



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

# COVID–19: Economic Response to Date

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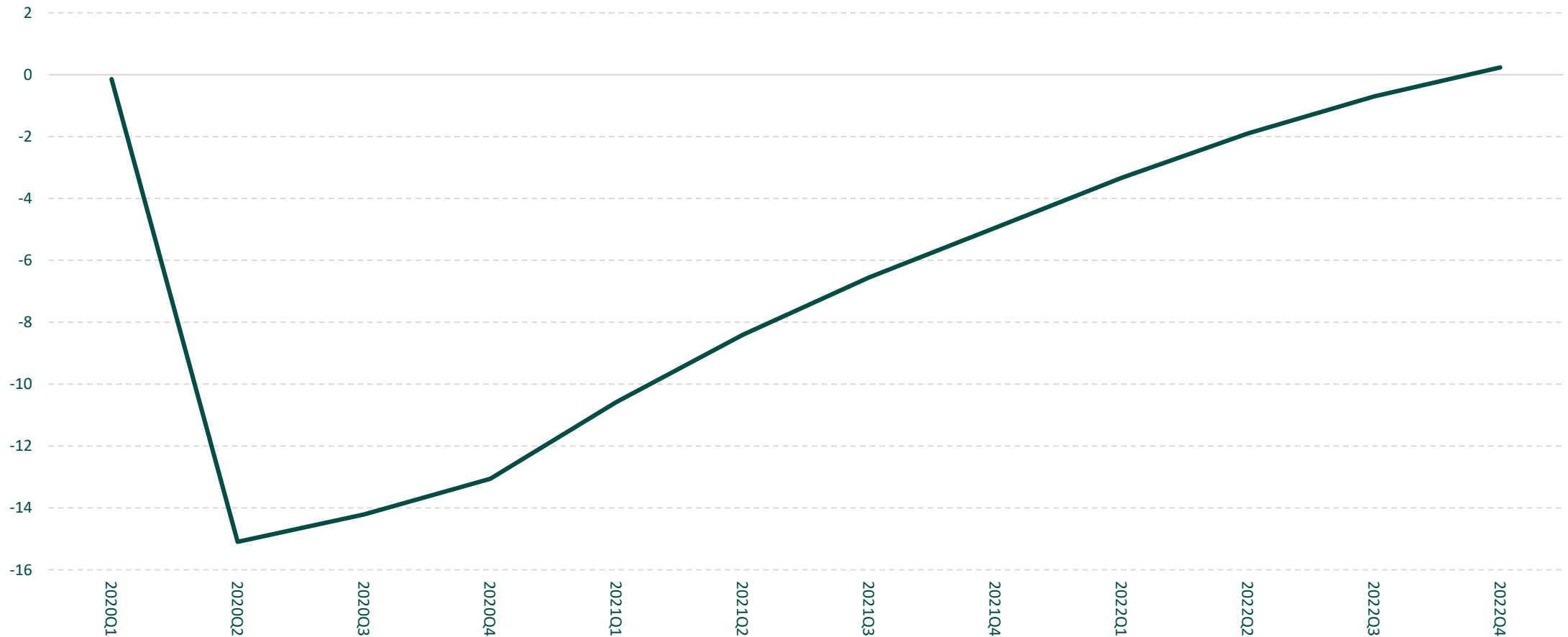
April 22<sup>nd</sup>, 2020

# Economic Challenge



- Unique Exogenous Supply/Demand Shock
  - Severe direct reduction in incomes and expenditures for certain sectors/households
  - Economy-wide shock – In Ireland circa 40 per cent of workforce (860,000 employees) either laid off or on wage subsidy scheme
  - Second round “confidence effects” and “trade impacts”
  - Balance sheet effects will be a drag on growth
  - Financial market stresses ?
- There is significant uncertainty - William Goldman about the movie business, “Nobody knows anything.”

