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Resilience: The Economy, Business and Networks

Deputy Governor Sharon Donnery

Network Ireland, 20th October 2020

The Central Bank of Ireland serves the public interest by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy



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Economic Outlook



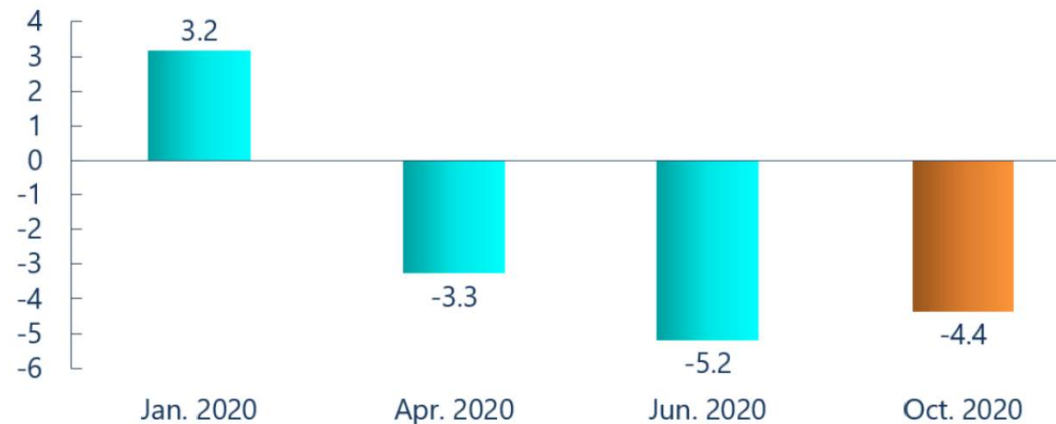
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The Global Outlook

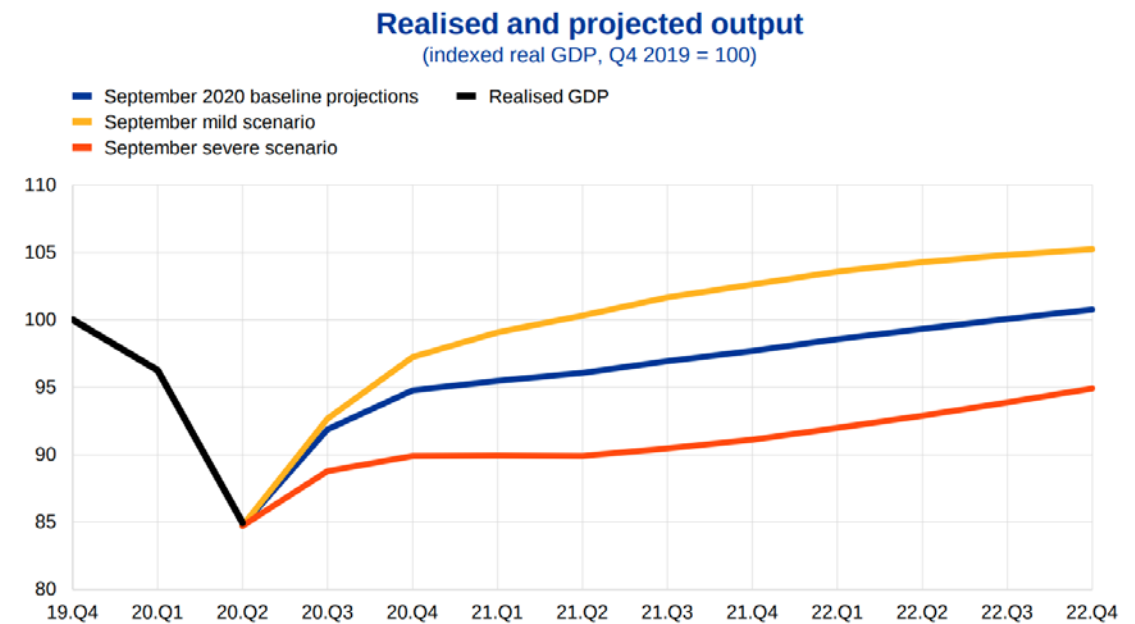
IMF projections for global growth in 2020 slightly improved in October, however deep recession still expected

(year-on-year percent change)



Sources: IMF, and *World Economic Outlook*.

ECB staff projections from last month point to gradual recovery in the euro area, by 2022 in the baseline



Sources: ECB staff macroeconomic projections and Eurostat.

Notes: The projections refer to the September 2020 ECB staff macroeconomic projections. The latest observations are for the second quarter of 2020 for realised data and the fourth quarter of 2022 for projections.



