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Central Bank of Ireland

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The Role of Policy

Deputy Governor Sharon Donnery

DEW- 10th September 2020

■ The Irish Economy – Initial Effects of the Pandemic

■ The Role of Policy



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

Q2 2020

Domestic Demand ↓ 10%

Consumption ↓ 22%

Investment ↓ 23%

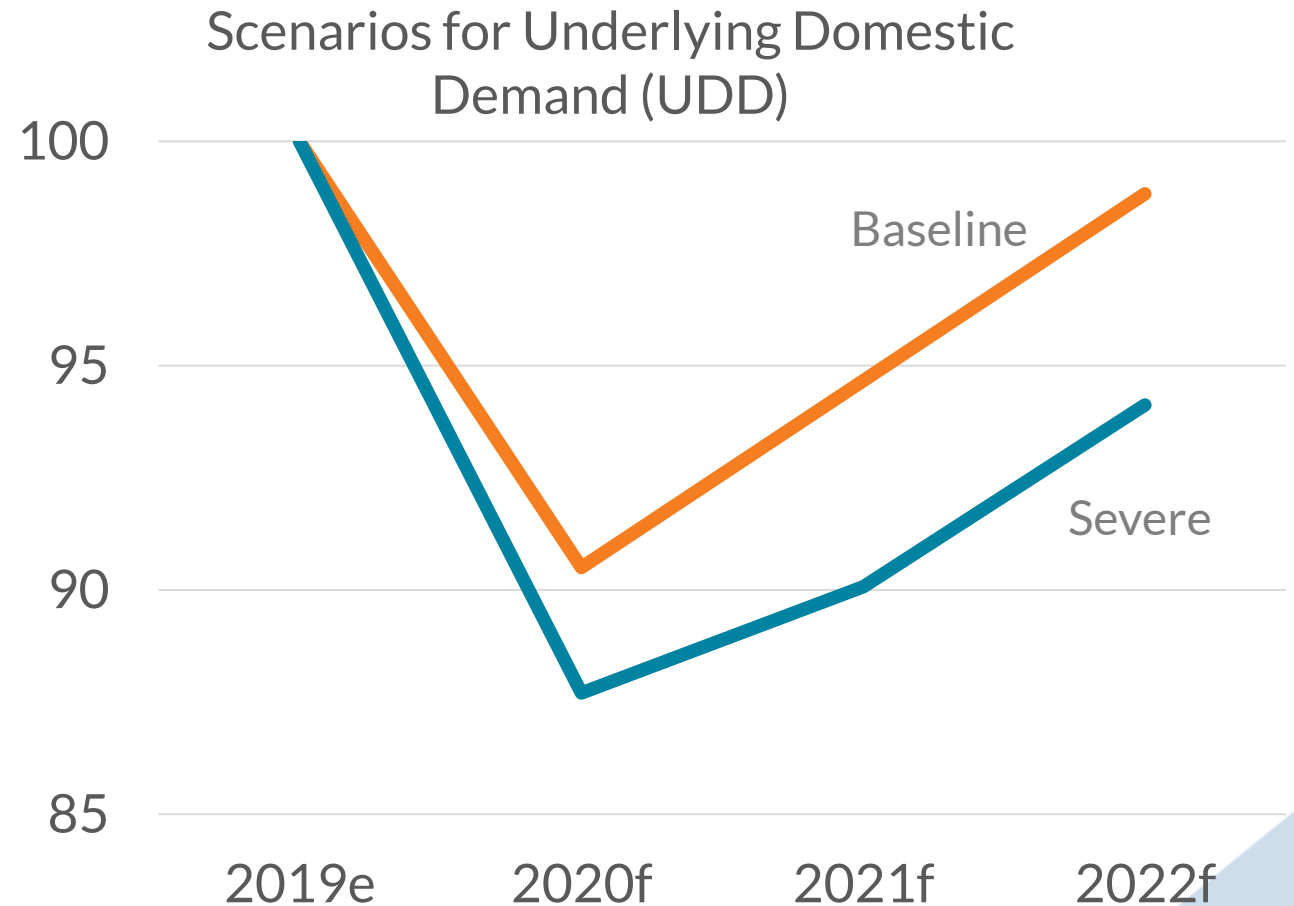
Construction ↓ 36%

Source: CSO



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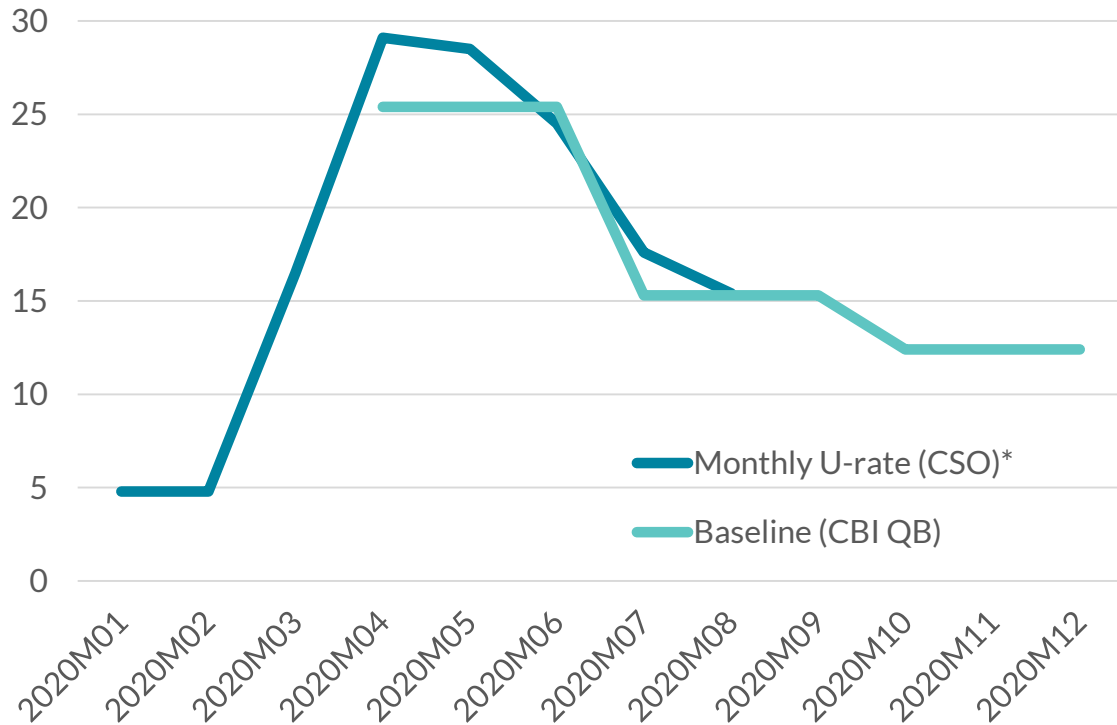
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Source: Central Bank of Ireland – Quarterly Bulletin 3
2020

