



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

QB3 – July 2020

Box B:

This Box content is extracted from the Quarterly Bulletin – Q3 2020

Key Judgements and Assumptions Underlying the Projections

By Irish Economic Analysis Division

The projections contained in this Bulletin were produced in line with the Eurosystem staff macroeconomic projections published on 4 June, which were finalised on the 25th of May. The figures contained herein are updated from that projection to take account new data, in particular the Q1 Quarterly National Accounts published on the 5th of June.

The scale of the uncertainty surrounding the potential economic impact of Covid-19 necessitates an analysis based on alternative scenarios. There are considerable uncertainties surrounding the future development of the pandemic, the required containment measure, the degree to which behaviour and economic activity adapts and the extent to which there are longer lasting effects. These uncertainties are best illustrated through scenario analysis.

In the baseline scenario, the strict lockdowns in place in April and May 2020 are assumed to be unwound on a phased basis over the coming months. The gradual reopening of the economy would allow for an initial rebound in economic activity over the near term. Some containment measures would remain in place meaning that activity would be constrained in some sectors for a longer period. The significant negative economic impact from the lockdown combined with a continuation of some containment measures mean that while output would recover, activity would be constrained by the effects of the severe recession in the first half of 2020 and the ongoing impact of the pandemic.

In the severe scenario, the strict lockdown period is assumed to have a more damaging impact on economic activity and is not successful in effectively containing the disease. Stringent, albeit gradually loosened, containment measures would remain in place based on an assumption that there



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would be a resurgence of the virus at some point between now and the end of 2021. In this scenario there is a subdued economic recovery with a loss in potential output.

Substantial support from fiscal and monetary policy, as well as labour market supports targeted at supporting employment, are assumed to mitigate the fall in incomes and limit economic scars from the pandemic. The policies are also assumed to be successful in preventing adverse financial amplifications.