Annex 2

Assessment of public debt sustainability and COVID-related financing needs of euro area Member States

(in preparation of the assessment pursuant to Article 6 of Regulation (EU) No 472/2013 and Article 13(1) ESM Treaty)

Following the political agreement of the finance ministers of the euro area Member States within the Eurogroup of 9 April 2020 (which was endorsed by the Heads of State and Governments of euro area Member State on 23 April 2020) to establish a Pandemic Crisis Support based on the existing ESM ECCL precautionary credit line and adjusted in light of this specific challenge, the Commission services, in liaison with the ECB services and in cooperation with the ESM services, have assessed the public debt sustainability of euro area Member States.

The main findings are as follows

- **The COVID-19 epidemic has generated large negative impacts on economic activity.** The Commission 2020 spring forecast expects the euro area GDP to shrink by almost 8% in 2020 and rebound by more than 6% in 2021. The fiscal deficit would widen to around 9% of GDP in 2020, before narrowing to about 4% of GDP in 2021. This implies a deterioration of public debt positions, with significant debt increases expected in 2020.

- **Governments across the euro area have taken determined action to minimise the lasting impact of this crisis.** The negative economic effects of the pandemic, together with the discretionary budgetary measures adopted by euro area Member States to address its impact, would create *additional costs of about €830 bln in 2020 and €280 bln in 2021, for the euro area as a whole* (representing around 7% and 2% of GDP in 2020 and 2021, respectively). Across Members States, these additional costs range from around 6% of GDP to more than 9% of GDP in 2020 and from around 1½% of GDP to 4½% of GDP in 2021.

- **The assessment of public debt sustainability indicates that, notwithstanding risks, the debt position remains sustainable in all euro area Member States over the medium-term.** This conclusion is supported by the (stable or) declining debt path projected by 2030. In line with the political agreement of the finance ministers of the euro area Member States within the Eurogroup of 9 April 2020, euro area Member States remain committed to strengthening their economic and financial fundamentals, consistent with the EU economic and fiscal coordination and surveillance frameworks, including any flexibility applied by the competent EU institutions. Additional factors such as the historically low levels of interest rates and the debt profile in terms of maturity and holders (diversified and with large investors' base) also contribute to support public debt sustainability in euro area Member States.

- **Nevertheless, there are risks related to the unprecedented nature of the crisis and uncertainty about future developments**. The projections are surrounded by particularly large uncertainties at the current juncture and compared with precedent exercises. For instance, a delayed and more gradual recovery or more adverse financial conditions would entail upward pressures to the debt-to-GDP ratio. The presence of contingent liabilities, notably related to government guarantees to the private sector, is a source of vulnerability. Conversely, the European and national recovery plans could bring a faster recovery than assumed in the baseline, in particular fostering stronger investment dynamics, with favourable longer-tem impacts on potential growth. Larger positive impacts on potential growth could also come from the stepping-up of structural reforms.

The rest of this annex is organised as follows: section 1 provides an assessment of COVID-19 (direct and indirect) health-related government costs; section 2 presents the approach, the assumptions and the overall results of the debt sustainability analysis, along with the additional factors considered in the analysis; section 3 contains country-specific analyses.

Section 1 – The impact of COVID 19 on financing needs

The COVID-19 epidemic has generated increasing financing needs due to the negative economic effects of the pandemic, together with the discretionary budgetary measures adopted by euro area Member States to address its impact. These developments lead notably to a substantial upward revision of the primary deficit (and financing needs) for 2020 and 2021, compared to pre-epidemic forecasts (as in the Commission autumn 2019 forecast). These revisions provide a measure of the overall fiscal impact of the Covid-19 epidemic including direct and indirect health-related costs. They represent an upward bound, as additional costs (or revenue losses) not related to the crisis could also contribute to some extent to the revision of the forecasted primary balance.

According to this measure of additional primary deficit, based on Commission forecast, additional costs due to the impact of the Corona virus outbreak would amount to more than €830 bln in 2020 and €280 bln in 2021, for the euro area as a whole (representing around 7% and 2% of GDP in 2020 and 2021, respectively). Across Members States, these additional costs range from around 6% of GDP to more than 9% of GDP in 2020 and from around 1½% of GDP to 4½% of GDP in 2021 (see Table 1).