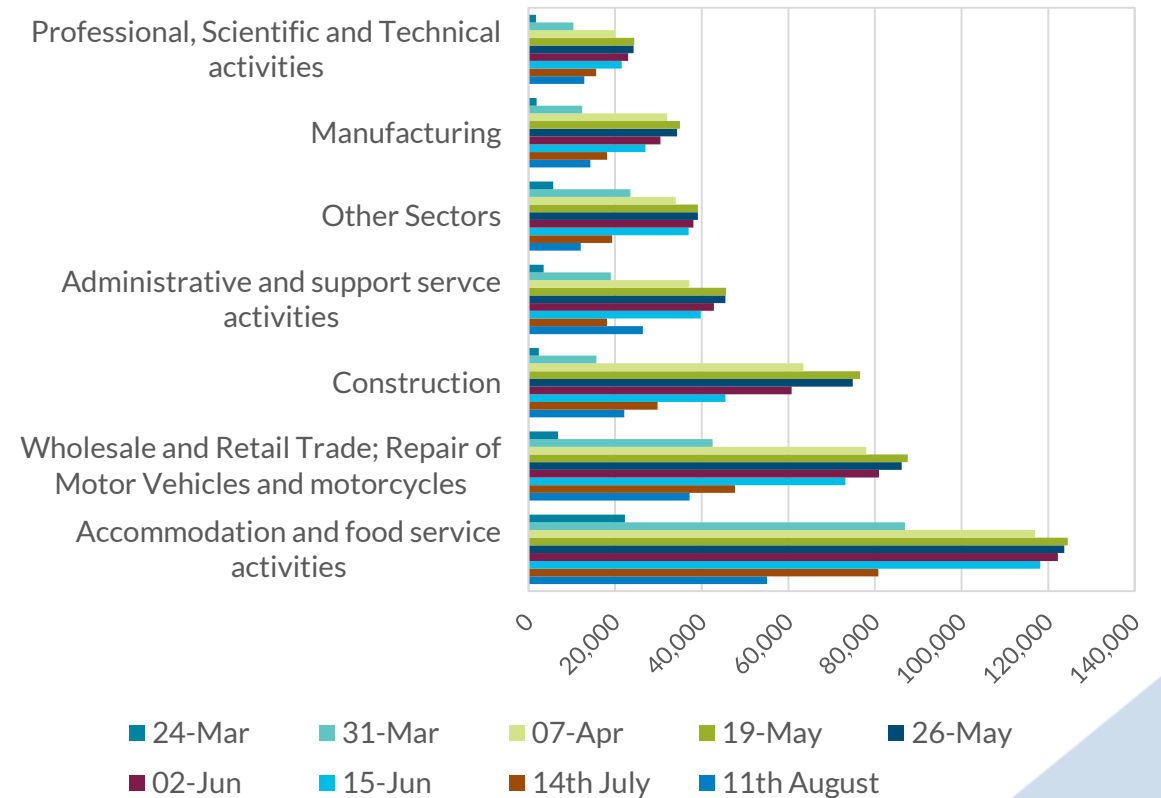
Unemployment is closer to baseline scenario... but huge variation across sectors

Monthly unemployment (CSO, upper bound)



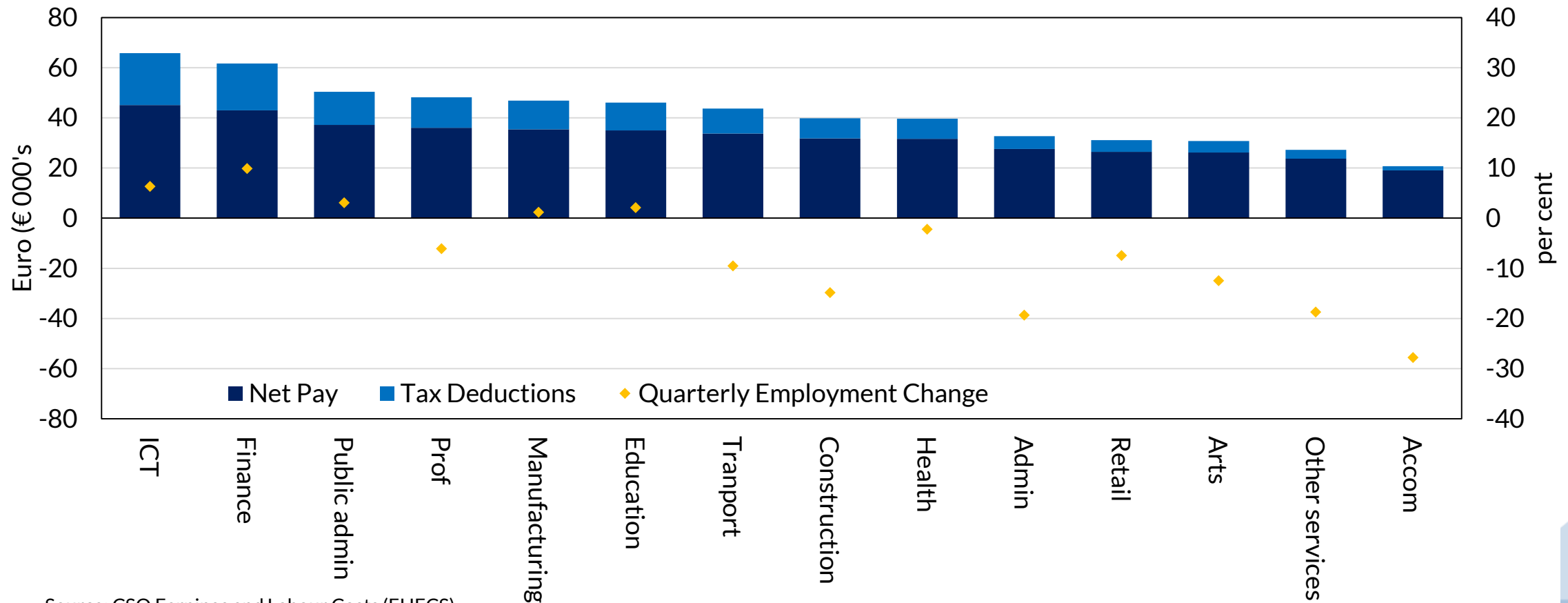
Source: CSO, Central Bank of Ireland

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)

