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TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

Alert Mechanism Report 2021

(prepared in accordance with Articles 3 and 4 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances)

{SWD(2020) 275 final}

This alert mechanism report (AMR) initiates the tenth annual round of the macroeconomic imbalance procedure (MIP). The procedure aims at detecting, preventing and correcting imbalances that hinder the proper functioning of Member State economies, the economic and monetary union or the Union as a whole, and at spurring appropriate policy responses. The implementation of the MIP is embedded in the European Semester of economic policy coordination to ensure consistency with the analyses and recommendations made under other economic surveillance tools (Articles 1 and 2 of Regulation (EU) No 1176/2011). [1]

This year's surveillance cycle of the European Semester, including the implementation of the MIP, is being adjusted in light of the creation of the Recovery and Resilience Facility (RRF). The annual sustainable growth strategy (ASGS), adopted in mid-September 2020, took stock of the economic and social situation in Europe, set out broad policy priorities for the EU as well as provided strategic guidance for the implementation of the RRF.

The AMR analysis is based on the economic reading of a scoreboard of selected indicators, complemented by a wider set of auxiliary indicators, analytical tools and assessment frameworks and additional relevant information, including recently published data and forecasts. This year's AMR includes a reinforced forward-looking assessment of risks to macroeconomic stability and for the evolution of macroeconomic imbalances. The AMR includes also an analysis of the euro area-wide implications of the Member States macroeconomic imbalances.

The AMR identifies Member States for which in-depth reviews (IDRs) should be undertaken to assess whether they are affected by imbalances in need of policy action (Article 5 of Regulation (EU) No 1176/2011). Taking into account discussions on the AMR with the European Parliament and within the Council and the Eurogroup, the Commission will then prepare IDRs for the Member States concerned. The IDRs will be published in spring 2021, and will provide the basis for the Commission assessment regarding the existence and severity of macroeconomic imbalances, and for the identification of policy gaps.

1. EXECUTIVE SUMMARY

This Alert Mechanism Report (AMR) is carried out against the backdrop of the COVID-19 crisis. Given the rapid and marked change in economic conditions brought about by the COVID-19 crisis, this report's economic reading includes a reinforced forward-looking assessment of risks to macroeconomic stability and for the evolution of macroeconomic imbalances. To this end, it is necessary to look beyond the AMR scoreboard final annual data, which in this year's AMR covers the period up to 2019. Thus,

[1] The United Kingdom left the European Union on 31 January 2020 on the basis of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community ('the Withdrawal Agreement', OJ C 384 I, 12.11.2019, p. 1), Union law continues to apply to and in the United Kingdom for the duration of the transition period ending on 31 December 2020.

this year's report, compared with previous years, makes a greater use of forecasts and high-frequency data to gauge the potential implications of the COVID-19 crisis.[2]

The current surveillance cycle of the European Semester is being temporarily adjusted to ensure consistent and effective implementation of the Recovery and Resilience Facility (RRF), and this will also affect the implementation of the Macroeconomic Imbalance Procedure (MIP). The 2021 Annual Sustainable Growth Strategy (ASGS), which was adopted in mid-September, launched this year's European Semester cycle and set out strategic guidance for the implementation of the RRF.[3] The RRF foresees that Member States will adopt Recovery and Resilience Plans (RRPs) which set out reforms and investment that address key economic challenges and are aligned with EU priorities, which includes the country-specific recommendations addressed to the Member States in recent years and in particular in the 2019 and 2020 Semester cycles. The RRF is therefore an opportunity for Member States to implement reforms and investments in line with MIP-related recommendations that address the underlying and long-standing structural causes of existing macroeconomic imbalances. Specific Monitoring of policy responses to existing macroeconomic imbalances is not taking place in autumn 2020, but instead monitoring will take place in the context of the assessment of the RRPs.[4] The next vintage of in-depth reviews (IDRs) will be published in spring 2021, jointly with the assessment of Stability and Convergence Programmes, and will look closely into the gravity and evolution of already identified imbalances and inquire the risks of emergence of new ones.[5]

Most existing macroeconomic imbalances have been undergoing a process of correction amid favourable macroeconomic conditions up until the outbreak of the COVID-19 crisis. *Flow imbalances*, such as excessively large current account deficits or buoyant credit growth, had been corrected in the years following the 2008 financial crisis, in a context of broad-based private sector deleveraging. The economic expansion that started in 2013 supported the correction of *stock imbalances*, which has started later and progressed more slowly, by prompting the reduction of private, public, and external debt-to-GDP ratios and by strengthening bank balance sheets. At the same time, over recent years, the economic expansion has brought some overheating risks, mainly at the level of house prices dynamics and cost competitiveness developments, especially in countries where economic growth was buoyant.

A number of existing macroeconomic imbalances are being aggravated by the COVID-19 crisis, and new risks may loom. In particular, government and private debt-to-GDP ratios are on the rise. Going forward, private sector debt repayment might be challenged by subdued levels of economic activity, bankruptcies, and a weak labour market. Such debt distress would affect banks' balance sheets and further impair their profitability. At the same time, excessively buoyant labour cost and house price

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[2] Regulation (EU) 1176/2011 explicitly mentions that AMR analysis would draw on other relevant information (Article 3.2). Scoreboard data is included in Tables 1 and 2 at the end of this report. This report is accompanied by a statistical annex.

[3] COM(2020) 575 final, Annual Sustainable Growth Strategy 2021, available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1658

[4] For Member States with identified imbalances, Specific Monitoring is a targeted surveillance of policy progress to address imbalances in addition to the surveillance taking place in the European Semester cycle. In previous years, it was carried out in autumn.

[5] For Member States identified with imbalances or excessive imbalances this February, country-specific commentaries in this year's AMR (Section 5) also summarise latest MIP-relevant CSRs and action taken by those countries to implement them.

dynamics that characterised the recent past are expected to fade, but concerns may arise if such adjustment turns into excessive downward corrections, notably of house prices in Member States with already high household debt.

The horizontal analysis presented in the AMR leads to a number of conclusions:

- **Developments in current accounts in most EU Member States following the COVID-19 crisis are likely not to be major.** Current account deficits remain moderate in most countries. Some large current surplus persist although narrowing in recent years. Current accounts are forecast to move relatively little with the COVID-19 crisis. This is in sharp contrast with the developments during the global financial crisis, when deficits in EU countries were significant and the crisis triggered their unwinding. The stability of current account figures however masks big shifts in the contribution of different sectors to the overall external position, as large increases in the net lending position of the private sector are being offset by substantial worsening of the net lending position of governments in their efforts to cushion the impact of the crisis.
- **The improvements recorded in the net international investment position (NIIP) of most Member States in past years are expected to stop.** While large stock of external imbalances persist in a number of Member States, NIIP improvements continued in 2019 in most EU countries, driven by current account outturns above NIIP-stabilising levels, nominal GDP growth, and sometimes large positive valuation effects. Going forward, improvements in the NIIP-to-GDP ratio are expected to come to a halt, on the back of the large GDP contraction in 2020 and relatively stable current account outturns.
- **Some external financing tensions surfaced at the onset of the COVID-19 crisis in some non-euro area Member States.** Capital movements and exchange rates of some non-euro area Member States were subject to market pressure over a brief period in late March and April in light of increased risk aversion. Such pressures have since eased amid improved financial market outcomes.
- **The labour market impact of the COVID-19 crisis has so far been relatively mild compared to the scale of the recession, thanks also to policy measures such as short-time work schemes, but unemployment is expected to rise.** The crisis ended years of improving labour markets across the EU. To date, it has led mostly to a fall in average hours per worker while headcount unemployment has only increased a little. This phenomenon of labour hoarding, i.e. of companies holding on to their employees, which has characterised many EU economies in 2020 is largely owed to government-subsidised initiatives to preserve jobs, notably temporary short-time work schemes. Unemployment is however expected to increase with some lag, as it typically happens after recessions. There are in particular risks of significant job losses in the sectors strongly affected by the pandemic, depending both on how long lasting these effects will prove, and on the strength of the policy response.
- **Unit labour costs (ULCs) have been accelerating in various EU countries in recent years given wage increase and weak productivity growth, but are expected to moderate going forward, following a stark increase in 2020.** Strong ULC dynamics in a context of robust economic growth was recorded in several central and eastern European and Baltic countries in recent years. Falling labour productivity, stemming from the fall in production coupled with maintaining jobs, is projected to push ULC growth up in 2020, despite a marked slowdown in wage growth. In 2021, the projected gradual recovery in economic activity is expected to imply a rebound in headline productivity, which would partly offset the ULC increase in 2020.

- **Corporate debt is expected to increase considerably across the board in 2020, notably on account of liquidity needs.** Borrowing to finance working capital surged with the COVID-19 outbreak, and credit to non-financial corporations has increased in most countries. Credit guarantees have helped businesses to borrow in support of their operations, and also to strengthen their liquidity positions. Debt repayment moratoria also contributed to the debt increase. Growing debt levels, combined with the significant drop in GDP in 2020, are expected to sharply increase debt-to-GDP ratios especially in the short term. Going forward, the dynamics of debt-to-GDP ratios are likely to improve with the recovery but servicing debt could be challenging particularly in sectors impacted by the pandemic in a more lasting way. This would impact the balance sheets of lenders too.

- **Household debt dynamics appear relatively contained.** Before the COVID-19 crisis, household credit started growing again at a dynamic pace in a number of countries after years of deleveraging or subdued dynamics. The evolution of the household debt stock appears to be somewhat decelerating in 2020. This is happening despite the impact of debt moratoria, which have eased liquidity pressures from indebted households and reduced the pace of repayments. Household debt-to-GDP ratios are mechanically growing in 2020 in light of the drop in GDP. At the same time, household savings have risen amid a sharp drop in consumption. Debt repayment prospects for households are clouded by the deterioration in labour markets.

- **House price growth remained robust into 2020, with accelerations in some countries, but a moderation and possible downward corrections look likely.** In 2019, house prices kept growing at high rates, also in a number of countries that were showing risks of overvaluation. The impact of the crisis on employment prospects and household incomes will normally be reflected in a moderation of house price dynamics. Latest quarterly data already point to a softening of housing markets in more than half of the EU countries. House price growth forecasts suggest downward corrections in a large majority of Member States over the period 2020-2021.

- **After having followed a downward trend in recent years on the back of stronger nominal GDP growth, government debt is currently on the rapid rise in all Member States, especially in those where the COVID-19 crisis had the most severe impact.** In recent years, government debt has kept declining in most Member States, while in a few high-debt countries reductions were absent or limited. During the crisis, governments across the EU have let automatic stabilisers function and have provided direct fiscal and liquidity support to mitigate the health crisis and the private sector spending retrenchment. Government debt ratios are increasing more where pre-crisis debt levels were already the highest, reflecting also the fact that the recession has been deeper in those countries. Exceptional monetary easing and various EU and euro area level initiatives have kept financing costs at historically low levels and supported confidence. While some countries have taken advantage of the high liquidity and demand by investors to lengthen the maturity structure of their sovereign debt, the structure of government debt might entail risks for others, notably on account of short maturity structures and high shares of debt denominated in foreign currency.

- **Conditions in the banking sector improved in past years, but the COVID-19 shock could test the resilience of the EU banking sector.** Conditions in the banking sector have improved considerably since the global financial crisis, with stronger capital ratios and liquidity buffers than a decade ago. However, the sector has remained challenged by low levels of profitability in a low interest rate environment, and, in a few countries, by still relatively high levels of non-performing loans. Ample liquidity provided by central banks helped avoiding a credit crunch after the COVID-19 outbreak and the suspension of dividend payments and some temporary regulatory

relief is also giving further breathing space to banks. The crisis is expected to harm asset quality and profitability prospects. Rising debt repayment difficulties by corporations and households would translate into non-performing loans (NPLs) going forward, especially once debt moratoria have expired. Downward corrections in house prices may affect collateral valuations and therefore bank balance sheets.

The COVID-19 shock is exacerbating existing imbalances within the euro area, which highlights the need of making the best use of the EU support measures. According to the Commission autumn 2020 economic forecast, the Member States most impacted economically by the COVID-19 crisis because of the gravity of the pandemic or of the dependence on highly exposed sectors are characterised by relatively large stocks of government and external debt. The COVID-19 crisis thus appears to be accentuating existing patterns within the euro area regarding domestic and foreign indebtedness. A number of the countries highly impacted by the COVID-19 crisis were in the recent past characterised by anaemic potential growth. Hence, the pandemic could also be exacerbating economic divergences. In parallel, despite the large fall in world demand, a trade surplus is currently projected to persist for the euro area as a whole, highlighting that there could be further room to expand domestic demand at the euro area aggregate level to foster the recovery, while supporting the ECB efforts to reach the inflation target. In light of growing indebtedness in all Member States, the RRF and other financial support instruments put in place at euro area and EU level, including SURE, REACT-EU and higher flexibility in the use of remaining EU funds, can help Member States create the conditions for a durable recovery and strengthen resilience. Going forward, it is important that supportive policy measures, reforms and investments put in place across the euro area are combined in such a way to address effectively macroeconomic imbalances, in particular where they are excessive.

All in all, with the COVID-19 crisis, risks appear to be on the rise in countries already identified with (excessive) imbalances. To some extent, the COVID-19 crisis is a setback in the gradual reduction in imbalances in many Member States, which was mainly driven by the economic expansion since 2013. At the same time, pre-existing overheating pressures related to strong house price and unit labour cost growth now appear as less of a risk in the medium term, possibly even facing downward corrections. While pressures on capital flows and exchange rates were proved short-lived in 2020 so far, market sentiment might remain volatile. Hence, surveillance needs to focus on countries where risks appear on the rise, which mainly coincide with countries already identified with imbalances. In addition, developments need to be monitored closely in other Member States, including in a few non-euro area economies, where external sustainability concerns have manifested into market pressures during spring and well as in Member States with very high debt levels.

The increase in private and government debt-to-GDP ratios in 2020 calls for careful monitoring while not requiring at this stage new IDRs. Risks to macroeconomic imbalances, notably those linked to growing debt-to-GDP ratios, are aggravating especially in countries already identified with imbalances or excessive imbalances. The significant debt-to-GDP ratio increases in 2020 are to a large extent linked to the mechanical effect of temporary but large recessions reducing the denominator of that ratio. These increases in government debt and corporate debt are also linked to the adjustment to the large one-off COVID-19 shock and the outcome of deliberate and temporary policy efforts (also linked to measures such as bank guarantees and moratoria on repayments) to cushion the impact of the crisis and prevent an even bigger repercussion of the pandemic on economic activity, incomes and macroeconomic stability going forward. Preventing the recession from becoming deeper and entrenched is a necessary response to improve debt prospects going forward even if implying temporary debt increases.

IDRs will be prepared for the Member States already identified with imbalances or excessive imbalances. In line with the established prudential practice, IDRs will be conducted to assess whether existing imbalances are unwinding, persisting or aggravating, while taking stock of corrective policies implemented. The preparation of IDRs is thereby foreseen for the 12 Member States identified with imbalances and excessive imbalances in light of the findings of the February 2020 IDRs.[6] Nine Member States are currently identified with imbalances (**Croatia, France, Germany, Ireland, the Netherlands, Portugal, Romania, Spain**, and **Sweden**), while **Cyprus, Greece**, and **Italy** are identified with excessive imbalances.

This AMR highlights potentially risky developments in a number of Member States for which IDRs will not be prepared. Following the COVID-19 outbreak, risks have surfaced in some non-euro area countries linked to external financing. Hungary appears as a case where the interplay between government borrowing and external financing deserves monitoring.[7] Government debt is partly financed in foreign currency, which reflects the open nature of the economy and the fact that part of the revenues of the public sector and of the private sector are in foreign exchange. However, government debt has very short maturity and with relevant holdings by the domestic banking sector, while official reserves in early 2020 were close to prudential minima. While market pressures have eased since spring and there are currently no solid indications that there are risks of imbalances, such risks may resurface in the future and therefore require careful monitoring. The implications of growing debt-to-GDP ratios also deserve monitoring in a number of Member States not currently under MIP surveillance. In, both private and government debt are expected to further grow above the MIP thresholds. Member States where private debt is forecast to be on the rise and above threshold are Denmark, Finland, and Luxembourg. Government debt is expected to further grow above 60% of GDP in Austria and Slovenia. The extent to which those developments entail additional risks for macroeconomic stability is surrounded by large uncertainty, given in particular the need to take also into consideration medium and longer-term growth prospects, and how they are affected by COVID-19 crisis,. Therefore, while the projected increase in debt ratios requires careful monitoring, there is at this stage no need to carry out an IDR for additional Member States.

2. THE CHANGING ECONOMIC OUTLOOK: IMPLICATIONS FOR EURO AREA MACROECONOMIC IMBALANCES

The COVID-19 pandemic acted as a one-of-a-kind shock to the economy. The outbreak of the pandemic was followed by restrictive measures to limit the contagion starting in March 2020, which were gradually eased starting in May in most Member States. The measures put in place were broadly proportional to the severity of the health emergency but with relevant differences across countries.[8] As a result of the COVID-19 pandemic, a massive demand shock affecting consumption was compounded by supply restrictions during lockdowns. Consumption dynamics remain subdued compared with pre-

[6] See '2020 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011' - COM(2020) 150 final, 26.2.2020. Bulgaria was also subject to an IDR this February but was found no longer experiencing imbalances.

[7] The interaction between public finances and the external sector deserves being analysed also in the IDR foreseen for Romania.

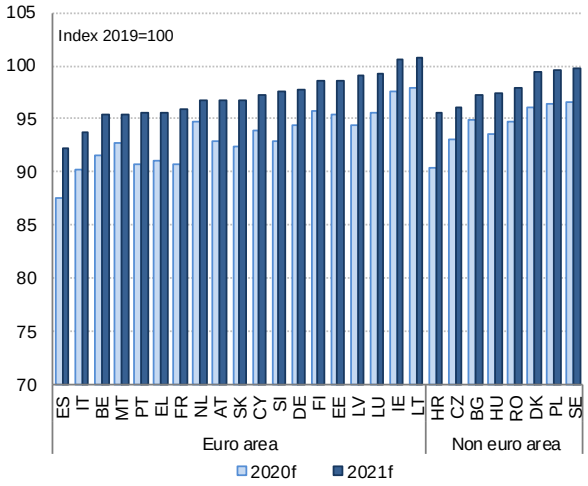
[8] See https://ec.europa.eu/info/files/policy-measures-against-spread-coronavirus_en. See also International Monetary Fund, Fiscal Monitor, October 2020.

COVID trends, notably for service activities where human contact is more difficult to avoid. Investment remains hampered by substantial uncertainty. Reduced income and employment growth, as well as subdued export market dynamics, will keep holding back demand down the road. The disruption of some value chains and distancing measures on the workplace keep affecting supply, denting on productivity.[9] The EU and other world areas are currently in the middle of a new outbreak of the pandemic, whose severity and duration is surrounded by major uncertainty. Overall, the Commission autumn 2020 economic forecast expects GDP to fall by -7.8% in the euro area and -7.4% in the EU in 2020. Despite the recovery expected for 2021, GDP levels are forecast to be below the 2019 pre-crisis levels (Graph 1).[10] [11]

Exceptional policy responses helped cushion the economic fallout of the COVID-19 crisis. Tremendous policy action was put in place across the EU and in major world areas to prevent the collapse in incomes following restrictive measures and reduce the risk of large job losses and corporate bankruptcies. Governments provided fiscal support by means of short-term working schemes and beefed-up income support to the unemployed. Moratoria were provided for tax payments and loan mortgage repayments. Guarantees for bank loans were provided to prevent credit being squeezed. The ECB took a broad range of supportive measures to preserve financial stability and the smooth functioning of financial markets, including additional liquidity provision for banks, eased collateral requirements, as well as substantial additional purchases of public and private sector assets under the Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP). The Single Supervisory Mechanism (SSM) relaxed regulatory requirements on banks in a counter-cyclical way. The European Stability Mechanism (ESM) made available to all euro area Member States a Pandemic Crisis Support, based on its Enhanced Conditions Credit Line (ECCL). The EU and its Member States put in place three safety nets for workers, companies and sovereigns: a facility for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), the European Investment Bank's Pan-European Guarantee Fund and the ESM's Pandemic Crisis Support. The Commission made proposals for new instruments to foster the recovery (Next Generation EU) that were agreed by the European Council in July, notably a large-scale Recovery and Resilience Facility. This facility provides grants and loans to foster reforms and investment to enhance the growth potential, strengthen economic and social resilience and facilitate the green and digital transition, consistent with the Union objectives in that regard. A range of other policy measures were taken, including speeding up and making more flexible the use of remaining EU funds, putting in place a temporary state aid framework and activating the General Escape Clause under the Stability and Growth Pact.

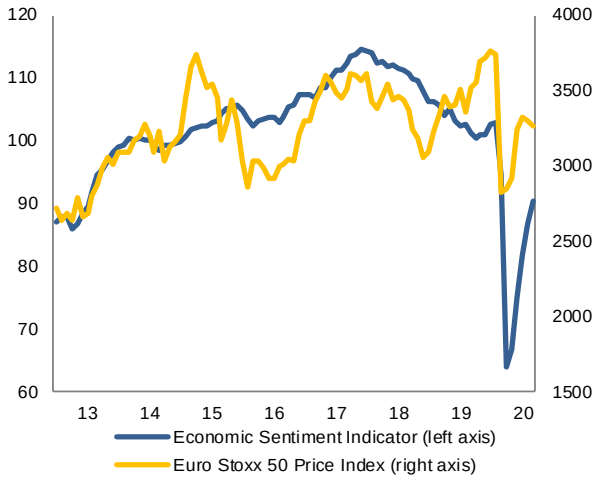
[9] See International Monetary Fund, World Economic Outlook, chapter 2, October 2020.
[10] European Commission, European Economic Forecast, Autumn 2020, Institutional paper 136, November 2020.
[11] The UK is not covered in the graphs in the following sections as they underpin the implementation of the MIP in 2021, which takes place after the end of the transition period.

Graph 1: GDP in constant prices in comparison with pre-crisis levels



Source: European Commission autumn 2020 economic forecast

Graph 2: Economic sentiment and stock market index, 2013-2020



Source: European Commission and ECB, provided by DataStream

The COVID-19 outbreak was followed by strong initial reactions on financial markets. Financial markets anticipated a major recession soon after the outbreak of the COVID crisis. Stock markets plunged against the backdrop of revised expectations on corporate profits. Bond market valuations reflected flight-to-safety dynamics, with risk premia rising on government bonds perceived more risky by investors and corporate bond spreads increasing notably for low rating segments. Exchange rate dynamics reflected pressures on emerging markets amid capital outflows and major downward corrections in oil and commodity prices. Some downward pressures were felt also on the currencies of a few non-euro area Member States. Tensions were particularly noticed also in some of the currencies and bond yields of non-euro area Member States adopting flexible exchange rate regimes amidst augmented volatility in capital flows. [12]

Financial market conditions have improved substantially following the support measures by public authorities, decoupling from real economy prospects. Stock and bond markets recovered amid narrowing risk premia. Exchange rate markets stabilised, as well as commodity markets. Losses accumulated following the COVID-19 outbreak have been substantially reduced, and market volatility has been contained. In a context of massive, timely and credible interventions by public authorities, financial markets appear to have decoupled from real economy prospects, which are still surrounded by substantial downside risks (Graph 2).[13]

There is an elevated degree of uncertainty surrounding the economic outlook related to the evolution of the pandemic, as well as policy responses and behavioural changes by economic

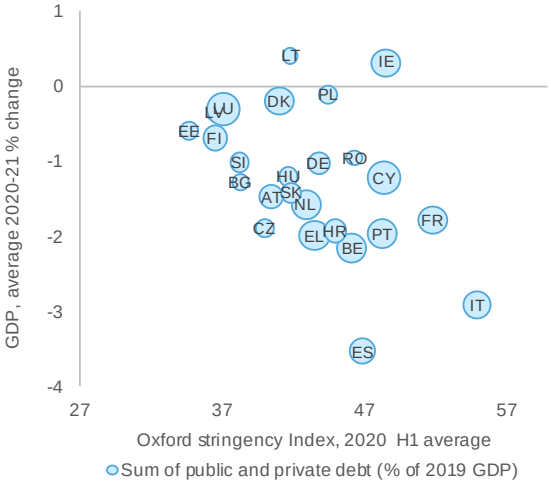
[12] See also ECB, Financial Stability Review, May 2020, Bank of International Settlements, Annual Economic Report, June 2020; and, International Monetary Fund, Global Financial Stability Report, April 2020, Update June 2020, and October 2020.

[13] The Commission's Economic Sentiment indicator, despite recovering is currently still below its average since the 2013 recovery, while the main euro area stock price index has recovered to values broadly in line with its average for the same post-2013 period. See also International Monetary Fund, Global Financial Stability, Update June 2020, and October 2020.

agents. The effects of the spring 2020 recessions have not fully unfolded yet for what concerns implications on employment, bankruptcies, and banks' balance sheets. The currently unfolding of the ongoing second outbreak of the pandemic is impacting the growth outlook through the introduction of new containment measures. These are expected to weigh on economic activity and sentiment in the short run, with negative effects on consumption and investment, though to a lesser extent than in the spring, as the approach so far has been more targeted. Accordingly, after a strong rebound in the third quarter, EU GDP growth looks set to stall in the fourth quarter of 2020. In addition, trade tensions and geo-political tensions may re-emerge. The supportive stance of fiscal and monetary authorities has so far been judged as credible by financial markets, and a premature withdrawal of policy measures would be a risk. A re-appraisal of risks and possible new episodes of financial stress cannot be ruled out especially in countries that combine high indebtedness, weak external positions, and large financing needs that cannot be fully financed domestically. On the upside, faster progress in controlling the pandemic and the implementation of ambitious and coordinated policies within the EU could enable a faster recovery.

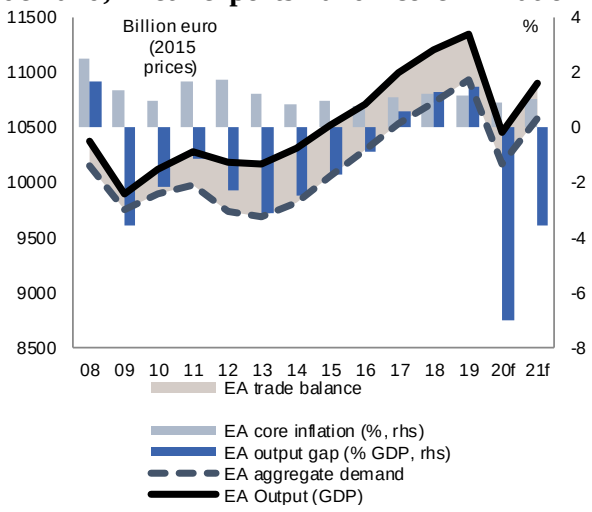
Current economic developments have implications for macroeconomic imbalances. Government and private debt-to-GDP ratios are on the rise in a majority of Member States. This is due to both the mechanic outcome of the recessions reducing the denominator of debt-GDP-ratios and increased borrowing by the public and the corporate sector to cushion the impact of the COVID-19 crisis. Ultimately, worsening prospects for government and private debt is a risk that could impact financial sector balance sheets, which would also be directly impacted by the COVID-19 shock in terms of reduced profitability. At the same time, the trends that were observed in a number of Member States for what concerns deteriorating cost and price competitiveness and strong house prices growth are now likely to come to a halt. However, this raises instead questions about the implications of a reversal in those patterns. In particular, weak or negative developments in labour income may imply reduced repayment capacity for households, while downward corrections for house prices, especially if taking place in countries with high levels of household debt and unfolding in a disorderly fashion, may affect banks' balance sheets by leading to lower collateral values.

Graph 3: Recessions, Oxford Stringency Index and pre-COVID-19 debt levels



Source: Eurostat, European Commission autumn 2020 economic forecast and Oxford COVID-19 Government Response Tracker

Graph 4: Euro area output, domestic demand, net exports and core inflation



Source: AMECO and European Commission autumn 2020 economic forecast.
Note: while the difference between GDP and domestic demand should equal the trade balance by definition, data are not fully aligned due to intra-euro area reporting discrepancies.

The COVID-19 shock appears to exacerbate existing imbalances within the euro area.[14] While the level of debt does not appear to have been a factor which significantly aggravated post-COVID recessions, a majority of countries that were hit the hardest by the COVID-19 pandemic and had to put in place containment measures happened to be characterised by relatively large stocks of public or private debt (Graph 3). [15] This implies that, because of relatively strong recessions, debt-to-GDP ratios are on the rise especially in countries where debt stocks were already comparatively high. [16] Some of the net-debtor countries that were hard hit by the pandemic are also characterised by a relatively high share of tourism revenues (e.g., Cyprus, Greece, Portugal, Spain), which are particularly exposed to the COVID crisis, with implications also for their external balances. In a nutshell, the COVID crisis appears to be reinforcing existing patterns within the euro area regarding economic divergences, domestic and foreign indebtedness.

