



An Roinn Caiteachais
Phoiblí agus Athchóirithe
Department of Public
Expenditure and Reform

COVID–19: Economic Response to Date

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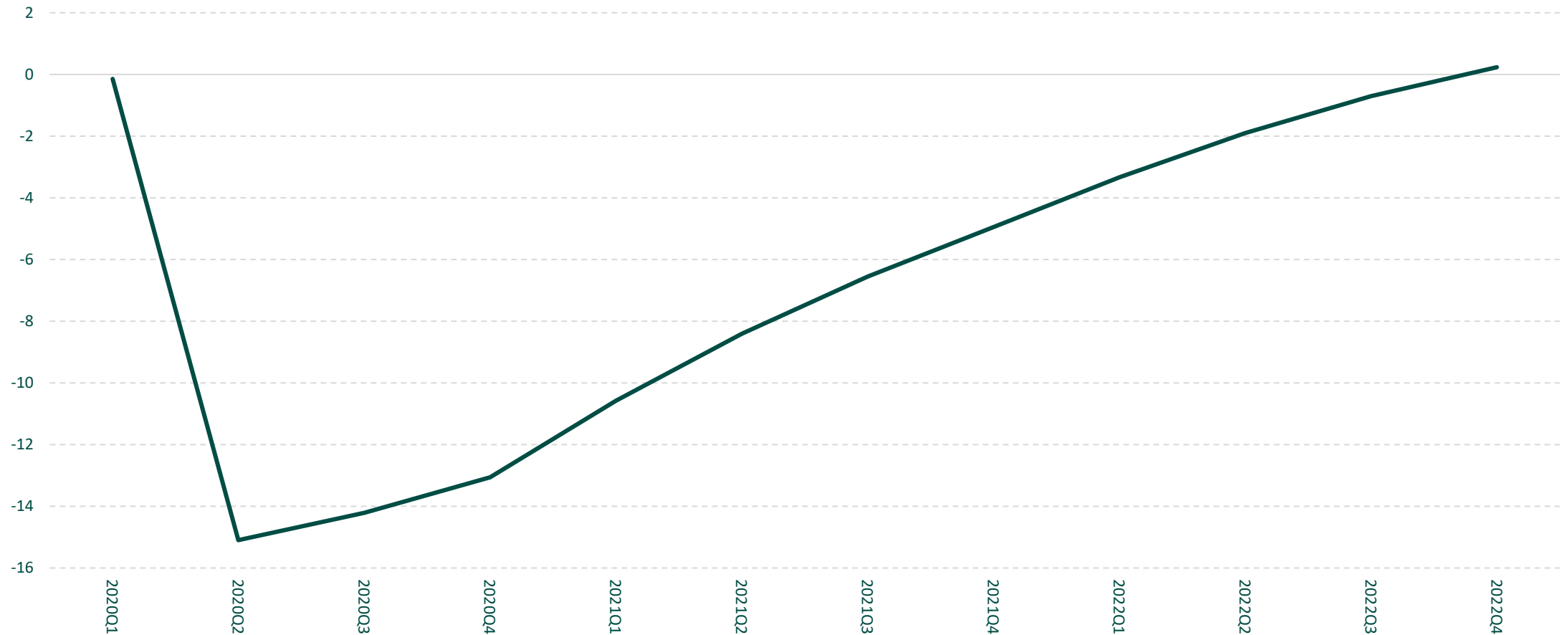
Secretary General, Department of Public Expenditure and Reform

Clear Economic Challenge



- Unique Exogenous Supply/Demand Shock
 - Severe direct reduction in incomes and expenditures for sectors/households
 - Economy-wide shock – In Ireland 40 per cent of private sector workforce laid off or on wage subsidy scheme
 - Second round “confidence effects” and “trade impacts” ?
 - Financial market stresses ?
- There is significant uncertainty in how, and when, consumers, supply chains, and economies will return to normal.

Recovery – V, U or maybe NIKE SWOOSH....



