

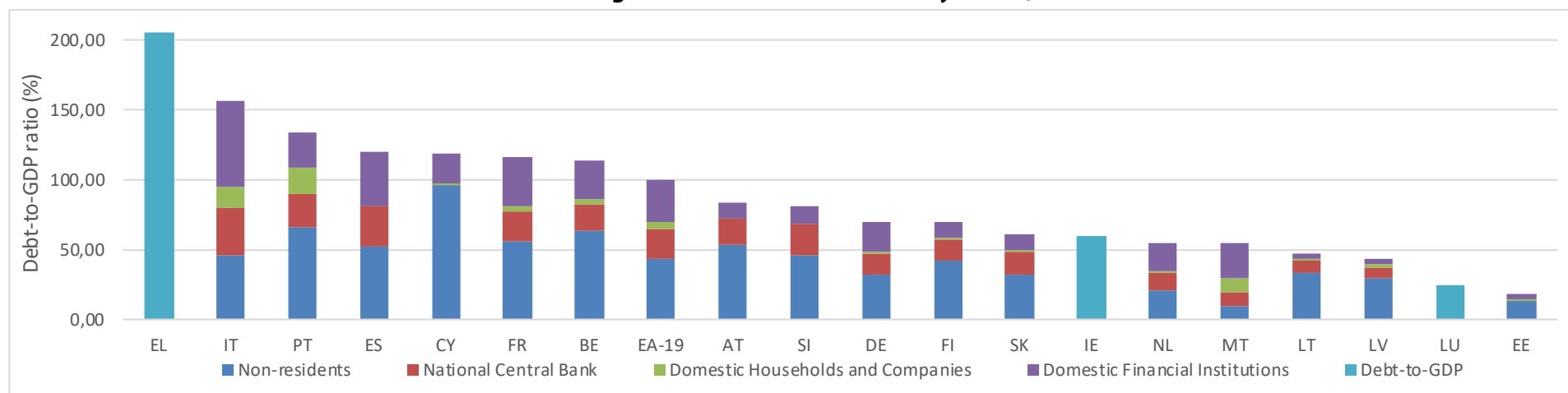
Public finances in Euro Area Member States: Selected indicators - June 2021

This document presents selected indicators on public finance for the Euro Area Member States and the Euro Area as a whole. For each indicator, it provides a short explanation and the data sources. The final section presents a short overview of the main indicators used by the European and other international institutions to assess debt sustainability.

The table overleaf shows, *inter alia*, that:

- in 2020 Estonia was the country with the lowest **debt-to-GDP ratio** (18.2%) and Greece the one with the highest (205.6%)
- in 2020 Italy was the country with the highest **expenditure for interest on public debt** (3.5% of GDP) and Estonia the country with the lowest (0%)
- in 2021, and in terms of **Gross Financing Needs**, Italy is expected to have the highest requirement (29% of GDP), and Luxembourg the lowest (3.7% of GDP)
- in 2020, Malta and Italy were the countries with the lowest ratio of **non-residents holders of public debt** (17.8% and 29.8%, respectively), while Estonia and Lithuania were those with the highest (70.9% and 69.4%, respectively), apart from Greece and Cyprus, whose debt is mostly held by the EFSF/ESM
- in 2020, Malta and Portugal were the countries where **resident households and non-financial companies held the highest share of public debt** (19.6% and 13.8%, respectively), with Spain and Slovenia the lowest (0.2% and 0.4%)

Sovereign debt in EA Member States by holder, 2020



Source: [ECB](#). When detailed information is not available (EL, IE and LU), only debt-to-GDP is presented. For more information on Holders of public debt, please see next pages



