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Post-Programme Surveillance Report

Ireland, Autumn 2020

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European Commission
Directorate-General for Economic and Financial Affairs

Post-Programme Surveillance Report

Ireland, Autumn 2020

EUROPEAN ECONOMY

Institutional Paper 139

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This report reflects information available up until 22 October 2020.

([1]) The executive summary of this report was adopted as Commission Communication C(2020)8041 on 16 November 2020. The rest of the report reflects the findings of the Staff Working Document (SWD(2020) 279) accompanying this communication.
([2]) ECB Staff participated in this mission, and in the drafting of this report, in accordance with the ECB's competences and thus provided expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

EXECUTIVE SUMMARY

CBI	Central Bank of Ireland
CCP	Central Clearing Counterparty
CCyB	Countercyclical capital buffer
CET1	Common Equity Tier 1
CRE	Commercial Real Estate
CSD	Central Securities Depository
CSO	Central Statistics Office Ireland
EBA	European Banking Authority
ECB	European Central Bank
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EWSS	Employee Wage Subsidy Scheme
GDP	Gross Domestic Product
GNI*	Modified Gross National Income
HICP	Harmonised Index of Consumer Prices
ICT	Information & Communication Technology
LTI	Loan-to-income
LTV	Loan-to-value
NPL	Non-performing loan
NTMA	National Treasury Management Agency
PBO	Parliamentary Budget Office
PPS	Post-programme surveillance
PUP	Pandemic Unemployment Payment
q-o-q	Quarter-on-quarter
RICS	Royal Institution of Chartered Surveyors
SCSI	Society Chartered Surveyors Ireland
SME	Small and medium sized enterprises
VAT	Value Added Tax
y-o-y	Year-on-year

EXECUTIVE SUMMARY

The thirteenth post-programme surveillance (PPS) mission was conducted in virtual format given the exceptional circumstances linked to the COVID-19 pandemic. The mission to Ireland had to be replaced by a set of videoconferences involving European Commission staff, in liaison with staff from the European Central Bank (ECB). Staff from the European Stability Mechanism (ESM) participated on aspects relating to the ESM's Early Warning System. Staff from the International Monetary Fund (IMF) joined under the framework of their regular staff visits. The virtual meetings took place from 8 to 11 September 2020.

The Irish economy contracted in the first half of 2020 due to the pandemic and the outlook is highly uncertain. The pandemic-associated restrictions imposed in Ireland and its trading partners had a very negative impact on the economy in particular in the second quarter of 2020. Domestic sectors bore the brunt of losses with those relying on face-to-face interactions, such as hospitality, catering and arts, suffering most. In contrast, the multinational sector was exceptionally resilient, led by exports of pharmaceutical companies, and cushioned the fall in GDP. Government intervention helped stabilise household incomes, replacing wages in the heavily affected sectors by public support, and companies benefitted from schemes alleviating the COVID-19 impact. While official unemployment remains fairly low, the COVID-adjusted unemployment rate stood at 14.7% in September. The UK withdrawal from the EU and still-unknown subsequent trade relations further increase the uncertainty.

The economic contraction and the fiscal package will have a strong negative impact on the general government balance and debt. Public finances entered 2020 in a position of strength. However, the decline in economic activity and the substantial public support implemented since March have contributed to a large general government deficit and increased debt. Ireland is set to continue prioritising temporary and targeted measures to fight the effects of the pandemic. Risks to the fiscal outlook are elevated and reflect various sources of uncertainty such as the duration of the crisis and potential changes in the international corporate taxation environment. Further risks relate to the considerable size of public guarantees issued in response to the crisis and the sustainability of the level of the corporate tax revenue in the future.

While the initial impact of the pandemic has been contained so far, the pressure on the Irish financial system will likely increase. The Irish banking system is overall more resilient now than at the outset of the global financial crisis a decade ago. However, profitability was subdued prior to the pandemic and will likely come under further pressure as impairments rise. Direct support measures to the real economy (e.g. moratoria) have helped to mitigate the initial impact of the pandemic on the financial sector, while a number of financial policy measures, such as capital buffer releases, have ensured that banks can continue to support the real economy. As the pandemic is still unfolding, it is likely that some of its adverse impact will only be delayed. Banks will have to prepare for this through adequate provisioning.

Risks for Ireland's capacity to service the European Financial Stability Mechanism (EFSM) and European Financial Stability Facility (EFSF) debt remain low. Market access conditions for the Irish sovereign remain favourable. The debt-to-GDP ratio is expected to temporarily rise due to the extra funding needed to fight the COVID-19 crisis, but it is expected to resume its declining trend in the medium-term. The cash balance remains healthy leaving Ireland well placed heading into 2021, a year of minimal refinancing needs.

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1. INTRODUCTION

This 13th post-programme surveillance (PPS) report was prepared with special arrangements given the exceptional circumstances linked to the outbreak of COVID-19. Due to the spread of the virus and the ensuing travel restrictions, the 13th PPS mission to Ireland had to be replaced by a set of video and teleconferences, which took place between 8 and 11 September 2020. They involved European Commission staff, liaising with staff from the European Central Bank (ECB). Staff from the European Stability Mechanism (ESM) participated in the conference calls on aspects related to the ESM's Early Warning System. Staff from the International Monetary Fund joined in as well under the framework of their regular staff visits to Ireland. Under PPS, the Commission carries out regular review missions to EU Member States which previously had an EU-supported financial assistance programme. The objective of the PPS mission is to assess the economic, fiscal and financial situation to ensure the Member State maintains its capacity to service its debt to the European Financial Stabilisation Mechanism (EFSM), European Financial Stability Facility (EFSF) and bilateral lenders ([3]). Acting upon a proposal from the Commission, the Council could recommend corrective measures. As per Regulation (EU) 472/2013, the results of the PPS mission have to be communicated to the relevant committee of the European Parliament, the Economic and Financial Committee, and the Irish Parliament.

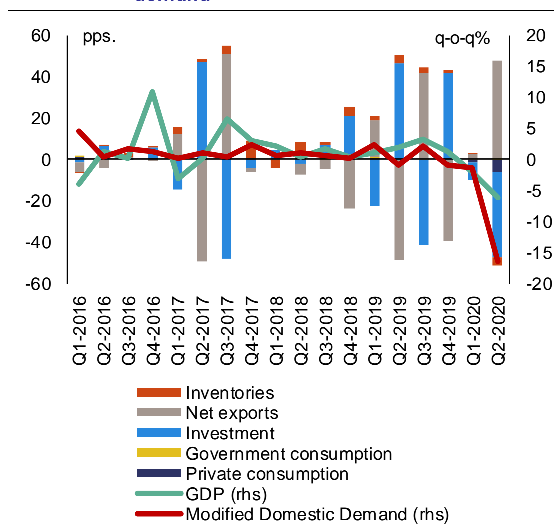
([3]) Ireland already repaid the outstanding bilateral loans from Denmark and Sweden, early and in full. Under Regulation (EU) No 472/2013, PPS will continue until at least 75% of the financial assistance received under the programme has been repaid. Under the current repayment schedule, PPS will last until 2031.

2. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1. MACROECONOMIC TRENDS

The Irish economy was strongly impacted by the COVID-19 pandemic and the associated lockdown. As a result, real GDP contracted by 2.1% on a quarterly basis in the first quarter of 2020 and by 6.1% in the second (see Graph 2.1). While the latter was the largest quarterly fall in recent history, it was relatively mild compared to European peers. Compared to the first half of 2019, the Irish economy still grew by 0.3%.

