Rialtas na hÉireann
Government of Ireland

Economic Considerations for Reinstating Economic Activity

Update for Phase 3

Prepared by the Department of Business, Enterprise and Innovation and the Irish Government Economic and Evaluation Service (IGEES) of the Department of Public Expenditure and Reform and the Department of Finance.

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1.1 INTRODUCTION AND PURPOSE

This paper, developed by the Department of Business, Enterprise and Innovation in conjunction with the Department of Finance and the Department of Public Expenditure and Reform, provides an updated assessment of the economic impact of the Covid-19 pandemic and considers a number of issues relevant to Phase 3 of the Roadmap for Reopening Society and Business. It also outlines a number of considerations that should inform policy as the economy moves into recovery phase.

The paper is intended to complement other inputs to the Government's consideration of the Roadmap including the public health assessments of NPHET and an analysis of social policy issues.

1.2 SUMMARY

The impact of the Covid pandemic on the economy remains very severe. In terms of the macroeconomic outlook, GDP is projected to decline by 10.5% this year according to Department of Finance estimates with employment projected to fall with some 220,000 jobs being lost. Economic contraction along with increased Government health and social welfare expenditure has put onerous pressures on the public finances.

The easing of restrictions as per Phases 1 and 2 of the Roadmap has not yet yielded a significant positive impact on the labour market. The number of Pandemic Unemployment Payment (PUP) recipients has decreased by just over one-fifth since Phase 1, while the number of employments being supported through the Temporary Wage Subsidy Scheme (TWSS) remains steady at 410,000 (as of 18 June).

Examining the High Impacted Sectors (where over 50% of the workforce are estimated to be in receipt of the PUP or TWSS):

1. *Accommodation and Food* saw only a very minor change in the proportion of employment supported by PUP or TWSS since before Phase 1. The sector will likely see a lower level of activity in the scenario of social distancing guidelines and the significant decline expected in international tourism.
2. *Construction*, one of the first sectors to reopen, has seen numbers on the PUP fall by 49% since Phase 1 which is slower than expected. Nevertheless, engagement through the Construction Sector Group suggests that 80-90% of sites are now back open. The sector is likely to return to high levels of activity given strong underlying demand.
3. *Arts, Entertainment and Other Services* sees around 57% (down from 60% prior to Phase 1) of those previously working in this sector estimated to be on the PUP or TWSS.
4. *Wholesale and Retail* - about 54% of those previously working in this sector are estimated to be on the PUP or TWSS down from 62% prior to Phase 1. Numbers on

the PUP have decreased by 28% since Phase 1, although it is possible that some of those will have moved on to the TWSS.

5. *Administrative and Support Services* - around 52% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 59% prior to Phase 1. Numbers on the PUP have decreased by 17% since Phase 1, again - some of those will have moved on to the TWSS.

In terms of Moderate to Low Impacted Sectors (those where under 50% of the workforce is estimated to have moved to income supports):

6. *Transportation and Storage* sees about 35% of those previously working in this sector estimated to be on the PUP or TWSS, down from 41% prior to Phase 1. Numbers on the PUP have decreased by 18% since Phase 1. The air transport sub-sector faces the most challenging outlook in the sector with ongoing concerns about viability while advice against non-essential travel and quarantine on entry measures continue to be in place.

   Public transport is also exposed to similar risks, which may put an additional burden on the Exchequer. Constraints on public transport capacity could result in a growing lack of availability as the reopening of the economy continues. Reduced capacity also poses economic viability issues for public transport providers and private operators, due to reduced fare revenue.

7. *Industry* (Manufacturing) sees about 32% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 37% prior to Phase 1. Numbers on the PUP have decreased by 32% since Phase 1. The longer-term behaviour of trading partners while COVID-19 remains a threat to the global supply chain is highly uncertain and could have longer term implications for the sector in Ireland.

Clearly the effects of reopening of the economy to date have been gradual. However, it has to be borne in mind that considerable preparations must be made in order to reopen a business safely. The HSA reports a high degree of compliance with the Return to Work Safely Protocol and employers are generally taking a responsible and proactive approach. Its inspectors, bolstered by 500 inspectors from across the system, have carried out some 3,600 Return to Work Safely inspections up to 19 June.

This is encouraging and in line with other evidence. For example, the Retail Sector reopened in full in Phase 2 largely without incidence including effective management of the expected high volumes of queues at certain popular retail stores including hardware, homeware and fashion stores, which were handled efficiently and without issue.

Looking ahead to Phase 3 of an accelerated Roadmap, the Tourism and Transport sectors will be tested considerably for a variety of reasons including travel restrictions, lower customer demand, and reduced productivity on foot of social distancing requirements. These sectors are strategically important for the broader economy and will require ongoing attention for the duration of COVID-19.

1.3 CONCLUSIONS

The accelerated implementation of the Government's Roadmap for Reopening Society and Business is contributing to a gradual increase in economic activity. Coupled with the advance notice provided by Government of its intentions in respect of Phase 3 of the Roadmap, it has provided greater clarity to the business sector enabling it to plan ahead in anticipation of reopening.

However, the reopening of the economy will take time. Businesses must prepare ahead to ensure safe workplaces are in line with the National Return to Work Safely Protocol and other sector-specific guidance. The slow resumption of activity is reflected in the gradual reduction in numbers availing of the Pandemic Unemployment Payment and the Temporary Wage Subsidy Scheme. It is too early to tell how the trends will develop although there are some encouraging signs.

Those sectors most dependent on personal contact and social interaction are likely to encounter the greatest difficulties. These sectors were already severely affected by COVID-19 and will continue to be so, given social distancing requirements and reduced customer demand. The decline in tourism demand, particularly from abroad, is also problematic for these sectors. Until effective treatments are developed to manage COVID-19, businesses in these sectors are vulnerable to closure.

The Government has provided assurances to the business sector that the current support system will continue in the near term. Many businesses will prove viable in the medium to long-term but will require focussed supports in the interim. The focus will inevitably involve redirecting current levels of support from the general to the particular. Support will also be required for important sectors which remain critical to an economy so dependent on the international flow of goods and services. The transport sector is an obvious candidate which is experiencing a severe and profound shock.

As the economy recovers, there is a careful balance to be struck between protecting existing jobs and inherently viable firms and encouraging a shift of activity and workers to new areas. In a situation of high uncertainty, there is a strong argument that policy should, insofar as is possible given fiscal constraints, continue to support the retention of existing jobs and firms. However, given that not all jobs can be saved, there will clearly be a role for activation and skills interventions to facilitate a move to new areas of activity.

The Government has sought to strike to a careful balance which protects against COVID-19 while facilitating business activity. The business sector has proven that it can adapt its work practices to support this balance. As businesses increase activity, it is imperative that they continue to ensure that workplaces are safe for employees and for customers. While the country is in a better position now to deal with a resurgence of the disease, there is no excuse for complacency. Implementation of safety protocols, adherence to guidance, and active daily management of workplaces and settings is the minimum expected by the Government and the community.

Anyone who can work from home should continue to do so wherever possible. This is important not only for public health reasons but also to relieve pressure on supporting sectors of the economy such as transport and childcare. Employers need to demonstrate maximum flexibility to their employees in this regard and take into account ongoing care duties that employees may have.

A number of challenges to building a resilient economy pre-exist COVID-19. Low levels of innovation, investment and productivity in parts of our SME sector were apparent before the crisis as was the pressing need to develop our talent and empower workers to successfully transition into sustainable sectors through upskilling. These challenges remain, compounded by Brexit uncertainties, and must be addressed as part of plans for economic recovery. For its part, the Department of Employment Affairs and Social Protection is considering Labour Market Advisory Council recommendations around labour market and activation and training measures to support those whose jobs are impacted by the crisis. The Department of Education and Skills have engaged in significant work to meet training and education requirements arising from the crisis. This includes a focus on re-skilling and up-skilling requirements with additional funding and course places to support those displaced or impacted by the crisis to access sustainable and quality employment as well as ensuring the availability of flexible programmes.

