

Press Release: FISCAL ASSESSMENT REPORT

The Fiscal Impact of Covid-19

Under embargo until early morning (01:00am) Wednesday 27th May 2020.

Large-scale supports and a stimulus warranted, while severe austerity can be avoided in future

The Fiscal Council's latest report assesses the government's *Stability Programme Update 2020*.

The Covid-19 crisis will result in a deep economic downturn in the first half of 2020, with a lasting effect. With uncertainty exceptionally high, this report develops three economic and fiscal scenarios to 2025. It could take 2 to 3½ years to return to pre-crisis levels of activity. By contrast, the Irish economy took 11 years to recover after the financial crisis.

Commenting on the report, the Acting Chairperson of the Fiscal Council, Sebastian Barnes, noted: *“The Government has introduced large-scale policy supports, which is appropriate to tackle the immediate crisis. The next phase, the recovery, would warrant a sizeable fiscal stimulus. While some fiscal adjustment is likely to be needed in the third phase—when the economy settles on a new growth path—severe austerity can be avoided.”*

The report shows that government debt could return to near-record levels. Scenarios suggest debt ratios ranging from 114 to 160 per cent in 2021, up from 99 per cent in 2019 (as a share of modified gross national income). The high debt level will leave the economy more vulnerable to future shocks.

The required fiscal adjustment to put debt-to-GNI* on a downward path as the economy reaches a new normal will likely be far smaller and shorter-lived than following the 2008 crisis.

The next government will need to make difficult decisions about taxes and spending to achieve its objectives, while reducing debt to safer level. Strengthening the fiscal framework could help.

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