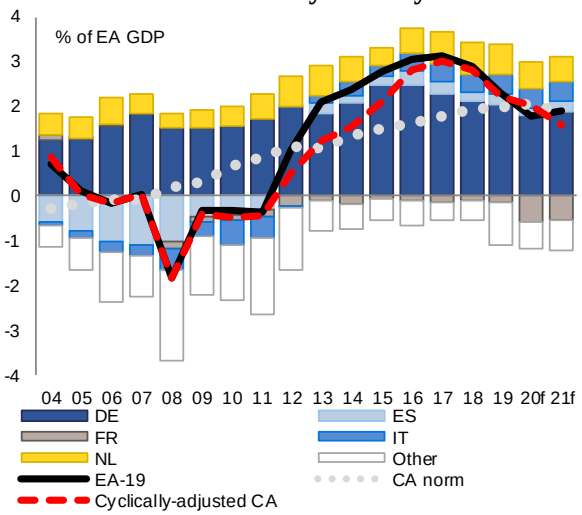
In view of the massive fall in aggregate demand, the gradual reduction in the euro area trade balance surplus is projected to come to an end. The euro area trade surplus has been declining since 2017, and is projected to remain broadly stable in 2020 and 2021. The fall of GDP in 2020 and its recovery in 2021 is expected to be broadly in line with the evolution of domestic demand. By the same token, the dynamics of euro area imports are projected to be closely aligned with those of exports. The trade surplus at euro area level is therefore not expected to further decline, against the backdrop of a deterioration of the output gap in 2020 that is forecast to be larger than the one observed in 2009 after the financial crisis. In parallel, core inflation is expected to remain subdued (Graph 4).

[14] More attention to the euro area dimension of imbalances was proposed in the 22 June 2015 Report 'Completing Europe's Economic and Monetary Union' by Jean-Claude Juncker, Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz. The role of interdependencies and systemic implications of imbalances is recognised in Regulation (EU) No 1176/2011, which defines imbalances with reference to "macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of the economic and monetary union, or of the Union as a whole." The analysis contained in this report accompanies the assessment provided in the European Commission Staff Working Document "Analysis of the Euro Area economy", accompanying the Commission Recommendation for a Council Recommendation on the economic policy of the euro area.

[15] The Oxford Stringency Index reported in Graph 3 aggregates eight containment measures and one health component. See T. Hale et al. (2020), 'Variation in government responses to COVID-19'. BSG, Working Paper 32 (Version 8.0), Blavatnik School of Government, University of Oxford, October.

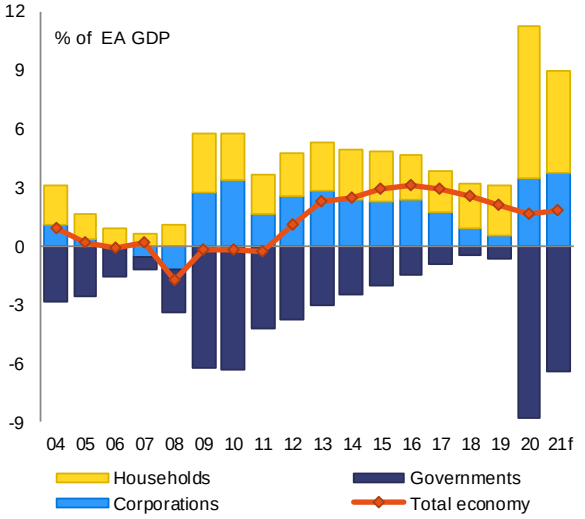
[16] Once controlling for severity of lockdown, quality of institutions, and tourism dependency, government debt does not appear significant in a cross-section of determinants of post-COVID recession magnitudes. This finding supports the view that interventions by monetary authorities in support of bond markets were effective in avoiding that bond market tensions aggravated recessions. See A. Sapir, "Why has COVID-19 hit different European Union economies so differently?", Policy Contribution Issue no. 18, September 2020.

Graph 5: Euro area current account evolution: breakdown by country



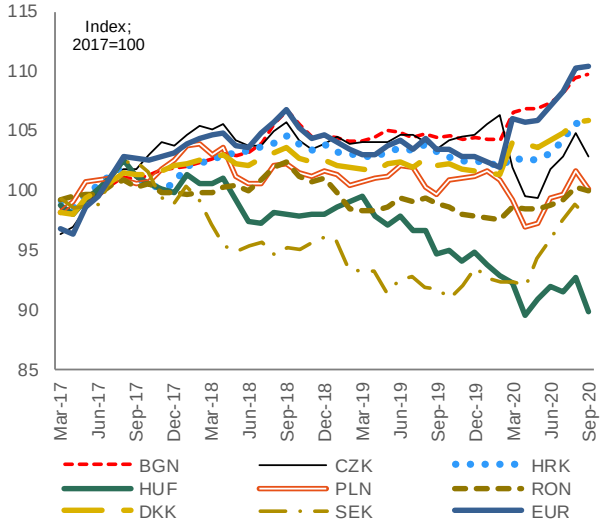
Source: Eurostat Balance of Payments and European Commission autumn 2020 economic forecast.
Note: The EA19 CA for years 2020 and 2021 correspond to the European Commission autumn 2020 forecast adjusted figure, which accounts for in intra-euro area reporting discrepancies by the different national statistical authorities (see footnote 17).

Graph 6: Euro area net lending/borrowing



Source: AMECO, Eurostat, European Commission autumn 2020 economic forecast.
Note: The EA19 Total Economy figures for 2020 and 2021 correspond to the European Commission autumn 2020 forecast adjusted figures. For the earlier years, the EA19 Total Economy figures correspond to net lending/borrowing in the Eurostat BoP data. Households and the Corporations sector data for 2020 and 2021 are computed as the sum of the EA19 countries except Malta, for which no data are available.

Graph 7: Nominal effective exchange rates (NEER)



Source: ECB

The current account surplus of the euro area as a share of GDP has been falling since 2017 and is projected to further decline in 2020. The euro area current account rose until 2017 amid widespread deleveraging, and, since then, it has shown a reduction. In 2019, the euro area current account balance is estimated at 2.3% of GDP (Graph 5).[17] While between 2017 and 2018, the reduction of the current account surplus was mainly associated with developments in the trade balance for goods, notably linked to trade policy tensions and a more expensive energy bill, in 2019, the drop was largely accounted for by the services balance. Nevertheless, the 2019 euro area current account surplus remained the largest worldwide in nominal terms. Its value, also when adjusted for the cycle, was slightly above a current account norm in line with economic fundamentals estimated at 2% of euro area GDP.[18] At unchanged policies, the euro area current account surplus is expected to further decrease to 1.8% of GDP in 2020 and to edge up to 1.9% of GDP in 2021 according to the European Commission autumn 2020 forecast, thus falling below the current estimate of the current account norm. The forecast reduction in the euro area surplus is partly due to a reduced energy bill; the substantial appreciation of the euro that started in early 2020 (Graph 7) would also imply a reduction in the current account going forward.

The geographical breakdown of the euro area current account surplus remains stable, while the major changes are taking place for what concerns the contribution of the different sectors of the economy. The euro area surplus still reflects mainly the large, but steadily falling, surpluses recorded in Germany and the Netherlands, whose combined external balances accounted for 2.7% of euro area GDP in 2019.[19] Euro area current account balances are expected to display a certain stability across countries also in 2020 and 2021 (Graph 5). The stability of current account figures masks however considerable changes in the net lending positions across sectors of the economy, as the large increase in the net lending position for the private sector is almost fully offset by a deterioration in that of the government sector (Graph 6). This pattern, observed for the euro area as a whole, holds also within countries. In 2020, the large increase in savings by the households sector is largely linked to lockdown measures and subdued dynamics in the consumption of services allowing for little physical distancing, as well as precautionary savings to deal with heightened uncertainty. The upward jump in the net lending position of corporations is partly associated with a drop in investment and partly the result of an increase in precautionary savings. The falling government revenues and the fiscal measures put in place to cushion the impact of the COVID-19 pandemic on incomes translate into a substantial deterioration of the net lending position of the government sector. Similar patterns, although less marked, are forecast for 2021.

Going forward, addressing the growing macroeconomic risks require an effective implementation of the EU support measures.

- The current crisis is fundamentally different than the 2008 financial crisis. While the latter was largely the result of the unwinding of unsustainable imbalances (financial sector overleveraging, housing bubbles, large and growing external deficits, and government debts rising in good times), the COVID-19 crisis is the result of shocks to the economy originating from government restrictions and changed behavioural patterns related to health concerns. These shocks take place

[17] The figures for the euro area current account mentioned and used here refer to the euro area "adjusted" current account balance reported vis-à-vis the rest of the world (from euro area balance of payments statistics), which is consistent with the current accounts Member States report vis-à-vis partners outside of the euro area (under the so-called "community concept"). This figure may differ from the sum of Member State headline current account balances, due to asymmetries in the intra-euro area balances reported by the different national statistical institutes.
[18] The IMF (External Sector Report 2020) suggests the euro area current account norm to be around 1.4% of GDP.
[19] The sum of the surpluses recorded in Germany and in the Netherlands are higher than the euro area surplus, as some members recorded deficits in 2019; see also footnote 17.

in a context where, thanks to recent favourable economic conditions, most external positions moved to balance or surplus, financial sector deleveraging over the past years created solid capital buffers in the banking sector, private sector deleveraging has taken private debt-GDP back to levels well below the peaks observed before the 2008 financial crisis, and public debt-to-GDP ratios embarked into a downward trajectory in most euro area Member States.

- Going forward, debt repayment prospects crucially depend on ensuring the economic recovery and strengthening the economic fundamentals, which requires a supportive policy stance throughout 2021. A sustainable recovery is crucial both for the government sector, in terms of dynamics for government revenues, and for the financial and non-financial corporate sector, with repayment capacity depending on profitability, and for households, with prospects for mortgage debt sustainability depending on employment and income dynamics.
- An effective use of available instruments put in place at euro area and EU level, with effective implementation of the necessary reforms and investment, would help fostering a durable recovery and strengthening resilience. It will be crucial that EU financing is fully absorbed and channelled to the most productive uses. This would both strengthen the economic impact of the funds and prevent the risk that such increased spending in a short-time frame fuels an excessive growth of non-tradable activities and external imbalances in countries where inflows account for a large share of GDP.
- Going forward, it is important that supportive policy measures, reforms and investments put in place across the euro area are combined in such a way to address effectively macroeconomic imbalances, in particular where they are excessive.

3. IMBALANCES, RISKS AND ADJUSTMENT: MAIN DEVELOPMENTS ACROSS COUNTRIES

The AMR builds on an economic reading of the MIP scoreboard of indicators, **which provides a filtering device for detecting prima-facie evidence of possible risks and vulnerabilities**. The scoreboard includes 14 indicators with indicative thresholds in the following areas: external positions, competitiveness, private and government debt, housing markets, the banking sector, and employment. It relies on actual data of good statistical quality to ensure data stability and cross-country consistency. In accordance with the MIP regulation (Regulation (EU) No 1176/2011), scoreboard values are not read mechanically in the assessments included in the AMR, but are instead subject to an economic reading that enables a deeper understanding of the overall economic context and taking into account country-specific considerations.[20] A set of 28 auxiliary indicators complements the reading of the scoreboard.

In comparison with previous AMRs, the present report makes a greater use of forecasts and high-frequency data to gauge also the implications of the COVID-19 crisis amid large uncertainty. Those implications cannot be captured from the official AMR scoreboard, as it only reflects data up to 2019. Values of scoreboard variables and other relevant variables for MIP analysis for 2020 and 2021 have therefore been estimated using Commission forecast data and nowcasts from infra-annual data (see Box 1 for details per scoreboard variable). While such exercise appears necessary to gauge ongoing developments, it is also necessary to recall the substantial uncertainty underlying those forecasts. In the

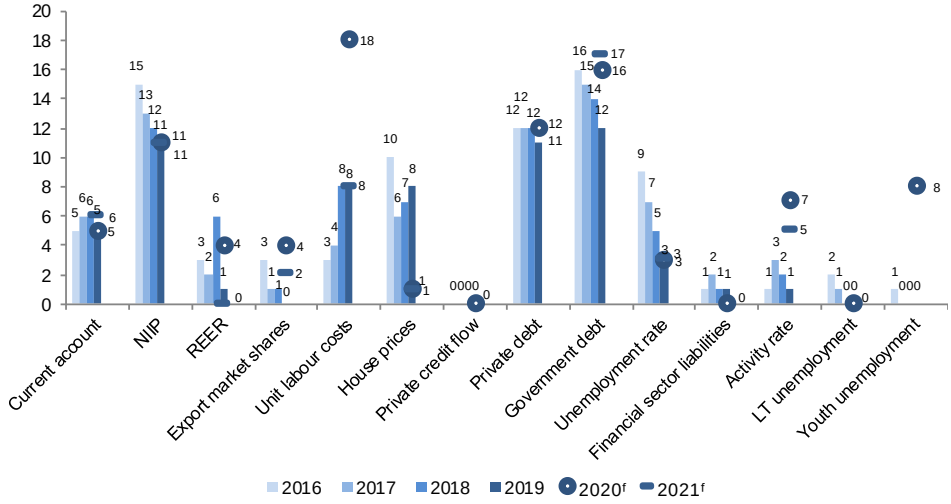
[20] On the rationale underlying the construction of the AMR scoreboard and its reading see European Commission (2016), "The Macroeconomic Imbalance Procedure. Rationale, Process, Application: A Compendium", European Economy, Institutional Paper 039, November 2016.

AMR assessment, as in previous years, insights from assessment frameworks, as well as findings in existing IDRs and relevant analyses, are also taken into consideration. The Commission analysis continues to be subject to the principles of transparency about analysis and data used, and prudence on the conclusions on account of awareness of caveats with data quality.

Scoreboard data suggest that the recent correction of stock imbalances would come to a halt, while risks of overheating observed in recent years are expected to cool with the crisis. The counting of values beyond the thresholds in the AMR scoreboard over the years reveals a number of patterns as follows (Graph 8).

- The economic expansion that started in 2013 helped reducing private and government debt-to-GDP ratios, thanks to the favourable denominator effects. This is reflected in the falling number of countries exhibiting debt ratios beyond thresholds until 2019. The COVID-19 crisis appears to put an end to this trend.
- After the correction of the large current account deficits of the 2000s, the past decade was marked by the accumulation of large current account surpluses for some economies, which were reduced in latest years. The COVID crisis is not expected to fundamentally change the external adjustment as its impact on the external accounts is expected to be limited, with the number of countries exceeding the thresholds for current account balances and NIIPs being only marginally affected.
- Fast growing unit labour costs and house prices have led to more readings beyond the relevant thresholds in the latest number of years. Those overheating pressures that manifested in fast-growing countries are expected to phase out with the COVID crisis. That is most visible at the level of house prices, which are expected to cool down and fewer cases risk being beyond the threshold. ULC growth may also recede but only after a temporary but sharp hike in 2020 with over half of the Member States risking being beyond the threshold. This reflects the mechanical effect of a visibly lower productivity on account of the sharply reduced activity and less affected employment. REERs are projected to exceed thresholds largely in light of nominal exchange rate developments.

Graph 8: Number of Member States recording scoreboard variables beyond threshold



Source: Eurostat and Commission services calculations (see also Box 1)
Note: The number of countries recording scoreboard variables beyond threshold is based on the vintage of the scoreboard published with the respective annual AMR. Possible ex-post data revisions may imply a difference in the number of values beyond threshold computed using the latest figures for the scoreboard variables compared with the number reported in the graph above. For the approaches followed for the forecasts of the scoreboard indicators in the years 2020 and 2021, see Box 1.

Forecasts for the following indicators are performed for 2020 only: Private credit flow, Private debt, Financial sector liabilities, Long-term unemployment, Youth unemployment.

Box 1: Nowcasts of the headline scoreboard indicators

To enhance the forward-looking elements in the scoreboard reading, the AMR analysis builds also, whenever possible, on forecasts and projections for 2020 and 2021 and 'nowcasts' for the current year. Whenever available, such figures are based on the Commission autumn 2020 forecast. Otherwise, figures display nowcasts based on proxy indicators, prepared by Commission services specifically for the purpose of this AMR.

The table below summarises the assumptions used for the forecasts and 'nowcasts' figures of headline scoreboard indicators. Note that the GDP figures used as denominators in some ratios stem from the Commission autumn forecast.

In case of multi-annual rates of change (such as the five-year change of export market shares), only the 2020 and 2021 component is based on forecasts, whereas components related to 2019 or earlier years use the Eurostat data underlying the MIP scoreboard.

Table: Approaches to forecasts and nowcasts for MIP scoreboard headline indicators

Indicator	Approach	Data sources
Current account balance, % of GDP (3 year average)	Values from Commission autumn forecast of the current account balance (Balance of Payments concept)	AMECO
Net international investment position (% of GDP)	The Commission autumn forecasts for total economy net lending/borrowing provides the NIIP change that reflects transactions; other effects (e.g. valuation changes) are taken into account until 2020Q2, and assumed to remain nil thereafter.	AMECO, Eurostat
Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	Values from the Commission autumn forecast	AMECO
Export market share - % of world exports (5 year % change)	Figures are based on the Commission forecast of i) nominal goods and services (G&S) exports for EU Member States (national accounts concept), and ii) Commission forecast of (G&S) exports in volumes for the rest of the world, translated to nominal levels by the Commission US import deflator and EUR/USD exchange rate forecasts	AMECO
Nominal unit labour cost index, 2010=100 (3 year % change)	Values from the Commission autumn forecast	AMECO
House price index (2015=100), deflated (1 year % change)	Model-based forecasts computed on the basis a housing valuation model shared with Member States in the context of the EPC LIME working group. The forecasts represent real house price percentage changes expected based on economic fundamentals (population, disposable income forecast, housing stock, long-term interest rate, and the price deflator of private final consumption expenditure), as well as the error correction term summarising the adjustment of prices towards their long-run relation with fundamentals.	Eurostat, Commission services
Private sector credit flow, consolidated (% of GDP)	The figure for 2020 represents a proxy of credit flows 2020Q1-2020Q3, using consolidated data from ECB quarterly sectoral accounts for 2020Q1-Q2, plus proxies for some credit flow components from 2020Q3. The latter uses ECB BSI MFI loan flows to the private sector to project 2020Q3 bank loan components, and ECB SEC nominal debt	ECB (QSA, BSI, SEC)

	security issuance to project 2020Q3 bond issuance.	
Private sector debt, consolidated (% of GDP)	The figure for 2020 proxies private sector debt as at end-2020Q3. It uses consolidated data from ECB quarterly sectoral accounts for 2020Q2. This figure is projected forward to 2020Q3 using bank loan figures (based on ECB BSI) and bond liability data (based on ECB SEC).	ECB (QSA, BSI, SEC)
General government gross debt (% of GDP)	Values from the Commission autumn forecast	AMECO
Unemployment rate (3 year average)	Values from the Commission autumn forecast	AMECO
Total financial sector liabilities, non-consolidated (1 year % change)	2020 figure represents ECB MFI liabilities growth until September 2020.	ECB (BSI)
Activity rate - % of total population aged 15-64 (3 year change in pp)	The 2020 and 2021 rate of changes are based on the Commission autumn forecast for the change in the entire labour force (all ages) minus the Commission autumn forecast for the population change (15-64 age group).	AMECO
Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	The nowcast for 2020 is based on latest data (2020 Q1-Q2, assuming constant rate for rest of the year)	Eurostat (LFS)
Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)	The nowcast for 2020 is based on latest data (2020 Jan-Sep, assuming constant rate for rest of the year)	Eurostat (LFS)

3.1 External sector and competitiveness

Current account were overall fairly stable in 2019. After a general trend towards weakening current account positions in 2018 amid weakening world export demand and rising oil prices, current account changes between 2018 and 2019 did not exhibit a clear pattern and remained relatively contained (Graph 10). In 2019, notable improvements were observed in Bulgaria, Denmark and Lithuania, while the current account of Cyprus moved more deeply into negative territory. Some large surpluses reduced somewhat, including in Germany and the Netherlands.

- **Two Member States record current account deficits beyond the MIP scoreboard lower threshold in 2019.** The large deficit of Cyprus deteriorated further in 2019, and thereby the 3-year average remained below the MIP threshold, and below the respective current account norm and the level required to bring the NIIP to prudential territory over the next 10 years.[21] Following a small further worsening in the current account of Romania, its 3-year average came at the MIP threshold in 2019, and such a reading is also visibly worse than the respective norm.
- **In 2019, in most Member States, current account deficits were above country-specific benchmarks**, **with some notable exceptions** (Graph 9).[22] Cyclically-adjusted current accounts

[21] For the methodologies for country-specific NIIP prudential thresholds see footnote 25.

[22] Current accounts in line with fundamentals ("current account norms") are derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants, policy factors and global financial conditions. See L. Coutinho et al. (2018), "Methodologies for the assessment of current account benchmarks", European Economy, Discussion Paper 86/2018, for the description of

were mostly close to or above the headline balances, reflecting the negative impact of a cooling economic cycle.[23] The current account balances of Cyprus and Romania are below the current account norm justified by fundamentals. The deficits of Cyprus, Greece, and Portugal are below the level required to ensure the convergence of the NIIP towards a prudent level.[24]

- **Three EU countries continue recording current account surpluses that exceeded the MIP scoreboard upper threshold and country-specific benchmarks.** That has been the case for Denmark, Germany, and the Netherlands for nearly a decade. While Denmark expanded its surplus in 2019, the balances of Germany and the Netherlands have continued to gradually move down. In the Netherlands, current account balances are also driven by the activities of multinational corporations that affect both the trade and income balances.

Forecasts point to a certain stability of current account readings also in 2020 and 2021, but with major changes for what concerns the contribution of the different sectors of the economy to the external position. The COVID-19 crisis is bringing a major drop in exports and in imports, of roughly similar proportions. Although the aggregate net lending position of EU countries is not moving much, marked changes are taking place for what concerns the net lending position of different sectors of the economy. In 2020, the government positions experienced substantial declines as result of the support measures they took to cushion the sharp recession, which countervail the higher net savings by households and corporations (Graph 11).

- **Current account figures of some net-debtor countries with strong reliance on export of tourism services are expected to deteriorate.** This is the case notably of Croatia, Cyprus, Greece, and Malta.
- **Large surpluses would fall in 2020**, with substantial decreases in Germany and the Netherlands over 2020 and 2021 together.

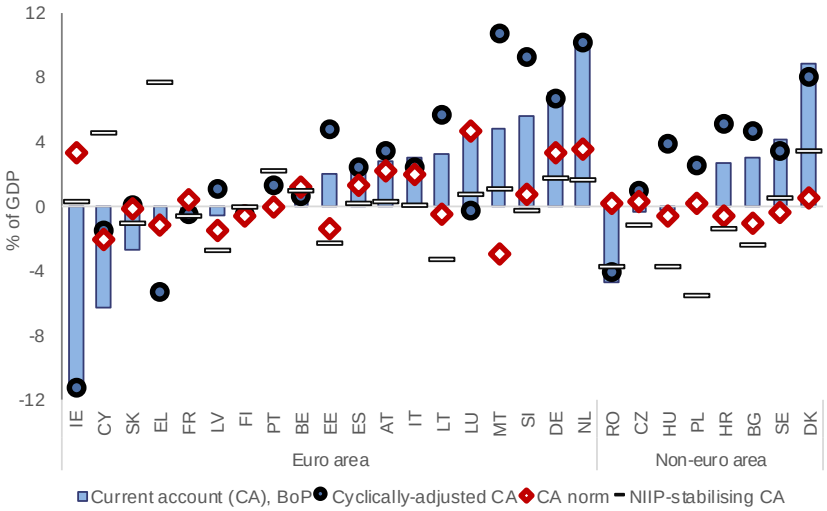
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the methodology for the computation of the fundamentals-based current account used in this AMR; the methodology is akin to S. Phillips et al. (2013), "The External Balance Assessment (EBA) Methodology", IMF Working Paper, 13/272.

[23] Cyclically-adjusted current account balances take into account the impact of the cycle by adjusting for the domestic output gap and that in trading partners, see M. Salto and A. Turrini (2010), "Comparing alternative methodologies for real exchange rate assessment", European Economy, Discussion Paper 427/2010.

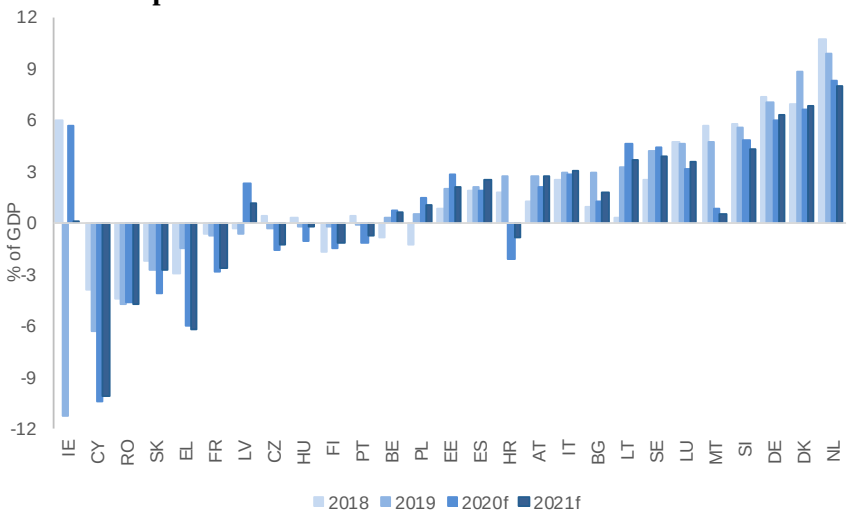
[24] The large deficit recorded by Ireland in 2019 is due to one-off effects associated with the activities of multinational firms. The gap between the actual current accounts and those required to stabilise the NIIP crucially depends on the time frame considered. For instance, the current account required to stabilise the NIIP of Greece above the prudential NIIP threshold within a 20-year horizon would be a surplus of 1.7% of GDP, as opposed to one of 7.7% of GDP when computed over a 10-year horizon.

Graph 9: Current account balances and benchmarks in 2019



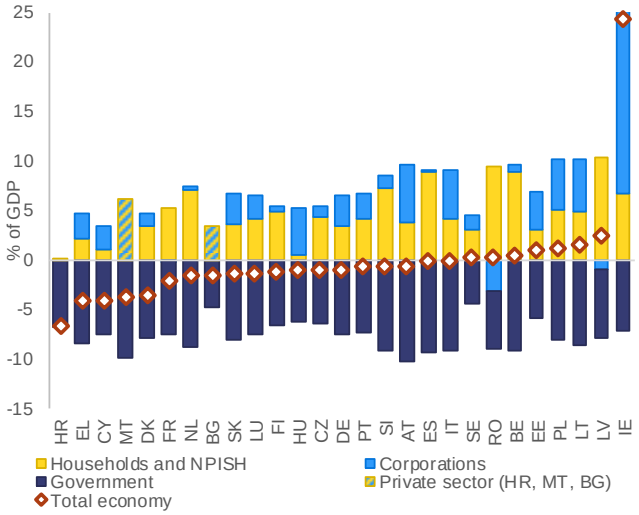
Source: Eurostat and Commission services calculations.
Note: Countries are ranked by current account balance in 2019. Cyclically-adjusted current account balances: see footnote 23. Current account norms: see footnote 22. The NIIP-stabilising current account benchmark is defined as the current account required to stabilise the NIIP at the current level over the next 10 years or, if the current NIIP is below its country-specific prudential threshold, the current account required to reach the NIIP prudential threshold over the next 10 years.

Graph 10: Evolution of current account balances



Source: Eurostat, European Commission autumn 2020 economic forecast and Commission services calculations.
Note: Countries are presented in increasing order of the current account balance in 2019.

Graph 11: Change in net lending/borrowing by sector, from 2019 to 2020



Source: AMECO and European Commission autumn 2020 economic forecast
Note: A part of the change in corporate sector net lending in Ireland is off the scale in the above graph.

NIIPs have kept improving in most Member States, but large stocks of external liabilities persist and the crisis might make some of those burdens heavier. NIIP improvements continued in 2019 in most EU countries, driven by current account outturns above NIIP-stabilising thresholds, nominal GDP growth, and sometimes large positive valuation effects. Yet NIIPs remain large and negative in a number of EU countries. In 2019, 11 Member States recorded NIIPs beyond the scoreboard threshold of -35% of GDP, one fewer than in 2018. In those countries, values are below those that could be justified by fundamentals (NIIP norms), and in most cases also below the respective prudential thresholds (Graph 12).[25] The crisis is halting improvements in the more negative NIIPs-to-GDP ratios.

- Some euro area countries continue to have **largely negative NIIPs** below -100% of GDP, such as Cyprus, Greece, Ireland, and Portugal. In these four countries, NIIPs are well below both NIIP norms and prudential thresholds. In Ireland, as well as in Cyprus, NIIP levels reflect to a large extent cross-border financial relations of multinational corporations and the high importance of special purpose entities. These four countries, together with Spain, show a strong incidence of debt liabilities in their NIIPs as indicated by the very negative NIIP excluding non-defaultable instruments (NENDI).[26] In Greece, the large external public debt, often at highly concessional

[25] NIIP in line with fundamentals (NIIP norms) are obtained as the cumulation over time of current account norms (see also footnote 22). NIIP prudential thresholds are determined from the maximisation of the signal power in predicting a balance of payment crisis, taking into account country-specific information summarised by per-capita income. For the methodology for the computation of NIIP stocks in line with fundamentals see A. Turrini and S. Zeugner (2019), "Benchmarks for Net International Investment Positions", European Economy, Discussion Paper 097/2019.

[26] NENDI is a subset of the NIIP that abstracts from its pure equity-related components, i.e. foreign direct investment (FDI) equity and equity shares, and from intracompany cross-border FDI debt, and represents the NIIP excluding instruments that cannot be subject to default. See also European Commission, "Envisaged revision of selected auxiliary indicators of the MIP scoreboard", Technical note; https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure/scoreboard_en.

