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Central Bank of Ireland

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The macroeconomic effects of Covid-19 in Ireland

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Outline

- Understanding the economic effects of Covid-19
- The Central Bank's response
- Looking ahead towards recovery
- Beyond macro - the wider Central Bank mandate



Macroeconomic overview

- The severe shock of Covid-19 is fundamentally different in nature and scope to other shocks
- The necessary containment measures have brought economies worldwide to a near standstill – supply side shock morphed into demand shock
- In Ireland, the effect on employment has been sizable and unprecedented
- To minimize the long-term ‘scarring’ economic effects of Covid-19, it is critical we understand differing sectoral effects and areas which need support



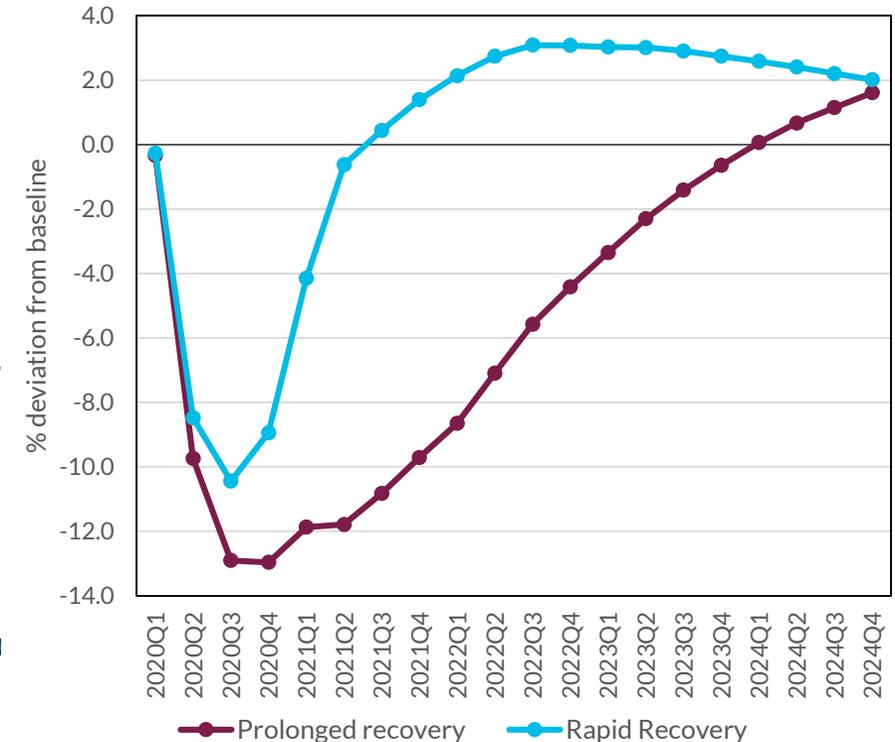
Understanding the economic effects of Covid-19

- Scenarios not forecasts
- Sectoral analysis
- Developing real time high frequency indicators
- Market intelligence
- Global perspective on Covid-19



Scenario analysis, not forecasts

- The Central Bank's *Quarterly Bulletin* examines both a rapid and prolonged recovery
- GDP could decline by 8.3 per cent in 2020
- From 5 per cent at beginning of year, estimate is for unemployment rate to rise to 24.7 per cent in Q2
- Consumption likely to contract significantly this year - close to 10 per cent YoY
- Significant effect on domestic investment
- The general government balance estimated to be -10% of GNI*
- The composition of Irish exports (60% pharma and medtech) may help mitigate effects of global slowdown



Source: Conefrey, T et al, (2020) "Box C: Assessing the Macroeconomic Implications of COVID-19 using Scenario Analysis", Quarterly Bulletin 2:2020