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

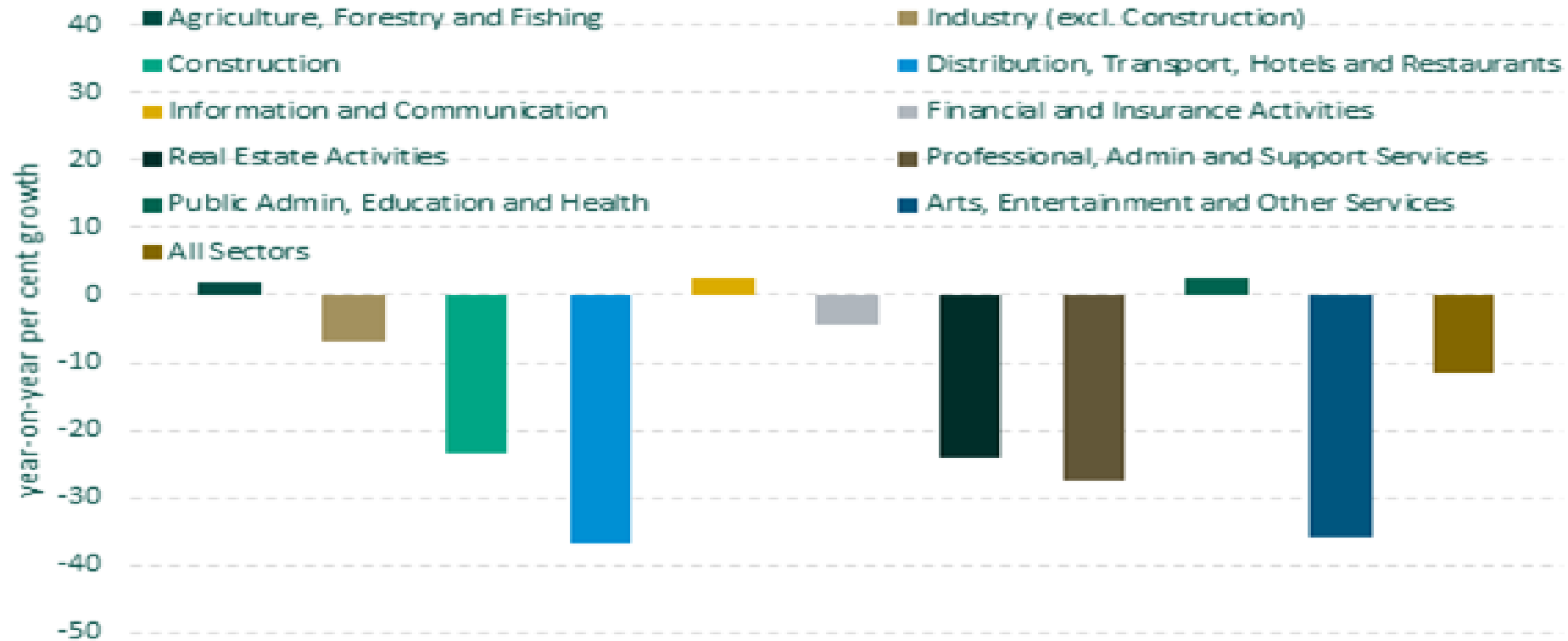


# Extent of Shock



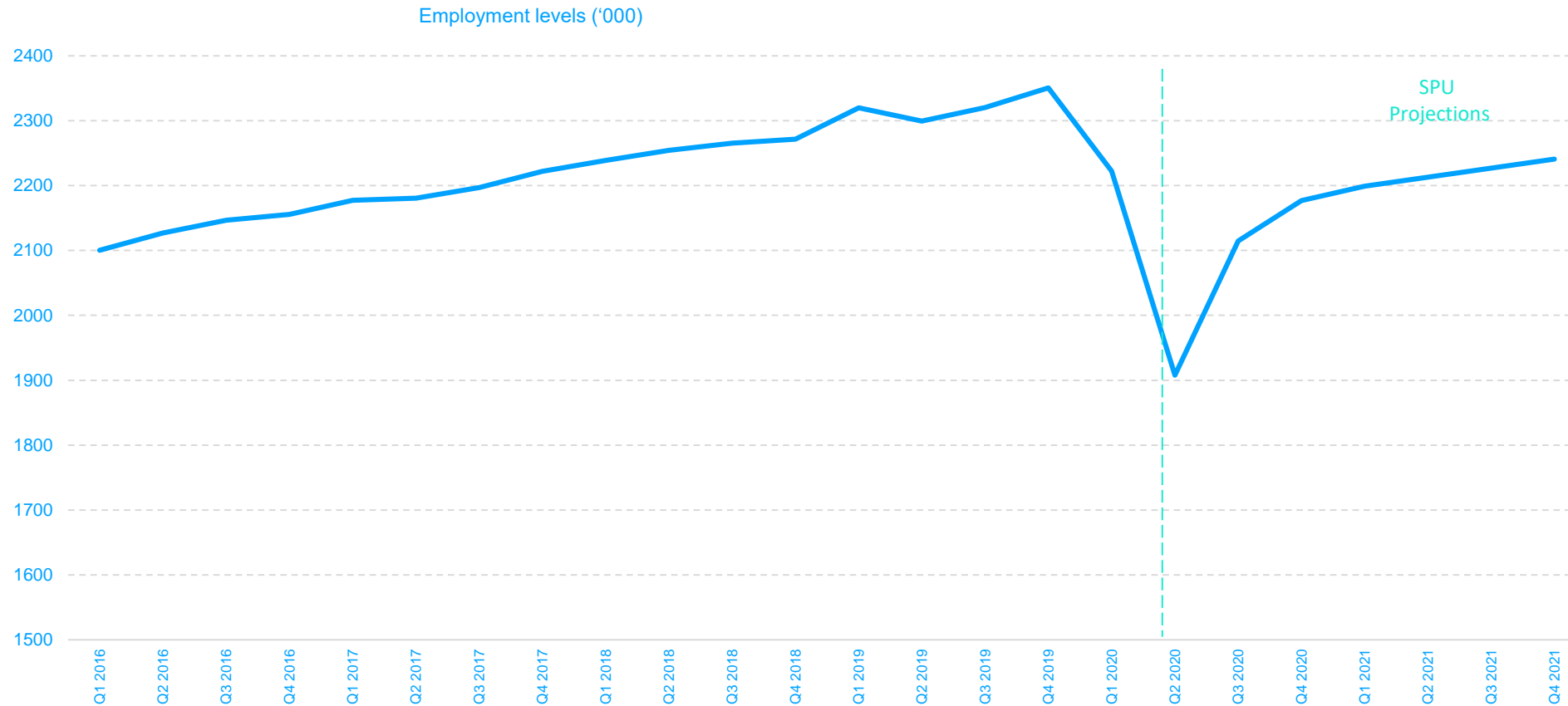
- ESRI and Central Bank assumes 7-8 per cent decline in activity for year based on 12 week shutdown – short-run over 25 per cent fall in activity.
- D/Fin published assessment yesterday - larger falls of circa 10 per cent of GDP assuming gradual easing of restrictions and a slower recovery
- Sectors 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.**

