



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# COVID-19: How Can Policy Aid the Recovery?

Deputy Governor Sharon Donnery

DEW – 10<sup>th</sup> September 2020

## ■ The Irish Economy – Initial Effects of the Pandemic

## ■ The Role of Policy



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# COVID-19 has had a severe effect on the Irish Economy

## Q2 2020

Domestic Demand ↓ 10%

Consumption ↓ 22%

Investment ↓ 23%

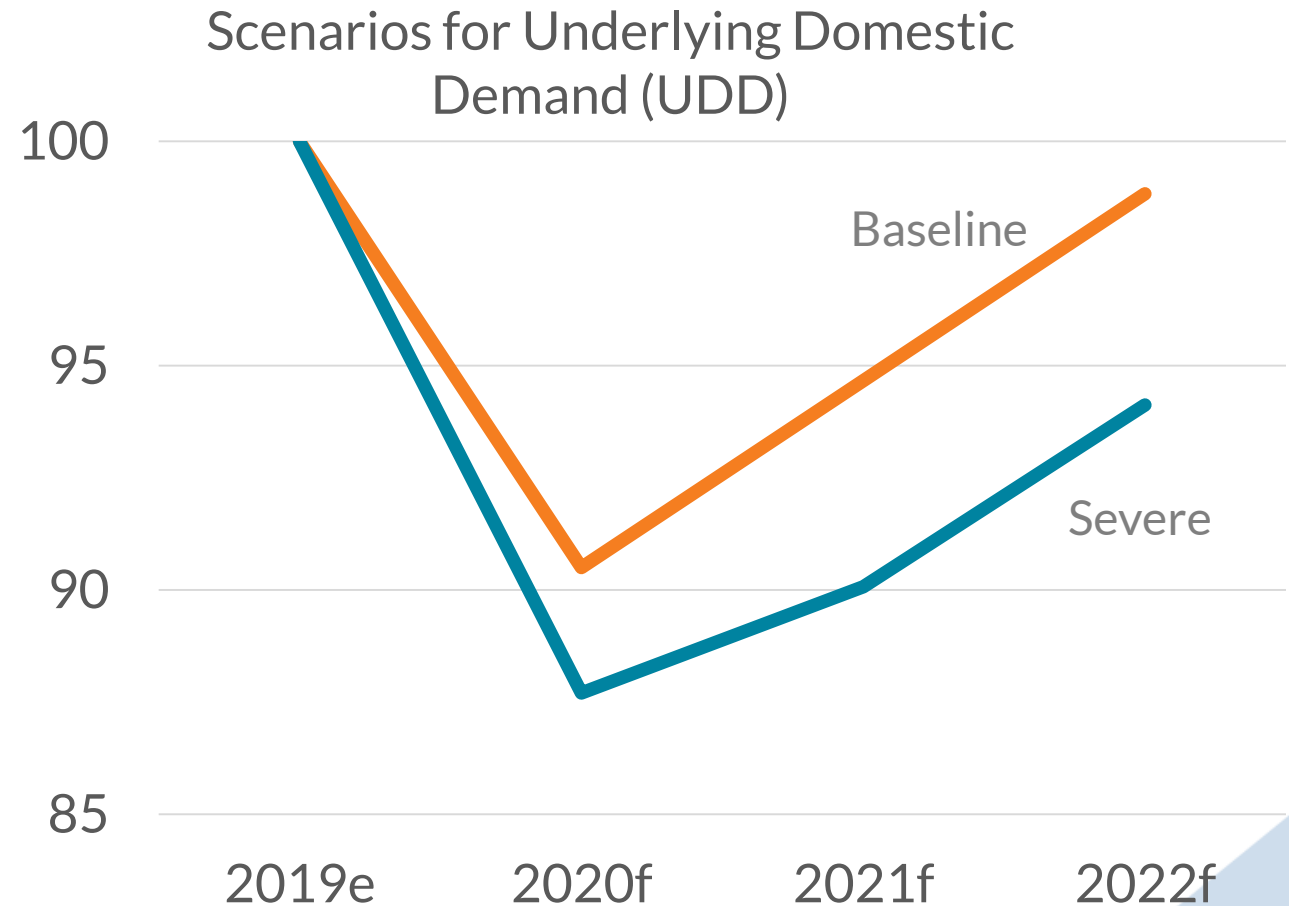
Construction ↓ 36%

Source: CSO



Banc Ceannais na hÉireann  
Central Bank of Ireland

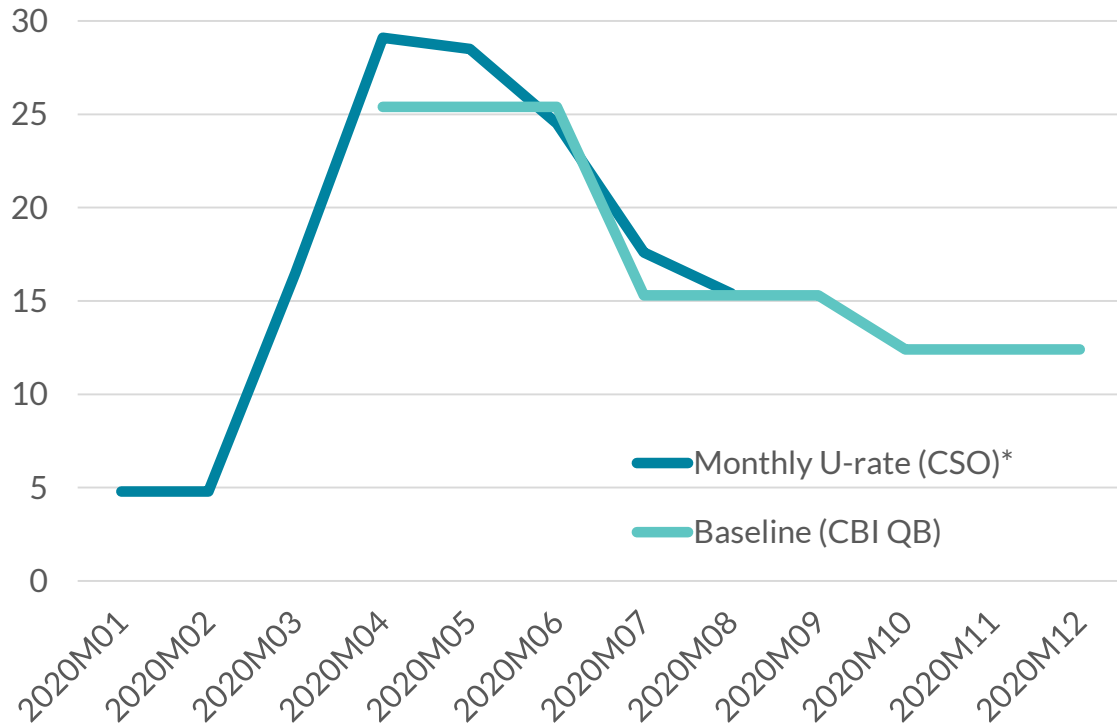
Eurosystem



Source: Central Bank of Ireland – Quarterly Bulletin 3  
2020

# Unemployment is closer to baseline scenario... but huge variation across sectors

Monthly unemployment (CSO, upper bound)

