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Central Bank of Ireland
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Contents

Notes

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2. Unless otherwise stated, statistics refer to the State, i.e., Ireland exclusive of Northern Ireland.

3. In some cases, owing to the rounding of figures, components do not add to the totals shown.

4. The method of seasonal adjustment used in the Bank is that of the US Bureau of the Census X-12 variant.

5. Annual rates of change are annual extrapolations of specific period-to-period percentage changes.

6. The following symbols are used:

e	**estimated**
n.a.	**not available**
p	**provisional**
. .	**no figure to be expected**
r	**revised**
–	**nil or negligible**
q	**quarter**
f	**forecast**

7. Data on euro exchange rates are available on our website at www.centralbank.ie.

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Comment

The pandemic outbreak of coronavirus disease (COVID-19), and the measures required to contain its spread, have brought economies worldwide to a near standstill, triggering a very sudden and sharp contraction in economic activity. The scale and extent of the global health crisis, which has aggravated rapidly, poses unprecedented challenges to governments and policymakers to mitigate the societal and economic impact. In response, many countries, including Ireland, have taken rapid action, introducing far-reaching measures, both to protect the health and safety of people from the spread of the virus and to cushion the impact on the economy. We appreciate the exceptional efforts by Ireland's health professionals and our wider public service in facing this challenge.

In terms of its impact on the economy, COVID-19 has triggered an extremely severe economic shock that is fundamentally different in nature and scope from types of shocks previously witnessed. The speed with which economies have, effectively, come to a sudden stop is unprecedented and a global health pandemic has become a global economic crisis. Across the world, though with some differences in degree, countries have followed a twin track strategy to the management of the crisis - first, taking action to protect lives and, then, livelihoods. The first part has generally involved containment measures to limit the spread and human cost of the disease, while the second, has revolved around targeted support to vulnerable households and businesses.

The necessary containment measures to limit and delay the spread of the virus, both in Ireland and internationally, have themselves added to the severe economic shock. For the Irish economy, this has resulted in the widespread shutdown of businesses, mainly in the market services sectors of the economy, with labour-intensive sectors, such as retail trade, food and beverage activities and accommodation, tourism and travel, particularly affected. By end-March, the numbers on the Live Register, combined with those in receipt of Covid-19 related payments, had risen to over 500,000, with further job losses expected. As a result, this disruption has, in turn, given rise to a severe negative shock to domestic demand. With similar developments taking place in most of the advanced economies, in addition to these domestic shocks, there is a significant external shock, with a sharp weakening in external demand and disruption to international supply chains.

The response of governments and policy authorities to the crisis, both here and abroad, has been to move rapidly to take unprecedented actions to safeguard economic activity. Sizeable targeted measures have been put in place to support vulnerable households and firms, to protect individuals and families against loss of income and allow businesses to continue and be in a position to recover. The euro area has seen large-scale monetary and fiscal expansions. Fiscal policy has been used to provide sizeable emergency support and deficit limits have been relaxed. In Ireland, the Government has responded to the crisis by introducing a number of key policy measures, in the form of income support measures, increased resources for the health sector and supports for businesses. The direct cost of these measures is currently estimated at €8.2 billion (4.3 per cent of GNI*).

On the monetary side, the Eurosystem, of which the Central Bank of Ireland is a constituent part, has put in place a series of measures aimed at supporting the smooth provision of credit and further operations to support bank lending, as well as a large-scale asset purchase programme, which will keep the cost of borrowing for governments low. In addition, the Central Bank of Ireland lowered the Countercyclical Capital Buffer (CCyB) with a view to the buffer being available to release, when necessary, to support the sustainable provision of credit to the economy. The release of CCyB was considered appropriate in the current circumstances and in line with its underlying rationale to support the sustainable flow of credit to the economy through the cycle and to limit the scope for the banking sector to act as an amplification or transmission channel of disruption to the real economy.

However, for now, these actions serve mainly to contain the extent of the downturn. Given the unprecedented nature of this crisis, the outlook is characterised by an extreme degree of uncertainty. The future path of the pandemic, in particular its scale and duration, is unknown, and, as a consequence, so is the duration and scope of the containment measures. As a result, there is considerable uncertainty about both the potential depth and persistence of the downturn currently underway, and also the likely timing and speed of an eventual recovery.

Given the extent of the unknowns, it is not possible to produce a conventional forecast of the outlook. Instead, making heavy use of judgement and drawing on a range of analytical tools, an attempt is made in this Bulletin to provide some assessment and estimate of the impact of the crisis under certain assumptions. On the basis of the initial impacts that have been observed, and also, primarily, the assumption that containment measures and restrictions remain in place for a three-month period before being rolled back, GDP could decline by 8.3 per cent in 2020. In this scenario, given the fall in employment which has occurred to date and is in prospect, and if all those receiving Covid-19 related payments are included, the unemployment rate could rise to around 25 per cent in coming months. On the assumption that both domestic and global economic activity begins to recover during the second-half of the year, the unemployment rate could then begin to move lower, though it may still remain over 10 per cent by the end of the year.

The impact of both the fall in employment and the restrictions in place on business opening are likely to lead to a sharp fall-off in personal consumption spending in coming months. At present, the spending categories affected by containment measures account for around one-half of personal consumption. While some of this may take the form of spending deferred, much of it may not, so consumption spending is likely to contract significantly this year - in this scenario, by close to 10 per cent in year-on-year terms. Domestic investment spending is also likely to be adversely affected, leaving strong growth in public consumption as the only partial offset to the sharp contraction of the domestic side of the economy.

On the external side, the exports of indigenous firms are likely to be adversely affected by the sharp decline in external demand. However, as was the case during the financial crisis, there may be some offset to this from the performance of exports of pharmaceutical products and medical devices, which are sectors that are likely to be less negatively affected by weak external demand.

Given the uncertainties attached to estimating the impact of COVID-19 on the Irish economy, two alternative approaches which offer a different lens to the normal forecasting framework are also used to inform aspects of that analysis and shed light on different transmission channels. With both of the approaches, a similar assumption that restrictions remain in place for one quarter is also in place. The first method applied is to estimate the impact of COVID-19 on individual economic sectors. This approach is most useful for estimating the sudden drop in output. As such, it is useful in providing a guide to the size of the initial shock to activity. An estimate based on this approach is outlined in Box B on pages 22-25. This analysis suggests that, primarily as a result of falls in output in market services sectors, output, measured on a sectoral basis, could contract by over 25 per cent in the second quarter of 2020. This measure of unused capacity is broadly similar to the estimate of unused labour resources during the same period, as measured by the unemployment rate.

The second approach applied uses the Bank's macroeconomic models to assess the potential economic impact of COVID-19 on the Irish economy (Box C, pages 33-40). Using the modelling approach allows for cross checking the channels of transmission to ensure that no relevant channels are overlooked. It also enables the differences between different scenarios to be compared. In this exercise, both rapid recovery and prolonged recovery scenarios are examined. The preliminary analysis from this exercise shows that, in both cases, the COVID-19 pandemic is likely to have a relatively similar severe negative impact on the Irish economy in 2020, with differences with respect to the pace of recovery only becoming evident in 2021.

The scenarios presented in this Bulletin are preliminary and will be revised as new information on the virus and its impact becomes available. It needs to be acknowledged that, with all three approaches used, the negative impacts will be larger again, if the containment measures are implemented more broadly and for a longer duration than assumed here.

The overall fiscal cost of the crisis will be sizeable and will reflect both the direct fiscal costs of the emergency support measures put in place and the lower tax revenues and higher crisis-related welfare payments as a consequence of the impact of the deteriorating economic environment on the government budget balance. Incorporating these revenue and expenditure developments, it is projected that the general government balance will move from an estimated surplus of 0.7 per cent of GNI* in 2019 to a deficit of over 10 per cent of GNI* this year (or from 0.4 per cent of GDP to -6 per cent of GDP). In terms of general government debt, the projection is for an increase in the ratio from an estimated 97 per cent of GNI* in 2019 to 112 per cent of GNI* (or from 58 to 66 per cent of GDP).

The near-term outlook for the economy is very unfavourable and, beyond that, the path ahead for the economy depends on the path of the virus, both domestically and globally. The starting point for the recovery will depend on the depth and duration of the downturn, which is, as yet, unknown, though the hope is that forceful containment measures can shorten the period during which economic activity has come to a stop. When it emerges, the pace of recovery is likely to depend on factors such as, the extent to which households and firms have been scarred by the downturn, the degree to which precautionary behaviour unwinds, the recovery in employment and incomes and, possibly also, the degree of stimulus in place to provide some impetus to recovery. It will be some time before there is clarity on many of these issues but, in the meantime, it is essential to protect both the actual and financial health of households and firms to ensure that they are in a position to join in the recovery when it comes.

An Timpeallacht Gheilleagrach

Tá geilleagair ar fud an domhan ina lándstad de thoradh na ráige paindéimí den ghalar coróinvíris (COVID-19) agus de thoradh na mbeart atá riachtanach chun a leathadh a theorannú, rud a spreag cúngú fíorthobann, géar ar ghníomhaíocht eacnamaíoch. Tá an ghéarchéim sláinte dhomhanda seo imithe in olcas go han-sciobtha, agus cruthaíonn a scála agus a fairsinge dúshláin gan fasach do rialtais agus do lucht déanta beartais chun an iarmhairt shochaíoch agus eacnamaíoch a mhaolú. Chun freagairt don ghéarchéim seo, chuaigh go leor tíortha, Éire san áireamh, i mbun gnímh go sciobtha, trí bhearta fairsinge a thabhairt isteach chun sláinte agus sábháilteacht daoine a chosaint ar leathadh an víris agus chun an geilleagar a chosaint ar iarmhairt an víris. Is mór againn éifeachtaí iontacha na ngairmithe sa tseirbhís sláinte agus sa tseirbhís phoiblí níos leithne chun dul i ngleic leis an dúshlán seo.

I dtéarmaí iarmhairt COVID-19 ar an ngeilleagar, tá turraing an-ghéar eacnamaíoch spreagtha aige atá éagsúil ó thaobh cinéail agus raoin le cineálacha turraingí atá feicthe roimhe seo. Tá an luas lenar tháinig geilleagair chuig lánstand gan fasach agus tá paindéim sláinte dhomhanda ina géarchéim eacnamaíoch dhomhanda anois. Cé go bhfuil éagsúlachtaí áirithe eatartha, tá straitéis dhá bheart á leanúint ag tíortha ar fud an domhain chun an ghéarchéim a bhainistiú - ar an gcéad dul síos, tá gníomh á ghlacadh chun beatha a chosaint agus, ar an dara dul síos, chun slí bheatha a chosaint. Bhí bearta srianta i gceist leis an gcéad bheart chun leathadh an ghalair agus básmhaireacht daoine a theorannú, fad a bhain an dara beart le tacaíocht spriocdhírithe do theaghlaigh agus do ghnóthaí leochaileacha.

Maidir leis na bearta riachtanacha srianta a tugadh isteach , anseo in Éirinn agus thar lear, chun leathadh an víris a theorannú agus a mhoilliú, cuireann siad sin leis an turraing ghéar eacnamaíoch. I gcás gheilleagar na hÉireann, dúnadh gnóthaí ar bhonn forleathan, go mórmhór in earnálacha seirbhísí margaidh den gheilleagar, agus rinneadh difear go háirithe d’earnálacha dlúthfhostaíochta, amhail an tionscal miondíola, gníomhaíochtaí bia agus deochanna agus cóiríocht, turasóireacht agus taisteal. Faoi dheireadh mhí an Mhárta, bhí méadú tagtha ar líon na ndaoine ar Bheo-Chlár na nDífhostaithe, i dteannta le líon na ndaoine a bhí ag fáil íocaíochtaí Covid-19, go dtí breis agus 500,000, agus meastar go gcaillfear níos mó post amach anseo. Mar thoradh air seo, eascraíonn turraing ghéar dhiúltach don éileamh intíre as an saobhadh seo. Ó tharla go bhfuil forbairtí comhchosúla ag tarlú i bhformhór na ngeilleagar forbartha, i dteannta leis na turraingí intíre seo, tá turraing shuntasach sheachtrach ann freisin, sa mhéid go bhfuil lagú géar ar an éileamh seachtrach agus saobhadh do shlabhraí idirnáisiúnta soláthair.

