Ireland's fiscal response to COVID-19 - A PBO Analysis of the *Emergency Measures in the Public Interest (COVID-19) Bill 2020* and previous Act

PBO Publication 7 of 2020

Introduction

The Emergency Measures in the Public Interest (COVID-19) Bill 2020 was published on 24th March 2020 and will be debated in Dáil Éireann on 26th March. This is the second piece of legislation introduced to address the COVID-19 pandemic. The initial Bill introduced was the Health (Preservation and Protection and other Emergency Measures in the Public Interest) Bill 2020. The Oireachtas Library & Research Service has published Bills Digests to assist in the second stage debate of both Bills – available here for the initial Bill and here for the latest Bill.

This PBO Note briefly summarises the fiscal implications of both pieces of legislation, in addition to providing some commentary on the:

- wider fiscal implications of the pandemic; and
- the EU response as it relates to Ireland.

Given the unprecedented scale of business closure and job losses required to prevent the spread of the COVID-19 pandemic, extra spending is clearly necessary to help mitigate the impacts on individuals affected. Vital income supports, in particular, will also allow the economy to recover more quickly and robustly when public health conditions improve.

This Note is intended as a supplement to the PBO's previous publication in respect of the fiscal implications of measures announced on March 9th.[1] It provides Members of the Houses with as much relevant information and analysis as is possible in the short timeframe available before the Bill is debated.

It should be noted that wider structural changes to the health sector which have been announced are not considered as part of this note. These include changes to the use of private hospitals or the additional supports by GPs or other healthcare students and professionals.

Emergency Measures in the Public Interest (COVID-19) Bill 2020

On 26th March, Dáil Éireann will debate the *Emergency Measures in the Public Interest (COVID-19) Bill 2020*. **The new measures of budgetary significance** in this Bill concern the re-enlistment of medical personnel and Defence Forces members, and in particular the temporary wage subsidy.

The temporary wage subsidy is a payment of 70% of take-home pay, up to a maximum weekly tax free amount of €410 per week.[2]

Other measures announced on 24th March 2020

In addition to the new measures announced in the Bill, the announcements made on 24th March include spending increases in relation to existing measures:

1 Ireland's Fiscal Response to COVID-19 – March 2020, PBO Publication 5 of 2020, 16th March.
2 Payments are liable to income tax, taxable by review at the end of the year.

- the COVID-19 Pandemic Unemployment Payment is increasing to €350 a week, from €203,
    - » Self-employed persons will be eligible for the Unemployment payment directly from the Department of Employment Affairs and Social Protection;[3] and
- The COVID-19 Illness Payment is also increasing to €350 a week, from €305.

Another relevant announcement made in conjunction with the publication of the Bill is that the Department of Employment Affairs and Social Protection will use full flexibility in relation to the Rent Supplement scheme to assist those in the private rented sector.

Summary of COVID-19 pandemic spending

Two packages of fiscal measures have been announced in response to the COVID-19 pandemic in Ireland. The first package of **€3 billion** in Social Welfare, Healthcare and Business supports was announced on 9th March.

Table 1 summarises the spending and assumes an allocation to specific Votes. It is unclear as to whether monies will be:

- in addition to the €70.4 billion allocated in the *Revised Estimates for Public Services 2020*; OR
- transferred from Votes where spending can be reduced because of changes to other planned activities.

Table 1 – Summary of COVID-19 Voted Spending (9th March package)

Vote – title (no.)	Additional Spending (€ billion)	Notes	Revised 2020 Allocation - € billion (% increase)
Employment Affairs and Social Protection (37)	2.4	Primarily Sick pay, illness benefits and income supports	23.6 (+11%)
Health (38)	0.4	Includes increasing capacity in the health service, through increased staffing, overtime and the opening of additional acute and critical care capacity.	18.8 (+7%)
Business, Enterprise and Innovation (32)	0.2	Business supports will be made available by Enterprise Ireland.	1.2 (+20%)
Total Voted spending	**3**		

Source: PBO – based on the *Revised Estimates for Public Services 2020* and COVID0-19 Government press releases: initial fiscal response to the COVID-19 pandemic. All figures approximated.

On 24th March, the Government announced a second package of measures allocating an **additional €3.7** billion in expenditure.[4] This is intended to provide for an initial 12-week period. If a further extension is needed, additional provision will have to be made.

This additional €3.7 billion will be allocated to increased income supports in Social Protection (Vote 37). It is unclear what provision is required for the cost of the re-enlistment and re-employment of former defence forces personnel and public servants.

3 It has been reported that 103,000 applications have been received to date in respect of Jobseeker's Benefit (JB) and the COVID-19 pandemic unemployment payment. Source: Irish Times, 25th March, *'Marathon Dáil, Seanad sessions to pass Bill to mitigate economic collapse'*.