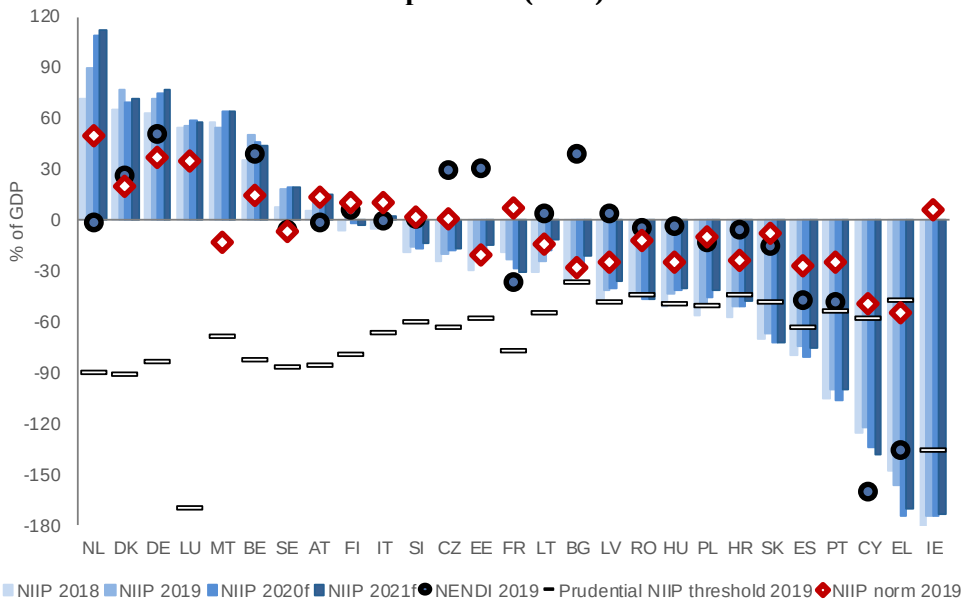
terms, accounts for the bulk of the NIIP.[27] In 2020, the expected strong declines in GDP should have some negative effect on their NIIP-to-GDP ratio, which are often projected to deteriorate.

- In countries with **more moderately negative NIIPs** beyond the scoreboard threshold, the NIIPs are below what is expected from country-specific fundamentals but sometimes close to or better than prudential thresholds. These countries, namely Croatia, Hungary, Latvia, Poland, Romania and Slovakia, as well as other central and eastern European and Baltic countries, tend to be large net recipients of FDI, so that NENDI figures are more favourable. The changes expected for those countries in 2020 are mostly mild to moderate.
- Most of the **large positive NIIPs** keep increasing in 2019. Germany, Denmark, and the Netherlands record positive NIIPs surpassing 70% of GDP, with their increase in 2019 supported also by substantial positive valuation effects. The NIIPs of Belgium, Malta, and Luxembourg exceed 50% of GDP. In all those cases, NIIPs readings are visibly above the respective norms, i.e. what could be justified by or expected on the basis of country-specific fundamentals.

The COVID-19 crisis outbreak was followed by external borrowing tensions in some non-euro area countries. At the onset of the COVID-19 crisis, capital flights and depreciations took place in most emerging economies with floating exchange rates. Markets anticipated possible trade-offs by monetary authorities between supporting their economies and stabilising their currencies. Some tensions were visible also in some of the currencies of non-euro area Member States adopting flexible exchange rate regimes. Depreciations took place especially in March and April, notably in Hungary, but the pressure abated and the currencies stabilised in May, and in some cases appreciated in the following months. While the financial market tensions and, thereby external financing risks seem to have declined afterwards, a few non-euro area Member States may remain vulnerable in case heightened risk aversion in global financial markets or capital flows volatility re-emerge. A number of conditions, including the prospects for foreign financing needs, including of the government, and the availability of foreign-exchange reserves may play a role in this respect.

[27] The worsening of the NIIP in Greece in 2019 is largely related to negative valuation effects.

Graph 12: Net international investment positions (NIIP) 2018-2021 and benchmarks in 2019



Source: Eurostat and Commission services calculations (see also Box 1).
Note: Countries are presented in decreasing order of the NIIP-to-GDP ratio in 2019. NENDI is the NIIP excluding non-defaultable instruments. For the concepts of NIIP norm and NIIP prudential threshold, see footnote 25. NENDI for IE, LU and MT are out of the scale.

Unit labour cost (ULC) continued growing dynamically in various EU countries in 2019 but those trends are bending down with the COVID-19 crisis. The scoreboard shows the ULC growth indicator beyond the threshold in eight countries in 2019, the same number as in the previous year: Bulgaria, Czechia, Estonia, Latvia, Lithuania, Luxembourg, Romania, and Slovakia; apart from Luxembourg, all of them had been beyond the threshold already in 2018. Since 2013, ULC growth accelerated in the Baltic and in various central and eastern European countries in a context of high economic growth, tight labour markets and skills shortages.

Developments after the outburst of the COVID-19 outbreak are expected to be marked by a one-off increase in ULCs in 2020 followed by more moderated dynamics. With the COVID-19 crisis, ULC growth is projected to rise markedly further across the EU in 2020 as productivity declines nearly everywhere. However, that is projected to partly be reversed in 2021 as with the projected economic recovery, productivity would rebound and lead to a notable drop or stagnation in ULC in a context of decelerating wages (Graph 13, upper panel).

- **Wage growth kept being the strongest driver of ULC growth in many countries in 2019 but the crisis is now leading to marked wage moderation.** The crisis is putting an end to overheating pressures observed until 2019. Wage and compensation are forecast to grow more moderately in most EU countries in 2020 and 2021. In 2020, that reflects mainly the effect of reduced hours, largely in the context of temporary short-time work schemes.[28] Under such schemes, workers maintain employment but at reduced hours and pay.[29]

[28] The 10 EU Member States that had frameworks to provide income support under reduced hours before the COVID outbreak adapted their existing schemes to cope with the COVID shocks. In other countries, similar

- **Labour productivity gains remained limited in 2019 and the crisis is further denting productivity in 2020.** In 2020, productivity is forecast to drop sharply in nearly all EU countries when measured in terms of output per person employed. The 2020 recession was matched by a drop in labour inputs. However, this was mainly on account of reduced hours, while headcount employment moved little.[30] Hence, when productivity is measured in terms of output per hour worked, the losses appear more moderate (Graph 13, fourth panel). The substantial and pervasive labour hoarding observed across the EU has been much favoured by the wide use of governments-subsidised short-time work schemes.[31] In 2021, as the recovery sets in, an upward jump in productivity figures is expected. Yet, level-wise, productivity is forecast to remain around or below the pre-crisis readings in most cases.

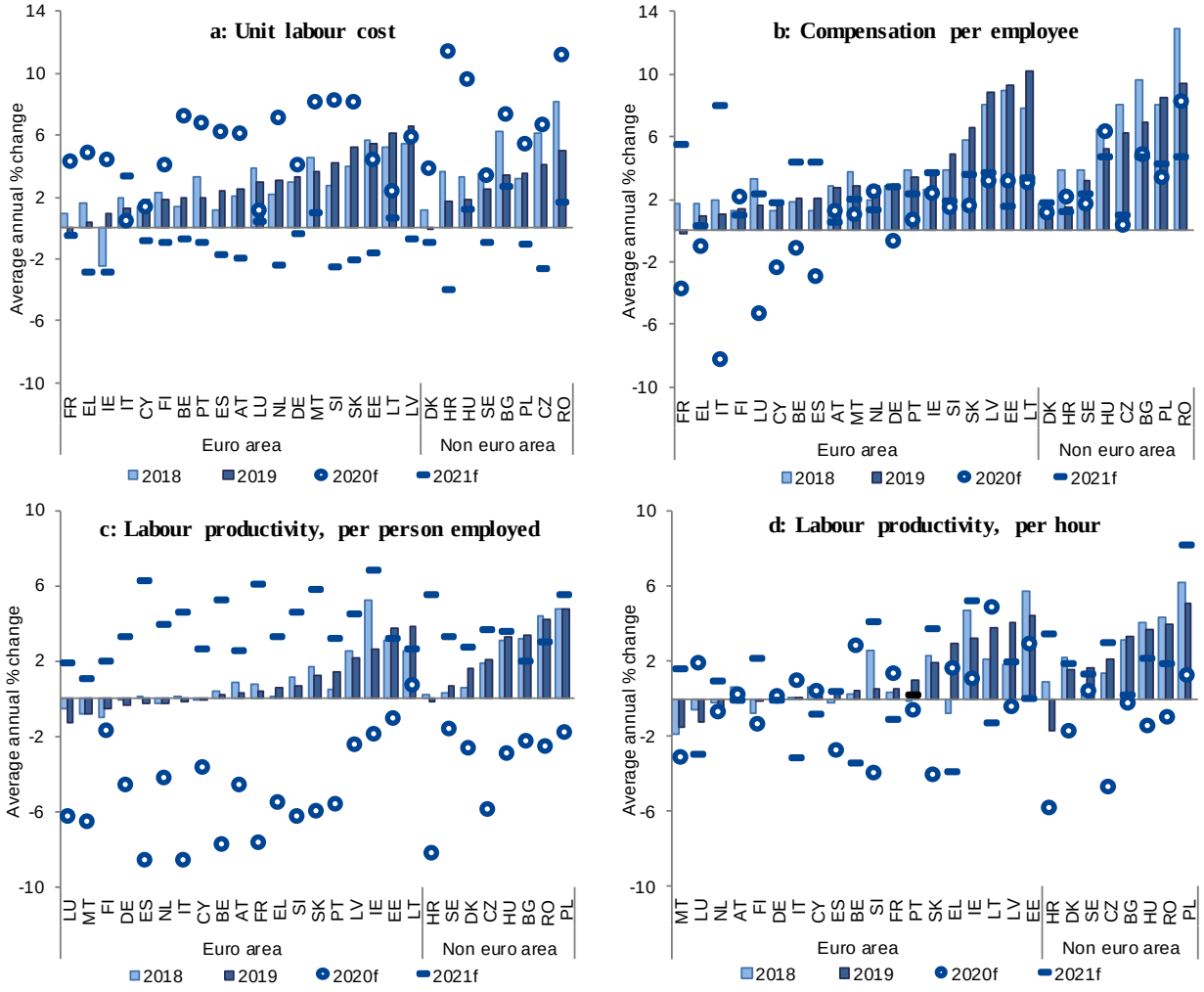
measures were introduced on an ad-hoc basis (See also Box 2; and, European Commission (2020), Labour Market and Wage Developments in Europe 2020, forthcoming). The financing of such schemes will benefit from the SURE instrument made available by the Commission.

[29] The falls in compensation per employee appear more pronounced in countries where income support is classified as government transfers rather than labour income.

[30] On average, across the euro area, the reduction in total hours worked in the first half of 2020 is estimated to be due to reduced average hours worked by 75%, and the rest by reduced employment. See ECB (2020), Economic Bulletin, Issue 6/2020.

[31] Botelho V, A. Consolo and A. Dias da Silva (2020), A preliminary assessment of the impact of the COVID-19 pandemic on the euro area labour market, ECB Economic Bulletin, Issue 5/2020, European Central Bank. OECD (2020), Policy Responses to Coronavirus (COVID-19) - Job retention schemes during the COVID-19 lockdown and beyond, 3 August 2020, https://www.oecd.org/coronavirus/policy-responses/job-retention-schemes-during-the-covid-19-lockdown-and-beyond-0853ba1d/#biblio-d1e2009.

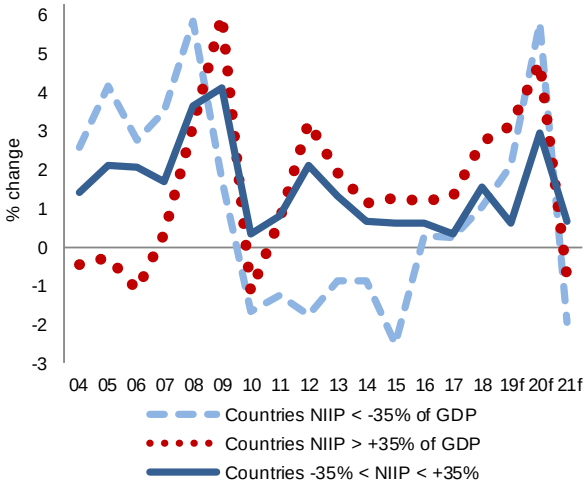
Graph 13: Unit labour cost growth in recent years, compensation and productivity



Source: AMECO; 2020 and 2021 data come from the European Commission autumn 2020 economic forecast. The data refer to the number of employees and of persons employed.
Note: In each graph, countries are presented in increasing order of the respective variable in 2019.

From a euro area perspective, ULC developments are expected to become slightly less supportive of rebalancing than in the past. In 2019, ULC growth was slightly higher in a number of net-creditor countries, including Germany, Luxembourg and the Netherlands, than in some net-debtor countries, including Cyprus, Greece, Ireland, Spain and Portugal. However, over 2020 and 2021 together, ULC growth is forecast to grow at almost the same rate in both country groups and thereby not contribute to further rebalancing in external positions (Graph 14). At the same time, a number of net-debtor countries have been among those more affected by the COVID-19 crisis (see also Section 2) and thereby record a more pronounced slack in activity, so that cost and wage pressures could be less prevalent in those countries going forward.

Graph 14: Unit labour cost growth across the euro area



Source: AMECO, 2020 and 2021 data come from the European Commission autumn 2020 economic forecast.
Notes: Countries with NIIP > +35% of GDP are DE, LU, NL, BE, MT. Countries with NIIP between 35% and -35% of GDP are FI, EE, IT, LT, FR, SI, AT. Remaining countries are in the NIIP < -35% of GDP group. The country split is based on NIIP average values in the 2017-2019 period. Net-creditor countries recorded an average current account surplus over the same period. Figures concern GDP-weighted averages for the three groups of countries.

Real effective exchange rates (REER) dynamics are increasingly driven by volatility in nominal exchange rates. Between 2016 and 2018, REERs were on the rise in most Member States in light of the euro appreciation (Graph 15). Competitiveness losses were most evident when measured in terms of unit labour costs. However, in 2019, competitiveness improved in light of a transitory euro depreciation. In light of these developments in 2019, only Estonia was beyond the thresholds on account of an appreciated HICP-based REER, compared to six countries in 2018, reflecting also muted inflation dynamics. Going forward, the appreciation of the euro in 2020 is expected to imply global competitiveness losses across euro area countries, while the currencies of some non-euro area countries have witnessed depreciations.

- **Nominal depreciations were common in 2019, while larger cross-country differences are observed in currency developments in 2020.** Most EU countries recorded nominal depreciations in 2019, which was even stronger for some Member States outside the euro area, notably Hungary, Romania and Sweden. In 2020, the euro started to appreciate again after the COVID-19 outbreak. Outside the euro area, currencies have either broadly followed the euro, or have been appreciating markedly (Sweden), or depreciating considerably, notably in the case of Hungary, and to a lesser extent Czechia and Poland.

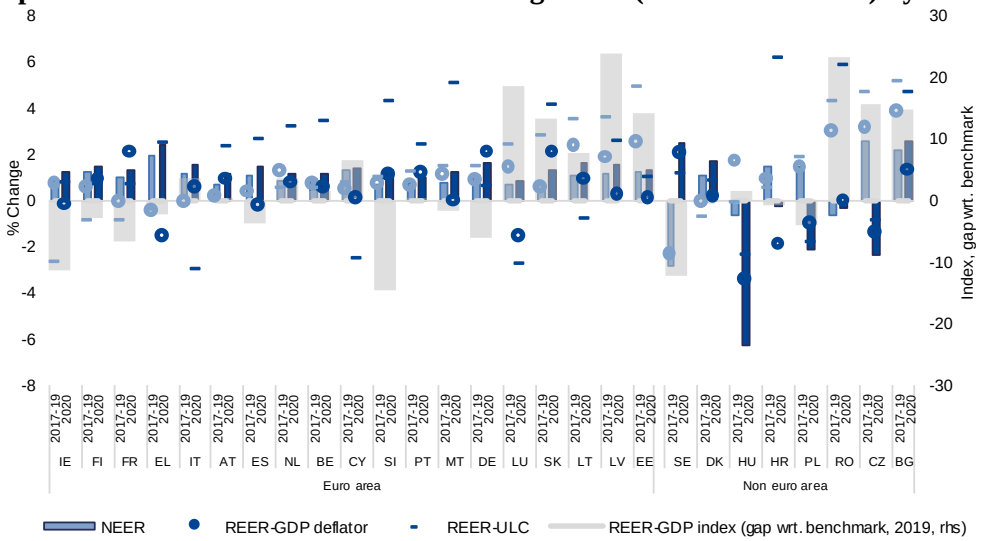
- **ULC-based REERs appreciated in a majority of Member States in 2019, but less strongly than in recent years and the crisis is further dampening appreciation trends**. Notably, a number of central and eastern European countries continued to exhibit stronger real appreciation in 2019. This includes some euro area countries, notably the Baltics and Slovakia and non-euro area countries, notably Bulgaria, Czechia and Romania. Among net-creditor countries, only Germany and Malta exhibited a notable REER appreciation. After real appreciations forecast for 2020 in most countries reflecting the temporary jumps in ULC, the dampened ULC growth forecast for 2021 is expected to also lead to contained real appreciations in most EU countries.

- **Price-cost margin compression is still observed in a majority of Member States.** Dynamics in ULC-based REERs above those in the GDP-based REER have been observed in recent years and continued until 2019 although at lower pace, which suggests a further compression of profit

margins.[32] This trend continued in 2020, most visibly for some central and eastern European countries, Belgium, Greece, Malta and Spain.

- **Going forward, also REER measures suggest that cost competitiveness developments may be becoming less supportive of rebalancing than in the past.** Over 2020 and 2021, large net-debtor countries or countries that have been more affected by the COVID-19 recession, such as Croatia, France, Italy, Portugal or Spain, are forecast to record only limited or no competitiveness gains vis-à-vis Germany and the Netherlands.
- **The level of REER indexes appears above benchmark mostly in Member States that have been characterised by more prolonged trends of strong relative price dynamics**. This is notably the case of central and eastern European countries.

Graph 15: Nominal and real effective exchange rates (NEER and REER) dynamics



Source: AMECO, 2020 and 2021 data come from the European Commission autumn 2020 economic forecast.
Note: Countries are presented in increasing order of the average annual variation of the Real Effective Exchange Rate (REER) based on the ULC deflator over the years 2017 to 2019. The REERs and the Nominal Effective Exchange Rate (NEER) are computed vis-à-vis 37 trading partners. The GDP-based REER index level is expressed as percentage difference with respect to a benchmark representing the REER consistent with economic fundamentals. The reading in the graph gives the gap of the observed REER level with respect to the REER benchmark level: positive index values indicate overvaluation, and negative index values undervaluation.[33]

The growth of export market shares decelerated in 2019 and is expected to further fall for a majority of Member States. In 2019, no Member State recorded export market share losses below the scoreboard threshold (based on cumulated share change over 5 years). The COVID outbreak is shaping a much different trade environment, with implications for export market shares.

- **Export market shares in 2020 are expected to fall in about half of the EU Member States.** The crisis is reducing more markedly intra-EU trade as compared with extra-EU trade. This is

[32] While margin compression prevents cost competitiveness to affect the terms of trade, thereby containing the impact on trade flows in industries characterised by product differentiation and pricing-to-market, persistent reduced profitability would over time imply a shrinking tradable sector.
[33] The methodology to compute this fundamentals-based benchmarks is based on the note for the EPC LIME Working Group "Benchmarks for the assessment of real effective exchange rates", presented on 15 June 2020.

because the COVID crisis has so far impacted more strongly the EU compared with other world areas. As EU countries trade mainly among themselves, their major export markets have shrunk compared with that of other world areas, which also implies a loss of market shares for a majority of EU countries.

- **Export market shares fall most markedly for countries that export intensively services, notably tourism.** Trade is falling especially in services, notably tourism which is strongly affected by restrictions on foreign travel and changed behaviour of consumers. In 2020, export market shares are forecast to decline the most in Croatia, Cyrus, Greece, France, Italy, Portugal and Spain, all characterised by heavy dependence on the battered tourism sector. Instead, Germany and the Netherlands are forecast to gain export market shares.

3.2 Private debt and housing markets

Private sector debt as a share of GDP has been falling in a majority of Member States until 2019 amid favourable economic developments but debt levels remain elevated in some countries. Eleven Member States exceeded the scoreboard threshold for total private debt in 2019, compared to 12 in 2018: Cyprus, Denmark, Ireland, Luxembourg, the Netherlands and Sweden record private debt-to-GDP ratios of over 200%, reflecting also the high importance of multinational enterprises and special purpose vehicles in several of those countries. Belgium, Finland, France and Portugal record lower levels but are also beyond the threshold. Debts differ widely across countries in light of structural country-specific factors which justify such differences. However, debts appear high in some EU countries also when compared with benchmarks that account for these country specific economic fundamentals. In some countries debts appear high also with respect to prudential thresholds.[34]

- **Private sector deleveraging continued in 2019 with most EU countries recording lower private debt ratios.** Reductions in the debt-to-GDP ratio between 2018 and 2019 were mainly accounted for by nominal GDP growth ("passive deleveraging"), as borrowing accelerated in a growing number of countries in recent years.

- **In recent years, borrowing was increasingly dynamic especially for the household sector**. Despite mostly positive net credit flows, debt-to-GDP ratios for non-financial corporations (NFCs) have been falling in all EU countries between 2018 and 2019 except Denmark, Finland, France Germany, Luxembourg and Sweden. For what concerns households, reductions in debt ratios were observed in only about half of the Member States. Over recent years, the dynamics of the debt stock (transactions affecting the stock of credit and outstanding debt securities) has been relatively strong for what concerns households (see Alert Mechanism Report 2020). The same pattern was observed again between 2018 and 2019.

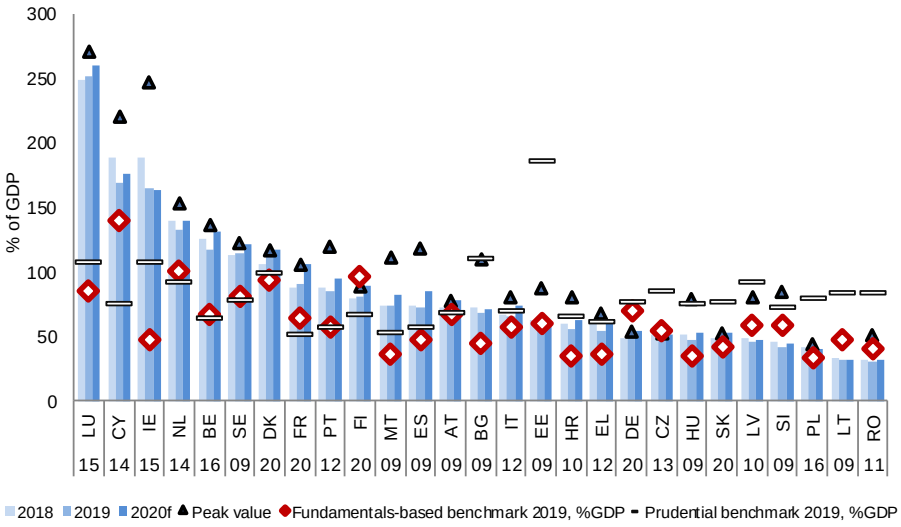
[34] Country-specific debt benchmarks have been developed by the European Commission in cooperation with the EPC LIME Working Group (European Commission, "Benchmarks for the assessment of private debt", Note for the Economic Policy Committee, ARES (2017) 4970814) and J.-C. Bricongne, L. Coutinho, A. Turrini and S. Zeugner, "Is Private Debt Excessive?", *Open Economies Review*, 3, 471-512, 2020. Fundamentals-based benchmarks allow assessing private debt against values that can be explained on the basis of economic fundamentals, and are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds represent the debt level beyond which the probability of a banking crisis is relatively high; those levels are based on the maximisation of the signal power in predicting banking crises by minimising the probability of missed crisis and of false alerts and incorporating country-specific information on bank capitalisation, government debt, level of economic development.

- **NFCs debt remained above benchmarks in a number of countries in 2019.** In Belgium, Cyprus, Denmark, France, Ireland, Luxembourg, the Netherlands, Malta, Portugal, Spain and Sweden, NFC debts have been above levels justified by both economic fundamentals and prudential thresholds. NFC debt is expected to hoover close to prudential thresholds in Austria, Croatia, Greece and Italy and to continue to exceed prudential levels in Finland in 2020 (Graph 16). In a number of countries, notably Belgium, Cyprus, Ireland, Luxembourg and the Netherlands, NFC debt is significantly impacted by cross-border intra-company and special purpose entities' debt.

- **Household debt remained above benchmarks in several Member States in 2019.** In Denmark, Finland, France, Greece, the Netherlands, Portugal, Spain and Sweden debt levels are above both the fundamental-based benchmark and the prudential thresholds (Graph 21). Household debt exceeds prudential levels in Belgium and Cyprus and are close to prudential thresholds in Austria, Germany and Italy. In some countries, debt ratios for the household sector appear considerably higher when computed as a share of household gross disposable income. This is the case of Ireland, Luxembourg and Malta.

In 2020, private debt ratios appear on the rise in most Member States, notably for what concerns NFCs. Estimates of debt-GDP ratios for NFCs and households (based on available information from monthly data for what concerns debt stocks) point to non-negligible increases in most EU countries. Such increase in debt ratios is largely the mechanical result of reduced GDP figures at the denominator of the ratio. However, in particular for what concerns NFCs, dynamics in the debt stock also play a role. Net credit flows are indeed expected to be large in 2020 in most EU countries, notably in Belgium, Finland, France, Ireland, Luxembourg, Spain and Sweden, in some cases markedly larger than in 2019.

Graph 16: Non-financial corporations debt



Source: Eurostat sectoral financial balance sheet accounts – loans (F4) plus debt securities (F3), AMECO and Commission services estimates (see Box 1).
Note: Countries are presented in decreasing order of the NFCs debt-to-GDP ratio in 2019. Numbers below the country codes indicate the year when that debt ratio peaked. For the definition of fundamental-based benchmarks and prudential thresholds see footnote 34.

For what concerns NFCs, sharp losses and liquidity shortages explain the increased borrowing needs in 2020.

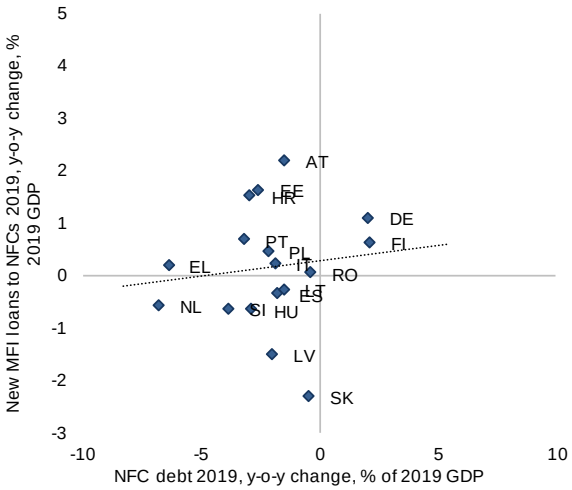
- **Debt ratios in 2020 appear on the rise most notably in countries where the COVID-19 outbreak is denting more severely NFC profits and cash flows**. In general, the countries where

net operating profits of corporations are expected to fall substantially in 2020 tended to be the same recording the strongest net credit flows (transactions) as a share of 2019 GDP (see Graph 20).

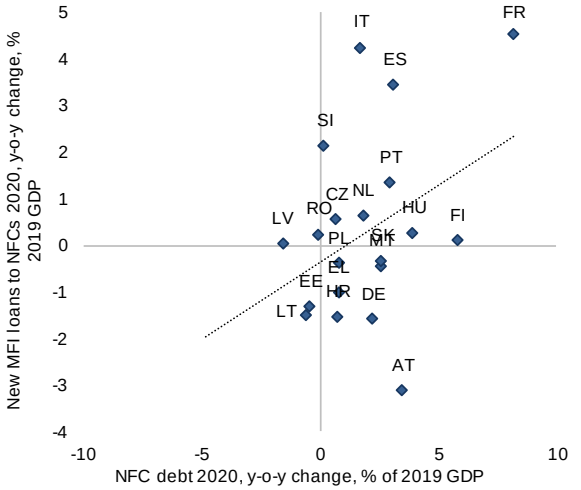
- **Increased borrowing was needed to finance NFC working capital to build liquidity buffers, implying that NFC net debt did not raise as much as gross debt.** Part of the borrowing was used to replenish and beef up cash buffers to cope with the increased uncertainty on the economic situation and to profit from temporary special measures to support credit flows. Borrowing to finance investment has played a minor role. In all, despite the substantial borrowing in 2020, the saving position of corporations is expected not to fall substantially. Moreover, due to reduced investment, corporate net savings are expected to rise in all EU countries (see Graph 11).
- **Borrowing was facilitated by a number of policy measures**. In addition to ample liquidity provision to banks by monetary authorities and an adaptation of prudential regulations, government credit guarantees helped maintaining credit flows, notably for small and medium enterprises.
- **Debt repayment moratoria contribute to inflate debt dynamics in 2020**. The delay in debt repayment by NFCs allowed by the moratoria across the EU, either as a government measure or as voluntary initiative by lenders, imply a mechanical increase in the dynamics of the debt stock. This is confirmed by a much stronger positive relation in 2020 between the change in NFC debt and the "pure new" MFI lending (excluding renegotiations and repayments) than the one observed in 2019 (see Graph 17 and Graph 18). In 2020, the dynamics of debt were therefore less affected by repayments as compared with the past, arguably as a result of moratoria.
- **Going forward, dynamics in the debt-to-GDP ratio are expected to be more contained for a number of reasons.** First, the mechanical increase in debt ratios due to a reduction in the denominator is expected to be short-lived as the debt-GDP ratio in 2020 increases mainly on account of a temporary cyclical downturn (see Graph 19). Second, the exceptional measures put in place in 2020 will be gradually phased out. The expiration of debt moratoria will lead to increased repayments. The phasing out of credit guarantees will imply reduced borrowing possibilities for firms under dire conditions. Moreover, survey data suggests that going forward, a tightening of lending conditions may take place.[35] Third, NFCs will have the possibility to run down liquidity buffers as an alternative to new borrowing.
- **Protracted hardship for the NFC sector may dent on investment and debt repayment prospects.** Profitability will remain deeply affected especially in service sectors exposed to the pandemic. This may not only imply subdued investment, but also difficulties in paying back existing debt. More generally, the expiration of debt moratoria will imply a higher debt burden because of accumulated interests.