Tá rialtais agus údaráis beartais, anseo in Éirinn agus thar lear, tar éis freagairt don ghéarchéim seo trí dhul i mbun gnímh go sciobtha agus bearta gan fasach a ghlacadh chun gníomhaíocht eacnamaíoch a chosaint. Tá bearta spriocdhírithe measartha mór curtha i bhfeidhm chun tacú le teaghlaigh agus le gnóthaí leochaileacha, chun daoine aonair agus teaghlaigh a chosaint ar chaillteanas ioncaim agus chun éascú do ghnóthaí leanúint ar aghaidh agus a bheith in ann teacht ón ngéarchéim. Tá leathnú mórscála airgeadaíochta agus fioscacha feicthe sa limistéar euro. Baineadh úsáid as beartas fioscach chun tacaíocht éigeandála atá measartha mór a chur ar fáil agus maolaíodh teorainneacha easnaimh. In Éirinn, thug an Rialtas freagairt don ghéarchéim trí phríomhbhearta beartais áirithe a thabhairt isteach i bhfoirm bearta tacaíochta ioncaim, acmhainní méadaithe don earnáil sláinte agus tacaíocht do ghnóthaí. Meastar faoi láthair gurb ionann costas díreach na mbeart sin agus €8.2 billiún (4.3 faoin gcéad den OIN*).

Ó thaobh na hairgeadaíochta de, tá sraith beart curtha i bhfeidhm ag an Eurochóras, a bhfuil Banc Ceannais na hÉireann ina chomhpháirt de, arb é is cuspóir dóibh soláthar rianúil creidmheasa a éascú agus oibríochtaí breise chun tacú le hiasachtú bainc, mar aon le clár mórscála ceannaigh do shócmhainní a choinneoidh costas an iasachtaithe do rialtais íseal. De bhreis air sin, d'ísligh Banc Ceannais na hÉireann an Cúlchiste Fritimthriallach (CCyB) chun go mbeidh an cúlchiste ar fáil lena scaoileadh, nuair is gá, chun tacú le soláthar inbhuanaithe creidmheasa chuig an ngeilleagar. Meastar gur iomchuí an CCyB a scaoileadh sna himthosca reatha agus i gcomhréir leis an mbunús atá leis chun tacú le sreabhadh inbhuanaithe creidmheasa chuig an ngeilleagar tríd an timthriall agus chun teorainn a chur le scóip na hearnála baincéireachta gníomhú mar aimpliúchán nó mar bhealach tarchuir saofa chuig an bhfíorgheilleagar.

I láthair na huaire, áfach, féachann na gníomhartha seo go príomha le fairsinge an chor chun donais a theorannú. I bhfianaise chineál na géarchéime seo atá gan fasach, tá éiginnteacht mhíchuibheasach ag baint leis an ionchas. Ní fios cén chonair a leanfaidh an phaindéim amach anseo, go háirithe a raon nó a fad, agus dá bhrí sin, ní heol fad nó raon na mbeart srianta. Dá bhrí sin, tá éiginnteacht mhór ag baint le doimhneacht agus dianseasmhacht an chor chun donais atá ar siúl faoi láthair agus le cathain a thiocfaidh an téarnamh chun cinn agus le luas an téarnaimh sin.

I bhfianaise an méid nach eol dúinn, ní féidir gnath-réamhaisnéis don ionchas a chur ar fáil. Ina ionad sin, déantar iarracht san Fhaisnéis Ráithiúil seo iarmhairt na géarchéime a mheasúnú agus a mheas faoi thoimhdí áirithe trí bheith ag brath go mór ar bhreithniúnas agus trí leas a bhaint as raon uirlisí anailíseacha. Ar bhonn na n-iarmhairtí tosaigh atá feicthe, agus go háirithe ar bhonn na toimhde go mbeidh bearta srianta i bhfeidhm ar feadh tréimhse trí mhí sula ndéanfar iad a chur ar gcúl, d'fhéadfadh laghdú 8.3 faoin gcéad teacht ar an OTI in 2020. Sa chás seo, agus i bhfianaise an laghdaithe ar fhostaíocht atá feicthe go dtí seo agus a fheicfear amach anseo, agus má chuirtear na daoine sin atá ag fáil íocaíochtaí Covid-19 san áireamh, d'fhéadfadh go meadódh an ráta dífhostaíochta go dtí thart ar 25 faoin gcéad sna míonna atá romhainn. Ag glacadh leis go dtiocfaidh téarnamh ar ghníomhaíocht eacnamaíoch intíre agus dhomhanda i rith an dara leath den bhliain, d'fhéadfadh go n-ísleodh an ráta dífhostaíochta ansin ach d'fhéadfadh go bhfanfadh sé os cionn 10 faoin gcéad faoi dheireadh na bliana.

Is dócha go mbeidh laghdú ar chaiteachas tomhaltais phearsanta sna míonna atá romhainn de thoradh iarmhairt an laghdaithe ar fhostaíocht agus na srianta atá i bhfeidhm ar oscailt gnóthaí. Faoi láthair, is ionann na haicmí caiteachais a ndéanann na bearta srianta difear dóibh agus tuairim is leath den tomhaltas pearsanta. Cé go bhféadfaidh go mbeidh cuid de seo i bhfoirm caiteachas iarchurtha, féadfaidh nach mbeidh cuid mhór de, agus dá bhrí sin, is dócha go dtiocfaidh crapadh suntasach i mbliana ar chaiteachas tomhaltais - sa chás seo, go feadh thart ar 10 faoin gcéad i dtéarmaí bliain ar bhliain. Is dócha go ndéanfar difear díobhálach freisin do chaiteachas infheistíochta intíre, rud a fhágann nach mbeidh mar fhritháireamh páirteach in aghaidh an chraptha ghéir ar an taobh intíre den gheilleagar ach fás láidir ar thomhaltas poiblí.

Ar an taobh seachtrach, is dócha go ndéanfaidh an laghdú géar ar éileamh seachtrach difear díobhalach d'onnmhairí gnólachtaí dúchasacha. Féadfaidh go ndéanfar é seo a fhritháireamh go pointe, áfach, le feidhmíocht onnmhairí cógaisíochta agus feistí leighis, mar a tharla le linn na géarchéime airgeadais, toisc gur earnálacha iad ar lú an dóchúlacht go ndéanfadh éileamh lag seachtrach difear díobhálach dóibh.

I bhfianaise na n-éiginnteachtaí a bhaineann le hiarmhairt COVID-19 ar gheilleagar na hÉireann a mheas, baintear úsáid freisin as dhá chur chuige mhalartacha ina dtugar pictiúr atá éagsúil leis an ngnáthchreat réamhaisnéise chun gnéithe den anailís sin a fhoirmiú agus chun léargas a thabhairt ar bhealaí tarchuir éagsúla. Leis an dá chur chuige, glactar leis an toimhde go mbeidh na srianta i bhfeidhm ar feadh ráithe amháin. Leis an gcéad mhodh, déantar iarmhairt COVID-19 ar earnálacha eacnamaíocha ar leith a mheas. Is é seo an cur chuige is fearr chun titim thobann ar aschur a mheas. Ar an gcaoi sin, tá sé úsáideach mar threoir ar mhéid na turrainge tosaigh a bhain do ghníomhaíocht. Tá meastachán bunaithe ar an gcur chuige seo leagtha amach i mBosca B ar leathanaigh 22-25. Tugann an anailís seo le fios go bhféadfadh crapadh 25 faoin gcéad teacht ar aschur, arna thomhas ar bhonn earnála, sa dara leath de 2020, mar thoradh go príomha ar thitim ar aschur sna hearnálacha seirbhísí margaidh. Tá an tomhas seo ar acmhainneacht neamhúsáidte cosúil, a bheag nó a mhór, leis an meastachán ar acmhainní neamhúsáidte saothair le linn na tréimhse céanna, mar a thomhaistear leis an ráta dífhostaíochta.

Leis an dara cur chuige, úsáidtear samhlacha maicreacnamaíocha an Bhainc chun iarmhairt fhéideartha eacnamaíoch COVID-19 ar gheilleagar na hÉireann a mheas (Bosca C, leathanaigh 33-40). Tríd an gcur chuige samhaltaithe a úsáid, is féidir cros-seiceáil a dhéanamh ar na bealaí tarchuir chun a áirithiú nach ndéantar dearmad ar aon bhealaí ábhartha. Ina theannta sin, is féidir comparáid a dhéanamh ar na difríochtaí idir cásanna éagsúla. Sa chleachtadh seo, scrúdaítear cás meartéarnaimh agus cás téarnaimh fhaidréisigh araon. Léirítear sa réamhanailís ón gcleachtadh seo gur dócha go mbeadh iarmhairt throm dhiúltach chomhchosúil ag paindéim COVID-19 ar gheilleagar na hÉireann sa dá chás sin agus nach mbeadh na difríochtaí i ndáil le luas an téarnaimh le feiceáil go dtí 2021.

Is réamhchásanna iad na cásanna a chuitear i láthair san Fhaisnéis Ráithiúil seo agus déanfar athbhreithniú orthu de réir mar a bheidh faisnéis nua ar fáil maidir leis an víreas agus le tionchar an víris. Ní mór a chur san áireamh go mbeidh na hiarmhairtí diúltacha níos measa fós i ngach cur chuige a úsáidtear má chuirtear na bearta srianta i bhfeidhm ar bhonn níos forleithne agus ar feadh tréimhse níos faide ná mar a ghlactar leis anseo.

Beidh costas foriomlán na géarchéime measartha mór agus léireofar ann costais dhíreacha fhioscacha na mbeart tacaíochta éigeandála arna gcur i bhfeidhm mar aon le hioncam níos ísle cánach agus íocaíochtaí leasa shóisialaigh níos airde de thoradh na hiarmharta a bheidh ag an timpeallacht eacnamaíoch ar iarmhéid buiséadach an rialtais. Agus na forbairtí ioncaim agus caiteachais seo á gcur san áireamh, meastar go n-athróidh an t-iarmhéid rialtais ghinearálta ó bharrachas measta de 0.7 faoin gcéad den OIN* in 2019 go dtí easnamh de bhreis ar 10 faoin gcéad den OIN* i mbliana (nó ó 0.4 faoin gcéad den OTI go dtí -6 faoin gcéad den OTI). I dtéarmaí an fhiachais rialtais ghinearálta, meastar go mbeidh méadú ar an gcóimheas ó mheastachán de 97 faoin gcéad den OIN* in 2019 go dtí 112 faoin gcéad den OIN* (nó ó 58 go dtí 66 faoin gcéad den OTI).