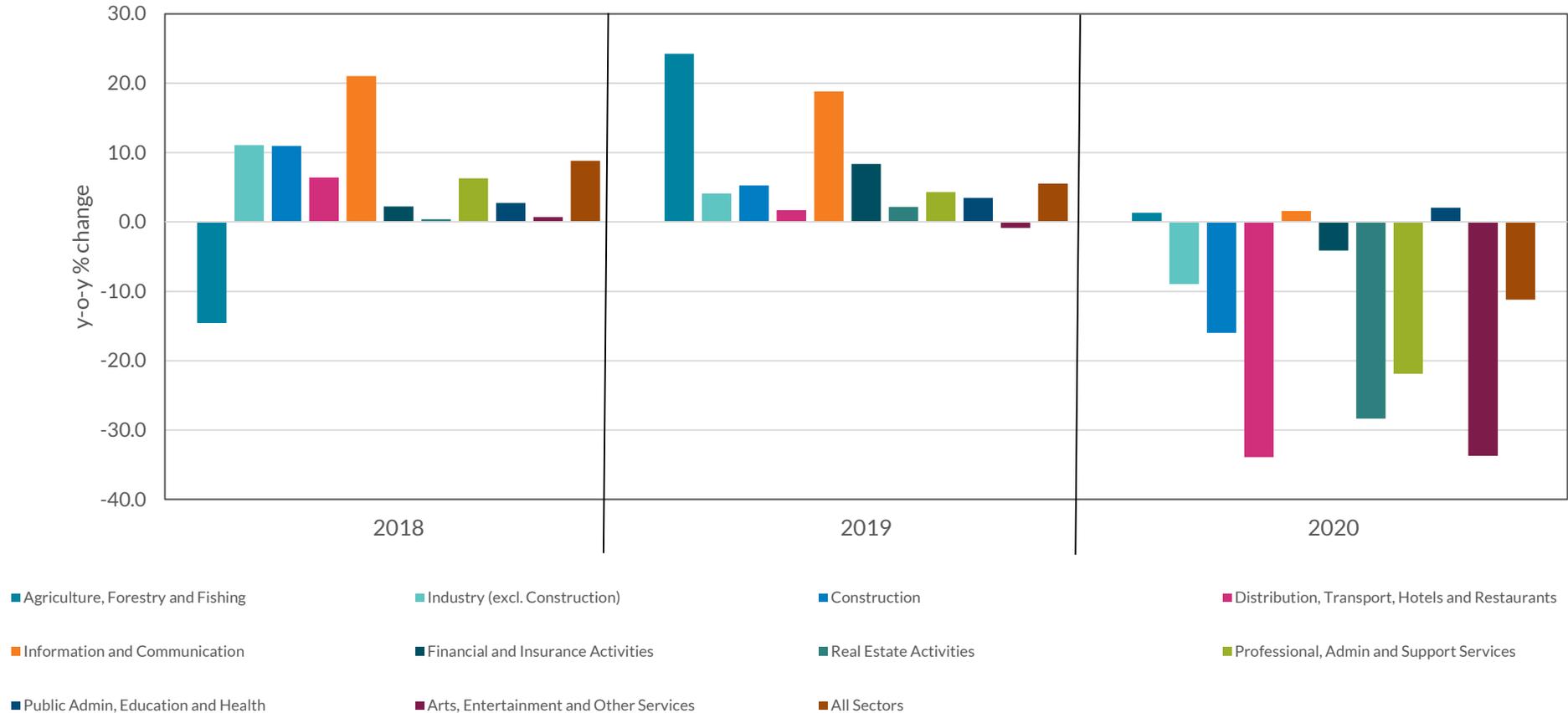


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Sectoral analysis

Illustrates which sectors are likely to be most affected



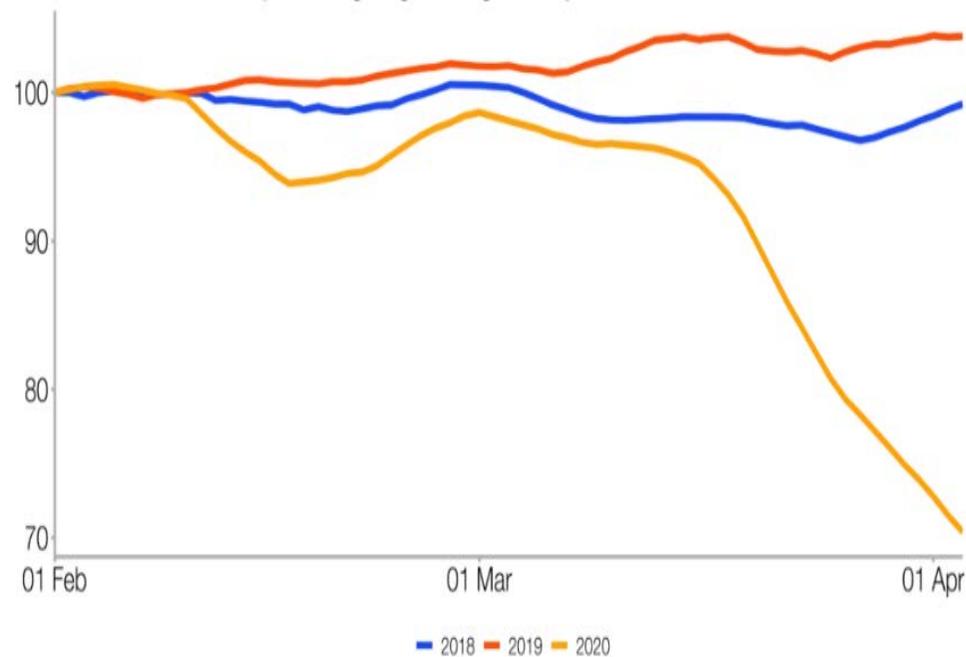