Graph 2.1: **Real GDP contributions and modified domestic demand**

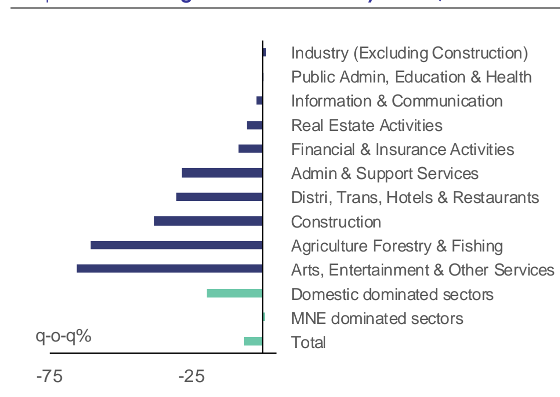


Source: Central Statistics Office (CSO)

The multinational sector cushioned the fall of real GDP. Companies producing pharmaceutical and medical equipment performed particularly well. Hence, industry (excluding the construction sector) even managed to increase production in the second quarter, despite lockdowns and a falling global demand. Pharmaceutical products were the main driver of Irish exports. Similarly, the multinational-dominated information and communication sector (computer and business services) weathered the crisis well, growing in the first quarter and contracting only mildly in the second.

In contrast, domestic industries and services took a large hit. Ireland's lockdown in spring could be considered stringent compared to many European countries. Sectors requiring face-to-face interactions, such as hotels, restaurants, pubs, retail trade, arts, entertainment and various personal services, were the most affected (see Graph 2.2). Other sectors where remote work was not possible, such as construction, also experienced severe contractions. Hence *modified domestic demand*, a measure of domestic activity that strips out some of the effects of multinationals, fell by 8.7% year-on-year (y-o-y) in the first half of 2020.

Graph 2.2: **Real gross value added by sector, Q2 2020**



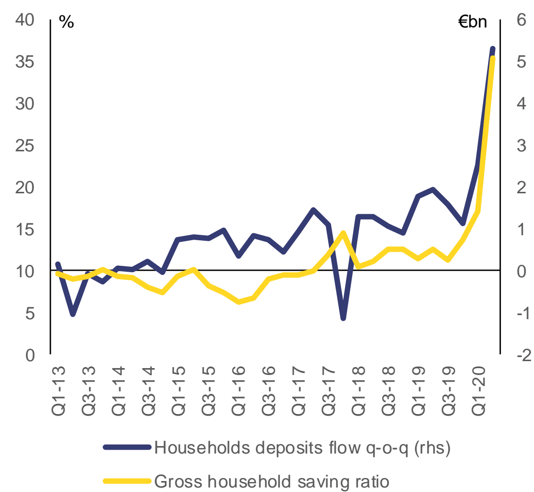
Source: CSO

Lockdown and uncertainty weighed on private consumption. In the second quarter, private consumption fell by nearly 20% quarter on quarter (q-o-q). This drop reflects the lack of access to goods and services during the lockdown and adjusted spending patterns as remote work became the norm for many. While the Irish government acted fast to support household income, fear about future earnings drove up household savings substantially (see Graph 2.3). Depending on how the pandemic develops, forced or precautionary savings may continue and could weigh on private consumption.

Private demand started to increase after the first wave restrictions were lifted, but it is likely to remain subdued as new ones are introduced. The lifting of restrictions led to some deferred spending in summer and also higher demand for durables and electronics associated with the more permanent transition to remote work. Spending patterns further adjusted to the 'new normal' by shifting away from restaurants and bars to groceries and other food. However, after an initial jump in consumer confidence and a marked increase in retail sales in June and July, consumers again became cautious about the economy's

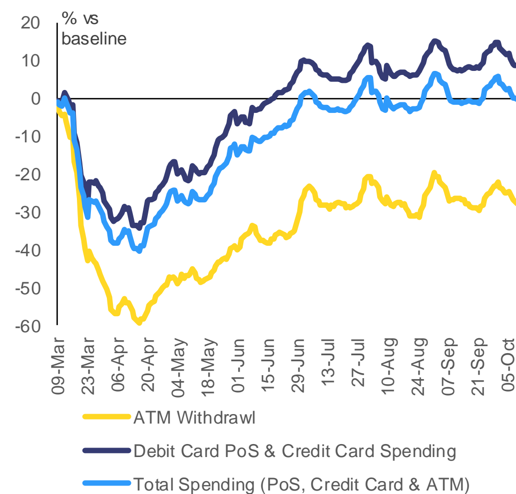
prospects in August. A new lockdown, introduced in the second half of October for 6 weeks, is set to hold back recovery of private consumption in the last quarter and possibly beyond.

Graph 2.3: **Gross household saving ratio and deposits**



Source: Central Bank of Ireland (CBI), CSO

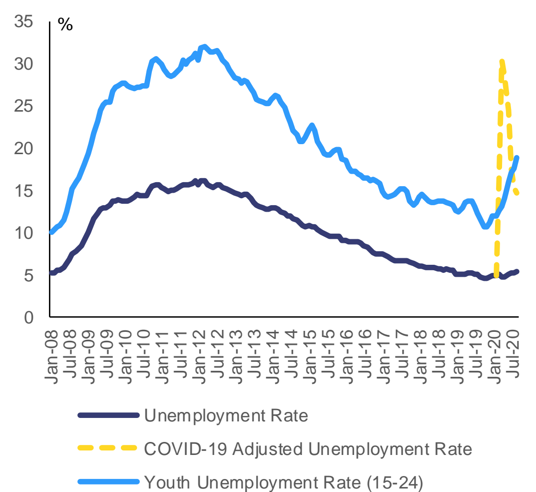
Graph 2.4: **Consumer card transactions**



Source: CBI

The COVID-adjusted unemployment rate ([4]) **remains very high.** It was estimated at 14.7% in September, although this is far below its peak of around 30% in April (see Graph 2.5). Adapting work patterns to the pandemic (e.g. safer provision of services, extensive use of remote work) helped bring down unemployment. However, it is set to increase again as the rapid spread of the virus forced authorities to re-impose restrictions first in Dublin in September and then nationwide. The standard measure of unemployment ([5]) increased only slightly, to 5.4%, in September. These lockdowns are having a bigger impact on low-paid jobs. Vulnerable groups have been much more affected, with the youth unemployment rate standing at 18.9% as of September (COVID-adjusted at 36.5%). As a result, apparent increases in productivity or wages have to be treated with caution, as they primarily reflect a shift in composition of working employees. Without social support, the pandemic would inevitably exacerbate social inequalities.

Graph 2.5: **Unemployment rate**



Source: CSO

Investment collapsed in the second quarter. Compared to the first quarter it fell by close to 70%. A ban on construction works lasting several weeks in the second quarter led to a fall in construction output by 39.6%. Foreign investment also fell sharply, owing to lower demand for aircraft leasing, as the aviation industry was among those most affected by COVID-19, a weakness that is likely to persist for a while. The drop in foreign investment was exacerbated by a base effect, notably very large previous investments in intellectual property (such volatility is characteristic for the investment profile in Ireland). Uncertainty about economic prospects led many

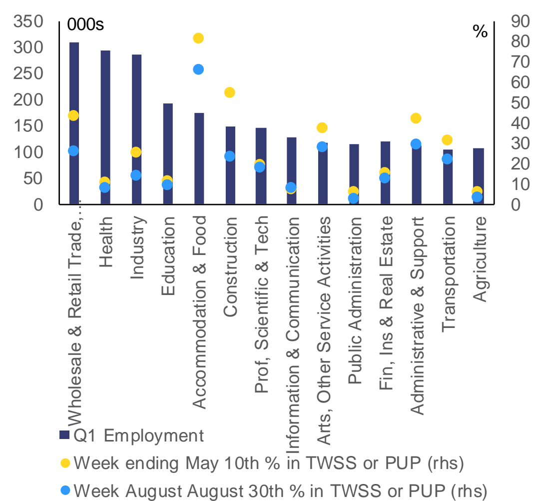
([4]) A definition that classifies all claimants of the pandemic unemployment payment as unemployed.

