



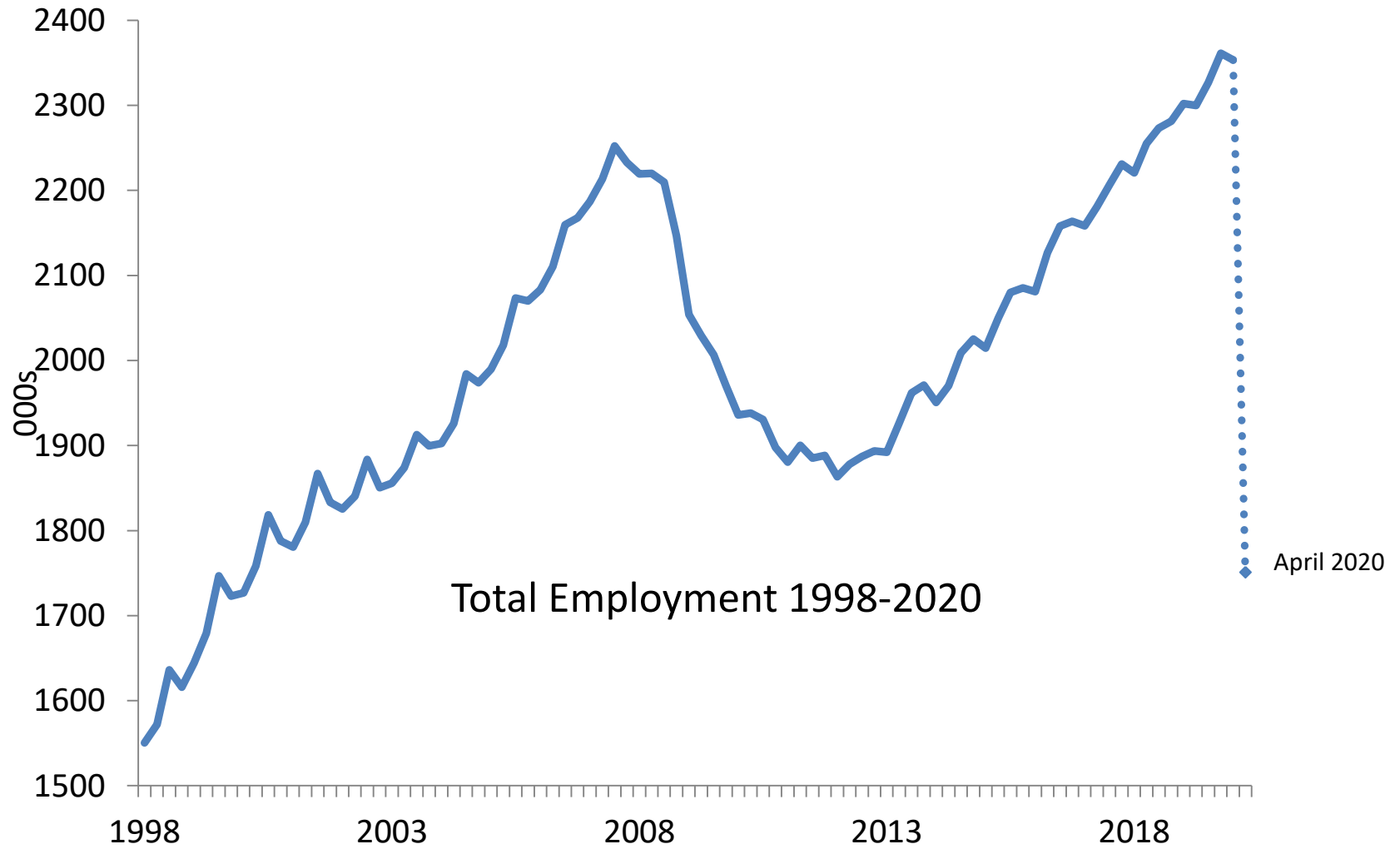
Royal Irish Academy
Online Conversation
8 July 2020