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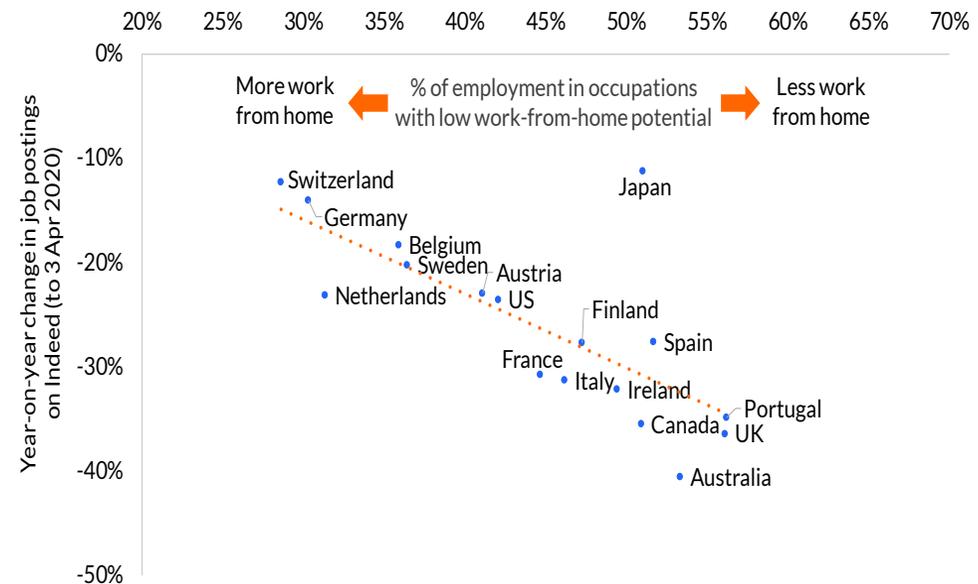
Source: Conefrey, Thomas, 2020 "Box B: Estimating 2020 GDP – an Output side approach", Quarterly Bulletin 2:2020

