



An Roinn Airgeadais  
Department of Finance

# Stability Programme, April 2020 Update

John McCarthy

Chief Economist, Department of Finance

21<sup>st</sup> April 2020

# Birds-eye view



- External backdrop: global pandemic
- Economic outlook
- Fiscal outlook
- Risks and alternative scenarios

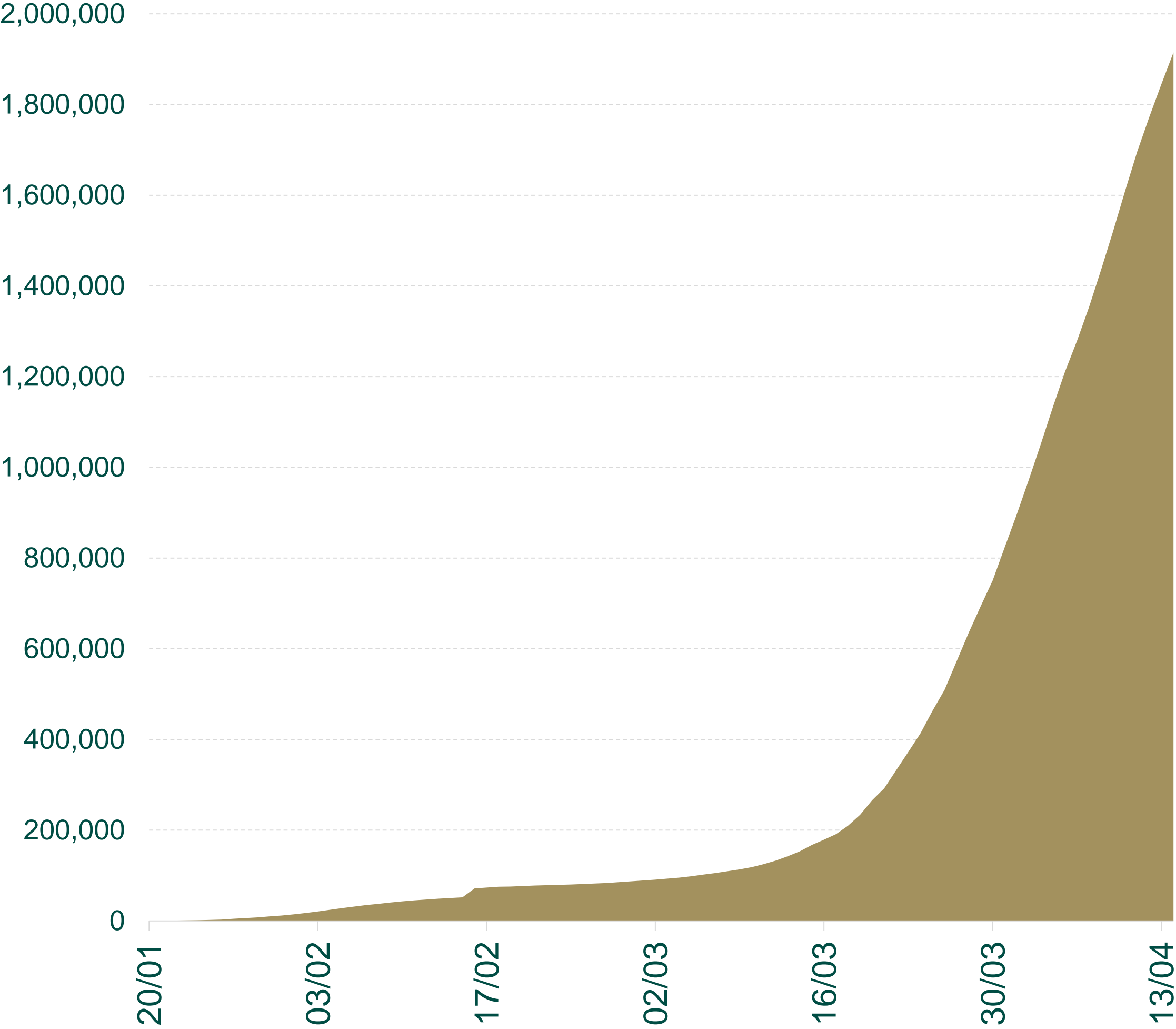


# External backdrop: global pandemic

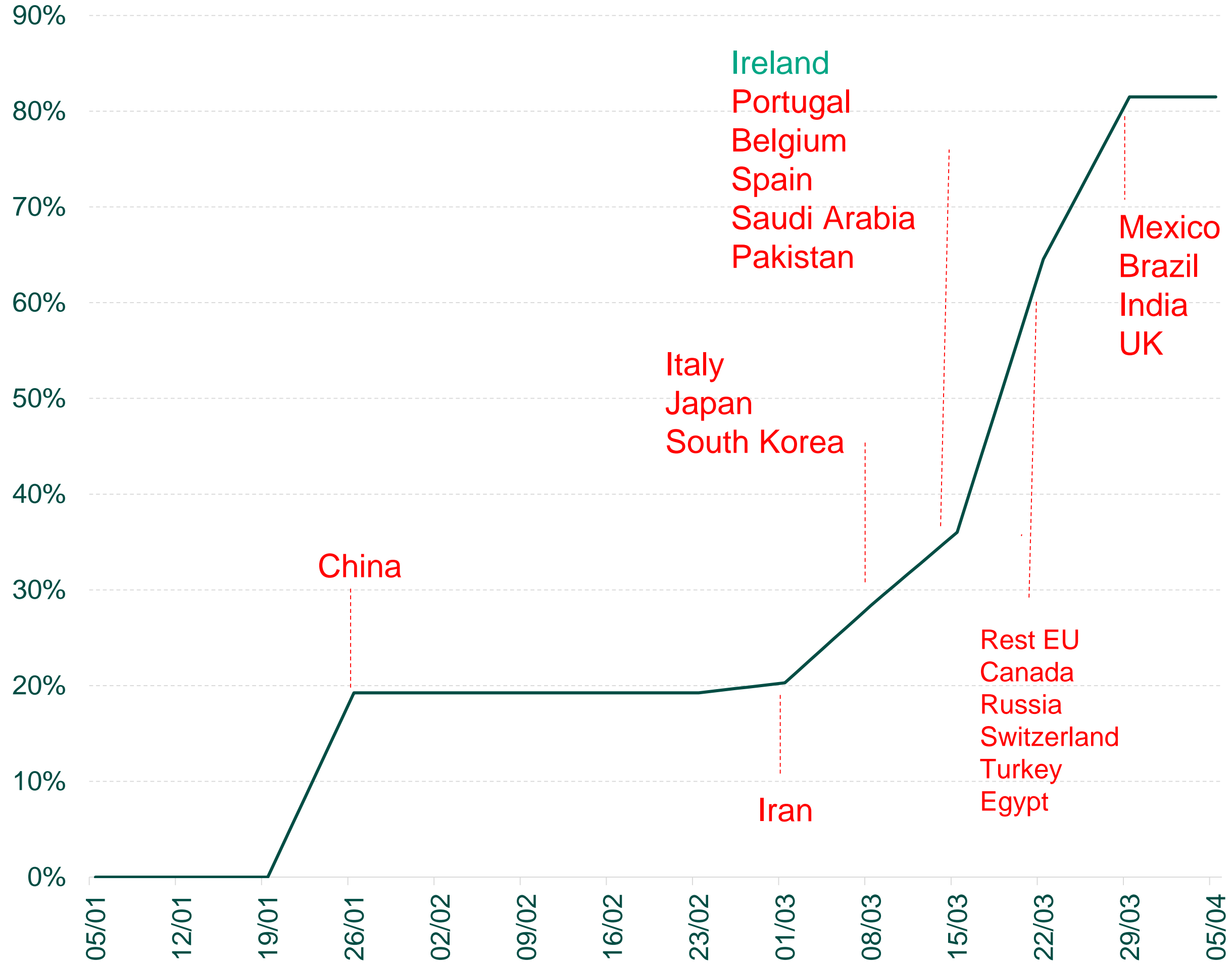
# Globally-synchronised shock



Cumulative number of Covid-19 cases globally (to mid-April)



Share of world economy with containment measures



## External forecasts - ....



<b>GDP, annual growth rate in per cent</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
UK	1.4	-6.5	4.0
Euro area	1.2	-7.5	4.7
US	2.3	-5.9	4.7
Global economy	2.9	-3.0	5.8
<b>Other key inputs</b>			
World trade growth, per cent change	0.9	-11.0	8.4
Oil prices, \$ per barrel	64.1	39.2	41.1
€1 = stg£X	0.88	0.89	0.89
€1 = \$X	1.12	1.11	1.11

Source: IMF, except oil prices (futures data) and exchange rates (technical assumption of unchanged rates as per end-March)



# Economic outlook

# A 'black swan': unparalleled shock to the Irish economy

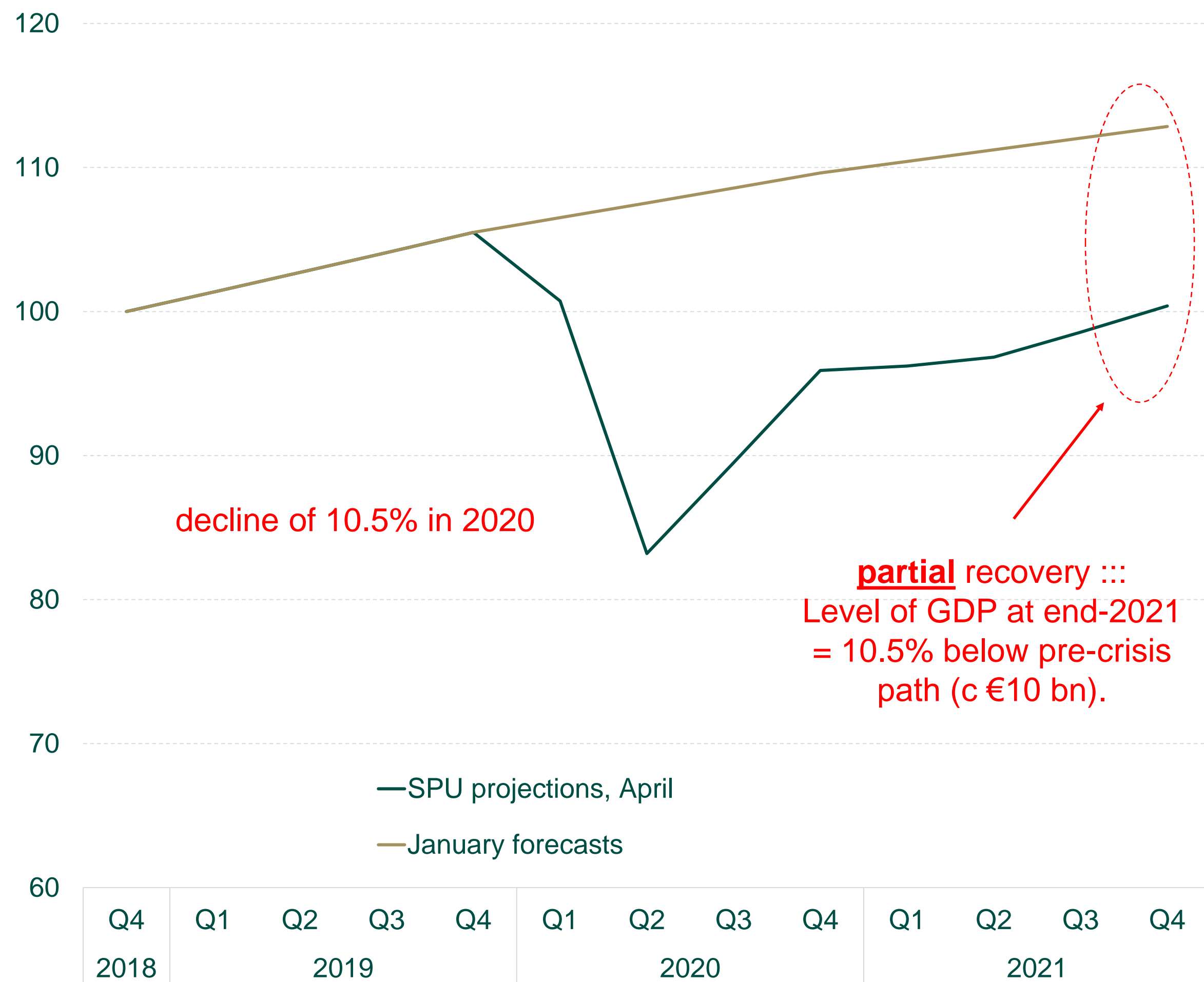


- Short-term impact
  - = containment / restrictions
    - : demand-side (lower demand for G&S)
    - : supply-side (ability of firms and labour to produce G&S)
- (possible) medium-term impact
  - = scarring effects ('exit' rates)
    - : workers exit labour market (unemployment, participation rates)
    - : firms exit market supply-side (lower investment, bankruptcy)
- Policy = minimise exit rate for capital / labour
- SPU: scenario not forecast

# GDP: -10½ per cent in 2020 baseline



Baseline scenario for GDP levels, 2018q4=100



Indicative quarterly profiles: q/q per cent change

	q1	q2	q3	q4	2020
GDP	-5	-18	8	7	-10.5
MDD	-4	-29	16	14	-15.1
Consumption	-5	-25	15	12	-14.2