4 *Government press release of 24 March*.

This will bring the total amount allocated to date and for a period of 12 weeks to approximately **€6.7 billion**. It remains unclear how:

- much of this money will be spent;
- the money will be recorded as COVID-19 related; and
- much will be diverted from other non-essential spending.

It would appear that additional spending on COVID-19 will come directly from the Irish Exchequer rather than from EU sources.

Fiscal Implications

The range of measures announced on March 24th include a scaling up of policies announced on March 9th (i.e. the increases in the COVID-19 Illness Payment and the Pandemic Unemployment Payment), as well as the introduction of additional supports (i.e. the temporary wage subsidy). These changes have been costed (on aggregate) at €3.7 billion for an initial 12-week period.

Based on PBO correspondence with the Department of Public Expenditure and Reform, this cost assumes:[5]

- 800,000 individuals claiming either the Wage Subsidy Scheme or the Unemployment Pandemic Payment for 12 weeks, at an average rate between the maximum wage subsidy and unemployment payment[6] (€304 million per week, totalling €3.6 billion over 12 weeks);
- €500,000 per week covering increases in qualified adult rates for those in receipt of the standard jobseeker and illness payments (totalling €6 million over 12 weeks).

However, additional measures announced by Government have not been costed, including the anticipated increase in the public sector pay bill (resulting from the re-enlisting of retired public servants or the expansion in public sector numbers generally) and the rental supplement.

The final costs of these measures are difficult to predict. The Government has not provided an overall cap on the level of disbursements that will be made under these measures, meaning that the final cost will depend on the actual level of take-up. There is also the possibility that these supports will be needed beyond the initial 12-week period (legislation provides for the possibility of an extension subject to Ministerial order) depending on the duration of the public health crisis.

A surplus of 0.7% of GDP was originally expected for 2020 (approximately €2.5 billion). Combining the measures announced (and costed) on March 9th and March 24th, the total cost of COVID-19 response measures to date is €6.7 billion (€5.4 billion in social welfare and income supports alone). Assuming revenues are unchanged, these packages combined mean that Government would be spending €4.1 billion more than it is collecting.

In reality, revenues will be heavily impacted by the COVID-19 pandemic, most notably transaction-based taxes such as VAT and Excise (from a fall in consumption as a result of the shutdown of the retail, tourism and hospitality sectors), as well as Income Tax (given the sizeable increase in unemployment resulting from redundancies in affected sectors). While it is unclear where the funding to support these measures will come from, it is likely that substantial additional borrowing will be required.

It is worth considering if the spending allocations detailed in the *Revised Estimates for Public Services 2020* should be re-set, given that the budgetary framework has changed substantially. This may be considered as part of a supplementary or emergency budget at a future date. In particular, the crisis may have implications for the unspent allocations of other Votes, given the re-prioritisation towards public health.[7]

5 The Minister for Social Protection had previously suggested that 400,000 individuals could lose their jobs as a result of the COVID-19 crisis. However, the Minister later indicated that this was a conservative estimate. Source: Irish Times, 24th March, 'Varadkar urges people to 'stay home' as he announces new restrictions'.

6 The 800,000 figure is based on Government analysis of the numbers working in at risk sectors.

7 Performance budgeting tools could be used to determine where reallocations can be made.

European Union response

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. However, Ireland is only eligible for €3 million in support from the Corona Response Investment Initiative.[8] This contrasts with Italy which is eligible for €853 million of liquidity, to be topped up by €1.46 billion from the EU budget and will be able to spend €9 billion of unallocated cohesion money, half of which will come from the EU budget. Consideration is also to be given by the European Commission to a relaxation of State Aid rules and this process has begun with measures aimed at the fishing industry.

On March 20th, the Commission proposed[9] using the general escape clause of the Stability and Growth Pact (SGP), recognising the COVID-19 pandemic as an "unusual event outside the control of government". This was accepted by the group of EU finance ministers on March 23. This is the first time the Commission has proposed the activation of the clause since its inception in 2011. This allows Member States to undertake measures deemed necessary to appropriately respond to the COVID-19 crisis, with the freedom to depart from budgetary requirements that typically apply within the EU fiscal framework.[10] The intention is to give Member States the required flexibility to expand the capacity of their respective healthcare systems and to extend financial support to the most impacted sectors (such as tourism and hospitality).

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 Central Bank (ECB) announced that it would keep rates fixed at -0.5% but it will increase its quantitative easing programme.[11] It will purchase €1.1 trillion worth of bonds in 2020. At the beginning of the year (before the pandemic) these payments were only expected to amount to €240 billion in 2020.

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8 European Commission DG BUDGET Technical Briefing, *Coronavirus Response Investment Initiative* – see slide 8.

9 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, 20 March 2020.

10 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

11 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.