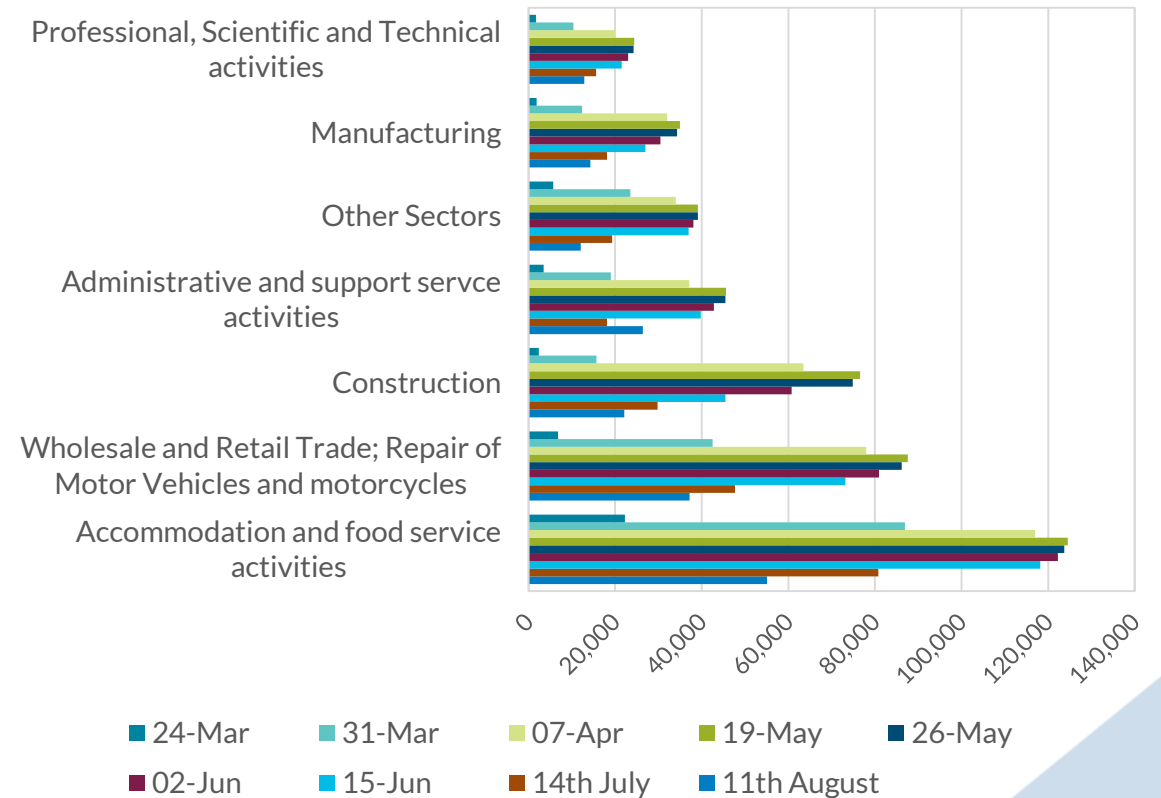


Source: CSO, Central Bank of Ireland



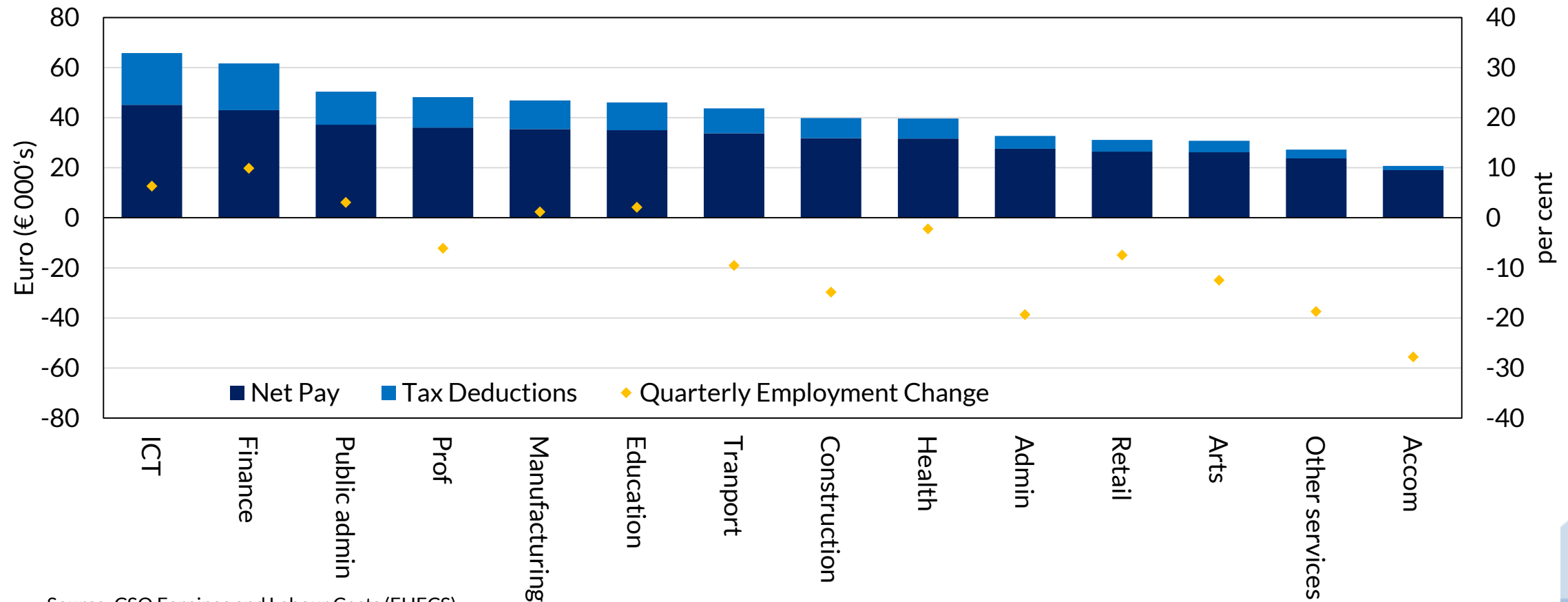
Banc Ceannais na hÉireann  
Central Bank of Ireland  
Eurosystem