# The Output Approach to GDP in 2020



Source: CSO, Department of Finance.

# Projected Employment Levels



# Indicative Employment Sectoral Impacts



	Employment (2019 Q4)	Employment Share	Output as a proportion of GVA (2018)	PUP + TWSS as % of Employed (Estimate)	ESRI Impact Assumption	Average Weekly Earnings (Q4 2019)	Comparative Ability of Sector to Recover Quickly
Accommodation and Food	179,200	8%	2%	81%	High	€382	Low
Wholesale and Retail	310,200	13%	7%	42%	Medium	€604	Medium
Administrative and Support Service	112,100	5%	6%	44%	Medium	€617	High
Transportation and Storage	108,000	5%	2%	27%	Medium	€810	Medium
Construction	147,100	6%	3%	68%	High	€822	High
Other NACE Services (e.g. Entertainment, Sports Activities, Beauty)	118,700	5%	1%	52%	High	€517	Medium
<b>Total</b>	<b>975,300</b>	<b>42%</b>	<b>21%</b>	<b>515,672 – 53 %</b>			

Source: Enterprises – CSO Business Demography, Employment – CSO LFS Q4, GVA – CSO National Accounts, Average Earnings – CSO EHECS Survey. ESRI – The Potential Costs and Distributional Effect of Covid-19 Related Unemployment in Ireland, TWSS – Revenue Statistics (As of 9<sup>th</sup> April 2020), PUP – DEASP (As of 14<sup>th</sup> April 2020). Note: % of employees on PUP/TWSS estimated based on latest admin data for the schemes and Q4 2019 CSO data. This should be treated with caution given the changing level of recipients over time.

# OECD Countries – Vulnerable to Lock Down



## Sick and sicker

OECD countries, vulnerability to lockdowns, April 2020

Vulnerability score* Rank out of 33, 1=most vulnerable	Jobs that cannot be done from home, %	Retail, transport and hospitality, % of GDP	Fiscal stimulus† % of GDP
(1) Greece	68	23	1.0‡
(3) Spain	68	24	1.2
(5) Italy	65	21	1.2
(15) France	62	18	0.7
(23) Japan	67‡	22	10
(28) Sweden	56	18	2.2
(29) Germany	63	16	4.4
(31) Britain	56	17	3.1
(33) United States	58	16	6.9

\*Average score of five indicators: employment in small firms; ability to work from home; size of retail and leisure sector; fiscal stimulus; focus on job protection †Spending/revenue measures ‡*The Economist* estimate

Sources: "How many jobs can be done at home?" by J. Dingel and B. Neiman; OECD; IMF; World Bank; UBS; Goldman Sachs; *The Economist*

Country	Jobs that Cannot be Done from Home, %	Retail, Transport and Hospitality, % of GVA	Fiscal Stimulus, % of 2019 GNI
Ireland	61%	12%	3.9%



# 'Affected Sectors' as a share of Economic Output across Countries, % GDP



- These include manufacturing of transport equipment, construction, wholesale and retail trade, air transport, accommodation and food services, real estate services.
- 21 per cent of Irish economic activity (i.e. GDP); 32 per cent as a percentage of GNI\* and to almost 37 per cent when expressed as a percentage of 'domestic' gross valued added.