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The Irish outlook

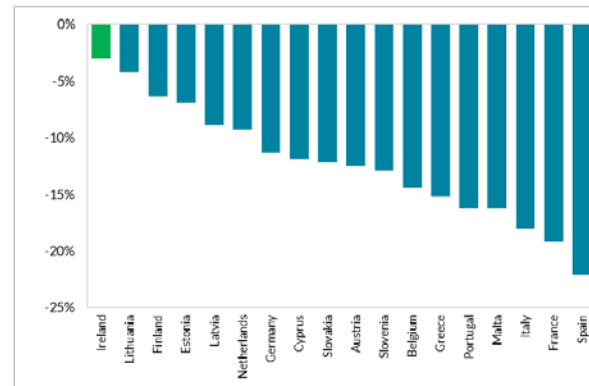
Quarterly bulletin projections point to gradual recovery in Ireland – but uncertainties around COVID-19 and Brexit



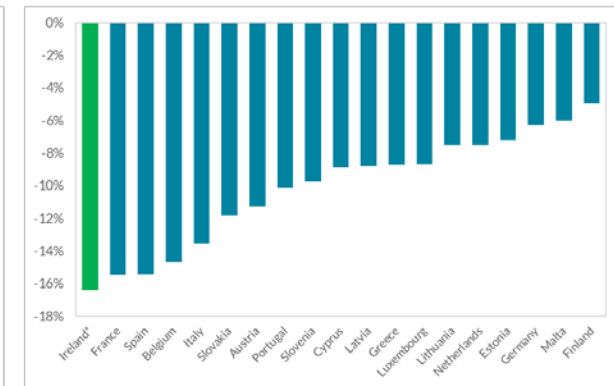
Source: Central Bank of Ireland Quarterly Bulletin No.4 2020

In Q2 2020 Ireland had the smallest GDP decline, but the largest decline in domestic demand in the euro area