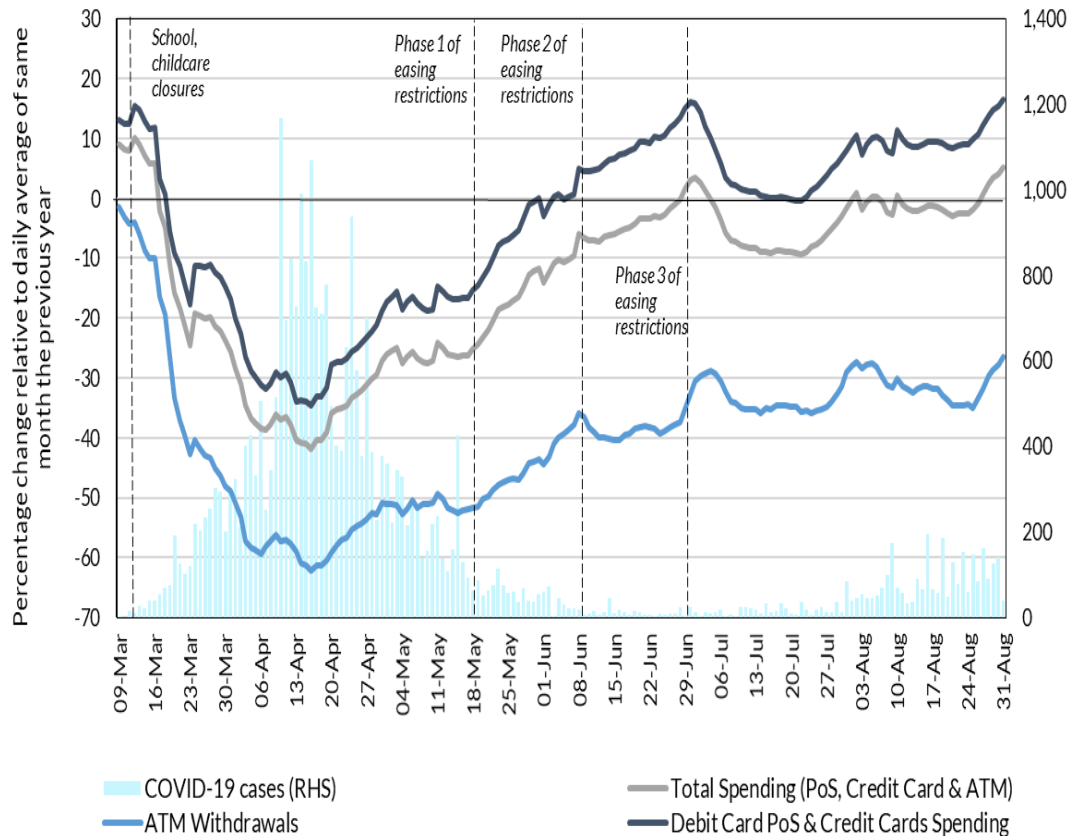


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Recovering card spending and retail sales give an indication of consumption