**Source: OECD (2020), "Evaluating the Initial Impact of Covid-19 Containment Measures on Economic Activity".**

# 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 - Immediate Direct Fiscal v Provisioning



- Direct Immediate Fiscal Support
- Provisioning
  - Loan guarantee measures
  - Equity funds
- Targeting
  - “Drone money” not helicopter money
  - Have workable systems for delivery
- WSS conditional on sustaining employment
- Open ended grants ?

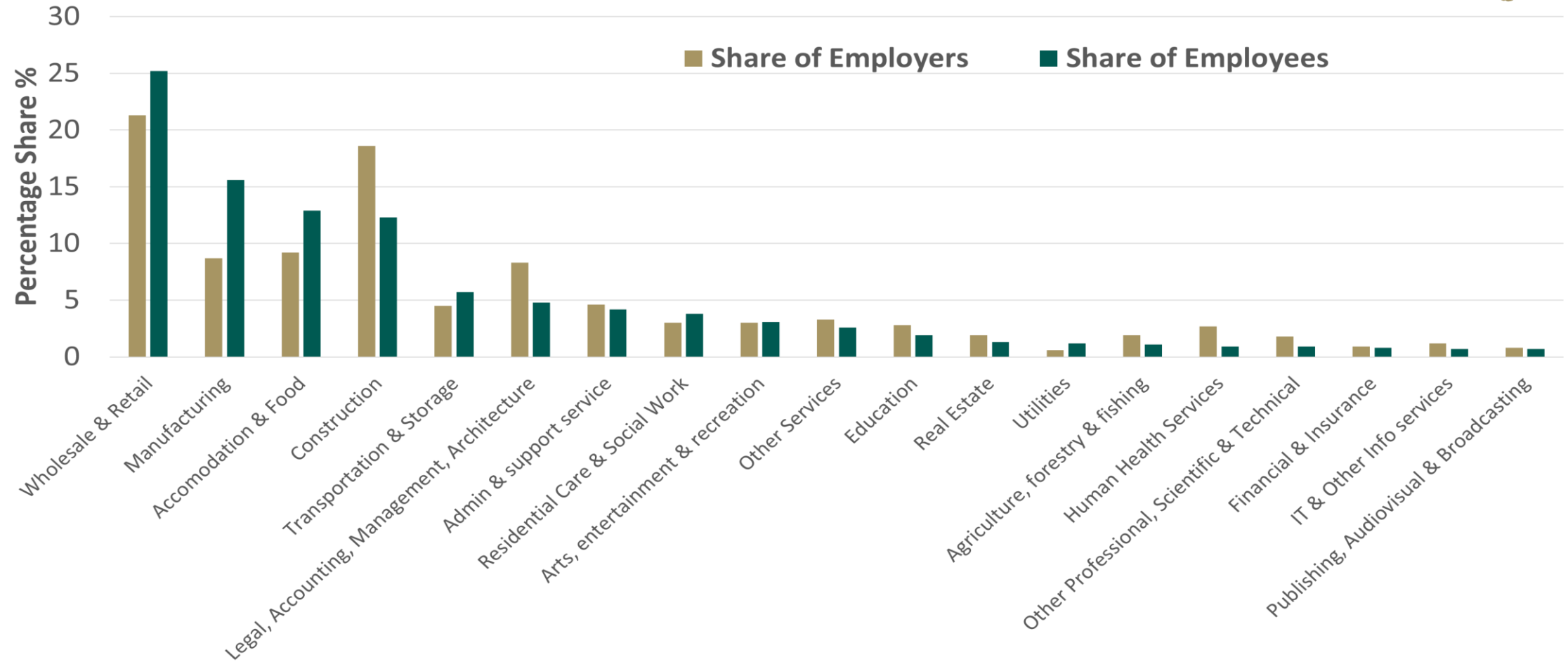