Fiscal and financial policy for the pandemic in Ireland

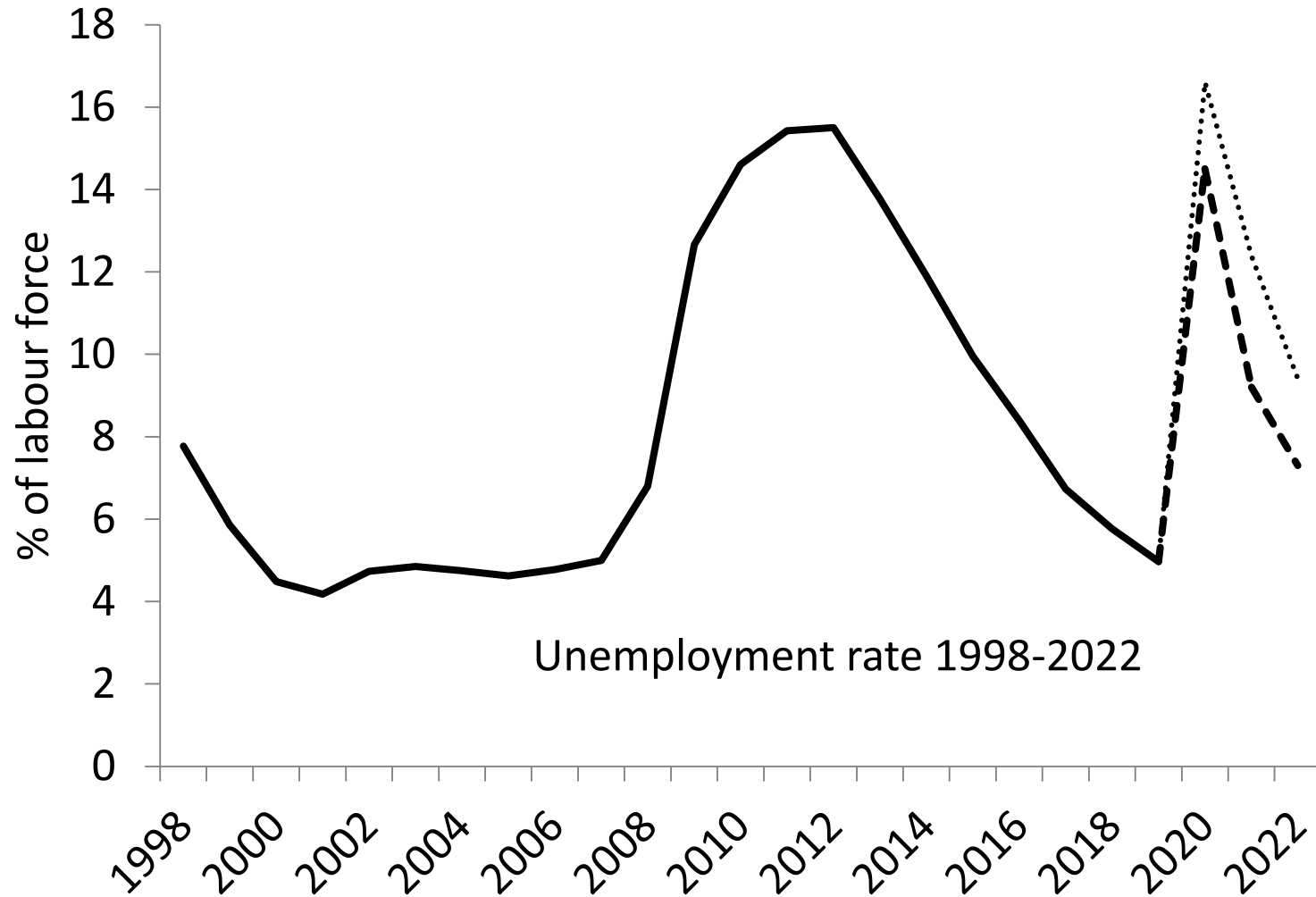
Patrick Honohan

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A sudden stop – even more than before

