



An Roinn Caiteachais
Phoiblí agus Athchóirithe
Department of Public
Expenditure and Reform

Ireland's Fiscal Policy Response to Covid-19: Balancing Social Support with Sustainability

Ronnie Downes

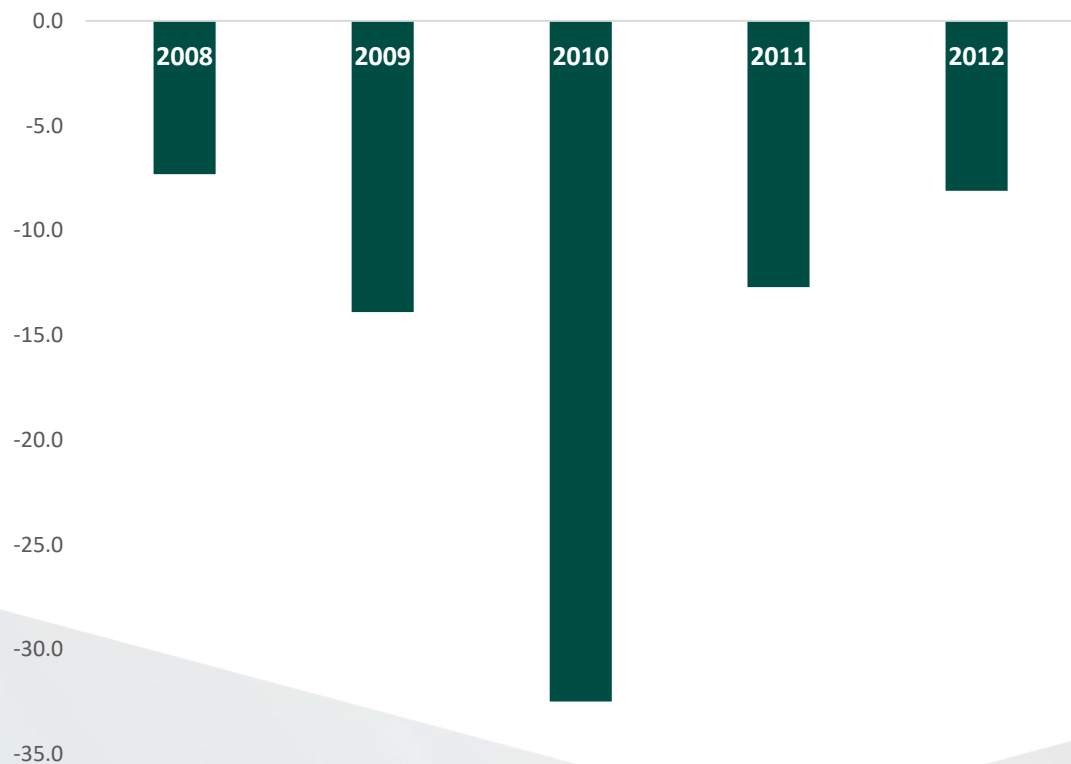
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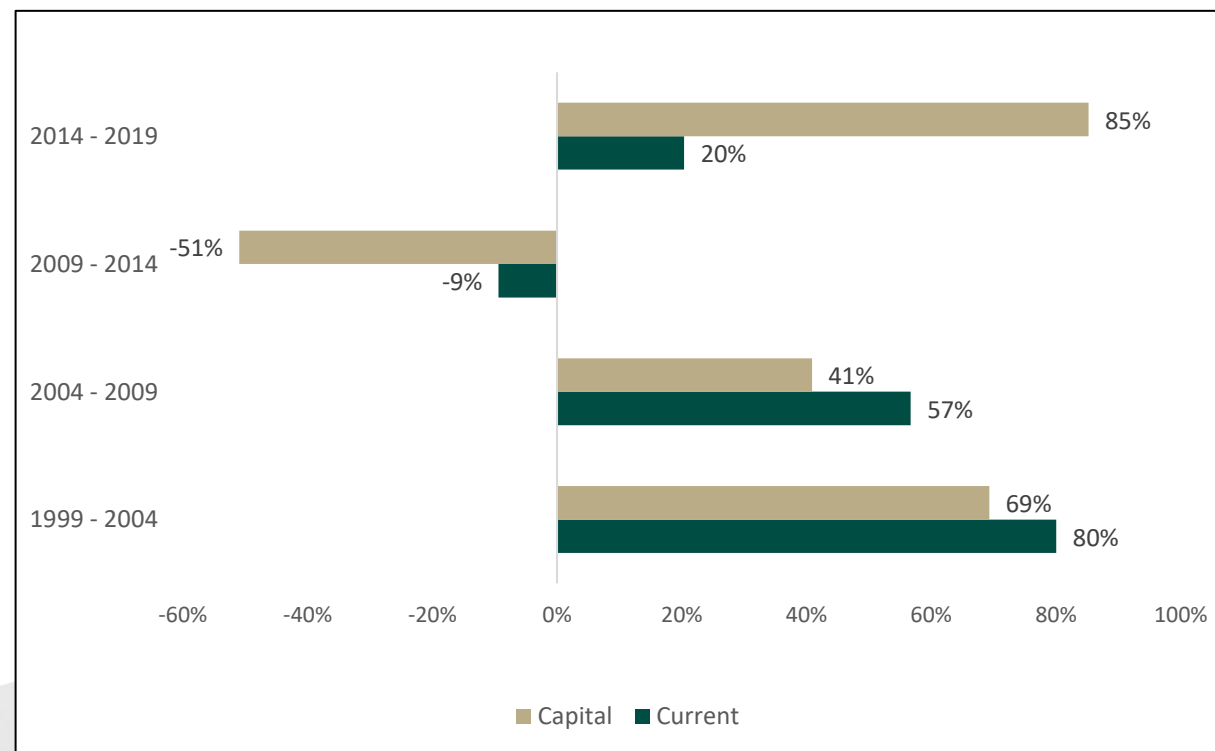
Financial Crisis 2008