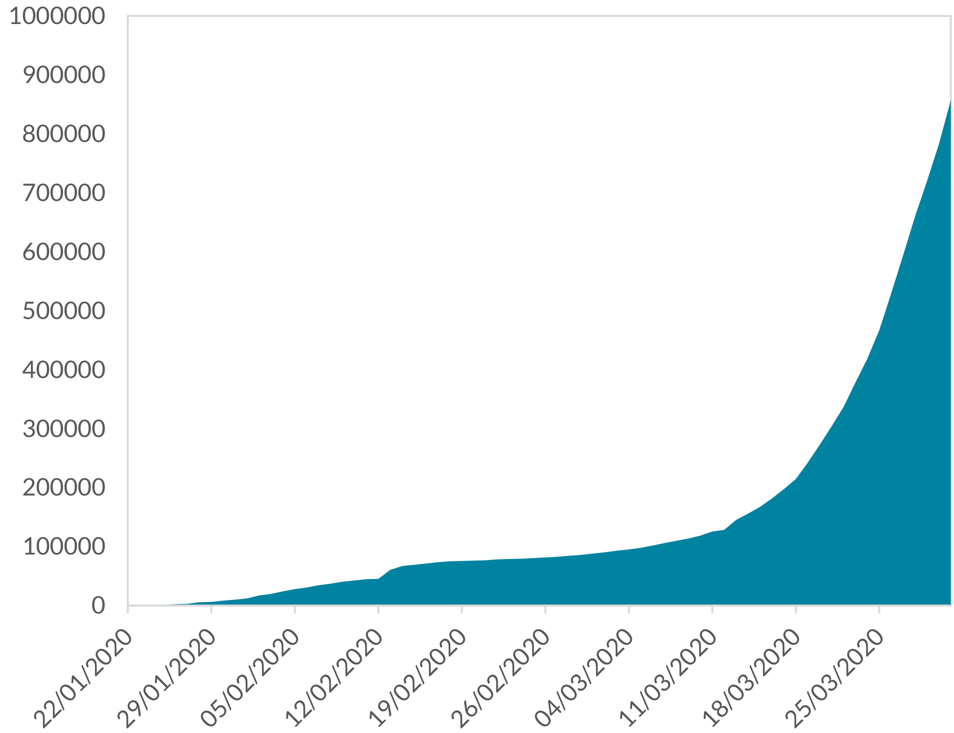
Tá an t-ionchas gearrthéarmach don gheilleagar an-mhífhabhrach agus beidh an chonair don gheilleagar amach anseo ag brath ar chonair an víris, anseo in Éirinn agus ar fud an domhain. Beidh an pointe tosaigh don téarnamh ag brath ar dhoimhneacht agus ar fhad an chor chun donais, rud nach eol go fóill ach táthar ag súil go bhféadfar an tréimhse ar lena linn a bheidh gníomhaíocht eacnamaíoch stadta a ghiorrú trí bhíthin bearta sriantacha éifeachtacha. Nuair a thiocfaidh an téarnamh chun cinn, is dócha go mbeidh a luas ag brath ar thosca amhail an lorg a fhágfaidh an cor chun donais ar theaghlaigh agus ar ghnólachtaí, a mhéid a mhaolófar iompar réamhchúramach, an téarnamh ar fhostaíocht agus ar ioncam, agus b'fhéidir méid an spreagtha a bheidh i bhfeidhm chun ugach a thabhairt don téarnamh. Ní bheidh soiléireacht ar na saincheisteanna seo go ceann tamaill ach, idir an dá linn, tá sé riachtanach, chun sláinte iarbhír agus sláinte airgeadais teaghlach agus gnóthaí a chosaint, go gcinnteofar go mbeidh siad ábalta páirt a ghlacadh sa téarnamh nuair a thiocfaidh sé chun cinn.

The Impact of COVID-19 on the Irish Economy

Introduction

The outbreak of coronavirus disease (COVID-19), which began in China, has now spread worldwide (Figure 1). At the time of writing, Europe is suffering a severe outbreak, with Italy and Spain severely impacted and with France and the UK recording a significant numbers of cases. Irish authorities have moved swiftly to introduce measures to limit the spread of the virus. On March 12th, school closures were announced and large gatherings were banned. This was followed by the closure of all pubs and restaurants. On Friday 27 March, all individuals were asked to remain at home barring essential trips to purchase food, work in an essential service, or to care for relatives.

Figure 1: Cumulative Number of Cases Worldwide



Source: European Centre for Disease Control

Note: Last observation 31st March 2020.

The necessary containment measures to limit and delay the spread of the virus both in Ireland and internationally have given rise to a severe economic shock that is unprecedented in both its size and speed of propagation. The shock to the international economy combines significant disruption to international supply chains, sharply weaker demand and a precipitous fall in consumer and investor sentiment. In the domestic economy, the disruption to supply involving the widespread shutdown of business and the consequent job losses has caused a severe negative shock to domestic demand.

Given its rapidly evolving nature and the uncertainty surrounding the future path of the virus, it is exceptionally difficult to forecast the economic outlook, either globally or domestically, with any degree of accuracy. To attempt to address this problem, in this Bulletin, we use three approaches to build up a picture of the impact of the crisis on the Irish economy. First, we use our standard forecasting framework, making heavy use of judgement and assumptions and taking account of the impacts seen to date, to arrive at a tentative estimate of the impact of COVID-19 on the Irish economy in 2020. The unprecedented nature of what is happening means that past episodes do not necessarily provide a guide to what might happen and there is much that is unknown – the size of the shock, its depth and duration, the channels of transmission and the potential nature of the recovery and when it might emerge.

Given these uncertainties, two alternative approaches which offer a different lens to the normal forecasting framework are also used to inform that analysis and shed light on different transmission channels. The first method applied is to estimate the impact of COVID-19 on individual economic sectors. This approach is most useful for estimating the sudden drop in output. As such, it is useful in providing a guide to the size of the initial shock to activity. Estimates based on this approach are outlined in Box B on pages 22-25.

The second approach applied uses the Bank's macroeconomic models to assess the potential economic impact of COVID-19 on the Irish economy (Box C, pages 33-40). Using the modelling approach allows for cross checking the channels of transmission to ensure that no relevant channels are overlooked. It also enables the differences in the impact and effect of different scenarios to be compared.

Both of these approaches have been used to inform the forecasting framework analysis, the main results and details of which are outlined next.

Forecasting framework analysis - main results

Taking account of the extent of business closures and lay-offs in the most exposed sectors such as retail, the hospitality sector and construction where close to 650,000 people are employed, the number of job losses could exceed 500,000 during the current quarter. Reflecting the design of support measures such as the COVID-19 wage subsidy, many of those leaving employment may transition directly to temporary non-employment outside the labour market rather than to unemployment. While this may contain the rise in the statistical measure of unemployment, if all of those receiving COVID-19 payments are also included, the combined rate of unemployment may rise to around 25 per cent in coming months.

Looking beyond the current quarter, the outlook is characterised by an extraordinary degree of uncertainty across a number of fronts. In relation to the pandemic itself – its scale and duration are essentially unknown at this point. As a consequence, there is a high degree of uncertainty regarding both the duration and scope of containment measures and, in turn, the timing and pace of the recovery. In the light of these uncertainties, to arrive at an estimate of the likely outturn for growth this year we assume that containment measures remain in place fully for a 3-month period, with a gradual roll back thereafter and are successful in limiting the scale and duration of the pandemic.

On this basis, for 2020 as a whole, the highly conditional estimate is for GDP to decline by 8.3 per cent. This is based on strong growth in the first two months of the year, a sharp decline in the second quarter, followed by a gradual recovery in the third quarter which gathers more momentum in the final quarter of the year. The reduction in Irish economic growth in 2020 is likely to be greater than that observed in any year of the 2008-9 economic and financial crisis.

In the labour market, employment is expected to track the sharp decline in output in the second quarter, with employment losses reaching up to 500,000 and recovery again tracking the positive output trend in the second half of the year. For the year as a whole, employment is projected to decline by an average rate of 11 per cent. While unemployment, broadly defined to also include workers who are laid-off temporarily but may be covered by the COVID-19 related payments, is estimated to average over 14 per cent, for the year as a whole. However, the statistical measure reported by the CSO may be lower (see Labour Market section).

Reflecting the world-wide nature of the COVID-19 pandemic and the consequent decline in world demand, Irish exports will be adversely affected. However, reflecting the composition of Irish exports and, following the pattern during the previous world recession in 2008-9, some sectors such as pharmaceuticals and the broad IT sector may prove more resilient. As a consequence, Irish exports are expected to decline sharply, albeit by less than the decline in world demand. With imports expected to decline on foot of much weaker domestic demand, net exports may make a positive contribution to overall growth this year, albeit insufficient to offset the expected sizeable decline in domestic demand.

Underlying this scenario, underlying domestic demand (UDD)[1] is estimated to decline sharply in the second quarter of the year, recovering gradually in the third quarter before rebounding in the final quarter. With about 50 per cent of consumer spending subject to significant restrictions, and employment income set to decline, an exceptional decline in consumer spending is inevitable in the current quarter. This is notwithstanding the significant income support measures. Similarly, underlying investment is likely to decline sharply reflecting the fall off in demand, as well as the impact of supply restrictions, reflected in the temporary closing of many non-essential businesses. While a significant increase in government expenditure partially offsets some of the declines in consumption and investment, for the year as a whole, UDD is estimated to decline by 8.9 per cent.

The price level, as measured by the Harmonised Index of Consumer prices (HICP) is expected to decline by 0.9 per cent reflecting the deflationary impact of the weaker demand together with lower energy prices following large downward adjustment in oil prices.

The conditional estimates presented here represents a dramatically different outlook for the economy compared to the previous Bulletin projections, published just two months ago. From a position of strong growth and emerging overheating risks in an economy approaching full employment, the Irish economy now faces the prospect of an unprecedented decline in incomes and employment this year. Nevertheless, the outlook must be treated with a high degree of caution. It is contingent on the success of containment measures in limiting the scale and duration of the pandemic and on the efficacy of exceptionally large fiscal and monetary policy support measures. The risks to the forecasts are on the downside and reflect, among other things, the possibility of a prolonged containment period or a more subdued recovery than assumed here.

[1] Underlying domestic demand is the sum of private consumption, Government consumption and underlying investment (excluding intangible assets and aircraft).

Table 1: Forecast Summary Table

	2018	2019e	2020f
Real Economic Activity			
(% change)			
Gross Domestic Product (GDP)	8.2	5.5	-8.3
Personal Consumer Expenditure	3.4	2.8	-9.0
Underlying Investment	13	2.2	-24.3
Public Consumption	4.4	5.5	7.5
Underlying Domestic Demand	5.3	3.2	-8.9

Main channels through which COVID-19 affects economic activity

The outbreak of the coronavirus represents an unprecedented supply and demand shock to the Irish economy. While it is certain that the downturn will be significant, understanding the channels through which it affects the economy will aid policymakers in mitigating the severity of the crisis.

Supply will be disrupted primarily by the containment measures. At present, these measures reduce the mobility of individuals and require the closure of all workplaces barring those deemed essential. While remote working is possible in certain sectors, in many industries this is not possible which has forced the closure of many firms.

The worldwide spread of the virus also implies that there will be significant disruption to global supply chains. This is already being felt by firms who source goods from China. The shutdowns in January and February have fed through to supply shortages, particularly in the case of intermediate inputs, for European firms in March. This is likely to increase as the necessary containment measures result in trade delays at border crossings, ports and airports within Europe and the US.

The virus is also a severe demand shock affecting activity across all sectors of the economy. Firstly, an extraordinary number of individuals have been laid off by their employers during the last three weeks. While this would represent an enormous shock to the economy in normal times, the effect is further amplified by the elimination of most opportunities to consume. The measures announced on the 27th of March required the closure of all non-essential retail.

Heightened uncertainty also reduces firms' incentives to invest. Investment decisions tend to be driven by expectations about the future path of growth in the economy. Under the current circumstances, the economy will not be able to operate under normal conditions until the virus is properly contained.

In this way, the direct economic impacts of the outbreak are prone to severe amplification. Firms lay off workers as a result of the containment measures, reducing their incomes and increasing uncertainty about their financial prospects. Individuals reduce consumption as a result, both because of reduced opportunities to consume but also in order to increase precautionary savings. This in turn further weakens firm's positions. The speed and the degree to which firms will be able to resume operations after the restrictions are lifted depends on a number of factors, most importantly the position of their balance sheets before the shock hit. It is inevitable however that some firms will be forced to close permanently.

With this in mind, both fiscal and monetary policy have very important roles to play. Policies which reduce uncertainty, which support incomes and which mitigate financial impacts will reduce the ultimate scale of the losses. While a downturn is unavoidable for as long as containment measures are in place, actions which help firms to survive and provide some certainty to household incomes will aid in the speed of the recovery.

Impact on Households and Firms

The Labour Market

The immediate impact of the health crisis on the economy has been felt in the labour market. In recent weeks, containment measures have resulted in the closure of all non-essential businesses. Prior to these events, employment in the state had grown by 3.4 per cent on an annual basis to 2.36 million persons in Q4 2019 with unemployment continuing its gradual decline in recent years to 4.7 per cent. Following the announcement of public health measures to close all non-essential businesses, the effect on employment levels has been sizeable and unprecedented.

The latest Live Register data,[2] while not a direct measure of unemployment, shows that as of the 27th of March, 283,000 individuals had received the COVID-19 Pandemic Unemployment Payment from the Department of Employment Affairs and Social Protection. These payments are in addition to the 201,000 in receipt of jobseeker-related payments and 25,000 in receipt of the temporary wage subsidy scheme as of the same date. These data indicate approximately 320,000 job losses before the introduction of the containment measures. These additional measures resulted in the closure of more businesses, including in the construction sector.

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[2] DEASP Press Release

There are many occupations and sectors where social distancing is not possible and where remote working is not applicable. We estimate total employment in these sectors to be close to 650,000. While it is possible that employment reductions may occur across all fourteen sectors over time, some sectors will be more adversely affected than others in the short-to-medium term. The two main at-risk sectors are "accommodation and food service activities" and "wholesale and retail" which employed 179,000 and 310,000 persons, respectively according to the Q4 2019 Labour Force Survey (LFS).

