

COVID-19

Ibec response and priorities

An Ibec Submission to Government

March 19th



Summary of policy actions required

Phase 1 - Mitigation & Preservation

- Ensure as much business continuity as possible for manufacturing & essential services
- Upscale income replacement model for employees to level of EU norms and keep employees connected to their employers
- Keep suspended firms alive, through more substantial tax deferral, credit guarantee and liquidity supports
- Deliver fiscal package of much greater scale

Phase 2 - Reboot & Recovery

- Plan for range of fiscal stimulus measures to ensure V-shaped recovery from crisis
- Upscale public investment programmes for housing and other infrastructure
- Ensure coordinated global response to scale and breadth of unprecedented fiscal stimulus
- Target sectoral stimulus measures for most severely impacted firms

Key messages

- Fiscal measures taken so far in Ireland to combat the economic effects of the Covid-19 outbreak while welcome, are toward the lower end of those taken by other countries. It is important, for economic confidence and recovery, that the measures taken so far are recognised as interim 'building blocks' toward a more comprehensive response
- Government must match other European countries in moving from a 'safety net' to an 'income continuance' approach in their labour market response. This is necessary in order to prevent a supply side shock cascading into a major demand shock which would permanently close firms and make recovery from this crisis more difficult.
- These income support measures would require in the region of €4 billion of funding (an additional 1.2% of GDP to existing measures) and could fund replacement rates of at least 70% of net wages lost, for 20 weeks, for up to 500,000 workers.
- Other countries have been much more aggressive in terms of State credit guarantees, with many countries putting measures in place which would, if necessary, reach 10% of GDP. Significant measures will need to be put in place in Ireland in order to guarantee liquidity and prevent escalation of cash-flow issues throughout the supply chain
- Approach will require significant deficits by the State throughout 2020 and beyond with international fiscal rules to reflect this.

Mapping and contrasting crisis response measures internationally

Objective

- Review 'best in class' responses across countries
- Map against actions in Ireland
- Identify strategic policy responses still required

Structure

- Containment measures and impact on business continuity
- Labour market response
- Cash flow and enterprise preservation actions
- Fiscal stimulus and 'reboot plan'

Containment measures and business continuity

	Notable Measures	Ireland's response
Retail & hospitality closures	All Shops except grocery and pharmacy closed in Italy. Similar measures being introduced in Spain and France.	No official closure of shops. Across retail sector businesses introducing social distancing measures. Shops in certain retail categories closing voluntarily due to collapse in footfall. Government ordered all pubs and hotel bars to close until 29 March.
Social distancing provisions	'Lockdown' in a number of countries such as Italy, Spain and France. WHO guidance of 1 metre social distance space.	Social distancing of 2 metres (6.5 feet). Work from home if possible. Reduce interactions with people outside workplace and home. Schools closed
Impact on manufacturing	No Government restrictions on manufacturing across EU, except in area of protective clothing and equipment export outside EU now by licence only e.g. masks, visors, hospital gowns. Manufacturing shut in Malaysia.	No Government restrictions on manufacturing except new SI implementing EU re export licencing of protective clothing and equipment.
Designated essential services and businesses	Essential goods such as food and feed supplies including livestock, vital medical and protective equipment and supplies. Measures should not cause disruption of supply chains, essential services of general interest. EU advising that 'green lanes' created at borders to ensure freight transports facilitated in Single Market	Irish (and European) ports committed to continuing to support the flow of essential cargoes along with all other supply chain operators in shipping, distribution and haulage sectors. No Government restrictions

Key takeaways: Priority is to preserve all manufacturing activity and essential services and to keep supply chains operating. Challenges in keeping borders open and ensuring continuity of freight operations.

Social welfare and income continuance supports

	Notable measures	Ireland's response
Income continuance	Danish Gov. providing 75% of salary (max circa €40k, for 3 months); employers 25%; employees to take 5 days unpaid leave – similar approach in Portugal (up to 70% of pay from social security)	Pandemic unemployment payment for both employees and self-employed who are unemployed or have their hours reduced during the COVID-19 pandemic. Payment of €203 per week for up to six weeks
	Normal sick leave provisions suspended in many countries – payments from day 1 of illness	Enhanced illness benefit for those diagnosed with coronavirus or required to self-isolate. Payment of €305 per week for up to two weeks.
	Significant improvements to existing short-term working schemes (Belgium, Austria, Denmark, France, Germany, Netherlands, Sweden)	
	In Sweden, State will cover all company illness costs for 2 months	

Key takeaways: Irish measures welcome but well behind 'best in class' in EU. Clear need to meet the temporary income loss as a result of Covid-19 with more ambitious income supports for workers. Improved measures would help meet other policy goals – avoiding rising social costs, household debts, and would support the broader economy in returning to work seamlessly after this temporary supply shock.