Extent of Demand Shock



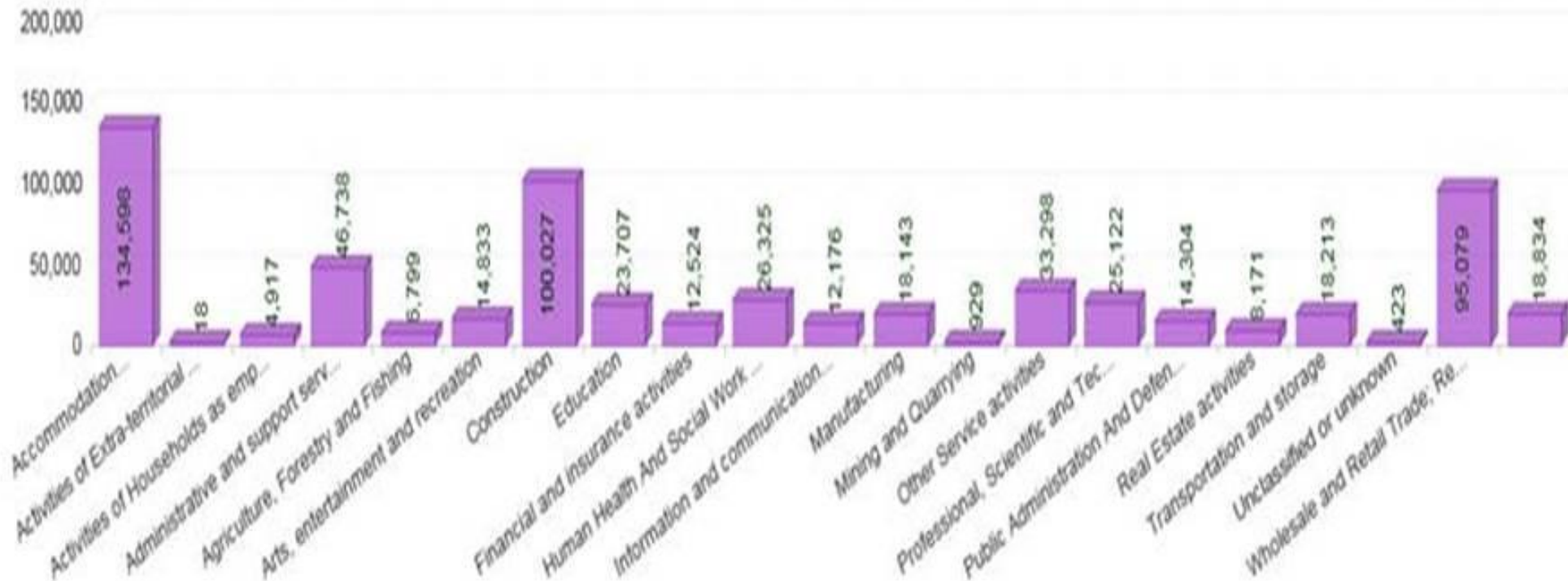
| | Building Services | Accommodation and Food Service | Retail | Arts and Culture | Sports and Recreation | Land Transport | Motor Trades | Construction | Total Employees |
|-----------------------------|-------------------|--------------------------------|---------|------------------|-----------------------|----------------|--------------|--------------|-----------------|
| No of Employees | 44,000 | 179,000 | 216,000 | 10,300 | 31,300 | 53,000 | 37,500 | 147,000 | 718,100 |
| % of Total Employees | 6% | 25% | 30% | 1% | 4% | 7% | 5% | 20% | 100% |

- ESRI and Central Bank assumes 7-8 per cent decline in activity for year based on 12 weeks shutdown – short-run over 25 per cent fall in activity - D/Fin will publish view next week
- Demand Shock – almost 100 per cent in some sectors?
- Sectors most affected by the shutdown account for higher share of employment than added value and include: **Distribution, Transport, Hotels & Restaurants and Arts & Entertainment**
- The least affected are **ICT, Finance, Insurance and Manufacturing.**