Significant Expenditure Consolidation

General Government Deficit as % GDP

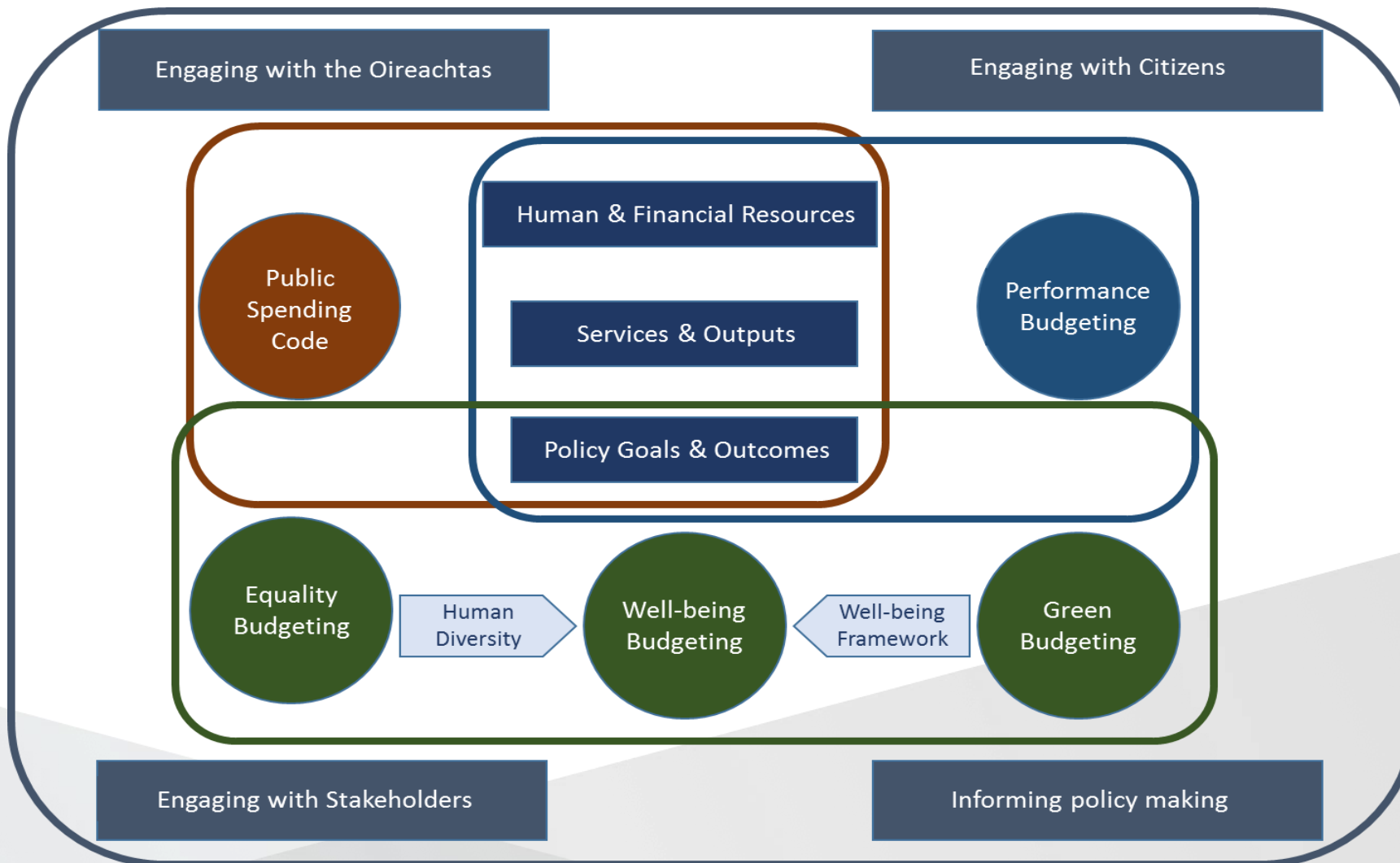


Nominal Growth in Current and Capital Gross Voted Expenditure, five-year intervals





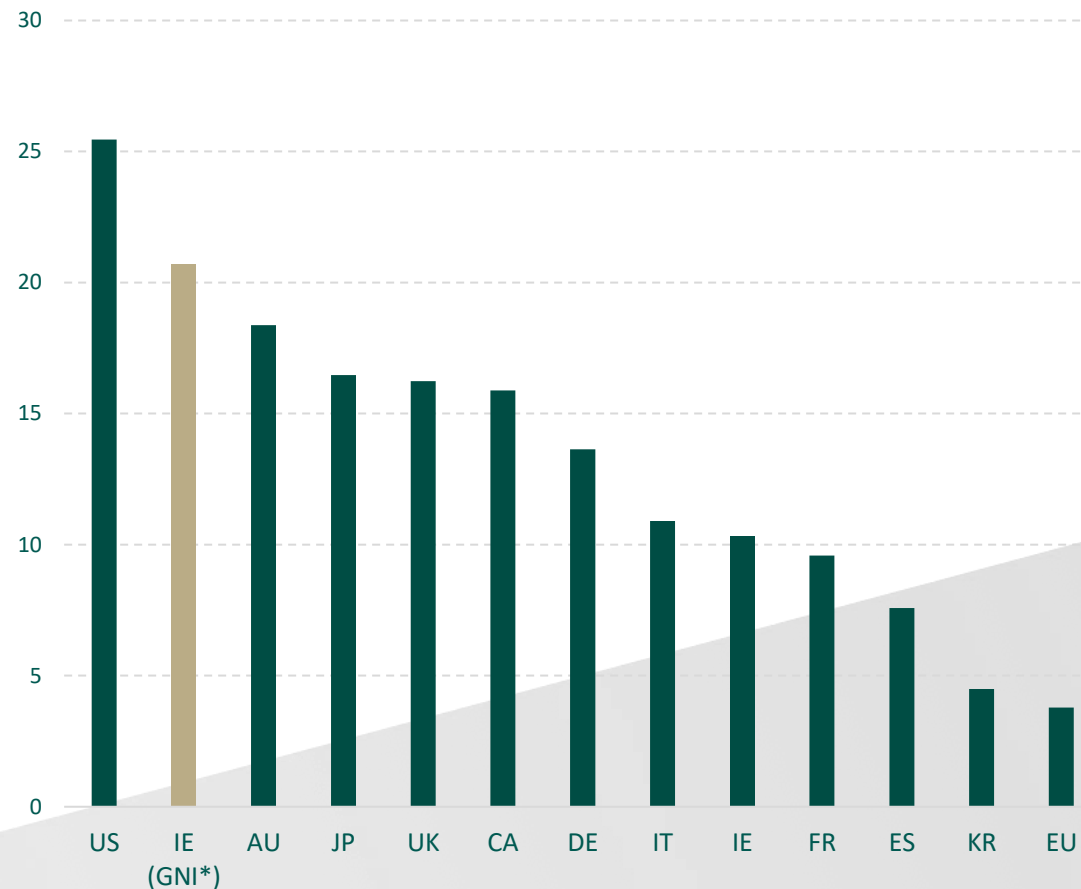
Post 2008 – Multiple Budgetary Reforms





Covid-19: Direct Fiscal Support

- Direct fiscal support in Ireland has been amongst the highest of advanced economies
- Over €38 billion in direct expenditure supports allocated across the period 2020-2022
- Supporting people and businesses, and ensuring key public services can respond effectively to the crisis.