2. Economic Impact of COVID-19

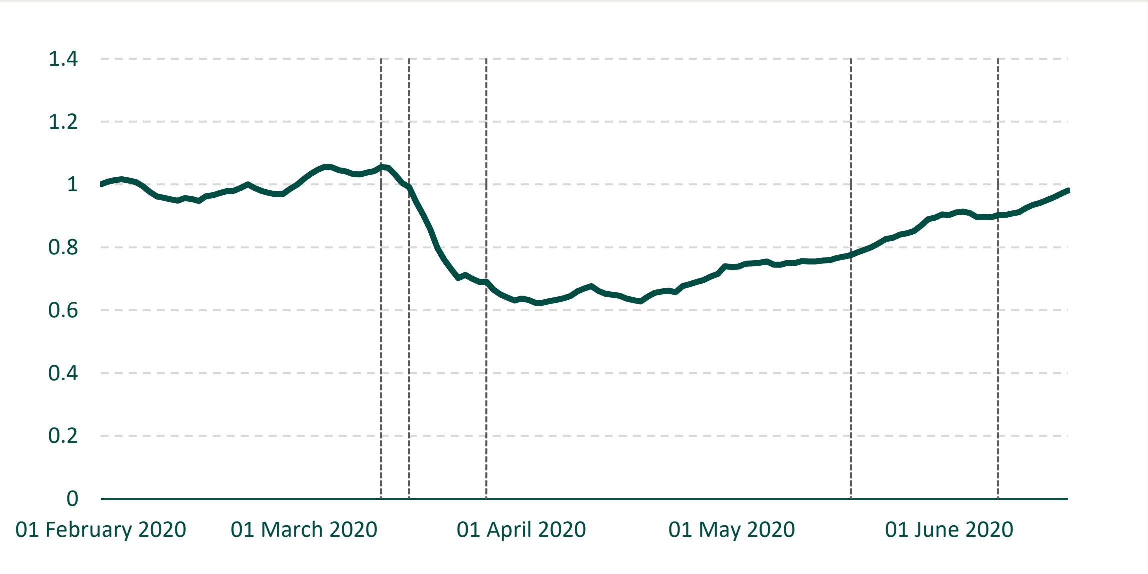
The policy response to the spread of the COVID-19 virus both domestically and internationally, while necessary from a public health perspective, has resulted in a sharp contraction in global and domestic economic activity, with the size and speed of impact unprecedented in modern times. There remains a significant degree of uncertainty surrounding the magnitude of the economic impact. Reflecting these uncertainties, the Department of Finance's Stability Programme Update (SPU) produces a scenario-based analysis rather than a traditional forecast. The prudent, but not worst case, 'central' scenario underpinning the SPU projections is one in which containment measures are assumed to remain in place for approximately three months, resulting in a very sharp contraction in the latter weeks of the first quarter and most of the second quarter. Thereafter, a very gradual recovery commencing in the third quarter is assumed reflecting a gradual easing of containment measures.

Under this 'central' scenario, **GDP is projected to decline by 10.5% this year**. Modified Domestic Demand, perhaps the best indicator of domestic economic conditions, is projected to fall by 15% this year. To provide some context, at the lowest point of the last crisis Modified Domestic Demand fell by 10% in 2009. Employment is projected to fall substantially, with **approximately 220,000 jobs being lost**. The unemployment rate is projected to dramatically rise over the first half of the year, with an average rate in the mid-20% range during the second quarter, before falling over the second half of the year, as containment measures are gradually eased.

Recent data releases confirm that both the manufacturing and services sectors have been adversely affected. Recent manufacturing PMI data shows a further contraction in May, with the reading coming in at 39.2. This below 50 reading indicates a **continued contraction in manufacturing** business activity as a result of COVID-19 and its associated containment measures. This is supported by recent 'hard' data, which showed that industrial production in the mainly indigenous 'traditional sector' fell by 19% on an annual basis in April. However, it is **likely that services will be more adversely affected** than manufacturing. The services PMI data showed an improvement in May, with readings coming in at 23.4 compared to 13.9 in April. However, the May reading is the second lowest observation (the lowest is April 2020) recorded in the twenty-year history of the series. The slight improvement in the index is indicative of the initial unwinding of COVID-19 related restriction while the low reading indicates that the services sector is still heavily impacted by COVID-19 related restrictions. The construction PMI data show a further **contraction in construction activity** in May coming in at 19.9, albeit with improved readings compared to 4.5 in April. The reading for April is substantially worse than that recorded at the lowest point of the last crisis. The improvement in the index in May is indicative of the unwinding of COVID-19 restrictions related to construction activity.

The impact of COVID-19 restrictions on consumer spending has also already been borne out in recent data releases. The volume of retail sales declined by 35% on a monthly basis in April. The sectors with the largest monthly declines were Furniture and Lighting (-84%), Bars (-77%), Textiles, Clothing and Footwear (-74%) and Motor Trades (-71%). Private cars (new and used/imported) licensed for the first time decreased by 85% in May 2020 on an annual basis, with new private cars down 84%. However, consumer sentiment showed the strongest monthly increase since January 2015 in May potentially reflecting the planned easing of containment related restrictions and improving trend in health outcomes. It is important, however, to note that consumer sentiment had the largest monthly fall in the history of the index in April. That being said, recent ultra-high frequency payments data suggests a **turning point in early May with expenditure levels experiencing a 35% recovery** from the trough in April. In fact, the payments data is now almost at February levels, though this does not control for the interim shift from cash to card.

Figure 1: Total transactions per user expenditure (normalised to avg. spend in February, 7 day moving average



Source: Revolut

The labour market impact of COVID-19 has been very severe. The latest data (as of 19 June) show just over 220,821 persons on the Live Register and 465,900 recipients of the Pandemic Unemployment Payment (PUP) from DEASP. Separately, Revenue report (as of 18 June) that an estimated 410,000 employees are currently being supported by the Temporary Wage Subsidy Scheme (TWSS) having received a subsidy in their most recent pay period. This implies a total of **almost 1.1 million people who are currently receiving some form of income support** from the State. While the standard measure of Monthly Unemployment was 5.6% in May 2020, up from 5.4% in April, a new COVID-19 Adjusted Measure of Unemployment could indicate a rate as high as 26% if all claimants of the PUP were classified as unemployed.

The pandemic will have a dramatic impact on the public finances. The May **Exchequer returns showed a deficit of €6.1 billion**. This deficit reflects the extraordinary measures that the Government has taken in recent months to support companies and workers. Expenditure was up by just over €5 billion year-on-year, driven primarily by expenditure in the areas of Health and Social Protection. Tax revenue collected in the first five months of the year was €21.7 billion, the same amount as last year. However, with the exception of corporation tax, receipts from all other tax heads were down in May relative to the same month last year.

The OECD Economic Outlook[1], published earlier this month, predicts that a post COVID-19 recovery will be slow with the crisis having long lasting effects and disproportionately affecting the most vulnerable. Given the uncertainty, the Economic Outlook sets out two scenarios: a ‘single-hit’ scenario where current containment measures are successful in containing the outbreak and prevent a resurgence until a vaccine is available, and a ‘double-hit’ scenario with a second, but less intensive, virus outbreak taking place in October / November.

Under the single-hit scenario for Ireland, which had been continuing to grow strongly in 2019, GDP is projected to contract by 6.8% this year, recovering to expand by 4.8% in 2021 while under the double-hit scenario GDP is projected to decline by 8.7% 2020, and by 0.2% 2021.

The table below sets out the projected changes in GDP based on these scenarios.

[1] OECD Economic Outlook, Volume 2020 Issue 1: Preliminary version, June 2020

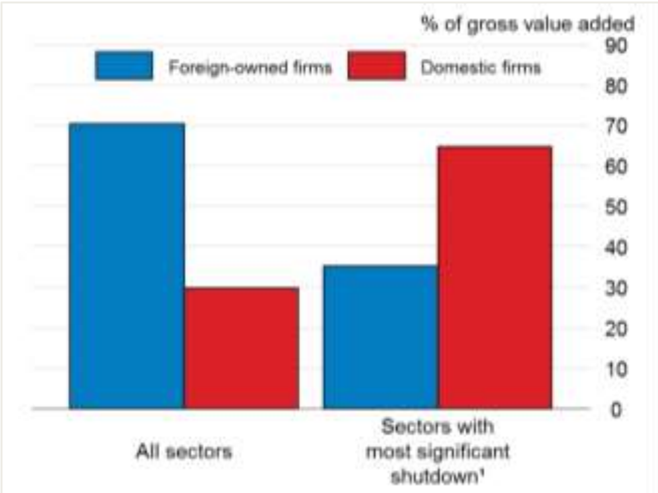
Table 1: OECD Outlook for 2020 and 2021 in single hit and double hit scenario

	Single-hit scenario, % change			Double-hit scenario, % change		
	2019	**2020**	**2021**	**2019**	**2020**	**2021**
World	2.7	-6.0	5.2	2.7	-7.6	2.8
OECD	1.7	-7.5	4.8	1.7	-9.3	2.2
Euro Area	1.3	-9.1	6.5	1.3	-11.5	3.5
Ireland	5.5	-6.8	4.8	5.5	-8.7	-0.2
UK	1.4	-11.5	9.0	1.4	-14.0	5.0
US	2.3	-7.3	4.1	2.3	-8.5	1.9
China	6.1	-2.6	6.8	6.1	-3.7	4.5

Source: OECD Economic Outlook

The OECD also reports that, for Ireland, sectors with high numbers of indigenous enterprises are the most impacted by containment measures[2]. Indigenous enterprises may also be more likely to face cash-flow constraints than their foreign-owned counterparts.

Figure 2: Impact of lockdown measures on domestic and foreign-owned firms in Ireland



Source: OECD Economic Outlook

[2] Sectors with the most significant shutdown are wholesale and retail trade, accommodation and food, real estate activities and arts, entertainment and recreation.

3. Sectoral Impact Analysis

3.1 CURRENT SECTORAL IMPACTS OF COVID-19 AND FUTURE PROSPECTS

Following the implementation of Phases 1 and 2 of the Roadmap for Reopening Society and Business, the economic impact of COVID-19 remains severe with slow movement off the PUP and TWSS. Despite expectations that the lifting of restrictions would lead to a sizeable return to work in many of the sectors which have reopened, the number of PUP recipients has decreased by around 21% since Phase 1 while the number of employments being supported through the TWSS remains steady at 410,000 (as of 18 June).