Table 1: **Quantification of the fiscal impact of the Covid-19 crisis** (based on the revision of the primary deficit forecast between autumn 2019 and spring 2020 Commission forecast)

	In pps. of GDP		*In EUR bln*	
	2020	**2021**	**2020**	**2021**
BE	6.4	1.5	28.3	7.0
DE	7.7	1.8	255.3	63.1
EE	8.2	3.1	2.2	0.9
IE	5.8	3.3	19.3	12.1
EL	6.9	2.9	12.6	6.0
ES	7.6	4.4	85.8	53.2
FR	7.5	1.7	166.7	39.2
IT	8.4	2.5	138.2	43.7
CY	9.2	3.8	2.0	0.9
LV	6.7	3.8	1.9	1.2
LT	6.9	2.6	3.1	1.3
LU	6.2	1.4	3.8	1.0
MT	7.5	3.2	1.0	0.5
NL	6.7	3.7	52.2	30.4
AT	6.3	2.1	24.5	8.9
PT	6.1	1.8	12.7	4.1
SI	7.3	2.3	3.4	1.2
SK	7.1	2.7	6.4	2.6
FI	6.0	1.9	13.5	4.4
EA	7.4	2.3	832.9	281.7

Note: The Table reports the revision of the net primary expenditures compared with the Autumn 2019 forecast round. The euro area figures represent the sum of the country figures. The euro area pps. of GDP revision represents the weighted average of the revisions across countries (in pps. of GDP) since Autumn 2019. For Greece, the reported revisions represent difference between the baseline assumptions of the November 2019 Enhanced Surveillance Report and the April update of the Enhanced Surveillance Report baseline carried out by the European Institutions. In few cases, the figures refer to a reduction in primary surplus. Definitions: ESA 2010 general government accounts.

Section 2 – Overall results of debt sustainability analysis

2.1 Approach and assumptions

The assessment of debt sustainability in euro area Member States, prepared for the activation of a Pandemic Crisis Support based on the ESM ECCL precautionary credit line, includes two deterministic scenarios - a baseline and an adverse scenario. In both the baseline and the adverse scenario, the projection horizon is the medium-term horizon used in the regular Commission Debt Sustainability Analysis (DSA) (10 years). In the assessment, projections of both government debt and gross financing needs (GFN) are considered. Government gross financing needs are in particular defined as the sum of the budgetary deficit, debt amortizations (including debt securities and loans), as well as other potential debt creating / reducing flows (stock-flow adjustments). The projections are based on the Spring 2020 Commission forecast. In addition to the results of these projections, the analysis factors in additional mitigating or aggravating risk factors that need considering to reach an overall assessment of debt sustainability.

In line with the political agreement of the finance ministers of the euro area Member States within the Eurogroup of 9 April 2020 on Pandemic Crisis Support, the baseline scenario reflects the fact that Euro area Member States would remain subject and committed to the EU's economic and fiscal co-ordination and surveillance frameworks. The 2020-21 Commission Spring forecast incorporates fiscal policy measures (adopted or at least credibly announced) and information as of 23 April 2020. Beyond 2021, a gradual adjustment of fiscal policy is assumed, consistently with the EU economic and fiscal coordination and surveillance frameworks, including any flexibility applied by the competent EU institutions (see Table 2 below). Beyond 2021 (the Commission forecast horizon), the real GDP growth is projected according to the so-called EPC / OGWG T+10 methodology. In particular, real (actual) GDP growth is driven by its potential growth (and standard assumption regarding the output gap closure[1]) and affected by any additional fiscal adjustment considered (through the fiscal multiplier)[2]. Inflation (based on the GDP deflator) is assumed to converge gradually to 2% (in line with the ECB objective for price stability)[3]. Interest rates assumptions are set in line with financial market expectations (i.e. based on forward rates as of March 2020)[4]. Beyond 2021, stock-flow adjustments are assumed to be equal to zero. The baseline assumptions for Greece reflect the post-programme commitments, and are in line with the methodology used in the context of Enhanced Surveillance[5].

In order to assess the impact of macroeconomic and financial shocks and adverse developments on the sustainability of government debt, an adverse scenario is also included in the analysis. Under this adverse scenario, higher interest rates (by 500 bps.) and lower real GDP growth (by -0.5 pp.), with respect to the baseline, are assumed (throughout the projection horizon).