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



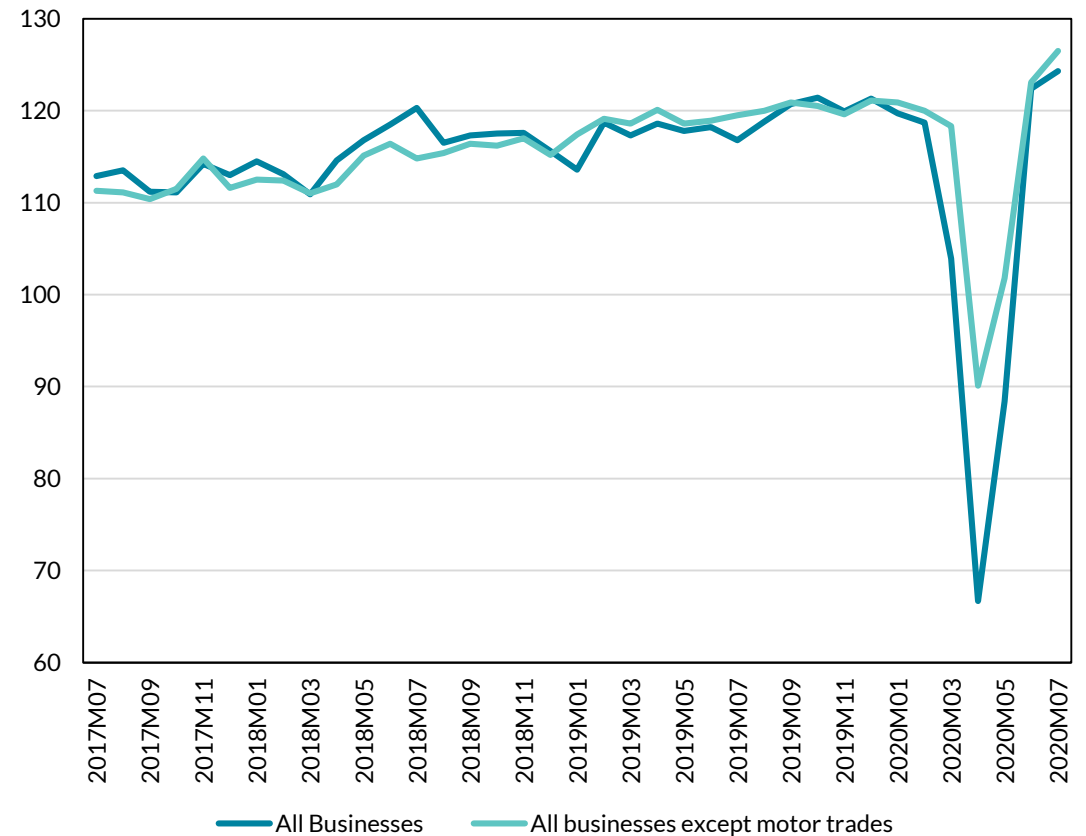
Source: Central Bank of Ireland



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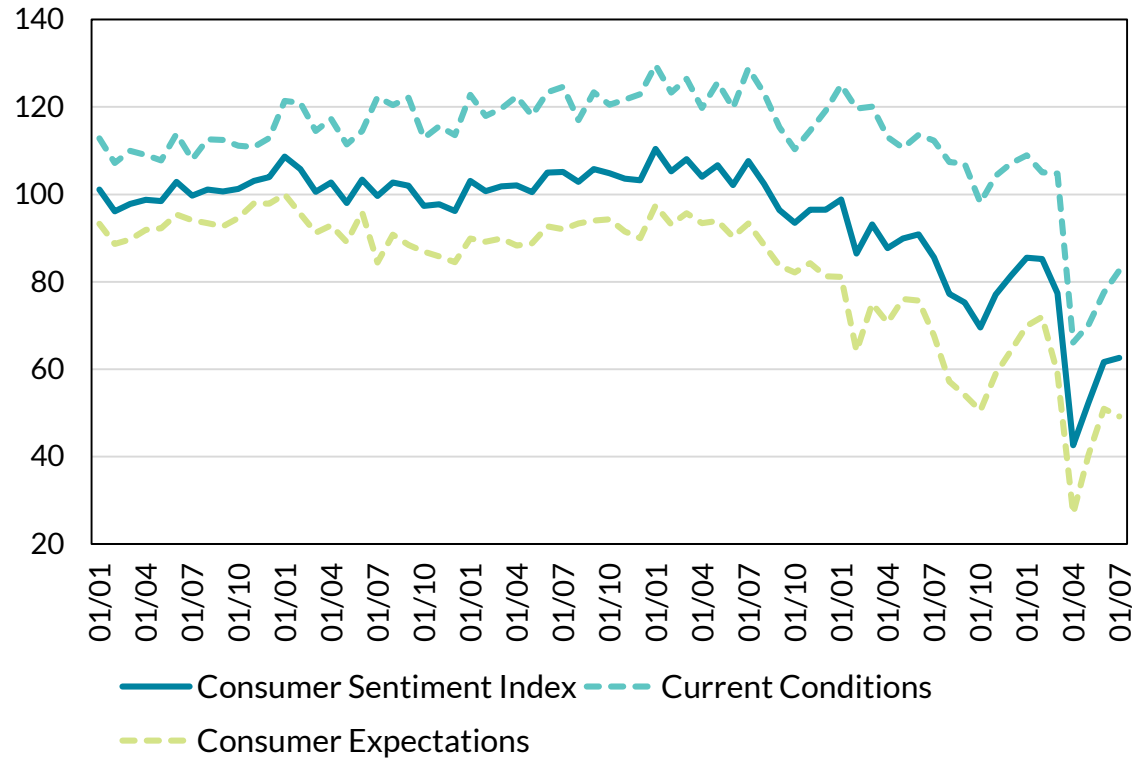
Retail Sales Index - Rebound but not evenly



Source: CSO

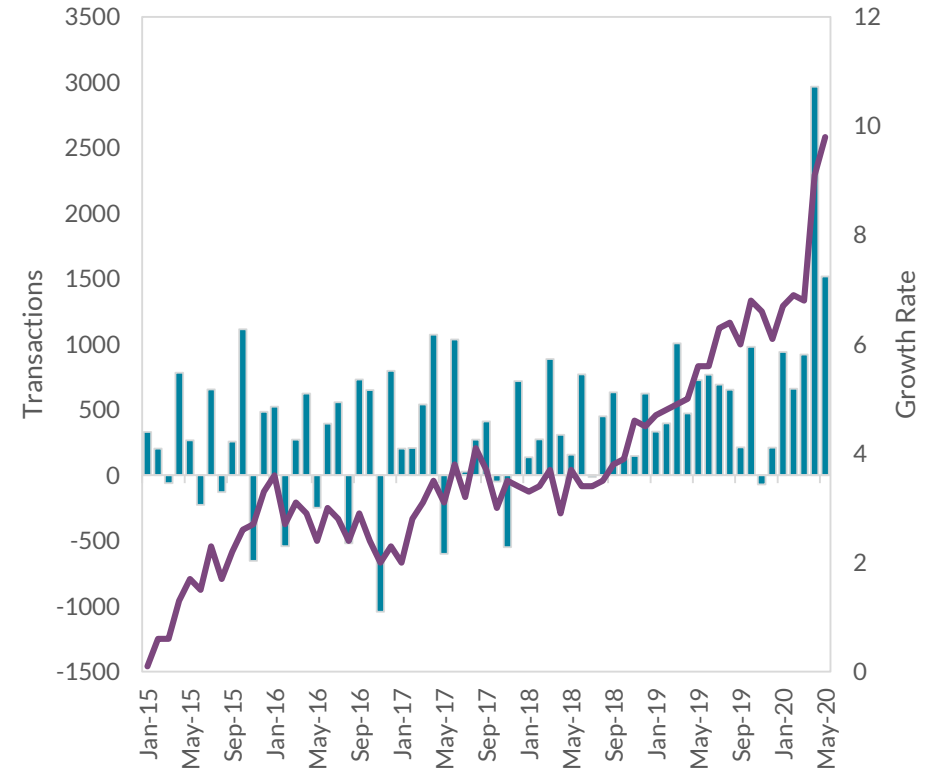
However consumer sentiment is lagging and savings rising during pandemic