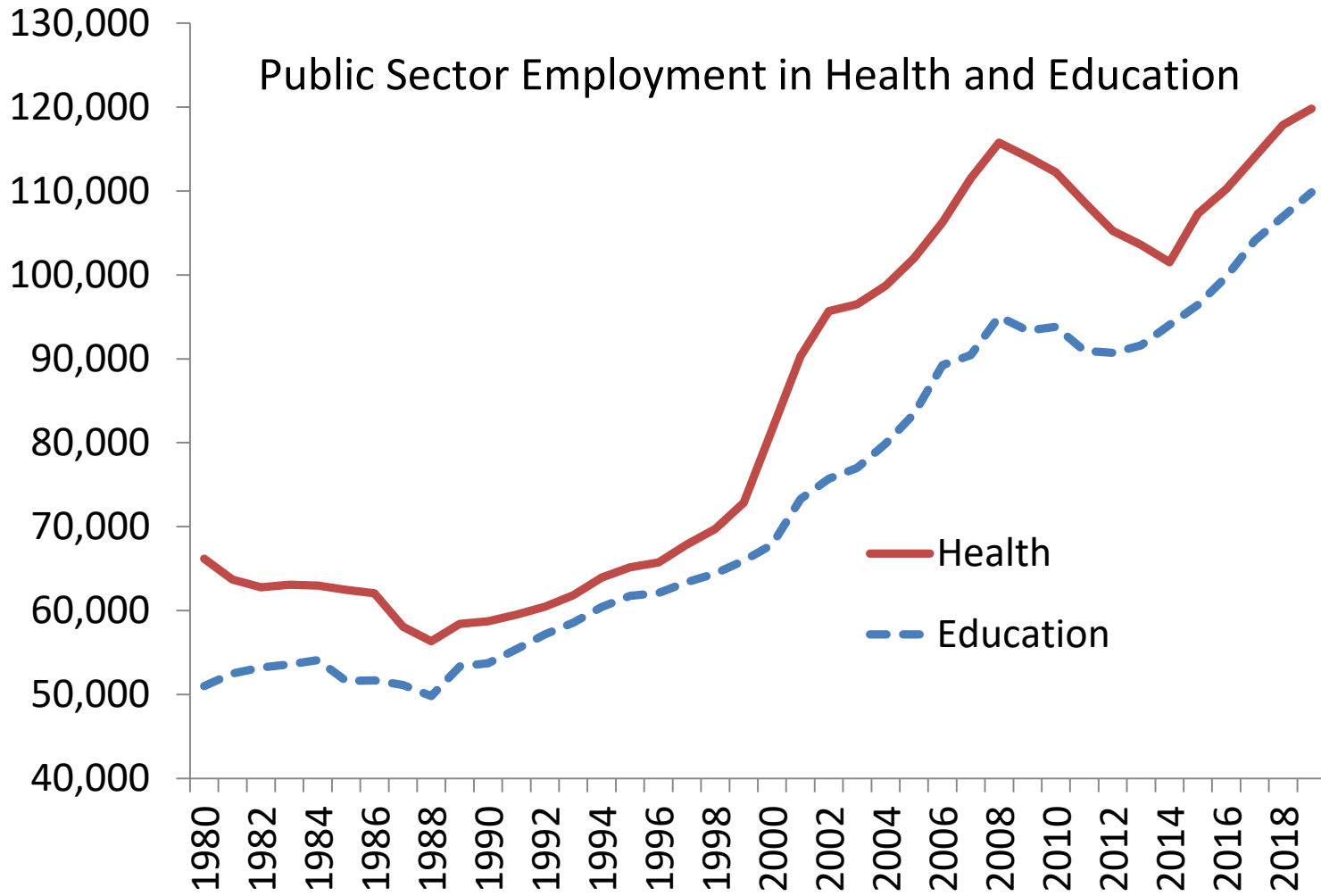


Lasting jobs effect likely -- even though severe phase may be shorter than last time



