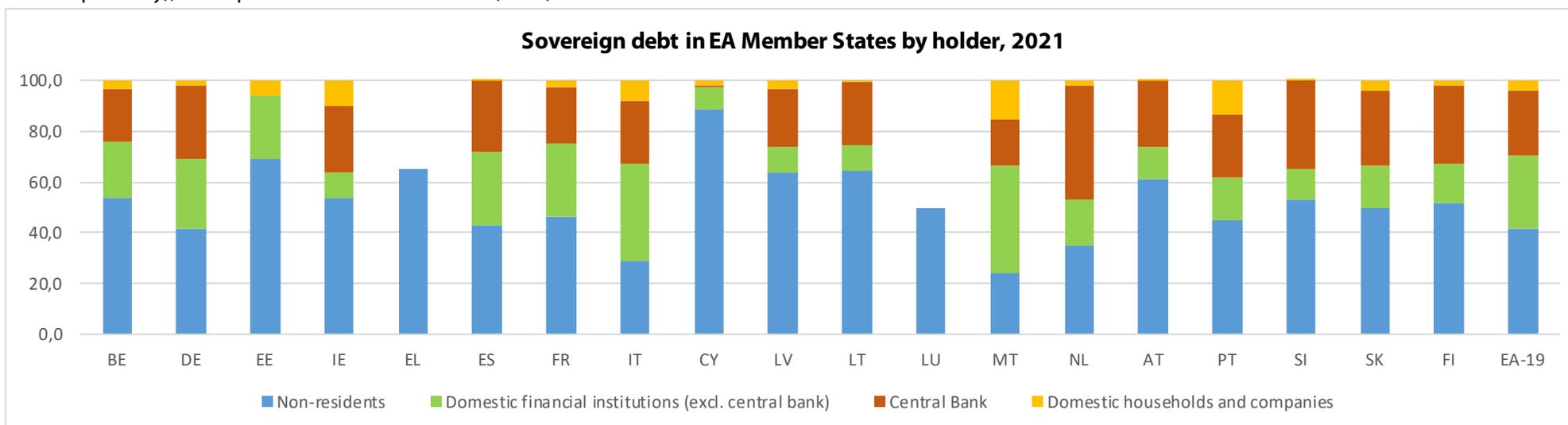European Parliament

Public finances in Euro Area Member States: Selected indicators - May 2022

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 2022 Estonia is expected to have the lowest **public debt-to-GDP ratio** (20.9%), while Greece's is expected to be the highest (185.7%)
- in 2022 Italy is expected to have the highest **expenditure for interest on public debt** (3.5% of GDP) and Estonia the lowest (0.0% of GDP)
- in 2022, regarding **Gross Financing Needs**, Italy is expected to have the highest requirement (26.2% of GDP), and Luxembourg the lowest (3.2% of GDP)
- in 2021, Malta and Italy were the countries with the lowest ratio of **non-residents holders of public debt** (23.9% and 29.1%, respectively), while Estonia and Lithuania were those with the highest (68.9% and 64.7%, respectively), apart from Greece and Cyprus, whose debt is mostly held by the EFSF/ESM
- in 2021, Malta and Portugal were the countries where **resident households and non-financial companies held the highest share of public debt** (15.5% and 13.2%, respectively), with Spain and Austria the lowest (0.2%)

Sovereign debt in EA Member States by holder, 2021

Legend: ■ Non-residents ■ Domestic financial institutions (excl. central bank) ■ Central Bank ■ Domestic households and companies

Source: ECB. The graph displays all the available information, which is limited for EL and LU. For more information on holders of public debt, please see the following pages.