PUP recipients by sector, job restoration at different speeds



Source: Byrne, Coates, Keenan & McIndoe Calder (2020).  
[The Initial Labour Market Impact of Covid-19](#)

## Sectoral variation is reflected in recent income tax outturn for 2020 Q2



Source: CSO Earnings and Labour Costs (EHECS)

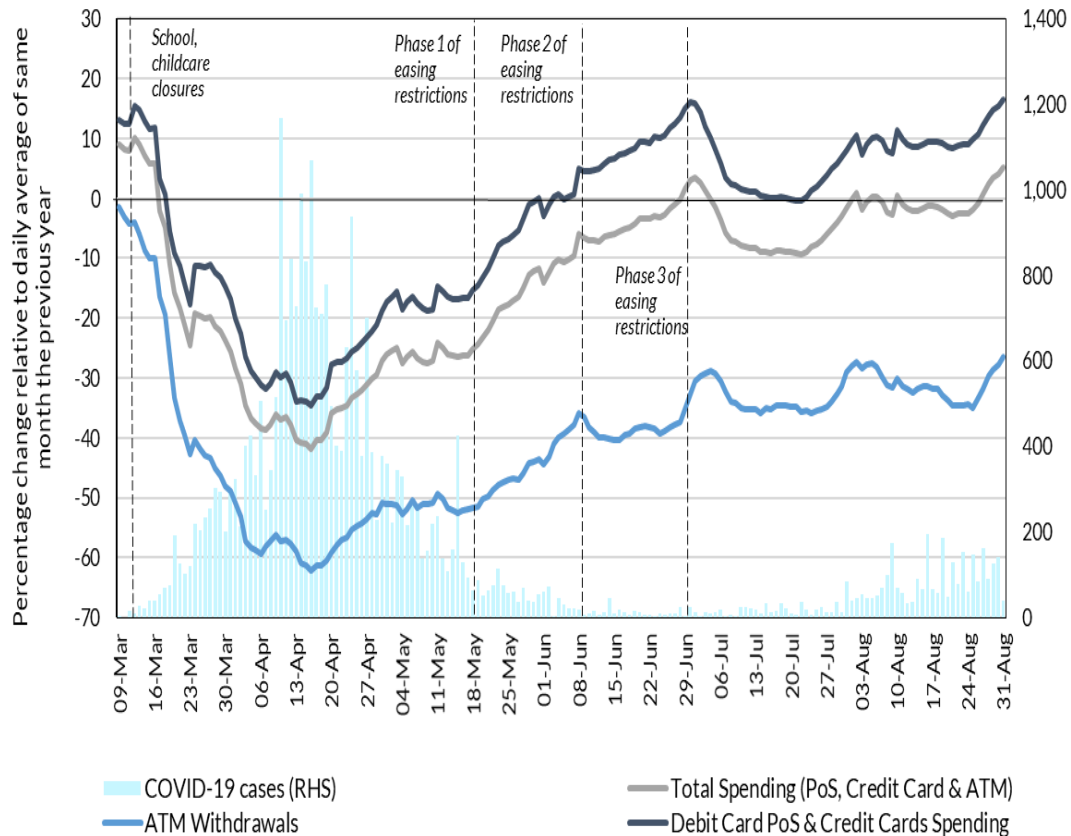


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Recovering card spending and retail sales give an indication of consumption