[35] ECB (2020): The euro area bank lending survey – Second quarter of 2020, July 2020.

Graph 17: New MFI loans to NFCs vs evolution of NFC debt-to-GDP, 2019



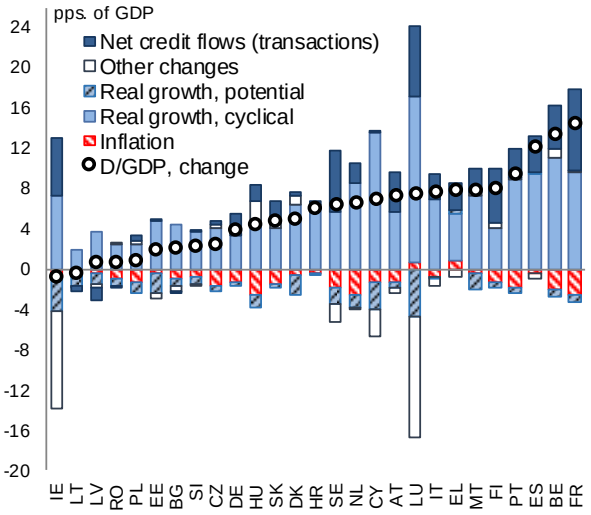
Graph 18: New MFI loans to NFCs vs evolution of NFC debt-to-GDP, 2020



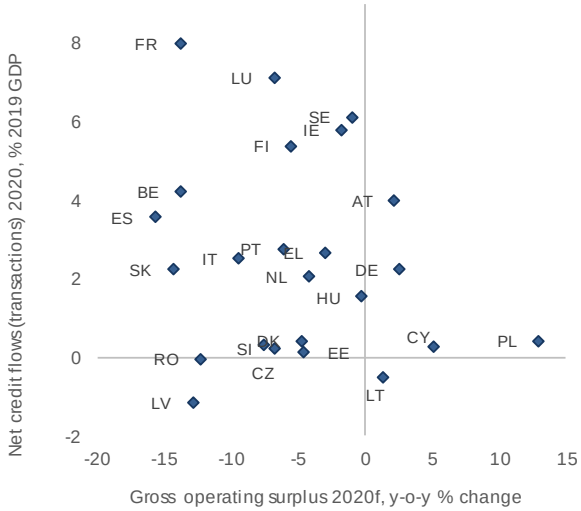
Source: ECB MIR database, AMECO, Eurostat and Commission services calculations (see also Box 1 for private debt forecasts).

Note: New MFI loans refer to "pure new" credit by monetary financial institutions (MFIs) and comprises only new loans extended by MFIs to NFCs, excluding renegotiations and repayments. It excludes Belgium, Cyprus and Luxembourg as outliers, and Bulgaria, Denmark, Ireland and Sweden due to data availability.

Graph 19: Decomposition of the change in NFC debt-to-GDP (2019 – 2020)



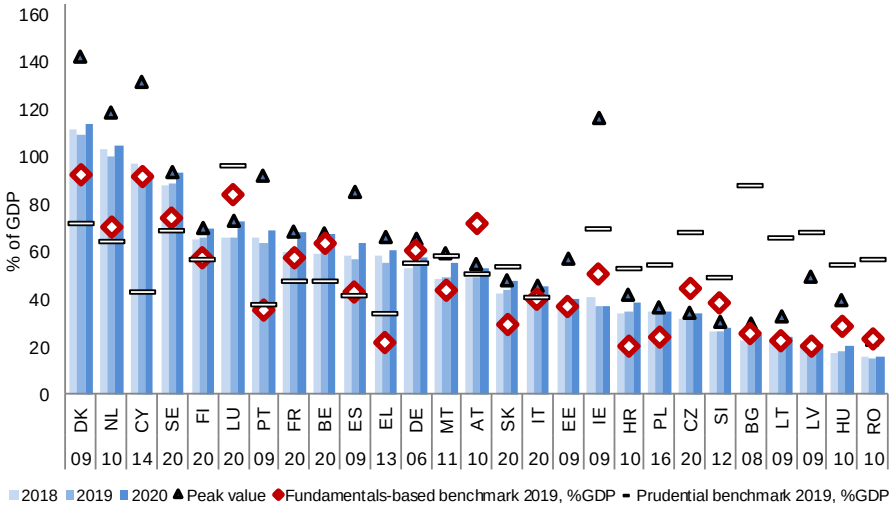
Graph 20: Evolution of gross operating surplus in 2020 and net credit (transactions) to NFCs



Source: AMECO, Eurostat and Commission services estimates (see Box 1) and calculations based on ECB monthly data on MFI loans and debt securities transactions (flows) with the private sector from the BSI database, European Commission autumn 2020 economic forecast.

Note: Net credit flows (debt transactions) correspond to transaction of loans (F4) and debt securities (F3) from the Eurostat sectoral financial transactions accounts. NFC gross operating surplus not available for Bulgaria, Croatia and Malta.

Graph 21: Household debt



Source: Eurostat sectoral financial balance sheet accounts – loans (F4) plus debt securities (F3), AMECO and Commission services estimates (see Box 1).

Notes: Countries are presented in decreasing order of the households debt-to-GDP ratio in 2019. Numbers below the country codes indicate the year when that debt ratio peaked. For the definition of fundamental-based benchmarks and prudential thresholds see footnote 34.

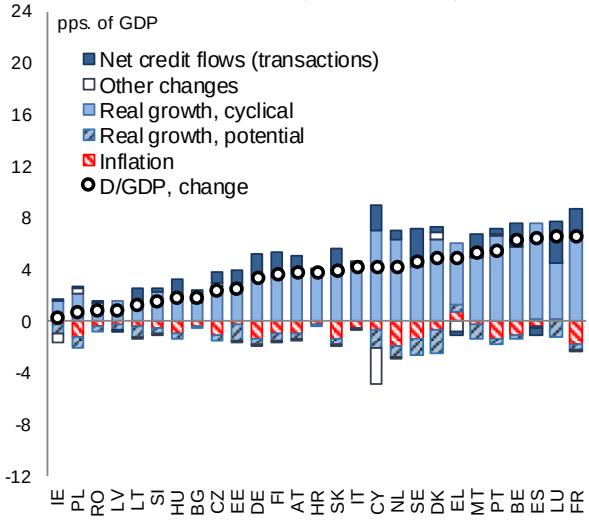
Regarding households, the COVID-19 outbreak appears to have led to more subdued borrowing dynamics in light of reduced income prospects and increased savings.

- **Net credit flows (debt transactions) to households are expected to be close to zero or moderate in 2020 for most EU countries**. As shown in Graph 22, the growing household debt-to-GDP ratios across the board are largely driven by the slump in GDP and not by credit and security transactions, which are rather limited, and appear to have shrunk in nearly all EU countries compared with 2019. Decelerations in households borrowing appear justified by worsened income prospects for households coupled by increased savings, partly precautionary and partially because of restrictive measures hampering consumption possibilities. Cross-country differences are possibly linked to the severity of lock-downs and a halt in house purchases, different degrees of government support to household incomes and credit conditions, and also to housing market conditions.

- **The deceleration in household borrowing is taking place despite the effect of moratoria**. As with NFCs, debt moratoria has a positive effect on the evolution of the debt stock on account of lower repayments. Because of this effect, the stock of household debt appears to be falling at reduced speed.

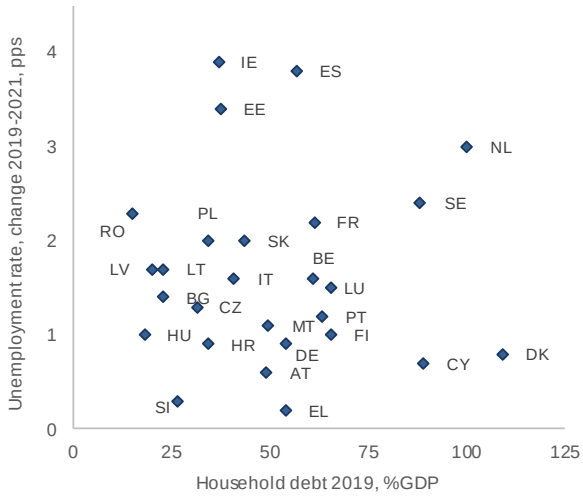
- **Household debt dynamics are likely to remain subdued and repayment difficulties may emerge as labour markets deteriorate**. Despite continued supportive financial conditions and government measures to cushion the fallout of the crisis on the labour market and on households, household incomes will remain under pressure. In particular, after having declined until 2020, unemployment rates are forecast to increase across the board through 2021. That will reflect also job losses following the phasing out of the measures that governments have taken to cushion the impact of the pandemic, notably subsidised short-time work schemes, which are supposed to be temporary to avoid keeping jobs in unviable firms. Increased debt repayment difficulties for households could materialise also in countries already characterised by a relatively high household debt burden (Graph 23).

Graph 22: Decomposition of the change in household debt-to-GDP (2019 – 2020)



Source: Net credit flows (debt transactions) correspond to transaction of loans (F4) and debt securities (F3) from the Eurostat sectoral financial transactions accounts. Other sources are AMECO and Commission services estimates (see Box 1) and calculations based on ECB monthly data on MFI loans and debt securities transactions (flows) with the private sector from the BSI database.

Graph 23: Household debt and unemployment



Source: AMECO, data for 2020 and 2021 come from the European Commission autumn 2020 economic forecast

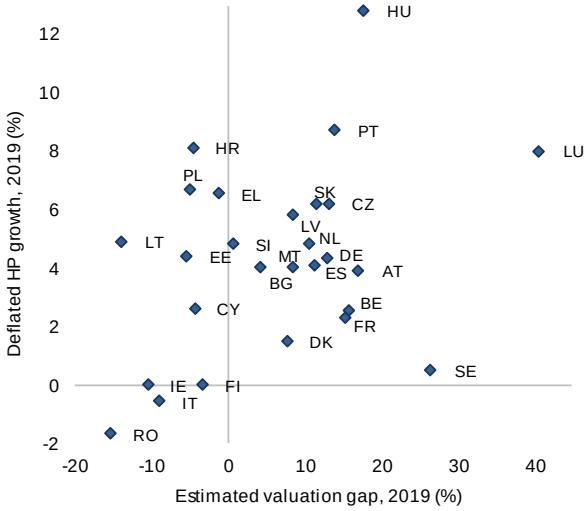
House prices kept increasing until early 2020, in some cases accelerating.

- **In 2019, eight Member States showed real house price growth above the scoreboard threshold** (Croatia, Czechia, Greece, Hungary, Luxembourg, Poland, Portugal, and Slovakia), one more than in 2018. Overall, that confirmed the continuation of the dynamic house price growth that has been observed since around the middle of the decade.
- **House prices grew in 2019 in nearly all EU countries, and accelerations between 2018 and 2019 took place in a majority of Member States.** Decelerations were observed instead in Bulgaria, Denmark, Germany, Ireland, Latvia, Malta, the Netherlands, Romania, Spain and Slovenia.
- **The recent positive trend in house price growth was mainly driven by economic fundamentals.** Low interest rates and accelerating labour incomes were the main factors behind the recent demand for housing services, in a context of lagged adaptation of housing supply. An acceleration of mortgage debt growth became visible only after house price accelerations consolidated and became more widespread across the EU.
- **Strong house price growth is observed also in Member States exhibiting signs of overvaluation** (Graph 24). Some deceleration in prices between 2018 and 2019 was noticed in

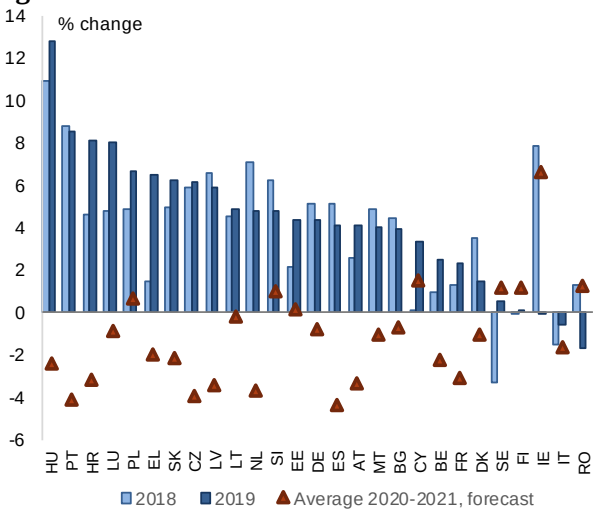
some of the countries with evidence of overvaluation. Yet that was not the case in other notable cases, including Luxembourg and Sweden.[36]

- **A majority of Member States in 2019 exhibit evidence of overvaluation**. Comparison of price indexes with benchmarks suggest widespread evidence of overvaluation. Housing affordability constraints are confirmed by estimates of price levels. In about half of the EU countries, more than 10 years of income are needed to purchase a 100 square meter dwelling.[37]

Graph 24: Deflated house prices changes and valuation gaps in 2019



Graph 25: Evolution of deflated house price growth



Source: Eurostat and Commission services calculations.

Note: The overvaluation gap is estimated as an average of three metrics: the deviations in the price-to-income and the price-to-rent ratios from their long-run averages, and valuation gaps obtained from a regression-based model of house price determinants (see footnote 36). House price forecasts are based on the regression-based model of house price determinants (see footnote 40).

Going forward, the COVID-19 crisis is expected to bend down recent house price dynamics, mainly in light of falling labour incomes.

- **Quarterly 2020 data reveal that real house price growth starts cooling in several Member States.** While most EU countries continued recording price growth in the second quarter of this year compared with the same quarter of 2019, decelerations or even falls in deflated house prices have already been noticed for some. Downward corrections on a yearly basis are observed in

[36] House price valuation gaps are computed with respect to benchmarks to capture the effect of country-specific house price. Synthetic valuations gaps are based on the gap obtained from different benchmarks: (i) price-to-income deviation with respect to its long-term average; (ii) price-to-rent deviation from its long-term average; (iii) deviation from regressions-based benchmarks taking into account demand and supply economic fundamentals (see N. Philiponnet and A. Turrini (2017), "Assessing House Price Developments in the EU", European Commission Discussion Paper 048, May 2017). In the computation of the regression-based benchmarks, cyclical explanatory variables are HP filtered to contain their volatility.

[37] Price level estimates are obtained on the basis of national account and census data or, when not available, information published on real estate agents websites. See J. C. Bricongne et al. (2019),” Assessing House Prices: Insights from "Houselev", a Dataset of Price Level Estimates”, European Economy, Discussion Paper No. 101, July 2019.

Cyprus and Hungary. Decelerations and stagnations are observed in over half of EU countries. A pattern of more widespread downward corrections emerge when looking at the quarter-on-quarter dynamics in the first half of 2020, especially in Estonia, Hungary and Romania but also to some extent in Latvia, Portugal, Slovenia and Sweden.[38]

- **Estimates of price levels from quotations by sellers confirm an incipient weakening of the housing market.** House price data until mid-2020 may not fully reflect the impact of the COVID crisis because the transactions were in many cases agreed before the COVID outbreak. Nonetheless, recent estimates of asked prices also suggest downward corrections in some countries. [39]

- **Model-based house price forecasts also point out to softening housing markets through 2021 and downward corrections in a large majority of EU Member States** (Graph 25). The fall in labour incomes explain the large part of the expected decelerations. Strong decelerations are expected to take place especially in countries currently showing evidence of overvaluation.[40]

In a number of Member States, overvalued house prices continue coexisting with high household debt. This is notably the case in Belgium, Denmark, Luxembourg, the Netherlands and Sweden. The Netherlands is marked also by high price levels with respect to average household income. The growth of the mortgage stock in 2019 was particularly rapid in Bulgaria and Malta (above 10% over the previous year), and above 5% in 14 other countries. In some cases, strong growth took place from already relatively high levels, notably in Belgium, France, Germany, Luxembourg and Malta. Apart from Greece and Portugal, strong house price growth was associated with strong mortgage growth.[41]

3.3 Government sector

Government debt ratios declined further in most Member States in 2019 amid continued favourable economic conditions but are again on the rise across the EU and notably in those hit more strongly by the COVID-19 crisis. Debt ratios exceeded the scoreboard threshold of 60% of GDP in 12 Member States in 2019, down from 14 in 2018. Greece, Italy, and Portugal displayed debt

[38] Quarter-on-quarter evolution of deflated house prices can be affected by seasonality. This is particularly the case in Romania due to the seasonality of the deflator used, the national accounts deflator for private final consumption expenditure. More recent evidence, based on the Valueguard Hox house price index, indicates that nominal house prices in Sweden increased 8.9% in year-on-year terms in September 2020.

[39] These estimates where obtained from a random sample stratified by region for houses and apartments with maximum 600 square meters. Data are Idealista.com realtor website. For each country, the initial sample size was around 1700 to 2000 properties. The sample composition is dynamic as some properties cease being available, and new properties are included. The median price per square metre was tracked over time between April and September 2020 revealing a clear downward pattern in the three countries analysed.

[40] House price forecasts are European Commission services forecasts computed in the framework of an error correction model, using as explanatory variables: population, disposable income, housing stock, long-term interest rate, and the price deflator of private final consumption expenditure, as well as the residual from the estimated cointegration relationship.

[41] In September 2019, the European Systemic Risk Board (ESRB) issued country-specific warnings and recommendations on medium-term vulnerabilities in the residential real estate sector to nine Member States: recommendations to Belgium, Denmark, Finland, Luxembourg, the Netherlands, and Sweden, and warnings to Czechia, France, and Germany. Of the former group of countries, all had already received warnings by the ESRB in November 2016, and the same held for Austria. The MIP Regulation (Regulation (EU) No 1176/2011) calls on the Commission to take into account any warnings or recommendations addressed by the ESRB to Member States subject to an IDR.

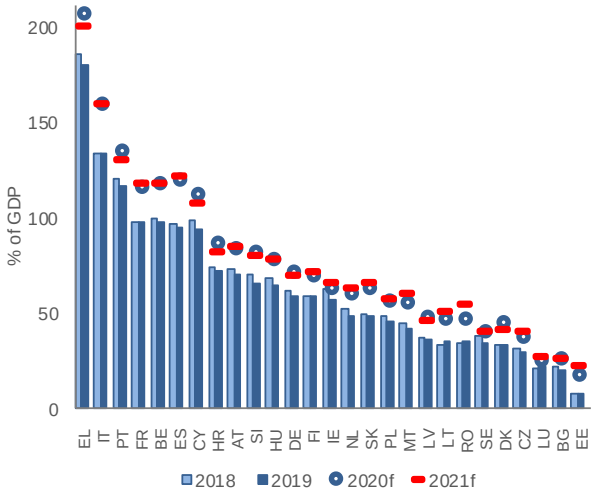
exceeding 100% of GDP. Belgium, Cyprus, France, and Spain were somewhat just below that mark. Other Member States with debt beyond the 60% of GDP include Austria, Croatia, Hungary, and Slovenia. In 2019, government debt ratios reductions were more visible (above 5 pps. of GDP) in Cyprus, Greece and Ireland, while government debt remained unchanged in France and Italy. In 2019 and some earlier years, in some cases, including Belgium, Cyprus, France and Portugal, government debt in excess of 60% of GDP were observed together with private sector debt in excess of the respective scoreboard threshold.

Government debt-to-GDP ratios are visibly on the rise with the COVID-19 crisis. The loss in output and in revenues associated with the recessions in 2020, as well as the extensive support measures put in place by governments to cushion the impact of the crisis are at the origin of increased borrowing and growth in debt stocks in all EU Member States. Governments have let automatic stabilisers function during the crisis and have provided direct fiscal and liquidity support to mitigate the health crisis and the private sector spending retrenchment. In addition, part of the increase in debt-to-GDP ratios in 2020 is the mechanical effect of much reduced nominal GDP.

- **By end 2021, government debt ratios are forecast to remain higher than in 2019 in all EU countries, sometimes by a wide margin.** At the end of 2020, visibly more Member States are expected to exceed the 60% of GDP threshold and a few more to go above 100%. In 2021, debt ratios are expected to stabilise or mildly decline in around half of the countries with the help of the recovery and forecast lower deficits (Graph 26). However, in the remaining EU countries, government debt is expected to rise further in 2021, notably in Romania, where the high government deficit is forecast to worsen further next year and the debt ratio to hike markedly further even if from relatively low levels.
- **The increases of government debt ratios are generally expected to be sharper where pre-crisis debt levels were already relatively high.** That reflects the fact that recessions have generally been more severe in these countries, mainly because infections were widespread or followed by strong containment measures and because the economies rely more on sectors like tourism. Greece, Italy and Spain are forecast to record increases in public debt ratios above 20 percentage points of GDP in 2020. The debt rises reflect also debt-increasing stock-flow adjustments, which include also forms of financial support not recorded in government budget balances. These effects are forecast to be the highest in Cyprus, Denmark, Germany and Slovenia.
- **Government financing has not become more costly.** Government bond yields were stable or declining along 2019. After the COVID-19-induced shock and subsequent turmoil in financial markets in March and April, they spiked for some euro area but also non-euro area countries. However, in a context of reduced volatility in financial markets and following extensive action by monetary authorities, yields have narrowed again and converged to the levels prevailing earlier in 2020, in some cases going even lower, inching up only in very few cases.

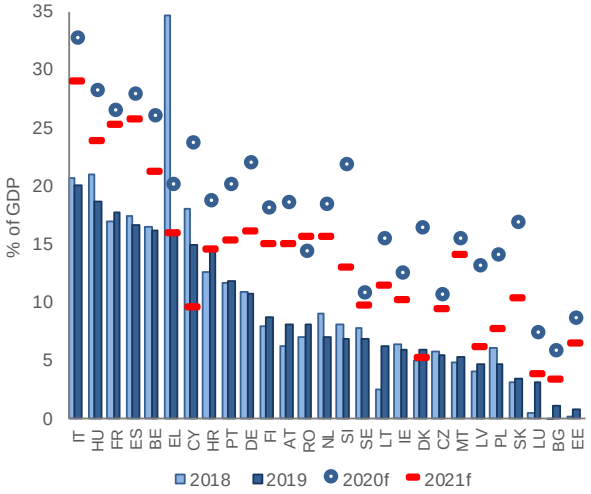
The structure of government debt might compound additional risks for some countries. Maturity structures of government debt differ significantly across the Member States, implying also different re-financing needs in the near future. The gross financing needs in the coming years are forecast to be at or above 20% of GDP for Belgium, France, Hungary, Italy and Spain (Graph 27). Some non-euro area countries outside ERM II, including Hungary and Romania, face additional risks in face of relatively large shares of their public debt denominated in foreign currency.

Graph 26: Government debt



Source: AMECO, 2020 and 2021 data come from the European Commission autumn 2020 economic forecast
Note: Countries are ordered in decreasing order of government debt in 2019 in terms of their GDP.

Graph 27: Government gross financing needs



Source: Commission services calculations
Note: Gross financing needs are computed as the sum of the fiscal deficit, stock-flow adjustments, and debt amortizations. Countries are ordered in decreasing order of the government financing needs in 2019 in terms of their GDP.

3.4 Financial sector

The EU banking sector strengthened considerably over past years, despite remaining challenges linked to low profitability and NPLs in a few Member States.

- **The EU banking sector is in better shape than at outset of the global financial crisis.** Non-performing loans (NPLs) declined substantially, especially where they were higher. Capital ratios stopped growing in 2018 after exceeding TIER 1 regulatory requirements in all Member States. Banks have also much stronger liquidity buffers than a decade ago. The growth in financial sector liabilities remained limited in 2019, with only Hungary going beyond the scoreboard threshold.
- **The EU banking sector remains challenged by low levels of profitability**, which weakened further in 2019, in a low interest rate environment. Profitability appears particularly low in Cyprus, Germany, Greece, Ireland and Portugal. As for capital ratios, they are comparatively lower in Germany, Greece, Hungary, Portugal and Spain.
- **A few EU countries are challenged by a combination of low profitability, capital ratios below average, and high NPLs** (Graph 28 and Graph 29).[42] In Greece, the NPL ratio has

[42] NPLs in the set of scoreboard auxiliary indicators is defined as total gross NPLs and advances as percentage of total gross loans and advances (gross carrying amount), for the reporting sector "domestic banking groups and stand-alone banks, foreign controlled subsidiaries and foreign controlled branches, all institutions". Values are provided in Table 2.1 in annex. Harmonised data on NPL ratios are available only since 2014. Thus, for the data concerning 2008 and the "increase to peak", Graph 29 displays data for the ratio of gross non-performing debt instruments (NPDs) over total gross debt instruments, which is available in longer time series, and that refers, besides loans, also to other debt instruments held by the banking sector. The latter is typically slightly lower than NPL ratios, much because the denominator is larger, i.e., total gross debt instruments are larger than total loans. The maximum difference between the two ratios currently amounts to 4 percentage points (for Greece), while for most countries it is below 1 p.p..

declined but it is still around 35%, while profitability is only marginally positive and capital ratios rank among the lowest in the EU. Cypriot banks have recorded considerable improvements in their very high NPL ratio, which fell below 20%, and bank profitability has been positive but below EU average. In Italy, Bulgaria and Portugal the NPL ratio has declined markedly in the last years with further, though more moderate, reductions in 2019, to below 7%. Capital ratios are below average in Italy and Portugal, and the profitability is lower especially for the latter.

The COVID-19 shock is likely to have a significant impact on bank asset quality, profitability and capital. These effects are not yet visible, and may take time to unfold also in light of extensive support policy measures. The COVID-19 shock has resulted in a major drag on the economic outlook and some individual banks are significantly exposed to sectors disproportionally affected by the crisis. Ample liquidity provided by central banks helped limiting a credit crunch after the COVID-19 outbreak, and the suspension of dividend payments and some temporary regulatory relaxation are giving further breathing space to banks. However, a number of challenges which may dent on bank balance sheets and capital are looming:[43]

- **Rising NPLs.** Difficulties in debt repayment by NFCs whose profitability is most affected by the COVID-19 crisis will most likely imply an increase of NPLs. Bankruptcies are expected to increase especially in sectors where room for reducing physical distancing is more limited. The fact that households' income and employment prospects are challenged would imply that also larger parts of mortgage debt may become non-performing. In addition, in countries with legacy issues, banks will find it more difficult to sell existing NPLs. Delayed payments are already taking place due to moratoria. Because moratoria are in place, a share of loans which would normally be classified as NPLs may currently not be classified as such. Data available for a sample of systemic EU banks suggest that the stock of NPLs has stopped declining starting from the second quarter of 2020.[44] Tentative estimates of a possible evolution of NPL ratios point to a sizeable increase.[45]
- **The profitability of the EU banks is expected to further worsen.** Profitability is expected to decline further as a consequence of reduced credit demand, compressed interest margins, and credit losses.[46] Consistently, bank equity valuations have recorded major declines after the COVID-19 outbreak. Bank equity valuations stagnated already over 2019 and suffered a major drop in March 2020 right at the COVID-19 outbreak and have only marginal recovered afterwards, clearly tracking behind overall European stock market indexes.
- **Asset valuations.** Banks are absorbing large shares of government bonds. Financial institutions linked to sovereign in countries with more fragile public finances might be exposed to adverse feedback loops. Moreover, softening real estate markets, notably commercial real estate, may

[43] For a recent ECB stress test estimating the loss of capital for the euro area banking sector under alternative scenarios, see https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200728~7df9502348.en.html.

[44] Source: EBA risk dashboard, Q2 2020.

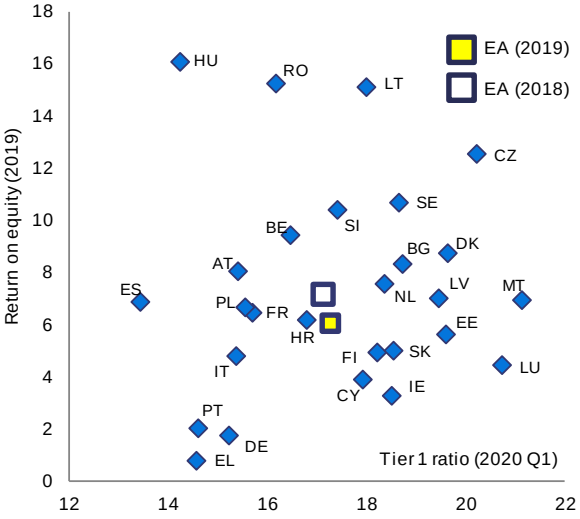
[45] The NPL ratio in the euro area could increase between December 2019 and 2021 by 1.7 and 2.3 p.p. –according to Allianz Research, European Banks – Could Eur 300 bn of Additional NPLs Crunch the Recovery in Europe?, July 2020.

[46] ECB, Financial Stability Review, May 2020. EBA, The EU Banking Sector: First Insight into the Covid-19 Impacts, Thematic Note EBA/REP/2020/17.

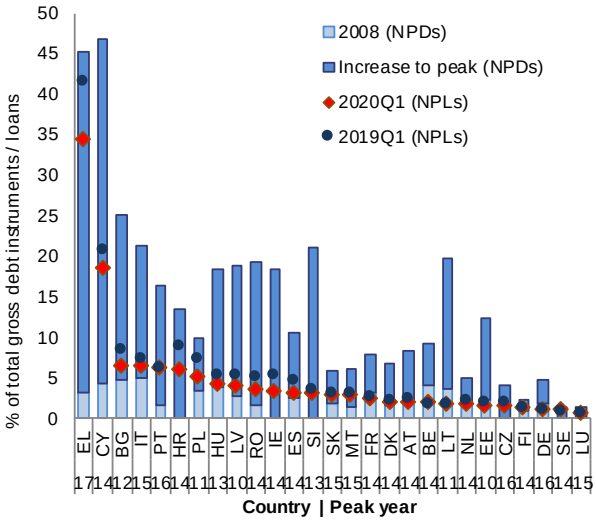
reduce the value of mortgage collateral and lead to a feed-back loop between house prices, bank balance sheets and availability of mortgages.