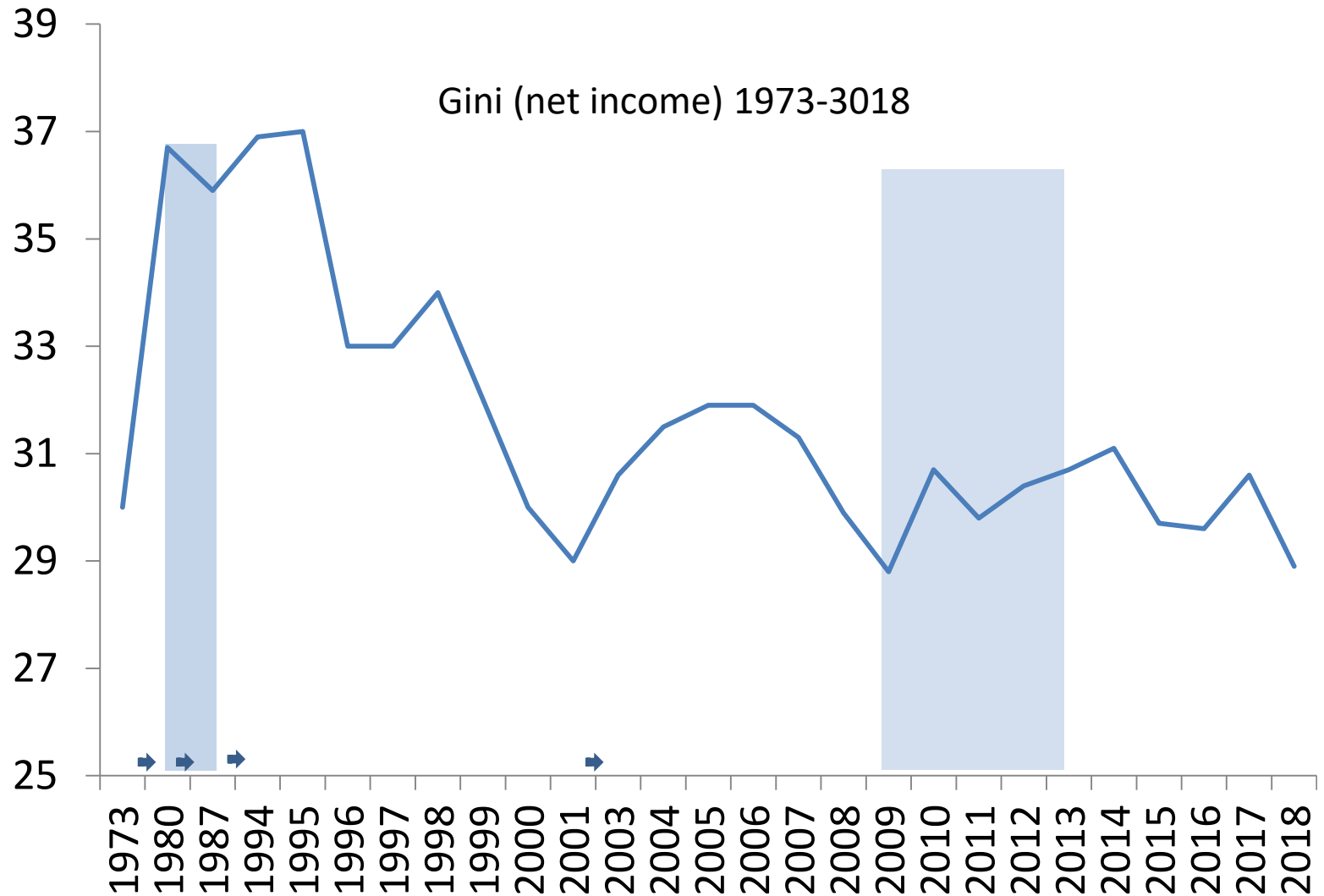
Source: CSO; for 2020-22, Central Bank of Ireland July forecast baseline and severe