Card spending now above August 2019, with ATM transactions well below



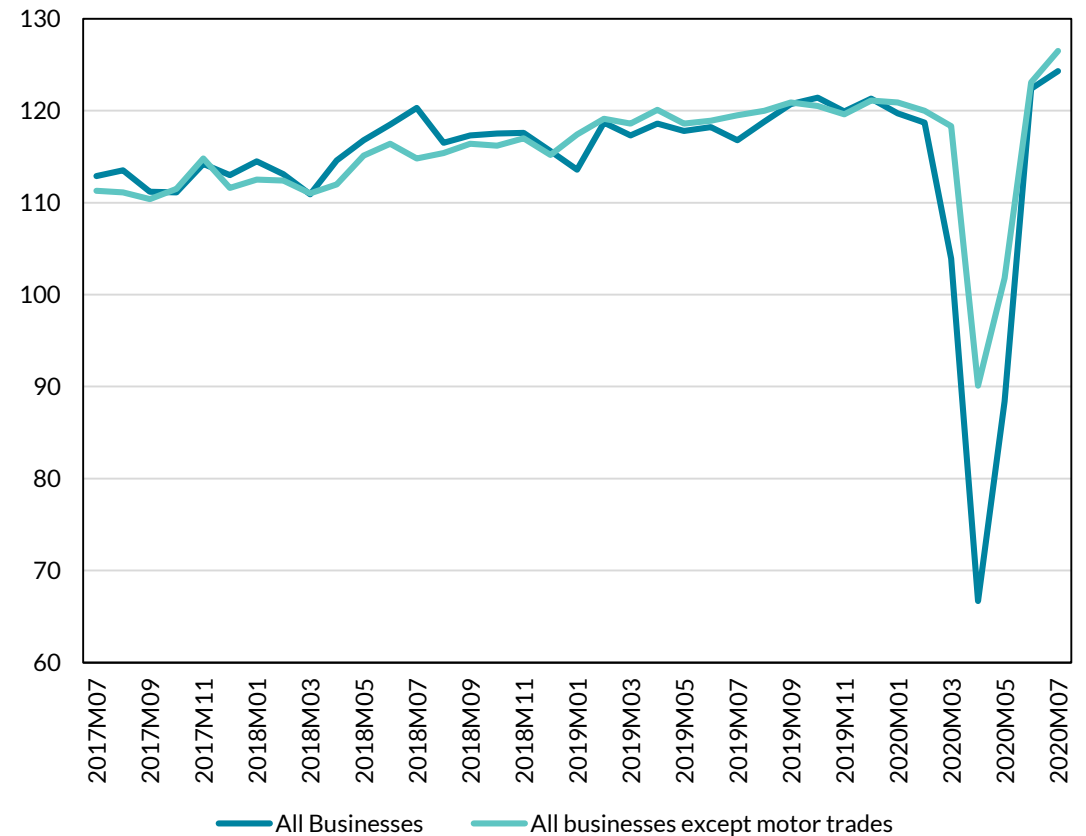
Source: Central Bank of Ireland



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

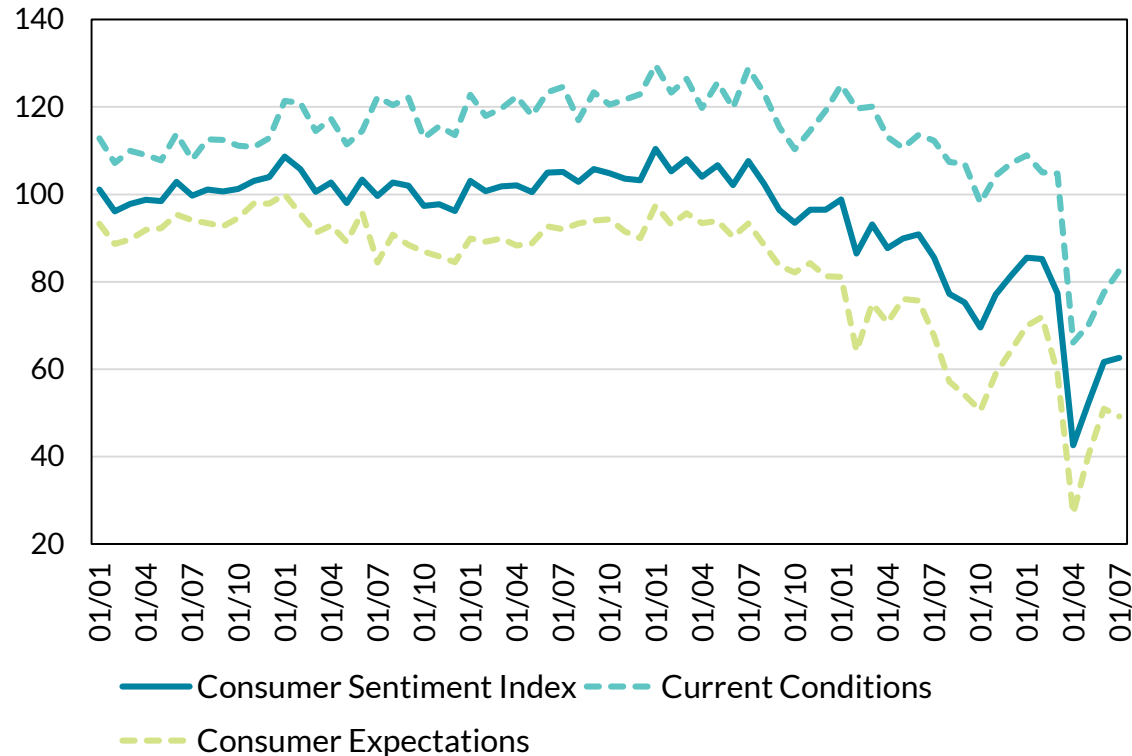
Retail Sales Index - Rebound but not evenly



Source: CSO

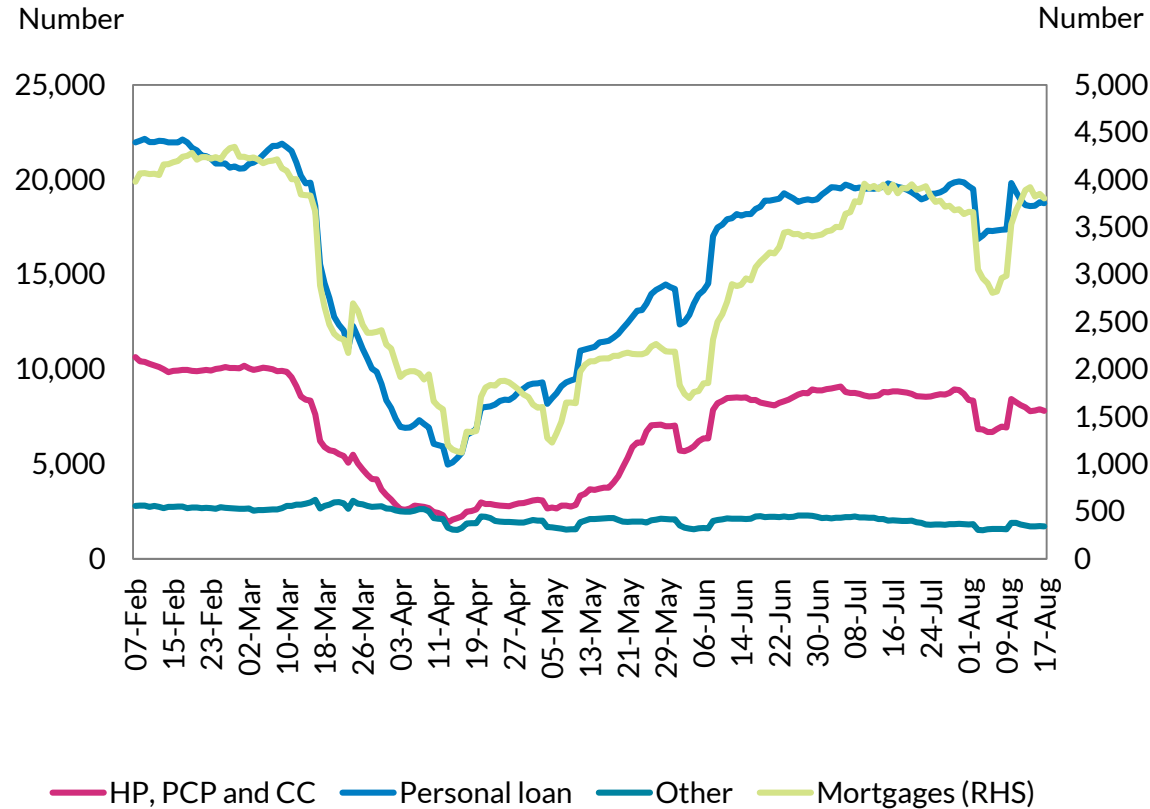
# However consumer sentiment is lagging and savings rising during pandemic