# Measures To-date



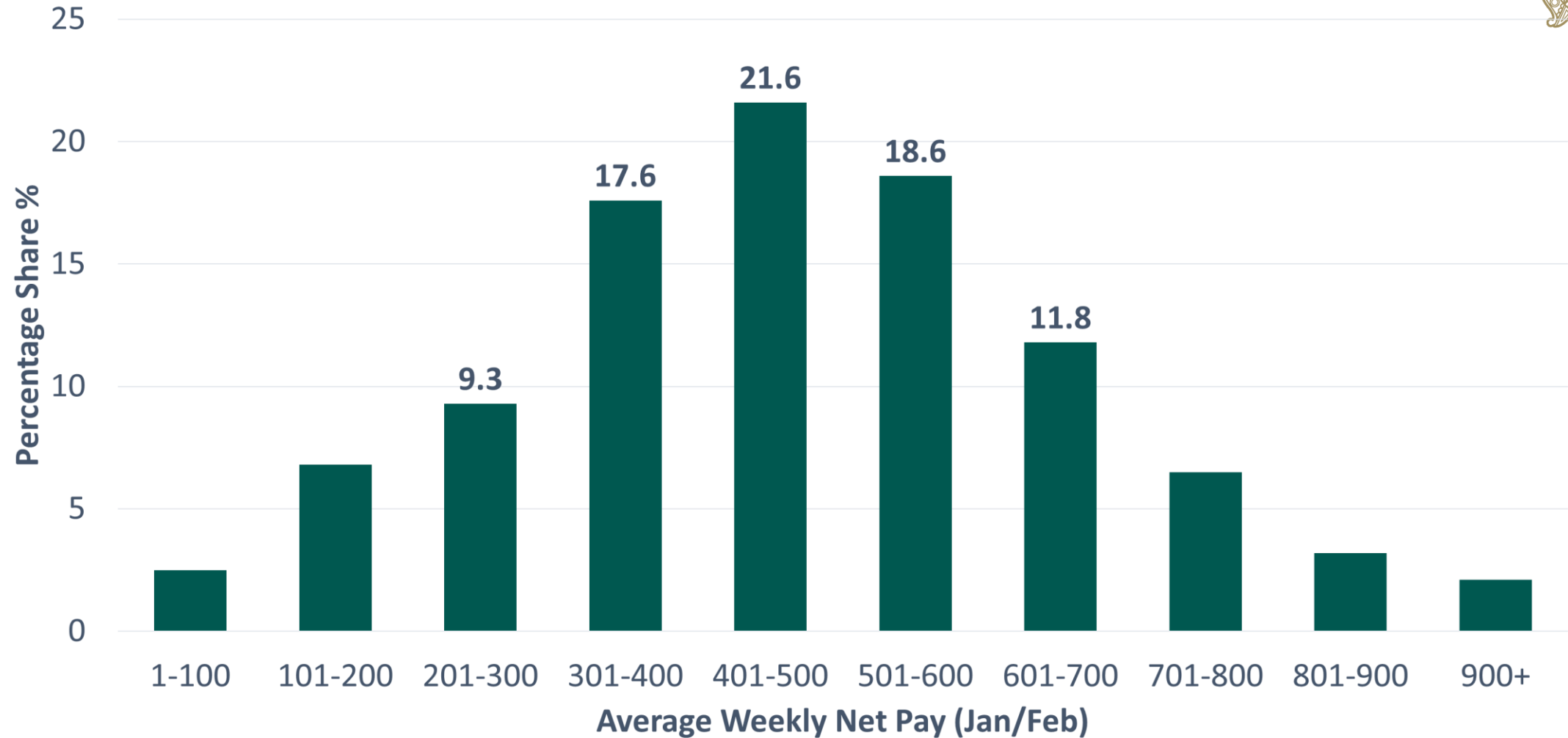
1. Improvements in illness benefits
2. Investment in the health system – equal to 1 per cent of GNI\*
3. Emergency Pandemic Scheme for laid off employees  
580,000 people on scheme – April 17<sup>th</sup>
4. Introduction of wage subsidy scheme
  - Estimated 280,000 employees on schemes on April 17<sup>th</sup> – max €410 per week
  - Over €4 billion for income supports over 10-12 week period
  - Income supports estimated at 2 per cent of GNI\*