Table 2: **Fiscal path under the baseline (as from 2022)**

Scenario	Fiscal path description
Baseline	**(1) For countries whose deficit is smaller than 3% of GDP**: as per the 'matrix of requirements of the preventive arm' (see footnote), until the Medium-Term Objective (MTO) is reached (and yearly adjustment by no more than 0.6 pp. of GDP). Constant structural balance at MTO thereafter. **(2) For countries whose deficit is greater than 3% of GDP**: Yearly adjustment of 0.5 pp. of GDP until the deficit is brought below 3% of GDP. Adjustment as in (1) thereafter.

Note: This matrix is defined in the European Commission 2015 Communication (see http://ec.europa.eu/economy_finance/economic_governanc e/sgp/pdf/2015-0113_communication_sgp_flexibility_guidelines_en.pdf) and in the 'Commonly agreed position on flexibility' endorsed by the ECOFIN in February 2016 (see http://data.consilium.europa.eu/doc/document/ST-143452015-INIT/en/pdf).

[1] In the absence of any additional fiscal adjustment, the output gap is assumed to close after three years, after which actual and potential GDP growth coincide.
[2] The fiscal multiplier is set at 0.75 in line with the Commission regular DSA framework.
[3] Given the slow closure of the output gap – under fiscal consolidation -, this level is generally reached only by the end of the projection period.
[4] In line with the Commission regular DSA framework (see Debt Sustainability Monitor 2019).
[5] See Compliance Report, ESM Stability Support Programme for Greece, Third Review, March 2018, June 2018 Enhanced Surveillance Report, and Debt Sustainability Monitor 2019 (Box 3.3).

Table 3: **Budgetary balance (% of GDP), baseline**

	2019	2020	2021	2026	2030
BE	-1.9	-8.9	-4.2	-0.8	-0.1
DE	1.4	-7.0	-1.5	-0.6	-0.5
EE	-0.3	-8.3	-3.4	-1.0	-0.6
IE	0.4	-5.6	-2.9	-0.7	-0.5
EL	1.5	-6.4	-2.1	-0.8	-1.6
ES	-2.8	-10.1	-6.7	-3.4	-1.1
FR	-3.0	-9.9	-4.0	-0.9	-0.5
IT	-1.6	-11.1	-5.6	-2.0	0.1
CY	1.7	-7.0	-1.8	-0.2	0.0
LV	-0.2	-7.3	-4.5	-1.8	-1.1
LT	0.3	-6.9	-2.7	-1.2	-1.0
LU	2.2	-4.8	0.1	0.6	0.7
MT	0.5	-6.7	-2.5	-0.3	0.0
NL	1.7	-6.3	-3.5	-0.9	-0.5
AT	0.7	-6.1	-1.9	-0.5	-0.5
PT	0.2	-6.5	-1.8	-0.1	0.1
SI	0.5	-7.2	-2.1	-0.3	-0.2
SK	-1.3	-8.5	-4.2	-1.6	-1.1
FI	-1.1	-7.4	-3.4	-0.9	-0.6

Source: Commission services

Table 4: **Real GDP growth (actual, %), baseline**

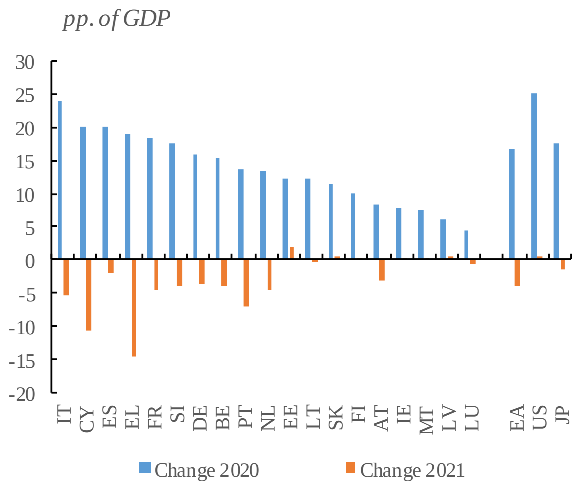
	2019	2020	2021	2026	2030
BE	1.4	-7.2	6.7	0.9	1.1
DE	0.6	-6.5	5.9	0.9	0.8
EE	4.3	-6.9	5.9	2.8	2.4
IE	5.5	-7.9	6.1	2.4	1.7
EL	1.9	-9.7	7.9	1.0	1.0
ES	2.0	-9.4	7.0	1.7	1.4
FR	1.3	-8.2	7.4	1.4	1.2
IT	0.3	-9.5	6.5	0.6	0.7
CY	3.2	-7.4	6.1	2.0	1.5
LV	2.2	-7.0	6.4	1.8	2.2
LT	3.9	-7.9	7.4	2.0	1.1
LU	2.3	-5.4	5.7	2.2	2.1
MT	4.4	-5.8	6.0	4.4	3.8
NL	1.8	-6.8	5.0	1.2	0.9
AT	1.6	-5.5	5.0	1.4	1.3
PT	2.2	-6.8	5.8	1.1	0.8
SI	2.4	-7.0	6.7	2.8	2.1
SK	2.3	-6.7	6.6	1.6	2.2
FI	1.0	-6.3	3.7	1.4	1.3