GDP



Domestic Demand



*Modified Final Domestic Demand

Source: Central Bank of Ireland Quarterly Bulletin No.4 2020

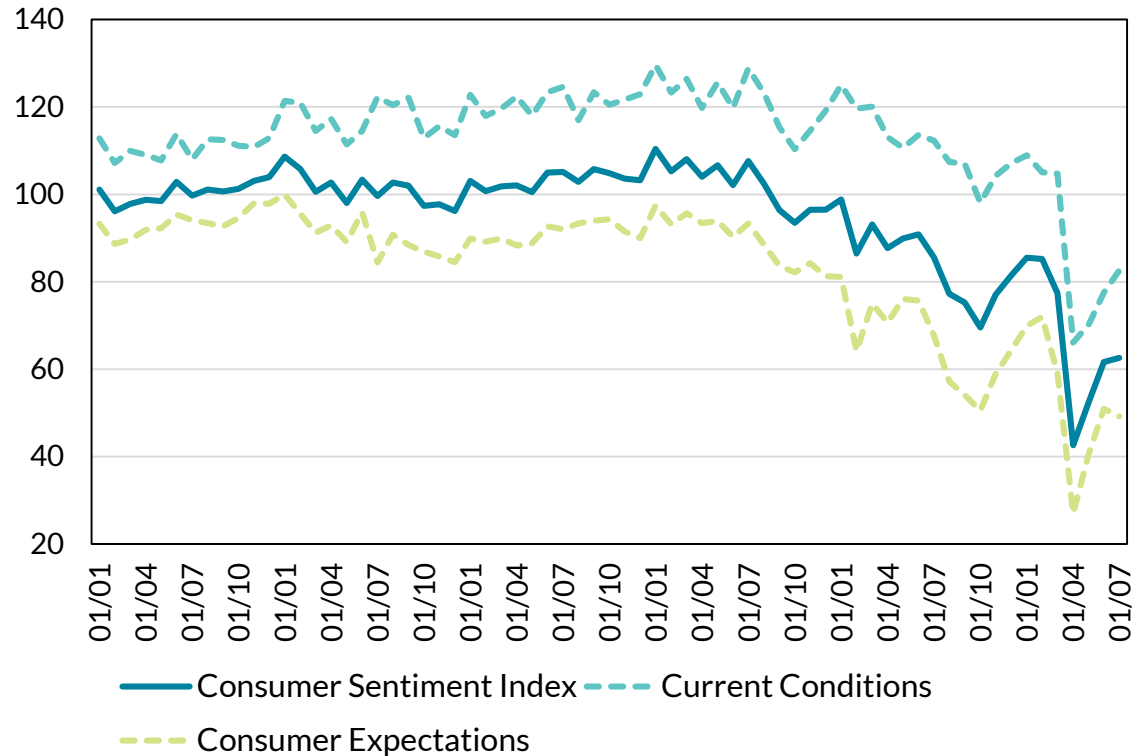


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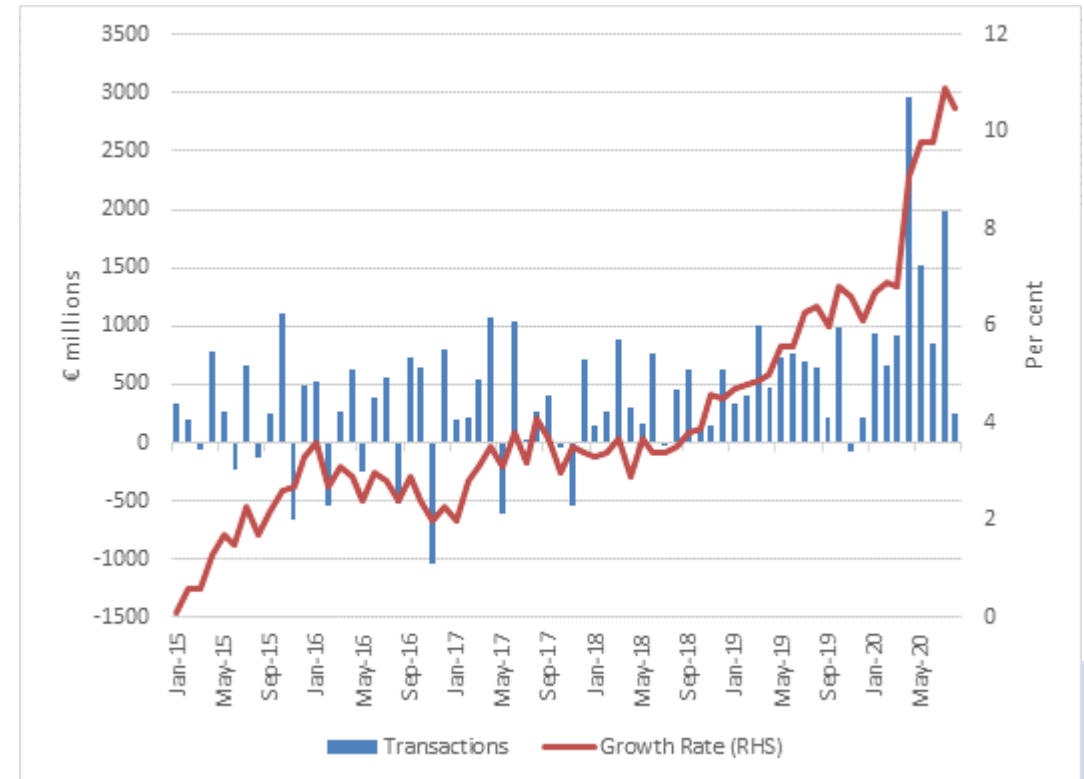
Consumer sentiment is lagging and savings rising during pandemic...

KBC Consumer Sentiment Index



Source: ESRI/KBC