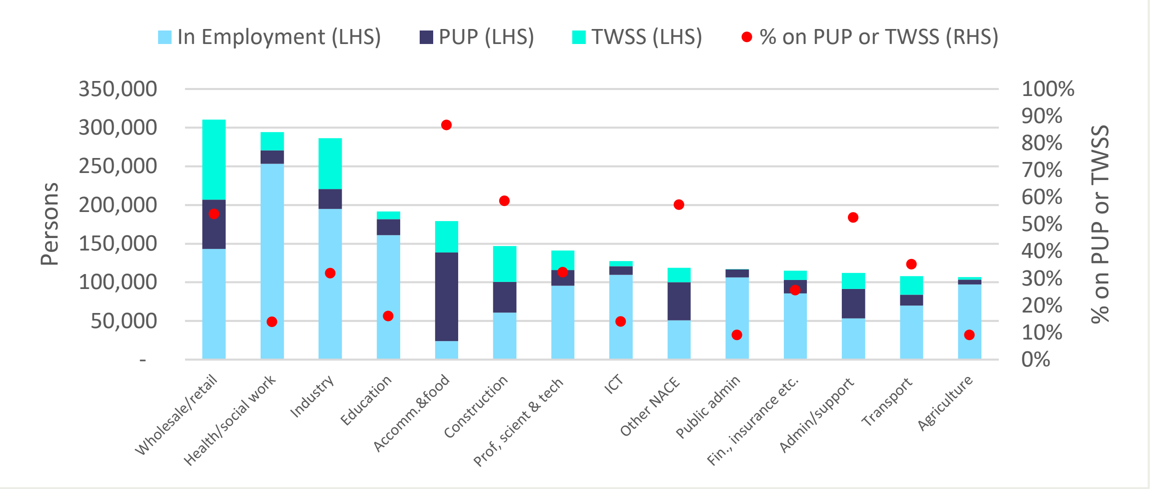
Since the PUP and TWSS were announced, around 138,700 or 11% of individuals have moved off these supports at some point into non-TWSS employment. The movement between the schemes is complex. The TWSS continues to see inflows of newly supported employees, from both previous PUP recipients and previously non-TWSS employment.

The cost to the Exchequer of the PUP and TWSS remains high. An estimated 37% of those previously in employment are still on PUP or TWSS payments with the latest weekly cost of the PUP now at around €163 million and around €104 million in payments through the TWSS in the week to 18 June. The speed at which recipients of COVID-19 income supports move to employment will have a direct impact on the fiscal position and the availability of funds to provide other supports to the economy.

The most recent data on the PUP continues to highlight the magnitude of the challenge of restarting economic activity following the lockdown, even in the viable sectors, with a significant lag observed between the point at which restrictions are eased and the return to employment. Reduced demand, reduced capacity to accommodate workers, continued or permanent closure, a reluctance or inability to return to work, and administrative delays in the return to work could all be affecting the movement off income supports.

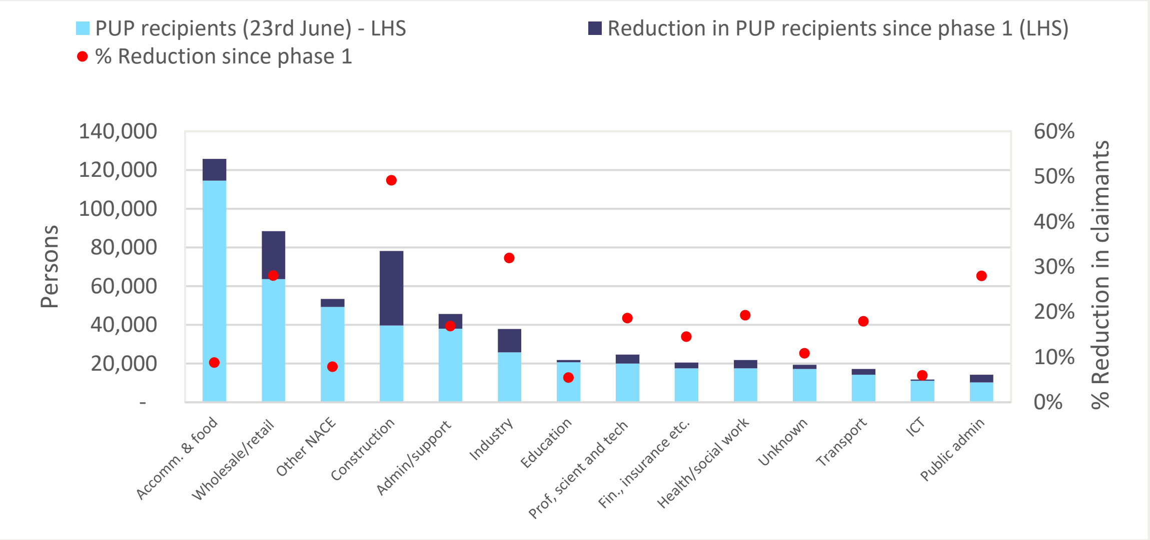
Interdependency of sectors means that as long as some sectors are restricted in their activity, there will be a negative cascading effect on other areas of the enterprise base. **Reduced capacity, due to the implementation of social distancing guidelines, in childcare and public transport services may act as a barrier against the return to work across sectors.** The planned phased reopening of the childcare sector from stage three poses significant challenges both operationally and financially for childcare providers. Ongoing reduced capacity levels could impact on the continued viability of some childcare providers. Finally, some sub-sectors will continue to face severe challenges from the impact of social distancing on their business model with a risk of a permanent loss of output and employment.

***Figure 3: Estimated numbers still in employment, on PUP (23 June) and TWSS (18 June) by sector*[3]**



Source: Revenue and DEASP COVID-19 schemes statistical releases

Figure 4*[4]*: Change in the number of PUP recipients by sector between 12 May (pre-Phase 1) and 23 June



Source: DEASP COVID-19 scheme statistical releases

[3] The sectoral breakdowns of TWSS recipients are based on a weighted average across the most recent four weeks of TWSS payments; https://www.cso.ie/en/statistics/labourmarket/liveregister/detailedcovid-19incomesupportandliveregistertables/

[4] The available data does not allow for a similar comparison over time of numbers on the TWSS by sector.

Table 2: Cumulative outflows from the PUP and TWSS

	Number of individuals	% of total
Total outflows from TWSS (since 27 march)[5]	142,900	100%
Of which:		
- To PUP	31,900	22%
- To other (these include illness benefit, jobseeker payments or other*)	27,800	20%
- To non-TWSS employment	83,200	58%
Total PUP to employment (28 march to 23 June)	106,600	100%
Of which:		
- Non-TWSS employment	51,100	48%
- TWSS employment	55,500	52%

Source: Numbers as per Revenue reports, total PUP outflows to a status other than employment are not yet available.

A sector by sector[6] summary of the labour market recovery and some observations on longer term recovery prospects is provided below.

3.2 HIGH IMPACTED SECTORS

High Impacted Sectors are those where over 50% of the workforce are estimated to be in receipt of the PUP or TWSS.

Accommodation and Food

Around 87% of those previously working in this sector are estimated to be on the PUP or TWSS. There has been very minor change in the proportion of employment supported by PUP or TWSS since before Phase 1. While the updated Roadmap allows for a broad reopening of the sector from 29 June, **the sector will likely see a lower level of activity in the scenario of social distancing guidelines and the overall decline expected in international tourism.**

Construction

Around 59% of those previously working in this sector are estimated to be on the PUP or TWSS. Construction, which was among the first sectors to reopen, has seen numbers on the PUP fall by 49% since Phase 1, although it is possible that some of those will have moved on to the TWSS. Despite positive expectations of a swift return to work in the sector given the strong underlying demand, **the return to work has been slower than expected**. This

[5] TWSS numbers as at 18 June; https://www.revenue.ie/en/corporate/documents/statistics/registrations/wage-subsidy-scheme-statistics-18-june-2020.pdf
[6] Public Administration, Health and Social Work and Education are not included as these sectors are more Public Sector facing.

may be due to a combination of issues such as capacity on site given social distancing guidelines, administrative delays in the return to work or uncertainty leading to a delay of the reopening or continuation of projects. In comparison to other sectors, the construction sector is more likely to be in a position to return to high levels of activity in the longer term given underlying demand, the implementation of the National Development Plan (NDP) and the nature of work in the sector.

Engagement through the Construction Sector Group has allowed for the monitoring of progress since the reopening of sites, the sharing of lessons learned and the identification of opportunities . At the most recent meeting on 19 June, it was suggested that 80-90% of sites are now back open. Timelines on projects will be impacted and social distancing measures are likely to impact productivity. There are concerns related to the viability of many private sector projects as well as a reduction in the availability of finance. Looking to the medium term, industry confidence is therefore mixed with a reduction in private sector orders being witnessed. There is broad agreement from industry that the increased public investment planned in the NDP will play an important role in sustaining the construction sector while at the same time meeting important public policy goals.

Arts, Entertainment and Other Services

Around 57% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 60% prior to Phase 1. Numbers on the PUP have decreased by 8% since Phase 1, although it is possible that some of those will have moved on to the TWSS. The live nature of activities and the impact of social distancing on venue occupancy pose significant challenges for the live entertainment element of the sector. **Complimentary demand across sectors is important to highlight**. For example, there is a strong interaction between this sector and the accommodation and food services sector.

Wholesale and Retail

Around 54% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 62% prior to Phase 1. Numbers on the PUP have decreased by 28% since phase 1, although it is possible that some of those will have moved on to the TWSS. There will be a cost to facilitating social distancing measures and related occupancy constraints which may threaten the viability of some retailers. Those who can manage social distancing protocols and make best use of online ordering may be the most resilient.