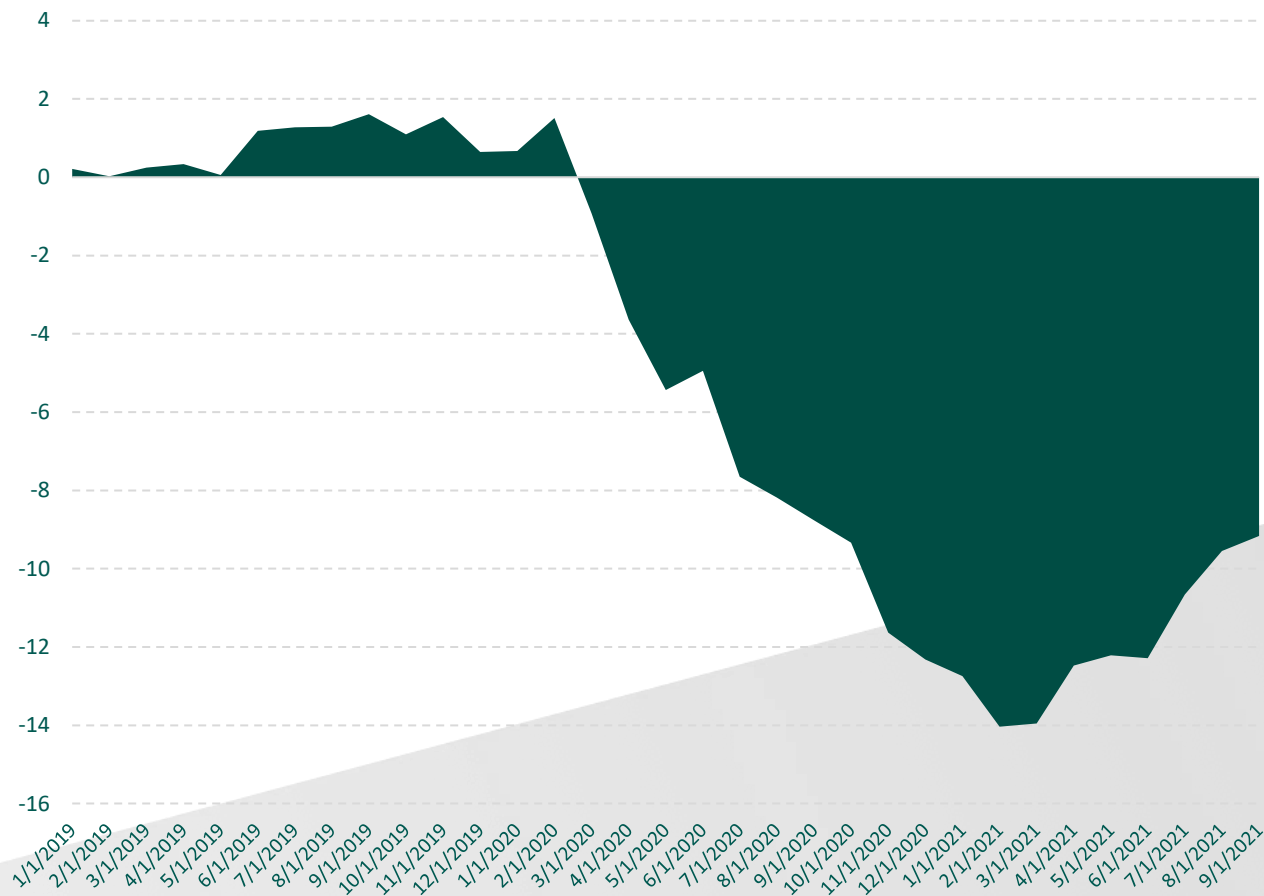


Notes: includes only 'above the line' supports.
CA=Canada, AU=Australia, JP=Japan, KR=South Korea.
Source: IMF Fiscal Monitor database.