Evidence of a significant increase in deposits from Irish resident households



Source: Central Bank of Ireland

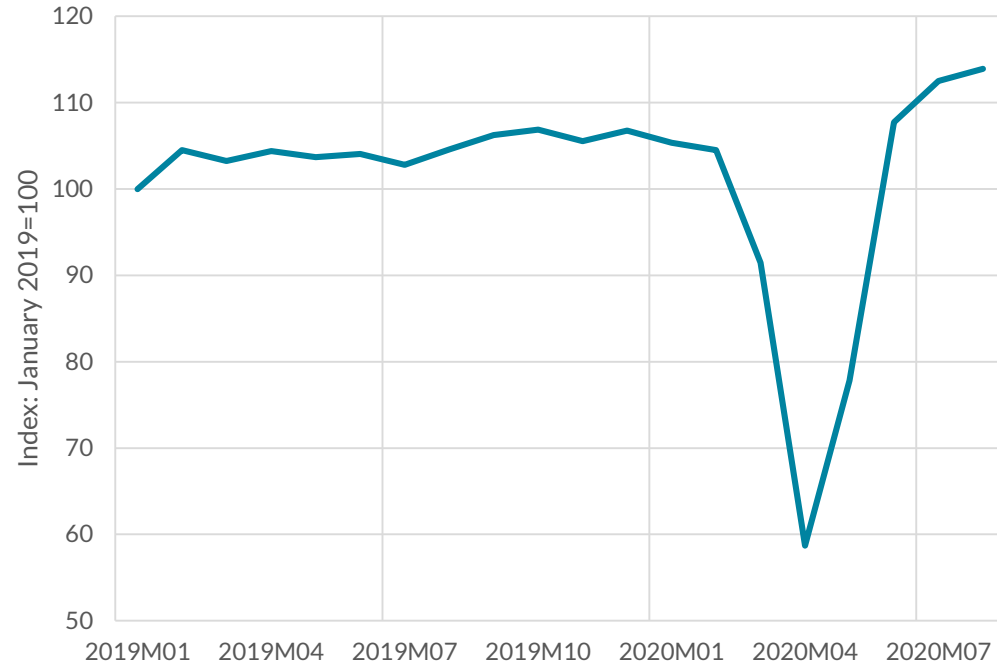


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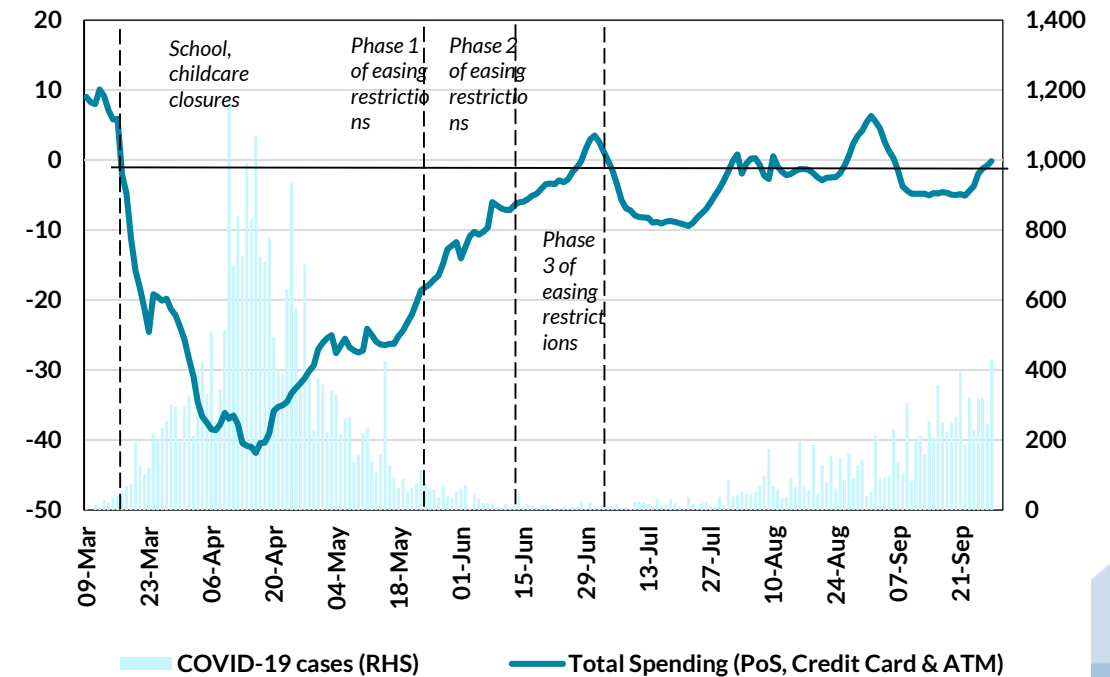
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....Following a 40% drop, household spending is back to around pre-COVID-19 levels