MDD = modified domestic demand

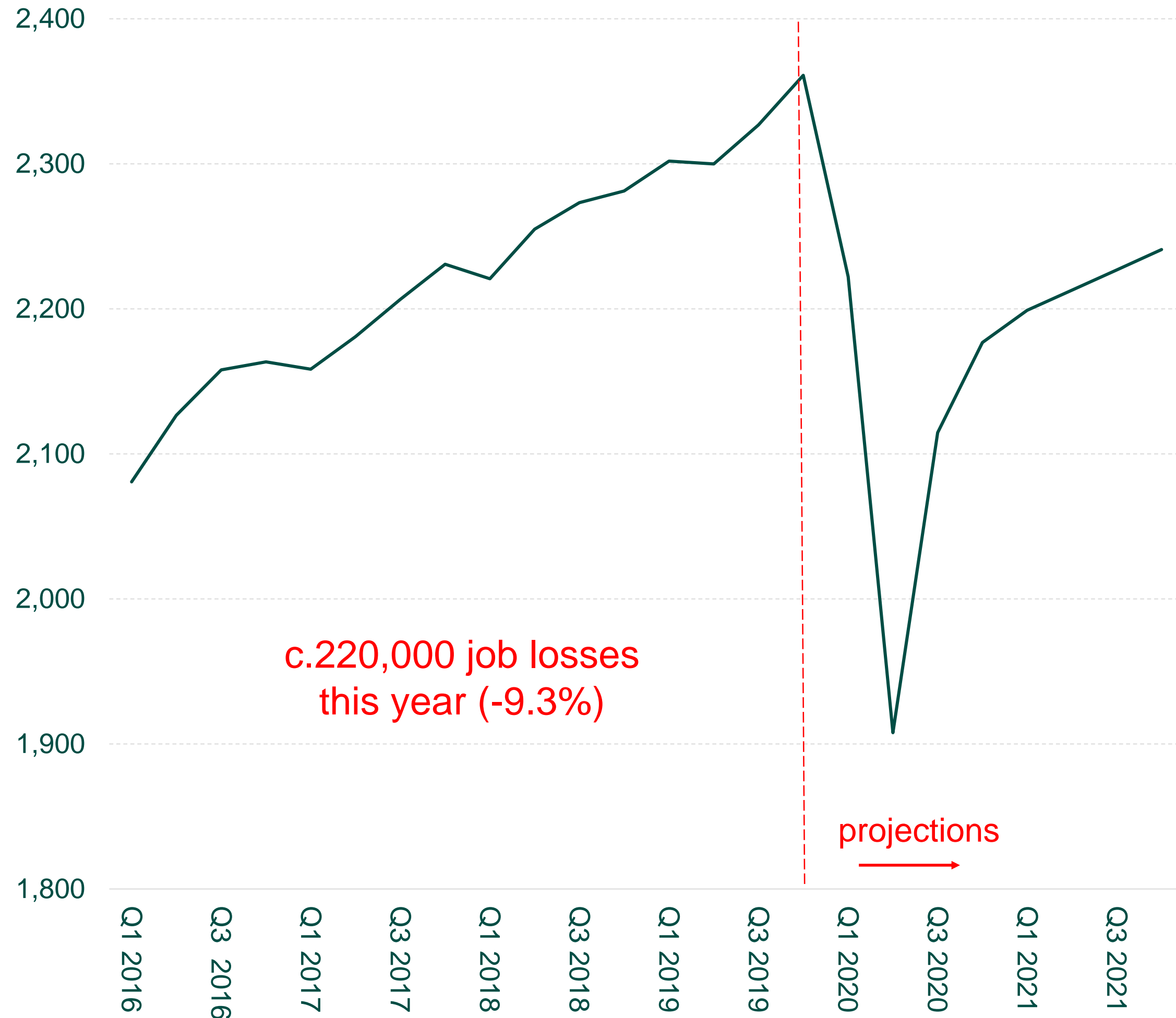
The q1 figures for all variables informed by 'nowcasts' (see annex)



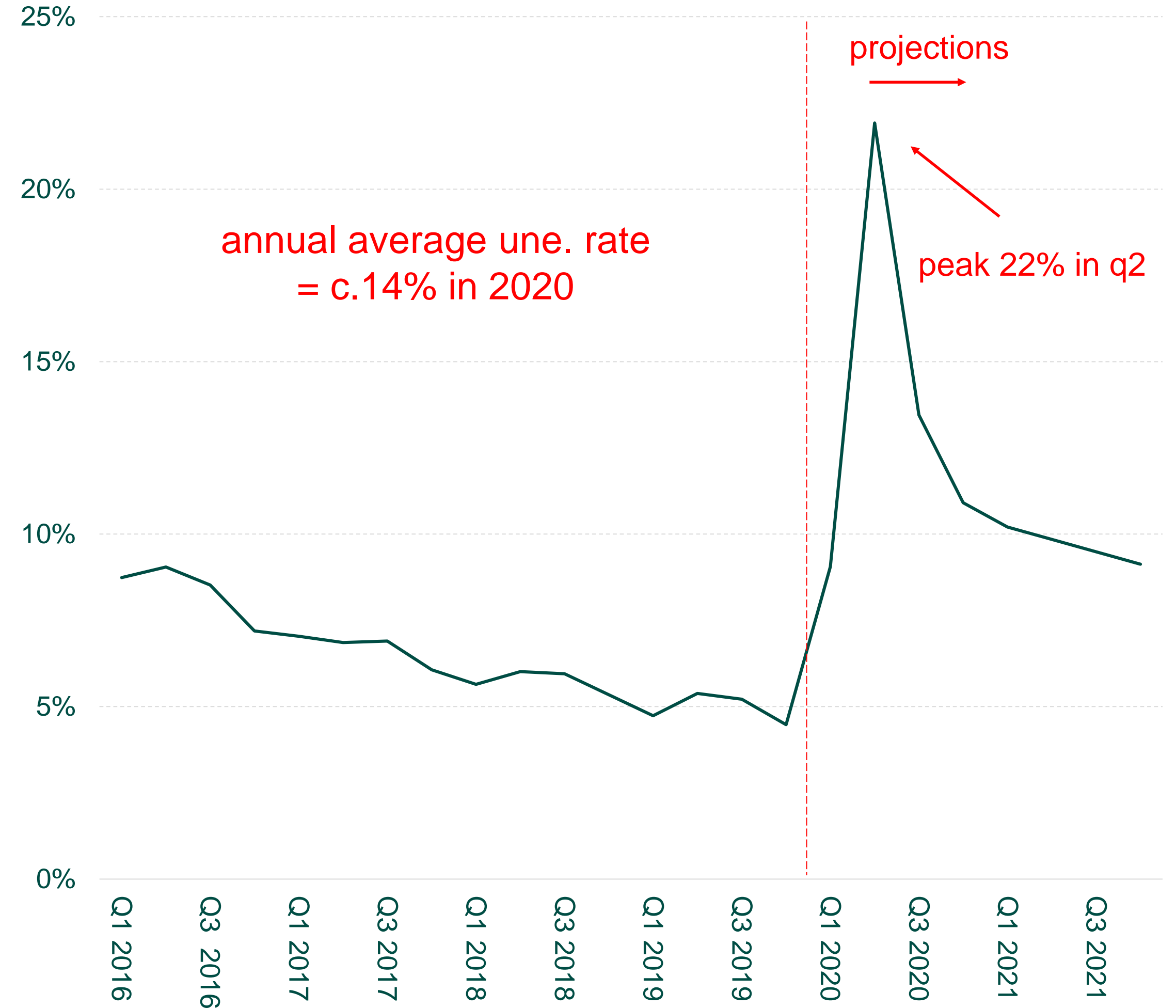
# Full-employment to record unemployment : in two quarters



Employment: large fall followed by partial recovery



Unemployment rate to peak in second quarter





# Fiscal outlook

# Policy response: swift and forceful

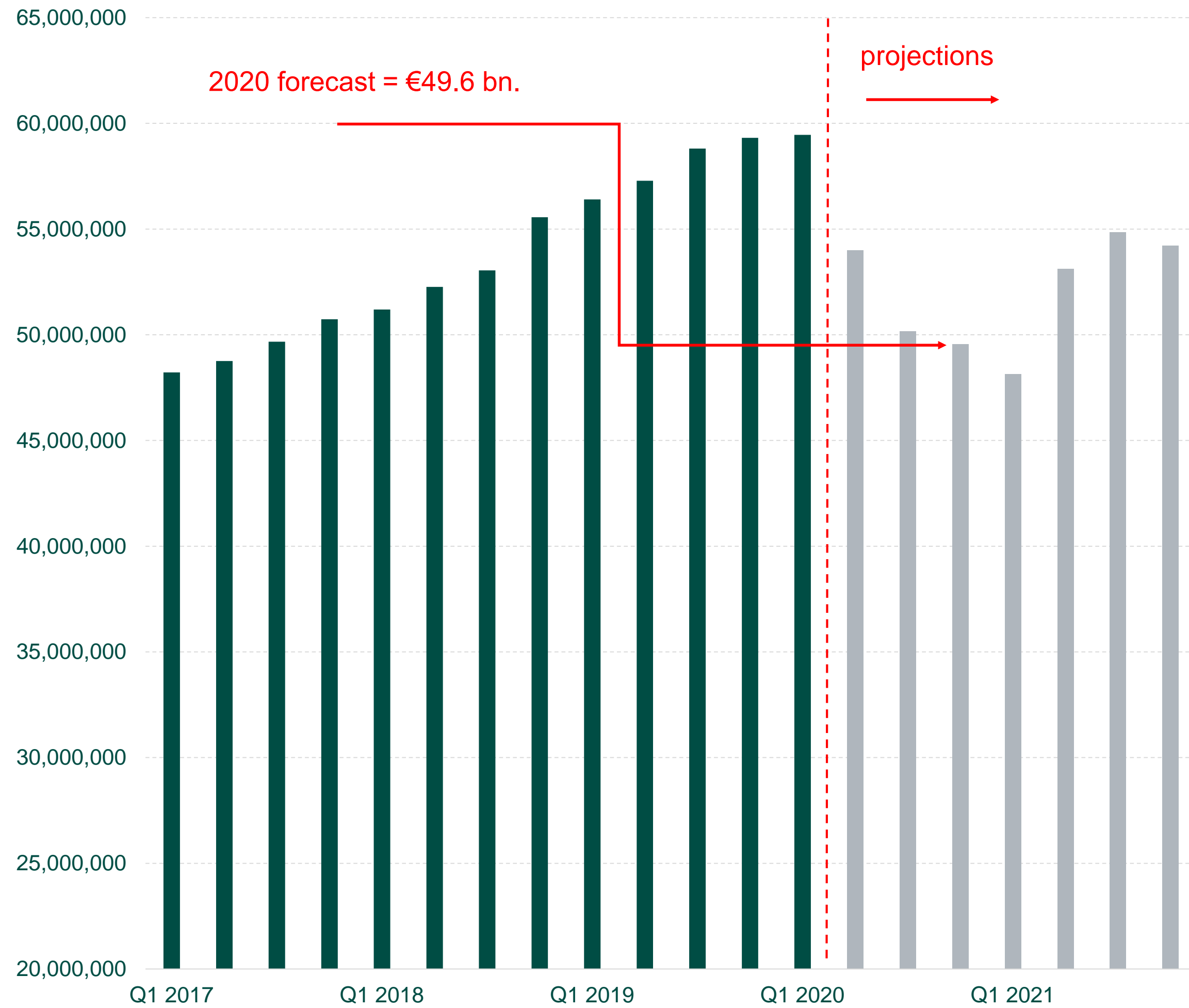


Date	Measure	€ billion
	<b>employee / household / business supports : of which</b>	4.8
	1. employee supports	
09-Mar	Self-isolation unemployment benefit; sick pay for self-isolation	
24-Mar	Wage subsidy scheme; pandemic unemployment benefit	
	2. household supports	
18-Mar	Payment breaks available of up to 3 months on mortgage and personal loans	
18-Mar	Stamp duty on credit cards deferred by 3 months	
16-Mar	LPT deferred by 2 months	
	3. business supports	
09-Mar	Liquidity funding for affected businesses	
13-Mar	Interest and penalties for late certain payments by employers suspended	
13-Mar	March 2020 RCT rate review suspended (construction sector)	
18-Mar	Payment breaks available of up to 3 months on business loans	
20-Mar	Rates payments for certain impacted sectors deferred until May	
09-Apr	Further liquidity funding & loan schemes for SMEs	
	<b>other supports : of which</b>	2.0
	1. health sector supports	
09-Mar	Improving capacity, increasing staffing, overtime	
25-Mar	Securing capacity of private hospitals	
07-Apr	Additional funding (Covid-19 Action Plan) and supports for nursing homes	
13-Mar	Customs 'green routing' for critical pharmaceutical goods	
	2. financial sector measures	
18-Mar	Central Bank reduced the Counter-Cyclical Buffer (CCyB) from 1% to 0%	
	3. housing sector supports	
19-Mar	Moratoriums on evictions and rent increases for duration of Covid emergency	
19-Mar	Notice period for tenancies of less than six months increased to 90 days	
19-Mar	Flexibility for BTL landlords to facilitate forbearance to affected tenants	
	<b>Total measures</b>	<b>6.8</b>