KBC Consumer Sentiment Index



Source: ESRI/KBC

Evidence of a significant increase in deposits from Irish resident households



Source: Central Bank of Ireland

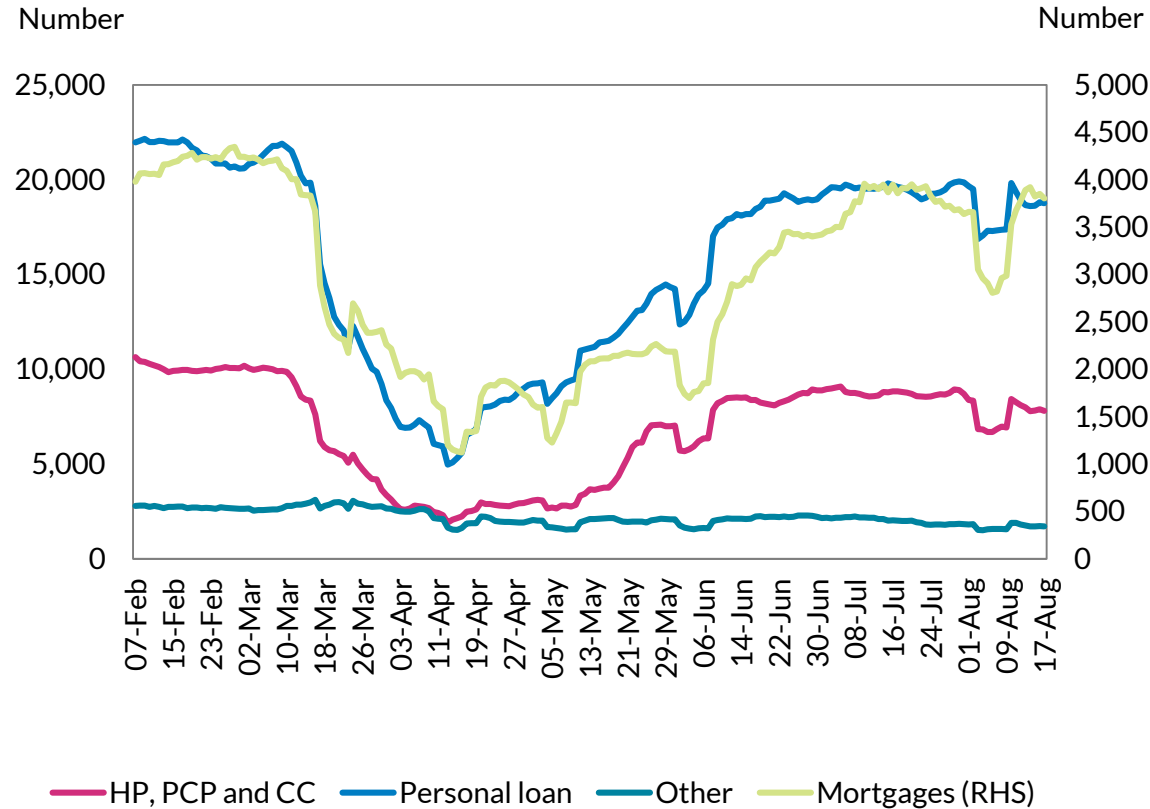


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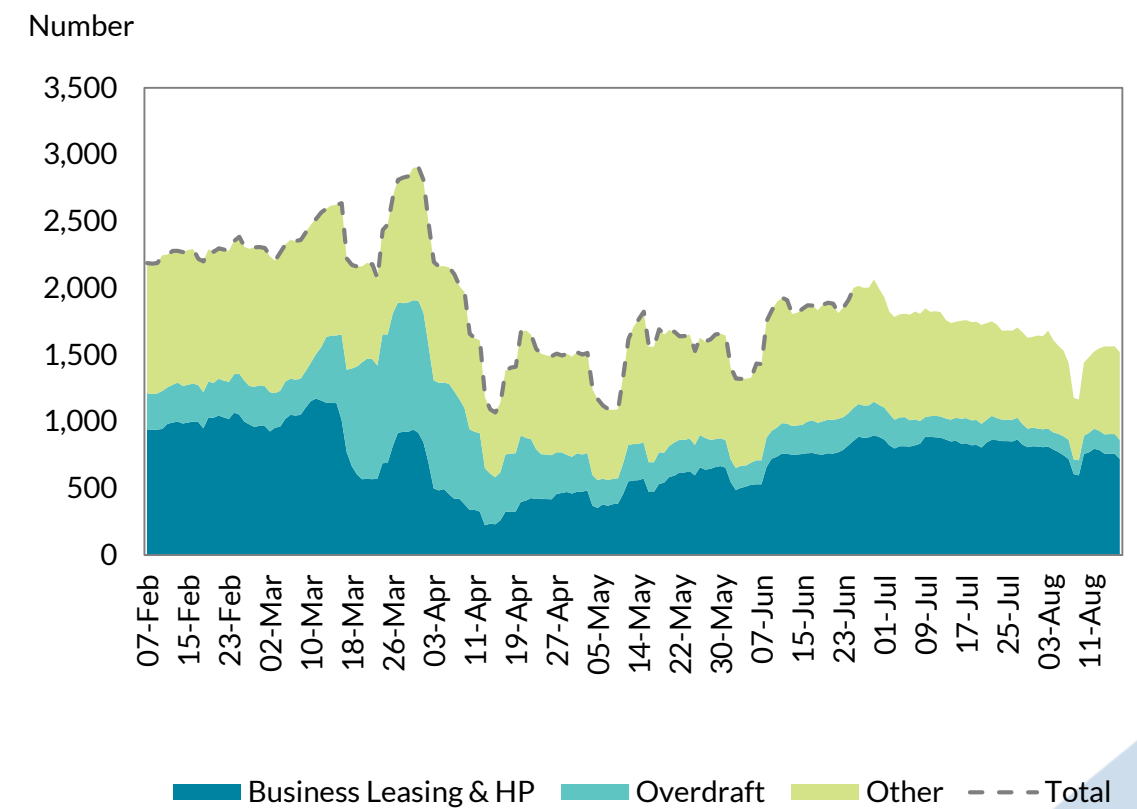
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Credit demand is recovering somewhat for individuals, less so for companies