Member State	Government Debt % GDP ¹		Government Budget balance % GDP ¹		Government Structural Budget balance % potential GDP ¹		Government Expenditure for Interest on public debt % GDP ¹		GDP Growth (y-o-y) ¹	Gross Financing Needs ¹ % GDP	Holders of government debt % of total government debt 2020 ¹				Yield on sovereign bonds (10 years)	Risk to medium-term fiscal sustainability ⁴
	2020	2021	2020	2021	2020	2021	2020	2021	2021	2021	Non-residents	Domestic Financial Institutions (excl. central bank)	National Central Bank	Domestic Households and Companies	April 2021	
BE	114.1	115.3	-9.4	-7.6	-5.6	-5.8	2.0	1.7	4.5	21.1	55.9	24.7	16.0	3.3	0.04	High
DE	69.8	73.1	-4.2	-7.5	-1.8	-6.2	0.7	0.6	3.4	15.9	45.4	29.9	22.5	2.3	-0.33	Low
EE	18.2	21.3	-4.9	-5.6	-2.8	-4.2	0.0	0.0	2.8	6.3	70.9	23.6	0.0	5.5	0.09	Low
IE	59.5	61.4	-5.0	-5.0	-4.6	-4.7	1.0	0.9	4.6	10.1	51.0	:	:	:	0.08	Low
EL	205.6	208.8	-9.7	-10.0	-4.7	-6.6	3.0	2.7	4.1	15.9 ²	75.0 ³	:	:	:	0.88	High
ES	120.0	119.6	-11.0	-7.6	-4.2	-4.9	2.2	2.1	5.9	25.6	43.9	32.7	23.3	0.2	0.37	High
FR	115.7	117.4	-9.2	-8.5	-4.7	-6.7	1.3	1.2	5.7	25.2	48.8	30.3	17.8	3.0	-0.01	High
IT	155.8	159.8	-9.5	-11.7	-4.9	-9.3	3.5	3.3	4.2	29.0	29.8	39.5	21.6	9.1	0.80	High
CY	118.2	112.2	-5.7	-5.1	-4.7	-4.7	2.2	2.1	3.1	9.4	80.9	17.9	0.6	0.6	0.41	Medium
LV	43.5	47.3	-4.5	-7.3	-3.3	-6.2	0.7	0.6	3.5	6.1	66.8	10.2	19.4	3.6	-0.21	Low
LT	47.3	51.9	-7.4	-8.2	-6.7	-7.0	0.7	0.5	2.9	11.2	69.4	9.4	20.5	0.7	0.16	Low
LU	24.9	27.0	-4.1	-0.3	-1.9	1.1	0.2	0.2	4.5	3.7	:	:	18.6	:	-0.38	Low
MT	54.3	64.7	-10.1	-11.8	-7.5	-9.7	1.3	1.4	4.6	14.0	17.8	45.2	17.4	19.6	0.44	Medium
NL	54.5	58.0	-4.3	-5.0	-2.0	-3.4	0.7	0.5	2.3	15.6	37.8	35.6	24.2	2.4	-0.30	Low
AT	83.9	87.2	-8.9	-7.6	-5.7	-5.8	1.3	1.2	3.4	14.9	64.1	14.1	21.4	0.4	-0.04	Medium
PT	133.6	127.2	-5.7	-4.7	-2.0	-3.2	2.9	2.6	3.9	15.1	49.0	18.7	18.5	13.8	0.35	High
SI	80.8	79.0	-8.4	-8.5	-6.7	-7.7	1.6	1.5	4.9	12.9	57.5	14.6	27.6	0.3	0.02	Medium
SK	60.6	59.5	-6.2	-6.5	-4.7	-6.0	1.2	1.2	4.8	10.3	53.6	18.1	27.1	1.2	-0.06	Medium
FI	69.2	71.0	-5.4	-4.6	-3.4	-3.3	0.7	0.5	2.7	15.0	60.8	15.3	21.8	2.1	-0.08	Low
EA-19	100.0	102.4	-7.2	-8.0	-3.6	-6.2	1.5	1.4	4.3	20.5	43.9	30.9	20.8	4.4	:	:

Notes: ¹ estimates for 2019 and 2020, forecasts for 2021; ² different source; ³ complete data are not available; 75% of EL debt is held by non-resident official sector.

⁴ European Commission assessment, June 2021.

: = not available.

Please see the table overleaf for information on definitions and sources.