In the past, fiscal constraints limited defensive public spending



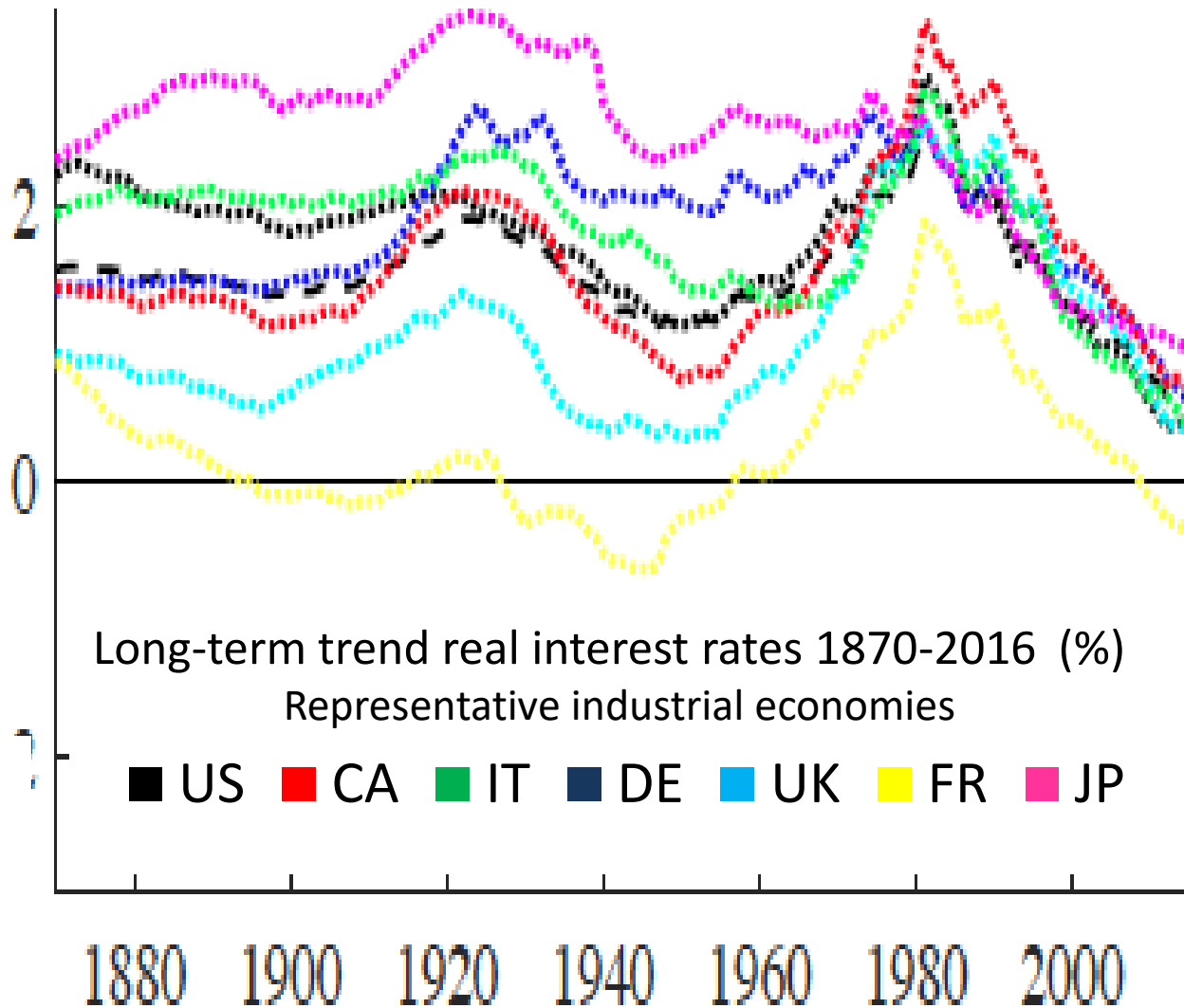
Source: DPER