Administrative and Support Services

Around 52% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 59% prior to Phase 1. Numbers on the PUP have decreased by 17% since Phase 1, although it is possible that some of those will have moved on to the TWSS. Travel agency and tour operating services as well as aircraft leasing are expected to experience cooling of demand in the tourism sector for 2020 and possibly beyond, particularly given quarantine restrictions on entry.

3.3 MODERATE TO LOW IMPACTED SECTORS

Moderate to Low Impacted Sectors are those where under 50% of the workforce is estimated to have moved to income supports.

Transportation and Storage

Around 35% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 41% prior to Phase 1. Numbers on the PUP have decreased by 18% since Phase 1, although it is possible that some of those will have moved on to the TWSS. In future, taxi businesses may benefit from concerns around public transport while postal and courier may benefit from a huge increase in online retail which is likely to have a permanent effect on the retail sector.

The **air transport sub-sector faces the most challenging outlook** in the sector with ongoing concerns about viability while social distancing measures and quarantine on entry measures are in place.

Public transport is also exposed to similar risks, which may put an additional burden on the Exchequer. Constraints on public transport capacity could result in a growing lack of availability as reopening of the economy continues. Reduced capacity also poses economic viability issues for public transport providers and private operators, due to reduced fare revenue.

Professional, Scientific and Technical Services

Around 32% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 35% prior to Phase 1. Numbers on the PUP (which were relatively small to begin with) have decreased by 19% since Phase 1, although it is possible that some of those will have moved on to the TWSS.

Industry

Around 32% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 37% prior to Phase 1. Numbers on the PUP have decreased by 32% since Phase 1, although it is possible that some of those will have moved on to the TWSS. The longer-term behaviour of trading partners while COVID-19 remains a threat to the **global supply chain is highly uncertain** and could have longer term implications for the sector in Ireland.

Finance, Insurance and Real Estate

Around 26% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 28% prior to Phase 1. Numbers on the PUP (which were relatively small to begin with) have decreased by 15% since Phase 1, although it is possible that some of those will have moved on to the TWSS.

Agriculture, Forestry and Fishing Sector

Around 9% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 11% prior to Phase 1. Numbers on the PUP (which were relatively small to begin with) have decreased by 29% since Phase 1, although it is possible that some of those will have moved on to the TWSS. Price volatility caused by COVID-19 is one of the main issues for the sector. Following a sharp and significant drop during the lockdown period, some prices (e.g. beef) have started to recover in recent weeks. Direct Payments through the EU's Common Agricultural Policy have provided some stability to the sector in the face of reduced demand.

Information, Communication and Technology

Around 14% of those previously working in this sector are estimated to be on the PUP or TWSS, down from 15% prior to Phase 1. Numbers on the PUP (which were relatively small to begin with) have decreased by 6%, although it is possible that some of those will have moved on to the TWSS.

4. Implementation of Roadmap

4.1 A SAFE RETURN TO WORK

Since the beginning of Phase 1 of the Roadmap on 18th May, the Health and Safety Authority (HSA) has implemented a national programme of inspections to check compliance with the Return to Work Safely Protocol. The Authority, to 19 June, has recorded 2,118 inspections/investigations of which 1,811 addressed the Return to Work Safely Protocol across a range of industry sectors.

The **results from inspections remain very encouraging**. Broadly speaking and based on the analysis of the specific COVID-19/Protocol inspections, compliance with the Return to Work Safely Protocol is high and employers are generally taking a responsible and proactive approach. As required by the Protocol, about three quarters of employers had a Response Plan in place. More than 8 out of 10 had completed employee induction training, again as required by the Protocol. Approximately 9 out of 10 had COVID-19 control measures in place

HSA checklists and templates to support implementation of the Protocol have now been downloaded over 100,000 times and feedback on these from a range of employer and employee groups has been very positive.

In addition, as part of the whole of Government approach, and to supplement the efforts of the HSA inspectors, 500 other inspectors from across the system are now supporting the HSA by monitoring the application of the Protocol and carrying out checks across the country on compliance with it as part of their normal inspection duties. Inspectorates from the Workplace Relations Commission, Department of Agriculture, Food and the Marine and Environmental Health Officers, along with HSA inspectors carried out, **in total, approximately 3,600 Return to Work Safely inspections** up to 19 June with the number of inspections **expected to exceed 5,000 by the 29th of June**.

The National Standards Authority of Ireland (NSAI) has also continued its work on providing guidance to the business sector in ensuring a safe workplace for employees and customers. On 10 June last, the NSAI published the COVID-19 Shopping Centre Recovery and Protection Guide, to facilitate the reopening of shopping centres on Monday 15 June. The guidelines were prepared with urgency, in a period of approximately 10 days, and involved engagement with stakeholders including the Department of Business, Enterprise and Innovation, the Department of Health, the Health and Safety Authority, representative business and retail organisations, and shopping centre management companies.

The guidelines made a significant contribution to the ability of retailers who are based within the different physical environment of shopping centres to safely reopen as closely as possible to their counterparts who are located on the “high street”, who had reopened one week earlier on Monday 8 June. These NSAI guidelines can be used in conjunction with the agency’s other relevant publication for retailers, the COVID-19 Retail Protection and Improvement Guide, which was initially published in April, and has continued to operate as a “living” document since, with modifications being incorporated as the circumstances of the reopening progress (this guide is currently on Version 4).

4.2 RETAIL DEVELOPMENTS

The accelerated implementation of the Roadmap, as well as the advance notice of intentions in respect to the remainder of the Roadmap, have been broadly welcomed by businesses as evidenced by the feedback provided via the various consultative fora chaired by the Minister for Business, Enterprise and Innovation and through the Department’s dedicated call centre.

As outlined in this report, certain sectors face considerable challenges in terms of reopening especially those which have high levels of personal contact with, and between, customers. The difficulties imposed by adequate social distancing have been highlighted. Furthermore, as economic activity resumes, additional demands will be placed on enabling sectors such as public transport and childcare.

The Government decision concerning Phase 2 of the Roadmap included approval for the safe reopening of all shops from the 8 June and the remaining shops accessed via shopping centres from the 15 June. Only shops in shopping centres were permitted to reopen from the 15 June and necessary measures had to be put in place to ensure that people do not congregate at benches, fountains or food courts for example.

The **reopening of all retail has largely gone without incidence** including management of the expected high volumes of queues at certain popular retail stores including hardware, homeware and fashion stores, which were handled efficiently and without issue by the individual stores and the Gardaí. By and large, customers have adapted to the new way of shopping and have adjusted to the strict protocols introduced by retailers to implement the public health guidelines and maintain physical distancing.

Consumer behaviour has changed due to the COVID-19 pandemic with a significantly higher number of retailers, predominantly small or micro enterprises, introducing or expanding online shopping. Also, many of the larger retail stores who were already well positioned for trading online were able to continue to trade safely online throughout the closure of non-essential retail. Consumers, accustomed to online shopping may exercise caution in returning to physical stores or may opt for a blended retail preference by continuing to shop online but visiting stores, although less frequently.

The Department of Business, Enterprise and Innovation has intensified its digitalisation supports to retail and other businesses to better position them for the omnichannel world and increase their productivity though an expansion of the Trading Online Voucher Scheme for micro-businesses and the dedicated Online Retail Scheme for retailers with 10 or more employees. Both Schemes are experiencing unprecedented high levels of demand.

Overall, the retail sector has welcomed the clarity that the reopening of all retail, without distinction, has brought both for them and for their customers. Supports, including the Restart Grant that will assist smaller retailers with the immediate costs associated with reopening to safely implement physical distancing, are experiencing high levels of demand.

However, the **retail sector will be challenged to return to pre-COVID-19 levels** of trading in the short-term for several reasons including reduction in occupancy numbers in-store due to the implementation of physical distancing, changing consumer behaviour and preferences, growth of online shopping and reduced levels of consumer confidence to return to in-store shopping. The sector will need to have a sustained focus on maintaining high levels of compliance with the public health guidelines and ensuring customer and staff safety at all times. Coupled with the potential for depressed consumer demand arising as a result of COVID-19 and the associated decrease in sales and turnover, the retail sector recovery will be sluggish over the short to medium term.

4.3 PHASE 3 AND BEYOND

Phase 3 Sectors

On 5 June last, the Taoiseach announced that the Roadmap for Reopening Ireland was to be accelerated with elements due to reopen in Phase 5 to be brought forward and for Phase 3 and Phase 4 to be updated in light of this. This has resulted in more businesses reopening earlier than previously planned. Phase 3 is due to come into effect on 29 June, subject to Government approval, and will allow for the following to reopen:

Table 3 – Sectors Reopening in Phase 3

Sector	***Type of enterprise / organisation***
Wholesale and Retail Trade	All remaining retail
Arts, Entertainment and Recreation *(subject to restrictions)*	Bookmakers
	Indoor gyms and exercise facilities, Yoga, Pilates and dance studios, sports clubs and public swimming pools.
	All indoor and outdoor amenities for children
	Team leagues for adults and children
	Organised sporting spectator events and fixtures.
	Museums, Galleries, Theatres, concert halls and other cultural outlets

	Cinemas, Music Venues (excluding nightclubs and discos), leisure facilities, bingo halls, arcades, skating rinks, amusements parks
Human health and Social Work Activities	Wellbeing services, e.g. chiropractic, massage therapy, acupuncture, reflexology and homoeopathy
	Creches, childminding facilities and pre-schools
Transportation and Storage	Volunteer and other driving services
	Tour, event and private bus use, and vehicle hire, may recommence
Accommodation and Food *(subject to restrictions)*	Cafés and restaurants providing on premises food and beverages
	Pubs and hotel bars operating as restaurants
	Hotels, hostels, caravan parks and holiday parks
Education	Pre-schools
	Driving school activities
	All adult education facilities
	Summer Camps
Other NACE Services	Contact personal services, e.g. Hairdressers, barbers, nail and brow salons, beauty salons, spas, make up application services, tanning, tattooing and piercing services.
	All remaining personal services and commercial activities and services.
	Youth Clubs
	Religious Buildings and places of worship
	Driving Tests

Continuation of Remote Working

Given the re-opening of most areas of economic activity, it is important that anyone who can work from home should continue to do so wherever possible. This is important not only on public health grounds but also to relieve pressure on supporting sectors of the economy such as transport and childcare. **Employers must demonstrate maximum flexibility to their employees** in this regard. Where employers must have employees on site, due to the nature of the work, they should also show maximum flexibility to employees for example, through flexible working patterns which would help employees cater for any care duties or help them avoid travelling during peak commuting times.