This crisis will further prolong the low interest rate environment with a possible adverse impact on the non-banking financial sector. As the low-yield environment affects especially low-risk financial assets, it strains also the profitability and balance sheet of non-bank financial institutions with asset portfolios largely invested in those low-risk assets, such as insurance companies, notably its life-insurance subsector, and pension funds. In search for yield, many non-bank financial institutions increased their leverage and exposure to more risky assets whose prices declined after the COVID outbreak, inducing significant valuation losses to investment funds in particular. The recent developments are also expected to have adverse impact on the insurance sector.[47]

Graph 28: Banking sector profitability and capital



Graph 29: Non-performing loans



Source: ECB, Commission services calculations.
Note: The average values for the EA on Graph 28 are unweighted by the economy size. Data on gross non-performing debt instruments (NPDs) for 2008 are unavailable for Croatia, Czechia, Ireland, Slovenia, and Sweden. On Graph 29, data concerning 2008 and the "increase to peak" refer to the ratio of gross non-performing debt instruments (NPDs) over total gross debt instruments; NPL ratios are reported for 2018Q1 and 2019Q1; numbers below the country codes indicate the year when NPDs peaked.

[47] EIOPA (2020): Financial Stability Report, July 2020.

Box 2: Employment and social developments

In 2019, before the pandemic, improvements in the EU labour markets continued despite the European economy was already slowing down. In 2019, employment grew further in the EU and set a new record in the number of persons employed. In 2019, the employment rate increased in almost all Member States. Bulgaria witnessed the largest increase in the employment rate (2.4 pps), followed by Cyprus (1.9 pps), Greece (1.6 pps) and Croatia (1.5 pps). Unemployment kept falling in nearly all Member States, reaching its lowest rate since 2000 (6.5%) in December 2019 and all countries entered 2020 with the lowest unemployment rates since 2013. The drop was particularly intense in those countries with high unemployment such as Greece and Croatia (-2 pps), Cyprus (-1.3 pps) and Spain (-1.2 pps), while in Sweden the unemployment rate increased by 0.4 pps, and in Luxembourg and Lithuania, it hovered around the same level of 2018, albeit from comparatively low levels in all three cases. Hence, cross-country differences in unemployment rates markedly declined but remained significant before the COVID-19 outbreak.

Activity rates were also quite resilient to the pre-pandemic slowdown, while *long-term* and *youth unemployment* improved more strongly than the rest of the labour market indicators. In 2019, the activity rate (15-64 years old) declined only in France (-0.4 pps), Latvia (-0.2 pps) and Estonia (-0.2 pps). The gap between the countries with lowest and the highest activity rate remained mainly unchanged at about 16 pps. *Long-term unemployment* decreased in all Member States in 2019 and all recorded lower rates than three years earlier. The highest long-term unemployment rates were observed in Greece (12.2% of the active population), Italy (5.6%) and Spain (5.3%). In nearly all EU countries, the *youth unemployment rate* fell in the three years to 2019; yet it was still above 30% in Greece and Spain and with Italy just below that level. At the same time, 10.1% of young people (15-24 years old) in the EU in 2019 were neither in employment nor in education or training (NEET). Furthermore, several Member States (including, Bulgaria, Croatia, Cyprus, France, Greece, Hungary, Ireland, Italy, Romania, Slovakia, and Spain) recorded rates above 10%.

Poverty and social exclusion declined further in 2019 but remains elevated in a number of Member States. The share of people at risk of poverty or social exclusion (AROPE) decreased further in the EU to 21.4% in 2019.[48] All countries recorded decreases in the three years to 2019, except Sweden and Luxembourg, which recorded increases, albeit from comparatively low levels. Despite a significant drop in the level of the AROPE rate from nearly 39% to 32.5%, Bulgaria continues recording the highest level in the EU, followed by Romania and Greece, with both cases over 30%, while Spain, Latvia and Lithuania recorded rates above 25%.

However, the COVID-19 outbreak has drastically changed the outlook. In a few weeks, the outlook for 2020 has taken a dramatic turn for the worse. In the second quarter of 2020, GDP was almost 15% lower than at the end of 2019 (18% for the euro area) and employment declined by 3% or 6 million less employed (2.9% for the euro area). These are the largest declines ever observed at the early stage of a recession. Moreover, there is a great deal of uncertainty associated with the consequences of this unprecedented shock as the economic impact may vary significantly by country depending, among other factors, on the intensity of the outbreaks and on their different sector specialisations.

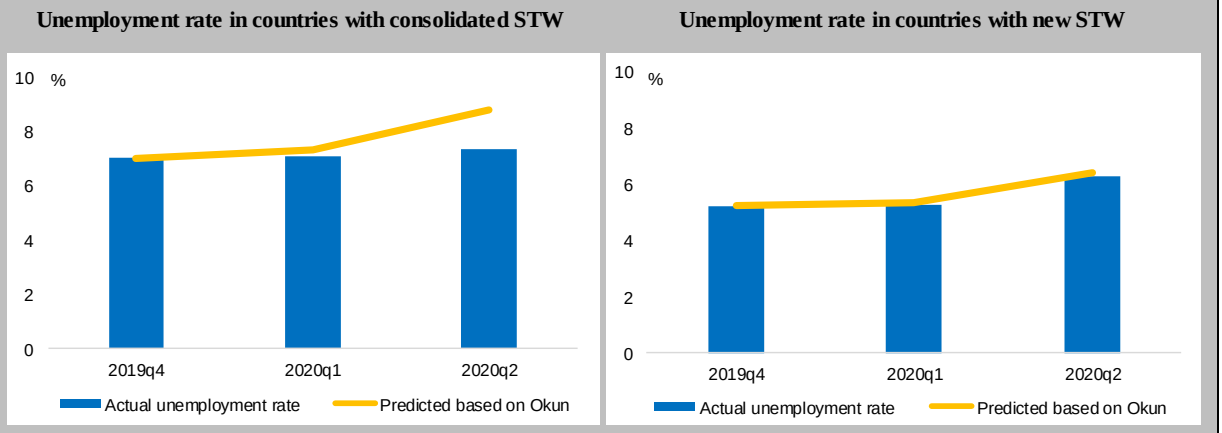
The extensive use of short-time work schemes have mitigated the impact of the recession on unemployment. While the unemployment rate did increase in all Member States, forming a clear break with the developments in previous years, the increases were relatively small in most countries. The widespread use of

[48] Weighted average of the 25 Member States for which the data were available by 23 October 2020. The indicator *At risk of poverty or social exclusion (AROPE)* corresponds to the share of persons who are vulnerable according to at least one of three social indicators: (1) *At risk-of-poverty (AROP)*, which measures monetary poverty relative to the national income distribution and is calculated as the share of persons with disposable income (adjusted for household composition) below 60% of the national median; (2) *Severe material deprivation (SMD)*, which covers indicators related to a lack of resources, and represents the share of people experiencing at least 4 out of 9 deprivations items, based on the inability to afford some specific types of expenses; (3) *People living in households with very low work intensity* are those aged 0-59 living in households in which adults (aged 18-59) worked less than 20% of their total work potential during the past year.

short-time work schemes contributed to curbing the massive job destruction that many countries would have otherwise experienced following the severe output losses of the first two quarters 2020. This is particularly the case for countries with established short-time work schemes; while in those countries that recently introduced such schemes, in part due to the design of their schemes or to implementation delays, they barely dampen increases in unemployment in comparison with what could have been expected on the basis of historical evidence (Figure 1).[49]

The drop in the activity rate explains the decline in the unemployment rates observed in some Member States. The severity of the recession has brought many unemployed people into inactivity as they gave up job search. In nine Member States, accounting for more than one third of the EU population, there was a contraction in the activity rate. For the EU as a whole, the activity rate (15-64) dropped from 73.5% in the fourth quarter of 2019 to 71.8% in the second quarter of 2020. For example, in Italy, the decline in the unemployment rate by 2 pps between January and April reflects a stronger drop in the activity rate by 3.5 pps than the one in the employment rate (-1.7 pps).

Graph: Actual unemployment rate in the presence of short-time work schemes and Okun's law prediction



Source: Labour Markets and Wage Developments in Europe 2020
Note: Okun's law refers to the observed relationship between unemployment and losses in a country's production.

The COVID-19 crisis is hitting the most vulnerable workers disproportionally more and may require sustained efforts to mitigate increasing social and economic inequalities. The impact of the pandemic on employment differs across countries, sectors and workers.[50] In particular, the most economically vulnerable workers (low-educated, low-wage workers, non-EU born migrants) and young workers are likely to have a job in sectors particularly exposed to the epidemiological risks (i.e. retail trade, accommodation and food services); most of them are in non-standard forms of employment. As a result, in absence of corrective measures, the impact of COVID-19 might take a proportionally greater toll on those with lower income, leading to increased poverty rates. Against such a backdrop, Member States have adopted temporary measures to support vulnerable groups with very low incomes and people not entitled to unemployment benefits. Going forward, national policy responses, supported by EU initiatives such as SURE, react EU, ESIF and RRF, are important to cushion effectively the fallout of the crisis on the social situation.

[49] European Commission (2020), Labour Markets and Wage Developments in Europe 2020 (forthcoming). Countries with consolidated short-time work schemes: Austria, Belgium, Germany, Spain, Finland, France, Italy, Luxembourg, Portugal, and Sweden.
[50] See Basso, G., et al. (2020), "The new hazardous jobs and worker reallocation", OECD Social, Employment and Migration Working Papers, No. 247, OECD Publishing, Paris, https://doi.org/10.1787/400cf397-en.

4. SUMMARY OF MAIN CHALLENGES AND SURVEILLANCE IMPLICATIONS

Macroeconomic imbalances have been mainly under correction until 2019 amid favourable economic conditions, but new risks are looming after the COVID-19 outbreak.

- **Flow imbalances corrected after the 2008 financial crisis and the economic expansion since 2013 helped the reduction of stock imbalances** mainly thanks to a higher denominator pushing down debt-to-GDP ratios**.** At the same time, over recent years, the expansion has brought some overheating risks mainly at the level of house prices and cost competitiveness, especially where growth was stronger. These trends continued until 2019.
- **After the COVID-19 outbreak a number of existing macroeconomic imbalances may be aggravating, and new risks may loom.** Forecast and infra-annual data suggest in particular that government and private debt-to-GDP ratios are now on the rise. Going forward, debt repayment prospects would be challenged by persisting subdued levels of economic activity, corporate bankruptcies, a weak labour market. Banks' balance sheets may be affected going forward by debt distress, as well as impaired profitability. At the same time, excessively buoyant house price dynamics that were characterising the recent past may turn into downward corrections.

Overall, challenges are present in a number of Member States, for different reasons and to a different extent. The degree of severity of the challenges for macroeconomic stability varies significantly across Member States, depending on the nature and extent of vulnerabilities and unsustainable trends, and the way they interact with each other. The main sources of potential imbalances combine according to a number of typologies summarised as follows:

- A number of Member States continue to be mainly affected by *multiple and interconnected stock vulnerabilities*. This is typically the case for those countries that were hit by boom-bust credit cycles coupled with current account reversals following the global financial crisis, which also had implications for the banking sector and for government debt. A number of these Member States have been badly affected by the COVID-19 recession, reflecting also the relatively high relevance of tourism in their economies.
    - In the case of Cyprus and Greece, elevated debt stocks, and large negative net international investment positions are coupled with lasting challenges for the financial sector, although improvements on the front of NPLs and profitability were observed for Cypriot banks and the decline in NPLs accelerated in Greece in 2019 but levels remain very high. In the case of Greece, potential output growth has been low in a context of high unemployment.
    - In Croatia, Ireland, Portugal, and Spain, vulnerabilities stemming from stock legacy issues are also significant, multiple, and interconnected. In those countries, stock-related imbalances receded until now on the back of nominal GDP growth. That was associated in some cases with the re-emergence of strong growth in house prices (in Ireland, and more recently in Portugal), as well as resuming ULC growth and stalling competitiveness gains in Portugal and Spain. However, these trends seem to be receding with the crisis, while instead debt-GDP ratios are growing due to lower nominal GDP growth and increased borrowing.
    - In Romania and Hungary, vulnerabilities relate to the interplay between government debt and external financing. In Romania, the current account deficit has widened after years of very strong growth in unit labour costs and buoyant growth of domestic demand. Government debt has been rising fast and is set to further increase, adding to external financing needs. In Hungary, government debt generates large financing needs in light of short maturities, and the

source of such financing is partly external. In both countries, a non-negligible share of debt is denominated in foreign currency.

- In a few Member States, vulnerabilities are mainly linked to *large stocks of general government debt that are being further increased by the crisis* coupled with concerns relating to *potential output growth* and *competitiveness*. This is particularly the case for Italy, where vulnerabilities are also linked to the banking sector and the still large but rapidly declining stock of NPLs until at least the crisis outbreak, and in a context of lasting weak labour market performance. Belgium and France mainly face issues linked to a high general government debt and potential growth issues amidst also compressed competitiveness. In France, a relatively high stock of private debt was on the rise already before this latest crisis and clearly increased further already this year. In Belgium, a relatively high and growing household debt is coupled with possibly overvalued house prices; the external position remains solid but has weakened somewhat recently. Government debts in these countries are set to grow in light of the ongoing recession that is denting the revenue basis and of the measures taken to cushion the impact of the crisis. In the case of Belgium, both private debt and government debt are expected to grow starting from levels already above MIP scoreboard thresholds.

- Some Member States are characterised by *large but steadily falling current account surpluses* which remain above levels that economic fundamentals would justify. This is the case notably for Germany and the Netherlands. In the Netherlands, a large surplus is coupled with a high stock of household debt and strong house price growth; house price pressures were noted recently also in Germany but debt levels are comparatively low. The large albeit declining surpluses may reflect forgone growth and domestic investment opportunities, which bear consequences for the rest of the euro area in a context of protracted below-target inflation and weakening foreign demand.

- In some Member States, *developments in the housing market have led to risks linked to house prices valuations in a context of high household debt*. That is notably the case of Sweden, and to a lesser extent in Austria, Denmark, and Luxembourg, where sustained house price growth was observed in recent years in a context of possible overvaluation gaps and significant levels of household debt. Evidence of the latest number of years points towards some but short-lived downward adjustment in prices and overvaluations in Sweden, and to moderate house price growth in the other cases (except Luxembourg). Finland does not seem marked by strong house price growth or possible overvaluation but by high and rising household debt. Developments after the COVID-19 outbreak are likely to be characterised by decelerations or downward corrections of house prices. Monitoring should ascertain whether such adjustment takes place in orderly fashion.

The ongoing aggravation of stock imbalances should not automatically imply the need of new IDRs. The aggravation of risks, notably those relating to private and government debt, concerns especially countries already identified with imbalances or excessive imbalances. Second, forecasts are still surrounded by substantial uncertainty notably in light of the evolution of the pandemic, an uncertainty which is likely to remain pervasive by the time the IDRs will be prepared. Third, large debt-GDP ratio increases in 2020 are partly the outcome of major temporary drops in nominal GDP and deliberate policy choices to cushion the impact of the crisis.

This AMR concludes that IDRs are warranted for 12 Member States: Croatia, Cyprus, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Romania, Spain, and **Sweden.** Those Member States were subject to an IDR in the previous annual cycle of MIP surveillance, and were considered to be experiencing imbalances or excessive imbalances. The new IDRs will help going deeper into the analysis of those challenges and assessing policy needs. In particular, forthcoming IDRs

will be prepared to assess if those imbalances are aggravating or are under correction, with the view to update existing assessments.

This AMR points to the need of close monitoring of potentially risky developments in a number of Member States for which IDRs will not be conducted. Soon after the COVID-19 outbreak, concerns linked to external financing have emerged in a number of non-euro area Member States. Market pressures have eased since then, but might resurface if conditions justifying a reappraisal of risks materialise again. In particular where the government partly funds itself in foreign currency and where public finances are perceived as more risky, and Hungary appears as a case where the interplay between government borrowing and external financing deserves monitoring.[51] The implications of growing debt-to-GDP ratios also require monitoring in a number of Member States not currently under MIP surveillance. In Belgium, both private and government debt are expected to grow above the MIP thresholds. In Denmark, Finland, and Luxembourg, private debt is forecast to further grow above threshold. Government debt is expected to further grow above 60% of GDP in Austria and Slovenia. The extent to which those developments entail additional risks for macroeconomic stability is surrounded by large uncertainty, as the outlook for debt crucially depends on medium and longer-term growth prospects, which are currently difficult to assess. For this reason, this AMR concludes that there is no need to have IDRs for these countries at the current stage.

[51] The interaction between public finances and the external sector deserves being analysed also in the IDR foreseen for Romania.

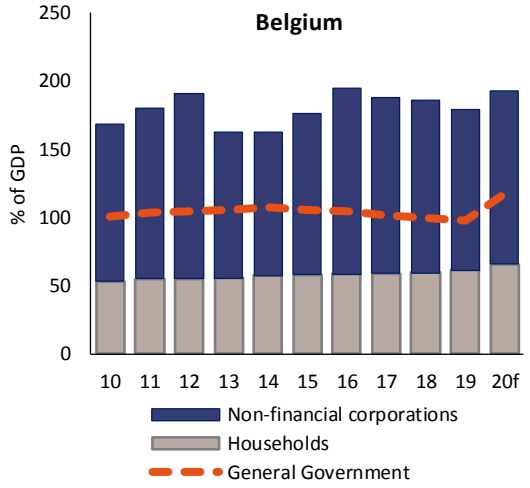
5. MEMBER STATE SPECIFIC COMMENTARIES

BELGIUM: In the previous round of the MIP, no macroeconomic imbalances were identified for Belgium. In the updated scoreboard including figures until 2019, the private sector debt and government debt indicators are beyond the indicative thresholds.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 1.7% in 2019 to -8.4% in 2020. Real growth is forecast at 4.1% in 2021, leaving the nominal GDP level 1.4% lower than in 2019.

A number of relevant developments can be summarised as follows:

Graph A1: ***Debt across sectors in the economy***



Source: Eurostat

- **External vulnerabilities remained contained.** The current account recorded a marginal surplus in 2019 while the NIIP is markedly positive limiting external sustainability concerns. Unit labour costs have been growing at a contained pace.
- **Private sector indebtedness** remained well above the threshold in 2019 and is expected to increase further in 2020 to around 200% of GDP. The debt of Belgian **non-financial corporations** is high but does to a large extent reflect cross-border intra-group lending which reduce risks. **Household indebtedness**, which mainly reflects mortgage debt, continued to increase in 2019 on the back of a positive net credit flow. After having dropped in the first semester due to the lockdown and confinement measures, housing investment is expected to rebound in the second half of 2020. House prices have increased in 2019, with indications of potential overvaluation.
- **Bank balance sheets** have been strengthened in recent years, and capital and liquidity ratios remain adequate. The already high level of **government debt** is set to increase substantially with the COVID19 crises and it is forecast to increase by 20 pps. reaching almost 118% of GDP in 2020.
- The favourable macroeconomic conditions have supported **job creation and the unemployment** rate continued to decline in 2019 after peaking in 2015. This declining trend is expected to reverse in 2020, in particular unemployment is forecast to increase sharply in 2021. The inactivity rate remains high.

Belgium entered the COVID-19 crisis with no identified macroeconomic imbalances, although with possible vulnerabilities building up linked to indebtedness. With the COVID-19 crisis government and private sector indebtedness have increased and warrant monitoring. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

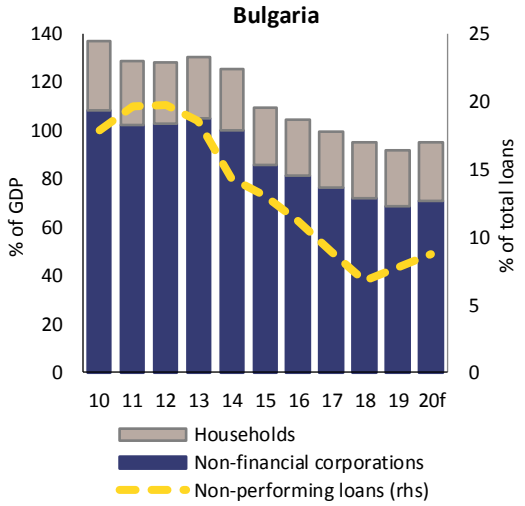
BULGARIA: In February 2020, the Commission concluded that Bulgaria was no longer experiencing macroeconomic imbalances. In the updated scoreboard including figures until 2019, the nominal unit labour cost growth indicator is beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 3.7% in 2019 to -5.1% in 2020. Real growth is forecast at 2.6% in 2021, leaving the nominal GDP level 1.4% higher than in 2019.

A number of relevant developments can be summarised as follows:

- The **current account** surplus widened in 2019 but is expected to narrow somewhat in 2020 with the sharp drop in tourism revenues. The negative NIIP, largely consisting of FDI, continued to improve, moving within the indicative threshold in 2019, and is forecast to improve further going forward. Wage moderation in the context of the COVID-19 crisis is likely to reduce cost competitiveness pressures going forward, although labour hoarding resulted in a temporary increase in unit labour cost growth in 2020.

Graph A2: ***Private debt and non-performing loans***



Source: Eurostat and ECB

- **The corporate sector continued to deleverage** in 2019, on the back of robust nominal GDP growth. Corporate debt is below the prudential but beyond the fundamental benchmark. Credit growth increased in 2019 but is expected to fall back in 2020 while the debt ratio increases with the contraction in GDP. Real **house price** growth moderated somewhat in 2019, amidst accelerating mortgage credit, but further deceleration is likely in 2020 in light of the COVID-19 crisis.
- **Government debt** is set to remain well below 30% of GDP in 2020 despite the budgetary impact of the COVID-19 crisis. **The financial sector** is profitable and well capitalised. The stability of the financial system has been supported by improved governance and supervision. In July 2020, Bulgaria joined ERMII and entered the Banking Union. The NPL ratio has been on a declining trend and reached 6.5% in 2019. The challenge forward is to avoid significant rises in NPLs once government support measures in response to the COVID-19 crisis have been phased out.
- **The positive labour market developments** continued further in 2019, bringing down unemployment to 4.2%. The declining trend is being reversed with the Covid-19 crisis but employment losses have not fully translated into a sharp surge in unemployment as inactivity increased.

Bulgaria entered the COVID-19 crisis with no identified macroeconomic imbalances, although non-performing loans and corporate indebtedness were relatively high, albeit declining. With the COVID-19 crisis, the corporate debt-to-GDP ratio is set to increase and NPLs may rise. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

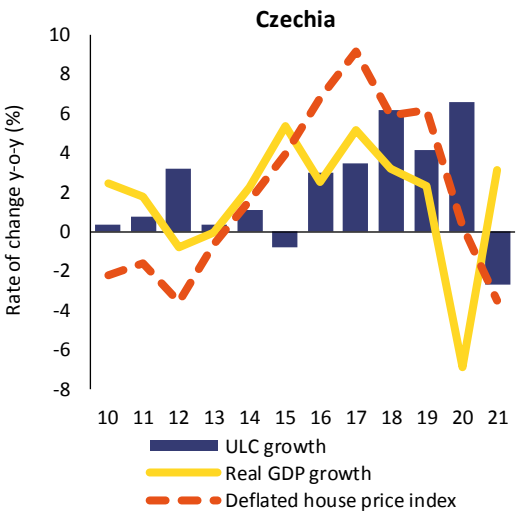
CZECHIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Czechia. In the updated scoreboard including figures until 2019, the unit labour cost growth and house price growth indicators are beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 2.3% in 2019 to -6.9% in 2020. Real growth is forecast at 3.1% in 2021, leaving the nominal GDP level 0.8% higher than in 2019.

A number of relevant developments can be summarised as follows:

- The **external position** is relatively sound with a limited current account deficit in 2019. Export concentration and integration in global value chains remain high. The net international investment position (NIIP) continued improving but remains negative at around -20% of GDP in 2019. The NIIP, excluding non-defaultable instruments, has been improving too and shows a clearly positive net asset position.
- The growth of **unit labour costs** moderated in 2019, but remained high. Some wage moderation due to the COVID-19 crisis is likely going forward, although labour hoarding is forecast to result in a temporary increase in unit labour cost growth in 2020.

Graph A3: ***GDP, ULC and house prices***



Source: Eurostat

- **House prices** and mortgage dynamics continue to require surveillance. During 2019, real house price growth accelerated with increasing indications of overvaluation. However, over 2020-2021 house price growth is likely to decelerate. Net credit to households remained positive and mortgage growth stable in 2019. Credit has overall grown moderately in the last years with some deceleration in 2019 and **private sector indebtedness** remains low.
- **The government debt** ratio decreased further in 2019 but is forecast to increase towards 40% of GDP in 2020 as a result of the COVID-19 crisis and it is to remain at about that level in 2021. The largely foreign-owned **banking sector** is well-capitalised and equity levels are among the strongest in the EU.
- **The labour market** improved further in 2019 on the back of better macroeconomic conditions, with the unemployment rate declining to 2%. As a result of the COVID-19 crisis, the unemployment rate is forecast to slightly increase in 2020 and 2021 although to stay at very low levels compared to the EU average.

Czechia entered the COVID-19 crisis with no identified macroeconomic imbalances, although competitiveness and pressures in the housing market involved some limited risks. With the COVID-19 crisis cost pressures have reduced. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

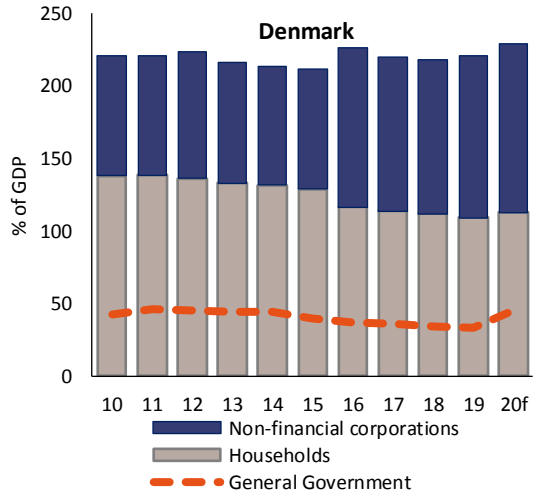
DENMARK: In the previous round of the MIP, no macroeconomic imbalances were identified for Denmark. In the updated scoreboard including figures until 2019, the current account surplus and private sector debt indicators are beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 2.8% in 2019 to -3.9% in 2020. Real growth is forecast at 3.5% in 2021, leaving the nominal GDP level 1.5% higher than in 2019.

A number of MIP-relevant developments can be summarised as follows:

- The **current account balance** has continued to show a large surplus, reaching 8.9% of GDP in 2019 and forecast to narrow to around 7% in 2020. Consecutive surpluses have led to a strongly positive net international investment position (NIIP), generating positive net primary income, which have in turn fuelled current account surpluses.
- **Private sector debt** was broadly stable in 2019 while credit growth increased. Despite a continuous passive deleveraging trend since 2009, **household debt** remains the highest in the EU at around 110% of GDP in 2019, clearly above fundamental and prudential thresholds, and set to increase in 2020. However, risks related to household leverage are partly offset by substantial asset holdings. Net credit to households remained positive in 2019. Debt build up continues to be supported by low financing costs and a benign tax treatment. **Real house prices** continued to increase at a moderate pace, with indications of some overvaluation. Corporate indebtedness, despite the recent rising trend, remains overall moderate.
- The **unemployment rate** improved further in 2019 to 5% and it is forecast to increase only moderately due to the government support schemes. Only a few sectoral labour shortages remain, moderating upward pressures on wages.
- Risks associated to the **banking sector and government debt** remain moderate. Banks are generally well positioned to sustain credit to the economy. Due to the crisis and the sizeable emergency and recovery packages set up by the government, the government debt is forecast to increase by some 10 pps. in 2020 reaching 45% of GDP, thus remaining clearly below 60% of GDP.

Graph A4: ***Debt across sectors in the economy***



Source: Eurostat

Denmark entered the COVID-19 crisis with no identified macroeconomic imbalances, although high household debt and housing involved some limited risks. With the COVID-19 crisis, the household debt ratio is set to increase. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

GERMANY: In February 2020, the Commission concluded that Germany was experiencing macroeconomic imbalances, in particular involving its large current account surplus reflecting subdued investment relative to saving, both in the private and public sector. In the updated scoreboard including figures until 2019, the current account surplus indicator is beyond the indicative threshold.

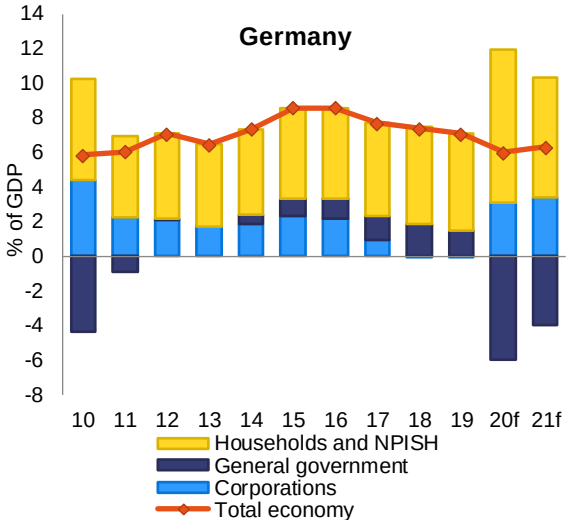
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to investment, supporting labour income, the business environment and pensions. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate to enhancing public investment, support for private investment and a commitment to avoid labour tax increases.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 0.6% in 2019 to -5.6% in 2020. Real growth is forecast at 3.5% in 2021, leaving the nominal GDP level 1.7% higher than in 2019.