## KBC Consumer Sentiment Index

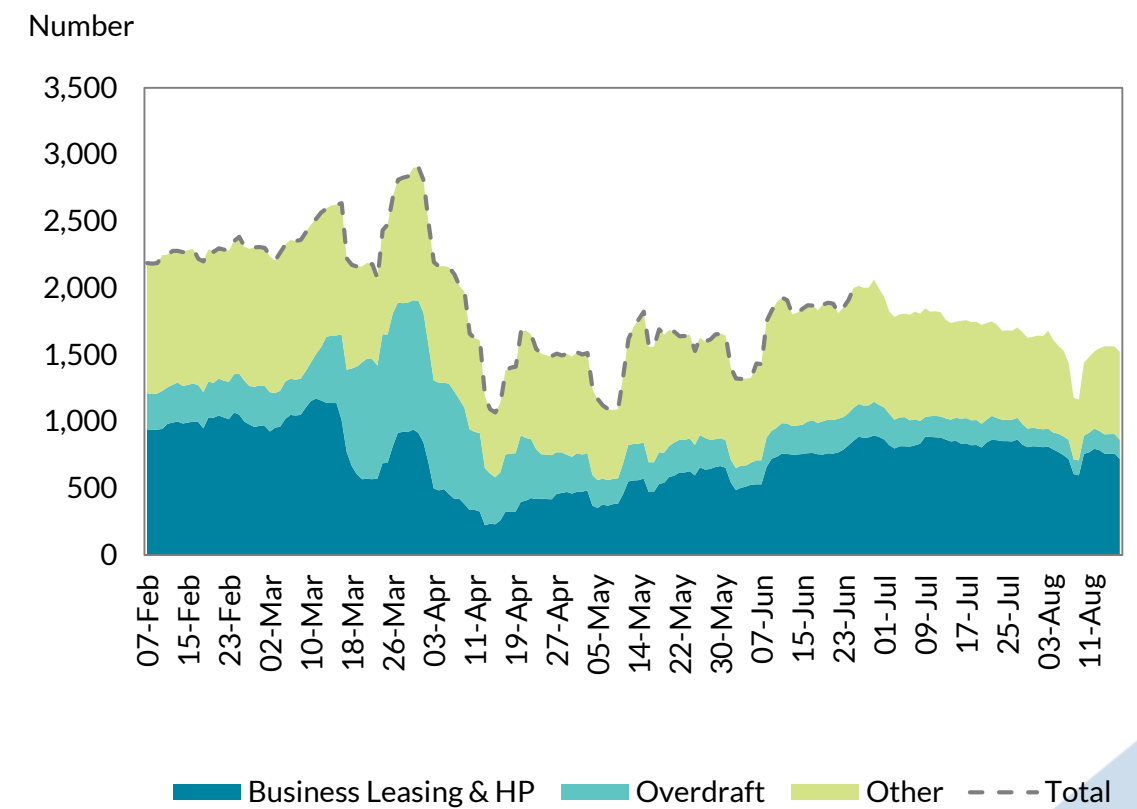


# Credit demand is recovering somewhat for individuals, less so for companies

## Credit Enquiries on New Loan Applications by Individuals



## Credit Enquiries on New Loan Applications from companies



Source: Central Credit Register

Source: Central Credit Register



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

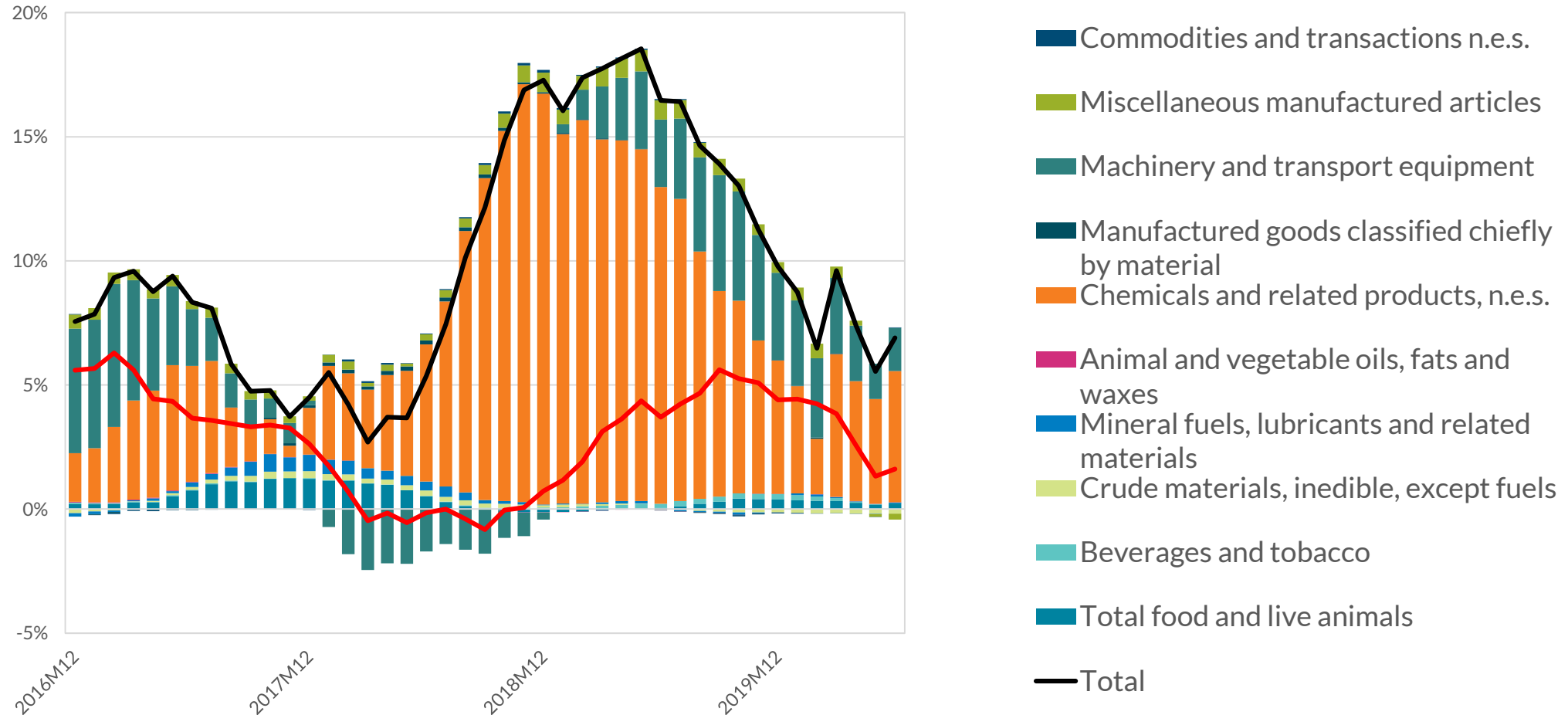


# As employers, SMEs will be crucial for recovery

- **Crucial for employment**, important to **avoid** otherwise viable firms going out of business
- The majority of firms entered this crisis period with **relatively modest liquid assets**, and **no outstanding bank debt**
- Immediate support in **Credit Guarantee Scheme, Restart Fund and Pandemic Stabilisation & Recovery Fund**, relief through **Temporary Wage Subsidy Scheme (TWSS)** or **revenue warehousing**
- Data show that there are **payment breaks** across all SME sectors
  - 24 per cent of SME balances had an approved payment break at the end of May 2020
  - Borrower sector is the best available predictor of payment break utilisation
- **Targeted support, a policy mix and flexibility of firms will be crucial for recovery**