([5]) International Labour Organisation /Eurostat definition.

firms to postpone investment decisions. A number of public guarantee schemes were put in place to support investment and provide firms with working capital. While these schemes could contribute positively, business confidence remains subdued, signalling a limited appetite for investment in current circumstances.

The Irish government acted swiftly and in a countercyclical manner, limiting the impact of COVID-19 on society and the economy. Public spending increased and is set to expand further (see Section 2.2 and 3.1). The government provided income support to people affected by the lockdown measures (see Graph 2.6). Several schemes have been set up, such as the Pandemic Unemployment Payment and the Temporary Wage Subsidy Scheme (TWSS) ([6]). In addition to income support, public spending was substantially expanded to cover health-related expenditures, including on private hospitals, medical equipment and pharmaceutical products. Working capital schemes were also set up to directly help ailing businesses that lost a significant part of their revenue due to the pandemic.

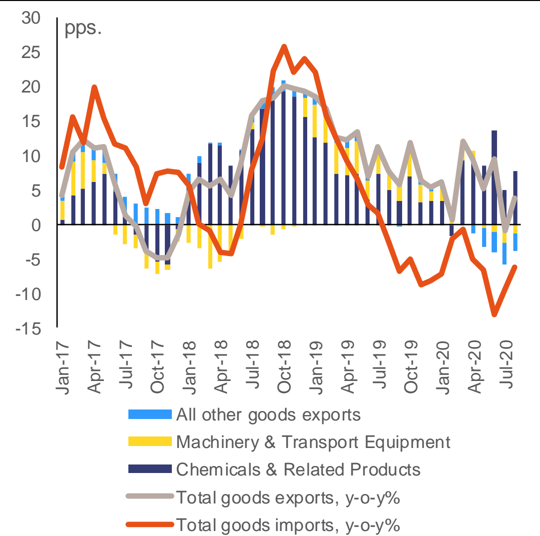
Graph 2.6: **TWSS and pandemic unemployment payment recipients by sector**



Source: CSO

Net exports were the main positive contributor to growth. Thanks to the performance of the pharmaceutical sector (see Graph 2.7), exports remained fairly resilient in the second quarter and fell only modestly (3.1% q-o-q), while imports contracted very strongly (35.5% q-o-q) in line with falling private demand. As a result, the current account turned positive. While both trends may moderate in the second half of the year, the current account is likely to remain in positive territory.

Graph 2.7: **Goods exports and imports**



4-month average.
Source: CSO

The macroeconomic outlook is clouded by extreme uncertainty. The European Commission autumn 2020 forecast projects Ireland's real GDP to shrink by 2.3% in 2020 and grow by 2.9% in 2021 and 2.6% in 2022 on the back of released pent-up domestic demand and a global post-crisis recovery. However, this outlook is highly uncertain. Depending on how the pandemic develops, further preventive measures may be required, which could delay the recovery and scar the economy in Ireland and globally. While the transition period will expire on 31 December 2020, the future relationship between the EU and UK has not been settled. Change in US taxation policies is another risk, given the large Irish exposure to US multinationals.

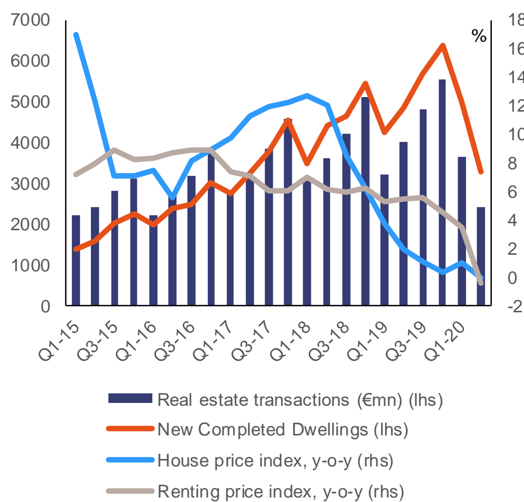
Inflation based on the harmonised indices of consumer prices (HICP) has been gradually decreasing since the beginning of the year. It has been negative since April. Falling oil prices sharply lowered energy prices, while prices of non-energy industrial goods continued their long-term downward trend. The prices of services were the

([6]) The TWSS was replaced by the Employment Wage Subsidy Scheme from 1 September 2020.

main driver behind positive inflation in the first half of the year but they have flattened since July and are likely to remain subdued over the coming months due to social distancing. Lately, processed and unprocessed food prices have been negative or very modestly positive. The VAT cut in September 2020 is set to lower inflation further. HICP inflation is projected to be negative in Ireland in 2020 at –0.5%, and moderately positive in 2021 and 2022 (at 0.3% and 1.6% respectively), as economic activity is gradually restored.

While residential property purchases declined in the first half of 2020, house prices remained broadly stable amid constrained supply. Residential house prices were broadly flat in the year to July (see Graph 2.8). While the real estate market was buoyant in the first quarter prior to the lockdown, the market closure led to a 10% y-o-y contraction of sales in the first half of 2020. As expected, once the market reopened in June, deferred transactions took place and there was revived activity on both demand and supply side, albeit not fully recovering. Supply in August was still well below levels prior to the pandemic (7), down 22% y-o-y, due to the ban of construction for some weeks in spring. Latest mortgage data signal a pick-up in house acquisitions in August.

Graph 2.8: **Housing developments**

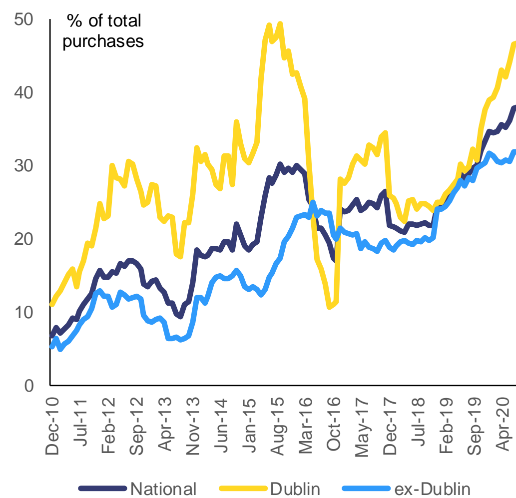


Source: CSO, Eurostat

(7) Residential Markets Report. Society Chartered Surveyors Ireland (SCSI). August 2020. https://www.scsi.ie/documents/get_lob?id=1559&field=file

The government is buying new housing to alleviate the long-standing social housing problem. While people were less active in acquiring properties amid uncertainty about the real estate market and their own future jobs and income, government and public institutions helped stabilise the market by buying new homes, accounting for about 40% of all new home transactions country-wide, with the proportion bought in Dublin even higher (see Graph 2.9).

Graph 2.9: **Share of new dwellings purchases by public sector and institutions**



12-month average
Source: CSO

Rental supply sharply increased and rent prices declined for the first time since 2011. During the COVID-19 lockdown, the government enacted emergency legislation, taking effect from 27 March to 1 August, which banned rent increases and evictions. Moreover, landlords renting to tourists saw a sharp customer decline and reverted to the regular rental market. As a result, rental supply at the beginning of August was 40% higher than at the same time last year. Annual rent inflation turned negative in June for the first time since 2011 (see Graph 2.8). Despite the sharp annual increase in rental supply and unemployment, rental prices in September were only 1.9% lower than in the same period last year and 0.4% higher than in June. This was partly due to rental supply picking up from relatively low levels and the COVID-19 income support cushioning the fall in disposable income.