Cash flow and enterprise preservation

	Notable measures	Ireland's response
Tax forbearance and rebates	<p>Suspension or deferral of revenue, social insurance & rates payments in most EU countries for impacted companies. Tax rebates provided in many countries for specific cases.</p> <p>Complete suspension of social security accruals for firms in impacted sectors in Portugal and Greece.</p> <p>45% of businesses in the UK and all in retail, hospitality, and leisure will receive a 100% rates discount in 2020</p>	<p>Application of interest to late payments of VAT suspended for January/February. Effectively a VAT payment deferral.</p> <p>Application of interest to late payments of employer PAYE (income tax) liabilities suspended for February/March. Effectively a payment deferral.</p>
Special measures	<p>Force majeure applying for all public contracts in France and Belgium, so penalty clauses abandoned</p>	<p>All debt enforcement suspended until further notice by Revenue Commissioners.</p>
Loans and grants	<p>Range of low cost and State guaranteed loans reducing risks to SMEs outside of existing state-aid</p> <p>Grant payments to business in UK</p> <p>German state guaranteeing "unlimited" liquidity to impacted companies</p>	<p>A €200m Strategic Banking Corporation of Ireland (SBCI) Working Capital scheme for eligible businesses impacted by COVID-19.</p> <p>A €200m Package for Enterprise Supports including a Rescue and Restructuring Scheme available through Enterprise Ireland</p>

Key takeaways: Irish measures on forbearance in line with EU norms. More can be done on issues like local rates to lower fixed costs for impacted companies during a period of cashflow shortage. Liquidity and credit guarantee measures need to be much larger and offset credit crisis emerging across supply chains and economy. Provide grants also for immediate cash-flow boost and support prompt payments.

Covid-19 tax deferrals in the EU15

Each bar represents the number of EU 15 countries which have a full deferral or suspension of tax accruals under each tax heading.



Fiscal and monetary stimulus measures

Table 1: Fiscal measures announced		
	Total package (fiscal only), % of GDP	Total package (including state backed loans), % of GDP
Germany	0.4%	16.3%
Spain	2.4%	16.1%
France	1.8%	15.3%
UK	1.4%	14.9%
US	2.2%	5.0%
Portugal	2.9%	4.3%
New Zealand	4.0%	4.0%
Italy	1.6%	1.6%
Switzerland	1.6%	1.6%
Australia	1.4%	1.4%
Ireland	0.7%	0.9%

Table 2: Discretionary monetary measures		
	Notable measures	Ireland's response
Monetary stimulus	Counter cyclical capital buffer set to zero in Belgium, Denmark, Sweden, and UK. Already zero in Austria, Finland, Germany, Greece, Italy, Netherlands, Portugal, and Spain	CCYB now set to zero.

Key takeaways: The scale of the Irish fiscal response thus far has been below the average of those countries who have announced packages. Other small open economies such as Switzerland and New Zealand have undertaken fiscal packages of 1.6% and 4% of GDP respectively (relative to Ireland's 0.7%). Major markets have seen fiscal packages in the region of 1.5% to 2% of GDP twinned with significant state backed loan schemes worth more than 10% of GDP.