# Exports have held up more strongly than expected



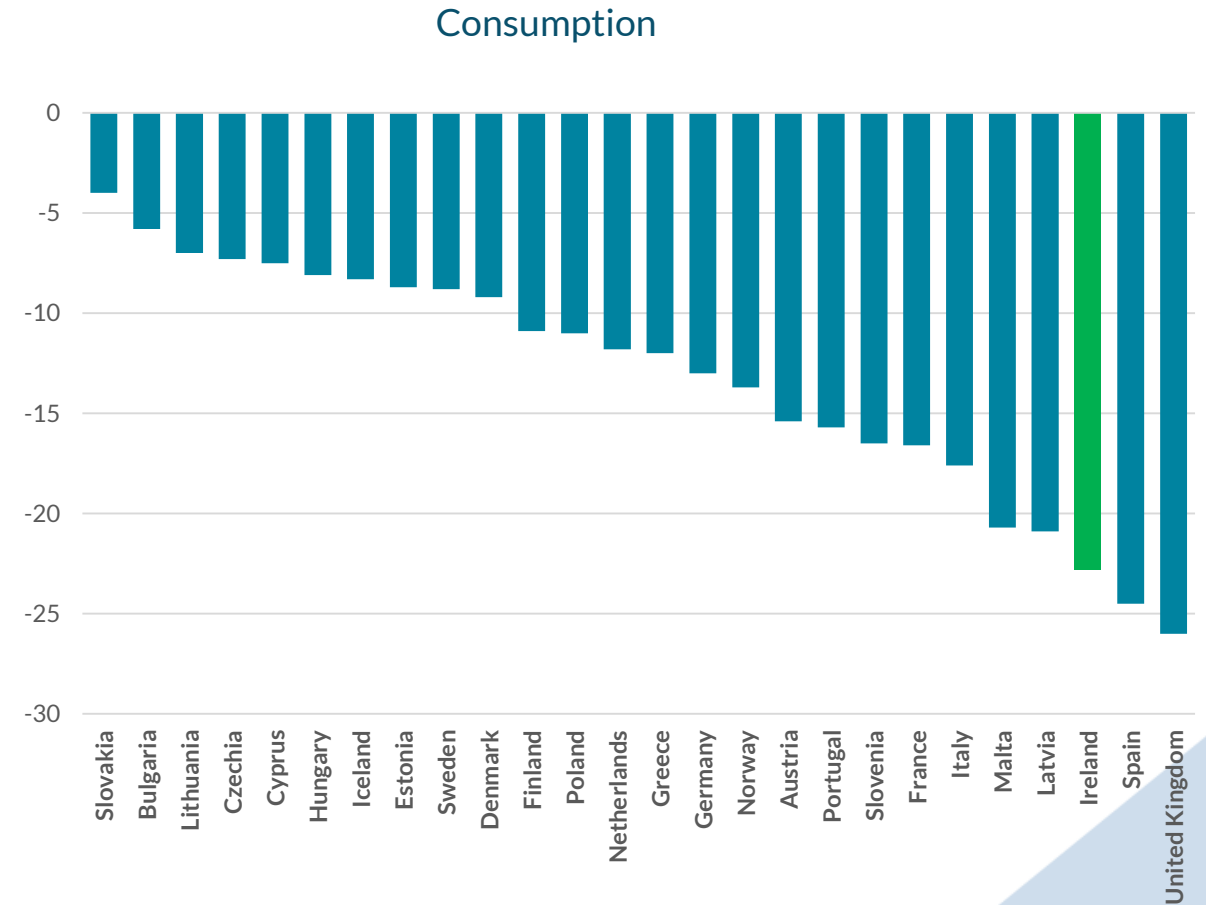
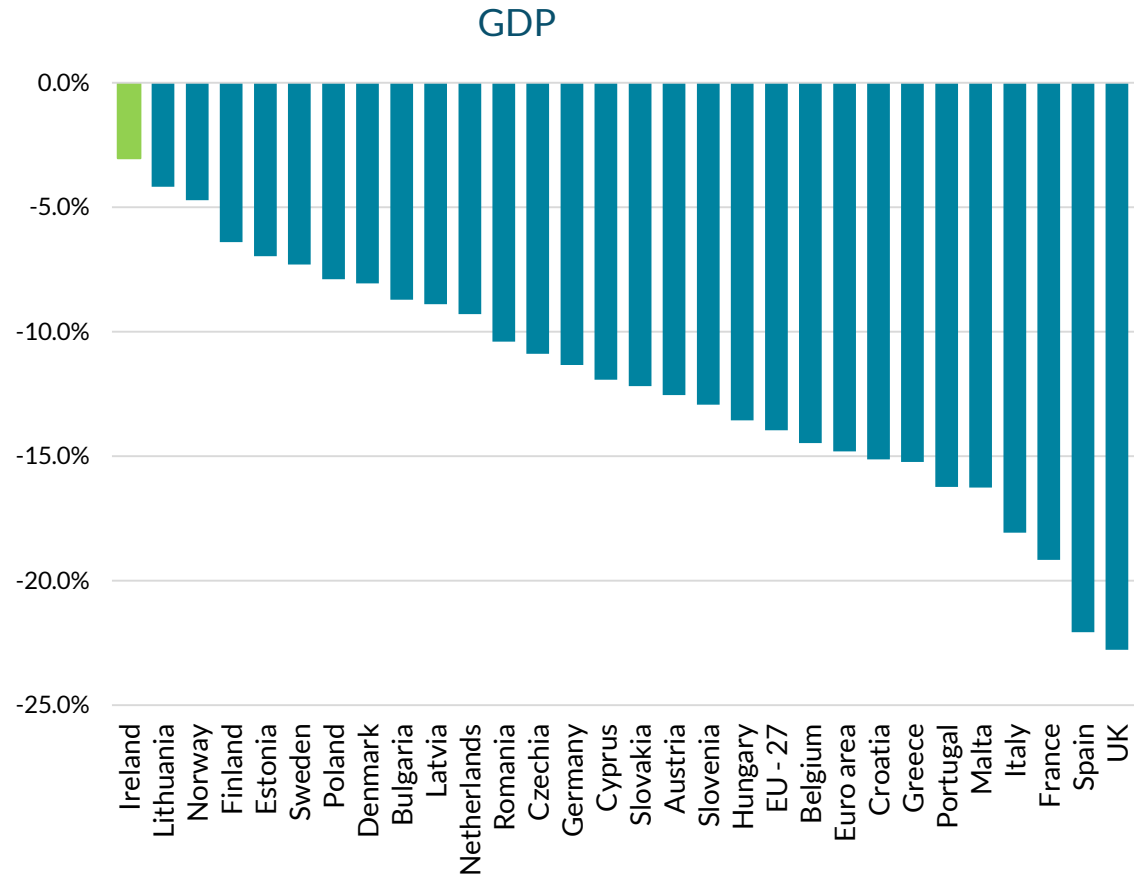
Source: Eurostat



