



Short-term Economic Outlook in a Severe Scenario

By Irish Economic Analysis Division

The severe scenario assumes the current, tightened public health restrictions need to be maintained in place for a longer period.

These sustained restrictions would continue to dampen economic activity in all sectors of the economy until successful medical treatments are in place. In the severe scenario, it is assumed that medical interventions are not sufficient to allow for a full easing of containment measures until 2023, outside the forecast horizon. However, monetary and fiscal policies are assumed to mitigate very severe financial amplification effects.

Table 1 Baseline and Severe Scenario Forecasts

	2020e	2021f	2022f
GDP (Severe Scenario)	2.5	1.5	2.3
GDP (Baseline Scenario)	2.5	3.8	4.6
MDD (Severe Scenario)	-7.1	0.6	1.4
MDD (Baseline Scenario)	-7.1	2.9	3.6
Unemployment Rate (Severe Scenario)	6.2	13	11.6
Unemployment Rate (Baseline Scenario)	6.2	9.3	7.8

Source: CBI Calculation

Under this scenario, GDP and modified domestic demand (MDD) growth are envisaged to remain significantly below trend throughout the projection horizon. GDP is forecast to grow by 1.5 per cent in 2021, supported mostly by continued resilience in the pharmaceutical and high value services sectors. Consumption would continue to be dampened, particularly in the first half of the year, by a reduction in opportunities to spend, but also by deteriorating sentiment as the pandemic persists. The pick-up in



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growth in 2022 envisaged in the baseline, supported by consumption out of accumulated savings, would not occur until 2023 in the severe scenario, as uncertainty persists until at least the last quarter of 2022.

In the labour market, the level of unemployment remains significantly elevated at the end of the forecast horizon, notwithstanding a gradual decline from the peak reached in 2021. This reflects the expectation that, in the severe scenario, the worst affected sectors will have capacity only to employ a much smaller proportion of the labour force than prior to the coronavirus crisis.