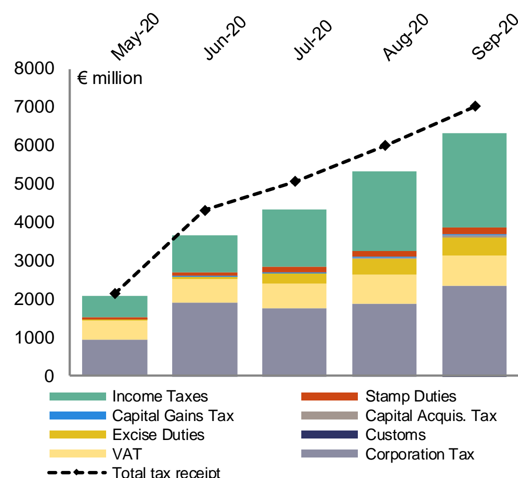
The commercial property market outlook is negative overall, but with differences across segments. Commercial real estate (CRE) is being hit substantially by the pandemic as the 'new normal' implies less need for office and retail space. This is also reflected in a survey by RICS, where 74% of respondents believed there was a downturn in the commercial property market in Ireland ([8]). The Occupier Sentiment Index fell to -45 in the second quarter of the year, marking a further decline from -31 in the previous quarter. The Investment Sentiment Index remained negative at -27 in the second quarter. Investment enquiries fell across all segments, led by a particularly steep fall in demand for retail properties. With traditional investors reducing their investments, banks and non-bank financial institutions have been increasing their exposures to CRE. In the third quarter, slow recovery started to materialise in the office and industrial segments but transactional activity in the retail segment remained largely paralysed, with a continuing increase in vacancy and negotiations between landlords and tenants ([9]).

2.2. PUBLIC FINANCES

Public support played a crucial role in mitigating the economic and social fallout from the pandemic, but this resulted in a considerable deficit. Ireland entered the year in a position of fiscal strength, with a small general government surplus in 2019 for a second consecutive year, driven partly by strong corporate tax revenue from multinationals. However, as a consequence of the pandemic, the headline government position turned into a deficit of slightly less than 6% of GDP in the first half of 2020. Revenues dropped substantially as a result of the lockdown, with decreases in both taxes and social contributions (-5.7% y-o-y) and VAT receipts (-32% y-o-y). At the same time, government expenditure increased by 15.8% y-o-y, driven largely by the government fiscal supports to cushion the effects of the pandemic.

The Exchequer position performed better than expected in spring. In the first 9 months of the year, tax receipts were down by only 3.0% y-o-y and were 21.6% higher than expected in the government's Stability Programme from April. This reflects the resilience of corporate income tax receipts (most likely from the ICT and pharmaceutical sectors), which were up by 28% and exceeding expectations by EUR 1.9 billion. Personal income taxes have also been resilient, down by only 2.1% y-o-y, as a result of the progressivity of the income tax system and a more pronounced impact of the crisis on sectors and individuals at the lower end of income distribution. More generally, the robust overall performance of tax revenues in the first months of the year helped to compensate for the drop in the other tax categories in the recent months. In addition, payments by the National Asset Management Agency to the Exchequer (EUR 2 billion in the year to date) improved the fiscal balance. Total expenditure increased by 18.8% y-o-y in the year to September, mostly by the COVID-19 crisis measures in health and social protection. At the end of September, an exchequer deficit of EUR 9.4 billion was recorded, compared to a surplus of EUR 0.04 billion in the same period last year.

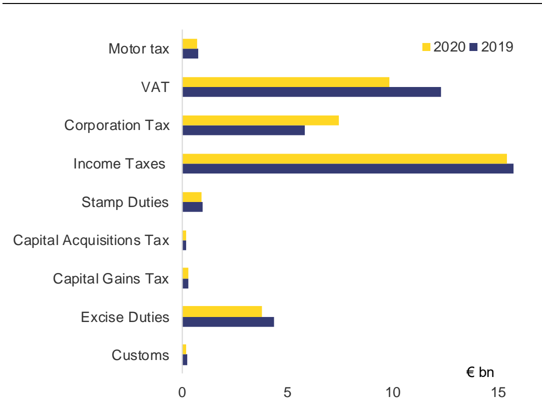
Graph 2.10: **Difference between exchequer profiles and outcomes**



The tax profiles in the Fiscal Monitors were published in the Stability Programme Update in April
Source: Department of Finance, Fiscal Monitors

([8]) RICS & SCSI (2020) Q2 2020: Europe Commercial Property Report. Ireland https://www.scsi.ie/documents/get_lob?id=1556&field=file
([9]) CBRE (2020) Bi-monthly research report, September 2020

Graph 2.11: **Exchequer tax-receipts cumulative till end-September**



Source: Department of Finance, Fiscal Monitors

The economic contraction will have a visibly negative impact on the general government balance in the short term. This is due to both the operations of automatic stabilisers and discretionary fiscal measures that the government took in response to the pandemic. Based on the Commission 2020 autumn forecast, the general government balance is expected to turn into a marked deficit of 6.8% of GDP in 2020 and only slightly improve in 2021. This is broadly in line with projections in the 2021 Draft Budgetary Plan ([10]).

The deficit will increase the stock of public debt. In 2019, the debt ratio fell to 57.4% of GDP on the back of high nominal GDP growth and the headline government surplus. However, GDP comprises the activities of multinationals, overstating the actual size of the domestic economy. Alternative metrics that discount for the contribution of multinationals' activities, such as the debt-to-modified GNI (GNI*) ([11]) ratio, which reached 95% in 2019, show that public debt remains high. The debt-to-GDP ratio increased to 62.7% in the second quarter of 2020, mainly due to net issuance of debt securities. According to the Commission 2020 autumn forecast, the gross general government debt-to-GDP ratio is projected to reach 63.1% in 2020 and 66.0% in 2021. Medium-term debt sustainability remains a concern in an adverse shock scenario (see Annex 1).

Risks to the fiscal outlook remain tilted to the downside. They reflect various sources of uncertainty, such as the duration of the pandemic and potential changes in the international corporate taxation environment. Corporate tax receipts represent a very important source of revenues, but their continued relative abundance remains uncertain. An additional risk stems from the potential call of the public guarantees issued in response to the crisis. The potential under-achievement of legally binding climate and renewable energy targets in 2020 could be a risk, as it would imply a financial cost. Last but not least, the Irish economic outlook depends on the future trade relationships between the EU and the UK.

2.3. FINANCIAL SECTOR

Despite the unprecedented shock to the real economy, the impact of the pandemic on the Irish financial system has so far been contained. The lockdown measures that were introduced in March 2020 resulted in economic activity declining significantly. Businesses faced cash flow problems, particularly in the most exposed sectors, such as food and accommodation, administration and support, and construction. Although partly offset by fiscal support measures, the rapid rise in unemployment has put pressure on household incomes. The payment breaks (moratoria) and credit guarantee schemes put in place over the past few months (see section 3.2) aim to address these short-term operational and liquidity challenges. However, as the pandemic is still unfolding, it is difficult to distinguish temporary liquidity shortfalls from solvency problems.

The Irish banking system is more resilient now than at the outset of the global financial crisis a decade ago. Thanks to regulatory reforms, an improved supervisory framework, and the activation of macro-prudential policies, the capital and liquidity positions of Irish banks remain strong. The aggregate Common Equity Tier-1

([10]) The Commission forecast incorporates the additional impact of the imposition of the six-week national lockdown as of 20 October, which was not in place when the 2021 Draft Budgetary Plan was published.

([11]) Modified Gross National Income (GNI*) reflects the income standards of Irish residents more accurately than GDP. It differs from actual GNI in that it excludes, for example, the depreciation of foreign-owned, but Irish resident, capital assets (notably intellectual property and assets associated with aircraft for leasing) and the undistributed profits of firms that have re-domiciled to Ireland.

