An Oifig Buiséid Pharlaiminteach
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Ireland's Fiscal Response to COVID-19 – March 2020

PBO Publication 5 of 2020

On the 9th of March the Government announced a fiscal response to the Covid-19 pandemic. It consists of a range of measures that will cost roughly €3 billion. These measures are outlined below.

Social Welfare Package- €2.4 billion

Sick pay and illness benefits are intended to account for the majority of the total package. The rate of illness benefit will increase from €203 per week to €305 per week. This higher rate can be claimed for two weeks and will only apply to those who are suffering from COVID-19 or are in HSE prescribed self isolation. Those suffering from other illnesses will receive the original rate of €203 per week. The means test requirement for the supplementary welfare allowance and the six day waiting period will be removed for those in self isolation and/or those suffering from the virus. Self-employed people will also receive illness benefit or supplementary welfare allowance.

The original allocation for Employment Affairs and Social Protection (Vote 37) and the Social Insurance Fund (SIF) in 2020 was €21.2 billion.[1] If all the COVID-19 package were spent this would bring spending in this area up to €23.6 billion, an 11% increase in spending over what was originally planned for 2020.

Funding for the HSE- €435 million

Extra funding will be given to the health service to deal with the crisis. This will enable it to increase capacity by increasing staff levels and overtime, improving the ambulance service and purchasing new medical equipment. It will also enable home testing and providing care for COVID-19 patients outside of a hospital.

The Health Vote gross allocation increased from €17.5 billion in 2019 to €18.3 billion in 2020 (5%). This extra €435 million will increase that allocation to €18.8 billion – a revised increase of 7% year-on-year.

Supports for Business

This will consist of a number of measures which are listed below and more information is available here:

- A €200 million package of business supports will be made available by Enterprise Ireland for struggling firms.
- Loans (up to €1.5 million) will be provided by the Strategic Banking Corporation of Ireland's Covid-19 Working Capital Scheme at reduced rates.
- MicroFinance Ireland will increase their potential loan threshold from €25,000 to €50,000.
- A Credit guarantee scheme will be provided by the pillar banks to affected firms. Loans of up to €1 million will be available.

The PBO assumes that most of this extra spending will be channelled through Vote 32 (Business, Enterprise and Innovation). If so, this will be a significant increase on that allocation which was originally set at a gross amount of €1 billion in 2020.

Legislation to provide for these measures is expected to be discussed on 19th March. The emergency Social Welfare Bill is expected to be published shortly. The Oireachtas Library & Research Service will produce a Bills Digest once the bill has been published.

Fiscal Impact

Budget 2020 was based on the scenario of a 'no-deal' Brexit. There were a number of measures that would only come into effect if there was a disorderly 'no-deal' Brexit and the government planned to run a deficit of 0.6% of GDP (-€2.02 billion). However, a disorderly 'no-deal' Brexit did not materialise on 31 January 2020 and the government revised its spending plans. This meant that there was expected to be a surplus of 0.7% of GDP in 2020 (roughly €2.5 billion).

1 Revised Estimates for Public Services 2020.

If a total package of €3 billion was spent, the government would run a deficit. If revenue remained at expected levels, the government would be spending roughly €440 million more than it is bringing in. However, this is very unlikely as an escalation in the number of Covid-19 cases would lead to a slowdown in economic activity which would cause revenue receipts to fall. For example, if less people are driving, excise receipts would fall and if people spend less on goods or socialising, VAT receipts would fall. This means that the deficit would be higher than €440 million as not only would spending be higher but revenue would also be lower. Also, given that multinational companies make a significant contribution to the Exchequer, a severe disruption to global supply chains could have a negative impact on Irish revenue receipts. The pandemic could also cause other spending areas (outside of the fiscal response) to increase particularly if there is a significant economic slowdown. For example, if the tourism and hospitality sector is badly affected and firms need to lay off workers this would cause spending on unemployment benefit to increase.

It is also still unclear how much the new measures will cost as it depends on how many people will avail of them. The €2.4 billion social welfare package depends on how many people get sick or self isolate – this is demand-led, and limits have not been placed on the potential number of claimants. Less money will be spent if the number of people affected is lower than expected. Likewise, if the numbers are higher than expected, the cost will be more than €2.4 billion. Equally, if fewer businesses avail of the supports, the cost will be lower.

EU Measures

The European Commission announced that it would implement a €25 billion fund to help Member States deal with the Covid-19 pandemic. This would go towards spending on healthcare and supports to weaker parts of the economy.

It also said that it would grant countries affected by Covid-19 flexibility on the fiscal rules.[2] This means that countries will not be penalised if they increase spending to tackle the crisis. Currently the rules allow for leniency in "exceptional circumstances" such as a recession or natural disaster. In these situations, countries will not be penalised if they fail to meet their debt and deficit targets. They can also spend more on measures that will alleviate the crisis.

The European Commission also said that it would consider relaxing State aid rules. This would enable governments to provide supports (that are not allowed under current State aid rules) to firms that are affected by the crisis.

The ECB announced that it would keep rates fixed at -0.5% but it will increase its quantitative easing programme.[3] It will make €120 billion more bond purchases in 2020 on top of its existing monthly purchases of €20 billion.

Contact: PBO@Oireachtas.ie
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2 The Stability and Growth Pact is an agreement among Member States of the European Union, underpinned by the EU fiscal rules to ensure that the public finances are managed and coordinated in a prudent and sustainable way.

3 A quantitative easing programme is when a central bank buys government bonds or other financial assets. This increases the money supply and bank liquidity. This should increase investment and consumption, which stimulates economic growth. It is usually undertaken when interest rates are approaching zero and can't be relied upon to boost the economy.