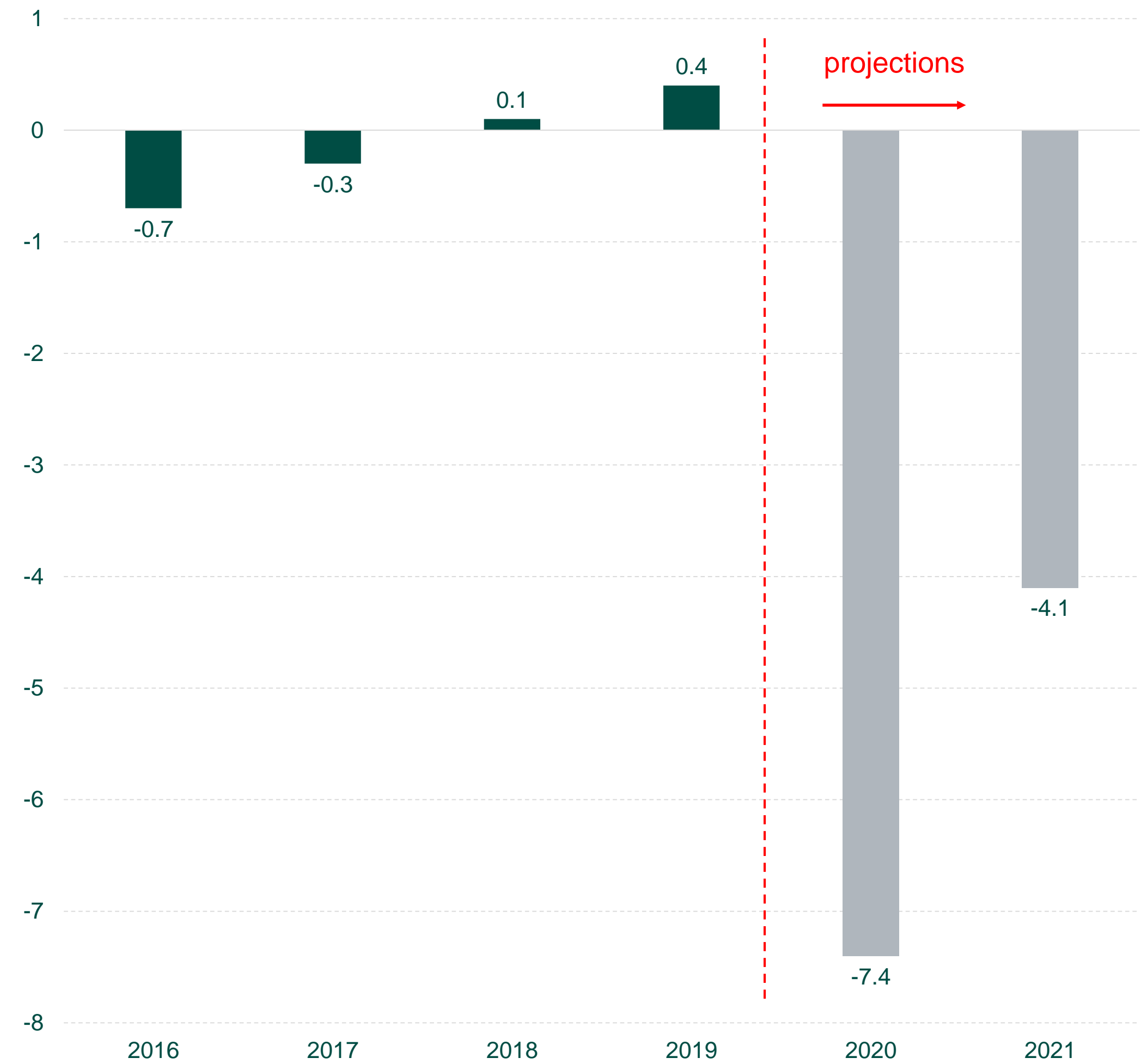
# Severe impact on the public finances



Taxation revenue, annualised = 4-quarter rolling sum € bn.



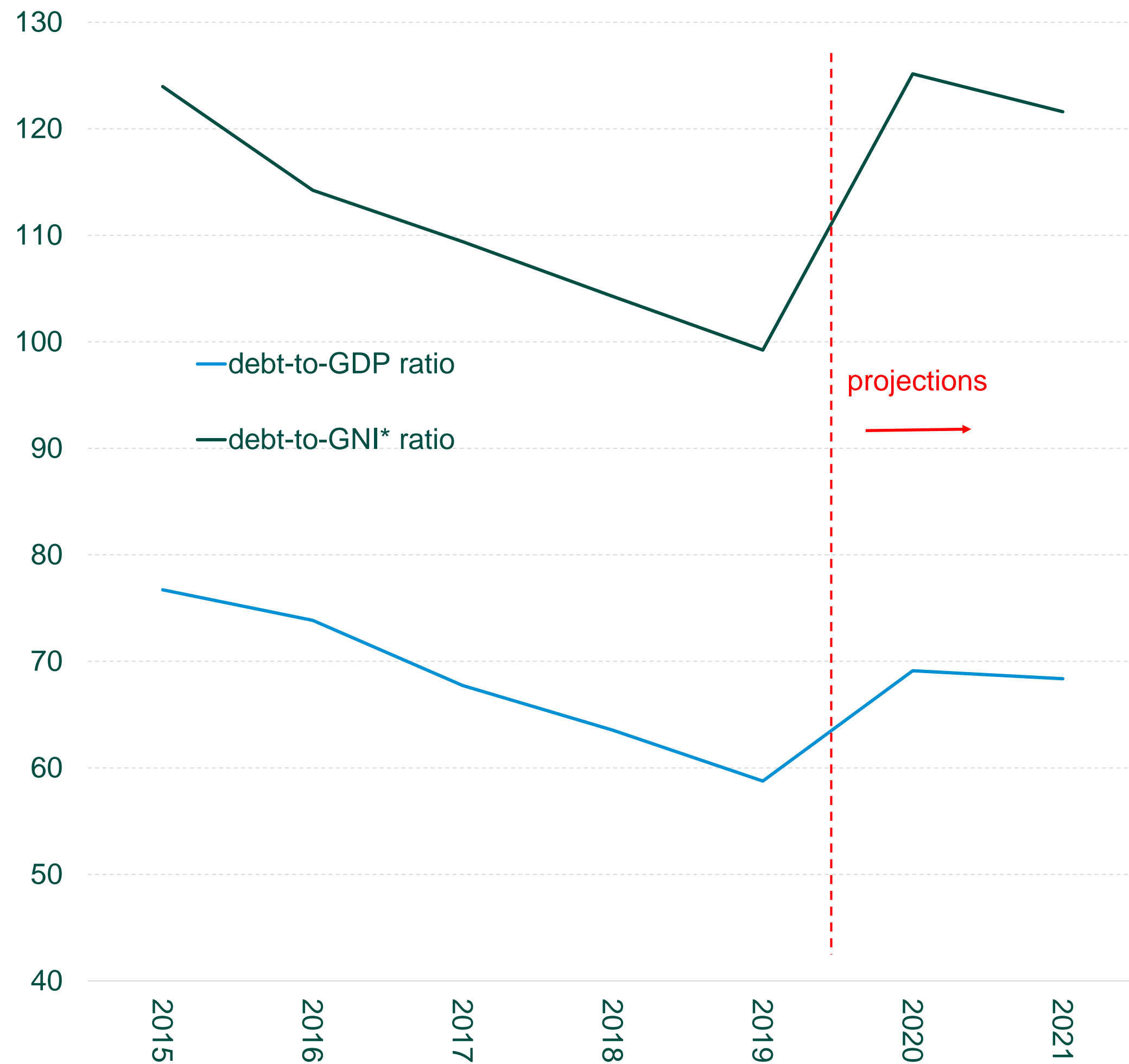
Budget balance [GGB, per cent GDP]



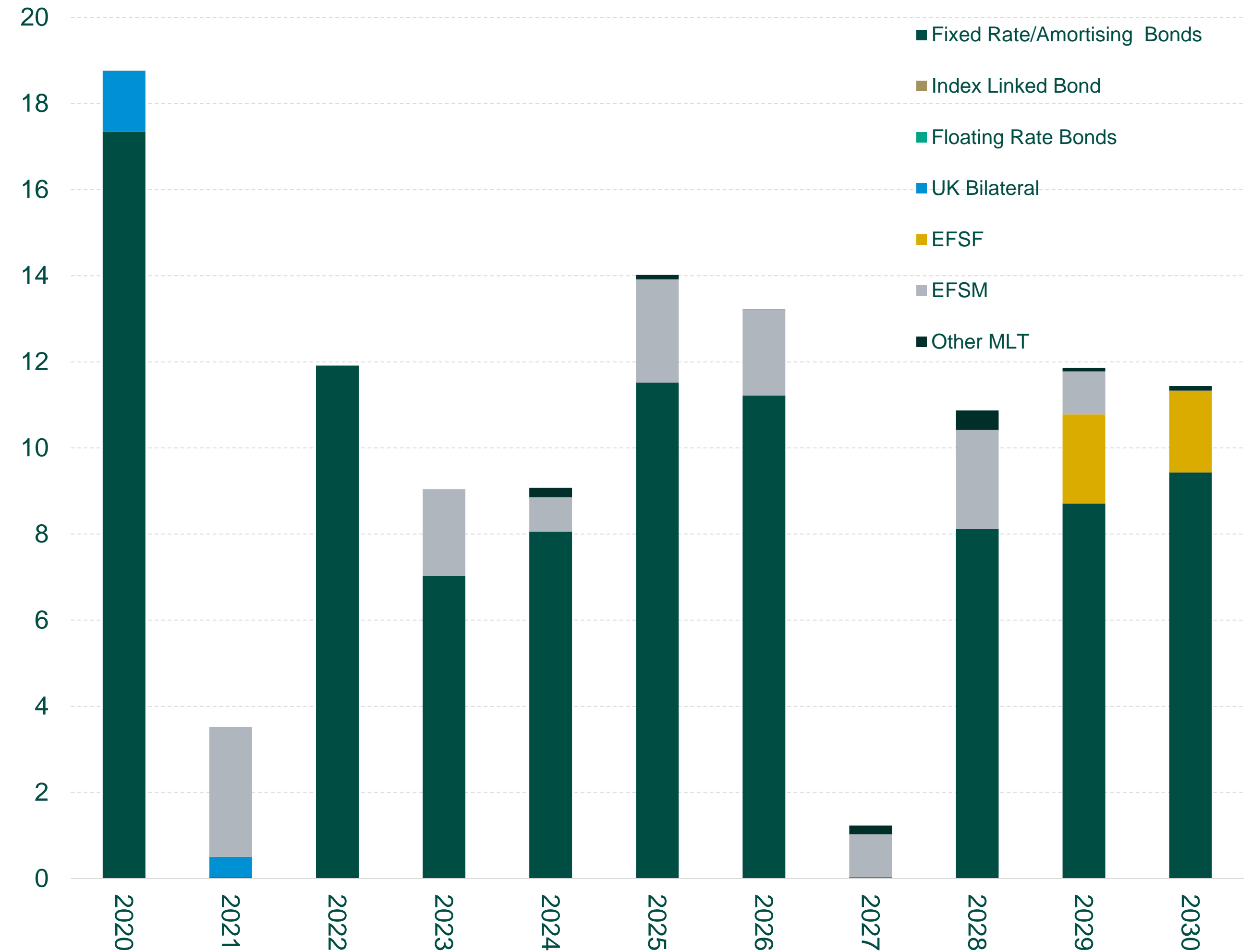
# Temporary increase in public debt; minimal redemptions next year