Tertiary Education

The Phase 2 Update on Economic Considerations for Reinstating Economic Activity noted that as sectors of the economy move to reopen, it is important that the supply of skills and labour continues to be addressed. The Department of Education and Skills reports that measures adopted by tertiary education and training providers to secure the continuity of learning and introduce alternative assessment arrangements have enabled large numbers of learners to progress or complete their courses. However, it has not been possible to put in place satisfactory alternatives for practical assessments in a number of programmes.

In appropriate institutions, the backlog of practical assessment activity can be cleared over the summer, starting in Phase 3 of the Roadmap. Institutions will be permitted to open to learners to undertake practical assessment or to engage in short programmes of instruction to refresh learning in preparation for assessment during Phase 3. Detailed arrangements have been developed by institutions and have been positively reviewed by the immunologist advising the Department of Education and Skills. The resumption of this activity will be the subject of discussion with staff representatives prior to implementation.

Following discussions between the Department of Education and Skills, SOLAS, HSA and industry on the restarting of the SafePass and other Construction courses, SOLAS has now resumed SafePass and other construction courses within SOLAS' Standard Operational Pandemic Containment Guidelines.

Tourism

The **acceleration of the Roadmap will clearly assist the tourism sector** to maximise the potential of the 2020 domestic tourism season. A variety of sectors associated with Tourism will reopen earlier than envisaged which will bolster the appeal of destinations across Ireland.

The acceleration is a welcome development in the context of a collapse in tourism internationally. The European Commission's new Recovery Plan estimates that tourism across the EU could see a 70% drop in turnover in Q2 2020. Ireland's tourism sector is heavily dependent on overseas visitors who account for 75% of overall tourism revenue. The Department of Tourism Transport and Sport (DTTAS) foresees domestic demand to only partially offset the decline in revenue.

The **outlook for the tourism sector therefore remains very challenging**. DTTAS has considered the implications of a worst-case scenario, i.e. little or no international tourists arriving for the remainder of 2020 plus a decline of 20% in domestic tourism and estimates that this could lead to an overall loss to the economy of €2.3 billion with a potential impact on approximately 200,000 jobs. The **employment impact will be felt most acutely in the regions outside Dublin** where 70% of employment in the sector is based. Hotels outside of Dublin are particularly reliant on weddings and events for revenue which are restricted under social distancing requirements. Factors which will influence outcomes for the Tourism sector include productivity impact of social distancing requirements, domestic and international consumer confidence and demand, and international connectivity.

Fáilte Ireland has published **a suite of sector specific operational guidelines for tourism** related sectors to ensure the safe reopening of tourism businesses on 29 June including specific guidelines for reopening of pubs offering substantial meals and restaurants incorporating the latest guidance from the Health Protection Surveillance Centre. This revised guidance on social distancing will assist the viability of many tourism and hospitality businesses reopening from 29 June onward. Notwithstanding the welcome change in social distancing guidance, it should be recognised that many tourism and hospitality businesses will still struggle to reopen on a viable basis.

Also, given that tourism is marketed abroad by Tourism Ireland on an all island basis, consistency of approach with Northern Ireland in relation to travel and tourism will be important. Alignment of reopening dates (North & South) for the sector is desirable.

International Connectivity

While issues relating to the movement of products have improved, challenges relating to the movement of people are resulting in **significant logistical and operational challenges for companies** including for the road haulage sector. The impacts of a prolonged shut-down in international connectivity (i.e. 6 to 12 months) are potentially severe and will be felt disproportionately in Ireland given its particular reliance on international trade and connectivity. From a supply chain perspective, the potential of a “hard” Brexit will exacerbate these impacts for Ireland.

Aviation is particularly affected. Over 140,000 jobs are supported by the air transport sector in Ireland. The air transport industry, including airlines and its supply chain, is estimated to support €8.9 billion of GDP. Also, Ireland is significant player globally for aircraft leasing, an industry which contributes a further €541 million to the Irish economy, supporting nearly 5,000 jobs.

The **sector is an important conduit for exports of goods and services**. Enterprises have expressed serious concern that with the reduction in aviation demand, Ireland’s air freight capacity has diminished significantly. This has pushed up costs and led to stockpiling locally. If this situation were to continue, there would be implications for FDI manufacturing located in Ireland as it could lead to offshoring production of high value export products closer to destination markets.

Passenger traffic in Ireland is around 1% of what might be expected. In Europe, air traffic movements are at 10% - 15% of 2019 levels. The scale of financial challenge is clearly linked to the duration of the crisis and the question of when aviation might be able to resume in a meaningful way. There are significant impacts too on the wider aviation value chain with airports, airlines and their suppliers all having to down-size and reduce their workforce. Some parts of the industry are likely to fail.

All of the major providers of aviation services spanning airlines and airports have begun the process of implementing downsizing measures of at least 20-25% of the workforce. Aer Lingus announced on 19 June that it has formally notified the Department of Employment Affairs and Social Protection regarding proposed collective redundancies at the airline. It is understood that 500 redundancies are being sought.

The Minster for Transport, Tourism and Sport recently established an Aviation Recovery Task Force. The Aviation Recovery Task Taskforce Interim Report recommends a lifting of international travel restrictions and quarantine requirements for incoming passengers from 1 July. It supports a national Code of Practice for Safe Air Travel which applies the aviation health and safety protocols developed by the European Centre for Disease Control (ECDC) and the European Aviation Safety Agency (EASA). In order to mitigate large scale redundancies and job losses it seeks confirmation of the continuation of existing financial support measures, including in particular the Temporary Wage Subsidy Scheme to support employment where possible. The Taskforce has promised a Final Report for early July, which, it is expected, will contain further recommendations to support a reopened industry over the next few years as it seeks to reconnect and rebuild.

The **Maritime** sector is critical to the continued supply of goods into and out of the country, accounting for 90% of Ireland's international trade in volume terms. Maritime passenger movements are down 95% and freight volumes were down by approximately 40% at the height of the crisis. Recent weeks have seen a **steady recovery in freight volumes with domestic and international markets opening up**. While very positive, some of this may be attributed to pent-up demand / re-stocking which will be a short-lived.

The resilience of maritime links is dependent over time on a return to passenger movements. This is particularly acute in the case those services that are based on a passenger/freight business model. The COVID PSO arrangement, due to end on 12 July, was introduced to address potential market failure on certain key routes and is being kept under review. A decision on whether to extend the existing PSO arrangement will be based on a variety of factors, not least being the potential for a recovery in international travel on the affected routes over the coming months. The decision should also reflect an informed view of the criteria and timing around the easing of travel restrictions.

Public Transport

The current 2-metre social distancing restriction constrains the carrying capacity of the public transport fleet to approximately 20% of their normal passenger capacity. Between mid-March and mid-May daily demand fell by 90% across the public transport sector, and, as such, the operators did not experience any difficulties with regard to the 2-metre social distancing rules at that time. However, since the implementation of Phase 1 and Phase 2 of the Government's Roadmap, passenger demand has increased, albeit from extremely low levels. Dublin Bus passenger numbers for Saturday 20 June were 121,366, an increase of 47% over the previous month. Notwithstanding the significant increase, the figures represent a 60% reduction on the equivalent day in 2019 with proportionate **impact on revenue generation**.

Operators are now facing an acute capacity issue as a result of the 2-metre social distancing rules. **As the reopening progresses and demand will soon outstrip supply**. DTTAS reports that there is a high risk that demand will exceed available public transport capacity as we move towards Phase 3 on 29 June, even with a significant increase in active travel and other demand management measures.

Most countries in Europe recommend lower social distancing on public transport and now generally allow 50% capacity on public transport with mandatory use of face coverings. If applied in Ireland from mid-July, the NTA estimates that this would also provide additional fare revenue for PSO operators of over €90 million (c. €15 million per month) to the end of the year, presenting a saving on the amount of supplementary PSO funding required.

It is recommended that all passengers should wear face coverings while using public transport but this is not mandatory. Very few people were observed to be wearing face coverings while using the public transport system however a campaign was launched last week to try to encourage higher levels of usage.

A range of Government supports are available to commercial bus operators including wage subsidies, rates waivers, re-start grants, lending facilities, equity injection, and business advisory supports. Notwithstanding these, **commercial bus operators** are operating in a very difficult business environment.

