Box E: Covid-19 Support Measures

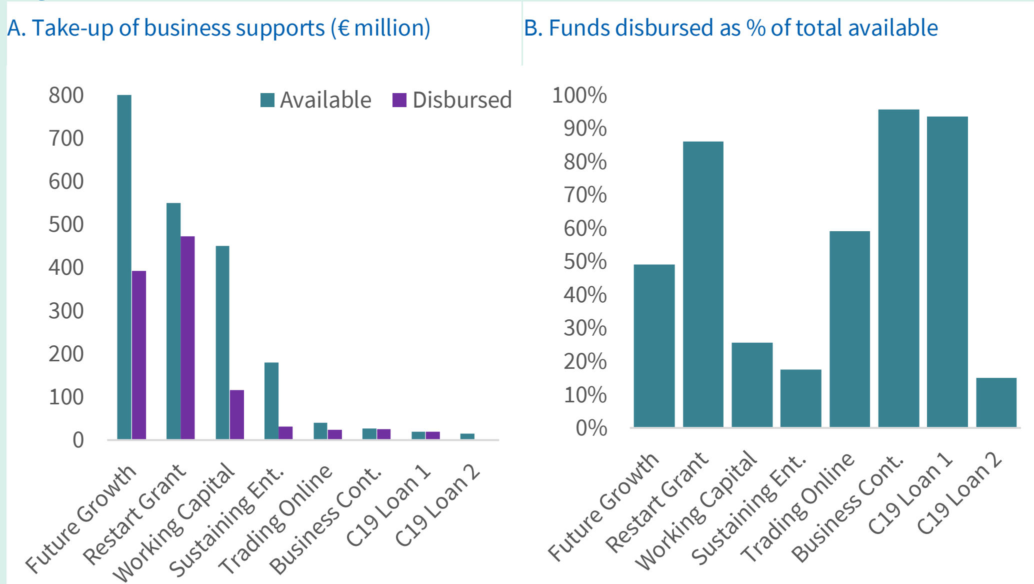
The level of governmental support for businesses, households, and the wider economy has reached around €26 billion in 2020. As part of the Government's effort to provide stimulus and support, a range of measures have been used, including tax cuts, employment subsidies, capital investment, loans, grants, guarantees and cash transfers.

This box provides an overview of some of the supports and policies introduced since March. We note three main findings. First, that the amount of overall support has been large and warranted. Second, more specific targeting and appropriate timing could boost take-up of certain measures. Third, areas such as capital investment and labour market activation remain open for further use.

Business support measures

Excluding tax cuts, rates waivers, and job retention schemes and other similar measures, the Government has allocated around €1.5 billion in liquidity loan supports to businesses affected by the crisis, with a further €0.6 billion in direct cash grants. Figure E.1 shows available data on the take-up of the most substantive of these schemes to date. Many of the business support measures have had lower-than-budgeted drawdowns. In general, measures such as direct cash grants and the smaller schemes have disbursed funds into the economy more quickly than the larger allocations of loans, guarantees and investments. Various factors may help to explain this: a reluctance to increase leverage, conditionality arrangements which are restrictive or insufficiently targeted to firms that have suffered the greatest falls in turnover, or a preference from firms for other supports may all play a role in determining demand.

Figure E.1: Take-up of Covid-19 business support measures



Source: DBEI and Fiscal Council Workings.
Notes: Latest data accurate as of 28/10/2020

Tax measures

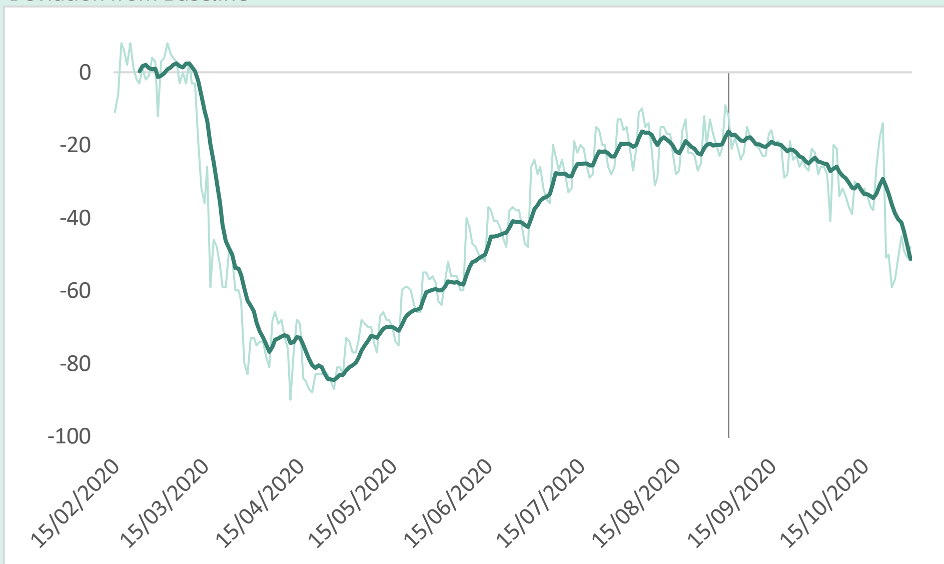
Tax cuts, rebates and waivers with a direct budgetary impact have been outlined to the value of around €1.8 billion in 2020, with measures in 2021 estimated at €0.7 billion. Over a third of this total relates to commercial rates waivers for businesses, allowing for immediate liquidity to flow to firms. The drawdown of most of the residual amount budgeted as part of the tax measures depends heavily on how consumer demand, particularly in key sectors like tourism and hospitality, progresses over the coming months.