Table 2: Quarterly Profile of Estimated Labour Market Impacts

	2020Q1	2020Q2	2020Q3	2020Q4	Annual Average
Employment	2336.2	1861.2	2081.2	2211.2	**2122.45**
Unemployment	135.6	610.6	390.6	260.6	**349.35**
Labour Force	2471.7	2471.7	2471.7	2471.7	**2471**
Unemployment Rate	5.5	24.7	15.8	10.5	**14.1**

Other labour-intensive sectors such as construction, with 148,000 employed, have ceased most of their operations. The duration of these stoppages is uncertain at present, but will continue for as long the current containment measures, which prohibit all but essential workplaces to stay open, remain in place. The economic effect on the manufacturing sector will differ on a firm-by-firm basis. Given the interconnectedness of supply chains, the closure of one firm may have subsequent adverse effects on the production process of another firm. It is clear that the large reduction in demand from temporarily closed businesses and lower incomes could lead to job losses further up the supply chain.

A large number of workers, primarily in services sectors such ICT and Finance, have been able to switch to remote working and these sectors are currently assessed to be low-risk in terms of job losses. There may also be some offsetting job increases in certain sectors such as grocery retail, transport and logistics. The health sector may also see increased employment levels due to COVID-19 containment measures. However, these numbers will be significantly smaller than the overall job losses.

Our estimates, which are set out in Table 2, suggest that if all of those who we estimate will be out of work are recorded as unemployed (this issue is discussed in Box A below), the unemployment rate could average 14 per cent for the year, peaking at 25 per cent in the second quarter. At present, the CSO have indicated that those in receipt of the pandemic unemployment payment or those availing of the wage subsidy scheme do not meet the official ILO definition of unemployment.[3] This is because there is no information available to the CSO to indicate which of those in receipt of the emergency payment would have been included on the Live Register if the emergency arrangements did not exist. However, reflecting the need for policymakers to fully understand the labour market effects, the CSO will publish a COVID-adjusted monthly unemployment rate for March 2020. In producing our estimates of the impact of COVID-19, we have taken the view that the unemployment rate used in the Bank's forecasting models represents a measure of the economy's unused labour resources. From this perspective, it is important to capture all those workers who have lost their jobs. Measured in this way, the unemployment rate is broadly similar to the estimate of the level unused capacity in the second quarter of 2020 (calculated in Box B below), which shows a fall in total output, measured on a sectoral basis, of over 25 per cent in this period.

Box A: Statistical Classification of Job Losses During COVID-19

By Stephen Byrne and Enda Keenan[4]

The extent to which the large employment losses translate into significant increases in the unemployment rate depends ultimately on the duration of the current crisis. At present, many of the layoffs have been explicitly temporary in nature. In this case, the person would not be counted as unemployed, but possibly outside of the labour force or else remain "in employment" if they are in receipt of a wage subsidy that keeps them attached to their employer. These measurement decisions have a significant effect on the official measure of the unemployment rate. Table 1 shows an example of why this is the case. In this example, 500,000 workers are laid off as a result of the COVID-19 containment measures. In the second column, all of these individuals flow directly from employed into "outside the labour force". In this case, the number "unemployed" would stay the same, but the labour force falls sharply. Since the unemployment rate is equal to the number unemployed divided by the labour force, a fall in the denominator causes a slight increase in the unemployment rate to 6.2 per cent. If these workers are immediately counted as unemployed as in the third column, there is a dramatically

[3] The statistical methodology is outlined in detail in a note by CSO Labour Statistics https://www.cso.ie/en/releasesandpublications/in/mue/inlrmue/
[4] Irish Economic Analysis Division

different impact on the unemployment rate. In the fourth column, we show the mitigating effect on the official unemployment rate if 2/3 avail of income support and these workers continue to be classified as "employed".[5]

Table 1: Labour Market Effects

	Current	Straight to OLF	Straight to Unemployed	2/3 Avail of Income Support
Pop 15+	3959	3959	3959	4124
Unemployed	121	121	621	286
Employed	2323	1823	1823	2158
Labour Force	2444	1944	2444	2609
Outside Labour Force	1515	2015	1515	1680
Unemployment Rate	**5.00%**	**6.20%**	**25.40%**	**11.00%**

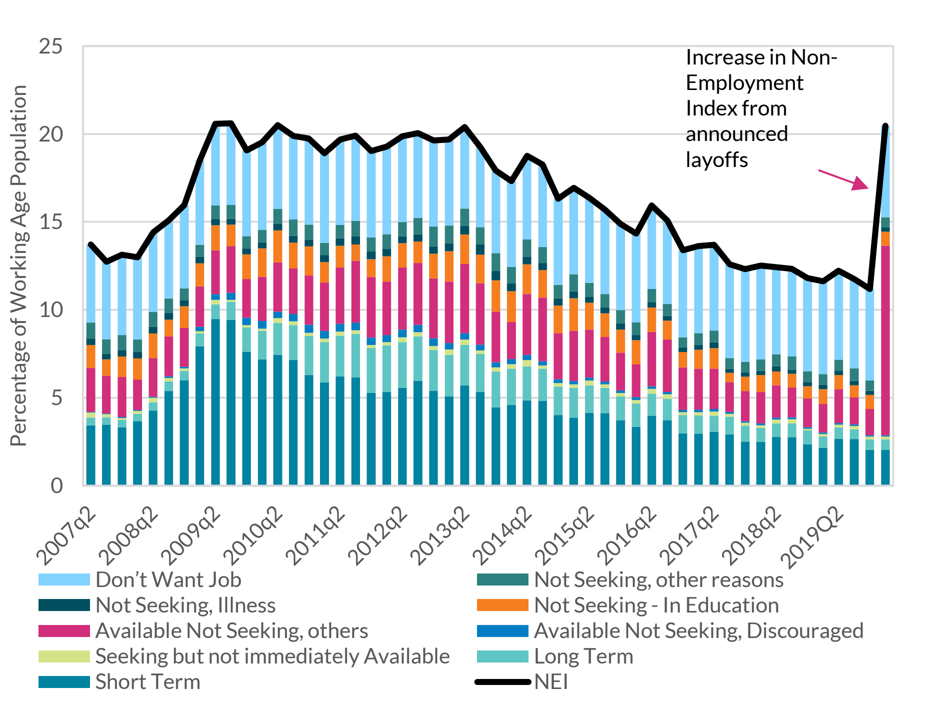
Source: CSO and authors own calculations

From a policymaking perspective, and in terms of our understanding of the effect of these employment losses on consumption and output, it is important to note that, as result of the manner in which unemployment is officially recorded, the unemployment rate may appear lower than it might otherwise be, given the exceptional nature of this crisis.

In this scenario, the non-employment index may provide a more useful guide to the labour market effect.[6] In Figure 1, we show an example where 500,000 additional workers bypass unemployment and move straight into "available not seeking". Under this scenario, the non-employment index would be close to its peak level during the crisis.

[5] At present, the CSO have noted that they are continuing to assess this classification.
[6] A Non-Employment Index for Ireland. Byrne, S. & Conefrey, T,. Central Bank of Ireland Economic Letter (2017.9).

Box A Figure 1: The Non Employment Index



Source: CSO and Authors' Calculations

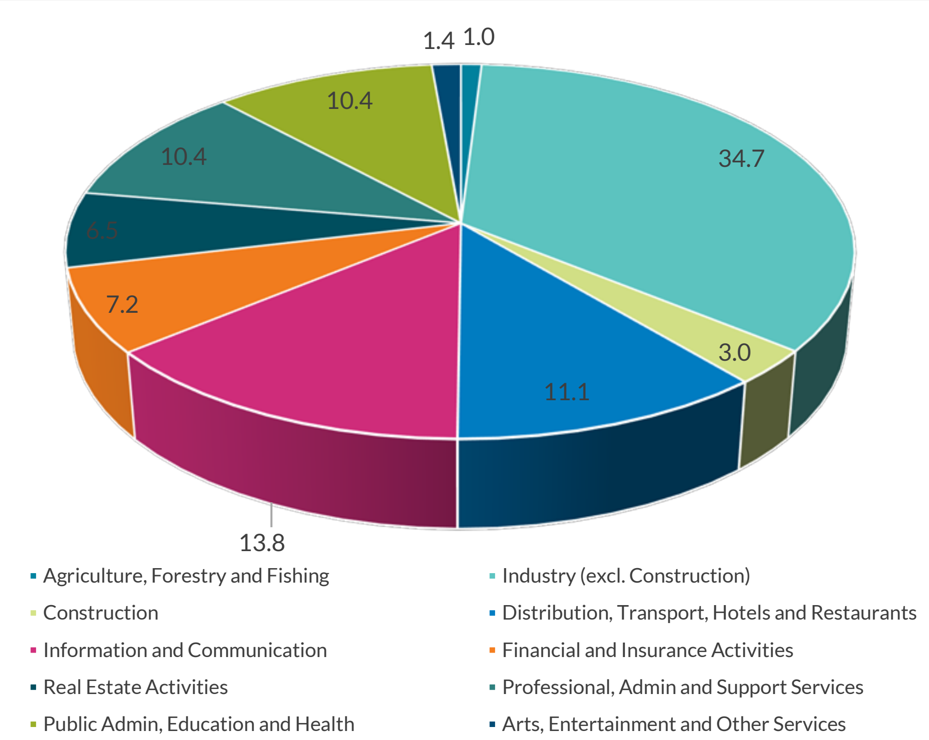
Box B: Estimating 2020 GDP: An Output-Side Approach

By Thomas Conefrey [7]

One approach to assessing the potential direct effects of the shutting down of sectors of the economy is to use the output side of the CSO's Quarterly National Accounts and identify the sectors most affected by the containment measures. Figure 1 shows the share of output accounted for by each sector of the economy. Industry is the largest sector producing over a third of all economic output in 2019. ICT is the next largest sector with almost 14 per cent of output followed by distribution, transport, hotels and restaurants at 11.1 per cent. Using a detailed sectoral breakdown available in the CSO's annual data suggests that the sectors most affected by the shutdowns account for between 30 and 45 per cent of annual output.

[7] Irish Economic Analysis Division

Box B: Figure 1: Percentage Share of Output by Sector, 2019



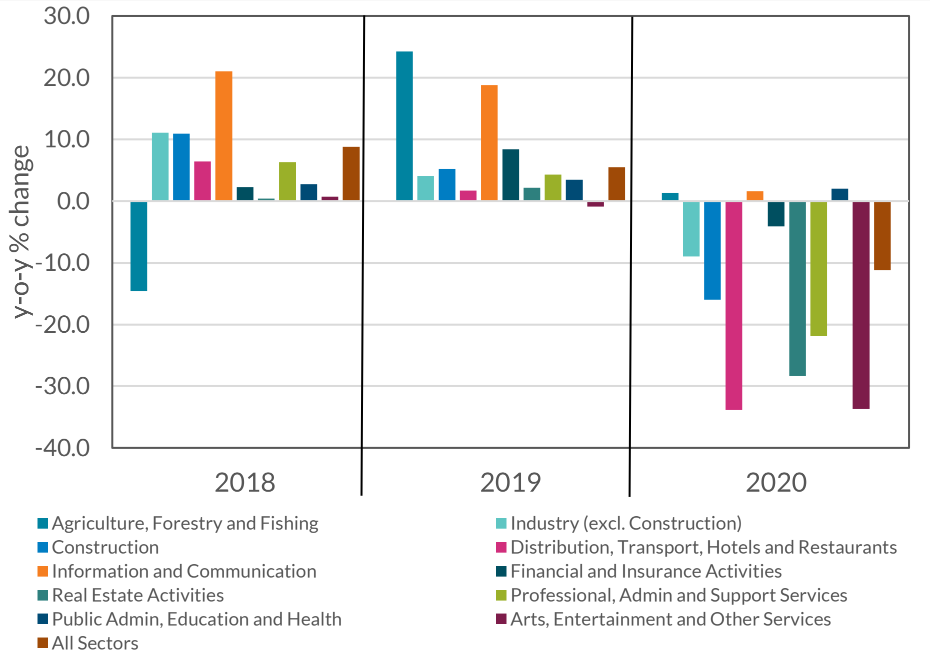
Source: CSO.