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Headline GDP masks a significant divergence between the domestic and external sides of the economy



Source: Eurostat

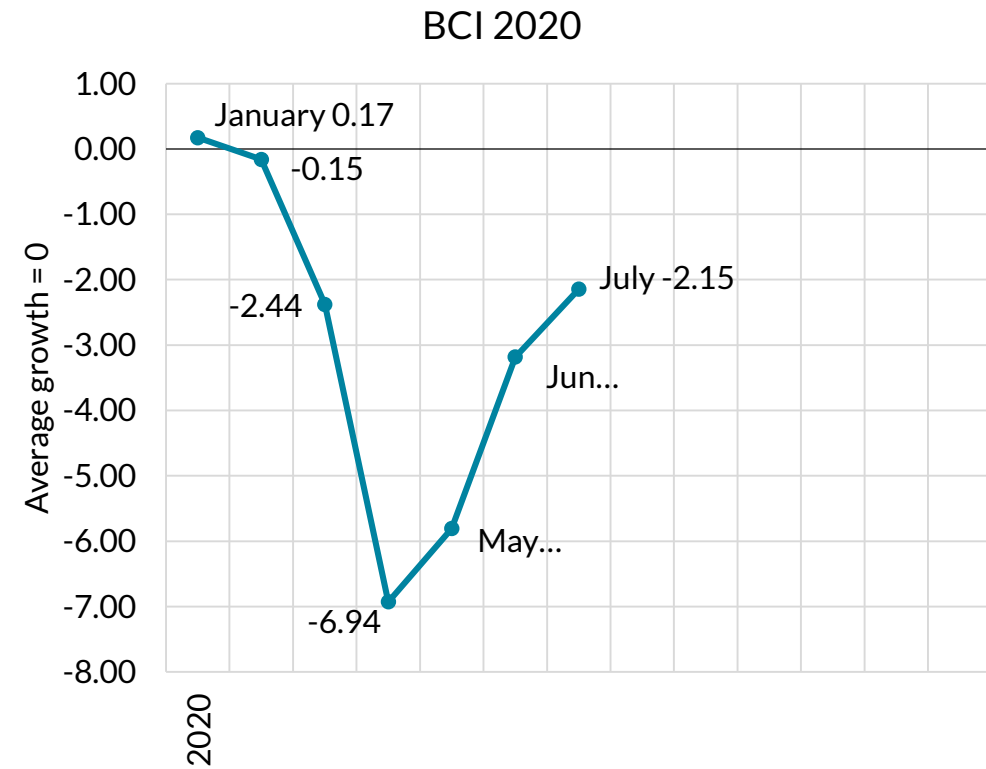
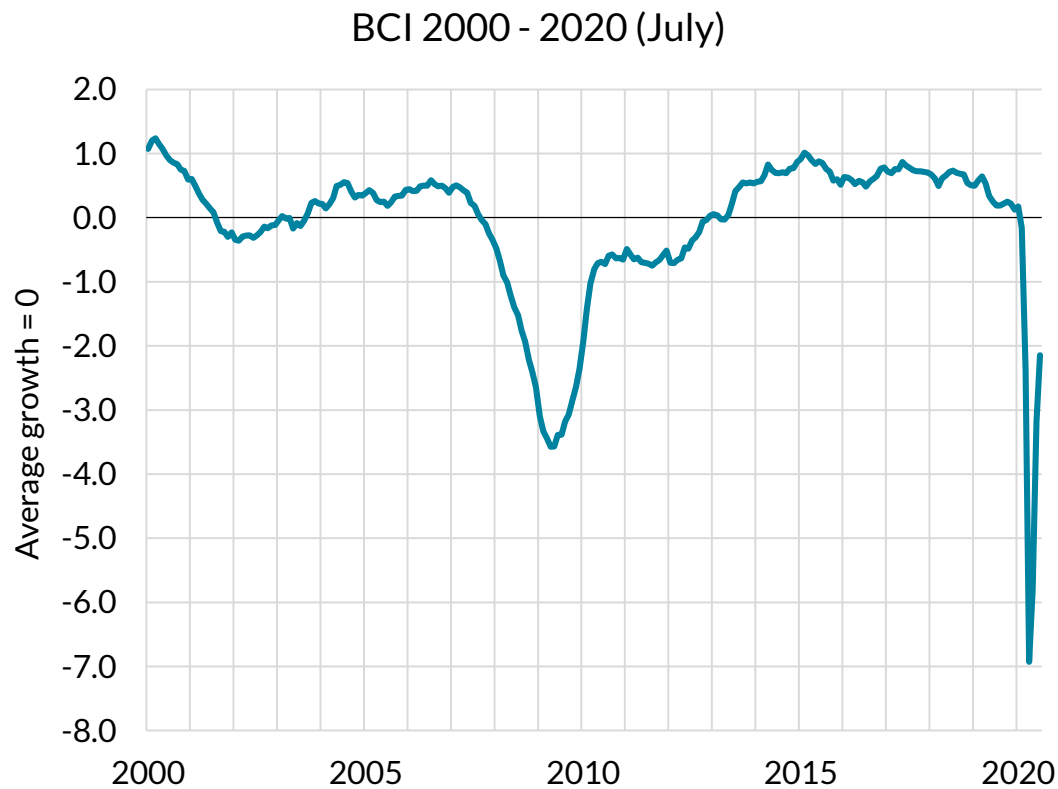


Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

Source: Eurostat

# The Business Cycle Indicator suggests a continued recovery, but slowing improvement



Source: Updated from Conefrey, T., McInerney, N., O'Reilly, G. & G. Walsh, "Recovery Paths from COVID-19 and the Impact of Policy Interventions", Central Bank of Ireland, Signed Article, Quarterly Bulletin No.3 (2020).