Extent of Demand Shock- Unemployed by Sector



By NACE Codes

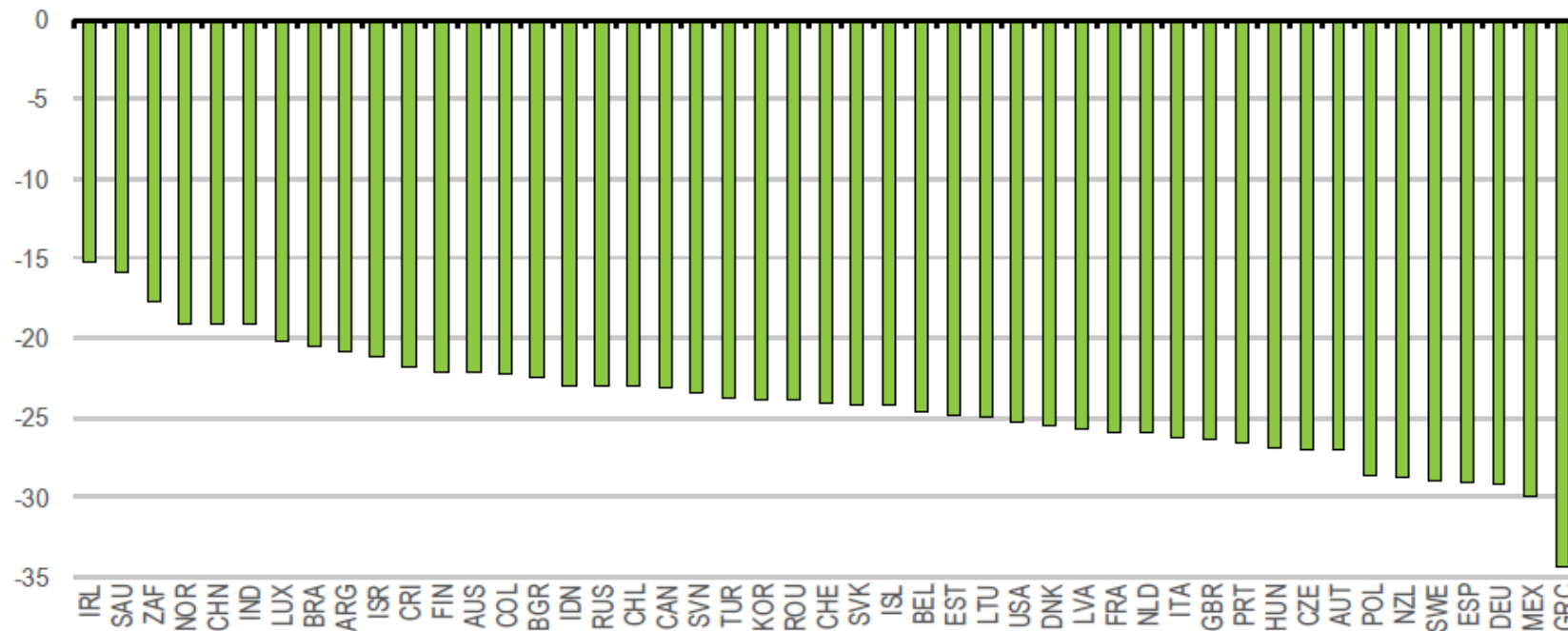


OECD Estimate of Economic Impact from Covid Related Shutdowns



Figure 2. The potential initial impact on activity of partial or complete shutdowns on activity in selected advanced and emerging-market economies

Per cent of GDP at constant prices



Note: High level analysis and use of GDP for Ireland impacts comparability.

Note: See notes to Figure 1. The sectoral data are on an ISIC rev. 4 basis in all countries apart from Korea and Brazil, where national data are used. Real estate services excluding imputed rent are assumed to be 40 per cent of total real estate services in countries in which separate data are not available..

Source: OECD Annual National Accounts; OECD Trade in Value-Added database; Statistics Korea; Brazilian Institute of Geography and Statistics;

Clear Economic Policy Challenge



- Three related elements of policy challenge:
 - Demand deficiency,
 - Liquidity, and
 - Potential insolvency
- Objective of policy : Replace lost demand, support incomes and prevent viable companies going bust
- Liquidity response of Central Banks
- Fiscal – Use the State Balance Sheet to maximum extent
 - Automatic Stabilisers
 - Direct Fiscal Action
 - Guaranteeing Additional Lending and Liquidity

Constraints on Action



- Fiscal capacity is second order importance for now but
 - Build up in Debt will be significant
 - Effectiveness and efficiency of fiscal measures critical
- Duration of shock is critical factor for sustainability of actions
- For now speed and impact of actions taken is the most urgent challenge

Principles of Policy Intervention



- Rapid response and operational impact
- Don't overpromise
- Evidence basis but accept uncertainty
- Deadweight - minimise
- Moral Hazard – “don't sweat it”
- Importance of sequencing
- Equity Issues – do the best we can ?

Types of Responses Internationally



- Investment in the public health system
- Income supports
- Liquidity measures such as deferral of tax and commercial rates and Central Bank measures
- Bank debt holidays/forbearance
- Guarantee Loan schemes and various working capital initiatives
- Grants – **not in Ireland to-date**
- Capital / equity investments in specific companies - **not in Ireland to-date**