To derive an estimate of output growth in 2020 taking into account the possible impact of COVID-19, one approach is to go through each of the 10 sectors separately identified in the CSO data and for each quarter of 2020 make an assumption on much output might fall due to the virus. For this analysis, we assume that the crisis peaks in Q2 2020 with the containment measures being relaxed from Q3 2020 allowing for a resumption of economic activity from that point. The size of the output decline assumed in each sector is based on intelligence gathering from industry sources, judgement and from observing the most affected sectors to date.

Looking first at the services sectors, activities in the distribution, transport, hotels and restaurants sector will clearly experience significant declines. Hotels and restaurants have been closed since mid-March and air and other forms of transport are also substantially curtailed. Many non-food retailers have also closed. Similarly, activity in the smaller arts and entertainment sector has essentially ceased. For these two sectors (distribution, transport, hotels and restaurants, and arts and recreation), we assume drastic 80 and 90 per cent falls in output in Q2 2020. Other services activities such as administrative and support services (includes rental and leasing activities and travel agency) and real estate activities will also be adversely affected. We assume that sectors such as information and communications and finance and insurance experience the smallest declines in output of between 10 and 20 per cent. This in on the basis that these sectors rely less on travel and direct contact between customers and service providers. They are also amenable to home working. There is no assumed reduction in the health sector on the assumption that there is substitution from “normal” activity to COVID-related treatment but that overall health output is unchanged.

The direct impact of containment measures is likely to be smaller in the manufacturing sector, parts of which is less employment intensive than the services sector. For industry excluding construction, we assume a reduction in output of 20 per cent in Q2. Pharmaceutical products and medical devices account for the majority of manufacturing output and activity in these sectors has so far largely continued. Other manufacturing activity in the traditional sector such as food processing is likely to be adversely affected however. Non-essential construction work is being reduced due to the containment measures affecting labour availability and because of lower investment. For this sector, we assume that output falls by around two-thirds in Q2 2020.

Box B Figure 2: Estimate of GDP by sector for 2020



Source: CSO and own calculations.

Combining this range of assumptions suggests that overall output in 2020 could fall by just over 11 per cent. The decline would be concentrated in Q2 when output would fall by just under 30 per cent on an annual basis. From a position in 2018 and 2019 where all but one of the 10 sectors of the economy recorded annual increases in output, the majority of sectors would see annual declines in 2020 (Figure 2). The distribution and transport and recreation sectors would be the most adversely affected with falls of 36 per cent and 34 per cent respectively.

It is important to note that this is a crude exercise that relies heavily on judgement to determine the size of the sectoral output declines. The approach only estimates the initial direct impact on output in each sector and does not take into account indirect effects. It is designed as a tool to produce ballpark estimates of the possible range of 2020 GDP growth outcomes depending on the scale of reduction in output in the most affected sectors and the duration of the containment measures. In relation to the latter, the current exercise assumes that the containment measures currently in place are phased out after Q2 2020. If the measures were to remain in place for a longer period in 2020, the output losses would be larger than calculated here.

Private Consumption

The containment measures related to preventing the spread of COVID-19 will reduce consumption severely, especially in the second quarter. Firstly, this is because of severe restrictions on the opportunities to spend. With the vast majority of people requested to stay at home and limit any social interactions, consumption of certain goods and services will decrease or even stop entirely. Secondly, the significant economic shock, which includes substantial (albeit temporary) layoffs in a number of sectors, will reduce incomes and increase precautionary savings. The severity of the consumption decline for 2020 as a whole depends crucially on the length of time for which the containment measures are in place, the fiscal measures put in place to support incomes, and the speed at which firms are able to reopen once the measures are lifted.

Using Eurostat data breaking down consumption by purpose, we identify the following a most severely affected by the restrictions:

- Alcoholic beverages (including pubs);
- Transport services;
- Recreation and culture;
- Restaurants and hotels.

In 2018, these activities represented 31.2 per cent of personal consumption of goods and services. Based on this weight and a figure for total personal consumption expenditure of €112.2bn in 2019Q4[8] this

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[8] As published in the Central Bank of Ireland's Credit and Debit Card Statistics Q4 2019
https://www.cso.ie/en/releasesandpublications/er/na/quarterlynationalaccountsquarter42019/

would add up to approximately €35bn. A full quarter of lost consumption in these activities could therefore cost the economy up to €8.8bn, almost 8 per cent of annual personal consumption and a sizeable proportion of overall output in the economy.

Other activities that do not necessarily involve significant social interaction are also impacted by the measures implemented to contain the outbreak include: Clothing and footwear; Furniture and household equipment; Household maintenance; Purchase of vehicles; Education; Other goods and services. For the retail-based activities, discussions with representatives of the major retailers has suggested that footfall fell dramatically in recent weeks before the announcement of the mandatory "stay at home" order. Since that announcement, all retailers of non-essential items have closed. Furthermore, consumers are also unlikely to make long-term decisions in a time of unprecedented uncertainty. The combined weight of these consumption categories was equal to an additional 20 per cent of personal consumption.[9] A full breakdown of the consumption categories, their weight in personal consumption, and the expected severity of the impact of COVID-19 on each of them, is shown in Figure 2.

We can already see that the overall volume of credit and debit card transactions appears to have been significantly lower in the month of March. Based on trends in card expenditure,[10] a reasonable estimate for card expenditure during the month of March 2020 would have been around €6.4bn. Data available up to 25th March would instead point to an equivalent monthly expenditure of €5.56bn, representing a substantial fall. However, as containment measures only took effect on 13th March, this is likely an understatement of the actual decrease in spending. The last seven days of available card transaction data, which were fully affected by the restrictions, point to a spending of €1.04bn, translating to a monthly figure of around €4.6bn. This is about 28% lower than the projected level of expenditure in the month.

Unemployment is set to increase significantly during the second quarter. As a result, the recovery in consumption will depend crucially on the speed at which the employment losses are undone. In all cases, the outbreak of COVID-19 also represents an uncertainty shock. As a result, even unaffected consumers are likely to reduce their consumption and increase savings. Some of the consumption lost will be deferred, for instance spending on consumer durables may come later in the year in many cases.

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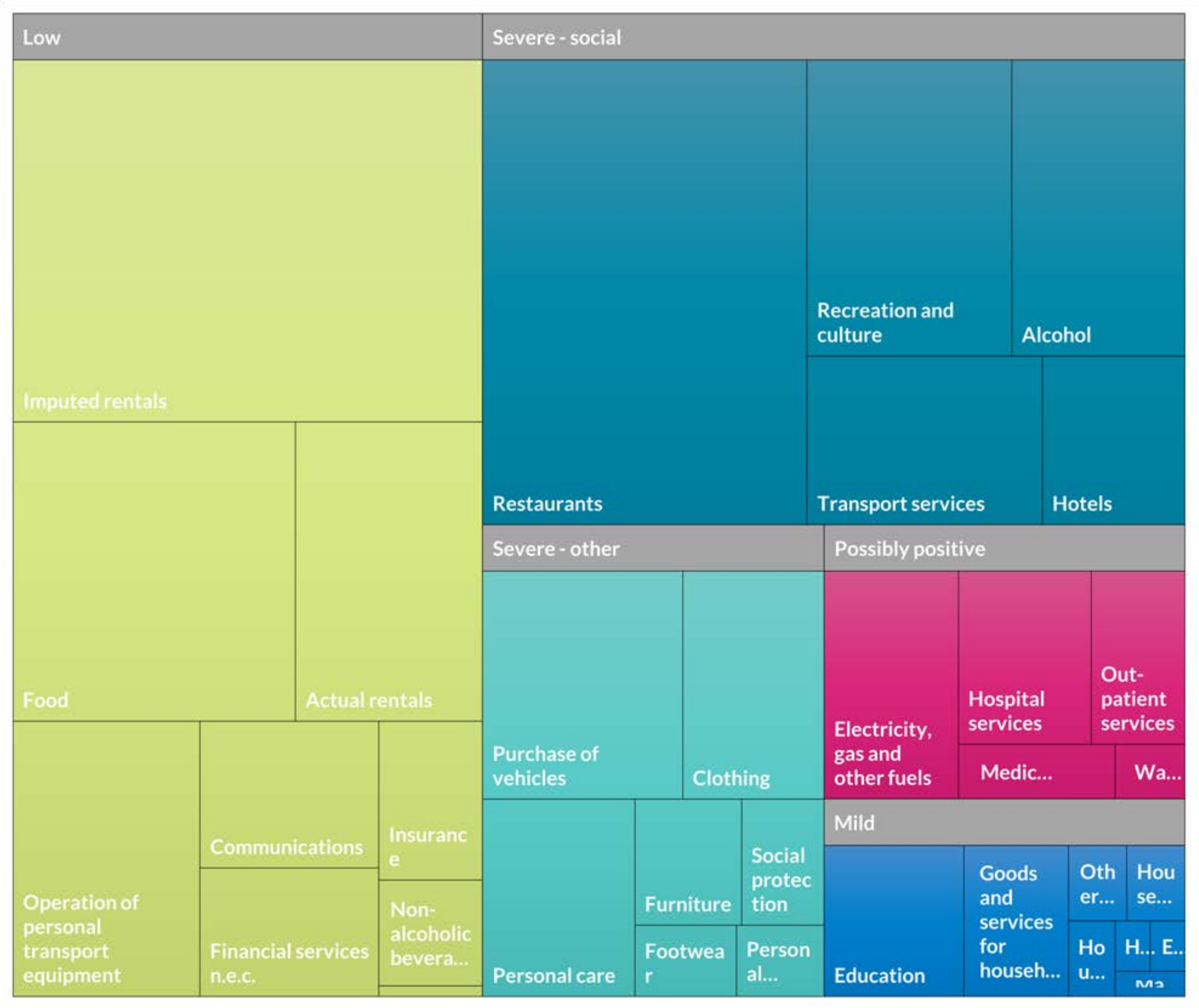
[9] As per 2018 National Income and Expenditure Accounts, the last year for which data on consumption weights are available.
[10] The data is available here.

However, spending on restaurants and accommodation is more likely to be foregone – further amplifying the impact on these sectors.

Taking all of these things together, and conditional on our estimated path of the unemployment rate and the assumption that a significant portion of consumption is not possible for a number of months, private consumption is estimated to fall by 9 per cent in 2020.

Figure 2: Certain categories of consumption at much higher risk than others



Source: CSO National Accounts.
Note: The size of the boxes represents these items' weight in the consumption bundle.

Households' Financial Position before COVID-19

The position of household finances before the onset of a negative shock can be used to examine the ability of households to withstand a shock of this nature. In aggregate, net household wealth at the end of 2019 was 10 per cent higher than at the start of 2007,[11] despite house prices remaining over 15 per cent below their 2007 peak. The relatively favourable net wealth position of households at the end of 2019 was supported by a recovery, to pre-2007 levels, in both incomes and employment. The economic impact of COVID-19 on families will occur, in large part, as an income shock. Households with net liquid assets[12] (or financial buffers) may need to draw down on these in order to cushion against falls in employment or wages as a result of the pandemic. Households hold different levels of financial buffers depending on their incomes and sectors of employment, Table 2.

New data from the Household Finance and Consumption Survey (HFCS) shows that the median household in Ireland holds financial buffers valued at around 5.9 per cent, or less than a month, of gross income. In the euro area, households typically hold slightly higher buffers, 7.6 per cent, or close to a month of gross income.[13] Using current information regarding the sectors most exposed to COVID-19 (see labour market section) we find that 72 per cent of households with at least one member employed before the pandemic has medium or high risk of employment disruption due to the economic shock. Households with the highest risk of employment disruption account for almost a quarter of all households and include those with members working in retail, wholesale, accommodation and food services. These households with employment in sectors at high risk of disruption hold less than 3 per cent – at the median – of their gross annual income as liquid assets. Households with medium risk of employment disruption (48 per cent of all households) hold between 5 and 6 per cent of their income as liquid assets.

Data from the labour force survey shows that the proportion of self-employment is greater in the sectors most at risk to disruption. For example, across 86 NACE sector subcategories, the median share of self-employment is approximately 6 per cent in the low and medium risk categories while it is 22.3 per cent in the high risk category. Households relying, at least partially, on self-employment income account for just over a fifth of all households. The data indicates that these households are more likely to hold financial buffers than households who do not rely on self-employment income; and that those buffers are larger, both in median terms and as a share of total income. In addition to household financial buffers, families will be able to draw on targeted income support schemes.