Retail Sales Volume



Daily Payments

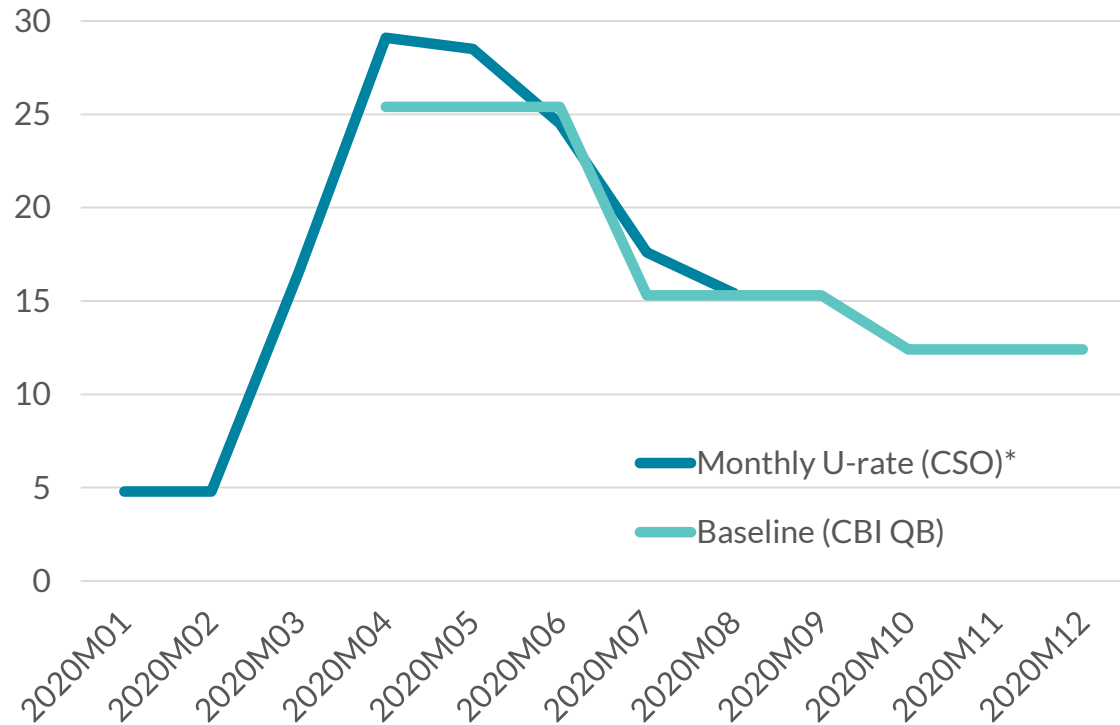


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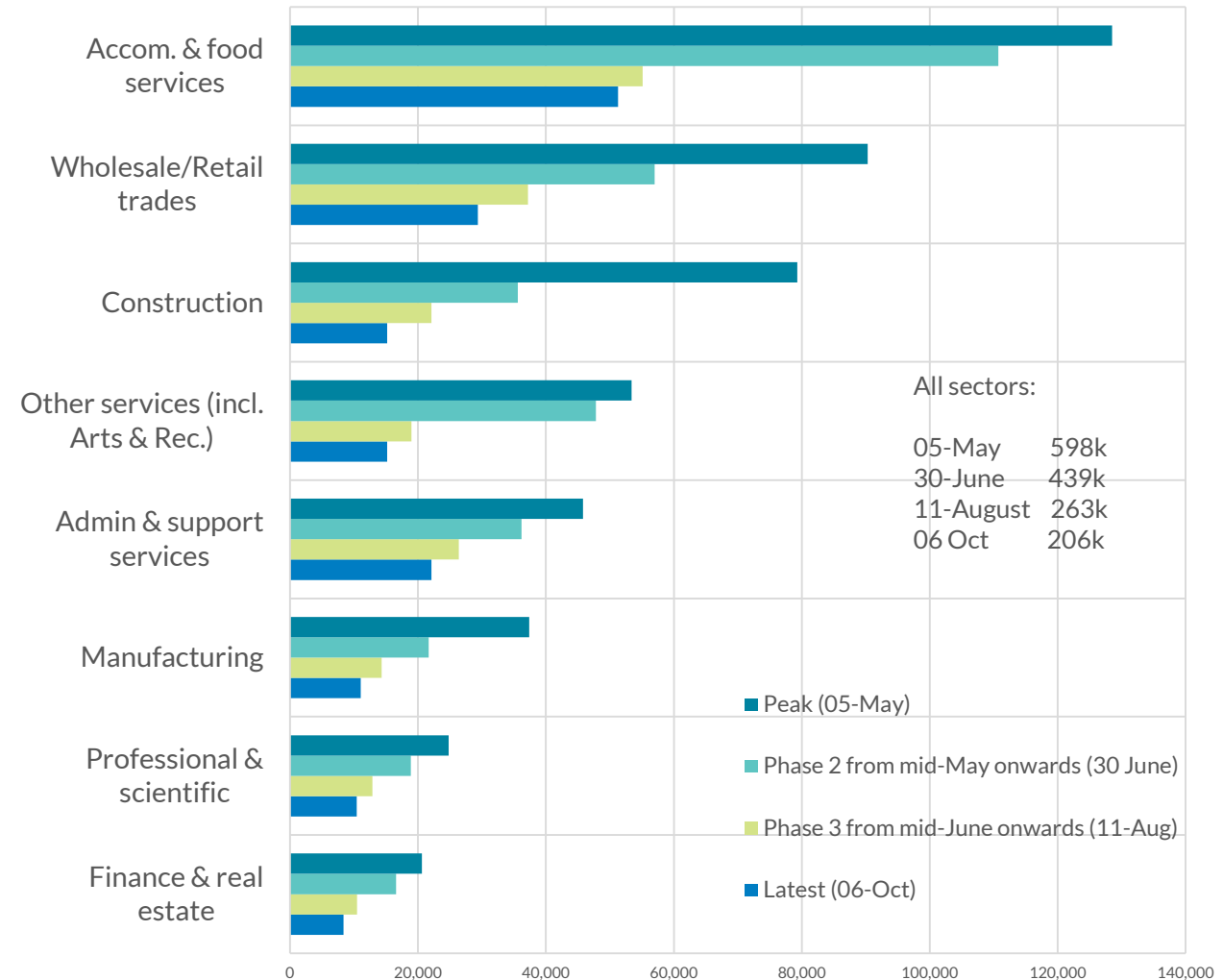
Unemployment is closer to baseline scenario... but huge variation across sectors, and latest restrictions have yet to take effect

Monthly unemployment (CSO, upper bound)