Ireland v Other Countries – end March



| | Ireland | UK | France | Germany | Italy | The Netherlands | Sweden | Australia | New Zealand | USA | Canada | Switzerland | South Korea | Belgium | Slovenia |
|---|---------|----|--------|---------|-------|-----------------|--------|-----------|-------------|-----|--------|-------------|-------------|---------|----------|
| Enterprise interventions | | | | | | | | | | | | | | | |
| Loan/Credit lines schemes | ✓ | ✓ | ✓ | ✓ | | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Delay in social insurance payment for companies | | ✓ | | | | | ✓ | | | | | | | ✓ | ✓ |
| Suspension of utilities payments | | | | | ✓ | | | | | | | | | | |
| Tax relief/delay | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Grants/Direct payments | | ✓ | | ✓ | | | | | ✓ | | | | | | |
| Wage support scheme | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | | | |
| Self-employed income assistance | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | ✓ | | ✓ | ✓ |
| State purchase of corporate bonds | | | | | | | | | | | | | ✓ | | |
| Temporary nationalisation of sector | | ✓ | | | | | | | | | | | | | |
| Bankruptcy protection / Bailout assurance | | | | ✓ | | ✓ | | ✓ | | | | ✓ | | | |
| Loan repayment holidays | ✓ | | | | ✓ | | | | ✓ | | | | ✓ | | |
| Government assumption of sick pay costs | ✓ | | | | | | ✓ | | ✓ | | | | | | |
| Investment incentive scheme | | | | | | | | ✓ | | | | | | | |
| Direct support to apprentice | | | | | | | | ✓ | | | | | | | |

Policy Choices (1) Immediate Direct Fiscal v Provisioning



- Direct Immediate Fiscal Support
 - Liquidity supports for firms
 - Income supports for households
 - Wage Subsidy Scheme
- Provisioning
 - Loan guarantee measures
 - Equity funds

Policy Choices (2)



- Targeting
 - “Drone money” not helicopter money
 - Have workable systems for delivery
- Households v Companies
- WSS conditional on sustaining employment
- Open ended grants ?

Measures To-date – Health/Illness



- Improvements in illness benefits
 - Waive the six day rule
 - Enhanced the payment from €204 to €350 per week
- Investment in the health system – equal to 1 per cent of GNI*

Measures To-date – Income Supports



- Emergency Pandemic Scheme for laid off employees
 - Increased to €350 per week
 - Over 530,000 people on scheme – April 14 th
- Introduction of wage subsidy scheme
 - Estimated 130,000 employees on schemes on April 6th – max €410 per week
 - Over €4 billion for income supports over 10-12 week period
 - Income supports estimated at 2 per cent of GNI*

Measures To-date - Summary of DBEI Liquidity Supports



| Existing Scheme | Proposed increases in liquidity measure | Total Funding Available to business |
|---|---|--|
| €150m Credit Guarantee Scheme | n/a | €150m |
| €200m SBCI Covid-19 Lending | +€450m | €650m (+€250m Working Capital <3yrs) (+€200m Long term lending, up to 10yrs) |
| MicroFinance Ireland | +€10m | c.€20m |
| Enterprise Ireland Covid-19 Sustaining Enterprise Fund and Rescue and Restructuring | +€180m | €180m |
| Total Liquidity available | | €1bn |

Liquidity measures such as deferral of tax and commercial rates – equal 1 per cent of GNI*

Measures To-date - Banking and Credit Measures



- Banks announced flexibility to their customers - payment holidays or emergency working capital facilities
- A deferral of up to 3-months on loan repayments
- According to the Banking & Payments Federation Ireland (BPFi) – by April 14th - 45,000 mortgage customers and 14,000 small and medium enterprises (SMEs) have been granted payment breaks.

Summary of Measures



- Counter-cyclical measures
 - Additional health spending of 1 per cent of GNI*
 - Income supports of 2 per cent
 - Liquidity supports/ loan schemes of 1 per cent
 - Circa 4 per cent of GNI*
- More needed on loan schemes
- Automatic Stabilisers supporting activity
- Fiscal deficit of the order of 8 per cent of national income for this year

ISME Survey – Selected Impacts



- Use of Supports
 - Wage Subsidy Scheme – 53%
 - Pandemic Unemployment Payment – 23%
 - Revenue Refunds/Forbearance – 20%
 - Business Loan Payment Break – 11%

Note: Survey based on 392 Responses

Next Set of Issues – Specific Sectors



- Requests for Specific Company/Sector Supports
- Principles
 - Protecting taxpayers' interests
 - Equity v debt or other forms of capital
 - Collateral
 - Priority over on-trade creditors
- Work commencing in various Departments

Next Set of Issues - Balance Sheet Impairment



- Impaired balance sheets of firms
- Limit on future growth
- Debt forgiveness ?
- Who bears the cost?

Planning for Recovery



- Easing of restrictions critical
- Unwinding of emergency measures
- Fiscal policy – avoid pro-cyclical response
- But Structural hit to economy
 - Tourism
 - De-Globalisation ?
- Policy Response
 - Supports for specific sectors
 - Active Labour Market Policies
 - Public housing/Infrastructure
 - Others

Conclusions



- Unprecedented shock
- Speedy response to date but much more to do
- Many policy challenges
- Economy better placed than last two international recessions
– early 1980s and 2008-2010