Gross debt



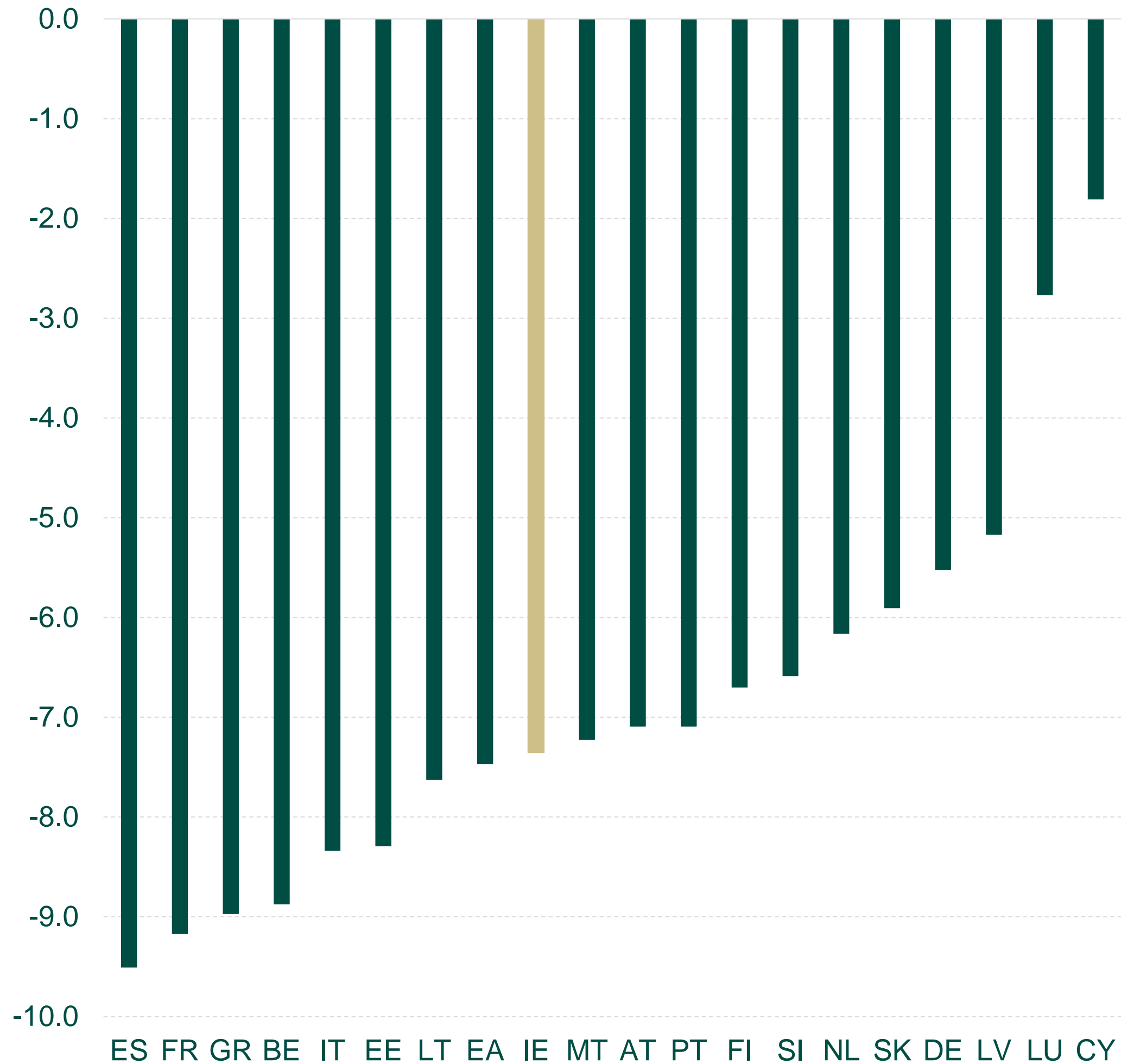
Redemptions 2020 – 2030, € billion



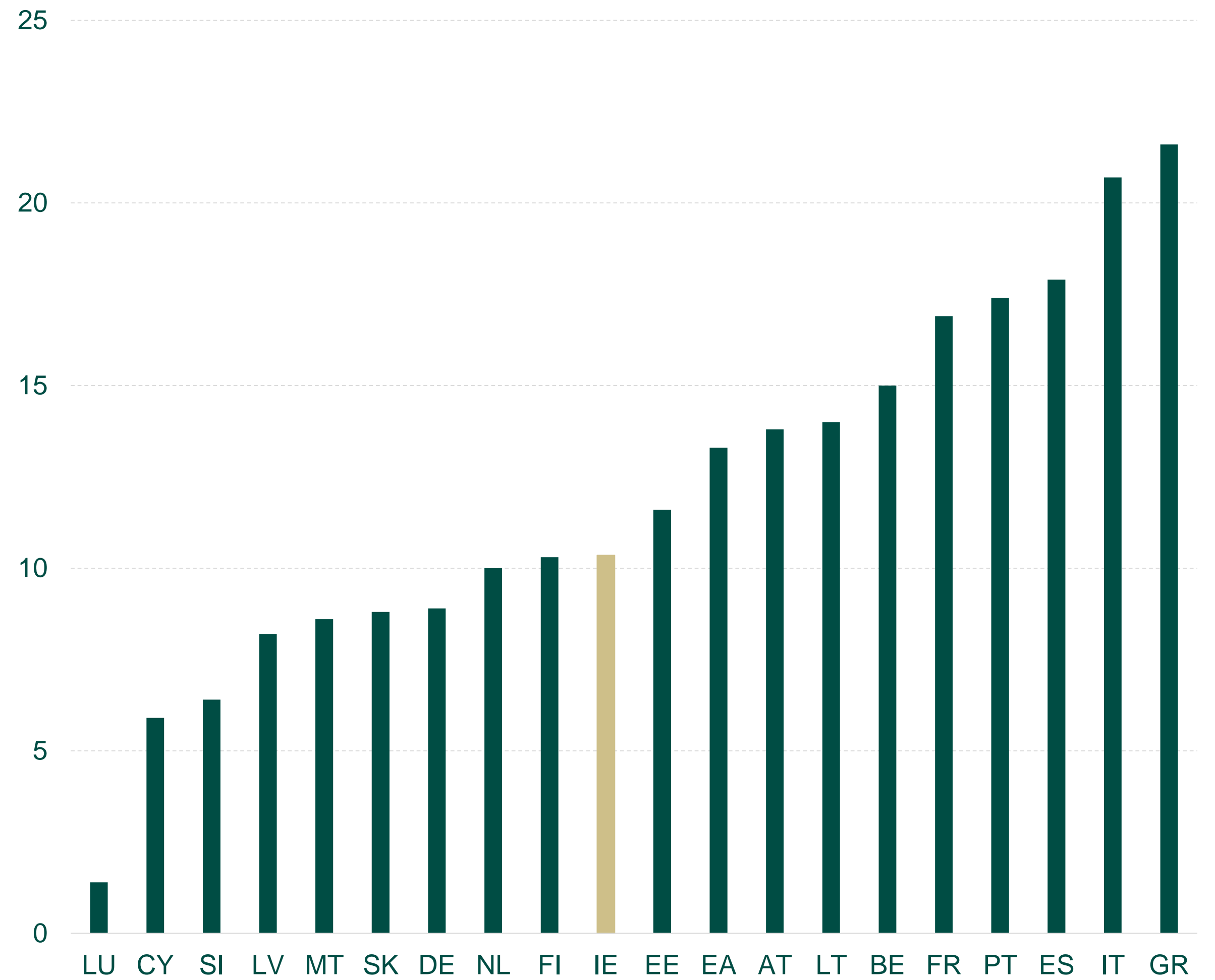
# Deterioration in fiscal situation in line with other advanced economies



Headline deficit for 2020, per cent of GDP [IMF data for EA MS]



Increase in debt ratio in 2020, pp GDP [IMF for EA MS]



# Summary: macroeconomic and fiscal projections



	2019	2020	2021
<b>Macroeconomic, y/y per cent change (unless stated)</b>			
GDP	5.5	-10.5	6.0
Modified Domestic Demand	3.0	-15.1	8.2
Employment	2.9	-9.3	5.5
Unemployment rate, per cent of labour force	5.0	13.9	9.7
Balance of payments (modified basis), per cent of GNI*	6.3	4.7	4.5
<b>Fiscal</b>			
General government balance, per cent of GDP	0.4	-7.4	-4.1
General government debt, € bn	€204 bn	€218 bn	€232 bn
General government debt, per cent of GDP	59	69	68
General government debt, per cent of GNI*	99	125	122



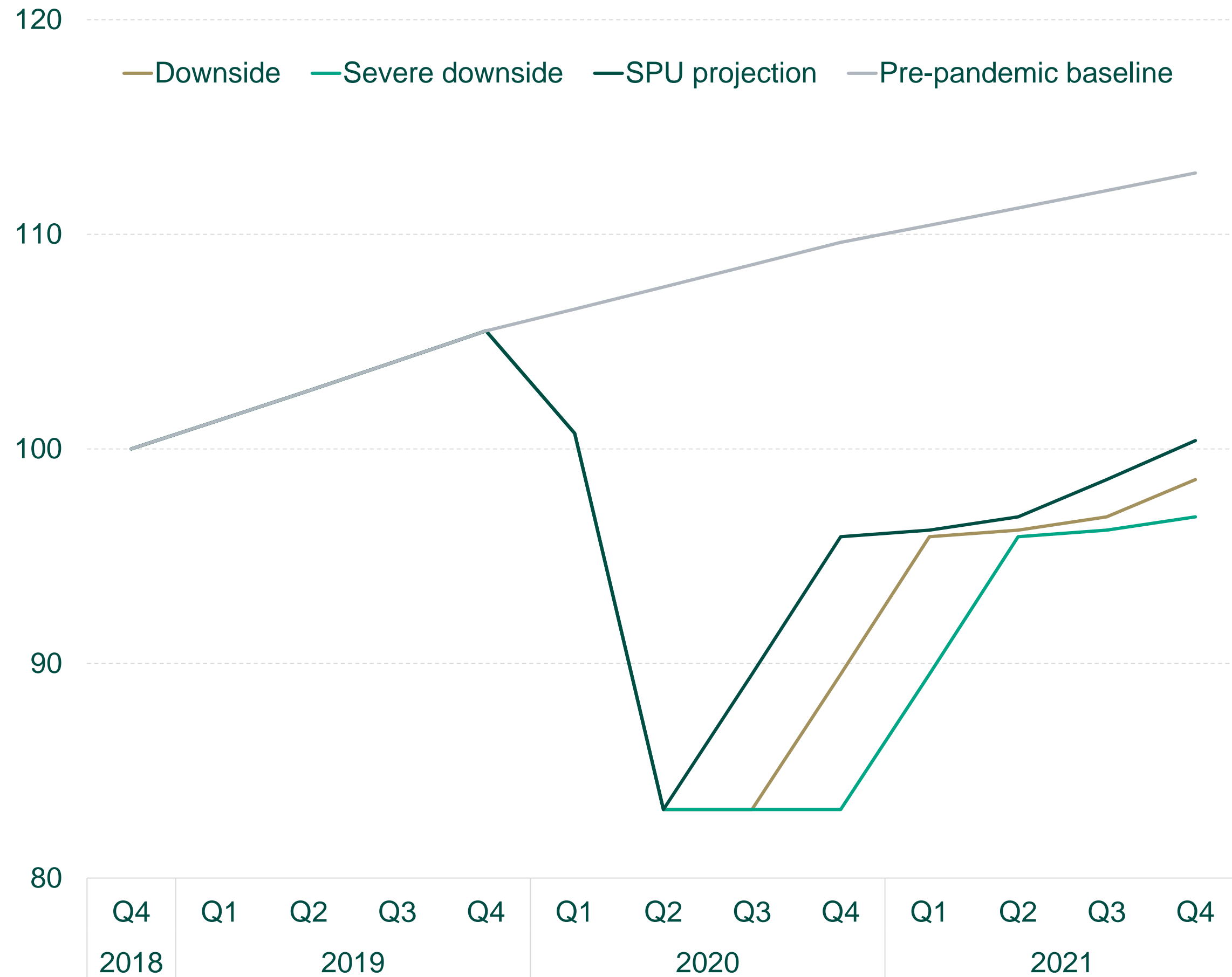
# Risks



# Key risk = second wave / mutation / delay in vaccine



scenario analysis: GDP levels, 2018q4=100



Indicative recovery profiles: y/y per cent change

	Recovery begins	2020	2021
GDP_baseline	Q3_2020	-10.5	6.0
GDP_downside	Q4_2020	-13.8	8.6
GDP_severe downside	Q1_2021	-15.3	8.1