As Figure E.2 shows, activity in retail and recreational sectors was faring relatively well in August and September, after recovering strongly from its April low. At such levels, well targeted tax measures could be expected to stimulate demand. The VAT cuts enacted by the Government could allow for consumers to save on purchases, or for struggling businesses to receive a direct liquidity boost by restricting the passthrough of the rate reduction. Such a policy might also be expected to normalise pre-Covid-19 consumer habits in an uncertain health environment.

The introduction of Level 5 restrictions in October however, as the tax measures were enacted, has meant that consumers have had little opportunity to avail of the schemes, assuming their expiration dates remain unchanged. Activity is now weaker again relative to pre-Covid-19 periods and is likely to remain so for the duration of the Level 5 restrictions

Figure E.2: Mobility data for retail and recreation

Deviation from Baseline



Source: Google; and Fiscal Council workings.
Note: The marker line denotes the introduction of the VAT rate cut from 23% to 21% on September 1.
Note: The bolder line represents the 7-day moving average of the underlying data series.

In addition to these restrictions on spending, other factors which might limit the effectiveness of the measures are that the VAT cuts merely subsidise purchases which would have taken place anyway, particularly with respect to consumer durables. Limited passthrough of the rate cut, as businesses increasing need liquidity, and ongoing consumer uncertainty could also dampen its effect.

Labour-market activation

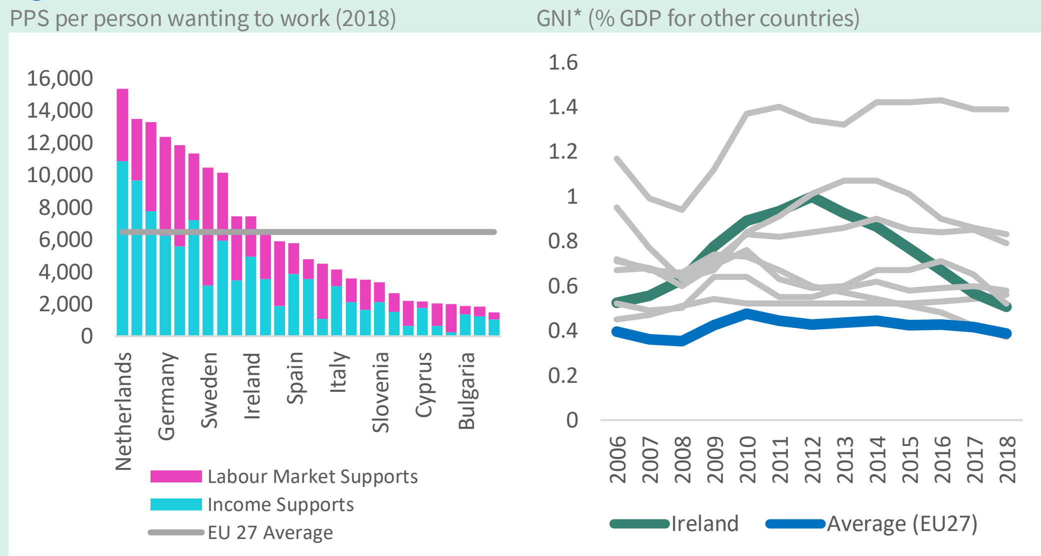
As part of the July stimulus measures, the Government allocated additional funding for labour market activation of around €200 million, with €130 million to be used in 2020 and the remainder in 2021. This was supplemented by an allocation of €10 million in *Budget 2021.* As a percentage of *Budget 2020* figures, this total is around a 20 per cent increase.

Figure E.3 shows that by various measures, Ireland spends around the EU average on such policies in normal times, but is far below the highest spenders.