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EN

Member State	Government Debt % GDP[1]		Government Budget balance % GDP[1]		Government Structural Budget balance % potential GDP[1]		Interest on public debt % GDP[1]		GDP Growth (y-o-y)[1]	Gross Financing Needs % GDP	Holders of government debt (% of total government debt 2021)				Yield on sovereign bonds (10 years)	Risk to medium-term fiscal sustainability[4]
	2021	2022	2021	2022	2021	2022	2021	2022	2022	2022	Non-residents	Domestic Financial Institutions (excl. central bank)	National Central Bank	Domestic Households and Companies	May 2022	
BE	108.2	107.5	-5.5	-5.0	-4.6	-4.5	1.7	1.4	2.0	19.8	53.8	22.1	20.8	3.3	1.58	HIGH
DE	69.3	66.4	-3.7	-2.5	-2.6	-1.8	0.6	0.5	1.6	14.9	41.5	27.7	28.9	1.9	0.95	MEDIUM
EE	18.1	20.9	-2.4	-4.4	-3.3	-3.8	0.0	0.0	1.0	4.1	68.9	25.1	0.0	6.0	:	LOW
IE	56.0	50.3	-1.9	-0.5	-3.2	-2.0	0.8	0.8	5.4	4.4	53.6	10.0	26.0[2]	10.4	1.63	LOW
EL	193.3	185.7	-7.4	-4.3	-5.5	-3.0	2.5	2.4	3.5	17.8	65.1[3]	:	:	:	3.54	HIGH
ES	118.4	115.1	-6.9	-4.9	-3.8	-3.5	2.2	2.1	4.0	22.6	43.2	28.7	27.9	0.2	2.04	HIGH
FR	112.9	111.2	-6.5	-4.6	-5.3	-4.5	1.4	1.4	3.1	20.6	46.4	29.0	21.8	2.8	1.52	HIGH
IT	150.8	147.9	-7.2	-5.5	-6.3	-5.8	3.5	3.5	2.4	26.2	29.1	37.7	25.3	7.9	2.99	HIGH
CY	103.6	93.9	-1.7	-0.3	-2.1	-0.4	1.8	1.6	2.3	5.1	88.5	8.5	0.7	2.3	2.69	MEDIUM
LV	44.8	47.0	-7.3	-7.2	-6.9	-6.6	0.5	0.6	2.0	11.1	63.9	9.8	22.8	3.5	1.99	LOW
LT	44.3	42.7	-1.0	-4.6	-0.9	-4.0	0.4	0.3	1.7	5.2	64.7	9.6	25.3	0.4	0.16	LOW
LU	24.4	24.7	0.9	-0.1	0.9	0.1	0.2	0.1	2.2	3.2	49.7	:	:	0.7	1.66	LOW
MT	57.0	58.5	-8.0	-5.6	-7.4	-5.2	1.2	1.1	4.2	13.4	23.9	42.6	18,0	15.5	1.98	HIGH
NL	52.1	51.4	-2.5	-2.7	-2.0	-3.2	0.6	0.4	3.3	12.1	34.7	18.2	45.0[2]	2.1	1.05	MEDIUM
AT	82.8	80.0	-5.9	-3.1	-4.4	-3.0	1.1	1.0	3.9	10.7	60.9	12.6	26.3	0.2	1.54	MEDIUM
PT	127.4	119.9	-2.8	-1.9	-1.3	-1.9	2.4	2.2	5.8	18.2	45.2	16.4	25.2	13.2	2.14	HIGH
SI	74.7	74.1	-5.2	-4.3	-6.1	-5.5	1.3	1.2	3.7	14.3	53.3	12.1	34.3	0.3	1.82	HIGH
SK	63.1	61.7	-6.2	-3.6	-5.7	-3.3	1.1	1.1	2.3	6.1	49.6	16.7	29.8	3.9	1.87	HIGH
FI	65.8	65.9	-2.6	-2.2	-2.0	-1.7	0.5	0.5	1.6	10.0	51.8	15,0	30.9	2.3	1.43	MEDIUM
EA-19	97.4	94.7	-5.1	-3.7	-4.0	-3.4	1.5	1.4	2.7	17.7	41.7	28.8	25.6	3.9	:	:

Notes: [1] estimates for 2021, forecasts for 2022; [2] different source; [3] 65.1% of EL debt corresponds to loans borrowed from non-resident official sector (mainly EFSF and ESM); [4] European Commission assessment, May 2022.
: = not available.
Please see the table overleaf for information on definitions and sources.

Indicator	Definitions and notes	Data 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 2022 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 2022 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 "Potential output estimates and their role in the EU fiscal surveillance".	European Commission Spring 2022 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 2022 Economic Forecast, Table 36
GDP growth	Percentage change of real GDP compared to previous year.	European Commission Spring 2022 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 12th Enhanced Surveillance Report of November 2021, Table 3.	European Commission, Fiscal Sustainability Report 2021, May 2022, Table I.1.3
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). Sources for IE and the NL are the respective Central Banks. Greece: complete data are not available: 65.1% of debt corresponds to loans borrowed from non-resident official sector, mainly EFSF/ESM and EU; source Eurostat.	ECB: government debt by holder. For missing data in ECB, Eurostat and other sources
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 - Chapter 2 - and the Fiscal Sustainability Report 2021. The table shows the overall medium-term risk category.	European Commission, Fiscal Sustainability Report 2021, May 2022, Table I.2.7

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) suggests 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.