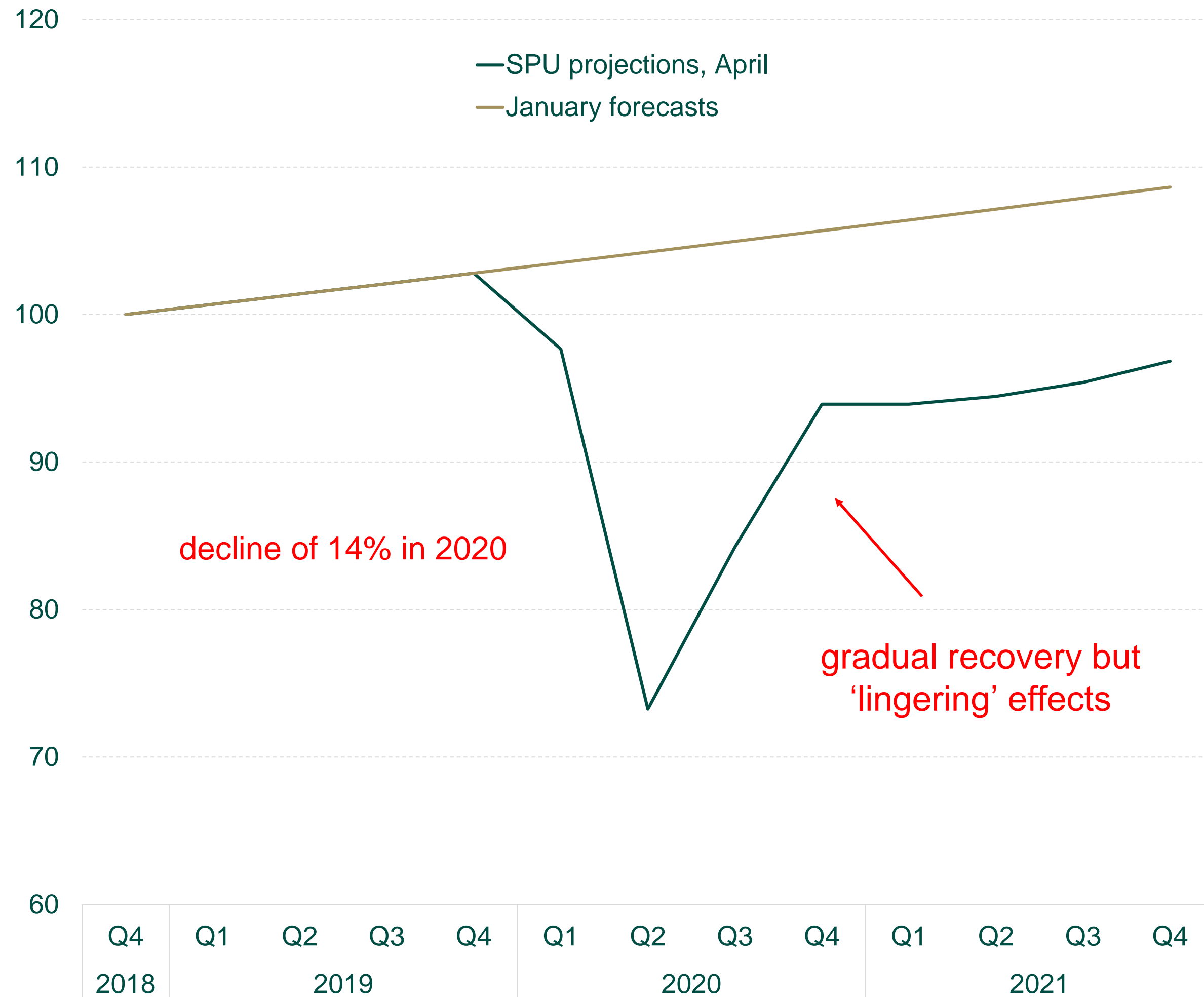


# Annex

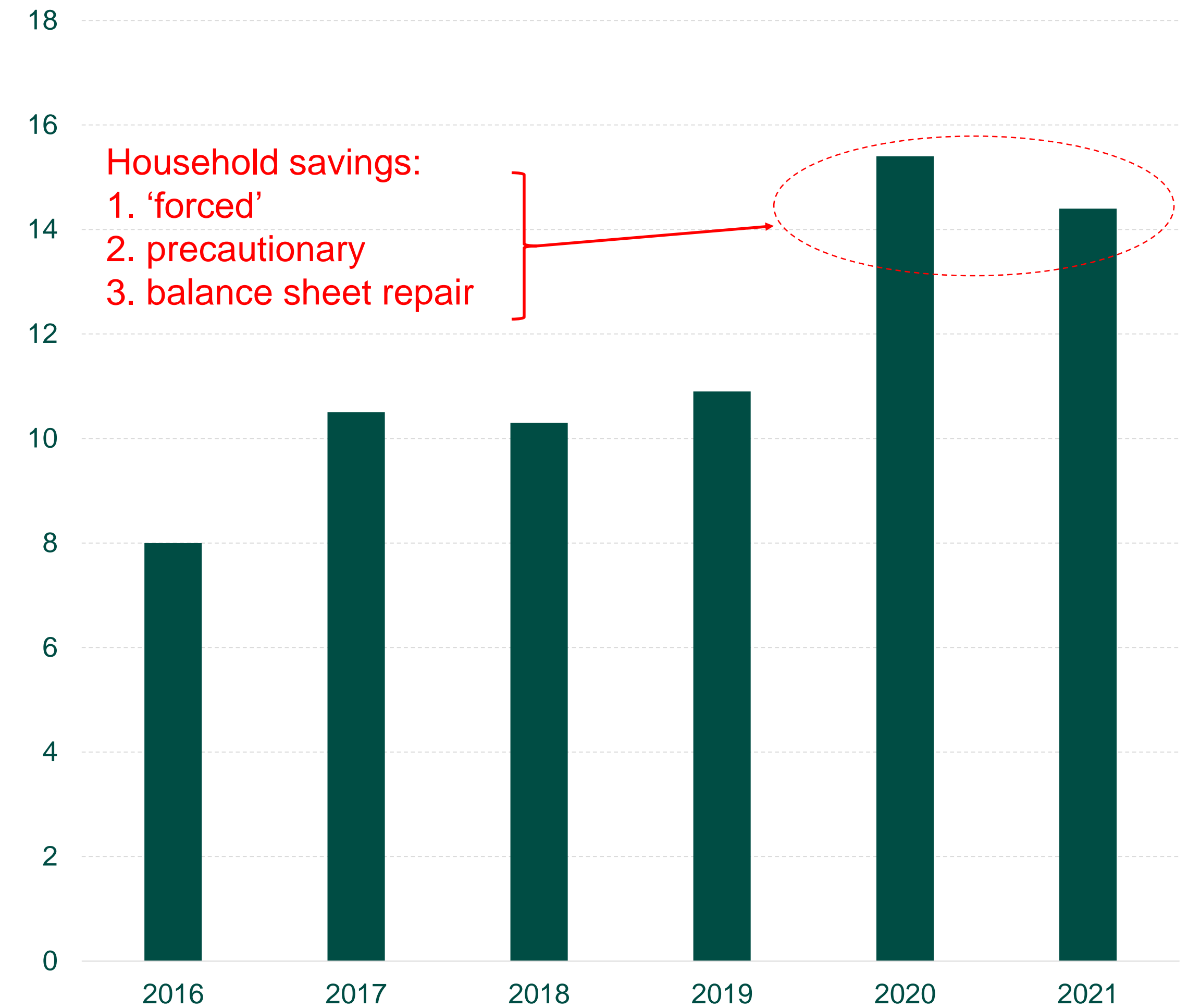
# Consumer spending – behavioural changes



Consumer spending, 2018q4=100



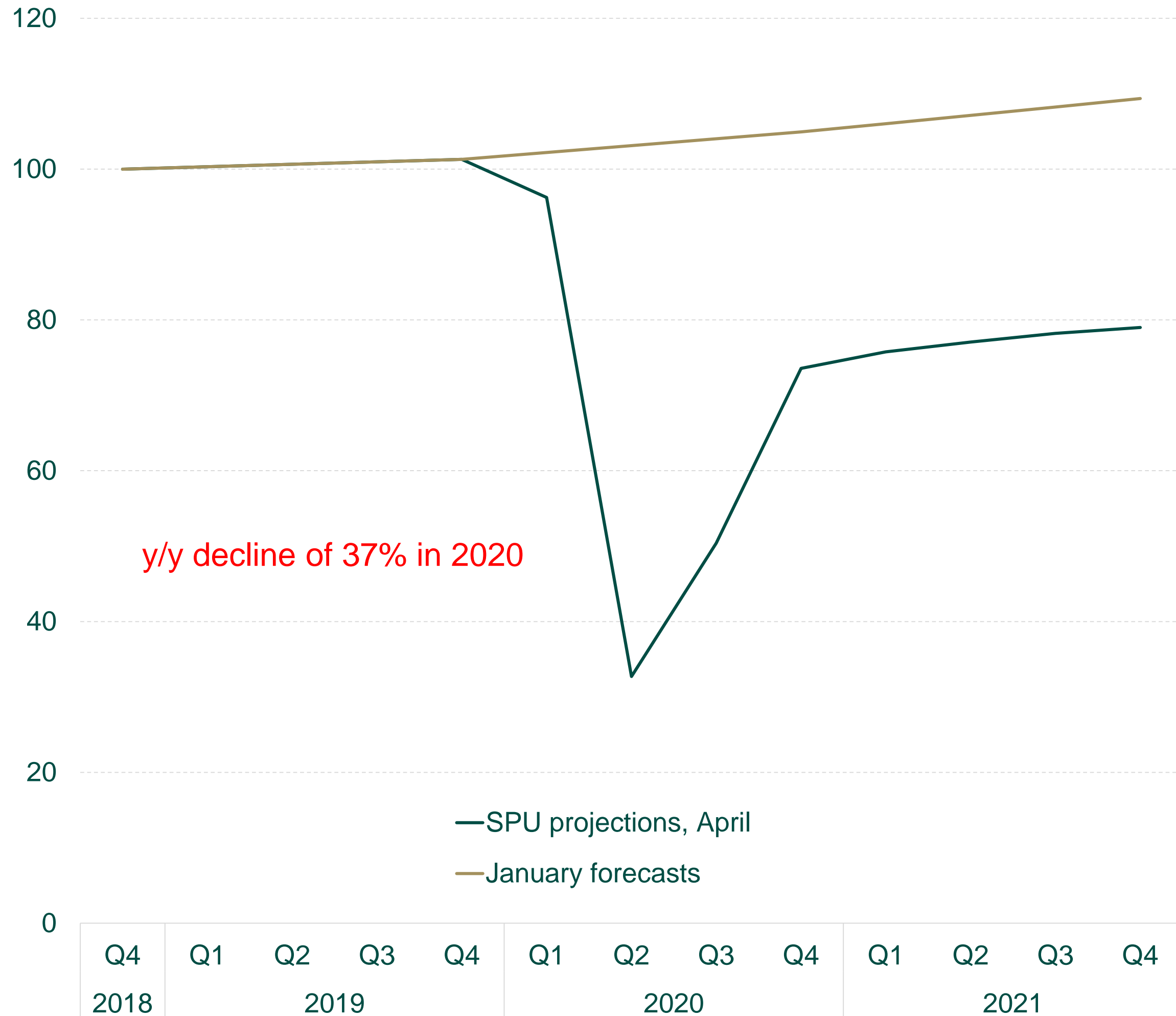
Household savings rate, per cent of disposable income



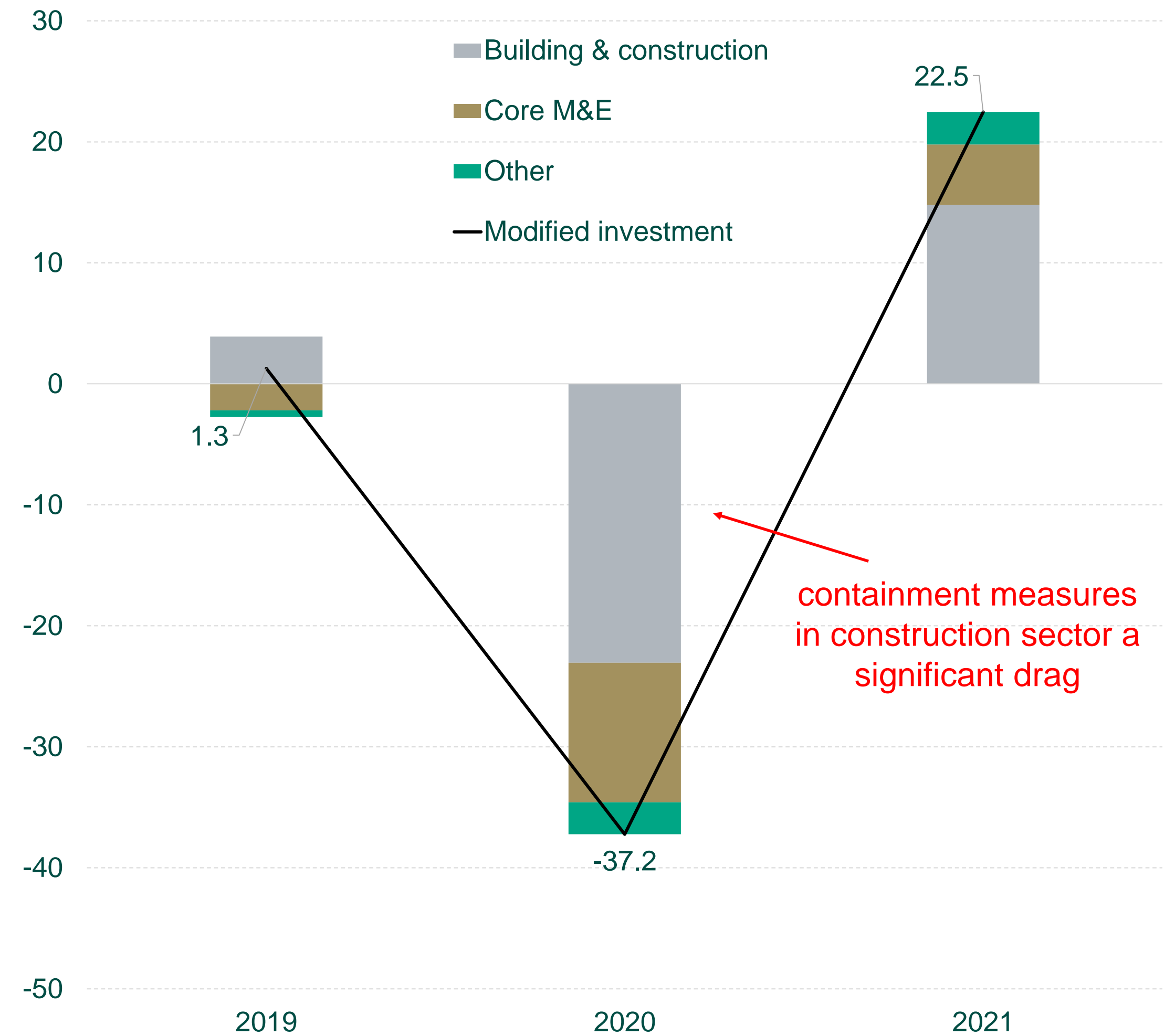
# Uncertainty: firms postponing investment