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# The Irish Economy: Initial Effects of the Pandemic

- Severe shock to the economy
- Impact varies significantly across sectors
- While there are signs of recovery in consumption and individual credit demand
- Consumer sentiment is low and savings are high, which could have long term implications
- Exports have held up more strongly than expected
- The business cycle indicator suggests a continuing recovery, but slowing improvement



# The Role of Policy



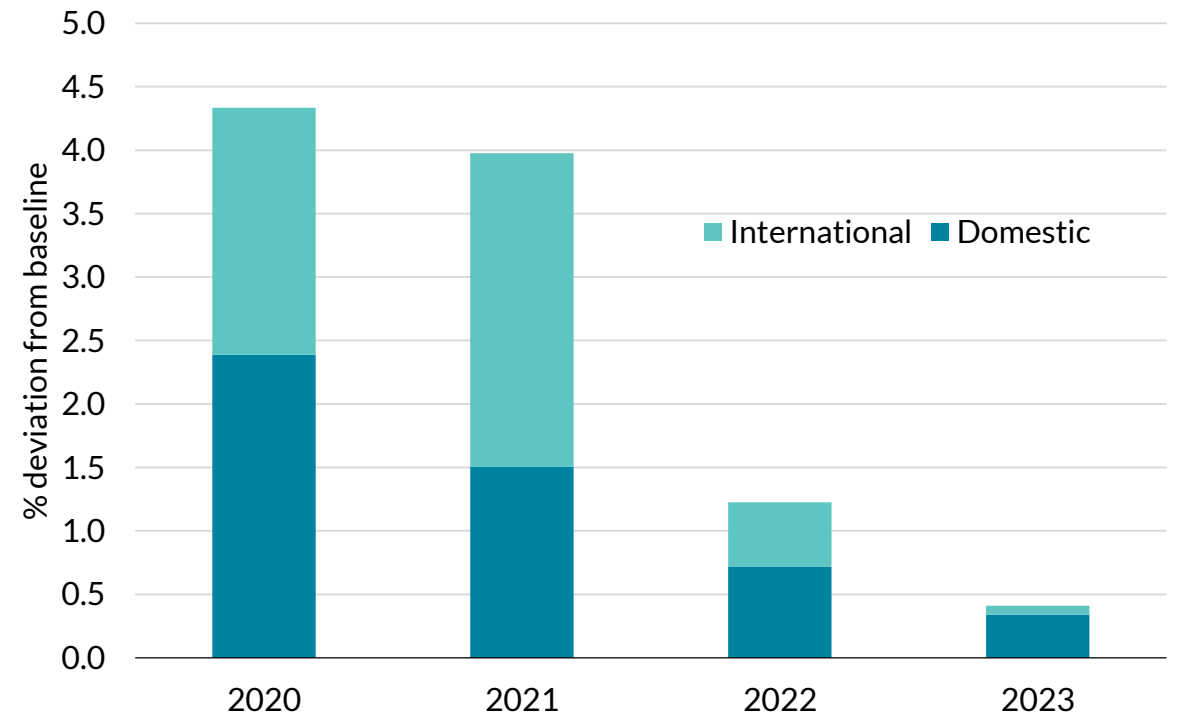
Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Impact of policy on Irish Output

- **Counter-cyclical** actions by policymakers are **positively reinforcing** each other **across borders**
- Research shows that for Ireland, domestic and international, fiscal and monetary **policy actions**, are playing an important role in reducing the possible loss of output and employment from the **COVID-19 crisis**
- Initial estimates suggest that these measures would reduce the scale of the decline in output in 2020 by just over **four percentage points**

Impact of Domestic and International Policy Measures on Irish Output, % deviation from baseline



Source: Updated from Conefrey, T., McInerney, N., O'Reilly, G. & G. Walsh, "Recovery Paths from COVID-19 and the Impact of Policy Interventions", Central Bank of Ireland, Signed Article, Quarterly Bulletin No.3 (2020).



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# The Central Bank's Policy Response

- **Monetary policy:** A comprehensive package of policy measures (i.e. Pandemic Emergency longer-term refinancing operations (PELTROs), Pandemic Emergency Purchase Programme (PEPP)). To maintain liquidity, support the flow of credit to the real economy and prevent a tightening of financing conditions
- Pre-pandemic: Over the last decade **macro-prudential policy** has strengthened the resilience of the domestic banking system and its capacity to absorb adverse shocks
- Macro & micro prudential policies have resulted in **increased capital and liquidity buffers**, to be used precisely in a crisis like this
  - In March, the Central Bank of Ireland reduced the **Counter Cyclical Capital Buffer (CCYB)** from **1% to 0%**





# The Central Bank's Policy Response

- **The mortgage measures (MM)** have built both bank and borrower resilience since introduction in 2015
  - Loans drawn down since the introduction of the MM were less likely than the average to have needed to avail of a payment break
- **Microprudential policy:** allowing banks to use capital and liquidity buffers fully, operational flexibility
- **Consumer focused policies** – consistent application of payment breaks and Central Credit Register (CCR)
- Working on **operational and financial resilience** of supervised firms



# Challenges ahead...

- Rebuilding resilience of the system
- Path of the virus
- Risks of labour market scarring and associated long terms effects
- Sectoral & Regional divergences
- Brexit



# References:

- Byrne. S., Coates. D, Keenan. E, & T. McIndoe Calder “The Initial Labour Market Impact of Covid-19” Economic Letter Vol 2020, No.4, Central Bank of Ireland.
- Conefrey. T., McInerney. N., O’Reilly. G. & G. Walsh, “Recovery Paths from COVID-19 and the Impact of Policy Interventions”, Central Bank of Ireland, Signed Article, Quarterly Bulletin No.3 (2020).
- Conefrey. T, & G. Walsh, “Measuring Economic Activity in Real Time during COVID-19), Economic Letter Vol 2020, No.7, Central Bank of Ireland.
- Duignan. D, & N. McGeever (2020) “Payment Break Utilisation by SME and large Corporate Borrowers”, Financial Stability Note (*forthcoming*), Central Bank of Ireland.
- Gaffney. E, & D. Greaney COVID-19 “Payment Breaks on Residential Mortgages”, Financial Stability Note (*forthcoming*), Central Bank of Ireland.
- Heffernan. T, S. Saupe & M. Woods, “Investigating Household Deposits During COVID-19”, Behind the Data (2020), Central Bank of Ireland.
- McGeever.N., McQuinn.J. & S. Myers, “SME Liquidity Needs During the COVID-19 Shock” Financial Stability Note Vol. 2020, No. 2 Central Bank of Ireland.





Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem



Deputy Governor Sharon Donnery

DEW – 10<sup>th</sup> September 2020