Challenges for Internationally Trading Sectors

The Department of Business, Enterprise and Innovation's enterprise agencies have been engaging with their client companies to understand the impact of COVID-19 on their businesses. These sectors develop export-orientated goods and services.

Life Sciences

A slowdown in sales for this sector is expected for 2020. The shift to the prioritisation products that are addressing the global pandemic resulted in a demand-side shock as elective surgeries were cancelled in many countries due to the pandemic and sales of non-COVID-19 products into the hospital/healthcare system have reduced. On the flipside, there is a continued demand for essential products and increasing demand for production related directly to COVID-19 (including vaccines and anti-viral medications). However, diversification of supply chains will become an issue after the pandemic.

Early stage commercialisations or pre-revenue companies are reporting cash flow concerns. Many of these companies are viable but vulnerable. The funding environment is very challenging for these clients as they do not have access to traditional banking facilities and the investment community is taking a cautious approach.

Financial Services

A relatively low impact is evident in International Financial Services (IFS) although some pockets of risk do exist, particularly through the effect of the crisis on the clients of IFS companies (e.g. aircraft leasing, insurance and consumer finance). However, it is reported that there has been significant impact on Payments and FX businesses as a result of COVID-19.

Reduced profit margins may reduce innovation activity and COVID-19 is likely to impact on the financial performances of many companies in 2020, which may impact future hiring.

Engineering

There has been a significant impact from demand and supply shocks caused by COVID-19 among agency clients in this sector, who are vital employers outside of Dublin. The impact is driven by the temporary production halts at car manufacturing plants, which have had a knock-on impact on the automotive sub-suppliers operating in Ireland. It is too early to say what longer-term impacts will be on the automotive sector which was already undergoing a transition.

Content, Consumer and Business Services (CCBS) and Technology

The impact of the pandemic is particularly evident in CCBS and among enterprises whose services are in or closely linked to the travel and hospitality sector, in addition to consumer facing activities such as customer service and business processing outsourcing. However, COVID-19 provided business opportunities to some subsectors such as cyber security.

There is a risk of future job losses if companies chose to scale back their consumer businesses or reduce their discretionary spending, e.g. on digital advertising. Skills is another critical issue for this sector especially given the need to develop new business models for a more digitally driven environment.

5. The Road Ahead

5.1 INTERNATIONAL DEVELOPMENTS – TRAVEL RESTRICTIONS

As noted in the previous Report, the unwinding of COVID-19 related restrictions continues in most countries, but the strategies adopted differ across countries, regions and sectors. Some restrictive measures, such as on international travel and spectator sports, are likely to remain in place for some time in many countries.

In recent weeks, most EU Member States have been implementing a gradual easing of overall restrictions and opening up economic and social activity. While each Member State has its own roadmap or action plan based on its particular circumstances, actions are being coordinated in many areas. This is particularly so in respect of travel, where individual Member States are beginning to lift border controls and travel restrictions gradually, e.g. for travel to and from certain neighbouring countries, on a reciprocal basis, or based on having similar epidemiological situations. There is growing pressure for these actions to be coordinated more effectively across the EU, in line with the approach outlined by the Commission.

The European Commission continue to recommend partial and **gradual lifting of travel restrictions based on a common coordinated approach**. The lifting of restrictions at borders is proposed in the first phase between regions or Member States with similar epidemiological situations. Better real-time public health data systems applied to aviation can build the evidence-base for the phased lifting of restrictions with States with similar epidemiological situations, and to this end the European Commission notes that the European Centre for Disease Prevention and Control (ECDC) is developing and will continuously maintain a map of the level of COVID-19 transmission, including at national and regional level. The European Commission strongly urged Member States to finalise the process of lifting internal border controls and restrictions to free movement within the EU by 15 June. It also invited Schengen Member States together with the Schengen Associated States to develop a concrete coordinated approach on the list of countries for which travel restrictions can be lifted as of 1 July. The Commission also sets out very specific guidance on restoring transports services and connectivity across all modes. As such, there would be a strong basis around which Ireland could identify how and on what criteria it will lift travel restrictions and restore its vital international connectivity.

In that context, both aviation and maritime sectors, nationally and internationally, have been actively developing protocols to ensure public health guidance can be applied to international travel. For its part, DTTAS has been working with stakeholders including carriers, ferry companies, the Department of Health and the HSE to coordinate the development of nationally applicable guidelines to take full account of advice and guidance from all authoritative sources.

DTTAS reports that the Aviation Recovery Taskforce has made a number of suggestions to restore international access safely including a targeted track and trace system. More broadly, enterprises in the tradable sectors continue to raise concerns around quarantine regulations, advocating that Ireland's regime should adhere to EU norms. Concerns relate to the detrimental effect on access to specialised international expertise, and on investment.

5.2 SUPPORTING BUSINESSES IN THE RECOVERY PHASE

Consumer sentiment and behaviour will play a key role in the recovery. The shifting trend to online consumption may be accelerated and may never return to pre-crisis levels. A decrease in spending and consumption as a result of high levels of uncertainty and loss of income will compound the impact the restrictions have had on SMEs. McKinsey report that this could be **particularly significant for smaller, rural towns where SMEs are vital** for employment and economic activity especially if small businesses were to close their doors permanently.[7] Policy efforts to promote regional development will play a critical role in this regard.

Liquidity Crisis

The global impact of COVID-19 has reduced customer demand for products and services globally. For some companies this impact has been immediate, for others it will become more apparent in Q3 and Q4. Through this channel, COVID-19 has placed sudden and immediate pressure on companies' working capital and liquidity, e.g. through lost revenues, additional costs, a changed investment environment or changing terms of business.

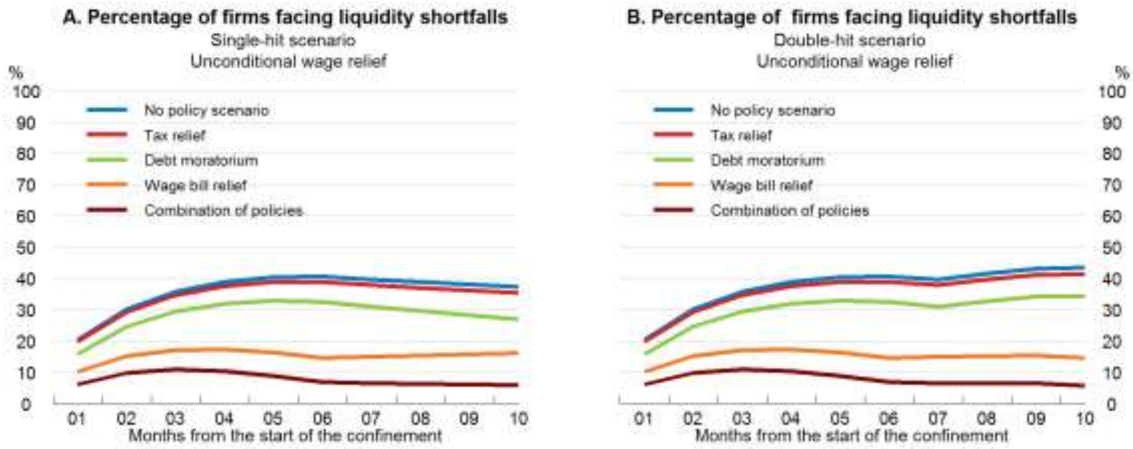
The OECD in its recent Economic Outlook examined the extent to which firms may run into a liquidity crisis as a result of the pandemic and steps that could be taken to reduce the risks and depth of a liquidity crisis.[8] It notes that restrictions and declining sales in some sectors along with remaining financial commitments (such as those to suppliers, employees, lenders and investors) has depleted the liquidity buffer of firms. Using a cross-sector sample of almost one million European firms[9], the analysis found that without any policy intervention some 20% of the firms would run out of liquidity after one month, 30% after two months and

[7] McKinsey & Company, Setting up small and medium-size enterprises for restart and recovery, June 2020
[8] OECD Economic Outlook, Volume 2020 Issue 1: Preliminary version, June 2020
[9] The analysis covers all manufacturing and non-financial services sectors.

38% after three months. More than 50% of firms would face a shortfall of cash if the confinement measures lasted seven months.

Figure 5 shows that when looking at both the “single-hit” and “double-hit” scenarios used by the OECD, and assuming labour supports which provide an unconditional reduction of the wage bill by 80% in all sectors, tax deferral has the lowest impact on firms’ liquidity positions, followed by short-term debt moratorium policies. The analysis indicates that **wage subsidies appear to be the most effective measure** (though it may prove to be the costliest). When the three different measures are taken together, public intervention after two months would decrease the number of firms running out of liquidity from 30% to 10%.

Figure 5: Liquidity shortfalls: The impact of policies



Source: OECD Economic Outlook

Looking at Ireland specifically, the CSO’s Business Impact of COVID-19 Survey[10] looks at the confidence firms have in having financial resources to continue operating throughout the crisis. From 4 May and 31 May 2020, 58.1% of enterprises responding to the survey expressed confidence in having the financial resources to continue operating for longer than six months. This is up from 49.0% in the previous wave of the survey from 20 April to 3 May 2020. By size of business, this was 72.5 % for Large enterprises (up from 65.1%) and 55.2% for SMEs (up from 45.6%). 1.7% of respondents were not confident they have the financial resources to continue operating (previously 3%).