Inequality needs to be contained



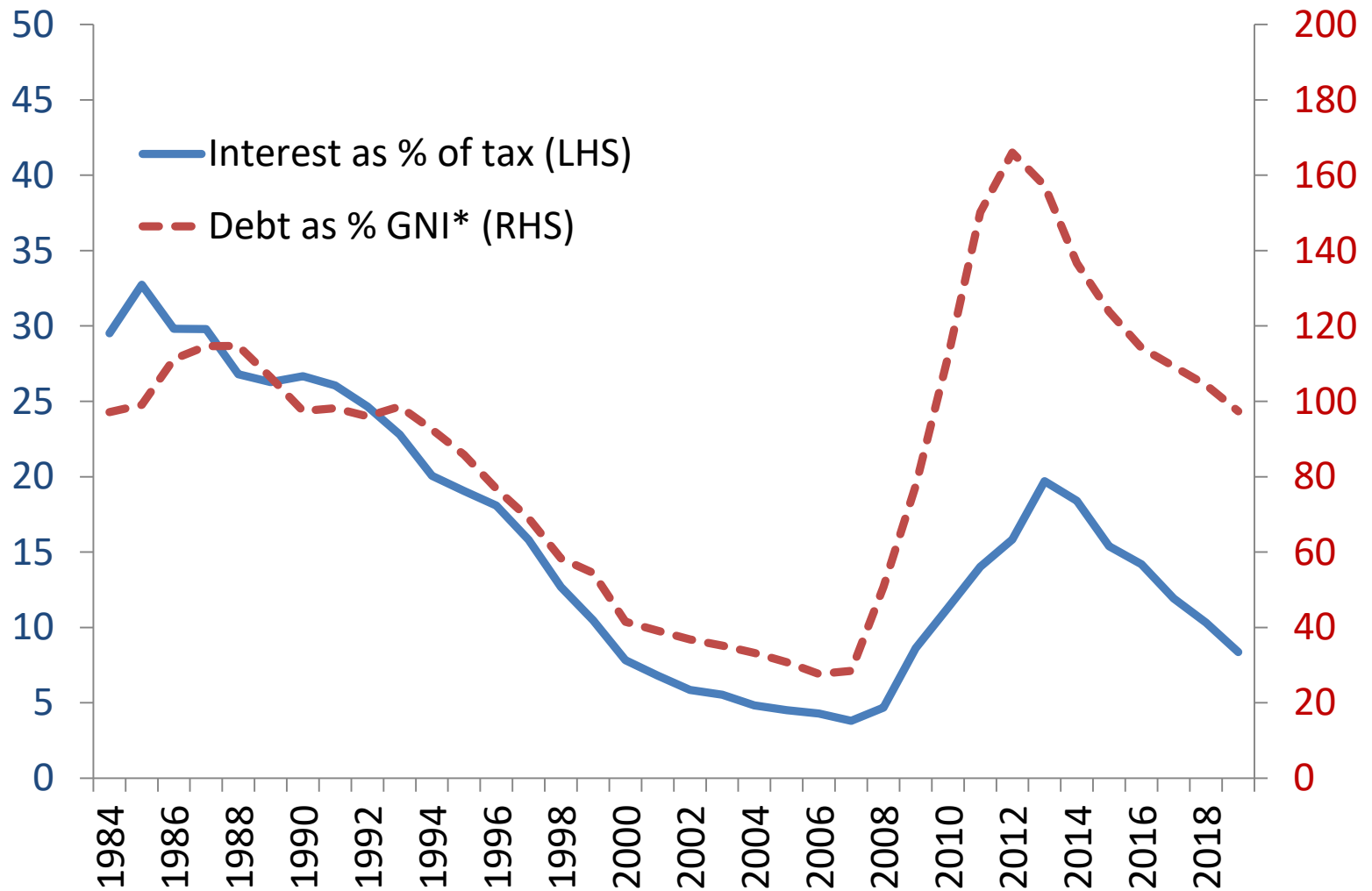
Source: ESRI, WIID (Luxembourg), Eurostat