In 2021, the employment outlook implies that significant spending increases would be needed to close the gap between current funding (including the recent additional allocations) and demand for social welfare services in the form of labour market activation schemes. This stretch on services can manifest in areas such as the caseworker-client ratio in social welfare

centres. With Ireland's ratio already considerably above the best-practice figure of around 150:1, the greatly increased caseload as a result of the pandemic will see this ratio deteriorate further.[41]

Figure E.3: Expenditure on Income and Labour Market Activation Supports



Source: Eurostat, and Fiscal Council workings.

With health restrictions likely to continue, many of those in unemployment will likely become long-term unemployed, defined as a period of six months or over. Among other benefits, labour-market activation policies are one of the ways in which the Government can both reduce unemployment in the short run, and increase human capital in the long run.

Investment measures

Public investment tends to have a larger impact on economic activity compared to other forms of public spending (Ivory, Casey and Conroy, 2020; Varthalitis, 2019; Hall, 2010; Bénétrix and Lane, 2009; Giordano et al., 2007). As well as having higher multipliers, public investment can also contribute to productivity in the future. With social distancing limiting the effectiveness of demand stimulus in sectors where demand is low due to health risks, public investment can also be a key tool to divert resources and stimulate demand to areas that are less constrained. In particular, it can be useful to make up for shortfalls in construction demand and jobs that might not return quickly.

In terms of responding to the current crisis and providing stimulus for the recovery, public investment has not been expanded much, relative to pre-existing plans. General government gross fixed capital formation—a broad measure of how much the Government spends on capital projects in a given year—was set to rise from €8.8 billion to €9.1 billion between 2020 and 2021 according to *Budget 2020* plans. The *Budget 2021* projections put the respective levels of investment at €9.3 billion and €9.8 billion for the same years — a combined increase of €1.2 billion. For context, this amounts to about 3.8 per cent of the increase in total general government spending over the two years relative to the *Budget 2020* plans.

However, public investment is set to rise to high levels. Ireland's level of public investment as a share of GNI* is set to rise to 4.7 per cent in 2021. This would be the highest level since 2009, just prior to the sharp cuts to investment introduced after the financial crisis. This would also

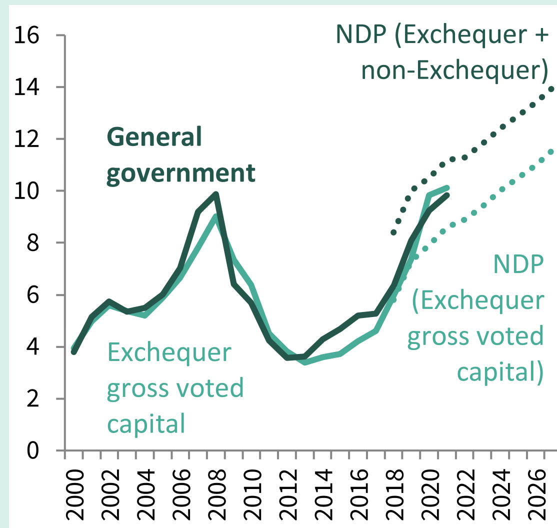
[41] IMF (2018) noted that this figure had declined from 800:1 in 2013 but remained high at 500:1 in 2015.

see Ireland having relatively high levels of investment in the context of the EU where normal ranges over the past two decades were between 3 and 4.5 per cent of GDP.

Figure E.4: Public investment is set to rise to high levels

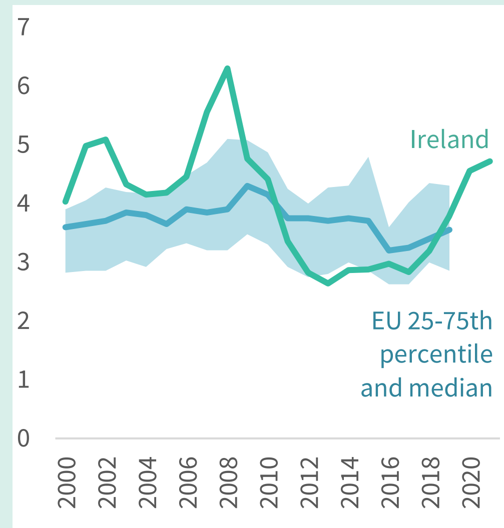
A. Investment spending broadly as planned

€ billions



B. High in the context of the EU

% GNI* (% GDP for other countries)



Sources: National Development Plan (NDP), 2018–2027; CSO; Department of Public Expenditure and Reform; Eurostat; and Fiscal Council workings.

Notes: The NDP notes that commercial semi-state bodies, state-owned enterprises and other non-Exchequer bodies make their investment decisions in line with business plans that, for the vast majority, did not extend past 2021 at the time of the publication of the NDP.