Major impact on the fiscal deficit

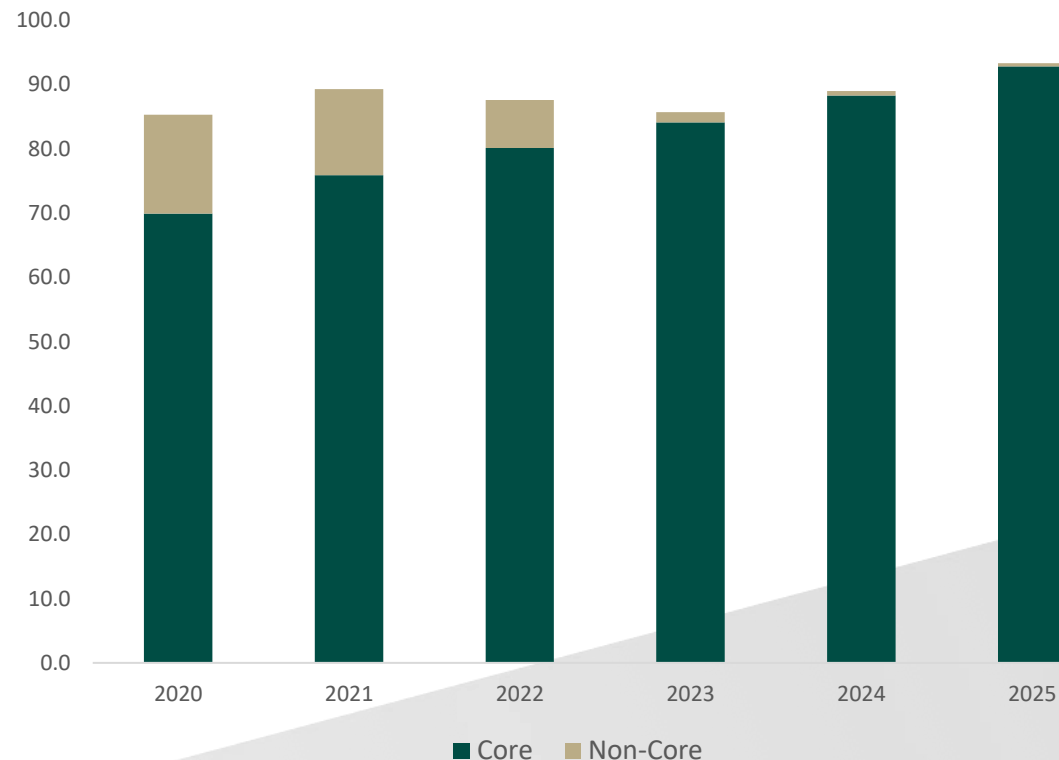
- The full suite of fiscal tools – direct public expenditure, taxation measures and contingent supports – has been deployed to cushion the impact of the pandemic.
- Huge cost – fiscal deficit of €12.3 billion last year and a further deficit of €12.1 billion is in prospect this year.
- Even with economic recovery, Ireland is projected to run another large deficit of €7.7 billion in 2022.





Core/Non-Core Expenditure

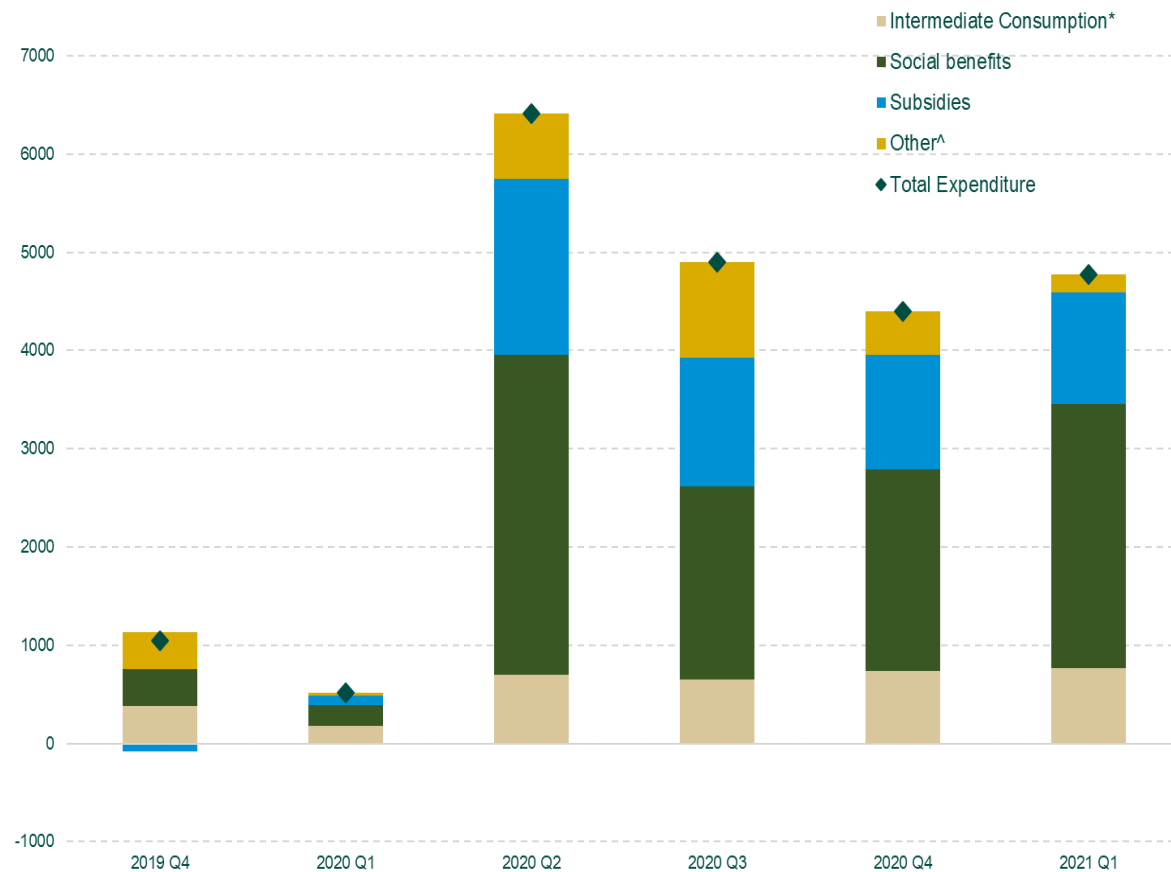
- Core Expenditure: Allocations for day to day running of public services, sustainable growth in investment
- Non-Core: Exceptional allocations to meet temporary challenges of Brexit (2019) and Covid (from 2020 onwards)
- Distinction allows transparency on the scale of spend, and prevents temporary allocations from entering the expenditure base