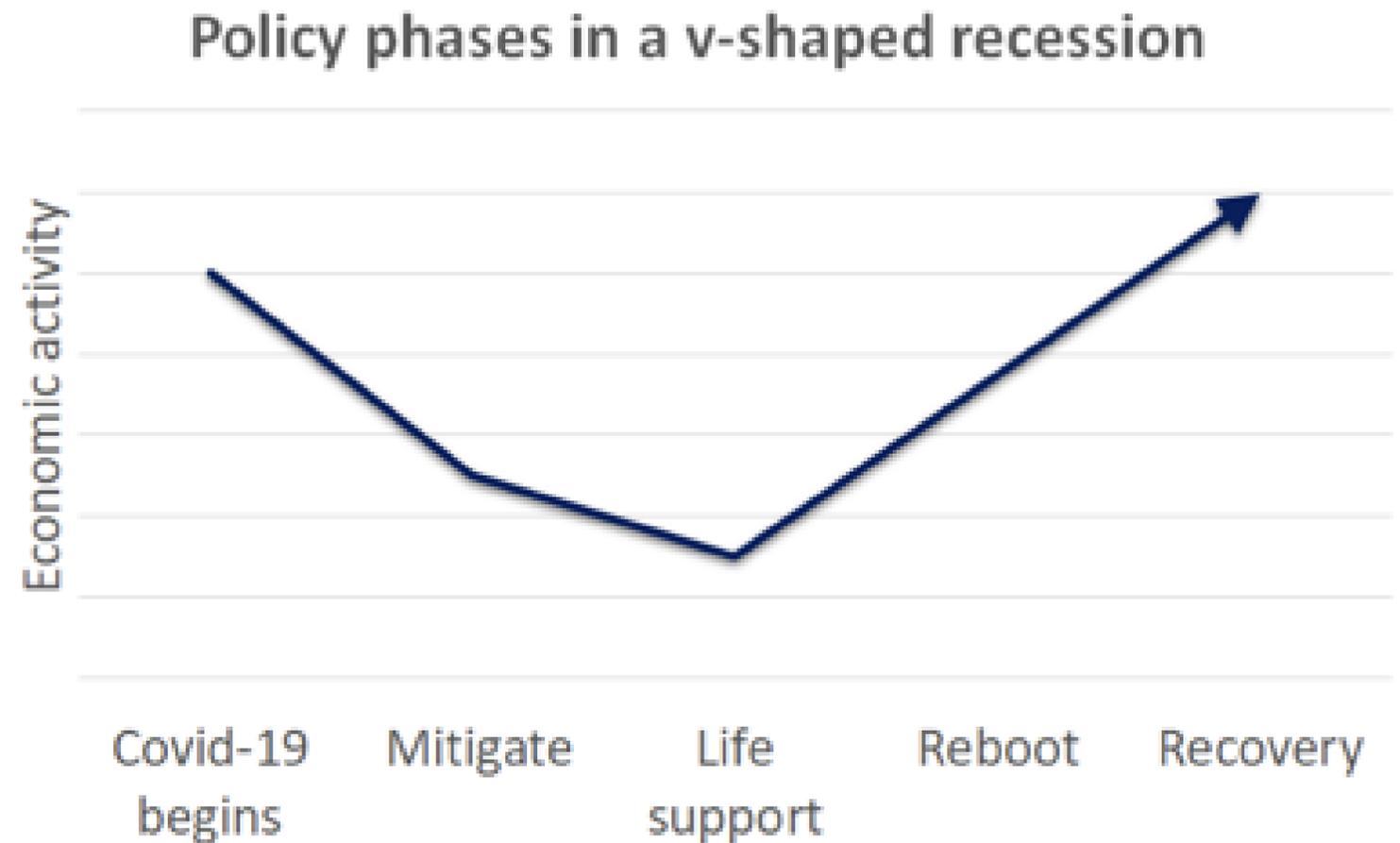
Framework to shape economic response

- Covid-19 represents a major supply shock to the Irish economy, in this sense it is very different from previous recessions which resulted from falling demand. This is the first supply shock of this scale since the 1970s oil crises. It requires unique solutions.
- Traditional measures aimed at increased economic activity are unlikely to work at this stage given the supply shock. The Government must focus during this phase on acting as an income source of last resort for those business and households who have lost their regular incomes.
- The 'best in class' response to this supply shock is to:
 1. Support public health measures (i.e. economic rationing) to ensure the quickest possible recovery,
 2. Ensure adequate support and forbearance from the State toward business and households so that the economic hardship of the crisis is mitigated while it lasts,
 3. To prepare major stimulus measures for when the public health emergency subsides.

Priority actions for Government (1)

- Public health measures mean that parts of economic life are frozen for many. But fixed costs remains for both business and households.
- Over the next stage of this economic shock, the Government will have to go further than acting as a 'safety net' and become the payroll and income of last resort for many households and firms.
- This means that income supports to cover fixed costs of households and business impacted by Covid-19 will need to be provided by the State in line with the significant supports found elsewhere in Europe. This may mean replacement rates equivalent to two-thirds of lost pay or more.