Modified investment spending, 2018q4=100



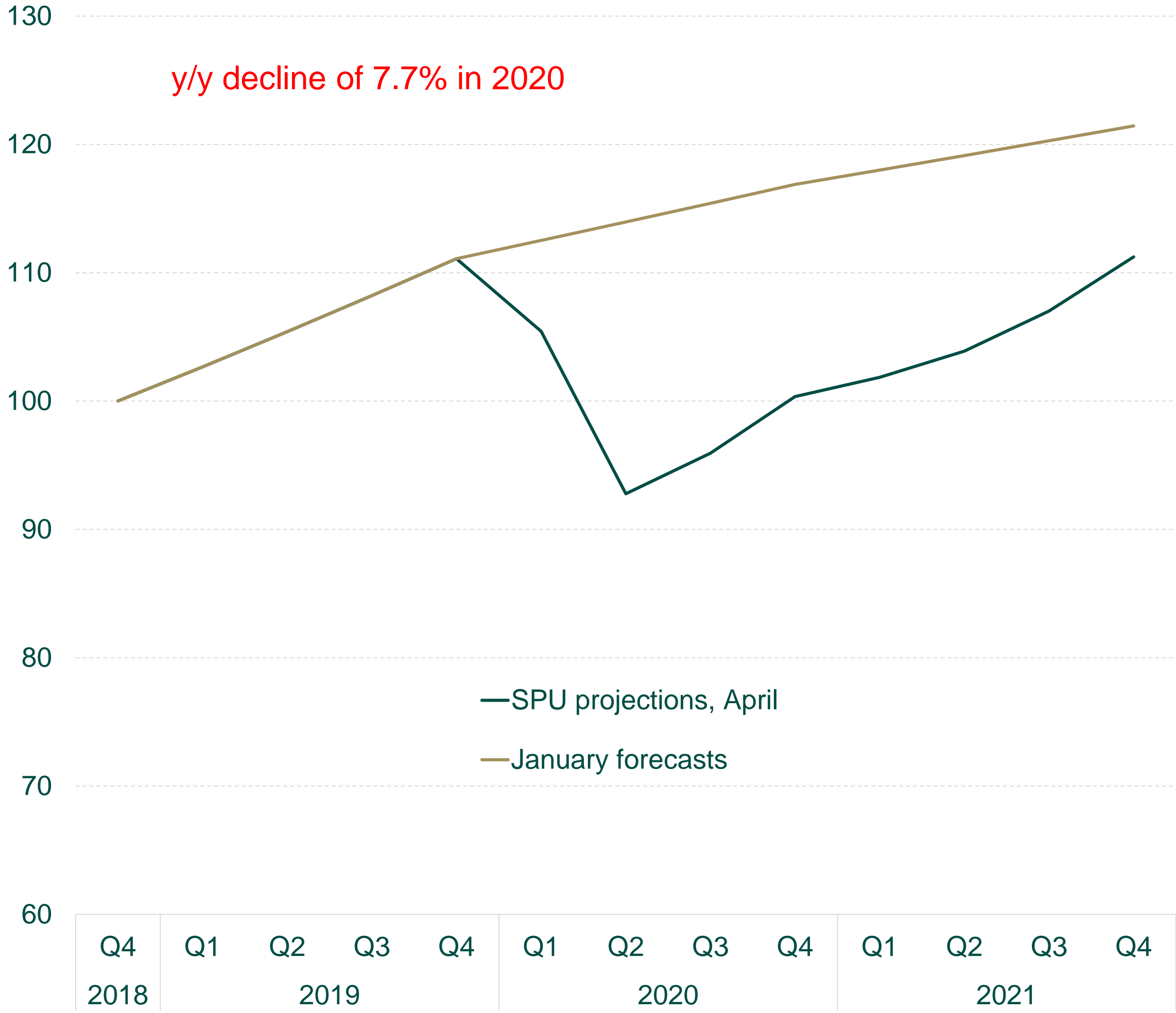
Contributions to modified investment, pp



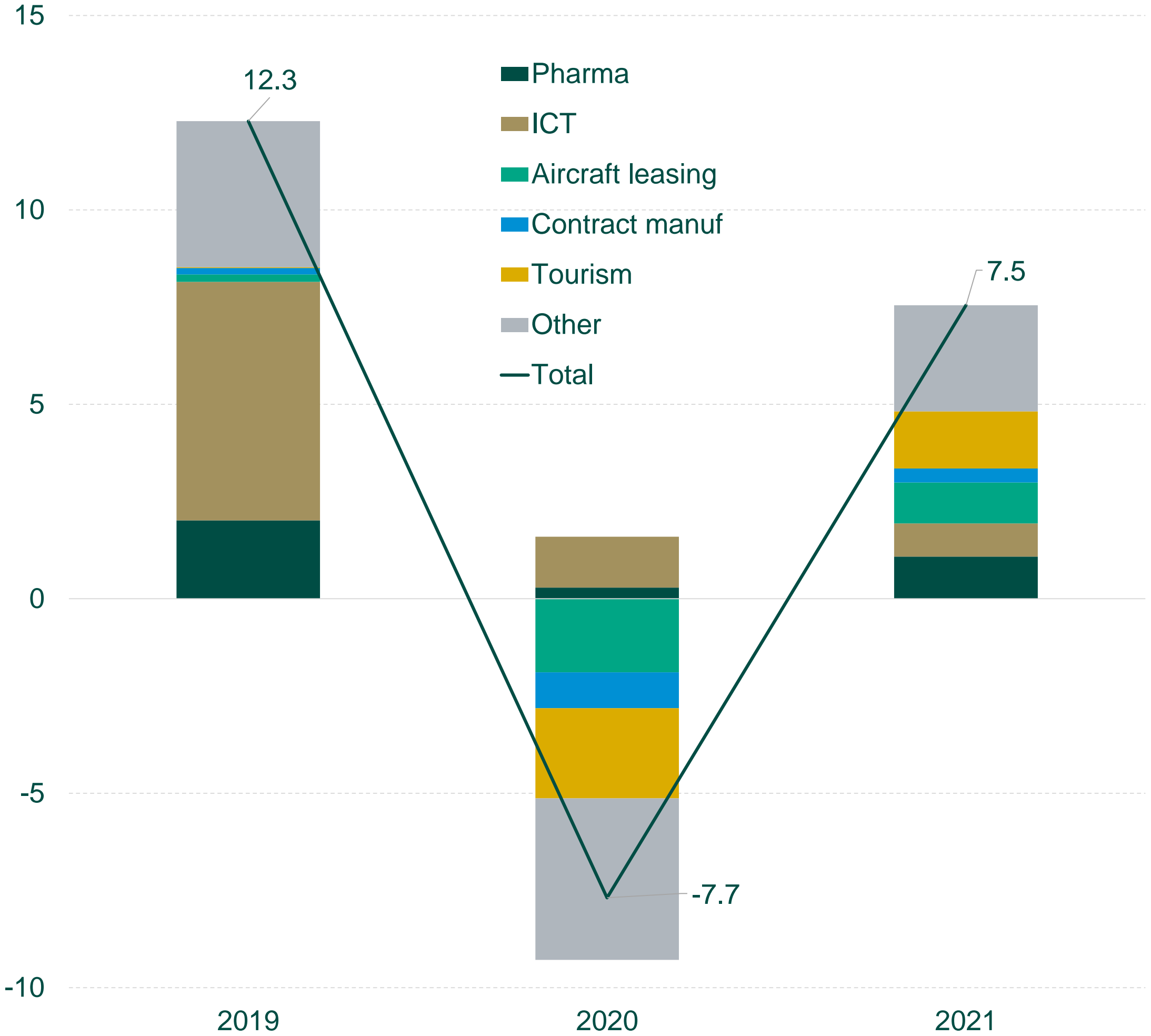
# Collapse in external demand to reduce exports