Table 2.1: **Financial soundness indicators, all domestic and foreign banks in Ireland**

	Ireland										EU	Euro area
	2014	2015	2016	2017	2018	2019q1	2019q2	2019q3	2019q4	2020q1	2020q1	2020q1
Non-performing loans	21.6	14.9	13.1	9.9	5.5	4.7	4.2	3.8	3.4	3.1	2.9	2.9
o/w NFC & HH sectors	28.4	20.5	16.6	14.1	8.2	7.3	6.8	6.2	5.6	5.3	n.a.	n.a.
o/w NFC sector	37.8	22.9	15.3	11.8	5.7	5.0	4.4	4.2	3.2	3.1	5.0	5.1
o/w HH sector	22.8	19.1	17.4	15.5	10.1	8.9	8.5	7.7	7.2	6.9	3.2	3.3
Coverage ratio	46.7	40.2	35.5	29.9	28.5	28.5	27.4	26.7	27.5	27.9	47.4	47.6
Return on equity(1)	8.5	6.8	6.3	5.0	4.9	5.2	4.5	4.4	3.7	-0.3	1.3	1.3
Return on assets(1)	0.9	0.9	0.9	0.7	0.7	0.7	0.6	0.6	0.5	0.0	0.1	0.1
Total capital ratio	22.6	25.3	25.0	25.2	25.4	24.6	24.3	24.9	24.9	24.7	18.1	18.0
CET 1 ratio	20.1	22.3	22.2	22.9	22.9	21.9	21.8	22.3	22.3	22.2	14.9	14.8
Tier 1 ratio	20.5	23.2	23.0	23.4	23.4	22.5	22.4	22.9	23.0	22.9	15.9	15.8
Loan to deposit ratio	98.8	98.7	93.2	95.3	90.2	90.3	89.8	90.8	91.5	90.3	98.7	95.4

(1) For comparability reasons, annualised values are presented.
Source: ECB consolidated banking data

(CET1) ratio for the banking sector, including both domestic and foreign-owned banks, was 22.2% in March 2020 (Table 2.1), among the highest in the EU. Banks hold large stocks of liquid assets, easily meeting their regulatory requirements. The Central Bank of Ireland (CBI) introduced borrower-based macro-prudential mortgage measures in 2015, which have ensured that banks and borrowers entered the pandemic in a more robust position ([12]).

Subdued pre-pandemic profitability will come under further pressure, driven by impairments. Tighter net interest margins, as well as high operational costs amidst technological transformations in the financial system, have complicated the internal capital generation process. These pressures are now compounded by rising impairment charges. According to local supervisory data, the rise in impairment charges over the first half of 2020 has driven the aggregate net income of the domestic retail banks to a loss of EUR 1.5 billion in June 2020, down from a profit of EUR 0.6 billion a year ago. Banks entered the pandemic with excess liquidity, reflecting a combination of increasing deposits and modest lending demand.

It is likely that the pandemic will partly undo the recent progress in reducing non-performing loans (NPLs). Banks' asset quality had been improving in the run-up to the pandemic, following successful restructuring as well as sales and securitisations of NPL portfolios over the past few years. At the end of the first quarter of 2020, the NPL stock accounted for 3.1% of gross value of loans, down from 4.7% a year earlier (Table 2.1). Although the aggregate figures were in line with the EU and euro area averages, the NPL ratio for household loans remained relatively high at 6.9%. Local supervisory data for domestic retail banks shows the NPL stock increased by around EUR 1.3 billion within the second quarter of 2020, representing a 10% increase on the March 2020 volume. Nearly half of this increase was due to the implementation of the revised definition of default by Bank of Ireland and Allied Irish Banks ('AIB')([13]). The rest reflects a deterioration in asset quality linked to the pandemic.

Asset quality may deteriorate once the payment breaks expire. While payment breaks have provided temporary relief to borrowers, it is possible that a large share of payment breaks by non-financial corporations may result in an increase in NPLs in the future. This risk is compounded for those firms that already had payment difficulties in the past. Meanwhile, the lingering uncertainty has reduced the prospects of NPL sales and securitisations taking place, and planned transactions have been put on hold.

([12]) The borrower-based mortgage measures provide for a set of upper limits on loan-to-value (LTV) and loan-to-income (LTI) ratios, which differ depending on the type of borrowers and purpose. The current limits were confirmed by the CBI's annual review in December 2019.

([13]) The re-classification of assets as defaulted reflects the utilising of a broader range of default triggers, including non-performing forborne loans, loans in probation periods, contagion, and revised 'unlikeliness to pay' triggers, taking into account lifetime default likelihoods in line with Stage 2 and 3 risk categories under the IFRS 9. For the banks in question, the changes were made to comply with European Banking Authority (EBA) guidelines on applying the definition of default (EBA/GL/2016/07), to be implemented within the EU by end-2020. Some Irish banks had already implemented the changes.

The potential worsening in asset quality brings the relatively low provisioning levels of Irish banks back into focus. According to ECB figures, the average coverage ratio for the Irish banking sector was 27.9% in March 2020, which is significantly lower than the EU and euro area averages of 47.2% and 47.6%, respectively ([14]). While this gap may be partly explained by the type of exposures that are impaired (i.e. the prevalence of collateralised loans in Ireland), there is variability between the coverage ratios of Irish banks, even for similar exposures. Moreover, in Ireland the coverage ratios for some of the more comparable exposure categories, such as CRE and corporates, also appear to be much lower than the EU averages. While the real estate sector is more robust than in 2009-2010, provisioning levels on existing NPLs may nevertheless need to be supplemented in the event of a prolonged crisis.

There has been a significant decline in new lending, particularly in the second quarter, which was driven by a combination of supply and demand factors. Credit demand was relatively strong immediately after containment measures were introduced in March, driven by a demand by larger firms in need of working capital through credit facilities. Nevertheless, new transactions dropped significantly in the second quarter. New lending to small and medium-sized enterprises (SMEs) in the second quarter of 2020 was 50% lower than a year ago. Although some of the public lending schemes have only been put in place recently, the relatively weak take-up of the subsidised or guaranteed credit measures suggests that weak demand continues to be an important determinant behind these figures. Demand for credit by households also dropped sharply in March, but has improved significantly since the partial easing of lockdown measures in mid-May, especially for mortgage and personal loans.

The possibility that the transition period between the EU and UK will end without a follow-up agreement is a significant risk factor for the financial sector. That said, thanks to the specific preparatory work undertaken, and the work of the last decade to drive a significantly more resilient financial system, the immediate cliff-edge financial stability risks are considered to be broadly manageable. Banks' direct and indirect exposures to the UK continue to be key risks for the banking sector. For investment firms and issuers, the impact of the end of the transition period on the application of the share trading obligation under the Markets in Financial Instruments Regulation (MiFIR) will be monitored. Across the system, access to clearing services provided by central clearing counterparty (CCPs) and the central securities depository (CSD) should be a key focus. From a CCP perspective, the European Commission's decision to grant temporary equivalence to the UK in terms of central clearing under the European Market Infrastructure Regulation has removed the financial stability cliff edge risks for end-2020 ([15]). This temporary equivalence will expire in June 2022. As regards the CSD migration project ([16]), this remains a key short term focus, with the project due to be delivered by March 2021. This will remain a priority for issuers, registrars and market operators in the coming months. In the insurance sector, the authorities have enacted temporary permissions regimes to provide additional time to insurers to fully implement their restructuring plans to prepare for the UK's withdrawal from the EU.