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[11] Using Quarterly Financial Accounts data on households from the Central Bank of Ireland.
[12] Net liquid assets are defined as the sum of liquid assets (deposits, mutual funds, bonds, non-self-employment business wealth, shares and managed accounts) less non-collateralised debt (overdrafts/credit lines, credit cards and other non-mortgage loans) – this is a commonly used financial buffer metric.
[13] The latest Household Finance and Consumption Survey report for the euro area is here. The Irish data surveyed just under 4,800 households between April 2018 and January 2019.

These schemes have been introduced to ensure that families whose incomes are affected by the pandemic do not see large income falls during the period that the containment measures keep workplaces closed.

Table 2: Incomes and financial buffers of households, 2018

Household Type	Share of households	Income	Financial Buffers (as a share of income)
All	100.0	48,000	5.9
Employment in high risk sectors	23.6	49,000	2.9
Employment in medium risk sectors	48.7	78,100	5.1
Receiving self-employment income	22.0	66,000	11.8

Source: Preliminary Household Finance and Consumption Survey, 2018.

Investment

The COVID-19 pandemic and associated containment measures will have a substantial negative impact on almost all facets of business investment. The main channels through which the pandemic will impact on firms' fixed capital spending will be on the restricted movement of labour and capital, uncertainty and liquidity. The epidemiology of the coronavirus and the severity of the measures to limit its spread on a global level will determine the scale and duration of the fall in investment spending. While there is little published hard data to indicate the scope of the fall in investment, the closure of almost all non-essential businesses for an unspecified duration is likely to result in significant falls in investment spending this year.

On the housing front, completions are set to be negatively affected by the virus itself and containment measures. At the time of writing, fewer construction sites remained open and social distancing was reportedly affecting productivity. If sites are closed, which now looks more likely, housing output will be significantly affected; new completions could drop to 16,000 units this year, following 21,240 completions in 2019. If containment measures are in place for longer periods, this figure could be lower.

Despite a healthy pipeline of investment and record levels last year, COVID-19 related restrictions and general uncertainty mean that construction in non-residential investment is also expected to fall off considerably.

Machinery and equipment investment not related to the aircraft sector is likely to decline. This type of investment expenditure may slow more than construction, as businesses can more easily cancel or delay these expenditures compared to the momentum of construction commitments. Overall, a significant decline in underlying investment, most likely in double figures, is in prospect in 2020.

The timing of the recovery of investment is uncertain and depends on success of the containment measures, the evolution of COVID-19 and timeline of a potential vaccine. In the event of the more benign V-shaped scenario - where the economy recovers relatively quickly with strong linkages maintained between firms and affected workers, investment could recover reasonably quickly. However, as a small open economy with a high multi-national presence and given the global nature of the pandemic, the recovery would need to be widespread and not limited to Ireland if it is to underpin a rapid recovery in investment here.

International Trade

COVID-19 will reduce the pace of Irish exports growth significantly compared with recent years, at least during 2020. This occurs for two main reasons. Firstly, the containment measures in place in Ireland will hamper the output of our exporting firms. This will be most evident on the goods trade side, but services will also be affected to a lesser extent. The global recession will significantly reduce demand in Ireland's main trading partners. In addition, disruption to global supply chains will make it more difficult for firms to complete export orders.

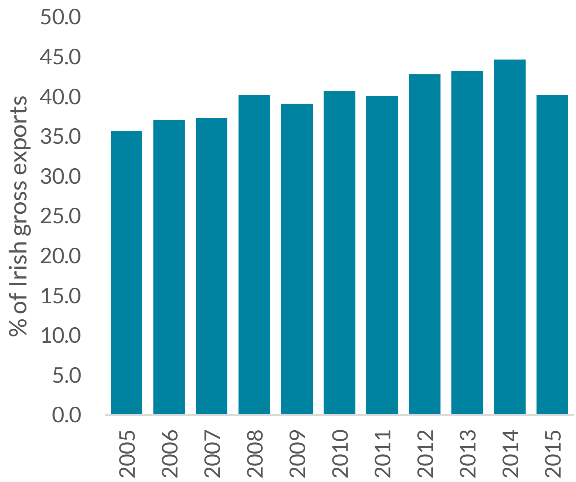
Reflecting the composition of Irish exports and, following the pattern during the previous world recession in 2008-9, some sectors such as pharmaceuticals and the broad IT sector may prove more resilient. Consequently, Irish exports are expected to decline sharply, albeit by less than the decline in world demand.

As a small and highly open economy, Ireland is particularly prone to shocks of this nature. The economy is highly integrated in global value chains.[14] Of particular importance in this regard is the extent of our backward participation in GVCs (Figure 3). A high degree of backward participation implies that Irish exporters are highly reliant on foreign value added as a share of gross exports. As a result, even a short-lived drop in global trade can result in a significant impact as firms find it more difficult to source intermediate inputs.

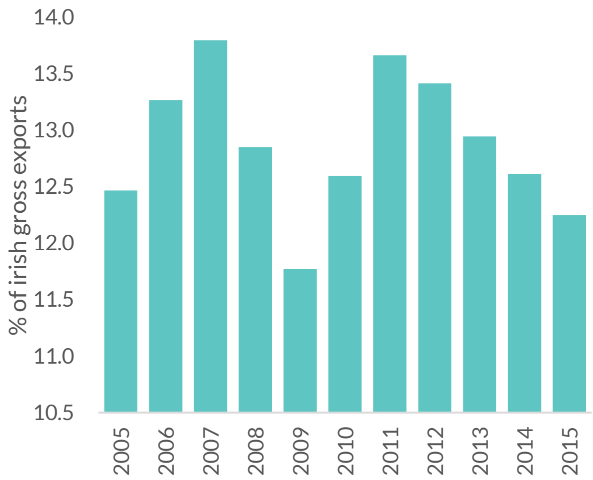
[14] Byrne, S. and O'Brien, M., 2015. The changing nature of Irish exports: Context, causes and consequences. *Central Bank Quarterly Bulletin*, *2*, pp.58-72.

Figure 3: Ireland participation in global value chains

3.1 Foreign value added share of Irish gross exports



3.2 Forward participation in global value chains: Domestic value added in foreign exports as a share of gross exports



Note: Data are available to 2015 as Tiva statistics are compiled using input-output tables, which are released with a significant lag.

The overall impact on net trade is likely to mitigate the fall in GDP. This is because imports are likely to fall by a more than exports owing to the substantial import content of final demand. As such, the overall impact on the trade balance is likely to be positive.

Fiscal Costs

The current public health crisis will have a significant negative effect on Ireland's fiscal position. This reflects the impact of both the deteriorating economic environment and the necessary fiscal supports that have been introduced by the Government in recent weeks. On the revenue side, the decline in private consumption and taxable incomes is expected to have a strong negative impact on direct taxes, indirect taxes and social contribution receipts. As a result, we project that total government revenue will decline by around 11½ per cent on an annual basis (compared to a 6 per cent increase in 2019). On the expenditure side, higher unemployment and illness related payments will lead to increased public spending as automatic stabilisers take effect. So too will the measures introduced by Government, which include increased income supports, additional resources for the health sector and liquidity support for businesses. These fiscal measures, which are discussed in more detail in the section 'Policy responses to Covid-19' (pages 41-45) are fully incorporated in our fiscal projection, which also takes into account our macroeconomic outlook. In total, in 2020, we anticipate that government expenditure will increase by around 13 per cent on an annual basis (compared to a 4½ per cent increase in 2019).

Incorporating these revenue and expenditure developments, we are projecting that the general government balance will move from an estimated surplus of 0.7 per cent of GNI* in 2019 to a deficit of 10.2 per cent of GNI* this year (or from 0.4 per cent of GDP to -6 per cent of GDP). In terms of general government debt, we project an increase in the ratio from an estimated 97 per cent of GNI* in 2019 to 112 per cent of GNI* (or from 58 to 66 per cent of GDP). The increase in the debt ratio reflects a worsening of both the primary balance and the interest-growth differential. It should be emphasised that there is a much higher level of uncertainty surrounding these fiscal projections than would normally be the case. This reflects the broader uncertainty surrounding the duration and intensity of the pandemic, which in turn impacts both the macroeconomic outlook and the final cost of policies introduced by Government. Accordingly, the risks to the projections presented here are considerable.

From a financing perspective, as noted above, the government budget balance appears to have entered the year in a relatively favourable position. The latest GFS data revealed a considerable improvement in the budgetary position in the first three quarters of last year – led by strong growth in taxes and social contributions. This was followed by a better than expected performance by the Exchequer in the final months of the year, with corporation tax receipts once again coming in well ahead of expectations. Significant pre-funding activity, meanwhile, meant the National Treasury Management Agency (NTMA) entered March with a large positive cash balance of €26 billion. This compares to €19 billion of government bonds and loans set to mature this year. Possible additional sources of finance to bridge the expected gap between Government revenue and expenditure this year include use of the Rainy Day Fund, resources in the Irish Strategic Investment Fund and the expected first National Asset Management Agency surplus payment.

Box C: Assessing the Macroeconomic Implications of COVID-19 using Scenario Analysis

By Thomas Conefrey, Niall McInerney, Gerard O'Reilly and Graeme Walsh [15]

Introduction

This Box provides an overview of work carried out to date using the Central Bank's macroeconomic models to assess the potential economic impact of COVID-19 on the international economy and on Ireland. The scenario analysis presented here is unavoidably preliminary and subject to revision due to the new information emerging daily on the spread of the virus and its effects on the population, as well as changes in the containment measures being put in place to combat the virus. Moreover, there is little empirical work on the likely impact of a pandemic on a country's economy, how this might vary with different potential epidemiological features, or what the significant variables are that affect the impact.

At this early stage, there is also very limited data and published estimates on the impact of the coronavirus on the Chinese economy, the euro area and other economies. As a result, our approach necessarily involves making a series of assumptions to construct stylised scenarios. There is a very high degree of uncertainty regarding the nature and size of the economic shocks arising from the effects of the pandemic. In addition, the unprecedented nature of this global health crisis means that our models may not be adequate at capturing or quantifying some of the mechanisms at play.[16]

As a health shock that has ramifications for economic decisions and wellbeing, the pandemic scenario analysis is beyond the scope of the normal shocks typically assessed using macroeconomic models. It is important to bear these limitations in mind in interpreting the results. As the news on the outbreak develops and information on the performance of economies becomes available, we will continue to revise our assessment of the virus's impact.

[15] Irish Economic Analysis Division

[16] The size of the shocks included are very large in magnitude relative to any historical precedent, including the 2008 international financial crisis. Given models such as the ones we use are estimated on past behaviour, there is a risk that these tools may not be able to fully capture the scale and impact of unprecedented shocks. This arises because of the absence of any episode similar to the current crisis from the historic data underpinning the models.