Exports of goods and services, 2018q4=100



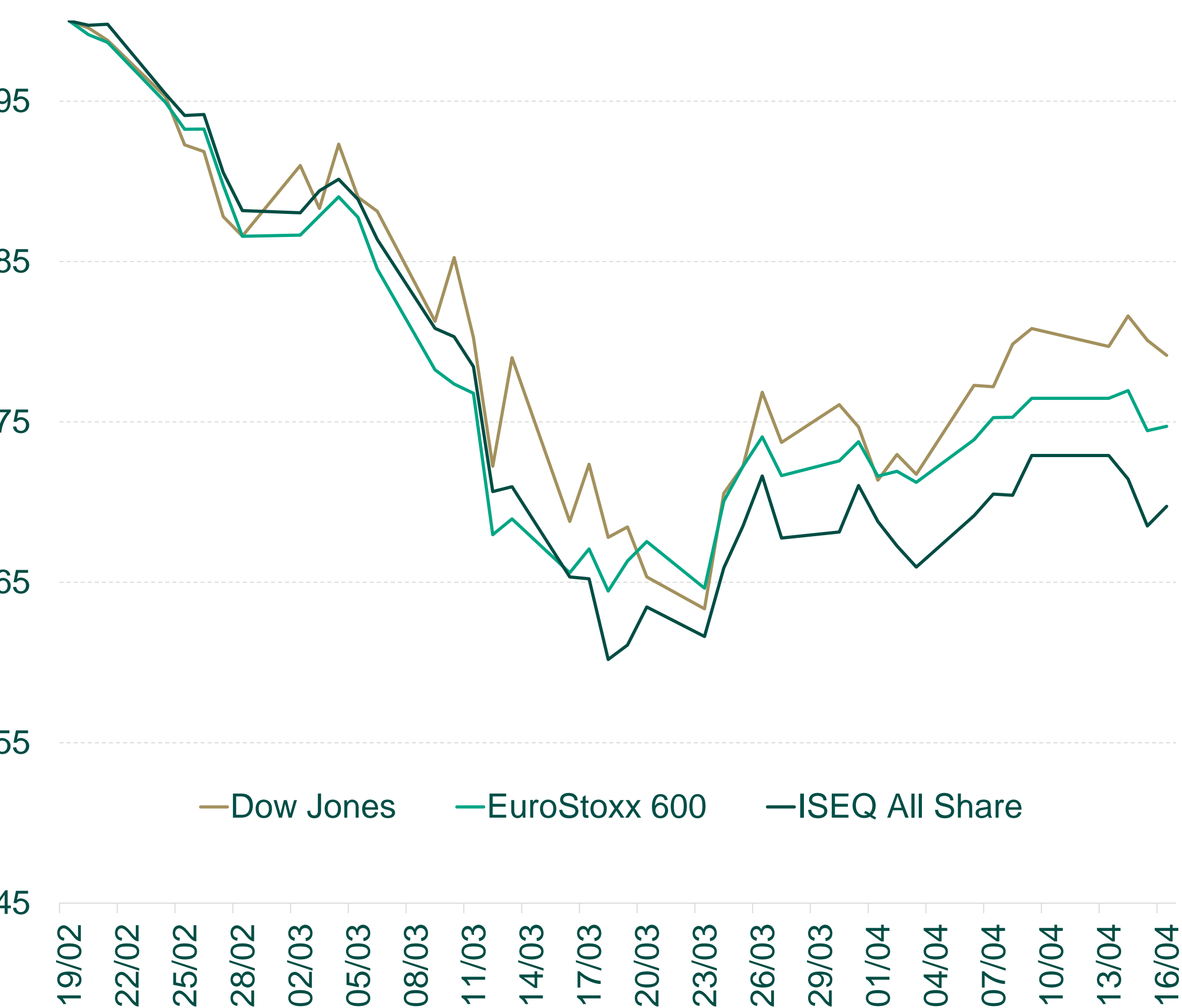
Contribution to export y/y change, pp



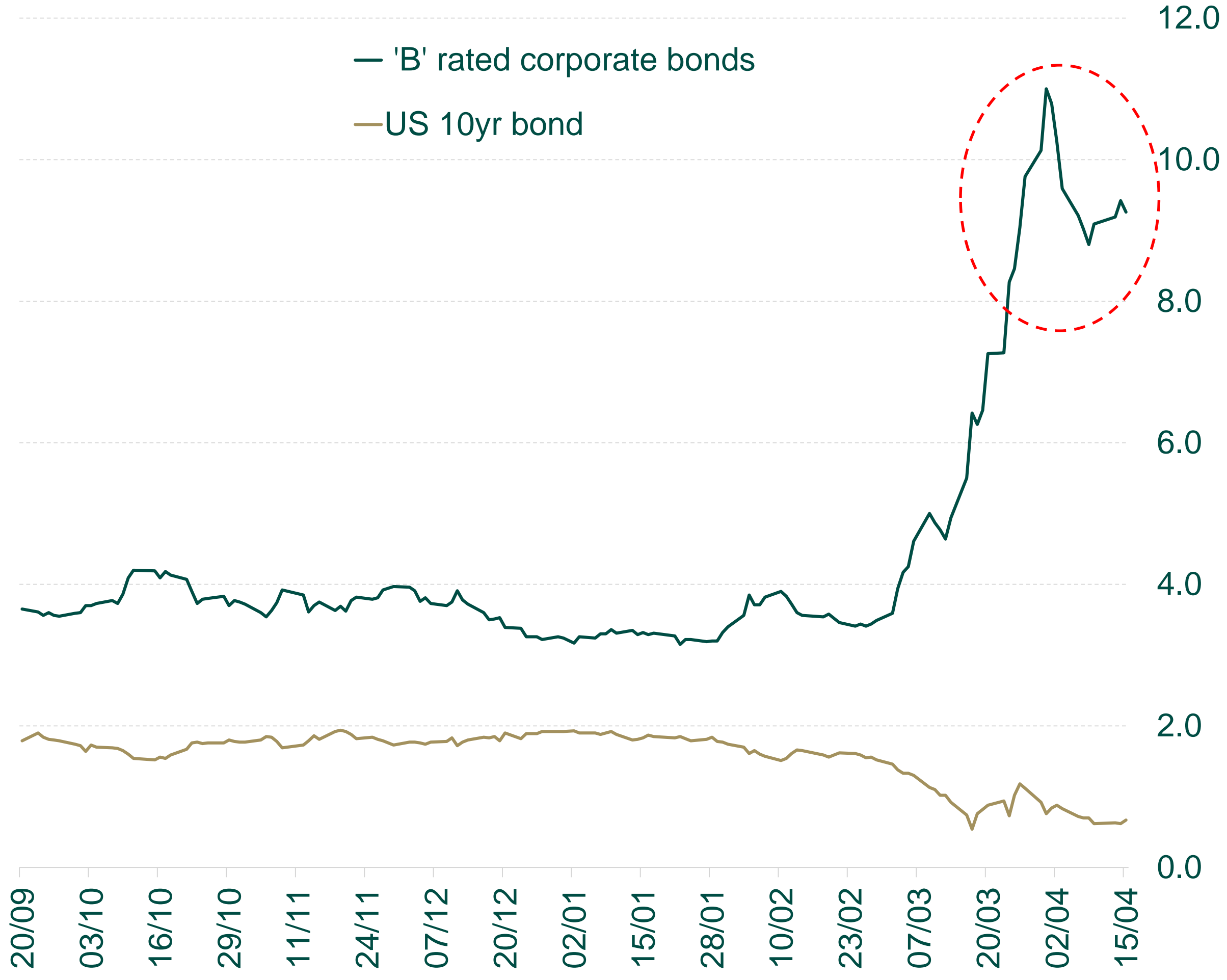
# Risk-off: tightening of financial conditions



Equity markets : some losses paired back



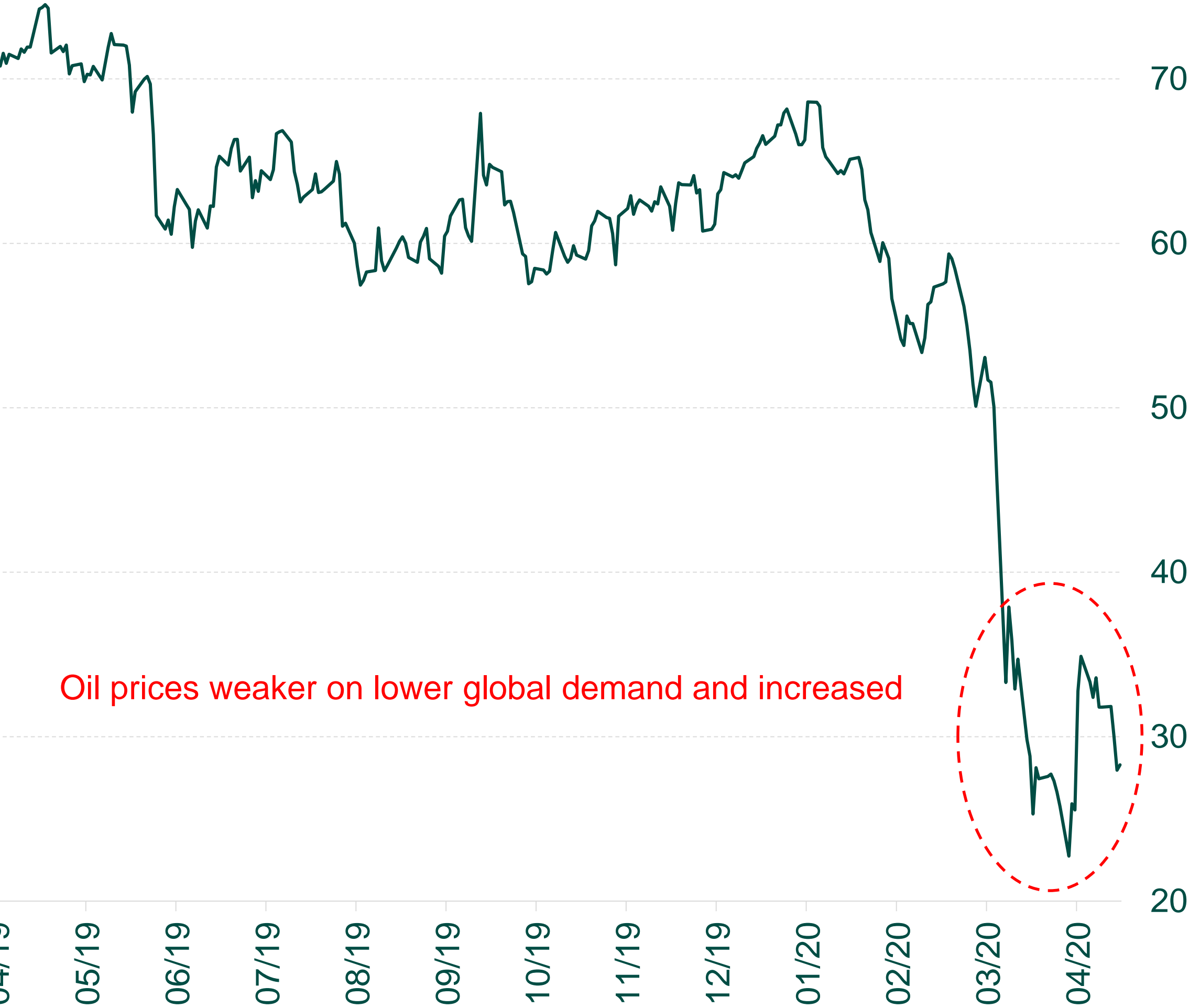
Credit markets : widening spreads in riskier segments