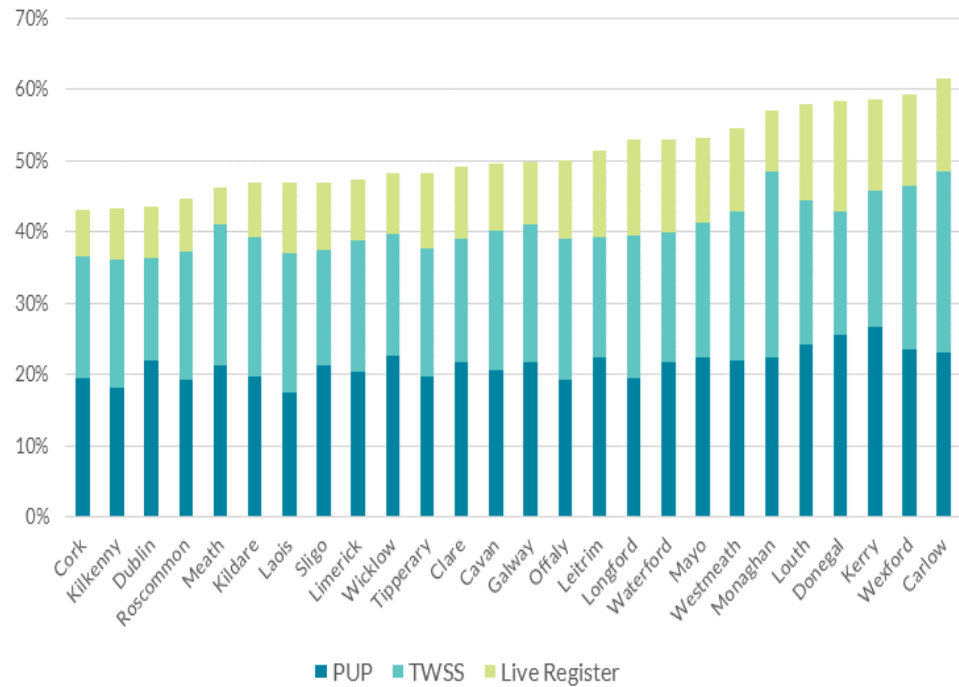
Source: CSO, Central Bank of Ireland

Pandemic unemployment payment, by phase

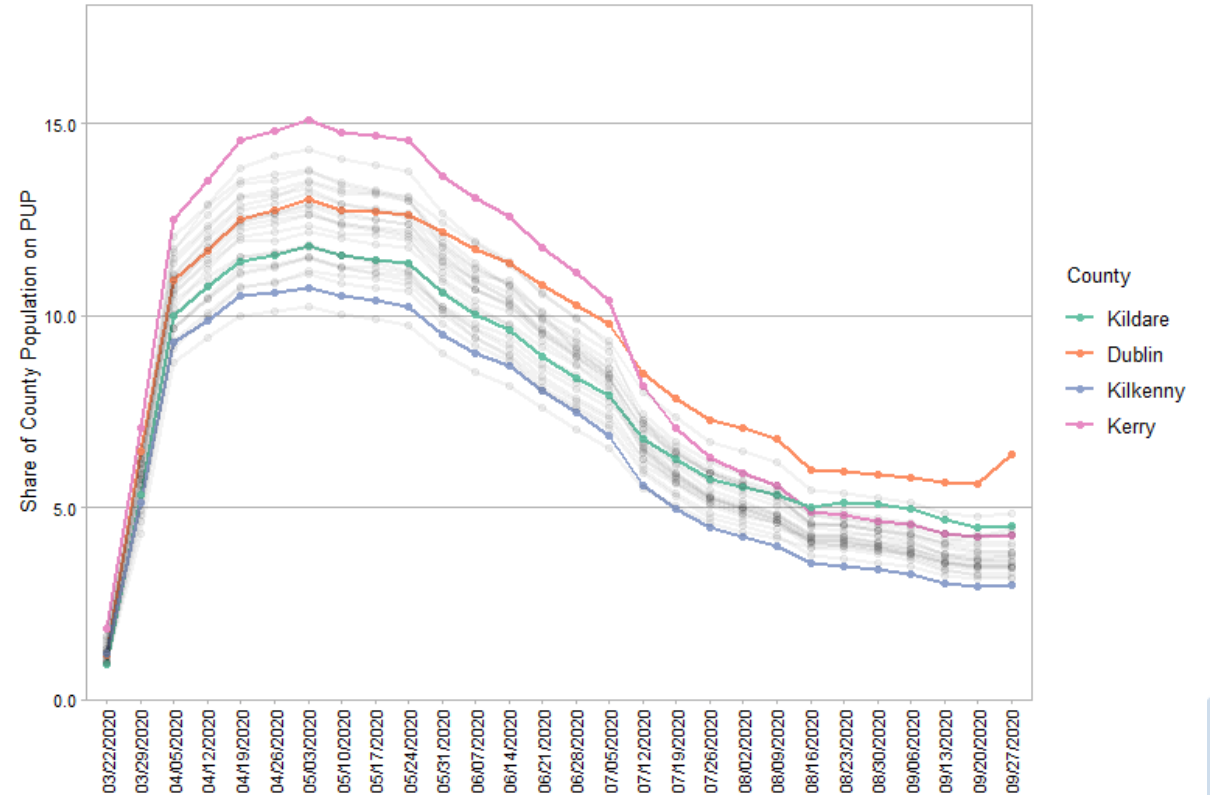


And there is also variation across regions...

Share of labour force in each county on PUP or TWSS, or on the Live Register



Pandemic unemployment payment recipients



Source: CSO



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With further regional insights from labour market characteristics

■ Table based on the CSO's Business

Demography Survey from 2018

■ **Smaller companies important for employment,** for example, about **32%** of persons engaged in the business economy in **Kildare** are engaged with **very small enterprises with less than ten employees**

	Share of national employment (per cent)	2013-18 employment growth (average annual per cent)	Share of very small enterprises (<10 empl)	Share of large enterprises (>250 employees)
All counties	100.0	4.6	25.9	32.6
Dublin	47.0	4.4	15.8	48.0
Kildare	3.5	4.6	31.6	23.6
Meath	2.6	6.2	40.1	10.5
Wicklow	1.9	3.2	43.5	10.2
Louth	1.9	5.7	35.5	15.4

Source: CSO Business Demography 2018



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The Central Bank's Policy Response