A number of relevant developments can be summarised as follows:

- The **current account surplus**, at 7.1% of GDP in 2019, has gradually narrowed over the last years. In 2020, the sharp fall in government net lending contributes to a significant reduction in the surplus, even if the private sector increased its net lending position. In 2020, also the trade balance surplus narrows as exports contract more than imports. With the recovery the current account surplus is expected to slightly rise again.

Graph A5: ***Net lending/borrowing by sector***



Source: Ameco

- In recent years, **private and public investment** have increased while remaining slightly below the euro area average. While there is a substantial acceleration of the upward trend in public investment in 2020, private investment suffered considerably in the context of the COVID-19 crisis.
- **Government debt** edged below the indicative scoreboard threshold of 60% of GDP in 2019, but is forecast to be around 71% of GDP in 2020. The German **banking system** remains adequately capitalised with a very low level of NPLs. Nevertheless, profitability remains low and NPLs are likely to increase.
- The **labour market** was historically tight before the COVID-19 crisis with low unemployment and high employment. In 2020, the unemployment rate is forecast to increase moderately and wage growth decelerate. Short-time work schemes have contributed to limit unemployment increases and provided partial income relief.

Germany entered the COVID-19 crisis with a large domestic savings surplus, underpinned primarily by net savings of households and the government. With the COVID-19 crisis, the current account surplus has narrowed significantly and government investment accelerated while private investment has suffered. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

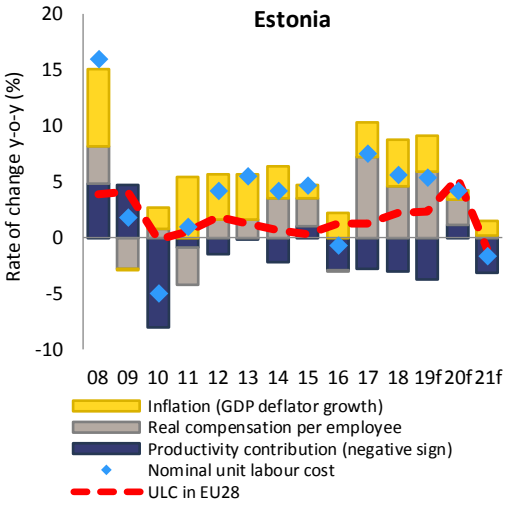
ESTONIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Estonia. In the updated scoreboard, including figures until 2019, the real effective exchange and the nominal unit labour cost growth indicators are beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 5% in 2019 to -4.6% in 2020. Real growth is forecast at 3.4% in 2021, leaving the nominal GDP level 0.7% higher than in 2019.

A number of relevant developments can be summarised as follows:

- **External vulnerabilities** remain contained, as the NIIP, albeit negative, has improved gradually and is projected to improve further in 2020 to above -20% of GDP. The current account surplus was 2% of GDP in 2019 and is forecast to be close to 3% in 2020.
- **Nominal unit labour cost** growth remained above 5% in 2019, driven by factors related to tight labour supply. Wage moderation due to the COVID-19 crisis is forecast to soften unit labour cost growth in 2020 and 2021. The HICP-based real effective exchange rate kept appreciating in 2019 although at a lower pace.
- **Corporate and household indebtedness** remain relatively low. The private sector debt to GDP ratio decreased in 2019 to 98% of GDP. It is likely to rise somewhat in 2020 due to the decline in GDP, but to remain relatively low.

Graph A6: ***Decomposition of unit labour cost***



Source: Commission services

- In the **banking sector** the NPL ratio remained low in 2019 but may increase going forward as a result of the COVID-19 crisis. **Government debt** is forecast to increase in light of the COVID-9 crisis and to increase further in 2021 although remaining however at the lowest level in the EU at around 20% of GDP.
- The **labour market** performance has been very strong, but will be impacted by the COVID-19 crisis with the unemployment rate increasing from 4.4% in 2019 to 7.5% in 2020.

Estonia entered the COVID-19 crisis with no identified macroeconomic imbalances, although the dynamics of cost competitiveness indicators involved some limited risks. With the COVID-19 crisis, the external position has remained stable and has implied wage growth moderation. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

IRELAND: In February 2020, the Commission concluded that Ireland was experiencing macroeconomic imbalances, in particular involving high private sector and government debt and net external liabilities. In the updated scoreboard including figures until 2019, the net international investment position (NIIP) and the private sector debt indicators are beyond the indicative threshold.

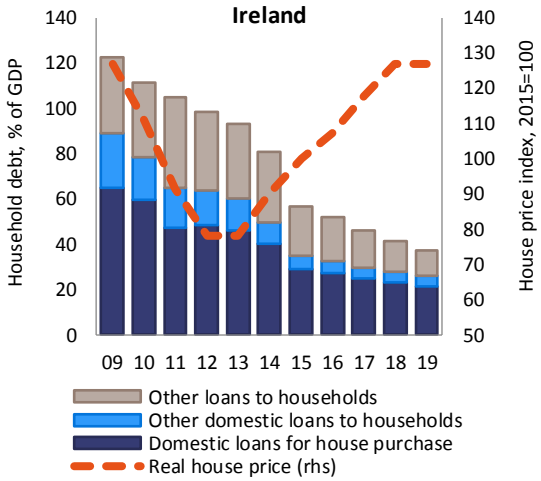
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to fiscal-structural policies and the housing market. Warranted policies taken in 2020 mainly addressed the pandemic.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 5.6% in 2019 to -2.3% in 2020. Real growth is forecast at 2.9% in 2021, leaving the nominal GDP level 2.7% higher than in 2019.

A number of relevant developments can be summarised as follows:

- **External vulnerabilities** remain an issue. The fluctuations of both the current account and the NIIP figures are difficult to assess due to the impact of multinational enterprises' activities. The current account balance, which is very volatile, was strongly negative in 2019 while a substantial surplus is forecast for 2020 and a figure around balance for 2021. The headline NIIP was broadly stable in 2019.
- **Private sector debt** remains high even if the debt-to-GDP ratio declined towards 200% of GDP in 2019. **Household debt** is low as a percentage of GDP but remains high relative to disposable income. The risks associated to **corporate indebtedness** are difficult to assess due to the strong presence of multinational enterprises. Going forward, corporates, facing lower profits but broadly unchanged financing needs may have to issue more debt in light of the COVID-19 crisis. **House price** growth slowed down markedly in 2019 towards zero growth while housing affordability remains a concern.

Graph A7: ***Household debt and house price index***



Source: Eurostat and ECB

- The **government debt-to-GDP ratio** fell below the 60% threshold in 2019 but is forecast to rise back to around 63% of GDP in 2020, reflecting the depth of the recession and the government support measures in response to the COVID-19 crisis. The level of government debt appears higher when compared to national income measures, i.e. debt-to-GNI* ratio which reached 95% in 2019.
- **The banking sector** enhanced its resilience during the past decade. The non-performing loan ratio has steadily decreased, but may pick up after government support measures due to the COVID-19 crisis have been phased out.
- **Labour market** outcomes continued to improve in 2019. The unemployment rate is forecast to only slightly increase in 2020 to 5.3%, but to increase more strongly in 2021, to 8.9%.

Ireland entered the COVID-19 crisis with vulnerabilities linked to external, government and private sector debt. With the COVID-19 crisis debt ratios and unemployment will increase. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

GREECE: In February 2020, the Commission concluded that Greece was experiencing excessive macroeconomic imbalances, in particular involving high government indebtedness, the high share of non-performing loans and incomplete external rebalancing, in a context of high – although declining – unemployment and low potential growth. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), house price growth, government debt as well as the unemployment rate indicators are beyond the indicative threshold.

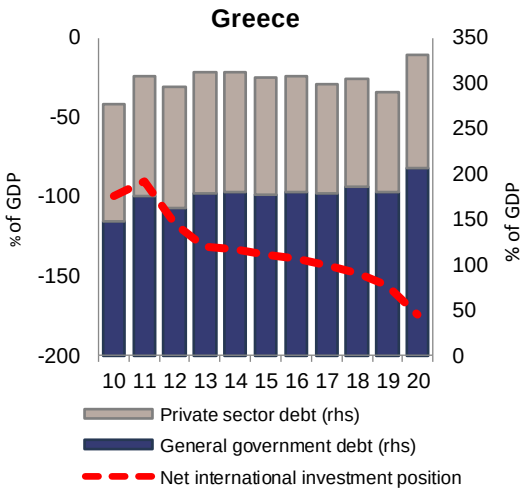
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to fiscal-structural policies, the labour market, business environment, NPLs and the financial sector. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate to insolvency, energy markets, labour market legislation, NPLs, public investments, privatisation, digital governance, education and training, and the business environment.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 1.9% in 2019 to -9% in 2020. Real growth is forecast at 5% in 2021, leaving the nominal GDP level 5.3% lower than in 2019.

A number of relevant developments can be summarised as follows:

- **External sustainability** remains an issue with the NIIP forecast to deteriorate further as a result of the COVID-19 crisis. A large share of the NIIP is accounted for by government debt at concessional terms and long maturities. The current account deficit narrowed in 2019 but is forecast to widen significantly in 2020 and 2021 reflecting also the impact of weaker tourism.
- **Private sector debt** ratios continued their declining trend in 2019 and remained below the MIP threshold. **Real house prices** accelerated in 2019 following a decade of price declines. Looking forward prices may adjust downward in light of the COVID-19 crisis.

Graph A8: ***NIIP, private debt and government debt***



Source: Eurostat

- **Government debt** declined to 180% of GDP in 2019 but is expected to increase to above 200% of GDP in 2020 with the fall in GDP and the pandemic measures. The **banking sector** remains burdened by a large stock of legacy non-performing loans.
- **Unemployment** remains very high and the slowly declining trend is interrupted by the crisis.

Greece entered the COVID-19 crisis with vulnerabilities linked to government debt, legacy non-performing loans, external rebalancing, unemployment and low potential growth. With the crisis, debt ratios, unemployment as well as non-performing loans are likely to increase. Overall, the Commission finds it opportune, also taking into account the identification of an excessive imbalance in February, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

SPAIN: In February 2020, the Commission concluded that Spain was experiencing macroeconomic imbalances, in particular involving high external and internal debt, both government and private sector, in a context of high unemployment. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), the government debt, the unemployment rate as well as the activity rate indicators are beyond the indicative threshold.

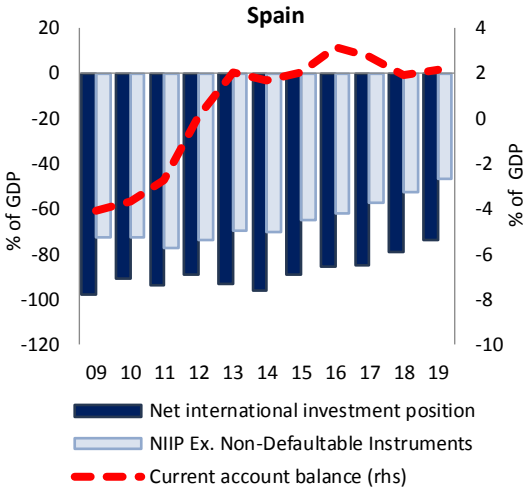
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to fiscal-structural policies, the labour market, education and the business environment. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate to training and education and innovation.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 2% in 2019 to -12.4% in 2020. Real growth is forecast at 5.4% in 2021, leaving the nominal GDP level 6.1% lower than in 2019.

A number of relevant developments can be summarized as follows:

- The **external position** improved in 2019, with the negative NIIP narrowing and continued current account surplus. Nevertheless, the NIIP net of non-defaultable instruments (NENDI) remains sizeably negative. The NIIP is however forecast to widen in 2020 while the current account surplus is forecast to remain relatively sizeable despite weak tourism.
- **Corporate and household debt** have been on a declining path up until 2020 and the private sector debt ratio fell below the MIP threshold in 2019. Private credit flows remained weak in 2019. Household debt is above fundamental and prudential thresholds. An increase in unemployment could reduce future repayment capacity. Both corporate and household debt to GDP ratios are forecast to increase in 2020, largely due to the COVID-19 induced fall in GDP.

Graph A9: ***NIIP and CA balance***



Source: Commission services

- The already high **government debt** to GDP ratio is forecast to rise by about 25 pps. in 2020, reaching 120% of GDP and to broadly remain at this level in 2021.
- The **banking sector** enhanced its resilience during the past decade. It has strong liquidity and is broadly adequately capitalised while profitability is moderate. NPLs have decreased towards 3% in 2019 but is likely to increase with the COVID-19 crisis.
- **Labour market** outcomes continued to improve in 2019, although unemployment and labour market segmentation remained of concern. The unemployment rate is forecast to increase to almost 17% in 2020 and then to slightly further increase in 2021. The activity rate slightly decreased from 2016-2019, partly due to more people being in education.

Spain entered the COVID-19 crisis with vulnerabilities linked to external, private sector and government debt and high unemployment. With the COVID-19 crises, debt ratios and unemployment have been increasing. Overall, the Commission finds it appropriate, also considering the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

FRANCE: In February 2020, the Commission concluded that France was experiencing macroeconomic imbalances, in particular involving high government debt and weak competitiveness dynamics in a context of low productivity growth, which carry cross-border relevance. In the updated scoreboard including figures until 2019, the private sector and government debt indicators are beyond the indicative threshold.

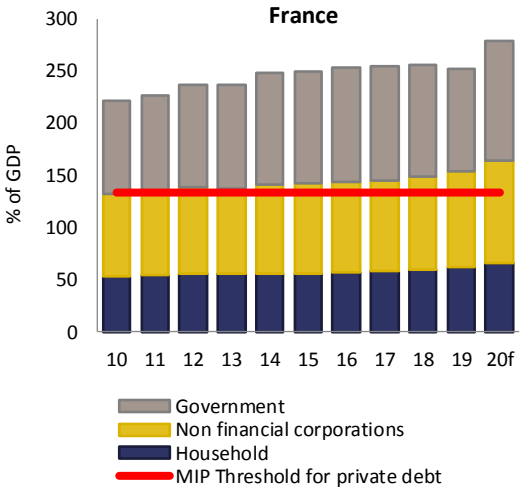
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to fiscal-structural policies, labour productivity and the business environment. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate to the improvement of the business environment and R&D.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 1.5% in 2019 o -9.4% in 2020. Real growth is forecast at 5.8% in 2021, leaving the nominal GDP level 0.9% lower than in 2019.

A number of relevant developments can be summarised as follows:

- **The external position** is stable with a contained current account deficit and a slightly more negative NIIP in 2019.
- **The private sector debt ratio** continued increasing in 2019, reaching 153% of GDP and is forecast to rise further in 2020. **Corporate credit** was high in 2019 and is expected to increase even further while companies also continued to accumulating cash reserves against the background of rising corporate profits, lower dividends, reduced investment and an overall low and decreasing level of NPLs. **Household debt** is high and set to grow. House prices show some limited signs of overvaluation while house price growth has been moderate in 2019 overall.

Graph A10: ***Debt across sectors in the economy***



Source: Eurostat

- **Competitiveness** losses incurred in the last decade have not been regained. The growth in unit labour costs remained contained although labour productivity slowed down significantly. After some gains in previous years, export market shares declined in 2019.
- **Government debt** remained stable at a level of 98% of GDP in 2019. The debt-to-GDP ratio is forecast to increase to about 116% of GDP in 2020 with the GDP contraction and the large fiscal package to mitigate the impact of the crisis. The **banking sector** has shown good and rising equity levels, declining and overall low NPLs although profitability is moderate in line with European peers. However, the number of bankruptcies could increase in light of the COVID-19 crisis.
- **Labour market** outcomes improved in 2019 but unemployment is forecast to slightly increase looking forward.

France entered the COVID-19 crisis with vulnerabilities linked to debt, as well as competitiveness. With the COVID-19 crisis and the measures taken to support the economy, the government debt increased while competitiveness developments have remained relatively stable. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

CROATIA: In February 2020, the Commission concluded that Croatia was experiencing macroeconomic imbalances, in particular involving high government, private sector and external debt in a context of low potential growth. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), house price growth and government debt indicators are beyond the indicative threshold.

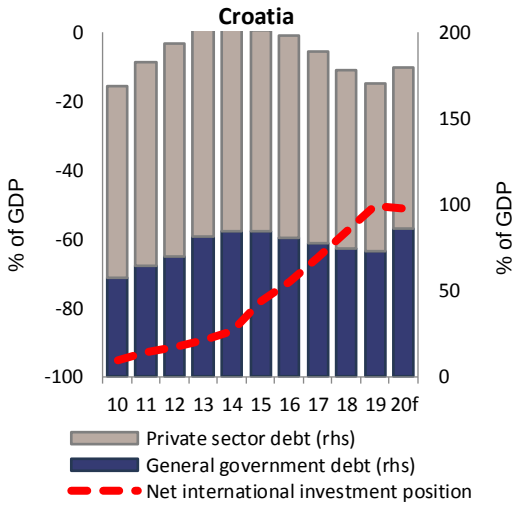
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to fiscal-structural policies, the labour market and the business environment. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate to enhancing public sector governance and reducing administrative and financial burden on enterprises.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 2.9% in 2019 to -9.6% in 2020. Real growth is forecast at 5.7% in 2021, leaving the nominal GDP level 2.5% lower than in 2019.

A number of relevant developments can be summarised as follows:

- **External sustainability** concerns remain while the considerably negative NIIP continued improving in 2019 and the current account surplus increased towards 3% of GDP. Risks to the external sustainability are alleviated by the relatively large share of FDI in total foreign liabilities. The current account balance is expected to turn negative in 2020, much on account of the weak tourism.
- The **private sector debt** ratio continued declining in 2019. The large share of debt remains denominated in foreign currency generating exchange rate risk.
- **Real house price growth** accelerated in 2019 to above 8%, supported by the accelerating growth in mortgage lending, with a closing valuation gap. House price growth is forecast to decelerate in light of the COVID-19 crisis.

Graph A11: ***NIIP, private debt and government debt***



Source: Eurostat

- **Government debt** continued declining to a still relatively high 73% of GDP in 2019. In 2020 it is forecast to rise by more than 15 pps. due to the sharp economic downturn and measures to support the economy in light of the COVID-19 pandemic.
- **The banking sector** is characterized by moderate profitability and relatively strong capitalisation, but also relatively high, though declining, NPLs. NPLs are likely to increase once government support measures in response to the COVID-19 crisis have been phased out.
- The **unemployment rate** reached an all-time low of 6.6% in 2019, accompanied with strong decreases in both long-term and youth unemployment. However, unemployment is forecast to increase with the current crisis.

Croatia entered the COVID-19 crisis with vulnerabilities linked to government, private sector and external debt in a context of low potential growth. With the COVID-19 crisis, debt ratios and unemployment are expected to increase. Overall, the Commission finds it opportune, also taking into

account the identification of an imbalance in February, to examine further the persistence of imbalances or their unwinding.

ITALY: In February 2020, the Commission concluded that Italy was experiencing excessive macroeconomic imbalances, in particular involving high government debt and protracted weak productivity growth in a context of still high nonperforming loans (NPLs) and high unemployment. In the updated scoreboard including figures until 2019, the government debt and the unemployment rate indicators are beyond the indicative threshold.

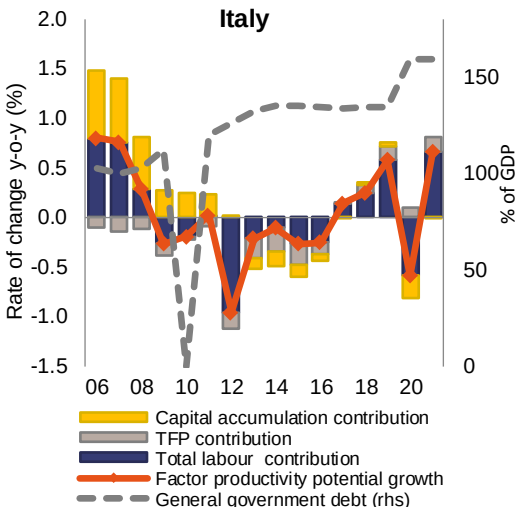
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to fiscal-structural policies, the labour market, the business environment and the financial sector. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate to the effectiveness of the public administration and supporting the digital and green transition.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 0.3% in 2019 to -9.9% in 2020. Real growth is forecast at 4.1% in 2021, leaving the nominal GDP level 4.1% lower than in 2019.

A number of relevant developments can be summarised as follows:

- The **external position** is stable with a net international investment position close to balance and a stable sizeable current account surplus also in 2020 despite weak tourism.
- Aggregate **productivity growth** remains sluggish, and is set to improve only marginally over the medium term. **Unit labour cost growth** remained low in 2019 and wage growth is forecast decelerate in 2020.
- **Government debt** remained stable in 2019 at about 135 % of GDP but is expected to increase substantially in 2020, by some 25 pps., reflecting the response to the pandemic and the drop in economic activity. The primary balance is expected to turn negative in 2020 for the first time since 2009.

Graph A12: ***Potential growth and public debt***



Source: Commission services

- Regarding the **banking sector**, the significant reduction of non-performing loans (NPL) has further progressed, but the level remains comparatively high at just below 7%. The liquidity measures granted in response to the pandemic improved the comparatively weak lending observed in 2019. NPL are likely to increase if some of the COVID-19 related measures are phased out too early.
- The pandemic shock started to reverse recent improvements in the **labour market** which could further worsen once emergency measures will be phased-out. The unemployment rate is forecast to remain at about 10% in 2020.

Italy entered the COVID-19 crisis with vulnerabilities linked to the high level of government debt and weak productivity growth, in a context of still high though decreasing NPLs and unemployment. With the COVID-19 crisis, debt ratios have increased, while the impact on the labour market and banking sector may become visible with some delay depending on the length of the crisis and the timing of the phasing out of support measures. Overall, the Commission finds it opportune, also taking into account the identification of an excessive imbalance in February, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

CYPRUS: In February 2020, the Commission concluded that Cyprus was experiencing excessive macroeconomic imbalances, in particular involving a very high share of non-performing loans that burdens the financial sector and high private sector, government, and external debt, in a context of moderate potential growth. In the updated scoreboard including figures until 2019, the current account deficit, the net international investment position (NIIP), private sector debt and the government debt ratio indicators are beyond the indicative threshold.

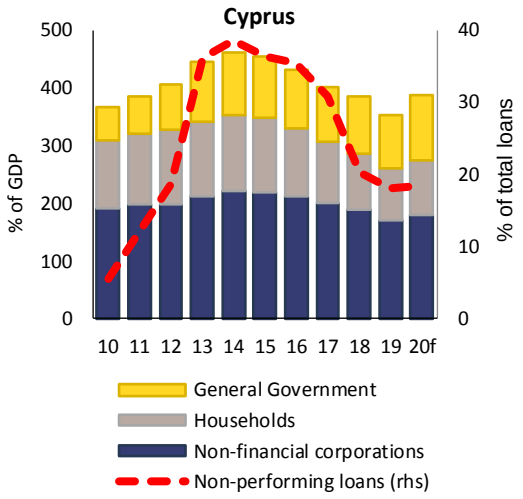
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to fiscal-structural policies, private sector debt, NPLs and the business environment. Beyond warranted policies to address the pandemic, actions taken in 2020 to address imbalances relate to the justice system, public administration, local government and access to finance.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 3.1% in 2019 to -6.2% in 2020. Real growth is forecast at 3.7% in 2021, leaving the nominal GDP level 0.7% lower than in 2019.

A number of relevant developments can be summarised as follows:

- **External vulnerabilities** remain a concern, as the NIIP is significantly negative, despite improvement in 2019 and that a large part reflects activities of special purpose entities. The current account showed a large deficit of 6.3 % of GDP in 2019, and it is expected to deteriorate sharply in 2020 with the strong drop in tourism.
- The **corporate debt** ratio continued to decrease in 2019 although remaining elevated. The non-financial corporations deleveraged faster than households did. **Household debt** stood at about 90% of GDP in 2019, above prudential thresholds. In 2020, private sector debt ratios are expected to increase due to the decline in nominal GDP and the loan moratoria. The downward trend is expected to resume in 2021.

Graph A13: ***Debt and non-performing loans***



Source: Eurostat and ECB

- While the **government debt** to GDP ratio declined in 2019, it is forecast to rise by broadly 20 pps. in 2020, reaching close to 113% of GDP given the fiscal support measures, additional bond issuance and GDP contraction. The stability of the **banking sector** improved in recent years with marked declines in NPLs over 2018-2019. In 2020, increases in the NPL ratio has been limited given asset sales and write-offs but it may increase more in 2021 with the lifting of the moratoria on debt repayments.

Cyprus entered the COVID-19 crisis with vulnerabilities linked to external, private sector and government debt and to still high non-performing loans, in a context of moderate potential growth. With the COVID-19 crisis, the current account deficit has deteriorated, the debt ratios have increased while banks' non-performing loans deleveraging has slowed down. Overall, the Commission finds it opportune, also taking into account the identification of an excessive imbalance in February, to examine further the persistence of macroeconomic risks and to monitor progress in the unwinding of excessive imbalances.

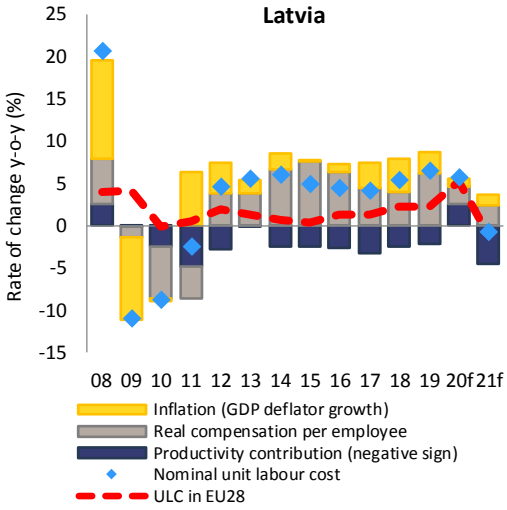
LATVIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Latvia. In the updated scoreboard including figures until 2019, net international investment position (NIIP) and unit labour cost growth indicators are beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 2.1% in 2019 to -5.6% in 2020. Real growth is forecast at 4.9% in 2021, leaving the nominal GDP level 1.3% higher than in 2019.

A number of relevant developments can be summarised as follows:

- **External vulnerabilities** remain but there have been improvements. The current account was mildly negative in 2019 but the NIIP, mainly reflecting FDI and government debt, continued to improve rapidly. The NIIP is forecast to continue to improve and the current account to record a surplus.
- **Unit labour costs** continued to grow relatively strongly in 2019 driven by marked wage growth. However, wage growth is forecast to cool down in 2020 given the impact of the COVID-19 crisis. In parallel, the real effective exchange rate remained broadly unchanged, after a strong appreciation the year before. Export market shares declined for the first time in 4 years.
- **Corporate and household sector debt** remain moderate, although they are forecast to increase with fall in GDP with the COVID-19 crisis. While lending to non-financial firms increased in 2019, it is forecast to weaken substantially in 2020. **House prices** growth remained elevated in 2019, just below the threshold, but are expected to decelerate as a result of the COVID-19 crisis.
- The **banking sector** entered the crisis in a financially sound state with both capital and liquidity ratios above EU average. However, NPLs, albeit still low, are likely to increase once government support measures in response to the COVID-19 crisis will be phased out. **Government debt** decreased further in 2019, to about 37% of GDP but is forecast to increase in 2020 with the measures to address the pandemic and the GDP contraction.

Graph A14: ***Decomposition of unit labour cost***



Source: Commission services

Latvia entered the COVID-19 crisis with no identified macroeconomic imbalances, although dynamics related to labour supply and cost competitiveness involved some limited risks. With the COVID-19 crisis, the labour market and wage pressures reduce temporarily. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

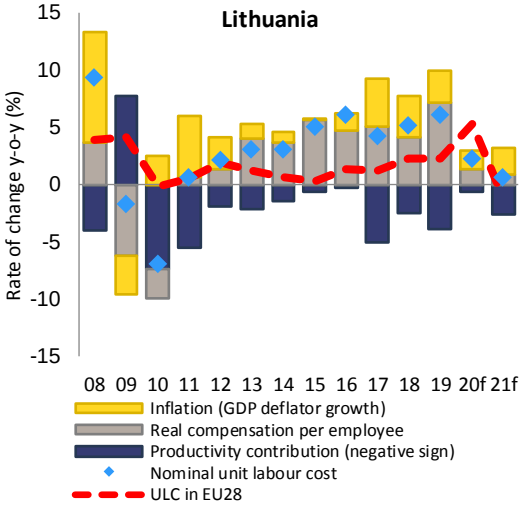
LITHUANIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Lithuania. In the updated scoreboard including figures until 2019, the unit labour cost growth indicator is beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 4.3% in 2019 to -2.2% in 2020. Real growth is forecast at 3% in 2021, leaving the nominal GDP level 4.8% higher than in 2019.

A number of relevant developments can be summarised as follows:

- **External vulnerabilities** remain contained, as the NIIP, albeit negative, improved gradually until 2019. It mainly consists of the accumulated stock of FDI. The NIIP is forecast to improve further in 2020 and 2021. Increasing exports of transport services have considerably improved the trade balance, and, therefore, the current account surplus increased to above 3% in 2019 and is expected to remain sizeable in 2020 and 2021. Gains in export market shares have continued at a solid pace.
- **Nominal unit labour cost** has been increasing rapidly since 2016, reflecting a tight labour market and some regulatory changes, including a relatively fast increase in the minimum wages and wages in the public sector. COVID-19 pandemic is expected to have a negative impact on wages in the private sector in 2020 and slow down growth of nominal unit labour cost.