[10] CSO, Business Impact of COVID-19 Survey

Table 4: Confidence in financial resources to continue operating throughout the COVID-19 crisis, 4 May to 31 May 2020

	% of responding enterprises
Up to 1 month	2.3
Up to 3 months	17.1
Up to 6 months	12.7
Longer than 6 months	58.1
Not confident	1.7
Don't know	8.1
Total	**100.0**

Source: CSO Business Impact of COVID-19 Survey 4 May to 31 May 2020

Ibec reports that the minimum period in which member companies expect 'normal' demand to return is greater than cash reserves for about 72% of companies creating a liquidity gap.[11] For 30% of firms that gap is greater than 6 months. Through modelled examples of the economic impact on SMEs in the sectors most challenged, Ibec indicate that most SMEs will need 80% of pre-COVID demand to break even and some sectors will continue to operate at a loss on a month-to-month basis into 2021. Working on the assumption that normality begins to return by the end of June and by November demand reaches break-even point, Ibec suggest that the **average SME in consumer facing sectors will have fixed cost debts amounting to €45,000**.

Supports to Businesses

While accepting that it is difficult to compare like with like in some cases and comparable data is not available for all schemes, in comparing the schemes available to businesses in Ireland and Northern Ireland (NI), or the UK as relevant, it would appear that NI/UK is more ambitious in terms of direct supports to businesses with somewhat more use of grants and higher caps. It also has been able to more directly intervene in the commercial rental market via legislation and sectoral agreements and has a more ambitious rates waiver. However, the TWSS which supports businesses wage costs is significantly more advantageous than the UK equivalents which are developed as employee income supports. The Irish tax warehousing approach also has advantages. Ireland appears to have a wider range of supports aimed at making businesses more resilient during COVID-19, e.g. business continuity and online trading vouchers.

There are growing demands for support as evidenced by the uptake of existing supports to businesses: an 800% increase in MFI lending; over five years' worth of applications being received for the €5,000 Trading Online Vouchers since mid-March; applications to a value of over €90m for the Restart Grant with almost €40m approved to date; over 500 SBCI loans

[11] Ibec, Sustaining SMEs, June 2020

approved to a value of over €65m; almost €22m paid in Business Continuity Vouchers; and over 20,000 companies supported through training and mentoring by LEOs.

As businesses reopen, there will be increased need for support as evidenced by the strong uptake in the Restart Grant. This also indicates a demand for specific interventions aimed at supporting the reopening of businesses. Significant numbers of businesses in Ireland are carried out on a self-employed basis and may not have 'rateable' businesses thereby excluding them from eligibility under the Restart Grant.

It is important to bear in mind that there is already a range of other supports in place to assist enterprises over the period ahead from Enterprise Ireland and IDA Ireland. Sectoral supports are also available from a number of Government Departments and a variety of Government agencies including Fáilte Ireland, Bord Bia, and Bord Iascaigh Mhara. Further supports are also coming on stream. An ISIF Pandemic Stabilisation and Recovery Fund, worth up to €2 billion will make capital available to medium and large enterprises on commercial terms. Subject to legislation, additional supports are in development. A Covid-19 Credit Guarantee Scheme will provide an 80% guarantee on lending to SMEs on a wide range of lending products. An additional €500 million in COVID-19 funding, facilitated through MFI and the EIF, will be made available through the Future Growth Loan Scheme to provide longer-term loans to COVID-19 impacted businesses.

Building Sustainability and Competitiveness in the Next Normal

While the focus to date has rightly been on provide businesses with critical funds and support in the immediate term to get them through the crisis, we now need to start to look towards the future and what supports are needed for the recovery.

Previous focus areas under Future Jobs Ireland remain highly relevant and, if pursued, can set up SMEs for a stronger recovery after the crisis. These include measures to ease administrative burdens, increase SMEs' share in public procurement and integrate SMEs into global supply chains. More broadly, it encompasses efforts to increase productivity through innovation and digitalisation, the acceleration of initiatives to support high-performing and innovative companies with scale-up potential and promoting a culture of entrepreneurship.

While a range of supports is available to businesses, clearly **the TWSS is the most impactful** in terms of its reach to all business sectors of the economy and also the degree to which it supports businesses and their employees by covering a considerable proportion of wages - a significant part of any business' day-to-day running costs.

As has been noted, **current levels of expenditure in respect of both the TWSS and the PUP are not sustainable** from a budgetary perspective. As the economy reopens the necessity for such supports will diminish especially in those sectors that are less impacted upon by social distancing and other restrictions. Some sectors will not return to pre COVID-19 productivity levels until medicines which effectively address COVID-19 are developed and circulated.

This has significant implications for policy. Firstly, the sectors at risk employ large numbers who would require considerable reskilling in order to move into employment in other less impacted sectors due to a skills gap. Opportunities in intermediate sectors will be limited due to depressed activity in those sectors, for example, retail. Secondly, the disruptive effects of wide-scale closures will be considerable across the economy. Thirdly, business closures will see considerable numbers of people requiring long-term state supports in the areas of social welfare, health, and training which will be costly.

Therefore, there will be a balance to be struck between protecting existing jobs and inherently viable firms and encouraging a reallocation of resources through activation and upskilling supports to new roles. **The balance is likely to be found by tapering business supports while prioritising those sectors most affected**. Blanchard, Philippon and Pisani-Ferry[12] provide insightful commentary in this regard arguing that in the current highly uncertain environment, there is a strong argument that **protection of workers and preservation of firms should be given a higher priority than would normally be the case**. They highlight the utility of temporary wage subsidies to support sectors and firms severely hit by adverse demand and productivity shocks. Highlighting the issue of indebtedness, they note that that bankruptcy procedures are inefficient and they posit a need for Government-supported mechanisms through which private creditors will work out restructuring plans with viable but insolvent SMEs in order for them to restart and invest. This would encourage the private sector to behave in an efficient and non-destructive manner. Measures should also be capable of adaptation to changing circumstances including a resurgence of COVID-19 and a return to increased restrictions.

The challenges which faced the enterprise sector prior to COVID-19 still pertain and are even accentuated. The enterprise sector and its workforce must develop and transition in light of digital and environmental drivers and the necessity to increase productivity and innovation levels in a changing context which includes disrupted export markets, increasing protectionism and Brexit. Supporting the development of enterprises through this agenda must not be overlooked.

Tapering Existing Supports

The Institute for Government (IfG) indicate that, in relation to wage subsidy schemes, consideration on how to adapt the scheme as the economy reopens will be vital in order to incentivise enterprises to restart and to increase workers' hours.[13] Careful consideration will also need to be given to the timing and way in which the such schemes are withdrawn to support proper functioning of the labour market.

Under the TWSS, businesses are eligible for wage subsidies if they have suffered a 25% reduction in turnover or customer orders from 14 March to 30 June as a result of COVID-19. The IfG warn that, as restrictions are eased, such a scheme may result increasingly greater amounts of deadweight cost, i.e. businesses receiving the TWSS even once their revenues have recovered. That said, the extension of the TWSS to the end of August 2020, using the

[12] Peterson Institute for International Economics, A New Policy Toolkit Is Needed as Countries Exit COVID-19 Lockdowns
[13] Institute for Government, Coronavirus and unemployment: a five nation comparison, May 2020

original eligibility criteria is a crucial support to businesses as they resume activity. In its absence and in the face of the challenging environment faced across most sectors of the economy, businesses who had hitherto availed of the TWSS would likely have had little choice but to cut employment numbers in order to remain viable.

While acknowledging the importance of the scheme, it is also clear that at some point this support will have to be reduced from its current level. While the IfG paper points out the dangers of withdrawing supports too quickly, there is a trade-off between operating current emergency support measures and further targeted supports. As we progress towards recovery, it is important that measures minimise deadweight and are targeted to ensure that they support parts of the economy that can sustain activity. Supports will need to be focussed on viable businesses and support employment.

5.3 LABOUR MARKET AND ACTIVATION STRATEGY

Experience in other countries, now being replicated in Ireland, is that reopening business sectors does not equate to full restoration of business activity.

Given the phased nature of the reopening (as compared with the sudden nature of the close-down) and the impact of the ongoing restrictions/public health advice on consumption (in particular in sectors such as retail and hospitality) it is expected that it will take some time for business activity volumes to recover. Changes in working arrangements, with greater use of remote working, will also impact on demand for certain services while productivity gains realised by businesses through use of revised working arrangements are also likely to be captured on a permanent basis with a consequent impact on demand for labour.

This is reflected in the pace at which the number of people in receipt of income supports is reducing. As of 19 June, 465,900 people are in receipt of the PUP, a decline of 32,900 on the previous week. Of those remaining in receipt of the payment, the largest sectors are Accommodation and Food Services (22%), Retail (12%) and Construction (5.2%), the last two of which are sectors which are now fully open but are not operating to full employment capacity. The number of people on the Live Register as of 19 June was 220,821, a reduction of 5,275 on the previous week.

For the TWSS, as of 18 June, over 61,300 employers have now registered for the scheme, with over 551,800 employees having received at least one payment – increase of 2% and 4.6% respectively on the previous week. Revenue report that 410,000 employees are currently being supported by the Scheme having received a subsidy in their most recent pay period. Continued demand for the TWSS and PUP indicate that businesses and economic activity are recovering in a relatively slow manner, impacted by continuing operational constraints and reduced demand. Developments will continue to be closely monitored and consideration may be required for further targeted business supports in due course.

The Government supports in place continue to be rolled out, including the new Restart Grant which is now being deployed through the Local Authorities. As of 19 June, 29,182 applications for the grant had been received, of which 9,754 applications have been approved to a value of €38.19 million.