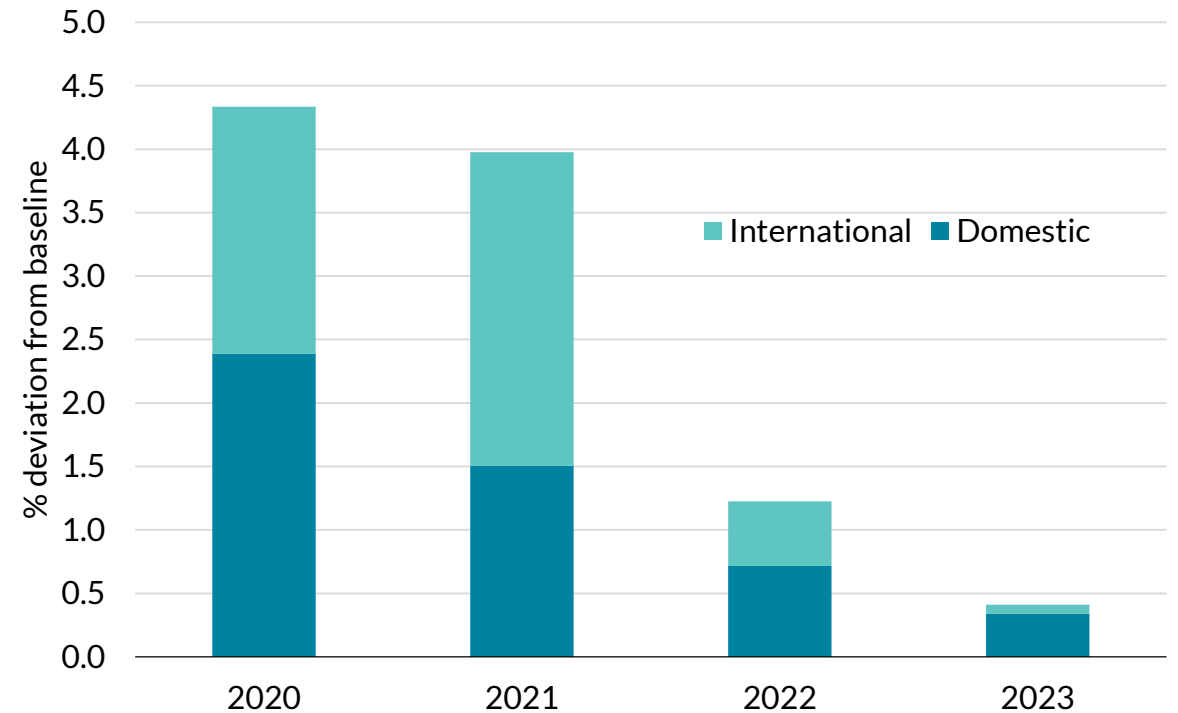
- **Monetary policy:** A comprehensive package of policy measures (i.e. Pandemic Emergency longer-term refinancing operations (PELTROs), Pandemic Emergency Purchase Programme (PEPP)). To maintain liquidity, support the flow of credit to the real economy and prevent a tightening of financing conditions.
- 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%**.



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).



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Business



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SMEs play a crucial role in the Irish economy

- Employ over **1 million employees**, or **68.4%** of total employment in the Irish business economy
 - Younger firms are particularly important for job creation ([Lawless, 2013](#))
- **99.8 per cent** of all active enterprises
- Contribute over **one third (38.6%)** of **gross value added** in the economy
- **Beyond one business** – interlinkages with the local economy, **employees, supplier and customers**



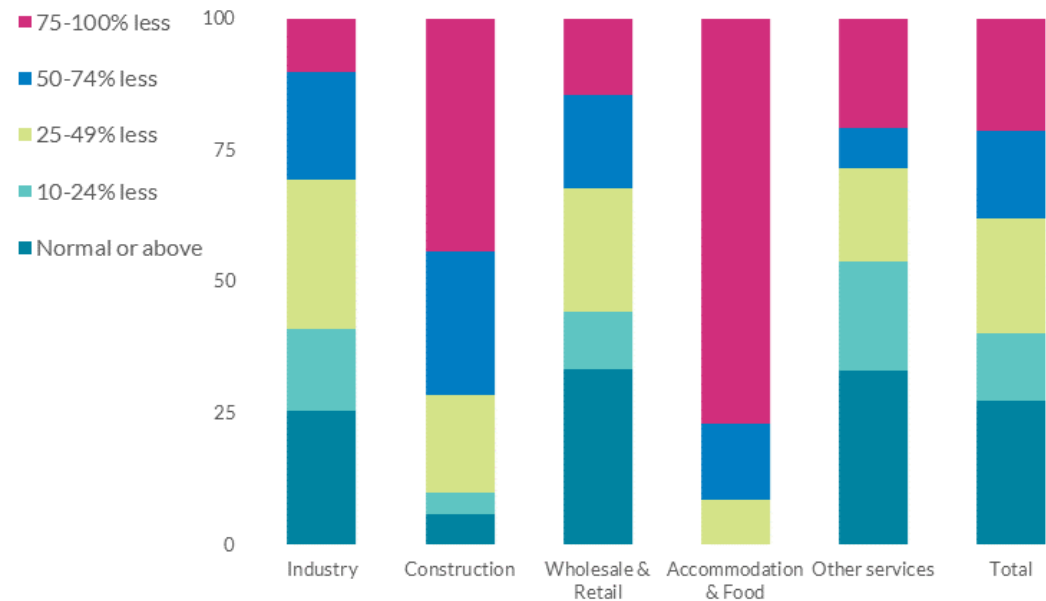
While SMEs entered the pandemic with improved financial resilience...

- SME's had **deleveraged substantially** over the last decade
 - SME (excl. financial and real estate) outstanding bank debt declined from €36.6bn in 2010Q1 to €13.5bn in 2020Q2
- Significant **improvements** in SMEs' **financial resilience**, due to relatively low credit demand, use of internal resources.
- Share of firms with **“high debt”** **falling consistently** since 2013
- Share of firms with no debt rising
- Irish SMEs more likely than most in Europe to use internal funds for investment purposes.