Credit Enquiries on New Loan Applications by Individuals



Credit Enquiries on New Loan Applications from companies



Source: Central Credit Register

Source: Central Credit Register



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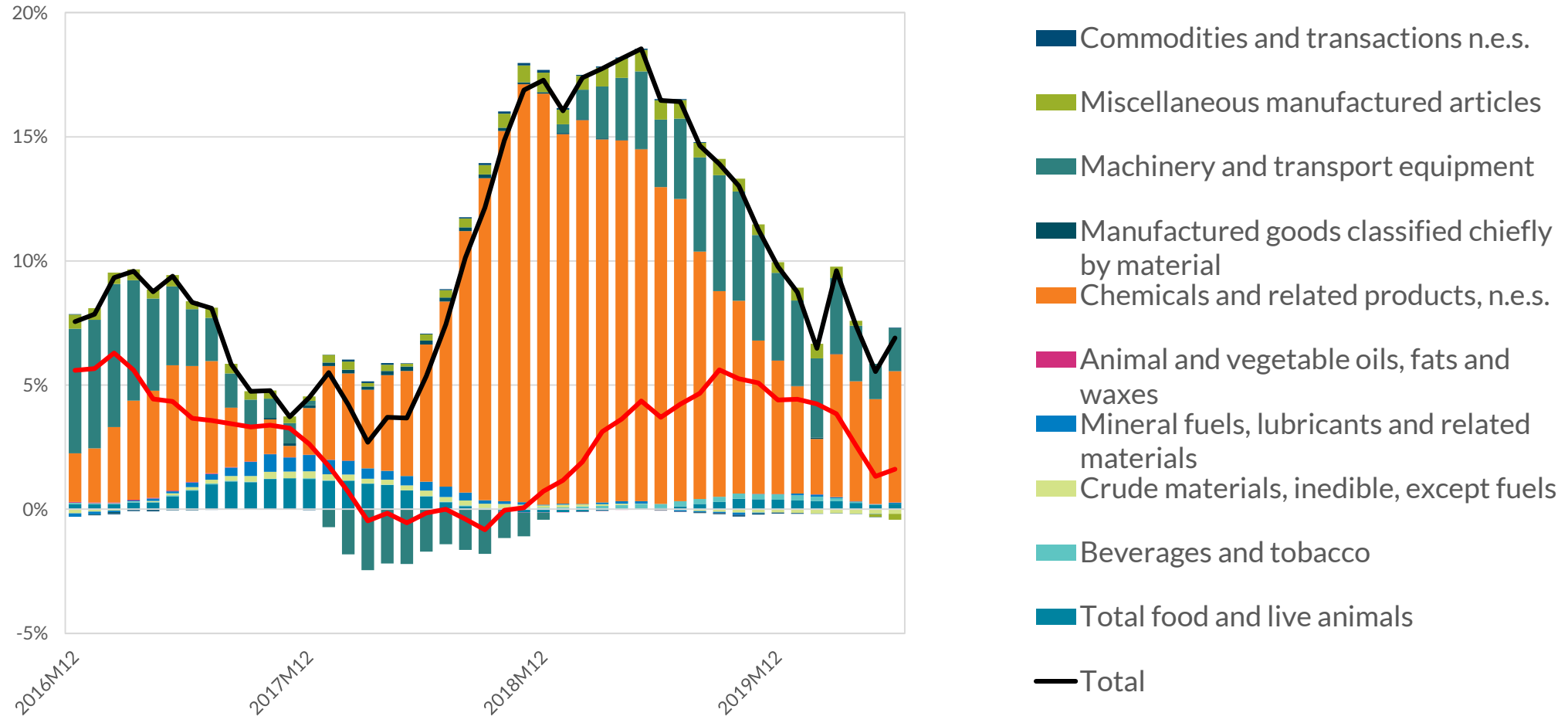
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As employers, SMEs will be crucial for recovery