Real time, high frequency indicators - job postings

Postings down one third in Ireland and lower postings in countries with less “work from home potential”



Labour market impact of Covid-19
Decline in job postings on Indeed vs. share of jobs with low work-from-home potential



Source: Adrjan, P. & R. Lydon (2020) “Covid-19 and the global labour market: Impact on job postings”, Economic Letter, Central Bank of Ireland

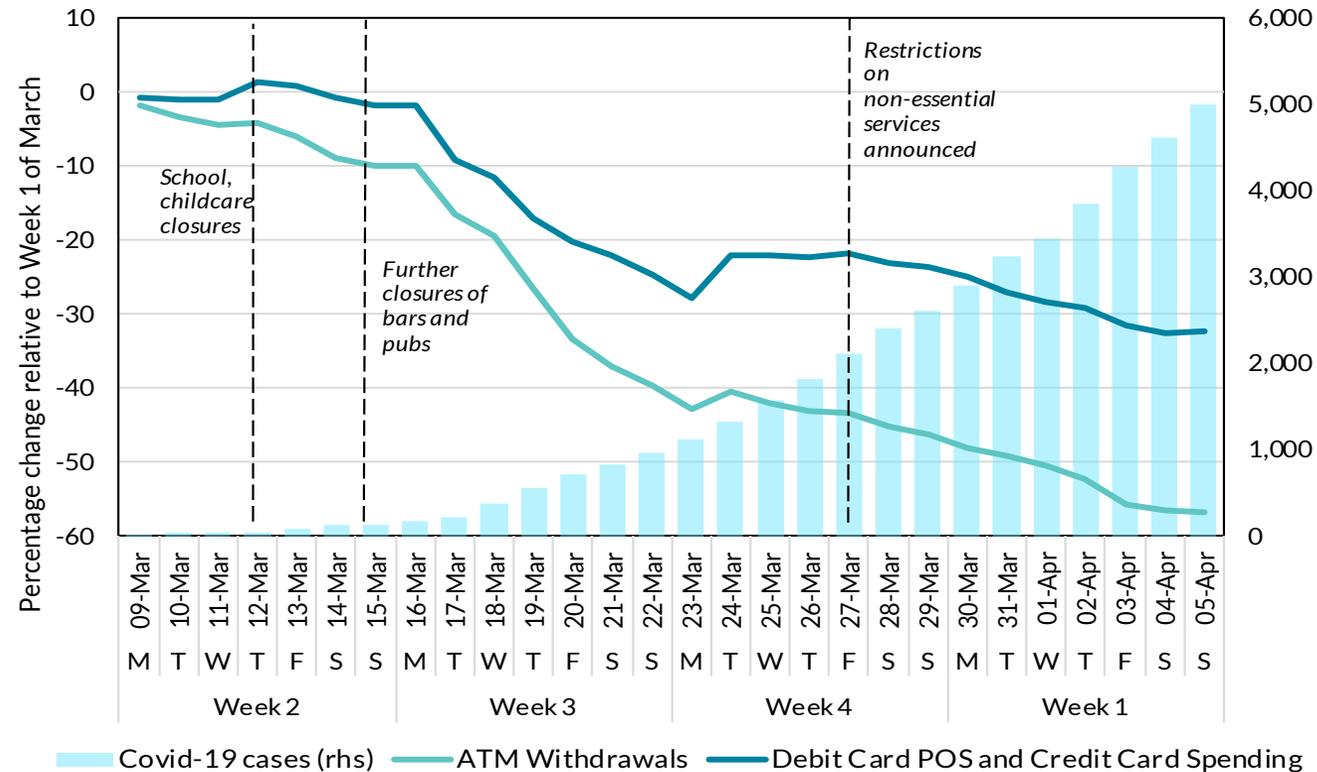


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Real time, high frequency indicators – payment card usage

Data assist in impact assessment of underlying consumer demand



Source: Hopkins, A. & M., Sherman (2020) "How has the COVID-19 Pandemic Affected Daily Spending Patterns?", Behind the Data, Central Bank of Ireland



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Market intelligence

- Speaking with industry bodies, firms and experts
- Financial firms and institutions and real economy
- Collecting and analysing the data
- The information is helping make more informed analytical choices in scenario and sectoral analyses and policy choices more widely



Need for a global perspective on Covid-19

- Working with international organisations e.g. virtual IMF Spring Meetings yesterday
- Global economy faces sharp slowdown, worse than the 2008/2009 financial crisis, global contraction of 3%
- Pre-pandemic forecast that 160 countries positive growth 2020, current expectation of negative growth in 170 countries
- This is particularly important for Ireland as a small open economy. especially sensitive to global shocks

The Great Lockdown

The world economy will experience the worst recession since the Great Depression.

(real GDP growth, year-on-year percent change)



Source: IMF, *World Economic Outlook*.



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The Central Bank's response

- Monetary policy: comprehensive package of policy measures (LTROs, recalibrated TLTROs, PEPP)
- Macroprudential policy: CCyB
- Microprudential policy: allowing banks to use capital and liquidity buffers fully, operational flexibility
- Consumer focused policies – payment breaks and CCR
- Working on operational and financial resilience of supervised firms



Monetary policy response to Covid-19 Pandemic

- Monetary policy ensures supportive financing conditions for all sectors of the economy: consumers, households, firms, banks and governments)
- Measures:
 - Safeguard liquidity conditions
 - Protect the flow of credit
 - Prevent a pro-cyclical tightening of conditions
- The additional asset purchases by the ECB for the remainder of 2020 will amount to around 7.3% of euro area GDP
- The main Irish retail banks could potentially borrow in excess of €20 billion under the TLTRO operations



Macroprudential policy response to Covid-19

- Over the last decade macroprudential policy has strengthened the resilience of the domestic banking system and its capacity to absorb adverse shocks.
- Limits the scope for the banking system to amplify the shock
- The CCyB release on its own amounts to around €940 million of capital across the domestic banking sector.
- If used entirely to fund new lending, the capacity for new lending could range from between €10 billion and €16 billion based on plausible estimates for risk-weight densities.
- In addition, the SSM, announced that banks can operate temporarily below Pillar 2 guidance.
- Central Bank and the SSM have made clear that these releases should not be used for dividend payments, but to support lending to households and businesses.



Looking ahead

- The path of the Irish economy out of this crisis will depend on the path of the virus both domestically and globally.
- The pace of recovery is likely to depend on:
 - The extent to which households and firms have been scarred by the downturn
 - The degree to which precautionary behaviour unwinds and incomes and jobs recover
- Our dependency on the global economy will be a key point of focus, especially if the world emerges from this sudden stop at different times and different speeds
- Our trade composition could provide a buffer as it has past in crises
- To minimize the long-term ‘scarring’ economic effects of Covid-19, it is critical we understand differing sectoral effects and areas which need support



From macro to the wider Central Bank mandate

- We have spent the last decade rebuilding the resilience of the system and developing a strong consumer protection framework
- Our understanding of the macroeconomy feeds into our wider policy actions, our broad mandate
- The Central Bank recently established a Covid-19 Crisis Response Task Force
- The macro feeds into micro analysis and supervision of banks and credit unions, funds, and insurers
- Taking the macro scenarios- we have a more informed view so can act as needed i.e.
 - Financial sector liquidity
 - The impact on financial resilience of supervised firms
 - Possible recovery and resolution plans
- Facing this unique challenge, our breadth is a strength



References

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