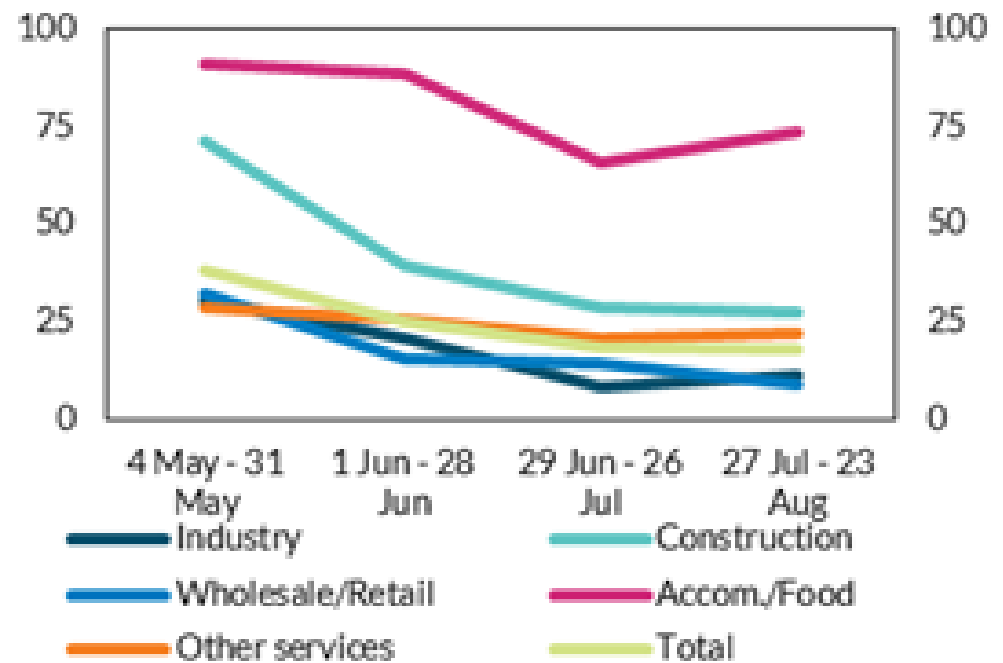
...a severe shock to revenue of firms, differing across sectors

Declines in revenue differed by incidence and intensity across sectors in May



Source: CSO

Share of firms with less than half pre COVID-19 levels of revenue differ across sectors, with many reducing over time



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Significant supports have been provided

- **TWSS**, over €5bn when including EWSS to March 2021
- **Debt** supports of €3.3bn
 - COVID-19 Credit Guarantee Scheme, Future Growth Loan Scheme, COVID-19 Working Capital Scheme, and schemes from Micro Finance Ireland.
- **“Grant-like”** support for non-payroll items, €2.3bn
 - Tax measures announced in the July Stimulus (€900m), a commercial rates waiver (€600m), the Restart Grant (€550m), Sustaining Enterprise Fund (€180m), Business Continuity Voucher (€26m), Trading Online Voucher (€20m).
- **Tax warehousing** - €1.9bn
- **Other supports** – Pandemic Recovery and Stabilization Fund (aimed at larger corporates mostly with some scope for financing of large SMEs)
- See the **DBEI details** [to Supports for SMEs](#)



Further support announced in Budget 2021

- **New COVID Restrictions Support Scheme (CRSS)**
- **VAT reduction** for hospitality & tourism sector from 13.5 per cent to 9 per cent
- **Debt warehousing** provisions to be extended
- **Commercial Rates waiver** extended for Q4 2020 (€300mn cost)
- **Planned extension of the EWSS**



Payment breaks and distressed debt

- Payment breaks provided relief to many businesses.
- 23% of SME loans at June, down to 18.5% by September.
- Borrowers in sectors with high shares of employees on PUP or TWSS had substantially higher payment break rates.
- The majority of borrowers that took a payment break showed no explicit signs of vulnerability prior to the shock.
- Important now to focus on sustainable solutions, which are appropriate to specific borrower circumstances.

	End June		Early September		€bn Change	% Change	Percentage Point Change
	Total Value of Active Payment Breaks €bn	Payment Break Ratio	Total Value of Active Payment Breaks €bn	Payment Break Ratio			
Total NFC	11.4	17.2%	9.5	14.5%	-1.9	-17%	-2.7%
-SME	8.4	22.9%	6.5	17.6%	-1.9	-23%	-5.4%
<i>of which Irish SME</i>	6.5	23.0%	5.3	18.5%	-1.3	-19%	-4.5%
-Corporate	3.0	10.1%	3.0	10.5%	0.0	0%	0.4%
<i>of which Irish Corporate</i>	2.2	17.8%	2.2	18.4%	0.0	1%	0.6%



Resilience of the Economy and of Businesses

- COVID-19 has been a severe shock to the global and Irish economy
- Impact varies significantly across sectors and regions and businesses
- Policy response has been significant and substantial
- Over the last decade the resilience of the economy and financial system was strengthened
- On the eve of the pandemic, households and businesses had lower debt and stronger balance sheets
- Ongoing policy actions will support economy, looking forward will need to rebuild resilience of the system



Networks



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Networks

- Relationships, connections and networks form a reservoir of social capital
- Social capital is a core part of professional life running a business, engaging with stakeholders and reaching decisions
- While networking can seem unnatural, especially in current environment, it is crucial for learning, development and innovation
- Diverse networks and connections are paramount, for both individuals and organisations
- Central Bank increasing its connections- wider perspectives, regional engagement, civil society
 - Annual Mortgage Measures Review
 - [ECB “Listens”](#) Monetary Strategy Policy Review
 - Distressed Debt and Household Credit Market Report Roundtables



Resilience: The Economy, Business and Networks

“Resilience is a quality shared by people and economies; it is the ability to adapt to unexpected circumstances, quickly recover from adverse shocks and bounce back into shape”

Christine Lagarde, President of the European Central Bank



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