Indicator	Definitions and notes	Sources
Government debt	The government debt is defined as the total consolidated gross debt at nominal (face) value at the end of the year in the following categories of government liabilities: currency and deposits, debt securities and loans. The aggregate for the Euro Area is consolidated: the loans that Member States have granted to other Member States are removed, see also Eurostat (Statistical concepts and definitions).	European Commission Spring 2021 Economic Forecast , Table 41
Government budget surplus/deficit	The budget surplus (+)/deficit (-) is the difference between the General Government's revenues and expenditures.	European Commission Spring 2021 Economic Forecast , Table 35
Government structural budget balance	The structural balance is the government surplus/deficit corrected for the effects of the business cycle (essentially taxes and social security/unemployment benefits), and exceptional/one off expenditures or revenues. See also EGOV briefing "Potential output estimates and their role in the EU fiscal surveillance".	European Commission Spring 2021 Economic Forecast , Table 40
Government expenditure for interests on government debt	Interest paid over the year, accrued on the following liabilities: deposits, loans and debt securities. The primary surplus/deficit is the difference between the surplus/deficit and the expenditure on interests.	European Commission Spring 2021 Economic Forecast , Table 37
GDP growth	Percentage change of real GDP compared to previous year.	European Commission Spring 2021 Economic Forecast , Table 1
Gross Financing Needs	Data reported here are the sum of the projected government budget deficit (including interest payments) and maturing debt (government securities, commercial and official loans). For Greece, the source is the 8th Enhanced Surveillance Report of November 2020, Table 4.3.	European Commission, Debt Sustainability Monitor 2020 , Table 3.11
Holders of government debt	According to definitions in ESA2010 , domestic financial institutions include the national central bank, the domestic banks and the domestic non-monetary financial institutions (insurance companies, pension funds, money market and investment funds, and auxiliary activities). Greece: complete data are not available: 75% is the share of public debt held by non-resident official sector (i.e. IMF/EFSM/EFSF/ESM; source: Debt Sustainability Monitor 2020 , p. 64).	ECB : government debt by holder
Yields on sovereign bonds	Percentage per year, secondary market yields of government bonds with maturities of close to ten years.	ECB : Harmonised long-term interest rates for convergence assessment purposes
Medium Term Debt Sustainability	The assessment relies on the European Commission Debt Sustainability Analysis framework (see Debt Sustainability Monitor 2020 - table 3.14 - and the Fiscal Sustainability Report 2018), updated in June 2021 . It takes into account various factors, including demographic developments, recovery from the pandemic and fiscal adjustments required by current legislation. For EL, please see Box 3.2 of Debt Sustainability Monitor 2020 .	European Commission "Omnibus" Communication , Spring Package 2021, country's sections pages 13-32.

Frameworks for Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) is an analytical framework that helps assessing a country's capacity to service its public debt over time, while financing its policy objectives without compromising its stability. DSAs are essentially constituted of projections and forecasts of the relevant economic indicators. As for any forecasts and projections, they are based on models and assumptions that vary across institutions and time. The longer the forecast horizon, the greater small differences in the assumptions will affect the outcomes of the analysis.

The [IMF](#), the [European Commission](#) and the [ECB](#) have developed their own methodological frameworks, which include a "**baseline scenario**" as well as "**alternative scenarios**" that are built up under different assumptions regarding macroeconomic developments (national and international), financial conditions and policy variables (i.e. budgetary decisions, including expenditures, revenues and privatisations).

Among the many indicators and assumptions used by analysts, two indicators are widely used:

- The general government Debt-to-GDP ratio, which provides an overall measure of the country's debt compared to the size of its economy (stock-indicator);
- The general government Gross Financing Needs-to-GDP (GFN-to-GDP), which quantifies the country's annual debt payment obligations (principal plus interests), plus new primary deficit, in relation to its economy. This flow-indicator takes into account the debt structure (i.e. maturity, interest rates and interest deferrals), and signals possible vulnerabilities of a country on the financial markets.

The two indicators are interrelated, though the GFN-to-GDP ratio better captures the country's short- and medium-term financial stability risks. In fact, low financing needs are generally associated with reduced necessity to access the financial markets, thereby reducing financial stability risks (and *vice versa*).

In practice, it is difficult to establish **numerical thresholds for debt sustainability**:

- As to the debt-to-GDP ratio, thresholds appear to vary across countries, depending on macroeconomic fundamentals and debt management capacities (e.g. Argentina defaulted when its debt was around 60% of GDP, while Japan continues to sustain debt of more than 200% of GDP). The IMF benchmark is set at 85%.
- Regarding the GFN-to-GDP indicator, the [IMF guidelines](#) (p. 32) indicate that the indicator would need to remain below 15%-20% to ensure debt sustainability. In its statement of May 2016, the [Eurogroup](#) had agreed to assess debt sustainability for Greece in terms of the GFN-to-GDP ratio, which "*should remain below 15%... for the medium term, and below 20% of GDP thereafter.*"

In its [publication](#) on "Debt Stocks Meet Gross Financing Needs: A Flow Perspective into Sustainability", the ESM presents the results of a study that shows how the combination of the two indicators (debt stock and GNF flow) increases the sovereign risk, measured in terms of sovereign bond yields. It also documents that the sovereign rollover needs are critical in increasing this risk.

In the context of lending activities of international institutions:

- Article 13.1 of [the ESM Treaty](#), as well as Article 6 of EU Regulation (EU) No [472/2013](#) on surveillance of Member States with serious difficulties with respect to financial stability, requires the European Commission to assess whether the public debt of a Member State requesting financial assistance is sustainable.
- Similarly, Article V.3 of the [IMF agreements](#), which sets the conditions governing the use of IMF resources, requires that the receiving country have the capacity to repay its debt to IMF.

The European Parliament commissioned two research papers on the role of DSAs in the EU economic governance framework, available [here](#).

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