Decline in global interest rates is a long-term trend



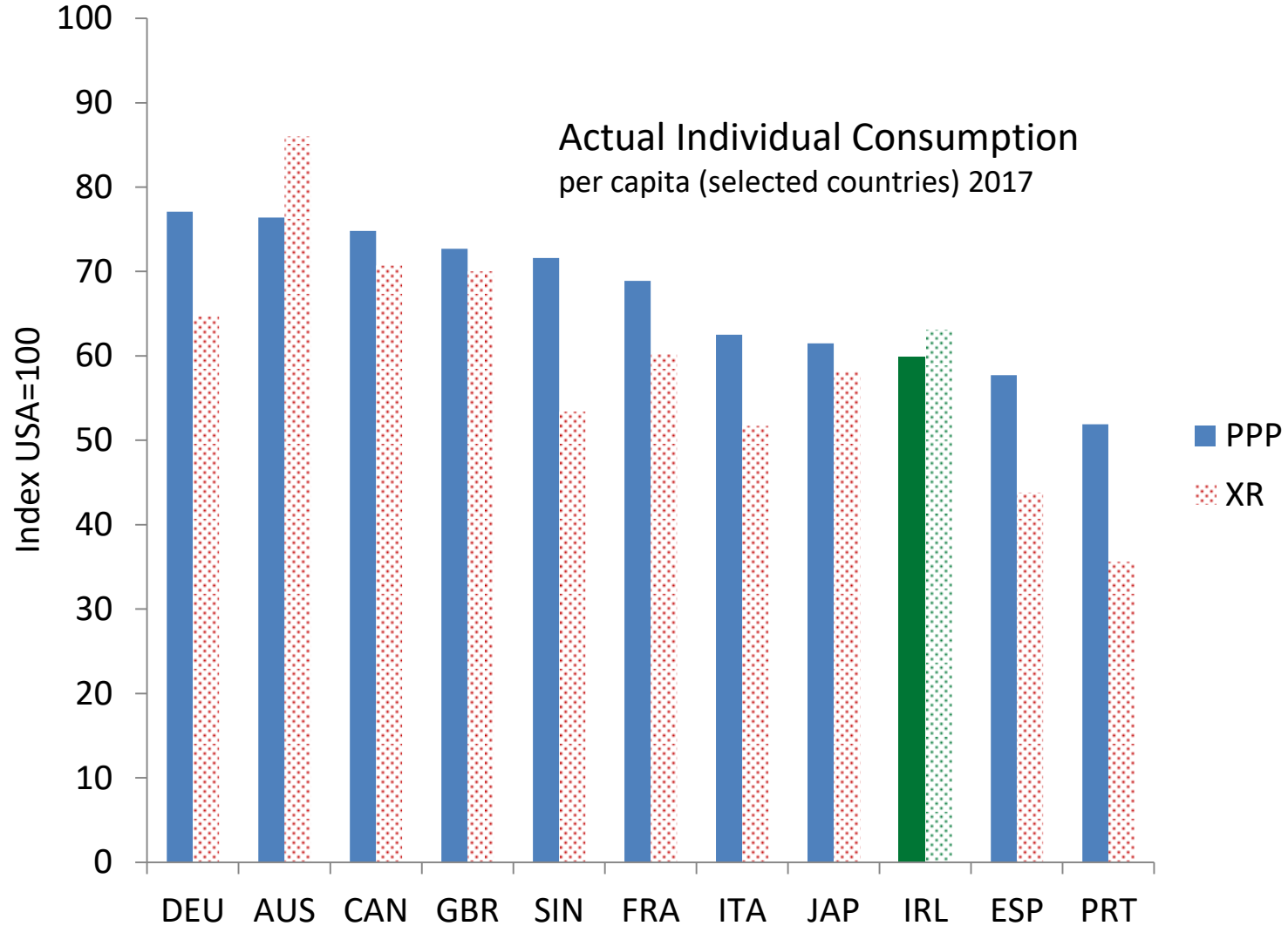
Source: Del Negro et al. 2019; dotted black line is world median