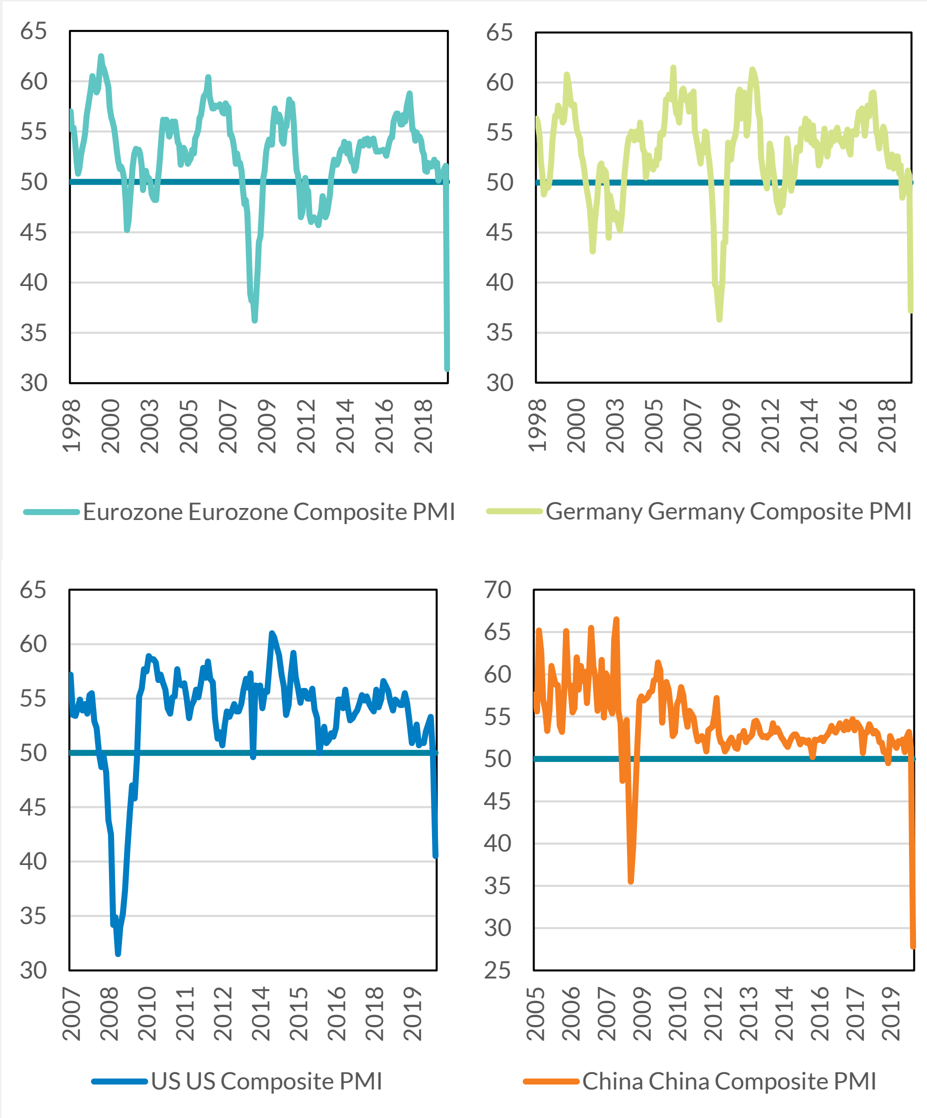
It is important to emphasise that the scenario analysis we present is our best assessment of the possible economic impact of COVID-19 based on a range of assumptions around key parameters and calibration of the shocks hitting the economy. It is not a forecast of what will happen but rather an estimate of what could happen based on these assumptions. The modelling exercise such as the one presented here should not be expected to give precise point estimates of the future path of the economy. However, it can provide a valuable insight into the direction and broad magnitude of impact of specific events. The scenario analysis in this section was used to inform the preparation of the outlook presented earlier in this Bulletin. Taken together, this analysis along with the earlier assessment of the outlook aims to enhance our understanding of the possible economic impact of COVID-19.

Assumptions

The data available to date on the economic impact of the virus indicates that it is likely to result in a collapse in economic activity in quarter 2 of 2020. PMI data for the euro area for March indicate the largest drop in business activity ever recorded. The PMI Composite Output Index measured at 31.4 in March, down from 51.6 in February (Figure 1). Expectations of future output also deteriorated markedly to reach an all-time low, with record degrees of pessimism about the year ahead seen in both manufacturing and services.

Depending on the success of the measures to contain the virus, it is unclear whether the situation will have improved sufficiently by mid-year to allow for a resumption, or a partial resumption, of normal economic activity. If this occurs, then a sharp rebound in economic activity is possible from the end of 2020. Alternatively, the virus could have a more persistent negative effect on economic activity if the public health situation requires that the containment and other measures currently in place in many countries around the globe are maintained for a prolonged period. Given this uncertainty over the duration of the crisis, we examine two scenarios. In the rapid recovery scenario, the shocks detailed below are assumed to peak in Q2 and Q3 2020 and there is a rapid recovery in economic activity from Q4 2020. In the prolonged recovery scenario, the negative shocks are assumed to be more persistent so that the economy rebounds at a much slower pace.

Box C Figure 1: Composite Manufacturing and Services Sector PMIs Drop Sharply in March



Our scenarios attempt to model the impact of the global COVID-19 pandemic that has spread aggressively beyond China to affect the wider Asia-Pacific region, Ireland and the major advanced economies in the northern hemisphere. We have calibrated the severity of the global shocks in the NiGEM global model using all of the latest information on the effect of the virus so far on the Chinese economy and some preliminary estimates of the possible impact on other regions.[17, 18] Our international scenarios also build on recent work by NIESR.[19] On top of these international shocks we add a layer of supply and demand shocks and simulate the final impact on the Irish economy using the COSMO model. The detailed assumptions underpinning the scenarios are described below. Regarding the timing and persistence of the shocks, the prolonged recovery scenario assumes that the largest impact of the virus occurs in Q2 and Q3 2020 but that the various negative economic shocks do not fully unwind for several years. In the rapid recovery scenario, the negative shocks fade out fully by the end of Q3 2020 and the economy rebounds quickly, with economic activity increasing above the baseline in 2021.

- Reflecting reduced spending by households and firms, domestic demand in the Asia-Pacific economies, the euro area and advanced northern hemisphere economies and in Ireland is reduced by 8 per cent (relative to baseline) in the second and third quarters of 2020 in the rapid recovery scenario. In the prolonged recovery scenario, the negative shocks are assumed to persist into 2021. These assumptions are informed by the experience of the Chinese economy during the crisis but may need to be revised once data for Q1 and Q2 2020 for the euro area, US and Ireland are published.
- For both scenarios, heightened uncertainty is modelled via an increase of 50 basis points in investment risk premia in all countries in 2020 and equity prices are reduced.
- A large-scale outbreak of the virus in Ireland and the containment measures already announced will result in a temporary reduction in labour supply. This will come about via absence through illness, for those infected by the virus, or indirectly, as a result of school closures

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[17] Estimates for China indicate that industrial output down 13.5 per cent in January and February 2020 on an annual basis. Retail sales plummeted 20.5 per cent year-on-year in January and February and fixed asset investment fell 24.5 per cent, down from 5.4 per cent growth when the data were last reported. Growth in services production contracted 13 per cent in the first two months, according to official data. Coupled with the industrial production figure, the data suggest that China's GDP contracted 13 per cent during the first two months of the year.

[18] NiGEM is a multi-country structural econometric model developed by the National Institute of Economic and Social Research (NIESR) in the UK. In the Central Bank, NiGEM is used alongside the COSMO model of the Irish economy to assess the transmission of global shocks to Ireland.

[19] See: https://www.niesr.ac.uk/sites/default/files/publications/NiGEM%20Observation%2018%20-%20Updating%20the%20preliminary%20assessment%20of%20the%20possible%20economic%20impact%20of%20the%20coronavirus%20outbreak-27Mar20.pdf

which cause households with dependent children to temporarily stay at home. Calibrating the size of the potential labour supply effects is challenging given the few available estimates from the existing literature. It is also uncertain how practices such as homeworking may affect the scale of the reduction in labour supply. We have included the labour supply channel in our simulations based broadly on the work of Keogh-Brown, Wren-Lewis *et al*. (2009) and CBO (2006). In the *prolonged recovery* scenario, labour productivity is also assumed to fall linked to the reduction in labour supply.

- In addition, we assume a direct effect on employment from the overnight closing down of sectors of the economy. Estimates from the Department of Employment Affairs and Social Protection as well as internal calculations based on detailed employment data suggest that an overall reduction in employment of 450,000-500,000 is possible. We have assumed a similar reduction in employment in this scenario. The reduction in labour supply resulting from the closure of sectors, as well as through the absenteeism channel above, causes a related fall in production in the economy.

- There is already evidence of significant disruption to global supply chains as a result of the spread of the virus. Given the deep integration of Irish firms (both exporters and non-exporters) in Global Value Chains (GVCs), Irish output is particularly sensitive to disruption to imports of intermediate goods. In both scenarios, we proxy this shock to the supply of imported intermediate goods as a reduction in the effective capital stock using the respective shares of capital and imported intermediates in output.

- Our results include the effects of automatic stabilisers in each country. Our scenarios do not yet include the impact of the various discretionary policy announcements by the Irish Government, ECB, Fed, Bank of England and the fiscal responses that have been announced that aim to cushion the effects of the crisis both domestically and internationally. We will look to include these channels where possible in future iterations of this analysis.

Results

Looking first of the effects of the COVID-19 crisis on the international economy, the results in both scenarios show that it would lead to a severe decline in GDP in all of Ireland's main trading partners in 2020. For the euro area, output would be reduced by 7.6 per cent in 2020 in the *prolonged recovery* scenario relative to a baseline without the COVID shocks. The ECB's last forecast for euro area GDP in 2020 (excluding any

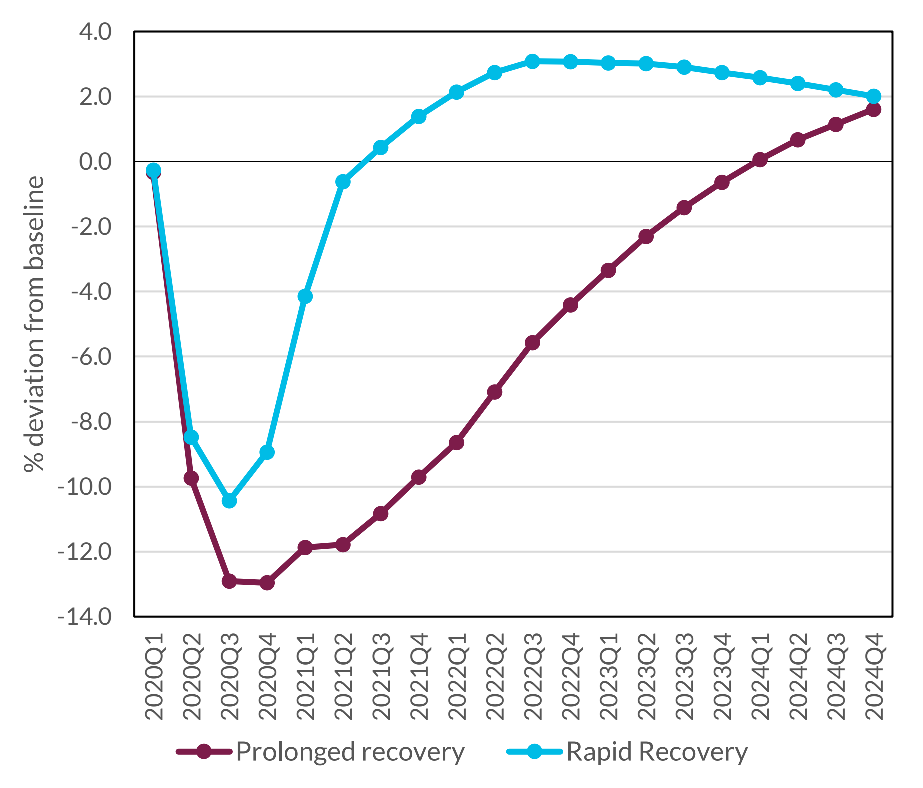
COVID effects) was for growth of 0.8 per cent. Applying the estimated reduction in growth from our scenario (-7.6 percentage points) to the ECB forecast implies that euro area growth would turn sharply negative in 2020. For the US and the UK, our estimates indicate that around 9.5 percentage points would be knocked off growth in these two countries in 2020, pushing both into recession. In the *rapid recovery* scenario, the reduction in GDP in Ireland's main trading partners is similar to that in the *prolonged recovery* scenario but output would bounce back quickly in 2021, making good some of the losses from the previous year. In overall terms, the estimates in both scenarios envisage a decline in overall external demand for Irish exports in 2020 larger than that observed during the 2008-2009 international financial crisis. The scale of this collapse in the international economy imparts a substantial negative impetus to Irish economic growth.

Combining the full range of global and domestic shocks above, our estimates indicate a material reduction in Irish output of around 9 per cent in 2020 in the *prolonged recovery* scenario and around 8 per cent in the *rapid recovery* scenario (relative to a baseline without the shocks). This would translate into reductions in the growth rate of the economy in 2020 of the same amount. For both scenarios, the simulation results show that the decline in output would be frontloaded, with the largest reductions in Q2 and Q3 2020. In the *prolonged recovery* scenario, output drops by an average of over 11 per cent over this period (Figure 2).