Ireland's large and growing non-bank financial sector appears to have weathered the large number of redemption requests at the start of the pandemic, but deserves continuous monitoring. Some non-banks and notably investment funds generally have inherent features that make them susceptible to runs that may lead to adverse consequences for the financial system and the real economy. This is compounded when these funds are invested in illiquid assets, such as CRE, which are particularly affected by the pandemic. However, CRE funds typically offer less

([14]) The provisioning coverage ratio has not changed much since end-2019, despite sizeable impairments made by Irish banks in the first half of 2020. This is due to the inflow of NPLs as well as impairments relating to performing but higher risk (i.e. Stage 2) assets.

([15]) Commission Implementing Decision (EU) 2020/1308 of 21 September 2020 determining, for a limited period of time, that the regulatory framework applicable to central counterparties in the United Kingdom of Great Britain and Northern Ireland is equivalent, in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council (notified under document C(2020) 6539) (Text with EEA relevance).

([16]) CSD services for Irish securities are currently provided by the CREST system (operated by Euroclear UK and Ireland) and will migrate to Euroclear Bank (an international CSD incorporated in Belgium).

redemption opportunities and require notice periods. However, following the outbreak of the pandemic, incentives for large-scale redemptions have been reduced, as policy actions by leading central banks have stabilised financial markets. Moreover, a wide range of liquidity management tools are available to investment funds under Irish law.

3. POLICY ISSUES

3.1. PUBLIC FINANCES

In 2020 Ireland has adopted a broad range of measures in response to the COVID-19 pandemic. These measures have been designed to provide support and relief to households and sectors particularly affected. The total value of measures, mostly on the expenditure side, has amounted to around EUR 25.5 billion (8% of GDP or 12% of GNI*), with some of them even extending to the first quarter of 2021. Ireland also allocated additional expenditure to increase the capacity and accessibility of the healthcare system. Furthermore, the 2021 Draft Budgetary Plan contains a contingency reserve and a recovery fund, together amounting to around 1.5% of GDP, set aside for additional expenditure to address evolving challenges and needs arising from both the pandemic and Brexit.

Welfare support measures have been extensive and have helped to maintain employment. They include the Pandemic Unemployment Payment (PUP) for those whose employment has been affected due to the pandemic, the Illness Benefit Payment for employees in self-isolation, the Temporary Wage Subsidy Scheme aimed at maintaining the link between employers and their employees and its successor, the Employee Wage Subsidy Scheme (EWSS). In this context, the Minister for Finance has announced that Ireland intends to apply for a EUR 2.5 billion loan under the European Support to mitigate 'Unemployment Risks in an Emergency' (SURE), to support the employment schemes mentioned above. The PUP and the EWSS are expected to run until April 2021.

Ireland has also implemented liquidity support measures for businesses. These have been particularly targeted towards micro-businesses and SMEs. They include: (i) credit guarantees and various loan schemes; (ii) a Pandemic Stabilisation and Recovery Fund which will make capital available to medium-sized and large businesses; (iii) the 'warehousing' of tax liabilities for 12 months after trading recommences; (iv) a six-month commercial rates waiver for impacted businesses; (v) a Restart Fund for micro and small business; and (vi) tax-relief for corporations and self-employed.

Corporate taxes have proven to be resilient but the sustainability of their high level over time remains at risk. The strong performance of corporate tax receipts so far (see Section 2.2) has benefited the public finances overall. However, the high concentration among a few large multinational firms, their volatility and potentially transitory nature, along with the rising share in total tax proceeds underline the risks of relying excessively on these receipts, as also mentioned by the Parliamentary Budget Office ([17]). A relatively narrow tax base reduces revenue stability and the effectiveness of automatic stabilisers to further shocks.

A broader tax base would strengthen the resilience of public finances. However, measures included in previous budgets have not meaningfully contributed to broadening the tax base and some even increased the scope for tax expenditure. The re-evaluation of the Local Property Tax has again been delayed, to November 2021. The non-indexation of income tax bands to inflation was a base-broadening feature of the recent budgets, which the government intends to remove when earnings rise again as the economy recovers. Yet a broader tax base is even more warranted in the context of possible changes to the international corporate tax system that may affect foreign investment in Ireland and subsequently corporate tax receipts. Base broadening could be achieved in a revenue-neutral manner, if accompanied by mitigating measures, such as reducing personal income tax rates for those at the lower-end of the income band. The government acknowledges the potential of reforms to Ireland's tax system being used as a means to support environmental objectives.

The need for continued support measures in 2021 will be carefully judged. The crisis-related support measures, temporary and targeted at cushioning the shock induced by COVID-19, have been warranted. Continued targeted and temporary support is needed to ensure the still fragile recovery and avoid lasting damage to businesses and employment, as mentioned by the Irish Fiscal Advisory Council ([18]). Growth-enhancing

([17]) Parliamentary Budget Office, Pre-Budget 2021 PBO Commentary, Publication 55 of 2020, September 2020.
([18]) Irish Fiscal Advisory Council, Pre-Budget 2021 Statement, September 2020.

expenditure, particularly green and digital investment, could make the recovery more sustainable and boost the potential growth of the economy in the medium to longer term. The effectiveness of such measures could benefit from a regular review as, depending on how the pandemic develops, adjustments may be needed. The general escape clause which was activated in agreement between the Commission and the Council in March 2020 ([19]) will remain active in 2021, supporting an accommodative fiscal stance. Refocusing fiscal policies towards achieving prudent medium-term fiscal positions, when economic conditions allow, will help preserve fiscal sustainability in the medium term.

Plans by the previous government to address fiscal vulnerabilities are still merited. In the 2020 Budget, the government proposed several measures to address fiscal vulnerabilities ([20]). These included reducing the exposure to inherently volatile corporate taxes by setting aside the windfall receipts in the Rainy Day Fund ([21]) and broadening the tax base. Also, it proposed establish a tailor-made general government balance that excludes corporate tax windfalls and setting short- and medium-term debt targets as a percentage of GNI*. Furthermore, it proposed to use alternative estimates of potential growth, which would better reflect the idiosyncrasies of the Irish economy, to identify the true underlying position of the economy and recalculate the structural fiscal balance and the maximum expenditure growth.

3.2. FINANCIAL SECTOR POLICIES

The Irish government announced a number of direct support measures to combat the adverse effect of the pandemic on the real economy and by extension on the financial sector. These include (i) the Pandemic Stabilisation and Recovery Fund of up to EUR 2 billion available for debt and equity investments to larger businesses; (ii) a credit guarantee scheme, providing an 80% state guarantee of up to EUR 2 billion to support SME lending; (iii) the Restart Fund providing up to EUR 550 million in grants (up from EUR 250 million previously) to micro- and SMEs; (iv) the Working Capital Loan Scheme, which aims to provide up to EUR 425 million (shared with the Brexit scheme) in short-term loans to enterprises; and (v) the Future Growth Loan Scheme ([22]) will provide up to EUR 800 million (up from EUR 200 million previously) to provide longer-term loans to businesses. In addition, banks and credit-acquiring companies have introduced (non-legislative) payment breaks to support affected borrowers.

The ECB and CBI have introduced capital relief measures to facilitate lending. In March 2020, the ECB announced that banks could use their capital conservation buffer and operate below their Pillar 2 guidance and liquidity coverage ratio. Banks are also allowed to partially use capital instruments that do not qualify as CET1 capital to meet their Pillar 2 requirements. On the macro-prudential side, the CBI used its available policy space to fully release the countercyclical capital buffer (CCyB), implemented at a rate of 1% in July 2019, and recalled that the other systemically important institutions buffer can be used to absorb losses. Moreover, the CBI pledged not to announce an increase the CCyB rate before the first quarter of 2021 at the earliest (note that the announcement precedes the introduction of the buffer by 12 months). The overall regulatory capital relief should help banks maintain credit supply to the real economy and absorb potential losses. The mortgage measures remained unchanged and will be reviewed at the end of the year.