Interest costs did not grow as much as debt



Sources: Department of Finance; CSO; J.FitzGerald
for 1984-90 GNI*

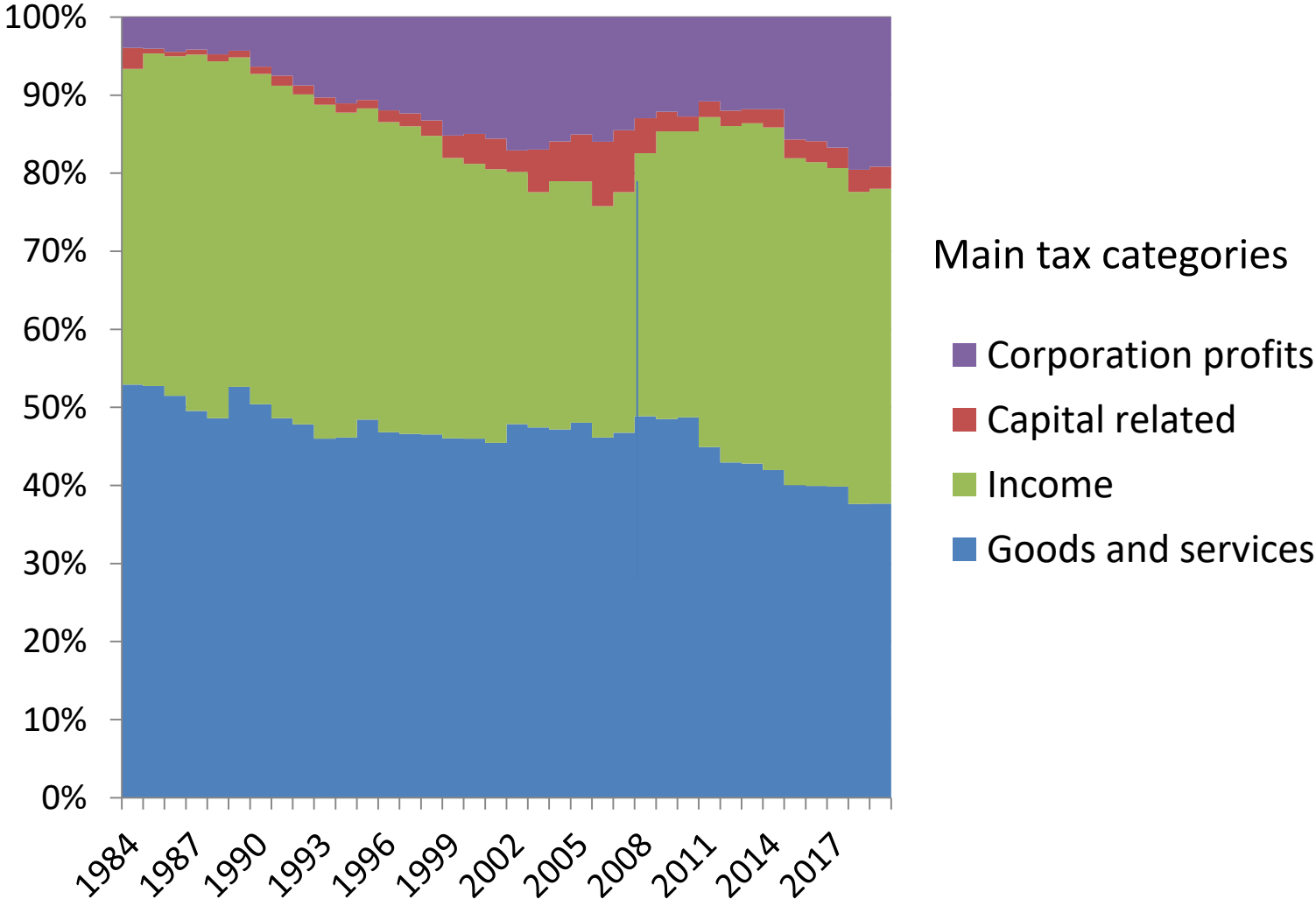
High prices make Ireland less prosperous



Source: International Comparison Program (2020)

PPP=measured at common world prices;
XR=measured at local prices and exchange rates

Some tax revenue is again potentially evanescent



Source: Department of Finance

Summary

1. Despite early bounce-back, there will be a **lasting employment effect**.
2. Heavy public spending needed. Two distinct phases:
 - I) **Defensive measures**;
 - II) **Recovery & repositioning measures**.
3. Before: fiscal adjustment with cuts. **Containing inequality** is vital & possible.
4. **Global interest rates** and **risk-premium for Ireland** is **low** (not just due to ECB).
 - (Vital to keep it that way if public services are to be maintained.)
 - Defensive and **once-for-all spending** less likely to trigger increase in risk-premium.
 - Rule of thumb: **permanent spending increases need to be matched by tax** .
5. **Macroeconomic data in Ireland can mislead** designers of policy.
 - Ireland is not as prosperous as we may think.
6. Ireland's unusual corporate structure presents risks (as the banks did before).
 - Avoid (i) **wasting public funds on creditors and rentiers** of non-viable firms;
 - Avoid (ii) **disruptive bankruptcies** of firms with viable business models.
 - Corporate tax proved evanescent before...