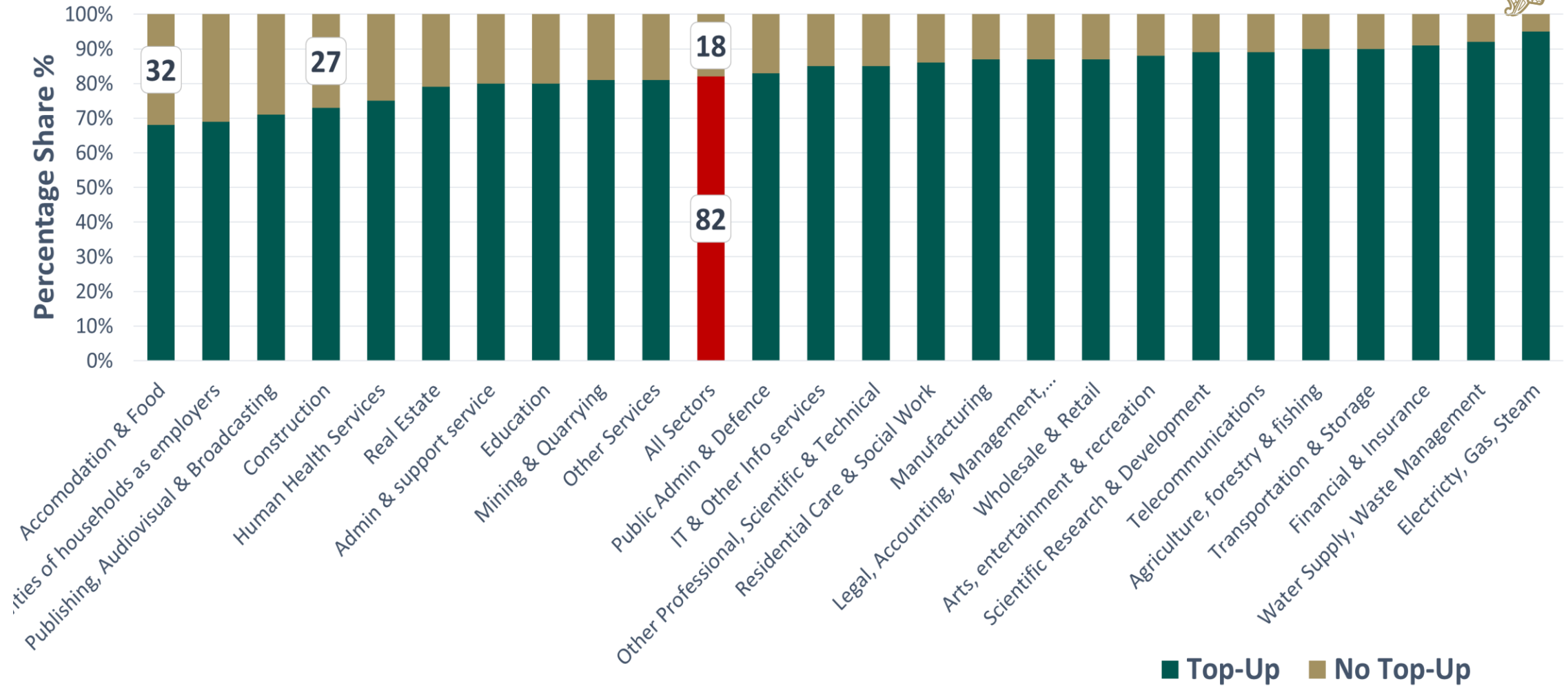
# Distribution of TWSS Employers/Employees by Sector



# Income Distribution of TWSS Employees by Average Net Pay



# TWSS Employees in Receipt of Top-Up by Sector



# Measures To-date



5. Liquidity measures such as deferral of tax - €1.1 billion collected in Jan/Feb but retained - and commercial rates
6. Various Loan Schemes – guarantees split between Banks, State and EIB
7. Bank Forbearance– by April 14 th, 45,000 mortgage customers and 14,000 small and medium enterprises (SMEs) have been granted payment breaks.

