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Economic Update

Update

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Irish Economy

Taoiseach outlines scale of coming challenge for country and economy

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Irish Economy:

Taoiseach outlines scale of coming challenge for country and economy

Taoiseach Leo Varadkar addressed the country last night from government buildings – an exceptional event for exceptional times. He outlined the rapidly-escalating scale of the challenge that the country faces and cautioned that the "Emergency" could continue into the summer. The government believes that Ireland will have 15,000 cases of COVID-19 by the end of this month and that this total will rise further in the following weeks. These numbers will not be a surprise to those tracking the exponential rise of cases across Europe, but are a sobering thought nonetheless.

On March 9th the government unveiled a financial support package of just over €3bn encompassing social supports, liquidity funding for businesses and health sector funding. The Irish government was ahead of the majority of its counterparts at the time but, in a sign of the speed of developments, it is now clear that this package will be wholly inadequate. In the US, the administration has proposed a $1trn fiscal boost, amidst talk of cheques being distributed directly to Americans (so-called 'helicopter money') within two weeks. In the UK, Chancellor Rishi Sunak announced a series of measures which included loan guarantees worth up to £330bn along with a further £20bn of cash to under pressure businesses. Mr Sunak also announced a new Covid-19 Corporate Financing Facility (CCFF) with the Bank of England, which will help corporates bridge COVID-19 related disruption to their cash flows. The UK package comes on top of the £30bn step-up in fiscal support this year, already announced in the March 11th Budget. In France, there are plans to add another €45bn of crisis support to the economy whilst, on the EU front, there has been an easing in rules to access state aid grants. On the monetary policy front, the US Fed moved to ensure the flow of credit to banks, US companies and local governments with a commercial paper funding facility to underwrite short-term loans as well as introducing liquidity supports for banks. As a proportion of the size of the respective economies, all of these countries' pledges now outsize Ireland's.

The Taoiseach last night accepted that the initial €3bn support package will be insufficient and pledged to "take further action as needed". While declining to expand on the nature of such action, he noted that the country has the "capacity and credit rating to borrow billions" and that the final bill will be "enormous". The progress that the country has made since its last economic shock will now come to the fore. Ireland ended 2018 with a government gross debt to GDP of 63.6%, and this will have declined further in the period since then. The government recorded a budget surplus last year and Ireland's 10-year yield has spent much of the year to date in negative territory, although it has rebounded in recent days. We are rapidly heading into a storm, but we do so from a stronger position than at any point in the past decade.

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