General Government Expenditure

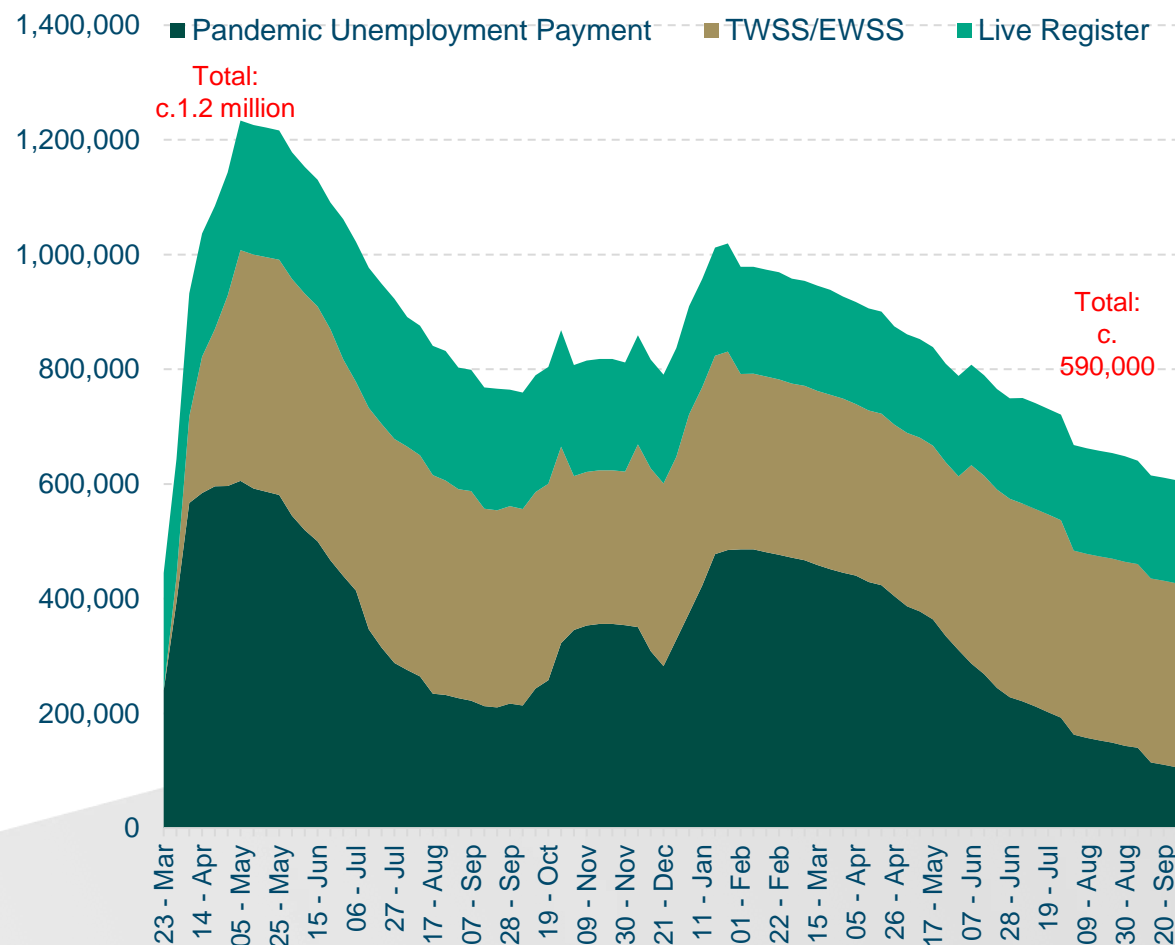
- General government expenditure was €26.3 billion in the first quarter of 2021, nearly €5 billion higher than a year earlier.
- This very large increase in public spending in the subsidy (mainly employer supports), social transfers (to citizens) and intermediate consumption (mainly health services) components.
- Funding has been provided to support key public services in the health, education, public transport and other sectors; for businesses through support schemes, restart grants and commercial rates waivers