# Summary of Measures



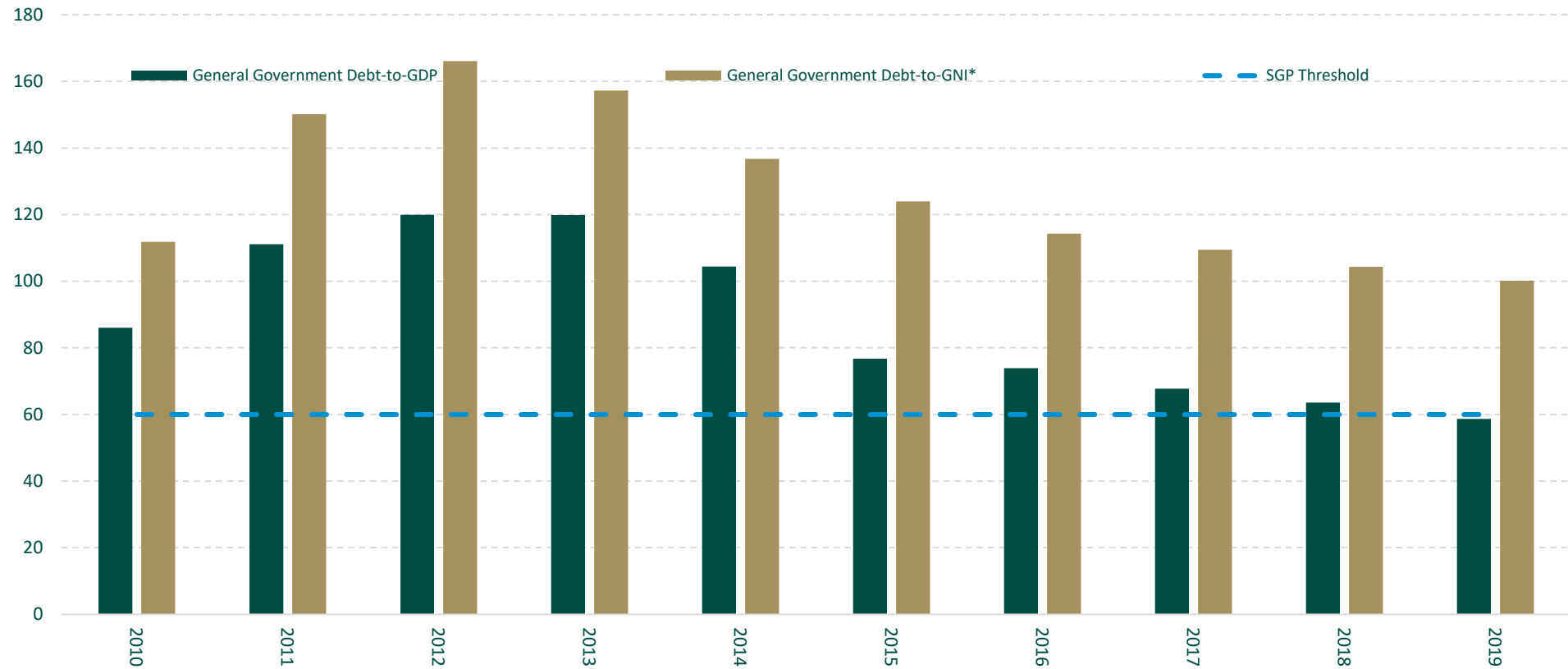
- Counter-cyclical measures – short-run
  - Additional health spending of 1 per cent of GNI\*
  - Income supports of 2 per cent for 12 weeks only
  - Liquidity supports/ loan schemes of 1 per cent
  - Circa 4 per cent of GNI\*
- More needed on loan schemes
- Automatic Stabilisers supporting activity
- Fiscal deficit of the order of 8 per cent of national income for this year