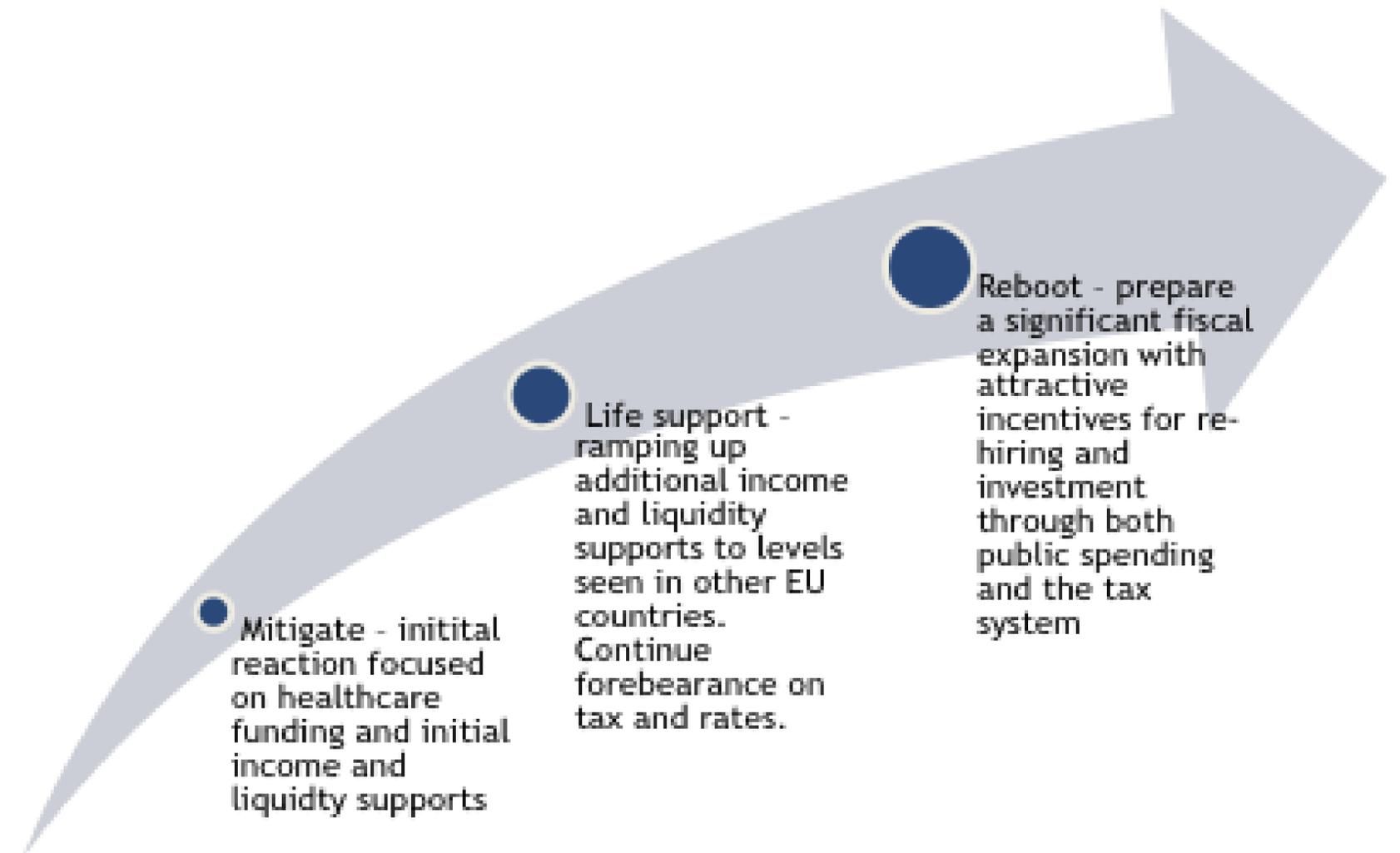
Phases of a coronavirus response



Priority actions for Government (2)

- Finally, a major fiscal stimulus will be necessary when the crisis subsides to restore confidence to business and to households
- This means ramping up public investment programmes at as quick a pace as possible, giving generous incentives for investment to companies, and to take tax measures to restore confidence in impacted sectors
- All together this will require significant deficits by the State throughout 2020 and 2021 – with measures for Budget 2021 announced in October 2020 brought forward from their usual introduction in January 2021.

Phases of a coronavirus response



Annex 1: Scale of resources needed for an 'income continuance package'

Figures are in millions of euro. They are based on a period of 20 weeks disruption and average net wage of €600 per week amongst impacted workers

		Replacement rate as a % of averaged net wage					
		50%	60%	70%	80%	90%	100%
Number of workers impacted by Covid-19 related closures	150,000	900	1,080	1,260	1,440	1,620	1,800
	200,000	1,200	1,440	1,680	1,920	2,160	2,400
	250,000	1,500	1,800	2,100	2,400	2,700	3,000
	300,000	1,800	2,160	2,520	2,880	3,240	3,600
	350,000	2,100	2,520	2,940	3,360	3,780	4,200
	400,000	2,400	2,880	3,360	3,840	4,320	4,800
	450,000	2,700	3,240	3,780	4,320	4,860	5,400
	500,000	3,000	3,600	4,200	4,800	5,400	6,000

About Ibec

We are Ireland's largest and most influential business membership organisation, campaigning for real changes to the policies that matter most to business. Policy is shaped by our diverse membership, who are home grown, multinational, big and small and employ 70% of the private sector workforce in Ireland. With 36 trade associations covering a range of industry sectors, 6 offices around Ireland as well as an office in Brussels and connections in the U.K. and Washington, Ibec communicates the Irish business voice to key stakeholders at home and abroad. We also provide a wide range of professional services and management training to members on all aspects of human resource management, occupational health and safety, employee relations and employment law.

Contacts

Fergal O'Brien, Director of Policy and Public Affairs

fergal.obrien@ibec.ie



Siobhán Masterson, Corporate Affairs

siobhan.masterson@ibec.ie