Temporary Labour Market Supports

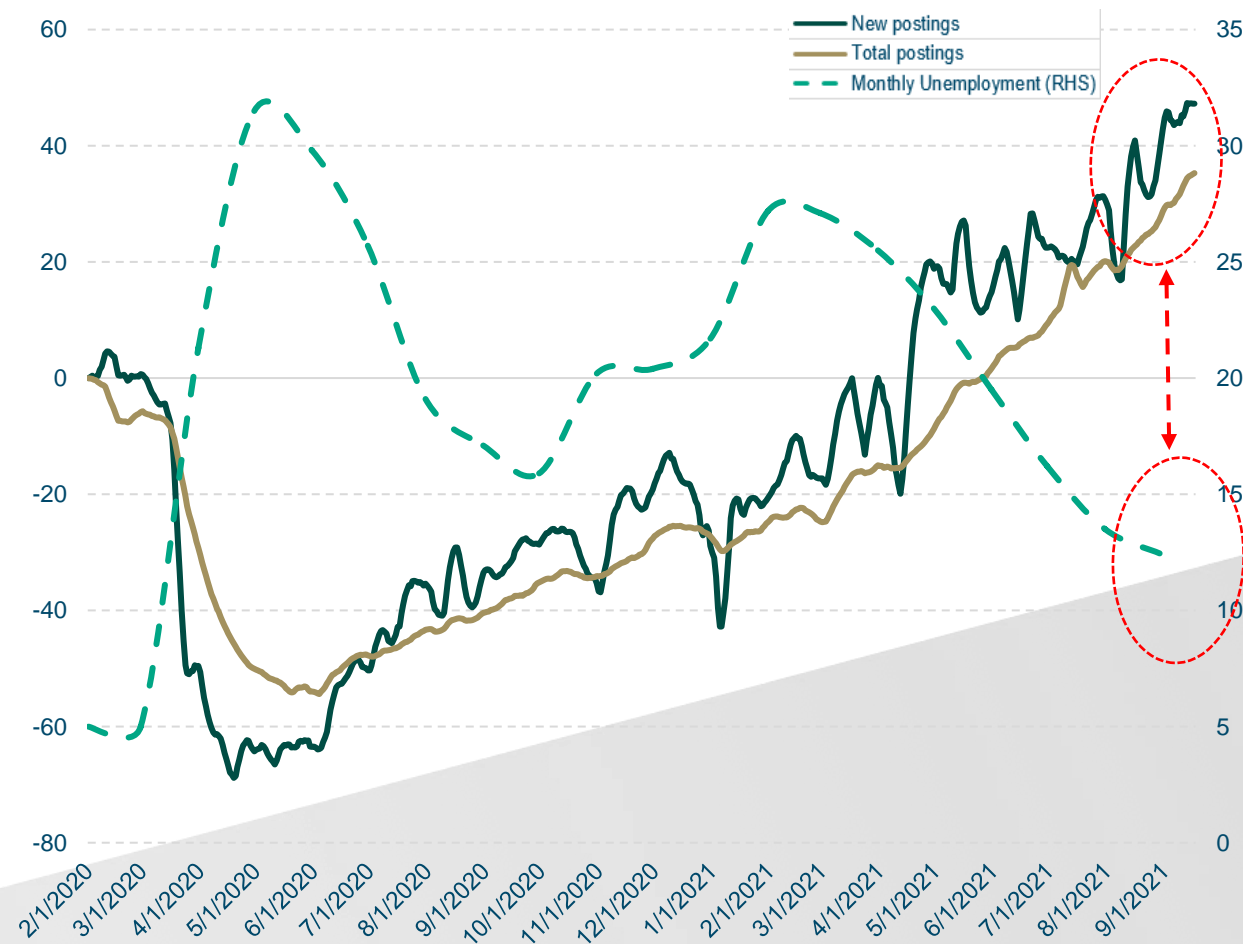
- Significant funding has been provided since the beginning of the pandemic for income and employment support schemes.
- Over €20 billion was allocated to the Department of Social Protection across 2020 and 2021, mainly for the Pandemic Unemployment Payment (to citizens) and Employment Wage Subsidy Scheme (to employers).
- EWSS introduced to support link between employer and employees.