# Next Sets of Issues

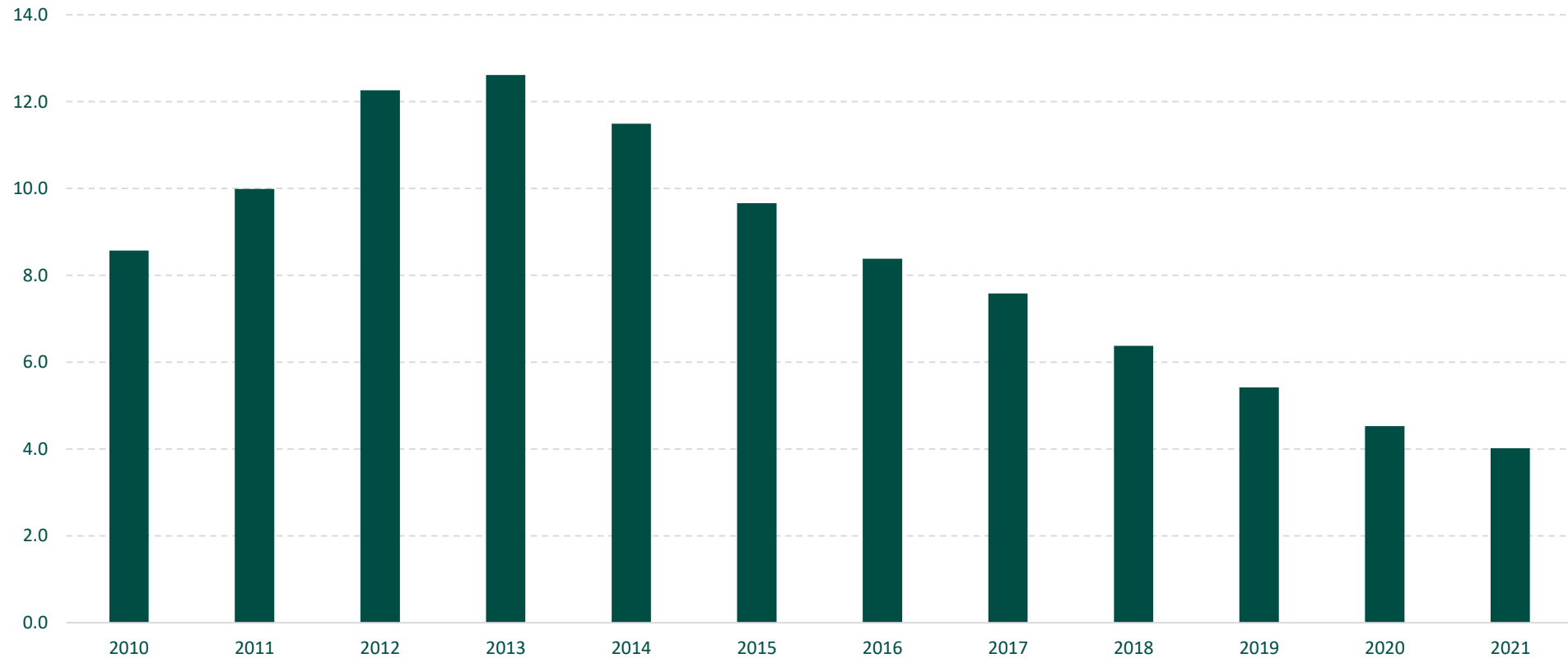


- More EIB/State Guaranteed Lending
- Requests for Specific Company/Sector Supports
- Need clear principles - Protecting taxpayers' interests
- Impaired balance sheets of firms
- Limit on future growth
- Debt forgiveness and fiscal capacity?

# General Government Debt to GDP, Debt to GNI\*

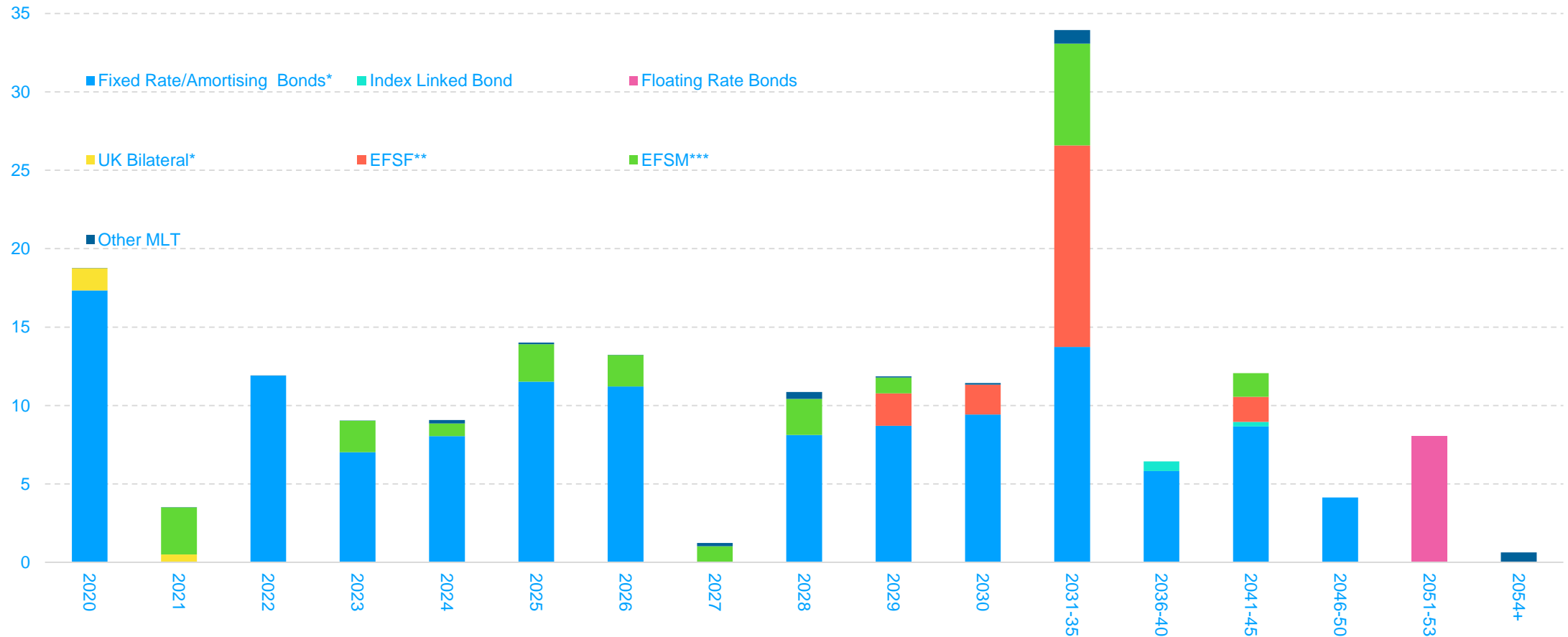


# Interest Costs on Debt to Revenue Ratio





# Maturity Profile of Long-term Marketable and Official Debt, € billion at end-March 2020



# 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