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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Delegations will find attached document C(2020) 8509 final.

EUROPEAN
COMMISSION

Brussels, 18.11.2020
C(2020) 8509 final

COMMISSION OPINION

of 18.11.2020

on the Draft Budgetary Plan of Ireland

{SWD(2020) 859 final}

(Only the English text is authentic)

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COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan by 15 October, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3] As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the European Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[6], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027[7]. This proposal includes the

[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[3] https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

[4] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[5] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

[6] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

[7] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The EU budget powering the recovery plan for Europe, Brussels, 27.5.2020, COM(2020) 442 final.

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establishment of a Recovery and Resilience Facility offering large-scale financial support for both public investments and reforms. By contributing to the economic recovery and by providing financial support to strengthen the economy's long-term growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING IRELAND

5. On 15 October 2020, Ireland submitted its Draft Budgetary Plan for 2021. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

6. On 20 July 2020, the Council recommended Ireland [8] to take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Ireland to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Ireland's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that, after the assessment of all relevant factors, the deficit criterion was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

7. According to the Commission 2020 autumn forecast, the Irish economy is expected to contract by 2.3% in 2020 and grow by 2.9% in 2021. The Draft Budgetary Plan projects the Irish economy to contract by 2.4% in 2020 before rebounding by 1.7% in 2021. The expected fall in GDP in 2020 reflects the severely negative impact of the pandemic on domestic demand, in particular private consumption and investment, as already witnessed in the first half of the year. The recovery is set to be uneven across sectors, with manufacturing resuming activity more quickly than services, where restrictions are likely to remain in place for longer, particularly for face-to-face activities such as catering, arts, personal services and accommodation. Overall, the macroeconomic projections underpinning the Draft Budgetary Plan are fairly similar to the Commission forecast for 2020 but somewhat more pessimistic for 2021, on the back of weaker private consumption and a further contraction of investment. Ireland complies with the requirement of Regulation EU No 473/2013 since the draft budget is based on independently-endorsed macroeconomic forecasts.

8. The Draft Budgetary Plan projects a general government deficit of 6.2% of GDP in 2020. This represents a worsening in the headline balance of around 6.7 percentage points compared to 2019. It results from both the operation of automatic stabilisers, which led to a contraction in revenue and an increase in cyclical expenditure, and from discretionary fiscal measures taken in response to the

[8] Council Recommendation of 20 July 2020 on the national Reform Programme of Ireland and delivering a Council opinion on the 2020 Stability Programme of Ireland, OJ C 282, 26.8.2020, p 39.

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pandemic. According to the Draft Budgetary Plan, the deficit ratio is expected to narrow to 5.7% of GDP in 2021, partly helped by the rebound in economic activity.

The Draft Budgetary Plan does not include any revenue from or expenditure financed under the Recovery and Resilience Facility. For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes in its budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Ireland, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 138 million.[9]

On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the corresponding measures were not sufficiently specified at the cut-off date of the forecast.[10] The evolution of the deficit in 2021 could turn out more favourable as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility. The Commission forecast projects a higher deficit in 2020, of 6.8% of GDP. The difference is partly due to Commission projections incorporating the six-week national lockdown announced on 19 October, after the submission of the Draft Budgetary Plan. This is expected to further increase the cost of some COVID-19 related welfare measures, as more people would avail of these income supports. The lockdown is also expected to put downward pressure on revenue through, among other factors, lower consumption and therefore lower VAT receipts. For 2021, the Commission forecast projects a deficit of 5.8%, broadly in line with the Draft Budgetary Plan.

The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will increase from 62.6% at the end of 2020 to 66.6% in 2021. This is broadly in line with the Commission's projection of 63.1% and 66.0%, respectively.

9. The Draft Budgetary Plan incorporates discretionary fiscal measures in response to the COVID-19 outbreak with a direct budgetary impact in 2020 of around 4.9% of GDP. These consist of expenditure measures totalling 4.8% of GDP and revenue measures costing 0.1% of GDP. Expenditure measures in 2020 include, among others, wage subsidies to protect jobs, welfare payments, additional spending on healthcare to cope with the medical emergency, and supports for businesses most affected. On the revenue side, measures in 2020 include some VAT reductions and a Covid Restrictions Support Scheme for businesses for businesses that had to close or significantly reduce trading.

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9 Indicative number based on the Council Presidency compromise proposal for the RRF regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

10 The treatment of the Recovery and Resilience Facility (RRF) in the Commission’s 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission’s Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

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The Commission forecast has taken into account the measures reported in the Draft Budgetary Plan, but with a slightly higher estimate of their budgetary impact as the Commission forecast incorporates the six-week national lockdown imposed on 20 October. This is expected to further increase the overall cost of the income supports, as mentioned above, and of the Covid Restrictions Support Scheme as more companies are expected to avail of the scheme.

Ireland also announced measures that, while not having any immediate direct impact on the deficit, contribute to providing liquidity support to businesses, of around 2.2% of GDP. They include tax-deferrals and reliefs (0.7% of GDP), a pandemic stabilisation and recovery fund (0.6% of GDP), various loan schemes and repayable advances (0.3% of GDP) and credit guarantee schemes (0.6% of GDP with a cap of 0.5% of GDP). By 15 October 2020, the take-up of the guarantees is estimated at around 0.01% of GDP.

Overall, the measures taken by Ireland in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

10. For 2021, the Draft Budgetary Plan largely incorporates the extended COVID-19 related measures announced in 2020 and additional contingency funds, in total amounting to 3.5% of GDP. Expenditure measures imply a budgetary impact of around 1.8% of GDP. These consist of welfare supports estimated at 0.9% of GDP, including measures to encourage the retention of employees by solvent businesses but also income supports for those that lost their job due to the pandemic. Furthermore, it sets aside a contingency reserve (0.6% of GDP) for additional expenditure that may arise next year in relation to the pandemic. Revenue measures imply a budgetary impact of 0.2% of GDP and include extended VAT reductions and an interest reduction on tax liabilities. The Draft Budgetary Plan also includes a recovery fund (0.9% of GDP) for revenue and expenditure measures that may be required to address evolving pressures from both the pandemic and a change in EU-UK trading relations. According to the Commission forecast, the COVID-19 related measures are temporary.

The Draft Budgetary Plan also includes an increase in the carbon tax (0.4% of GDP), the proceeds of which are expected to be ring-fenced for climate action measures. At the same time, it announces a 2% permanent increase in gross salaries across the public services, at an annual cost of 0.1% of GDP. Additional longer-term expenditure relates to planned staff increases in various departments and spending in the healthcare sector reflecting the government’s plan to implement the Sláintecare programme.

The measures and the contingency funds in the Draft Budgetary Plan are included in the Commission forecast.

11. The Commission is of the opinion that the Draft Budgetary Plan of Ireland is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Ireland are supporting economic activity against the background of considerable uncertainty. Ireland is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

It is anticipated that the Ireland will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the

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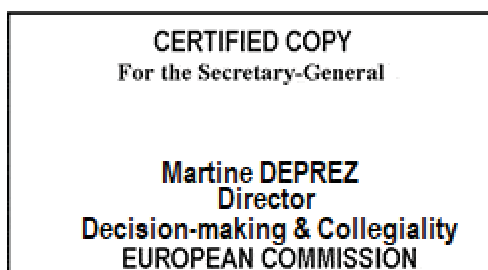
Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament

Done at Brussels, 18.11.2020

For the Commission
Paolo GENTILONI
Member of the Commission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For the Secretary-General

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