- **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



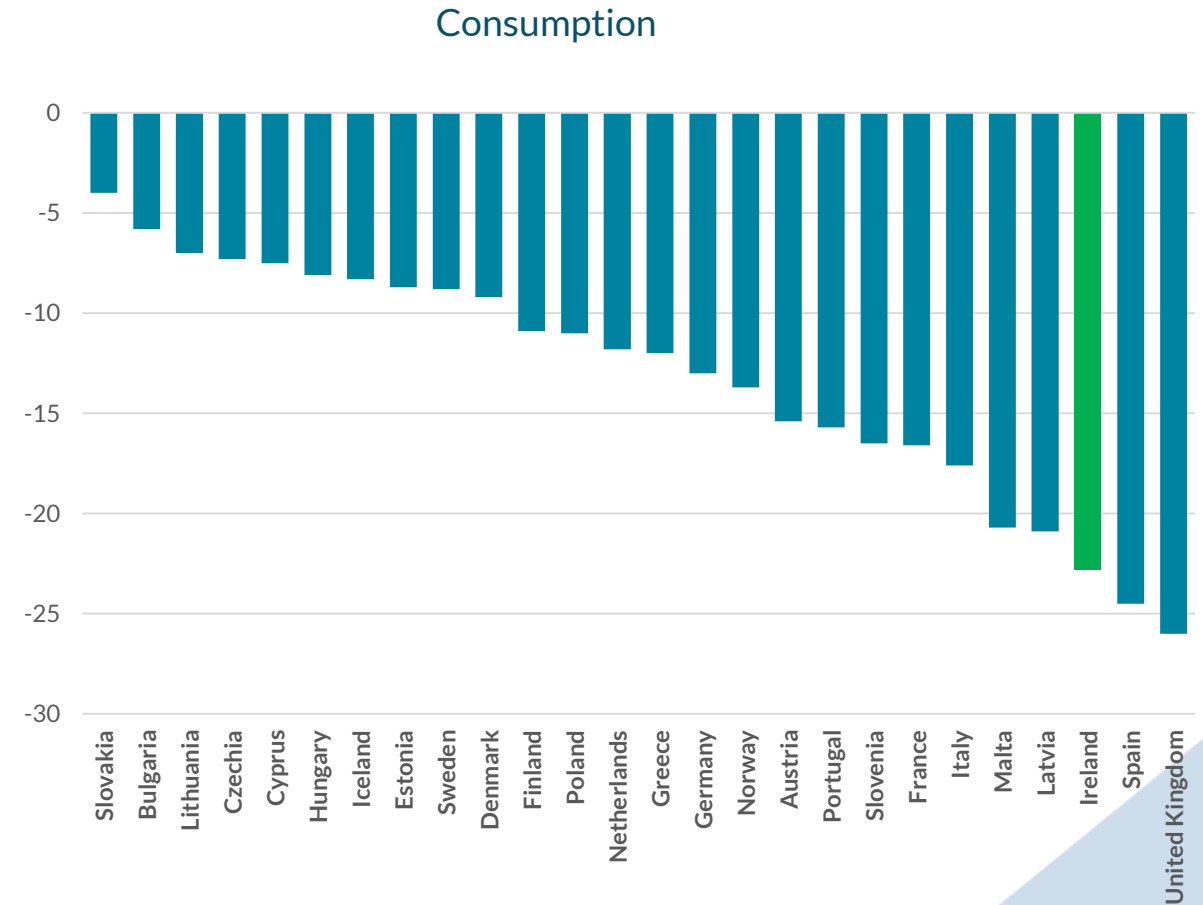
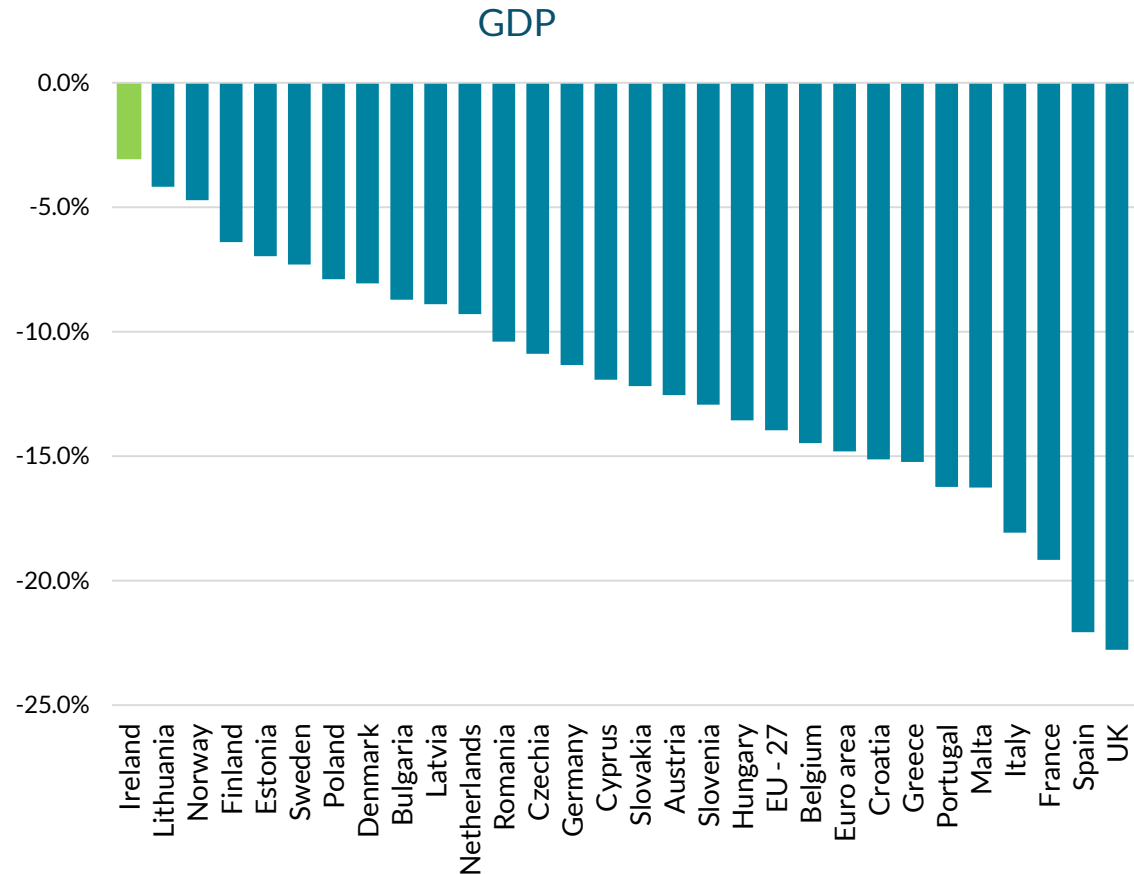
Source: Eurostat