Demand vs supply of labour

- Incoming data confirm that the Government's policy response to the pandemic – essentially keeping workers connected to the jobs market – has paved the way for a rapid rebound in the labour market.
- Labour force survey data show a Covid-adjusted employment increase of 15.5 per cent in the second quarter relative to the first, as the public health restrictions began to be relaxed.
- Real-time data show that new and total job postings are now around 50 and 35 per cent above their pre-pandemic levels respectively.

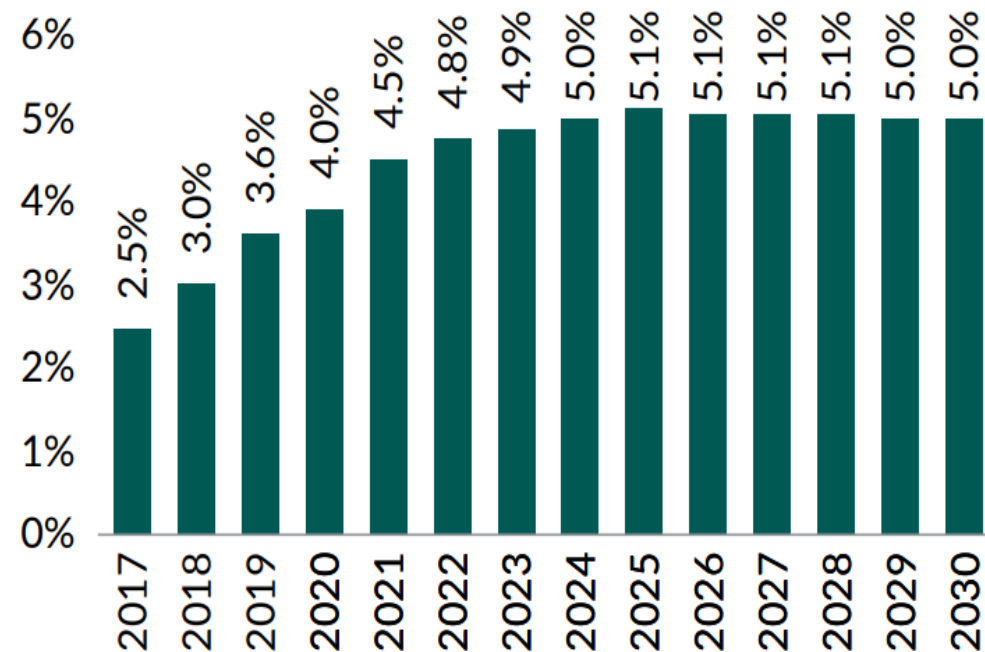




Going Forward: Strong Capital Investment

- The **National Development Plan** published on October 4th 2021 demonstrates the Government's commitment to meeting Ireland's infrastructure and investment needs over the medium term horizon.
- Budgeted capital expenditure in 2021 will be **more than double** the 2017 pre-NDP level of €4.6 billion.
- In 2022, core capital expenditure will increase by approximately €1.1 billion or 11½% over the 2021 allocation. This represents a very substantial commitment of resources and begins the process of increasing public capital expenditure to 5% of GNI* by 2025.

Exchequer Capital Investment as a share of GNI*





Going Forward: Role of Fiscal Rules

- **General Escape Clause** activated in 2020 and in place for 2021 and 2022.
- Review of the EU's economic governance framework now underway.
- The medium term fiscal strategy to 2025:
 - **Capping expenditure growth at the trend growth rate** of the economy should support a balanced budget over the cycle and sustainable levels of expenditure.
- Budget 2022 (12th October 2021) saw core spending increase by 5.5%, as planned in this fiscal strategy
- **Strong economic rebound**, and strong recovery in tax receipts, are making our fiscal task easier.

Gross Voted Core Expenditure as % of GNI*