The take-up of the payment breaks (moratoria) has been quite strong. Payment breaks of up to 6 months (12 months for large corporations) were introduced in March 2020 by the Banking and Payments Federation of Ireland and comply with the EBA guidelines providing banks with the option of not having to trigger forbearance classification for loans under the payment break

([19]) Communication from the Commission to the Council on the activation of the General Escape Clause of the Stability and Growth Pact, March 2020. https://ec.europa.eu/info/sites/info/files/economy-finance/2_en_act_part1_v3-adopted_text.pdf

([20]) Department of Finance, Budget 2020 Addressing Fiscal Vulnerabilities, October 2019.

([21]) The Rainy Day Fund was established in 2019 as a defined-purpose instrument to address severe and unanticipated events.

([22]) The Future Growth Loan Scheme is also supported from the European Investment Bank and the European Investment Fund (EIF).

[23]. At the same time, the CBI also announced that the payment break would not be recorded on a borrower's credit report with the Central Credit Register. At the end of June 2020, about 13% of the eligible outstanding loans (EUR 27.1 bn) benefited from the original three-month deferral. The take-up was particularly high in heavily affected sectors and stood at 17.2% (EUR 11.4 bn) for non-financial corporation loans. As of early September, the take-up ratio fell to 8.6% of eligible loans, largely driven by mortgage holders returning to making full payments.

The take-up of the direct funding schemes is quite varied. As of early September, less than a quarter of the EUR 425 million envelope under the Working Capital Loan Scheme was drawn. The take up of the Future Growth Loan Scheme, which has been available since July 2019, is also at a similar level, following the increase in the funding in July 2020. The take up of the Restart Fund, whose envelope was also extended in July 2020, is quite healthy, given that the scheme provides grants. Lastly, it is too early to assess the level of take-up of the EUR 2 billion credit guarantee scheme, which only began in September 2020.

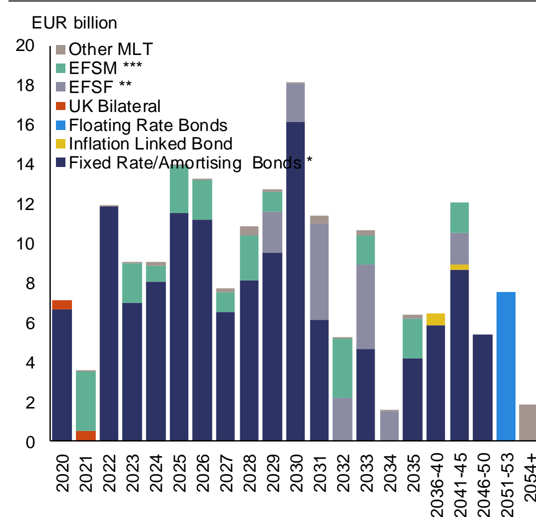
[23] EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02) was introduced on 2 April 2020.

4. SOVEREIGN FINANCING ISSUES

Government funding requirements have been revised upwards in line with the additional expenditure and decline in revenue incurred during the crisis. The National Treasury Management Agency (NTMA) revised the bond funding range for 2020 upwards to between EUR 20 and 24 billion in April. In July it indicated it would fund to the upper end of that range. So far the NTMA has issued EUR 22.75 billion ([24]) in long-term bonds, 95% of the upper bound, with an average maturity of 11.2 years and average yield of 0.22%. The cash balance was over EUR 31 billion at the end of September, but will fall to approximately EUR 12-13 billion by year-end, reflecting the funding of the exchequer balance, short-term debt redemptions and the EUR 6.5 billion bond maturity in October. There are no bond redemptions in 2021, only the last tranche of the UK bilateral loan, of approximately GBP 400 million.

Market financing conditions remain favourable for the Irish government. ECB monetary policy measures, including the pandemic emergency purchase programme, have helped compress of sovereign borrowing costs and debt servicing costs. Against this backdrop, the NTMA has extended debt maturities. The 10-year bond yield for Ireland remains low by historical standards at around -0.2% in September. The spread against the German benchmark has trended downwards since early 2020. Interest expenditure in Ireland is expected to have fallen from 1.6% of GDP in 2018 to 1.3% in 2019 and to drop further to 1.1% in 2020. However, as a share of GNI*, interest expenditure still amounted to 2.6% in 2018 and an estimated 2.1% in 2019.

Graph 4.1: **Maturity profile of long-term marketable and official debt (end-September 2020)**



The Irish programme was the second euro area assistance programme, and the first financed by two new financial assistance instruments established in 2010, the EFSF and the EFSM.
* Includes NTMA Repo activity. ** EFSF loans reflect the maturity extensions agreed in June 2013. *** EFSM loans are also subject to extension, such that their original aggregated weighted average maturity will be a maximum of 19.5 years. It is not expected that Ireland will have to refinance any of its EFSM loans before 2027. However the revised maturity dates of individual EFSM loans will only be determined as they approach their original maturity dates. The graph above reflects both original and revised maturity dates of individual EFSM loans.
Source: NTMA

Risks for Ireland's capacity to service EFSM and EFSF debt remain low. Redemptions of EFSF and EFSM loans are currently extended until 2042. For the EFSF, there are no maturities until 2029. The maturity of EFSM loans to Ireland can also be extended within the limit of 19.5 years of average original maturity established by the Council Decision on EU financial assistance to Ireland. It is therefore not expected that Ireland will have to repay any of its EFSF and EFSM loans before 2027. The revised maturity dates of individual EFSM loans will be determined as they approach their original maturity dates. This decision and the ensuing operations entail financial benefits for Ireland, linked to the EU's favourable funding conditions.

([24]) Excluding funds raised in non-competitive bond auctions.

Table 4.1: **Government financing plans**

EUR billion	2019	2020
Funding requirement		
Exchequer borrowing requirement (EBR) (1)	-0.6	16.7
Bond maturities (2)	13.1	17.1
UK bilateral loan (3)	1.6	1.9
Other bond flows (4)	5.3	2.3
Total requirement	**19.4**	**38.0**
Funding sources		
Government bonds (5)	15.3	25.2
Other (6)	5.3	8.9
Use of cash (- represents an increase)	-1.2	3.8
Total sources	**19.4**	**38.0**
Financial buffer (7)	**16.5**	**12.7**

Rounding may affect totals. 2020 figures are estimates, as of October 2020.

(1) 2020 figure as per Department of Finance, Budget 2021.
(2) Includes amortising bonds.
(3) Includes the effect of currency hedging.
(4) Includes floating-rate note purchases, and bond switching.
(5) 2019 includes inflation linked bonds. For 2020, the NTMA advised in July that it would issue to the top end of the revised EUR 20-24bn bond funding range announced in April. The figure in this table - while consistent with that volume of nominal issuance - shows the cash proceeds of syndications & auctions, including non-competitive auctions. It also reflects one further auction, in November.
(6) Includes net State savings (retail), net short-term paper funding and other medium/long-term funding.
(7) Exchequer cash; excludes other non-liquid exchequer financial assets.
Source: NTMA

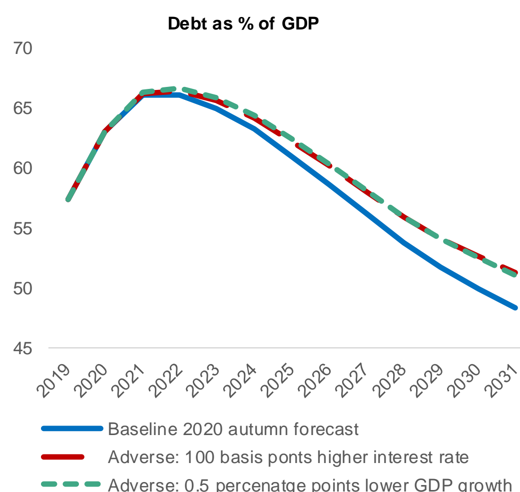
The profile of government debt is favourable. The weighted average maturity is approximately 10 years, one of the highest in the EU, mitigating the risk of increases in financing costs and rollover risks. Interest payments are expected to remain low by historical standards throughout the projection period, even under more adverse conditions. Official loans, and Eurosystem and retail holdings make up over 50% of Irish government debt, representing stable sources.