In the *prolonged recovery* scenario there would be a negative, although smaller, effect on Irish growth in 2021 and output would not recover to its baseline before the COVID-19 crisis until late 2023. The sluggish recovery assumed in the *prolonged* scenario could come about for a number of reasons. Even with liquidity and other supports during the crisis, some low margin or highly indebted firms may not survive generating hysteresis effects for both employment and investment. The global recession will affect exports of both SMEs and larger multinational firms. Output of domestically-oriented SMEs will also be affected if they provide inputs to the larger firms. In addition, the crisis will lead to a large public debt overhang and reducing the debt burden after the crisis could have a dampening effect on economic growth.

In the *rapid recovery* scenario in contrast, output would rebound quickly in 2021 and would increase above the baseline for a period. This is based on the assumption that consumption and investment spending postponed by households and firms during the crisis in 2020 is instead undertaken in 2021 and 2022. It is also assumed that there is a degree of overshooting in the traded sector as firms replenish stocks following the pause in production activity in 2020.

Box C Figure 2: COVID-19 Illustrative Scenarios: Effect on Irish Output, % Deviation from Baseline



The simulation results show that in both scenarios all sectors of the economy would be negatively affected in 2020. The slowdown in global growth would reduce demand for the traded sectors of the Irish economy (manufacturing, ICT, financial services). One positive dimension is that the composition of Irish exports would buffer the economy from the worst effects of the international downturn. The experience from the 2008 crisis was that Irish exports declined by significantly less than the reduction in international trade due to their concentration in sectors such as pharmaceuticals and medical devices (60 per cent of merchandise exports). These sectors are likely to be less negatively impacted by slower global growth than other sectors such as car manufacturing for example, albeit supply-side disruptions will still have a negative effect. A relatively robust export performance could reduce the magnitude of the decline in Irish output as a result of the COVID crisis, relative to other economies. Nevertheless, outside the traded sector, other parts of the economy would experience significant output losses. The large-scale closure of hotels, restaurants, pubs and related decline in retail activity, along with the drop in tourism, would reduce demand in the non-traded sector. There would also be sharp reductions in consumption and investment would fall due to the weaker activity in the traded and non-traded sectors.

The sharp and broad-based decline in economic activity would result in a significant deterioration in the labour market in 2020 in both scenarios. Our estimates indicate that employment would be reduced by around 14 per cent in 2020 in both scenarios. The fall in employment would translate into an increase in the unemployment rate of up to 10 percentage points. The rebound in economic activity in the *rapid recovery* scenario would see the unemployment rate fall quickly in 2021, undoing some of the increase recorded in 2020. In the *prolonged recovery* scenario, the fall in the unemployment rate is delayed further into 2021 and it declines more gradually thereafter. It is important to note that there is particular uncertainty around the scale of the impact of the crisis on unemployment depending on whether individuals who lose their jobs temporarily enter unemployment immediately or exit the labour force for a period (see Box A). In addition, a key element in any recovery is the extent to which people laid off will be reemployed by their existing employers on foot of an upturn.

Conclusion

Overall, the preliminary scenario analysis indicates that the COVID-19 pandemic is likely to have a severe negative impact on the Irish economy. The reduction in output in 2020 is likely to be greater than that observed in any year of the 2008 economic and financial crisis. If the public health situation improves quickly over the coming months allowing for a relaxation of the current containment measures and a resumption of economic activity, a rapid recovery in the economy could materialise from the end of 2020. In contrast, if the public health position requires that the current containment measures are implemented more broadly and for a longer duration, a more substantial and longer lasting downturn is likely. Lastly, the scenarios presented here are preliminary and will be revised as new information on the virus and its impact becomes available. The results should also be interpreted with caution given the unprecedented nature of the shocks to the economy brought about as a result of the COVID-19 crisis.

Policy responses to COVID-19

Irish policy response

The Irish Government has responded to the COVID-19 crisis by introducing a number of key policy measures, best divided into (i) income support measures, (ii) additional health care spending and (iii) support for businesses.

In relation to income supports, measures include the introduction of the COVID-19 wage subsidy scheme, under which the Government subsidise up to 70 per cent of an employees take home pay. The subsidy is capped at €410 per week and applies to firms in all sectors who have seen their revenue decline by 25 per cent or more. It is hoped that the scheme will keep the link between employees and their place of work established, thus speeding up the post-crisis recovery. Other income support measures include the establishment of the COVID-19 pandemic illness and unemployment payments. The former applies to those who have been told to self-isolate or have been diagnosed with COVID-19 while the latter applies to those who have lost their job due to the pandemic. They see the size of weekly benefits increased from €203 to €350 per week, ensure easier application procedures and apply to both employees and the self-employed.

The Government has also increased resources for the health sector by €1 billion – to scale up the sector's capacity to deal with the virus – with an additional €1 billion planned subject to final approval. These measures would result in the increase in health spending being almost three-times higher this year than was originally planned in Budget 2020.

In terms of support for businesses, the COVID-19 working capital scheme has made €200 million of loans available to firms through the Strategic Banking Corporation of Ireland. A further €200 million package of enterprise supports – including a Rescue and Restructuring Scheme through Enterprise Ireland – has been made available for firms who need to restructure or transform their businesses, while the COVID-19 business loan provides support to microindustries. Revenue has suspended the application of interest on late payments of VAT and Employer PAYE liabilities for the first quarter, while it has also suspended all debt enforcement activity until further notice.

The total cost of the fiscal measures introduced – including the additional health spending subject to approval - is currently estimated at €8.2 billion (4.3 per cent of GNI*). The final cost will, of course, depend on factors such as the length of the crisis and the uptake of various schemes.

Table – Fiscal Policy Measures Introduced by Government (as at 30th March)

Policy	Description
COVID-19 illness benefit	For workers told to self isolate or who have been diagnosed with COVID-19 an increased support payment of €350 (from €203) will be paid. These payments apply from first day of illness and are available to self-employed workers.
COVID-19 wage subsidy scheme	Government will subsidise 70 per cent of employees wages up to a maximum weekly €410 (equivalent of pre-tax €38,000 per year). For salaries between €38,000 and €76,000 support of up to €350 per week will be available. The employer is expected to make their best effort to maintain as close to 100 per cent of actual salary as possible. The scheme will initially last for 12 weeks. To be eligible firms must have lost 25 per cent of revenue and employees must have been in place at end February. The scheme is open to all sectors.
COVID-19 pandemic unemployment payment	Workers who have lost their jobs due to the crisis will receive an enhanced emergency payment of €350 per week (up from €203). The payment is also available for the self-employed.
Enhanced enterprise supports	€200 million package of enterprise supports, including a Rescue and Restructuring Scheme available through Enterprise Ireland, for vulnerable but viable firms.
COVID-19 working capital scheme	Support loans for eligible businesses from €25,000 to €1.5 million (maximum interest rate of 4 per cent) via the Strategic Banking Corporation of Ireland.
Microfinance Ireland COVID-19 Business Loan	Loan of up to €50,000 from Microfinance Ireland. Six-month interest and repayment moratorium.
Additional resources for health sector	An additional €2 billion to be made available to the health sector to scale up capacity to deal with the virus. €1 billion of this package is subject to final approval at time of writing.
Revenue support measures for business	Application of interest on late payments is suspended for Q1 VAT and PAYE (Employers) liabilities. All debt enforcement activity is suspended until further notice. Relevant Contract Tax rate review for subcontractors scheduled for March is suspended.
Measures to support childcare providers and parents	Revenue will reimburse childcare employers 70 per cent of pre-crisis staff costs. Government will reimburse childcare employers 30 per cent of pre crisis staff costs and a retention top up to retain staff. Measures apply for 12 weeks.

In terms of macroprudential response, on 18 March, in response to the emerging economic and financial impact of the COVID-19 outbreak the Central Bank of Ireland announced that the Countercyclical Capital Buffer (CCyB) would be reduced from 1 to 0 per cent. The CCyB is a time varying capital requirement. The Bank's objective in using the CCyB is to promote banking sector resilience with a view to the buffer being available to release, when necessary, to support the sustainable provision of credit to the economy. The release of CCyB was considered appropriate in the current circumstances and in line with its underlying rationale to support the sustainable flow of credit to the economy through the cycle and to limit the scope for the banking sector to act as an amplification or transmission channel of disruption to the real economy. The Central Bank expects banks to use the positive effects of these measures solely in support of the economy and not for dividend distributions.

In releasing the buffer, the Bank also outlined its intention that no subsequent increase would be announced before the first quarter of 2021 at the earliest. Consistent with the Central Bank's CCyB framework, any subsequent decisions will depend on prevailing macroeconomic and financial conditions[20]. The Central Bank of Ireland takes decisions on monetary policy as part of the Eurosystem (encompassing the ECB and national central banks)[21] and many of its banking supervisory decisions as part of the Single Supervisory Mechanism (encompassing the ECB and national competent authorities).

European policy response

Monetary policy action which safeguards liquidity conditions, protects the flow of credit, and prevents a pro-cyclical tightening of financing conditions ensures that euro area countries will be able to finance themselves easily and cheaply in the market during the crisis. In two meetings during March, the ECB's Governing Council announced a series of measures aimed at supporting households and firms through the significant uncertainty and disruption caused to

[20]In addition, on 12 March the ECB Supervisory Board also announced that it will temporarily allow banks in the euro area to use all their liquidity and capital buffers, providing further capital relief and enabling the banking system to continue supporting households and businesses.
[21] For an explanation of our role within the eurosystem see: https://centralbank.ie/monetary-policy/policy-setting/monetary-policy-role.

the euro area economy. These measures support the smooth provision of credit and include further operations to support bank lending. As part of the package of measures, the ECB have launched a new temporary Pandemic Emergency Purchase Programme (PEPP) to counter the serious risks to the transmission of monetary policy and to the macroeconomic outlook for the euro area. With the addition of the PEPP, net asset purchases by the ECB for the remainder of 2020 will amount to just over €1tn, or around 8% of euro area GDP. The cost of borrowing for governments is low, and will be kept low by the asset purchases.

In addition to the monetary policy measures, decisions made by the ECB's Supervisory Board allowing banks to use capital and liquidity buffers fully are also important policy responses enabling the banking system to continue supporting households and businesses in this challenging time. Capital and liquidity buffers are designed explicitly to allow banks to withstand stressed situations like the current one. The Supervisory Board of the ECB announced on 12 March that it will allow banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR). Banks will also be allowed partially to use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, for example, Additional Tier 1 or Tier 2 instruments, to meet the Pillar 2 Requirements (P2R). This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the Capital Requirements Directive (CRD V). On March 27, Basel Committee's oversight body, comprising Central Bank Governors and Heads of Supervision, announced a deferral of Basel III implementation by one year to increase operational capacity of banks and supervisors to respond to COVID-19.

Governments throughout the European Union have started to announce and implement various fiscal measures to contain the economic fallout. Beyond these new spending measures, they are also likely postpone or cancel some earlier planned expenditures. [22] As part of its economic response to the pandemic, the European Commission (EC) has triggered the so called 'general escape clause' in the Stability and Growth Pact, which relaxes EU budgetary rules

[22] See the letter from Eurogroup President Mario Centeno to the President of the European Council following the Eurogroup of 24 March 2020.

for countries not at their medium-term objective and allows countries to run deficits in excess of 3 percent of GDP. This offers Member States space to provide exceptional spending to fight the economic impact of the pandemic. The EC has also decided to relax temporarily current EU state aid rules, so governments can provide businesses with emergency support. It has pledged “full flexibility” to enable Member States to take swift action to support businesses affected by the outbreak. Member-states are allowed, among other things, to give up to €800,000 to a company through a direct grant or tax advantage, and set up guarantee schemes supporting bank loans for companies.

The Eurogroup (of finance ministers for the euro area) has focused on the European Stability Mechanism (ESM) as the primary body to facilitate a joint response to the crisis and is discussing possible EU measures. The European Investment Bank (EIB) Group has also proposed a plan to mobilise up to €40 billion of financing. This would go towards bridging loans, credit holidays and other measures designed to alleviate liquidity and working capital constraints for small and medium sized enterprises (SMEs) and mid-caps. These are all important steps to mitigate the economic fallout.

As the COVID-19 pandemic intensifies in Europe, fiscal measures, including liquidity support schemes for firms and workers, are being scaled up. While measures that support the economy are welcome, a united and coordinated approach would be the most appropriate response to an exogenous shock that is hitting all countries. In this context, calls have increased from policy makers, academics and the financial press for a common and significant euro area response to deal with the health situation and the related economic crisis currently unfolding.

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