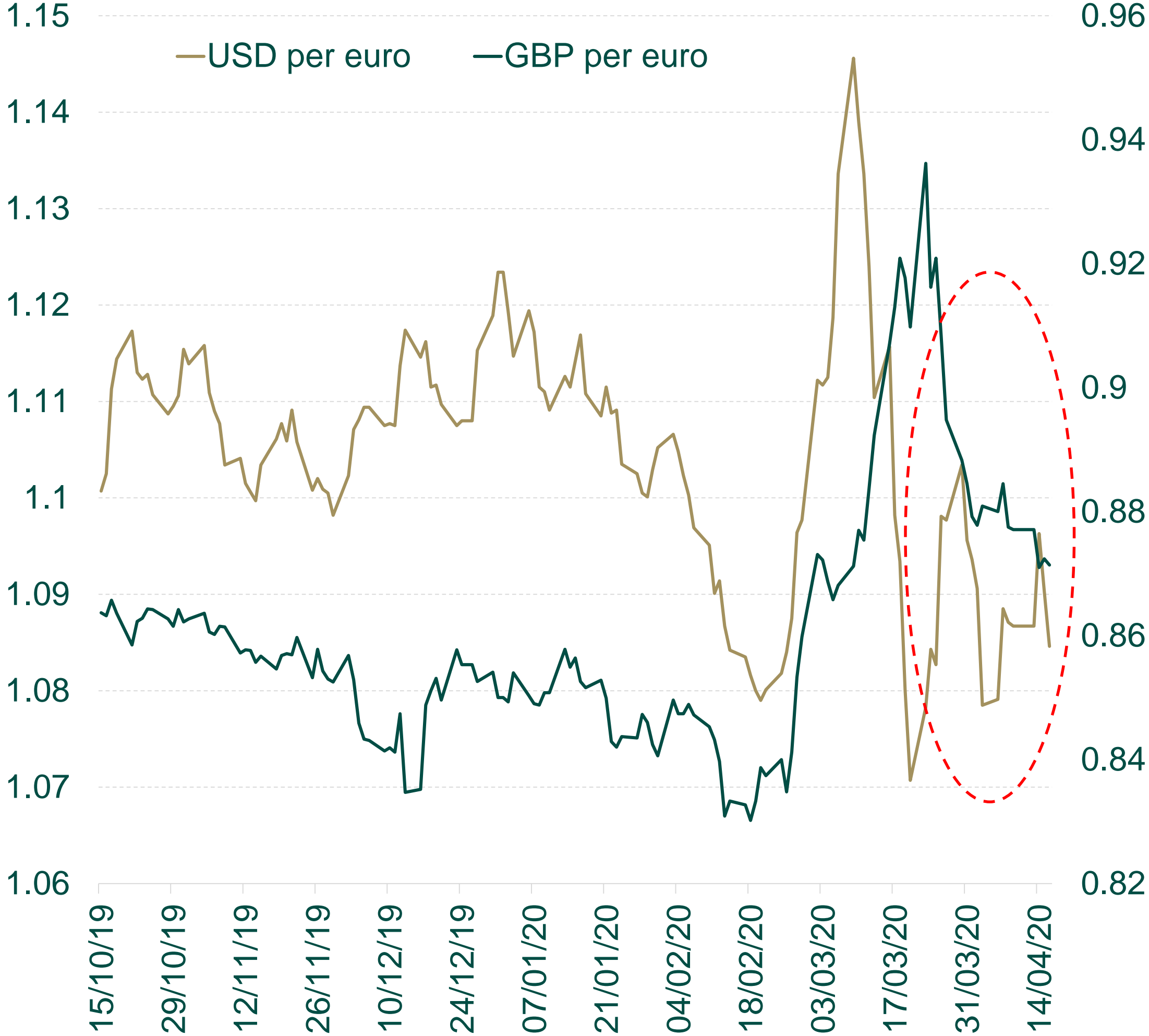
# Other key variables



**Oil prices: demand and supply factors at work**



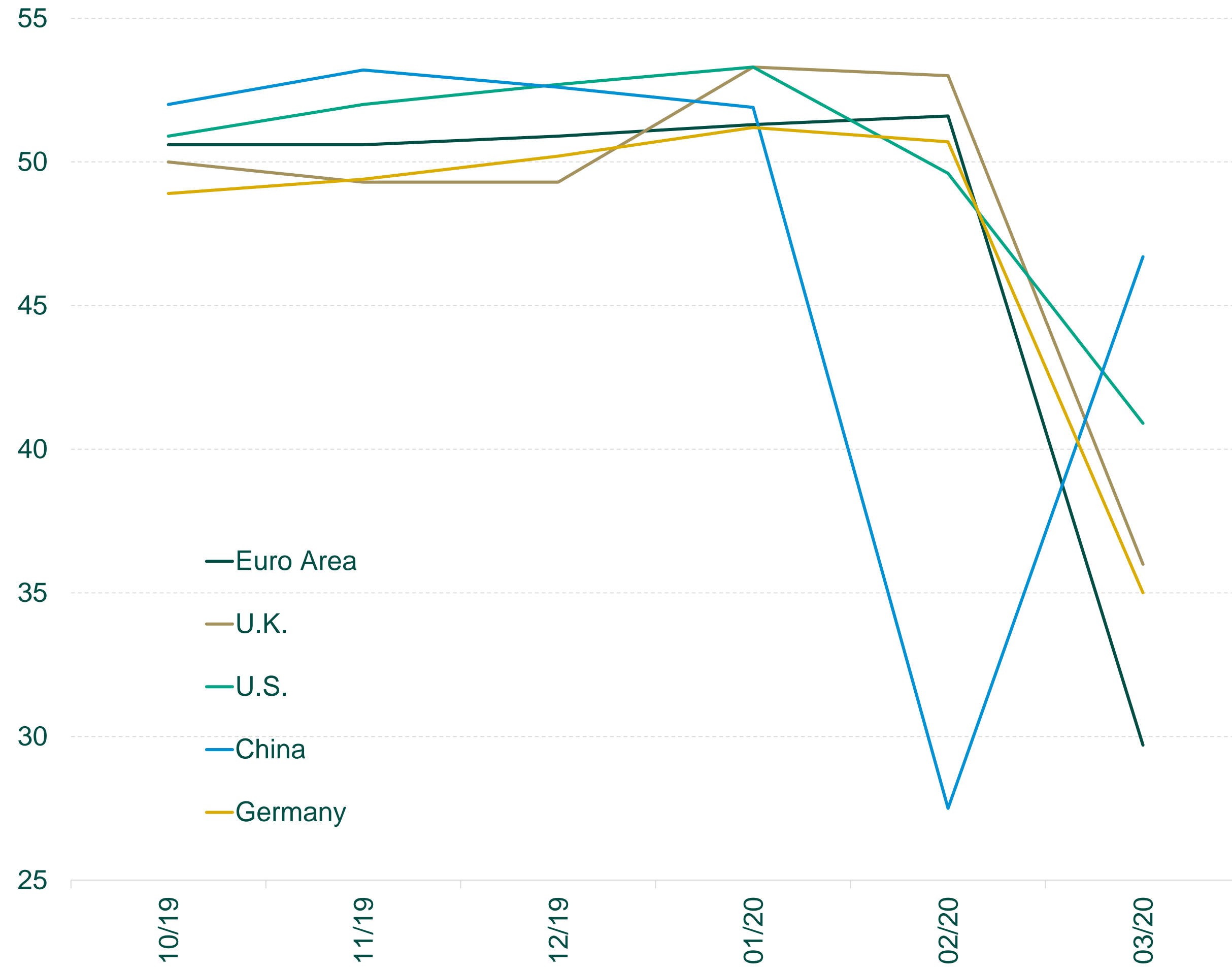
**Exchange rates : volatility**



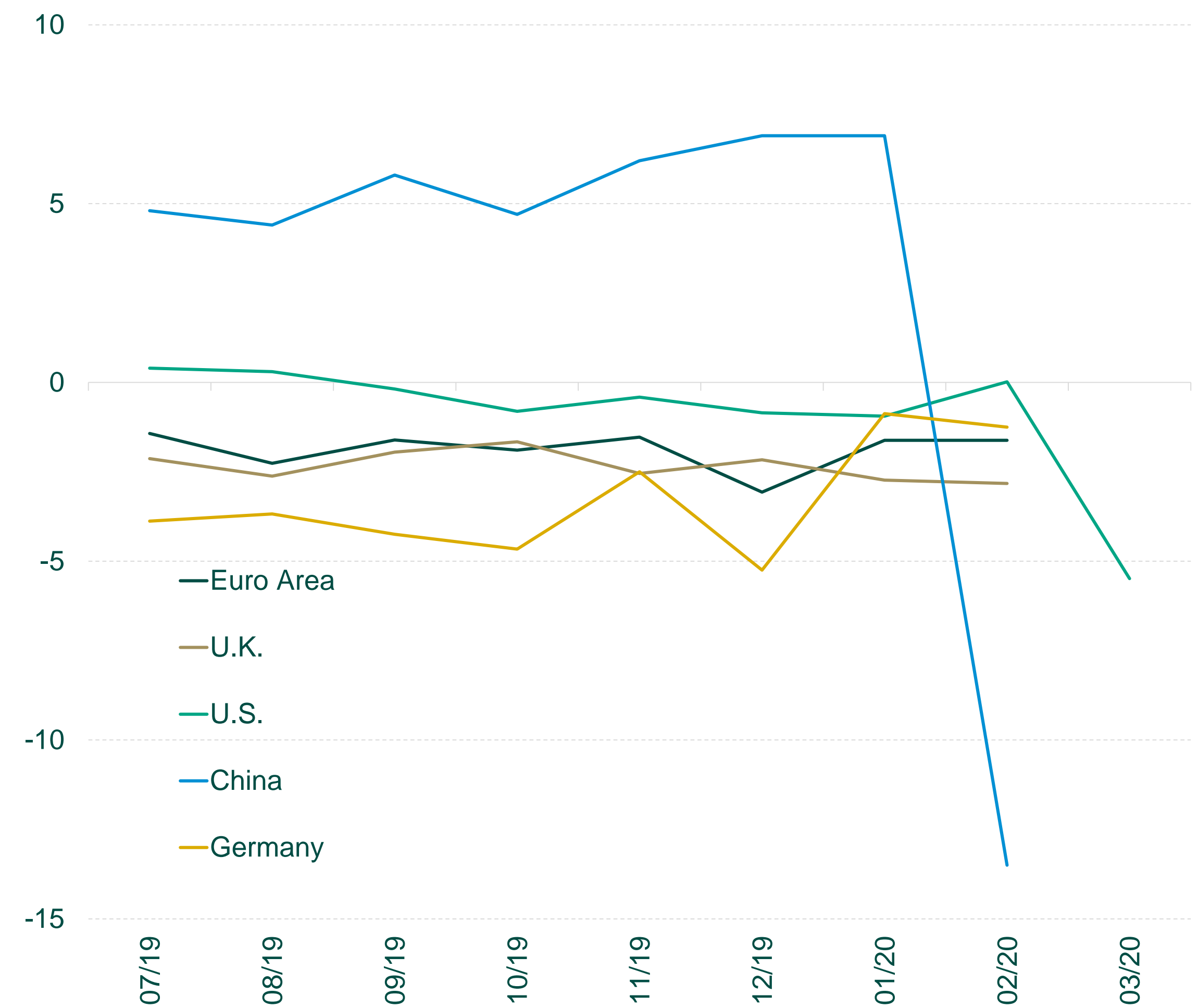
# International: 'hard' data now catching up with soft data



## Soft data = purchasing managers indices



## Hard data = industrial production

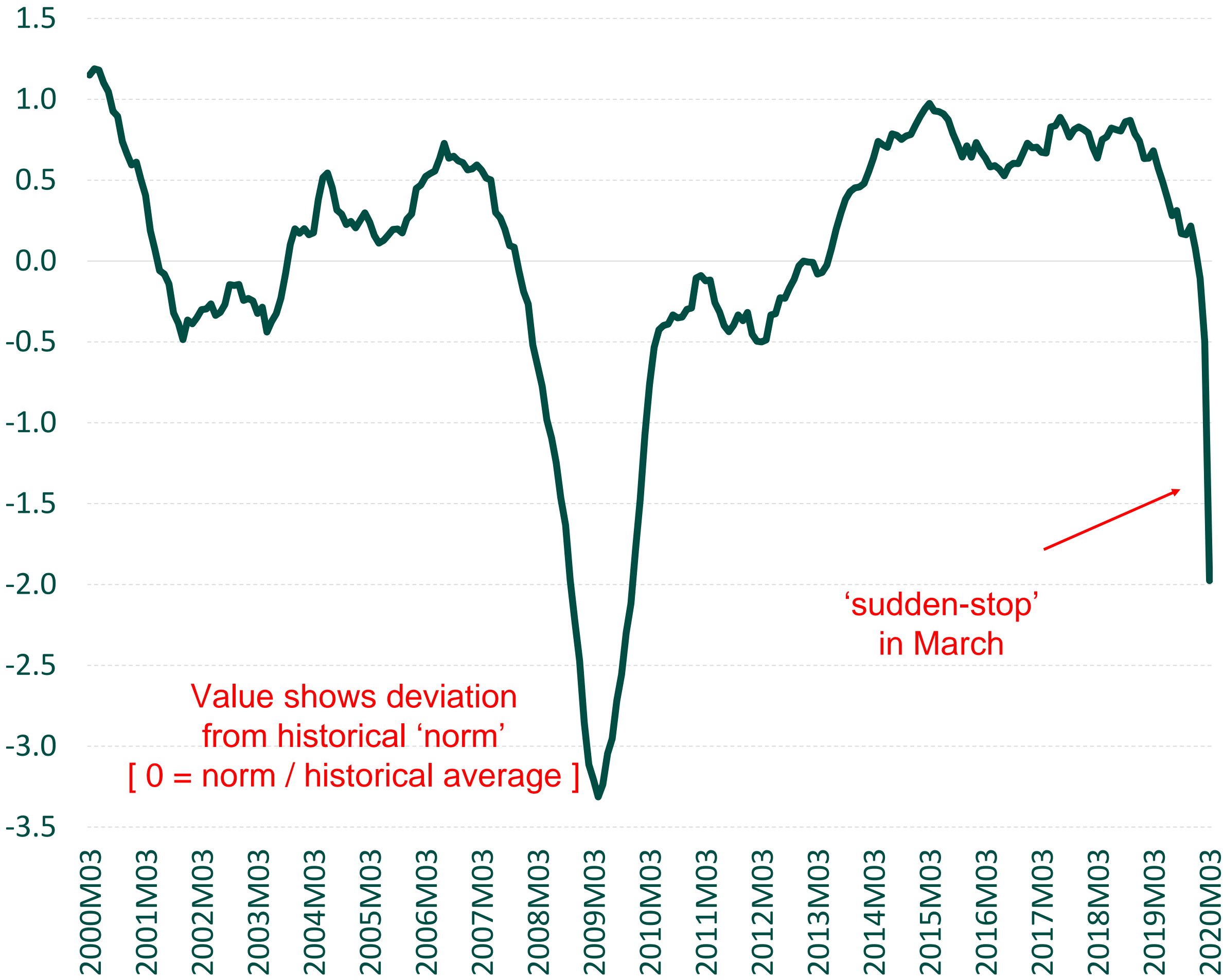




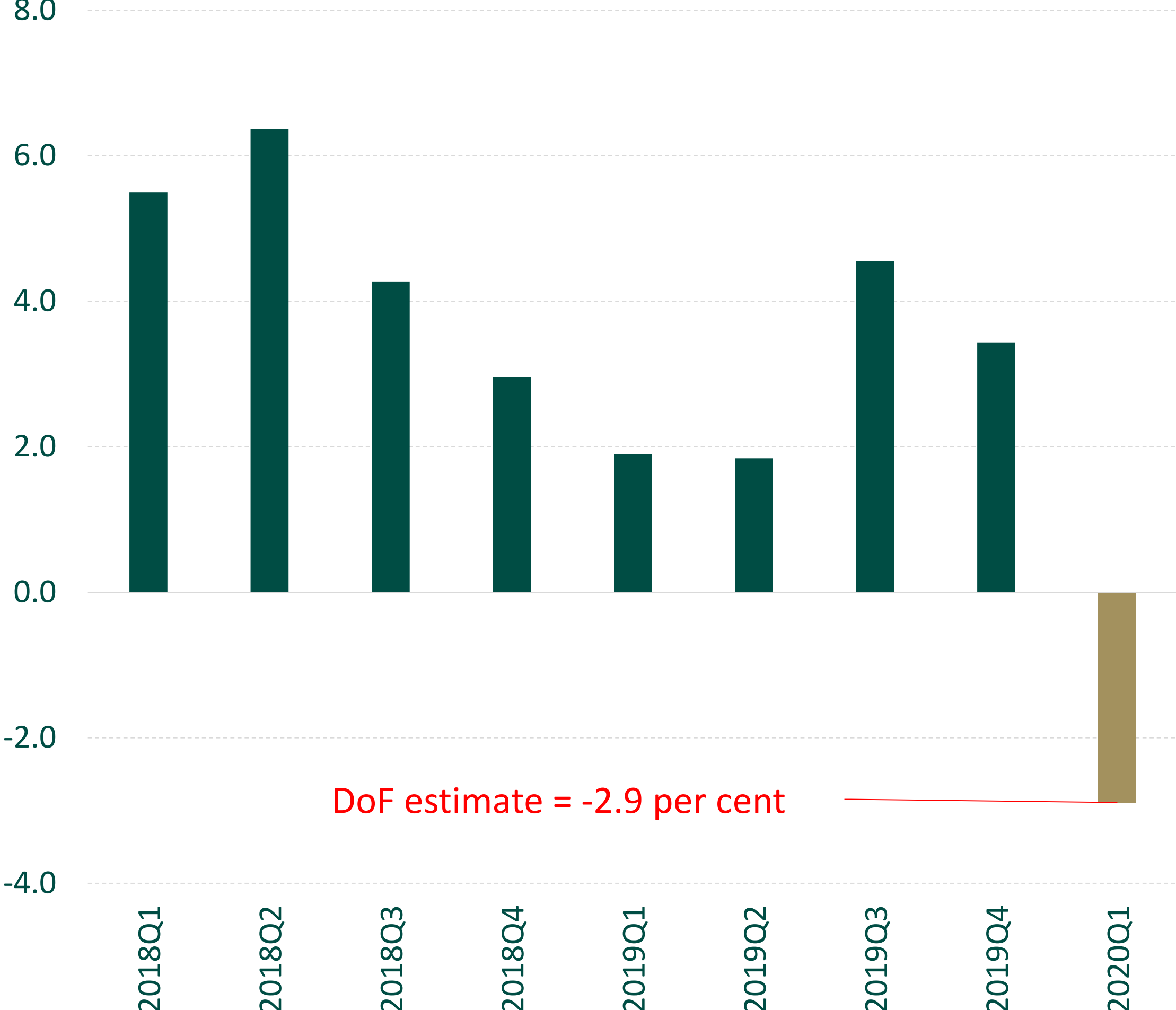
# Irish economy in q1: 'now-casts' (paper published today)



### Underlying Domestic Economic Activity



### Modified Domestic Demand



## Additional research published by DoF today



- Chart-pack: real-time economic and financial indicators

<https://www.gov.ie/en/publication/603576-real-time-economic-and-financial-developments/>

- Where are we now? Examining Irish Economic Developments in Real-Time

<https://www.gov.ie/en/publication/e6b3a7-where-are-we-now-examining-irish-economic-developments-in-real-time/>