Graph A15: ***Decomposition of unit labour cost***



Source: Commission services

- The **banking sector** is highly profitable and the capital ratio is slightly above the euro area average. Non-performing loans have been on a downward trend and are overall low. **Government debt** decreased further in 2019, but is forecast to increase to about 47% of GDP in 2020 in light of the COVID-19 crisis and continue increasing in 2021.
- Before the COVID-19 pandemic, **labour market** performance was strong with unemployment rate at 6.3%. However, the unemployment rate is forecast to increase to 8.9% in 2020 before decreasing again in 2021.

Lithuania entered the COVID-19 crisis with no identified macroeconomic imbalances, although the cost competitiveness dynamics involved some limited risks. With the COVID-19 crises the external position has remained stable and wage pressures reduced. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

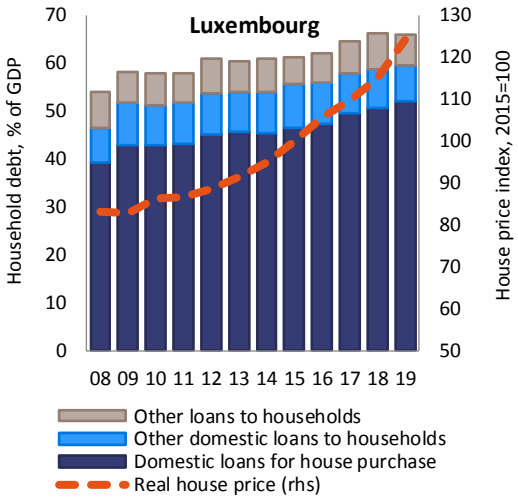
LUXEMBOURG: In the previous round of the MIP, no macroeconomic imbalances were identified for Luxembourg. In the updated scoreboard including figures until 2019, the unit labour cost growth, house price growth and private sector debt indicators are beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 2.3% in 2019 to -4.5% in 2020. Real growth is forecast at 3.9% in 2021, leaving the nominal GDP level 0.3% higher than in 2019.

A number of relevant developments can be summarised as follows:

- **External sustainability concerns are limited**. The current account shows a stable surplus and net international investment position is markedly positive. **Unit labour cost** continued to grow at a fairly high rate in 2019 in the context of a tight labour market. In 2020 unit labour cost growth is expected to be contained amidst wage moderation due to the COVID-19 crisis.
- **The private sector debt-to-GDP ratio** is very high, at 319%, and mainly reflects high **corporate debt**, above 250% of GDP in 2019. However, the high figure mainly reflects Luxembourg's role as a global financial centre and cross-border intra-group lending. **Household debt** stabilised in 2019 at 66% of GDP and is well below both the fundamental and prudential benchmarks although higher if compared to disposable income. Mortgage credit grew by 8% in 2019, with half of the outstanding credit being at variable rates, although this share has been rapidly declining. In 2020, the household debt-to-GDP ratio is expected to increase, particularly due to the drop in GDP.

Graph A16: ***Household debt and house price index***



Source: Eurostat and ECB

- **House prices** continued to grow markedly in 2019 and there are indications of overvaluation. Looking forward over 2020-2021, house price growth is not forecast to moderate strongly. On the supply side, residential construction contracted in 2019 adding to the mismatch between supply and demand that is driving house prices up.
- The **banking sector** is well capitalised and liquid and has remained profitable, albeit profitability is below the EA average. Non-performing loans are very low. However, housing price developments, linked to the level of banks' exposure to mortgage credit and high household indebtedness, require continued monitoring. **Government debt** is low and is expected to rise to about 25% of GDP in 2021.

Luxembourg entered the COVID-19 crisis with no identified macroeconomic imbalances although with some risks related to increasing housing prices and household debt. With the COVID-19 crises price and cost pressures reduce temporarily. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

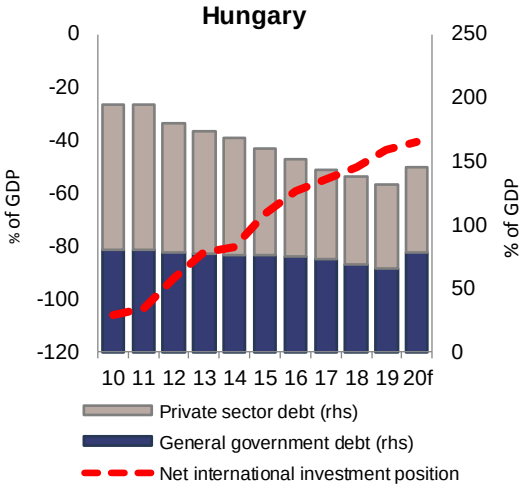
HUNGARY: In the previous round of the MIP, no macroeconomic imbalances were identified for Hungary. In the updated scoreboard, including figures until 2019, the net international investment position (NIIP), house price growth, government debt and growth of financial liabilities indicators are beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 4.6% in 2019 to -6.4% in 2020. Real growth is forecast at 4% in 2021, leaving the nominal GDP level 6.2% higher than in 2019.

A number of relevant developments can be summarised as follows:

- **External vulnerabilities** remain, despite sustained improvements in the NIIP, which was at -44% in 2019, beyond the fundamental benchmark. The NIIP is forecast to continue improving in 2020 and 2021. Official reserves in early 2020 were close to levels considered as prudential minima. The current account balance turned to a mild deficit in 2019 and is expected to remain mildly negative until 2022. The growth of export market shares picked up, despite deteriorating cost competitiveness. In 2020 the forint underwent a considerable depreciation which bodes well for competitiveness going forward but also reflects the vulnerability to changes in sentiment in global financial markets.

Graph A17: ***NIIP, private debt and government debt***



Source: Eurostat

- **House prices** and credit flows grew strongly in 2019 with emerging concerns of overvaluation. The COVID-19 crises is expected to lead to some correction in prices.
- **Government debt** was on a downward path in 2019, falling to about 65% of GDP. It is set to rise in 2020 by almost 13 pps. reflecting the depth of the recession and the government support measures in response to the COVID-19 crisis. Gross financing needs are particularly high due to the combination of high debt and a relatively low duration. In addition, both government debt, as well as corporate debt, has a foreign currency exposure. At the same time, the openness of the economy makes domestic income and the budget balance sensitive to currency movements. A certain level of foreign currency denominated debt can help to hedge this exposure.
- **The banking sector** is highly profitable, but the tier 1 capital ratio is lower than in most other EU countries. A comprehensive payment moratorium for borrowers temporarily shelters banks against potential defaults. Still, the ratio of non-performing loans remains relatively high, at 4.3% in 2019 and it could rise after the moratorium expires. Commercial banks hold a significant amount of government debt (around 20% of GDP).

Overall, the economic reading highlights issues relating to cost pressures, the export structure, government debt and the housing market. With the COVID-19 crisis, issues relating to cost pressures are likely to ease going forward, while risks associated with the interplay between government financing needs and external financing appear to have risen. That being said, the sheer size of stock imbalances is not particularly high. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

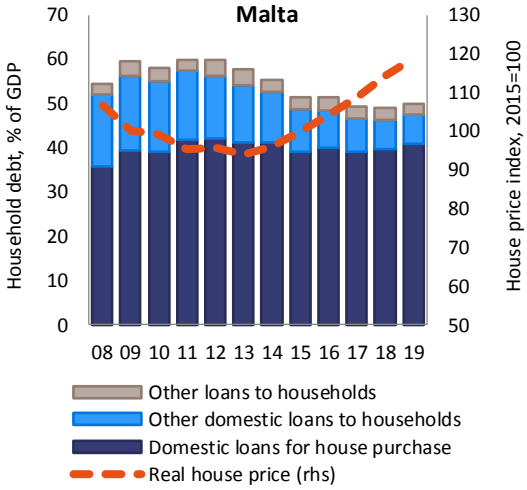
MALTA: In the previous round of the MIP, no macroeconomic imbalances were identified for Malta. In the updated scoreboard including figures until 2019, no indicator is beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 4.9% in 2019 to -7.3% in 2020. Real growth is forecast at 3% in 2021, leaving the nominal GDP level 2.6% lower than in 2019.

A number of relevant developments can be summarised as follows:

- The **current account** surplus is elevated, but is expected to narrow to close to balance by 2021, partly due to the weak tourism. The strongly positive net international investment position reflects the position as an international financial centre. Unit labour costs have been growing at a relatively fast pace in recent years.
- **Private sector debt** increased slightly and approached the scoreboard threshold in 2019, driven by an ongoing strong expansion of credit that sustained elevated investments in residential construction. The trends in the construction sector are expected to continue supported by a temporary reduction of real estate transaction taxes in 2020 and 2021. Favourable labour market conditions accompanied by low interest rates supported household indebtedness that warrant surveillance. Sustained **house price growth** continued in 2019, with some signs of overvaluation. House price growth is forecast to temporarily moderate in 2020 due to the COVID-19 crisis.

Graph A18: ***Household debt and house price index***



Source: Eurostat and ECB

- **Government debt** was on a declining path until 2019 and is set to increase to 60% of GDP in 2020 as a result of the COVID-19 outbreak. In the banking sector liabilities were declining in 2019 and the level of non-performing loans remained stable and the ongoing review of the insolvency framework is expected to strengthen resilience of the sector. Nevertheless, increasing concentration of banks' portfolios in the real estate sector warrants close monitoring.
- The **unemployment rate** fell in 2019 and the activity rate continued increasing. However, the unemployment rate is forecast to increase with the COVID-19 crisis.

Malta entered the COVID-19 crisis with no identified macroeconomic imbalances although with an elevated current account balance and relatively dynamic house price growth involving limited risks. With the COVID-19 crisis domestic pressures have eased somewhat and the external position has remained stable. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

THE NETHERLANDS: In February 2020, the Commission concluded that the Netherlands was experiencing macroeconomic imbalances, in particular involving high private sector debt and the large current account surplus. In the updated scoreboard, the current account surplus and private sector debt indicators are beyond the indicative threshold.

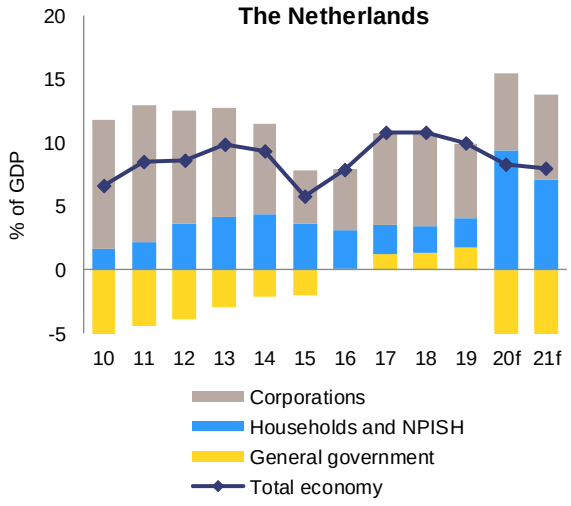
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to investment, household income, pensions, private sector indebtedness and the housing market. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate to the pension system, housing investment, reducing the household debt bias and setting up invest-NL.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 1.7% in 2019 to -5.3% in 2020. Real growth is forecast at 2.2% in 2021, leaving the nominal GDP level 0.1% lower than in 2019.

A number of relevant developments can be summarised as follows:

- **The current account surplus** narrowed from 10.8% of GDP in 2018 to 9.9% in 2019 and is expected to also moderately decline in 2020. With the COVID-19 crisis the government sector has shifted to a strongly negative net saving position but this will likely be largely offset by further rises in the household and corporate savings surplus. Overall, the current account surplus is expected to remain high well above fundamental benchmarks.
- **Private sector indebtedness**, at around 230% of GDP in 2019, has been on a declining trend prior to the COVID-19 crisis. **Corporate debt** is principally driven by the intra-group debt of multinational enterprises. **Household debt,** at 100% of GDP in 2019, is mainly linked to the generous tax treatment of mortgages and a sub-optimally functioning rental market. The household debt ratio is expected to increase again from 2020. An increase in unemployment can reduce future repayment capacity of households. **House prices** increased by 4.8% in 2019 with indications of overvaluation.
- **The banking system** is well capitalised with a low level of NPLs and is profitable. **Government debt** is projected to increase to about 64% of GDP in 2020 and might further increase in the years after.
- The **labour market** was historically tight before the crisis. However, labour market conditions are set to deteriorate markedly as a result of the crisis, affecting those in a less favourable labour market position in particular.

Graph A19: ***Net lending/borrowing by sector***



Source: Eurostat

The Netherlands entered the COVID-19 crisis with a long-standing large domestic savings surplus accompanied by high private sector debt levels. Following the crisis, the savings surplus is expected to decline somewhat but to remain elevated, while private sector debt ratios are set to rise. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

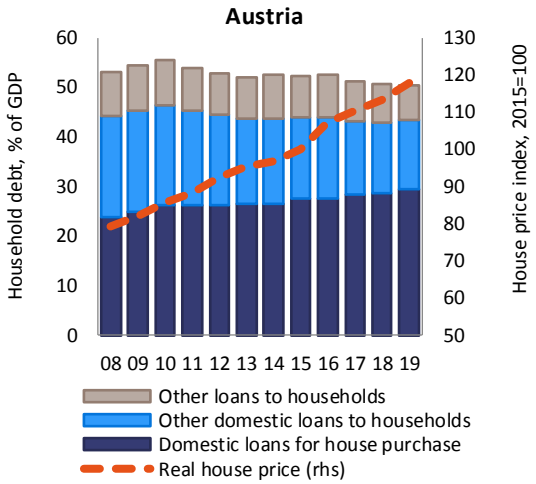
AUSTRIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Austria. In the updated scoreboard including figures until 2019, the government debt indicator is beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 1.4% in 2019 to -7.1% in 2020. Real growth is forecast at 4.1% in 2021, leaving the nominal GDP level 0.6% higher than in 2019.

A number of relevant developments can be summarised as follows:

- **External vulnerabilities** remain contained. The current account surplus increased in 2019, towards 3% of GDP, but is forecast narrow somewhat in 2020. Unit labour cost growth increased moderately in 2019, but remain relatively contained. Limited wage moderation is forecast for 2020 also because wage negotiations for important economic sectors took place before the outburst of the crisis.
- **Private sector indebtedness** continued its declining path as the debt ratio of households remained stable and non-financial companies deleveraged moderately in 2019. However, both are expected to rise in 2020, mainly due to the COVID-19 induced decline in GDP. This is projected to be partly reversed in 2021, reflecting the assumed economic recovery.

Graph A20: ***Household debt and house price index***



Source: Eurostat and ECB

- **Real house prices** continued their upward trend and accelerated again somewhat in 2019 with some increasing signs of overvaluation. However, some correction in prices is expected in 2021. While warranting monitoring, the price increases do not appear to be credit-driven.
- Overall, the **banking sector** is well positioned to help mitigate the crisis impact. The NPL ratio dropped further in 2019 to slightly above 2%. **Government debt** continued also its downward path on the back of strong economic growth and the ongoing asset wind-down from nationalised financial institutions. However, due to the crisis, it is expected to increase to about 84% of GDP in 2020, almost 14 pps. above its 2019 level.
- The improved macroeconomic conditions have contributed to further **labour market** improvements although unemployment is forecast to increase in 2020 as a result of the crisis.

Austria entered the COVID-19 crisis with no identified macroeconomic imbalances, although with some vulnerabilities linked to the housing market. With the COVID-19 crisis house price growth is moderating while government debt is increasing. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

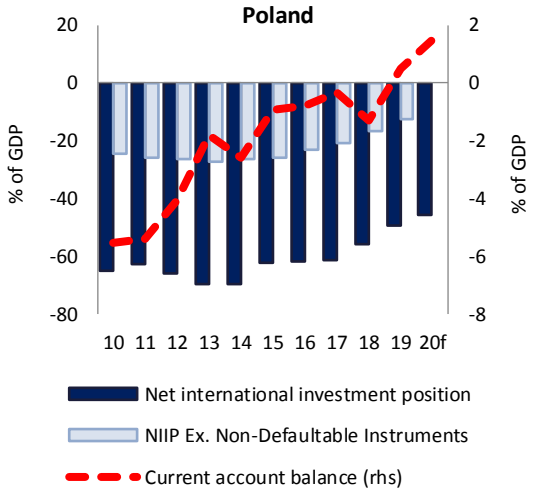
POLAND: In the previous round of the MIP, no macroeconomic imbalances were identified for Poland. In the updated scoreboard including figures until 2019, the net international investment position (NIIP) and house price growth indicators are beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 4.5% in 2019 to -3.6% in 2020. Real growth is forecast at 3.3% in 2021, leaving the nominal GDP level 5% higher than in 2019.

A number of relevant developments can be summarized as follows:

- **External vulnerabilities** remain contained, as the NIIP, albeit negative, improved gradually until 2019. In addition, it consists mainly of the accumulated stock of FDI and a sizeable part of the FDI inflows comes from reinvested earnings. The NIIP is forecast to improve slightly, to 49% of GDP in 2020 and to continue improving in 2021, albeit at a decelerated pace. The current account turned positive in 2019 and surpluses are expected also in 2020 and 2021.
- **Private sector indebtedness** remains below prudential thresholds and decreased in 2019. It is expected to remain stable in 2020.
- Growth in **house prices** accelerated in 2019 as did mortgage credit growth. House price growth reached almost 7% in 2019, but is expected to decelerate over 2020-2021. Risks remain contained and there are few signs of overvaluation.

Graph A21: ***NIIP and CA balance***



Source: Commission services

- The **banking sector** is generally well positioned to help mitigate the crisis impact. Moreover, the NPL ratio dropped in 2019 to a still relatively elevated level of about 6% and may increase going forward as a result of the COVID-19 crisis. **Government debt** decreased further in 2019, but is forecast to increase by 11 pps. approaching 60% of GDP in 2020 given measures to address the pandemic and the GDP contraction.
- Favourable macroeconomic developments throughout 2019 contributed to further **labour market** improvements with unemployment at record low levels. However, the COVID-19 crisis will likely lead to an increase in 2020-2021.

Poland entered the COVID-19 crisis with no identified macroeconomic imbalances, although with a negative net international investment position involving limited risks. With the COVID-19 crisis, the external position has remained stable. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

PORTUGAL: In February 2020, the Commission concluded that Portugal was experiencing macroeconomic imbalances, in particular involving the large stocks of net external liabilities, private sector and government debt as well as a high share of non-performing loans in a context of low productivity growth. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), house price growth, private sector debt and government debt indicators are beyond the indicative threshold.

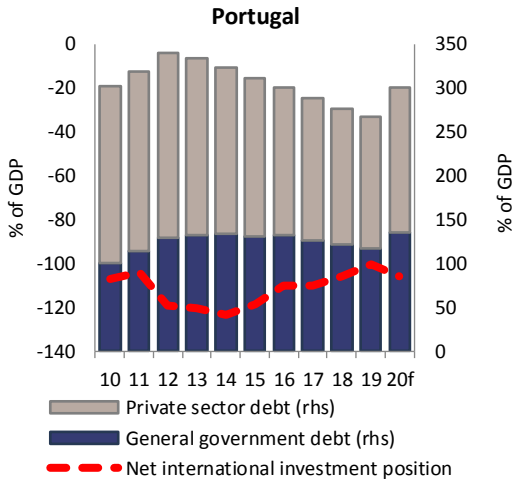
MIP relevant CSRs issued in 2019 and 2020 are broadly associated to fiscal-structural policies, the business environment and NPLs. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate to education and skills, digitalisation and administrative justice.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 2.2% in 2019 to -9.3% in 2020. Real growth is forecast at 5.4% in 2021, leaving the nominal GDP level 1.1% lower than in 2019.

A number of relevant developments can be summarised as follows:

- **External sustainability** remains vulnerable due to the country's large stock of net external liabilities and the negative impact of COVID-19 on foreign tourism. The current account which was broadly balanced in 2019 is set to slightly deteriorate in 2020. The negative NIIP is projected to widen in 2020 though at a relatively slow rate.
- **Private sector debt** continued its downward trend reaching almost 150% of GDP in 2019 but is set to increase again with the COVID-19 crises. In the **corporate sector** liquidity strains are pressing and credit guarantees schemes are put in place. Despite continuously falling, NPLs entered the COVID-19 crisis at a relatively high level and solvency risks are likely to increase once the loan repayment moratoria expire. The **household debt** to-GDP-ratio, which is already high, is set to increase in 2020 with the contraction of GDP while the household savings rate substantially increases.
- **Real growth in house prices** has exceeded the indicative threshold for four years in a row until 2019 showing increasing signs of overvaluation. However, a sharp decline in growth rates is expected over 2020-2021 amid reduced market demand and increased construction volumes.
- **Government debt** is high and although on a steady downward path reaching 117% of GDP in 2019. However, an increase by 18 pps. is forecast for 2020 given the measures to address the pandemic and the GDP contraction.

Graph A22: ***NIIP, Private debt and government debt***



Source: Eurostat

Portugal entered the COVID-19 crisis with vulnerabilities linked to large stocks of debt in a context of low productivity growth. With the COVID-19 crisis, debt ratios have increased across sectors. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

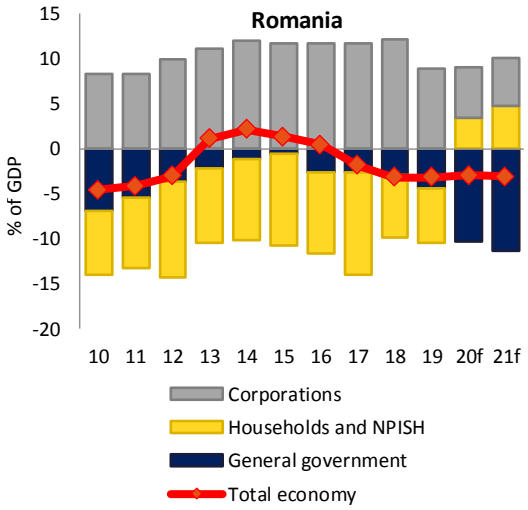
ROMANIA: In February 2020, the Commission concluded that Romania was experiencing macroeconomic imbalances, in particular involving cost competitiveness losses, a deteriorating external position and a widening current account deficit, in a context of expansionary fiscal policy and an unpredictable business environment. In the updated scoreboard including figures until 2019, the current account deficit, the net international investment position (NIIP) and unit labour cost growth indicators are beyond the indicative threshold.

MIP relevant CSRs issued in 2019 and 2020 are broadly associated to fiscal policies, financial stability, cost competitiveness and business environment. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate mainly to the banking sector and, to a lesser extent, to the minimum-wage-setting mechanism.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 4.2% in 2019 to -5.2% in 2020. Real growth is forecast at 3.3% in 2021, leaving the nominal GDP level 3.6% higher than in 2019.

A number of relevant developments can be summarised as follows:

Graph A23: ***Net lending/borrowing by sector***



Source: Ameco

- **External sustainability** remains a vulnerability, where the negative NIIP did not improve further in 2019 but stabilised, at around -44% of GDP. The NIIP is forecast to remain at about this level in 2020. The current account deficit deteriorated to almost 5% of GDP in 2019 and is forecast to stay sizeable in 2020 and 2021.
- Nominal **unit labour cost** growth remained high in 2019 with the tight labour market. Wage moderation due to the COVID-19 crisis is likely to reduce cost competitiveness pressures, although labour hoarding resulted in an additional increase in unit labour cost growth in 2020.
- The **government debt** to GDP ratio is forecast to rise by more than 11 pps. in 2020, to about 47% of GDP, reflecting the impact of the crisis but also previously enacted permanent increases in current spending. Government debt is set to further increase markedly in 2021. In addition, a relatively large share is denominated in foreign currency and therefore subject to currency risks. Policy unpredictability remained a concern throughout 2019 and 2020, in particular associated to legislation affecting fiscal sustainability.
- The **banking sector** profitability, although significantly above the EU average, is declining since 2019. Although the NPL ratio declined below 4% at the beginning of 2020 and is expected to remain moderate in 2020, it could increase in light of the COVID-19 crisis. Private sector debt remained low but is forecast to increase moderately in 2020.

Romania entered the COVID-19 crisis with vulnerabilities linked to external and government debt, cost competitiveness and an unpredictable business environment. With the COVID-19 crisis, debt ratios have increased markedly and the fiscal position has deteriorated. Overall, the Commission finds it opportune, also taking into account the identification of imbalances last February, to examine further the persistence of imbalances or their unwinding.

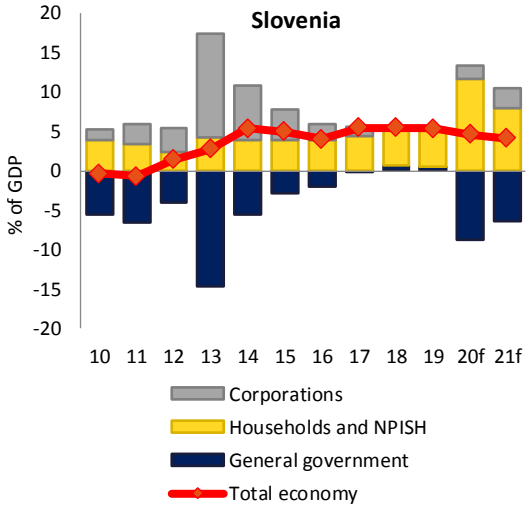
SLOVENIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Slovenia. In the updated scoreboard including figures until 2019, the government debt indicator is beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 3.2% in 2019 to -7.1% in 2020. Real growth is forecast at 5.1% in 2021, leaving the nominal GDP level 1.3% higher than in 2019.

A number of relevant developments can be summarised as follows:

- The **current account surplus** remained high in in 2019 at almost 6% of GDP. The surplus reflects strong household saving. In 2020 and 2021, the surplus is expected to decline gradually. In 2019 investment remained broadly on the level of the previous year and remains low compared to the historical averages. The NIIP is moderately negative. Unit labour costs growth increased in 2019.
- **Government debt** continued to decrease in 2019 reaching about 66% of GDP but is expected to increase to about 82% of GDP in 2020 as the result of crisis response measures and the downturn. In addition, projected ageing costs continue to weigh on fiscal medium and long-term sustainability.

Graph A24: ***Net lending/borrowing by sector***



Source: Ameco

- **Private sector debt** decreased further in 2019, while credit flow to the private sector remained positive. **House price growth** declined in 2019, to below the threshold, and is expected to ease further in 2020-2021 with the COVID-19 crisis. The **banking sector** entered the crisis in relatively strong position, with low non-performing loans and reduced leverage, which is expected to limit the crisis impact in the sector.
- **The labour market** improved further in 2019, with activity rate at an all-time high and unemployment at very low level. It is expected that the situation will worsen in 2020.

Slovenia entered the COVID-19 crisis in strong position with no macroeconomic imbalances, although fiscal sustainability and house price developments implied limited risks. With the COVID-19 crisis, the government debt level is projected to increase but the strong current account surplus to remain. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

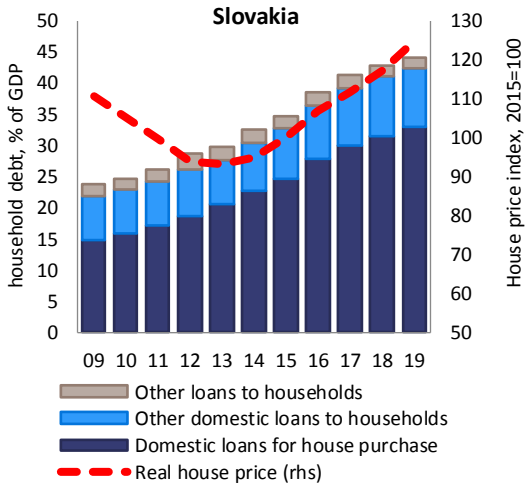
SLOVAKIA: In the previous round of the MIP, no macroeconomic imbalances were identified for Slovakia. In the updated scoreboard including figures until 2019, the net international investment position (NIIP), the unit labour cost growth and the house price growth indicators are beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 2.3% in 2019 to -7.5% in 2020. Real growth is forecast at 4.7% in 2021, leaving the nominal GDP level 0.6% higher than in 2019.

A number of relevant developments can be summarised as follows:

- **External vulnerabilities** remain a concern, despite improvements. Export concentration and integration in global value chains remain high. The NIIP, albeit strongly negative at -66% in 2019, improved gradually in 2019. The NIIP is forecast to worsen in 2020 and 2021. Risks are limited as much of the foreign liabilities relate to foreign direct investment. The current account deficit widened in 2019 and is forecast to widen further in 2020.
- **Cost competitiveness** developments merit attention as unit labour costs have grown persistently since 2017, driven by strong wage growth in the context of a tightening labour market and wider convergence dynamics towards the EU average. Real effective exchange rates have appreciated slightly over the years. Cost competitiveness pressures may abate in 2020 and 2021 amid the COVID-19 crisis and suppressed wage growth.

Graph A25: ***Household debt and house price index***



Source: Eurostat and ECB

- **Private sector indebtedness,** and in particular household debt, has been increasing for several years, but its growth rate is decelerating. Household debt remains below prudential levels but is in excess of the level implied by fundamentals and high compared to other EU countries in the region.
- Growth in **house prices** has been swift, at above 6% in 2019. The housing market shows some indications of overvaluation and contributes to increasing household indebtedness. However, house price growth is expected to decelerate over 2020-2021. This is also supported by macroprudential measures taken by the National Bank and a decline of real incomes in 2020.
- The **banking sector** is well capitalised with a profitability around the EA average. The NPL ratio dropped markedly in recent years and is below EU average, but difficulties in servicing loans could increase in view of the crisis. With the impact of the crisis, the government debt ratio will increase in 2020, to above 60% of GDP.

