balanced regional distribution of housing demand. There is need for greater cooperation and coordination between government departments in order to achieve a better-balanced regional housing development with necessary infrastructure put in place before the development of housing projects start, such as transport, education, childcare, amenities and reliable and fast internet connection which is likely to become a necessity across the country rather than a desirable investment option before the pandemic.

In addition, with more balanced regional development in conjunction with better coordination of associated infrastructure investments can lead to creation of both living and working hubs which will help employment creation in regions and lead to the revival of many businesses across Ireland that are affected due to the pandemic, particularly the small and medium sized (SMEs) businesses in the service-based industries such as the hospitality sector. Investment in outdoor amenities that enhance the lives of those who live in the region, but also bolster the range of attractive 'green' products critical to the future growth of the tourism sector, are key to our sustainability ambitions and priorities.

Delivery of new homes at higher energy standards compared with older stock with a regional balance, combined with the reduced demand for both public and private transport due to much higher levels of working from home after the pandemic, will help the overall public capital investment objective of creating a low carbon and climate resilient economy as well as contributing to the rural development objective indirectly.

**Rationale:**

Notwithstanding the significant negative public health and economic effects of the pandemic, it presents a great opportunity to restructure our economy during the recovery phase while recognising new working practices as well as changing societal needs. As we are reprioritising public capital investment, we have a unique opportunity to do it in a more sustainable and greener way. It is clear that the negative effects of climate related change on the society will not be easily treatable or reversible as has been the case during the pandemic whereby lock downs or vaccines have been used to curb the negative effects. It is thus essential that in addition to public capital investment to create a more sustainable and environment friendly environment, there is a need to change behaviour in the society by actually promoting investment by businesses to be more sustainable at a time where many businesses know that they will need to change how they do their business and interact with customers in the future.

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**3) What types of capital investment should be prioritised?**

**Answer:**

Immediate focus on capital investment can be given to projects or areas that can lead to significant employment creation during the project as well as support employment afterwards. There will be significant funds available from the EU Recovery Fund which has a focus on green transition. In this regard it is important that we coordinate climate and sustainability related priority projects. A better coordinated climate action investment strategy with increased spending on environment related projects, utilising significant EU Recovery Fund grants as well as loans can also help deliver in other priorities such as much more balanced rural development, increased employment and growth in key sectors across regions, with housing and transport needs also being addressed.

In this regard some of the public transport projects can create immediate employment opportunities to help recovery of the economy as well as supporting the wider goal of creating a more sustainable economy, as well as helping existing employment to adjust to new working practices. Through the wider interconnectedness of the transport system, this can enable more choice from a location perspective for private investment decisions, including foreign direct investment (FDI).

Another example is the ambitious target of investment in energy efficiency by way of upgrades to 45,000 homes per annum which may come under pressure due to skill gaps and expected increased output in other construction investments competing for similar skills. Hence capital supports for new apprenticeship programmes in sectors where skill gaps are identified should become a priority which in turn can create employment opportunities for specific capital investment projects.

**Rationale:**

The national objective of transitioning by 2050 to a competitive, low carbon, climate resilient and environmentally sustainable economy and society should be the main pillar of public capital investment plans for the next ten years. The EU's Green Deal plans to turn 2030 and 2050 greenhouse gas reduction ambitions into new (and more ambitious) legally binding targets.

In addition, climate change has become a defining factor in companies' long-term prospects. This is evident in both financial markets where debt is raised for public capital investment projects, as well as in the decision-making process of companies as to where they would like to invest, in particular for foreign direct investment (FDI). Investors globally are asking questions around the effects of climate risk on investment decisions. It is recognised by many companies and investors that governments and the private sector need to work together in order to transition to a more sustainable society and economy globally. A growing number of investors, including FDI are looking to reallocate their capital into sustainable strategies. Given the importance of FDI for the Irish economy, public capital investment decisions will need to be able to follow the pace and direction of investment strategies of the private sector on sustainable development.

4) How can the management and governance of public investment be improved? **Not applicable**

5) How is the NDP affecting your region? **Not applicable**

6) What is your feedback on Project Ireland 2040 communications? **Not applicable**

7) Is there anything else you would like to add? **Not applicable**