Given the likely prolonged impact of the COVID-19 business closures in some sectors, appropriate activation and training measures to support people to move from the PUP (and Live Register) into employment and/or training and education will require focus over the coming period. Some sectors (e.g. hospitality) are unlikely to recover to previous employment levels in the short to medium term (or potentially even the longer term) while others (e.g. caring services) are likely to see increased demand**. Helping people to make the transition between sectors will be a specific focus of attention**. Job search assistance, job placements and specific skills training initiatives will be required to support people make this transition. The Minister for Employment Affairs and Social Protection has received a Policy Paper from the Labour Market Advisory Council (LMAC) which she intends to publish this week. The LMAC has made recommendations concerning temporary income supports; labour market and business supports; and Active Labour Market Programmes and Further Education and Training.

The LMAC is recommending:

- That having due regard to the public finances, the PUP and the TWSS should be adapted to support the economic and social recovery process – these measures should include an increase in job-matching activities and a recalibration of the PUP to ensure that it is tapered over a specified period to ensure better employment incentives.
- That design of the TWSS should ensure that it is phased out gradually so that unviable firms do not continue to rely on it and that steps should be taken to adopt a reformed set of arrangements to support short-time working arrangements over the medium-term.
- That labour market and business support tools available to the Government should be aligned to assist in rebooting the economy – a differentiated sectoral approach will be necessary to support recovery including the identification of work opportunities in sectors that have opportunities for growth and providing enhanced incentives and opportunities for workers in vulnerable sectors to upskill, or re-train, for alternative roles.
- That all PUP recipients who transition to normal jobseeker supports should be profiled using the Department’s Probability of Exit from Employment (PEX) toolkit and that the FET and Higher Education sectors should expand their interventions to add impetus to labour market recovery.
- Job-search assistance and referral supports for unemployed people, including jobseekers with disabilities should be enhanced – the expanded use of digital technology to support case officers should be pursued as a priority and the existing contracted services should be extended for at least two more years in order to ensure that capacity remains available to the DEASP.

These recommendations are being considered by the DEASP alongside other possible initiatives to incentivise employers to recruit from the Live Register.

5.4 RESKILLING THROUGH EDUCATION AND TRAINING

Significant work is underway in the Tertiary Education system to meet training and education requirements arising from the COVID-19 crisis with a particular focus on re-skilling and up-skilling requirements to meet labour market activation objectives in close consultation with the Department of Employment Affairs and Social Projection (DEASP).

In order to ensure a fully co-ordinated response to labour market activation, the Department of Education and Skills (DES) and DEASP have been **engaging on all aspects of the emerging requirements** and has recently established a High-Level Group jointly overseen at Secretary General level in both Departments to continue to advance detailed required responses.

The governing policy framework for the planned education and training response is provided by the recent National Skills Council's (NSC) recent recommendation on key principles and priorities shaping the response of the Tertiary Education System to the employment and labour market challenges from COVID-19. The NSC recommendation highlighted that previously identified priorities had been accelerated by the public health crisis including preparing for the future world of work and increased automation, the impact of transition to a low carbon economy, the impact of Brexit, the pressing need for increased digital literacy, the urgent requirement for a more cohesive approach to meeting skill needs across tertiary education and a renewed focus on Lifelong Learning. The Council recommended in particular in terms of education and training provision:

- the need for an immediate focus on providing relevant skills for those affected by the COVID-19 crisis underpinning their employability and access into sustainable and quality employment;
- the requirement for focused and agile and flexibly delivered programmes well integrated with the workplace.

In response to the Council's recommendation the **tertiary system is now taking important steps to expand skills provision to support those displaced or impacted by the crisis**.

SOLAS is putting in place an immediate activation initiative, giving those who lost jobs as a result of COVID-19 the skills to compete if they are unable to re-enter their previous employment. SOLAS and the ETBs have a track record in designing and delivering upskilling programmes that offer pathways back to work for those impacted by economic recession. By combining and accelerating three core strands of FET provision - transversal skills development to help employability; building the digital capabilities now required for almost every job; and specific Level 4-6 courses targeting growth sectors and occupations - and linking this to tailored advice and support, Skills to Compete is designed to deliver a powerful labour market activation response.

Key to the success of Skills to Compete will also be the establishment of an effective operational relationship between ETBs and DEASP at regional level. While the current caseload volume faced by INTREO offices and other DEASP personnel makes the establishment of new referral protocols, processes and relationships challenging, discussions have commenced on temporary and long-term approaches to ensure the initiative is there to support a return to work from the earliest stages of transitioning out of social and economic restrictions.

A significant expansion of key initiatives – Springboard+ 2020 and Human Capital Initiative (HCI) Pillar 1 to be delivered by the higher education system underpinning upskilling, reskilling and human capital development in response to the COVID-19 crisis have recently been announced. Springboard began in 2011 as part of the Government's Jobs Initiative. It complements the core State-funded education and training system and provides free or 90% funded upskilling and reskilling higher education opportunities in areas of identified skills need. HCI Pillar 1, Graduate Conversion Programmes extends the approach currently in place for ICT under Springboard+, offering full time, one-year incentivised places for graduates to reskill in areas of skills shortage and emerging technologies. Places are available on courses in a wide range of skills areas, including artificial intelligence, smart factory technology, sustainable energy, medical device technology and cybersecurity.

Under both programmes almost 17,000 new places are available to people seeking to upskill or reskill over the next 3 years. This includes an additional 2,129 places across both programmes in 2020, as a response to upskilling and reskilling needs arising from the COVID-19 pandemic reflecting an additional investment of €10m over that provided for this purpose in Estimates 2020. This additional funding, combined with the new HCI Pillar 1 courses, leads to 7,600 more places available over three years to those who wish to upskill or reskill compared with that provided in this area in 2019. There will be a total of 11,074 places on 332 courses under Springboard+ 2020, and 5,891 places on 93 courses over three years for HCI) Pillar 1.

91% of Springboard+ courses recommended will be delivered in a more flexible format (blended learning, online/distance learning) consistent with the National Skills Council recommendation. As well as aiding participation for those in employment, increased provision will provide opportunities for people across the country to access programmes in regions other than where they reside and enable upskilling and reskilling even in circumstances where social distancing measures continue to be in place.

There has also been an expansion in the set of targeted interventions available through Skillnet Ireland. Through the Regional Skills Fora, a Regional Monitoring Template, updated weekly, captures the regional and cross regional challenges that enterprises are currently facing and expect to face post COVID.

Appendix - Sectoral Overview of Economic Impact – Some Indicators

Sector	Enterprises (2017)	% Enterprises (2017)	Employed (Q4 2019)	% Total Empl. (Q4 2019)	% of Employees in Firms < 50 employees (2017)	GVA €m (2018)	% Total GVA (2018)	Average Weekly Gross Earnings (Q4 2019)	PUP Recipients as % of Q4 2019 Employment *	TWSS Recipients as % of Q4 2019 Employment *	PUP or TWSS as % of Q4 2019 Employment *	Weekly cost of PUP*
Agriculture	N/A	N/A	106,900	5%	N/A	3,645	1%	N/A	6%	3%	9%	€2m
Industry	18,817	6%	286,300	12%	28%	109,985	36%	€920	9%	23%	32%	€9m
Construction	57,255	17%	147,100	6%	83%	8,578	3%	€822	27%	32%	59%	€14m
Wholesale and Retail Trade	48,598	14%	310,200	13%	54%	22,599	7%	€604	21%	33%	54%	€22m
Transportation and Storage	25,736	8%	108,000	5%	51%	7,567	2%	€810	13%	22%	35%	€5m
Accommodation and Food	19,205	6%	179,200	8%	56%	5,391	2%	€382	64%	23%	87%	€40m
Information and Communication	15,953	5%	127,600	5%	38%	36,765	12%	€1,241	9%	5%	14%	€4m
Financial, Insurance and Real Estate	23,299	7%	115,100	5%	32%	40,976	14%	€1,115	15%	10%	26%	€6m
Professional, Scientific and Technical	43,587	13%	141,100	6%	66%	12,555	4%	€973	14%	18%	32%	€7m
Administrative and Support Service	18,716	6%	112,100	5%	30%	18,734	6%	€617	34%	19%	52%	€13m
Public Administration and Defence	N/A	N/A	117,000	5%	N/A	8,832	3%	€972	9%	0%	9%	€4m

Education	14,440	4%	191,600	8%	24%	9,055	3%	€874	11%	5%	16%	€7m
Health and Social Work	20,989	6%	294,300	12%	35%	14,058	5%	€758	6%	8%	14%	€6m
Other NACE Services	32,134	9%	118,700	5%	77%	4,318	1%	€517	41%	16%	57%	€17m

Source: Enterprises – CSO Business Demography, Employment – CSO LFS Q4, GVA – CSO National Accounts, Average Earnings – CSO EHECS Survey. TWSS – Revenue Statistics (As of 18 June 2020), PUP – DEASP (As of 23 June 2020).

Note: % of employees on PUP/TWSS estimated based on latest admin data for the schemes and Q4 2019 CSO LFS data. This should be treated with caution given the changing level of recipients over time. TWSS data refers to all employees who have received a payment. Weekly cost of PUP calculated by multiplying PUP recipients from latest data by €350.

Department of Business, Enterprise and Innovation

Department of Public Expenditure and Reform

Department of Finance

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