ANNEX 1
Debt sustainability analysis

The debt position appears to remain sustainable over the medium term. The debt sustainability analysis, based on the Commission 2020 autumn forecast, indicates that the debt position remains sustainable over the medium-term, also taking into account important mitigating factors linked to the Irish debt profile (see below). While the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline scenario is expected to be on a sustainable (declining) trajectory over the medium term (Figure 1). Based on the Commission 2020 autumn forecast and the no-policy-change assumption beyond the forecast period, the ratio is projected to reach its peak in 2021 and to start declining thereafter to less than 50% in 2031, supported by the progressive unwinding of the impact of the crisis on public finances and favourable interest rates. The sale of government shares in the three major banks would further reduce public debt. Under more adverse macro-financial scenarios (100 basis points higher interest rates or 0.5 percentage points lower GDP growth), the debt ratio would still remain on a downward trajectory, reaching just above 50% in 2031 under both scenarios.

The profile of government debt is favourable. The average weighted maturity is approximately 10 years, one of the highest in the EU, dampening the negative effect of potential increases in financing costs and reducing rollover risks. Interest payments would remain contained by historical standards throughout the projection period, even under more adverse conditions. Official loans, and Eurosystem and retail holdings make up over 50% of Irish government debt, representing stable sources of financing. Some degree of uncertainty is related to the contingent liability risks stemming from the private sector.

Graph A1.1: **Debt sustainability analysis**



Calculations based on the European Commission 2020 autumn forecast. The baseline generally assumes a gradual return to pre-crisis underlying assumptions, as embedded in the European Commission 2019 autumn forecasts.
Source: European Commission

Nevertheless, some medium-term risks exist. The largest risk relates to the unknown developments of the pandemic, which may require additional government supports and therefore further increase government debt. Moreover, alternative debt metrics, based on gross national income (GNI* – see Section 2.2) indicate a higher debt burden - than measured by the debt-to-GDP ratio (in Ireland, GDP also reflects the importance of multinationals' activities) and point to higher, albeit still moderate, debt sustainability risks in the medium term ([25]).

([25]) Department of Finance (2019) Annual Report on Public Debt in Ireland 2019, August 2019.

ANNEX 2
Supplementary tables

Table A2.1: **Fiscal accounts (based on 2020 autumn forecast)**

	2019	2020	2021	2022
		% of GDP		
Indirect taxes	7.7	6.6	6.9	7.3
Direct taxes	10.3	10.8	10.7	10.6
Social contributions	4.5	4.1	4.2	4.2
Sales	1.7	1.5	1.8	1.7
Other current revenue	0.6	0.5	0.2	0.2
Capital taxes	0.1	0.2	0.2	0.2
Total current revenue	**24.9**	**23.7**	**23.9**	**24.2**
Capital transfers received	0.2	0.2	0.2	0.2
Total revenue	**25.0**	**23.9**	**24.1**	**24.3**
Compensation of employees	6.5	7.0	7.1	7.3
Intermediate consumption	3.5	4.6	4.4	4.0
Social transfers in kind via market producers	2.1	2.1	2.0	2.0
Social transfers other than in kind	6.8	9.1	8.4	7.9
Interest paid	1.3	1.1	1.0	1.0
Subsidies	0.5	2.1	1.2	0.6
Other current expenditure	1.1	1.3	2.7	0.8
Total current expenditure	**21.7**	**27.3**	**26.7**	**23.5**
Gross fixed capital formation	2.3	2.6	2.7	2.7
Other capital expenditure	0.5	0.6	0.5	0.5
Total expenditure	**24.5**	**30.6**	**29.9**	**26.8**
General government balance	**0.5**	**-6.8**	**-5.8**	**-2.5**
General government balance net of one-offs	**0.5**	**-6.8**	**-5.8**	**-2.5**
		EUR billion		
Indirect taxes	27.5	23.1	25.4	27.6
Direct taxes	36.6	37.8	39.0	40.4
Social contributions	15.8	14.5	15.3	15.9
Sales	6.0	5.3	6.4	6.6
Other current revenue	2.1	1.6	0.9	0.9
Capital taxes	0.5	0.5	0.6	0.6
Total current revenue	**88.6**	**82.9**	**87.5**	**91.9**
Capital transfers received	0.6	0.6	0.6	0.6
Total revenue	**89.1**	**83.4**	**88.0**	**92.5**
Compensation of employees	23.0	24.6	26.0	27.6
Intermediate consumption	2.1	1.9	1.8	1.7
Social transfers in kind via market producers	7.4	14.3	8.6	7.7
Social transfers other than in kind	0.7	6.5	3.2	1.5
Interest paid	8.1	9.2	9.8	10.4
Subsidies	4.5	3.9	3.5	3.9
Other current expenditure	7.5	7.4	7.5	7.6
Total current expenditure	**53.2**	**67.8**	**60.5**	**60.4**
Gross fixed capital formation	12.5	16.0	15.9	15.1
Other capital expenditure	1.9	1.9	2.0	2.0
Total expenditure	**87.3**	**107.1**	**109.3**	**101.9**
General government balance	**1.8**	**-23.6**	**-21.2**	**-9.3**
General government balance net of one-offs	**1.8**	**-23.6**	**-21.2**	**-9.3**

Source: Eurostat and European Commission autumn forecast 2020

Table A2.2: **General Government debt projections (based on 2020 autumn forecast)**

	2019	2020	2021	2022
Government balance (% of GDP)	**0.5**	**-6.8**	**-5.8**	**-2.5**
Government gross debt (% of GDP)	57.4	63.1	66.0	66.0
		levels, EUR billion		
Government balance	**1.8**	**-23.6**	**-21.2**	**-9.3**
Gross debt	204.2	220.3	241.6	251.0
Change in gross debt	-1.7	16.1	21.3	9.4
Nominal GDP	356.1	349.5	365.8	380.0
Real GDP	335.2	327.3	337.0	345.7
Real GDP growth (% change)	**5.6**	**-2.3**	**2.9**	**2.6**
Change in gross debt (% of GDP)	-5.6	5.7	3.0	0.0
Stock-flow adjustments (% of GDP)	0.0	-2.1	0.0	0.0
		% of GDP		
Gross debt ratio	**57.4**	**63.1**	**66.0**	**66.0**
Change in gross debt ratio	-5.6	5.7	3.0	0.0
		contribution to change in gross debt		
Primary balance	1.8	-5.6	-4.8	-1.4
'Snow-ball' effect*	-3.8	2.2	-1.8	-1.4
of which				
Interest expenditure	1.3	1.1	1.0	1.0
Real growth effect	-3.2	1.4	-1.8	-1.6
Inflation effect	-1.8	-0.3	-1.0	-0.8
Stock-flow adjustments	**0.0**	**-2.1**	**0.0**	**0.0**
Implicit interest rate	*2.2*	*1.9*	*1.6*	*1.6*

The projections assume no borrowing for precautionary contingencies envisaged in the programme's financing plan.
*'Snow-ball' effect, interest expenditure, real growth effect and inflation effectare derived from the Commission forecast analyssis. Snow-ball effects refer to the net impact of the counteracting effects of interest rates, inflation and real GDP growth on the evolution of the debt ratio.
Source: Eurostat and European Commission autumn forecast 2020

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