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



Source: Eurostat

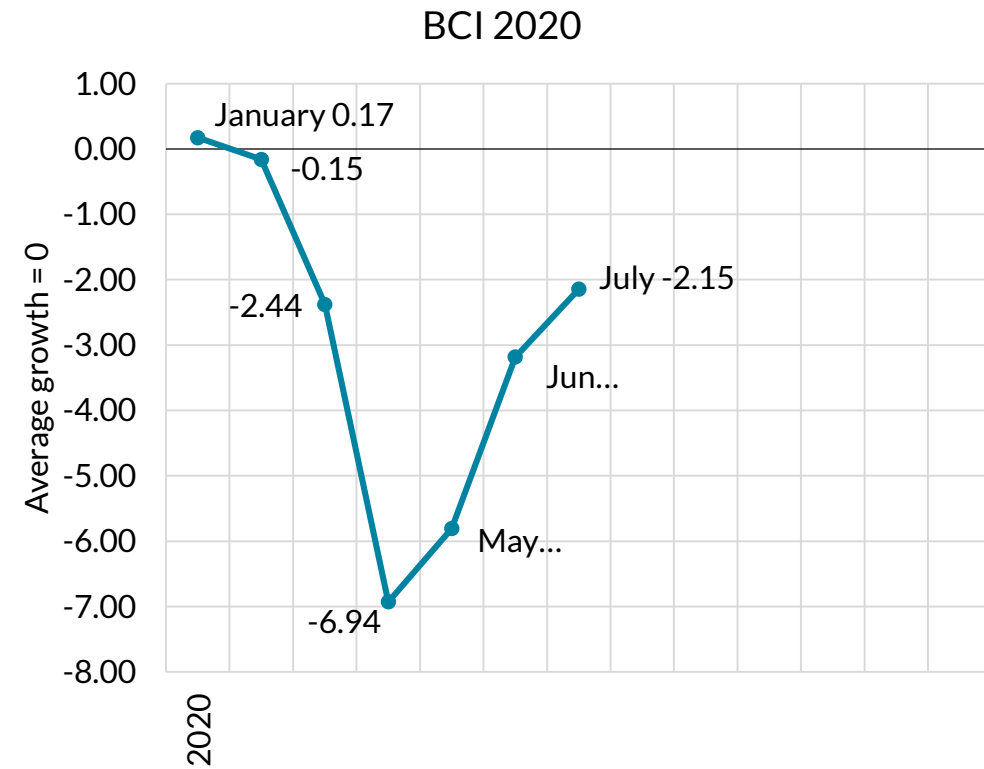
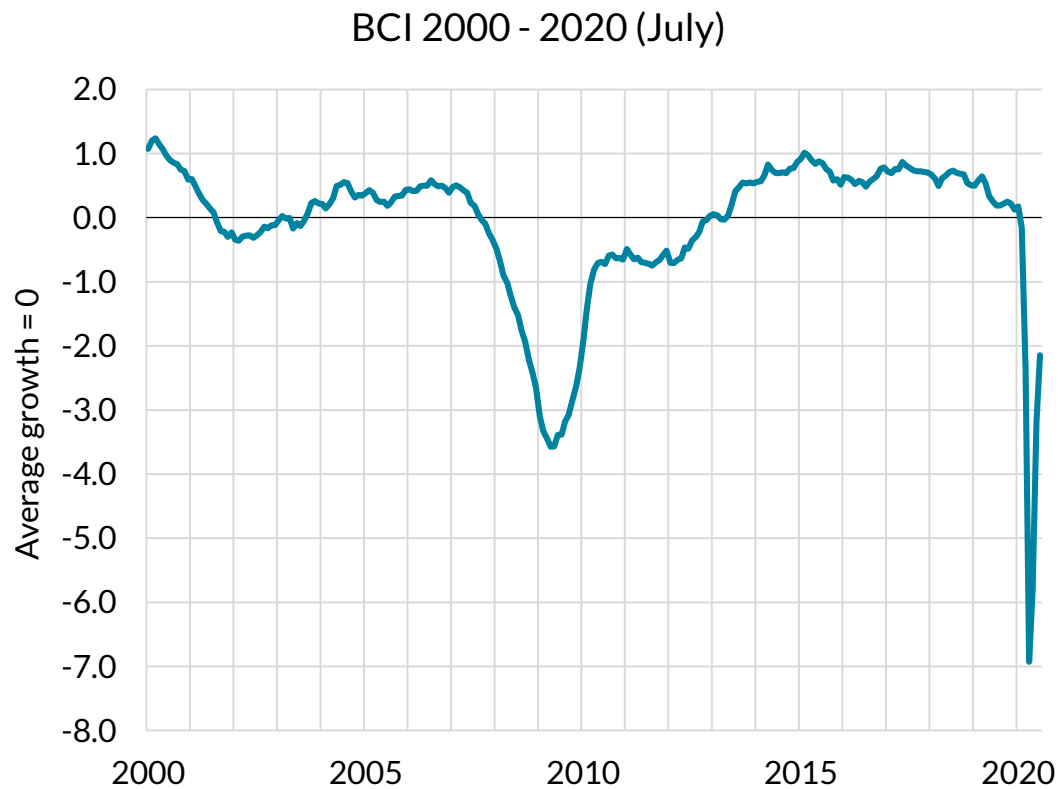


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Source: Eurostat

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).



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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



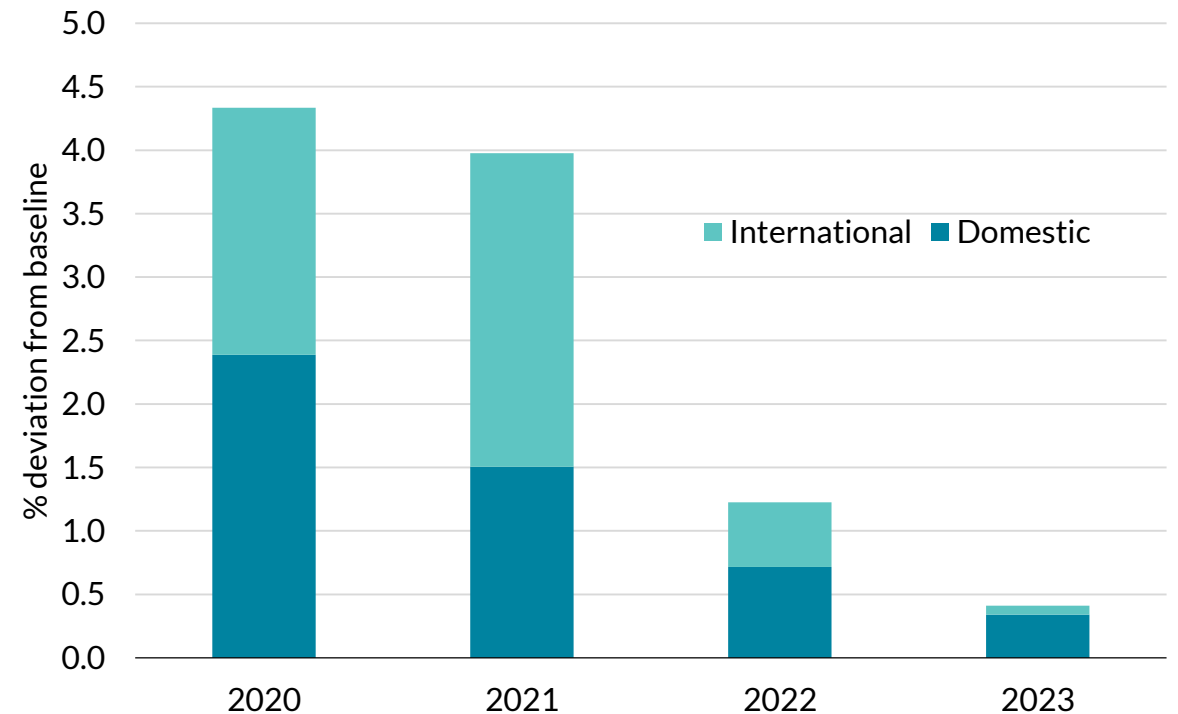
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Impact of policy on Irish Output

- **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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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 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 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



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