Slovakia entered the COVID-19 crisis with no identified macroeconomic imbalances, although external sustainability, domestic price pressures and dependence on the automotive industry involved limited risks. With the COVID-19 crises, domestic price pressures have eased while the external position has slightly deteriorated. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

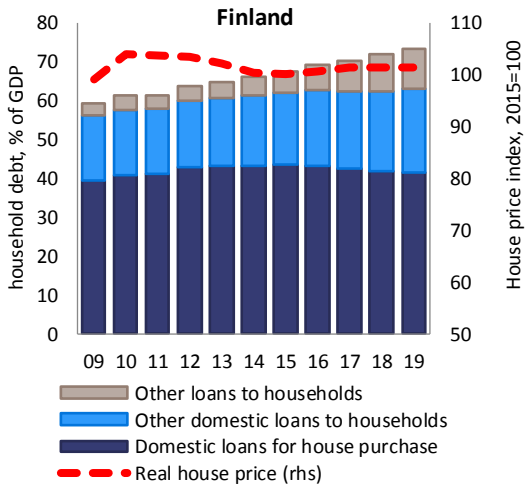
FINLAND: In the previous round of the MIP, no macroeconomic imbalance was identified for Finland. In the updated scoreboard including figures until 2019, the private sector debt indicator is beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 1.1% in 2019 to -4.3% in 2020. Real growth is forecast at 2.9% in 2021, leaving the nominal GDP level 1.7% higher than in 2019.

A number of relevant developments can be summarized as follows:

- **On the external side**, the current account deficit narrowed, while the net international investment position turned positive. The current account deficit is however expected to widen in 2020 with the fall in external demand. Export market shares recovered for a fourth year in a row, further offsetting past cumulated losses. Unit labour costs rose, but the real effective exchange rate depreciated, attenuating risks for cost-competitiveness.
- The ratios of both **non-financial corporation** and **household** debt to GDP remained high, slightly increasing to about 82% and 66% respectively. Favourable credit conditions and low interest rates accelerated credit growth in 2019. While household debt is above prudential and fundamental levels, debt service is very low, but almost all new mortgages are at variable rates. The debt levels are expected to increase further in 2020, given COVID-19 measures and the GDP contraction.

Graph A26: ***Household debt and house price index***



Source: Eurostat and ECB

- The **financial sector** remains well capitalised, and risks to financial stability limited, despite significant cross-border exposures especially with other Nordic countries, due to a relatively large reliance on wholesale funding and the relocation to Finland of the headquarters of a major regional bank. The crisis might lead to an increase in the NPL ratio, but the latter is expected to remain very low.
- **Government debt** came further down below threshold in 2019, as GDP growth still outpaced debt growth. However, the government debt is forecast to rise by more than 10 pps. in 2020, to about 70% of GDP reflecting the depth of the recession and the government's fiscal response to the crisis. It is forecast to increase moderately in 2021.
- **Labour market** outcomes continued to improve in 2019, with the unemployment and long-term unemployment rates coming down. In the present context, the unemployment rate is forecast to increase to 7.9% in 2020 and to slightly decrease in 2021.

Finland entered the COVID-19 crisis with vulnerabilities linked to private sector debt. With the COVID-19 crisis, the private sector debt ratio is increasing, but risks remain limited. Overall, the Commission does not see it necessary at this stage to carry out further in-depth analysis in the context of the MIP.

SWEDEN: In February 2020, the Commission concluded that Sweden was experiencing macroeconomic imbalances, in particular involving overvalued house price levels coupled with a continued rise in household debt. In the updated scoreboard including figures until 2019, the private sector debt indicator is beyond the indicative threshold.

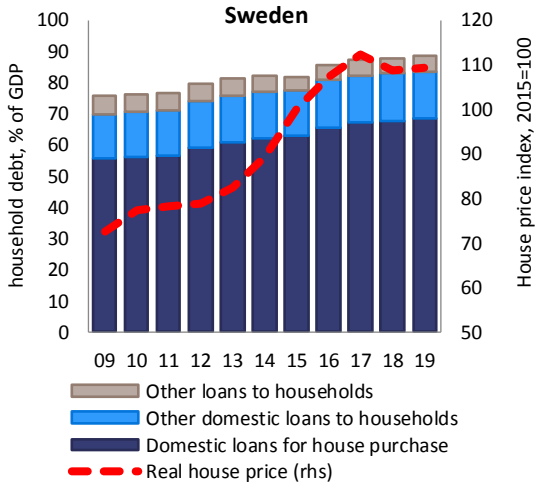
MIP relevant CSRs issued in 2019 are broadly associated to the functioning of the housing market and private sector indebtedness. Beyond warranted policies to address the pandemic, measures taken in 2020 to address imbalances relate to the rental housing market.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 1.3% in 2019 to -3.4% in 2020. Real growth is forecast at 3.3% in 2021, leaving the nominal GDP level 2.8% higher than in 2019.

A number of relevant developments can be summarized as follows:

- **The external position** remains solid. The current account surplus increased in 2019 to above 4% of GDP while the already positive NIIP increased markedly. In 2020 the current account surplus is expected to remain at a similar level.
- Consolidated **private sector debt** reached a new high of 204% of GDP in 2019 with both the debt of non-financial corporations and household debt being beyond prudential thresholds. **Household debt** increased to a high of 89% of GDP. Mortgage loans to households continued to grow in the first half of 2020, despite the strong contraction in economic activity. An increase in unemployment can reduce future repayment capacity of households.

Graph A27: ***Household debt and house price index***



Source: Eurostat and ECB

- After a decline at the end of 2017, **house prices** have started to grow again from 2018 onwards, almost uninterrupted by the COVID-19 crisis. House prices remain overall high with risks from overvaluation. House prices and household indebtedness are being pushed up by the favourable tax treatment of home ownership, very low mortgage interest rates and specific features in the mortgage market as well as supply side restrictions.
- In 2020, the **government debt** ratio is thus set to increase substantially before stabilising in 2021, still well below the 60% of GDP threshold. The **financial sector** entered the crisis from a sound initial position and benefited from frontloaded support measures of, in particular, monetary authorities. In response to the crisis, macro-prudential regulation has been temporarily loosened.
- Policy support measures like temporary unemployment facilities helped cushion the impact on the **labour market**. Still, unemployment is expected to increase to 8.8% in 2020.

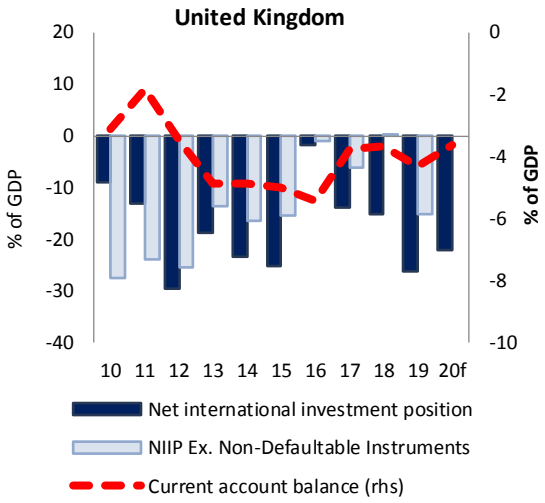
Sweden entered the COVID-19 crisis with vulnerabilities linked to the housing market and private sector debt. With the COVID-19 crises vulnerabilities associated to household debt, mortgage credit and house price levels remain. Overall, the Commission finds it opportune, also taking into account the identification of imbalances in February, to examine further the persistence of imbalances or their unwinding.

UNITED KINGDOM: In the previous round of the MIP, no macroeconomic imbalances were identified for the United Kingdom. In the updated scoreboard including figures until 2019, the private sector debt and government debt indicators are beyond the indicative threshold.

Real GDP growth is forecast to fall substantially as a result of the COVID-19 crisis, from 1.3% in 2019 to -10.3% in 2020. Real growth is forecast at 3.3% in 2021, leaving the nominal GDP level 3.9% lower than in 2019.

A number of relevant developments can be summarized as follows:

Graph A28: ***NIIP and CA balance***



Source: Commission services

- **External vulnerabilities** increased in light of a sizeable current account deficit and a deteriorating net international investment position (NIIP). The current account deficit widened to above 4% of GDP in 2019, exposing the UK to external financing needs. The current account balance is forecast to narrow somewhat in the coming years. The NIIP deteriorated further, to -26% of GDP in 2019 and is now significantly below the level expected given the underlying fundamentals, but still above the prudential level. Going forward, the NIIP is forecast to stabilise at around that level.
- **Private sector debt** decreased slightly in 2019. In particular household debt is high and remains above prudential thresholds and warrants monitoring, especially in view of the expected negative effect of the pandemic on household income. **Real house prices** declined by 0.3% in 2019. While government policies have supported house prices in 2020, further adjustments can be expected.
- **Government debt** remains above the threshold and is projected to increase above 100% of GDP in 2020 as a consequence of government measures to deal with the impact of the pandemic and the contraction of GDP.
- The **banking sector** remains profitable and well capitalised and NPLs are very low. However, the exposure of the financial sector to commercial real estate and the impact of the UK leaving the EU Single Market and Customs Union at the end of 2020 pose risks.
- The **labour market** remained strong in 2019, with high employment and record low unemployment. However, the pandemic is expected to strongly negatively affect the labour market starting in 2020.

The United Kingdom entered the COVID-19 crisis with no identified macroeconomic imbalances, although with issues on the external side and with private sector debt involving limited risks. With the COVID-19 crisis debt ratios are set to increase and the external vulnerabilities remain. Overall, the Commission will not carry out further in-depth analysis in the context of the MIP.

Table 1.1: MIP scoreboard 2019

Year 2019	External imbalances and competitiveness					Internal imbalances						Employment indicators[1]		
	Current account balance - % of GDP (3 year average)	**Net international investment position** (% of GDP)	**Real effective exchange rate - 42 trading partners, HICP deflator** (3 years % change)	**Export market share - % of world exports** (5 years % change)	**Nominal unit labour cost index (2010=100)** (3 years % change)	**House price index (2010=100), deflated** (1 year % change)	**Private sector credit flow, consolidated** (% of GDP)	**Private sector debt, consolidated** (% of GDP)	**General government gross debt** (% of GDP)	**Unemployment rate** (3 year average)	**Total financial sector liabilities, non-consolidated** (1 year % change)	**Activity rate - % of total population aged 15-64** (3 years change in p.p.)	**Long-term unemployment rate - % of active population aged 15-74** (3 years change in p.p.)	**Youth unemployment rate - % of active population aged 15-24** (3 years change in p.p)
Thresholds	-4/6%	-35%	±5% (EA) ±11% (Non-EA)	-6%	9% (EA) 12% (Non-EA)	6%	14%	133%	60%	10%	16.5%	-0.2%	0.5%	2%
BE	0.1	50.6	2.6	-3.1	5.3	2.5	3.8	179.1	98.1	6.2 b	4.6	1.4	-1.7	-5.9
BG	2.5	-31.2	4.5	15.4	19.5 p	4.0 p	5.6	91.8	20.2	5.2	5.8	4.5	-2.1	-8.3
CZ	0.6	-20.3	8.7	5.1	14.4	6.2	3.1	80.8	30.2	2.4	5.6	1.7	-1.1	-4.9
DK	8.0	76.9	-0.2	2.6	1.4	1.5	11.4	221.2	33.3	5.3 b	13.1	1.6 b	-0.4	-2.1
DE	7.4	71.7	2.1	-1.1	7.9	4.3	5.4	105.4	59.6	3.4	7.3	1.3	-0.5	-1.3
EE	1.7	-21.4	6.2	2.0	19.9	4.4	3.8	97.8	8.4	5.2	12.5	1.4	-1.2	-2.3
IE	-1.6 c	-174.0	-1.4 c	71.0	-4.4	0.0	-9.1	202.4	57.4	5.8	15.5	0.6	-2.6	-4.3
EL	-2.1	-155.9	0.3	3.7	1.7 p	6.5 f	0.8 p	109.9 p	180.5	19.4	11.5	0.2	-4.8	-12.1
ES	2.3	-73.9	1.7	2.6	4.0 p	4.1	1.3 p	129.4 p	95.5	15.5	0.9	-0.4	-4.2	-11.9
FR	-0.7	-22.9	1.6	-0.5	1.3 p	2.3 r	8.0 p	153.3 p	98.1	9.0	7.5	0.3	-1.2	-4.9
HR	2.6	-50.3	1.5	22.5	4.7 p	8.1	1.7 p	91.2 p	72.8	8.8	6.8	0.9	-4.2	-14.7
IT	2.7	-1.5	0.2	-2.6	3.2	-0.6	0.2	106.6	134.7	10.6	3.8	0.8	-1.1	-8.6
CY	-5.2	-122.3	-0.1	13.7	5.2 p	2.6	2.7 p	259.1 p	94.0	8.9	3.9	2.6	-3.7	-12.5
LV	0.1	-41.7	3.7	3.6	17.0	5.8	1.5	67.1	36.9	7.5	4.6	1.0	-1.6	-4.9
LT	1.4	-24.1	3.7	16.8	16.4	4.9 c	3.0	55.1	35.9	6.5	4.1	2.5	-1.1	-2.6
LU	4.7	56.2	2.0	10.3	11.9	8.0	3.8	318.7	22.0	5.6	3.3	2.0	-0.9	-1.9
HU	0.7	-43.7	0.3	5.9	10.0 p	12.8 p	3.2 p	66.6 p	65.4	3.8	17.8	2.5	-1.3	-1.5
MT	5.1	54.6	1.3	18.1	8.5	4.0 p	8.5	123.7	42.6	3.8	4.4	5.3	-1.5	-1.4
NL	10.5	90.0	2.4	0.7	5.9 p	4.8	0.0 p	234.0 p	48.7	4.0	6.1 p	1.2	-1.5	-4.1
AT	1.8	12.1	2.1	1.4	5.5	3.9	4.5	120.1	70.5	5.0	4.3	0.9	-0.8	-2.7
PL	-0.4	-49.4	2.8	25.1	9.2 p	6.7 c	3.3	74.0	45.7	4.0	4.2	1.8	-1.5	-7.8
PT	0.5	-100.3	-0.4	8.5	7.6 p	8.7	2.2 p	149.2 p	117.2	7.5	0.0	1.8	-3.4	-9.7
RO	-4.0	-43.5	0.2	17.9	24.5 p	-1.7	2.0 p	46.7 p	35.3	4.3	10.4	3.0	-1.3	-3.8
SI	5.9	-15.4	1.0	16.0	8.4	4.8 c	0.8	68.7	65.6	5.4	9.9	3.6	-2.4	-7.1
SK	-2.3	-66.3	2.6	1.9	14.5	6.2	5.0	91.6	48.5	6.8	4.9 f	0.8	-2.4	-6.1
FI	-0.9	3.6	0.2	4.6	0.8	0.0	7.6	147.5	59.3	7.6	7.6	2.4	-1.1	-2.9
SE	3.3	18.2	-8.3	-5.1	8.2	0.5	9.8	203.9	35.1	6.6 b	10.6	0.8	-0.4	1.2
P.M.: UK	-3.9	-26.2	-2.9	-1.4	8.8	-0.3	2.8	154.7	85.4	4.0	3.3	0.8	-0.4	-1.8

Figures highlighted are the ones at or beyond the threshold. Flags:b:Break in series. d:Definition differs. e:Estimated. p:Provisional. **NEXT IS ONLY FOR INTERNAL ECFIN INFO AND NOT INCLUDED IN ESTAT FINAL SA** empty: not available. c: Confidential. ECFIN flags: f: Forecast. k: Backcast. j: Note. o: Outdated. u: Unreliable

1) For the employment indicators, see page 2 of the AMR 2016. 2) House price index e = estimate by NCB for EL. 3) For Nominal unit labour cost HR, d: employment data use national concept instead of domestic concept. 4) Unemployment rate for BE: revision in the survey methodology. (**NOTE:** This footnote was taken from the 2018 table in 23/10/2019 provisional annex. Footnotes in the annex provided by ESTAT for other years can be different.)

Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund data, W EO (for world volume exports of goods and services)

Table 2.1: Auxiliary indicators, 2019

Year 2019	Real GDP (1 year % change)	Gross fixed capital formation (% of GDP)	Gross domestic expenditure on R&D (% of GDP)	Current plus capital account (Net lending-borrowing) (% of GDP)	NENDI: NIIP excluding non-defaultable instruments (% of GDP)	Foreign direct investment in the reporting economy - flows (% of GDP)	Foreign direct investment in the reporting economy - stocks (% of GDP)	Net trade balance of energy products (% of GDP)	Real effective exchange rate - Euro Area trading partners (3 years % change)	Export market share - % of OECD exports (5 years % change)	Terms of trade (5 years % change)	Export market share in volume (1 year % change)	Labour productivity (1 year % change)	Gross non-performing loans of domestic and foreign entities (% of gross loans)	Unit labour cost performance relative to EA (10 years % change)	House price index (2015=100) - nominal (3 years % change)	Residential construction (% of GDP)	Household debt, consolidated (incl. NPISH, % of GDP)	Consolidated banking leverage, domestic and foreign entities (total assets/total equity)
BE	1.7	24.2		0.5	40.2	-5.3	168.1	-2.6	1.1	-4.8	1.2	-0.1 c	0.2	2.1 p	0.3	10.9	6.2	61.2	13.4 p
BG	3.7	18.7	0.8 p	4.5	39.9	2.4	81.7	-2.9 c	1.7	13.4 c	8.9	2.8 c	3.3	6.5 p	42.5	22.8 p	2.8	23.3 c	8.2 p
CZ	2.3	26.2	1.9 p	0.2	29.7	3.7	78.1	-2.4 c	7.5	3.2 c	0.9	0.2	2.1	1.7 p	9.0	32.4	4.5	31.8	12.1 p
DK	2.8	22.0	3.0 p	8.9	27.2	-2.0	54.3	-0.4 c	-2.5	0.8	-1.3	3.9 c	1.6	1.9 p	-6.6	11.7	4.9	109.5	16.7 p
DE	0.6	21.7	3.2 f	7.1	51.3	1.9	46.6	-1.8	0.3	-2.9	3.3	-0.1	-0.3	1.2 p	10.4	19.7	6.6	54.4	13.7 p
EE	5.0	26.2	1.6 p	3.2	31.2	9.3	96.7	-1.2	4.4 c	0.2	0.6	5.1	3.7	1.6 p	22.2	19.6	4.9	37.6	7.5 p
IE	5.6	45.6	0.8	-21.2	-285.4	-11.4	436.7	-1.2	-2.9	68.0 c	4.3	9.4	2.6	3.4 p	-35.4	25.1	2.3	37.2	7.4 p
EL	1.9 p	10.1 p	1.2 p	-1.1	-135.3	2.4	23.8	-2.4 p	-2.0	1.8	1.9 p	3.7 p	0.6 p	35.5 p	-17.8	8.0 f	0.7 p	54.3 c	10.9 p
ES	2.0 p	19.9 p	1.1 p	2.5	-46.8	1.0	67.7	-1.9 p	0.0	0.8	-1.0 p	1.2 p	-0.3 p	3.1 p	-11.8	19.2	5.7 p	56.9	13.5 p
FR	1.5 p	23.6 p		-0.6	-35.6	1.9	48.0	-1.8 p	-0.1	-2.2	2.5 p	0.8 p	0.4 p	2.5 p	-1.4	9.7 r	6.4 p	61.7	15.1 p
HR	2.9 p	21.0 p		4.7	-5.5	2.4	49.4	-2.9 p	0.5	20.4 c	3.7 p	5.7 p	-0.2 p	5.2 p	-17.6	20.0		34.6	7.5 p
IT	0.3	18.1	1.5 p	2.9	0.0	1.6	29.0	-2.0	-1.7	-4.3	4.2	-0.1	-0.2	6.7 p	-2.4	-1.8	4.2	41.2	12.9 p
CY	3.1 p	19.4 p		-6.2	-159.5	103.5	1827.5	-4.0 p	-2.5 c	11.7 c	0.7 p	-1.5 p	-0.1 p	18.1 p	-11.5	7.9	7.9 p	89.5	12.8 p
LV	2.1	22.2	0.6 p	0.8	4.5	3.1	56.0	-2.7	2.8	1.8 c	6.7	1.0 c	2.1	3.9 p	17.3	29.9	2.4	20.3	9.8 p
LT	4.3	21.4	1.0 p	5.2	4.8	2.9	44.0	-3.6	3.4	14.7 c	4.5	8.4	3.9	1.7 p	16.8	24.9	2.9	23.0	14.5 p
LU	2.3	16.9		4.5	-3893.6	-446.6	6742.5	-3.2	1.0	8.3 c	-0.7	-0.3	-1.3	0.6 p	8.5	24.5	3.4	65.9	15.0 p
HU	4.6 p	27.2 p	1.5	1.6	-2.5	19.7	169.6	-3.8 p	-0.6	4.0 c	0.0 p	4.7 p	3.3 p	4.1 p	15.3	50.0 p	3.2 p	18.4	9.6 p
MT	4.9	21.6 p	0.6 p	5.6	246.3	27.5	1497.1	-6.4	-0.1	16.0 c	3.3	5.0	-0.8	3.2 p	4.5	18.2 p	4.9 p	49.7	11.2 p
NL	1.7 p	21.0 p		9.9	-0.5	3.9	581.2	-0.8 p	0.9	-1.1	1.9 p	1.6 p	-0.2 p	1.8 p	-1.7	26.3	5.0 p	100.3 p	16.1 p
AT	1.4	24.7	3.2 p	2.8	-1.1	-1.9	59.7	-2.2	1.1	-0.4 c	0.7	1.8	0.3	2.2 p	5.5	16.6	4.7	49.5	11.2 p
PL	4.5	18.5	1.3 p	2.5	-12.5	2.4	46.4	-2.4 c	1.6	22.9 c	3.7	4.0 c	4.8 p	6.1 p	4.1	20.3	2.0	34.4	9.7 p
PT	2.2 p	18.2 p	1.4 p	0.9	-47.1	3.5	80.6	-2.5 p	-1.6	6.6 c	4.1 p	2.4 p	1.4 p	6.1 p	-7.1	32.1	3.2 p	63.6	10.8 p
RO	4.2 p	23.6 p		-3.4	-4.1	2.9	44.2	-1.7 p	-1.2	15.8	4.7 p	2.9 p	4.2 p	4.3 p	30.7	15.8	2.4 p	15.4	9.1 p
SI	3.2	19.6		5.2	1.6	3.1	39.7	-3.5	0.4	13.9 c	2.0	3.0 c	0.7	3.4 p	-1.4	25.6	2.2	26.9	8.2 p
SK	2.3	21.4	0.8	-2.0	-14.1	2.2	69.6	-3.1	1.9	0.1	-2.0	-0.3 c	1.3	2.9 p	6.3	24.1	3.4	43.7	9.6 p
FI	1.1	23.9	2.8 p	-0.1	6.3	5.9	50.9	-1.7	-1.7	2.7	2.5	6.6 c	-0.5	1.4 p	-3.1	3.7	7.2	66.0	16.6 p
SE	1.3	24.5	3.4 pf	4.2	-5.0	4.6	86.1	-1.1 c	-9.7	-6.7	-0.5	2.2 c	0.7	1.1 p	5.8	8.3	4.6	88.6	17.9 p
P.M.: UK	1.3	18.0		-4.3	-15.1	0.8	80.5	-0.5	-4.4	-3.1	2.3	1.7 c	0.2	1.2 p	9.2	9.1	4.0	84.1	16.0 p

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1) For the employment indicators, see page 2 of the AMR 2016. 2) House price index e = estimate by NCB for EL. 3) For Nominal unit labour cost HR, d: employment data use national concept instead of domestic concept. 4) Unemployment rate for BE: revision in the survey methodology. (NOTE: This footnote was taken from the 2018 table in 23/10/2019 provisional annex. Footnotes in the annex provided by ESTAT for other years can be different.)

Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund data, W EO (for world volume exports of goods and services)

Table 2.1 (continued): Auxiliary indicators, 2019

Year 2019	Employment rate (1 year % change)	Activity rate - % of total population aged 15-64 (%)	Long-term unemployment rate - % of active population aged 15-74 (%)	Youth unemployment rate - % of active population aged 15-24 (%)	Young people neither in employment nor in education and training - % of total population aged 15-24		People at risk of poverty or social exclusion - % of total population		People at risk of poverty after social transfers - % of total population		Severely materially deprived people - % of total population		People living in households with very low work intensity - % of total population aged 0-59	
					%	3 years change in p.p	%	3 years change in p.p	%	3 years change in p.p	%	3 years change in p.p	%	3 years change in p.p
BE	1.6	69.0	2.3	14.2	9.3	-0.6	19.5 b	-1.4 b	14.8 b	-0.7 b	4.4 b	-1.1 b	12.4 b	-2.5 b
BG	0.3	73.2	2.4	8.9	13.7	-4.5	32.5	-7.9 b	22.6	-0.3 b	19.9	-12.0 b	9.3	-2.6 b
CZ	0.2	76.7	0.6	5.6	5.7	-1.3	12.5	-0.8	10.1	0.4	2.7	-2.1	4.2	-2.5
DK	1.2	79.1	0.8	10.1	7.7	1.0 b	16.3	-0.5	12.5	0.6	2.6	0.0	9.3	-1.4
DE	0.9	79.2	1.2	5.8	5.7	-1.0	17.4	-2.3	14.8	-1.7	2.6	-1.1	7.6	-2.0
EE	1.3	78.9	0.9	11.1	6.9	-2.2	24.3	-0.1	21.7	0.0	3.3	-1.4	5.4	-0.4
IE	2.9	73.3	1.6	12.5	10.1	-2.5								
EL	1.2 p	68.4	12.2	35.2	12.5	-3.3	30.0	-5.6	17.9	-3.3	16.2	-6.2	13.8	-3.4
ES	2.2 p	73.8	5.3	32.5	12.1	-2.5	25.3	-2.6	20.7	-1.6	4.7	-1.1	10.8	-4.1
FR	1.1 p	71.7	3.4	19.6	10.6	-1.3	17.9	-0.3	13.6	0.0	4.7	0.3	7.9	-0.5
HR	3.1 p	66.5	2.4	16.6	11.8	-5.1	23.3	-4.6	18.3	-1.2	7.2	-5.3	9.2	-3.8
IT	0.5	65.7	5.6	29.2	18.1	-1.8								
CY	3.1 p	76.0	2.1	16.6	13.7	-2.3	22.3	-5.4	14.7	-1.4	9.1	-4.5	6.8	-3.8
LV	-0.1	77.3	2.4	12.4	7.9	-3.3	27.3	-1.2	22.9	1.1	7.8	-5.0	7.6	0.4
LT	0.5	78.0	1.9	11.9	8.6	-0.8	26.3	-3.8	20.6	-1.3	9.4	-4.1	7.5	-2.7
LU	3.6	72.0	1.3	17.0	5.6	0.2	20.6	1.5 b	17.5	1.7 b	1.3	-0.3 b	7.5	0.9 b
HU	1.3	72.6	1.1	11.4	11.0	0.0	18.9	-7.4	12.3	-2.2	8.7	-7.5	5.0	-3.2
MT	5.8	75.9	0.9	9.3	8.6	-0.2	20.1	-0.2	17.1	0.6	3.6	-0.8	4.9	-2.4
NL	1.9 p	80.9	1.0	6.7	4.3	-0.3	16.5	-0.2 b	13.2	0.5 b	2.5	-0.1 b	9.2	-0.5 b
AT	1.1	77.1	1.1	8.5	7.1	-0.6	16.9	-1.1	13.3	-0.8	2.6	-0.4	7.8	-0.3
PL	-0.2 p	70.6	0.7	9.9	8.1	-2.4	18.2	-3.7	15.4	-1.9	3.6	-3.1	4.7	-1.7
PT	0.8 p	75.5	2.8	18.3	8.0	-2.6	21.6	-3.5	17.2	-1.8	5.6	-2.8	6.2	-2.9
RO	0.0 p	68.6	1.7	16.8	14.7	-2.7	31.2	-7.6	23.8	-1.5	14.5	-9.3	6.0	-2.2
SI	2.5	75.2	1.9	8.1	7.0	-1.0	14.4	-4.0	12.0	-1.9	2.6	-2.8	5.2	-2.2
SK	1.0	72.7	3.4	16.1	10.3	-2.0	16.4	-1.7	11.9	-0.8	7.9	-0.3	6.2	-0.3
FI	1.7	78.3	1.2	17.2	8.2	-1.7	15.6	-1.0	11.6	0.0	2.4	0.2	9.7	-1.7
SE	0.6	82.9	0.9	20.1	5.5	-1.0	18.8	0.5	17.1	0.9	1.8	1.0	8.6	0.1
P.M.: UK	1.1	78.1	0.9	11.2	10.5	-0.4								

Figures highlighted are the ones at or beyond the threshold. Flags:b:Break in series. d:Definition differs. e:Estimated. p:Provisional. NEXT IS ONLY FOR INTERNAL ECFIN INFO AND NOT INCLUDED IN ESTAT FINAL SA empty: not available. c: Confidential. ECFIN flags: f: Forecast. k: Backcast. j: Note. o: Outdated. u: Unreliable

1) For the employment indicators, see page 2 of the AMR 2016. 2) House price index e = estimate by NCB for EL. 3) For Nominal unit labour cost HR, d: employment data use national concept instead of domestic concept. 4) Unemployment rate for BE: revision in the survey methodology. (NOTE: This footnote was taken from the 2018 table in 23/10/2019 provisional annex. Footnotes in the annex provided by ESTAT for other years can be different.)
Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund data, W EO (for world volume exports of goods and services)