Source: Commission services

2.2 Forecasted government debt developments in 2020-21

As a result of COVID-19 epidemic, and related negative economic and fiscal impacts, a significant deterioration of debt positions is projected in euro area Member States in 2020, in line with the one foreseen in other major advanced economies. In 2021, the economic recovery, as well as the progressive unwinding of temporary fiscal measures, should allow a reduction of the debt-to-GDP ratio in most euro area countries (see Graph 1). However, the outstanding stock of government debt in 2021 will remain higher than in 2019 in all Member States, and much bigger than anticipated in autumn 2019 Commission forecast. Similar increases are projected in other advanced economies (e.g. in the US and Japan).

Graph 1: **Forecasted change in the government debt-to-GDP ratio, euro area Member States and other advanced economies**



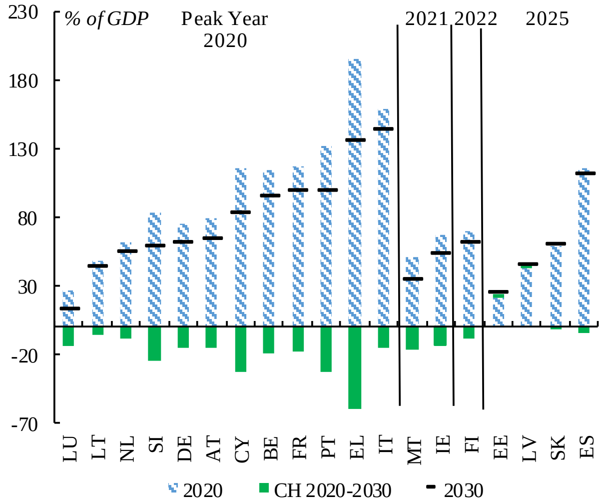
Source: Commission services (based on Spring 2020 forecast)

Government gross financing needs increase in all Member States in 2020 and the euro area as a whole. Government gross financing needs (GFN) are estimated at more than 20% of GDP in 2020 in the euro area (against less than 15% of GDP in 2019). This change results mainly from large new financing requirements (i.e. widened budgetary deficits), which compound with the need to rollover existing debt. Situations differ across Member States, yet all countries are expected to see an increase of their financing needs (see section 3). However, sovereign financing conditions remain favourable to date as shown by recent debt issuances. Sizeable Treasury liquidity buffers in several countries enabled covering recent financing needs without difficulty. Moreover, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area. Going forward, government financing needs are expected to significantly decline in 2021, on the back of the expected improvement of the economic outlook.

2.3 *Projected developments over the medium term*

Under the baseline, the government debt-to-GDP ratio would gradually decline in almost all euro area Member States over the medium term, compared with values estimated for 2020. This downward path would be driven by a fiscal adjustment in line with the commitment of euro area Member States to strengthen economic and financial fundamentals, consistent with the EU economic and fiscal coordination and surveillance frameworks, including the requirements of the Stability and Growth Pact beyond 2021. In general, the favourable interest - growth rate differential would also support the projected debt-to-GDP reduction path. The magnitude of this decline would vary across countries depending on the initial fiscal deficit, as well as (the sign and) magnitude of the interest - growth rate differential (snowball effect).

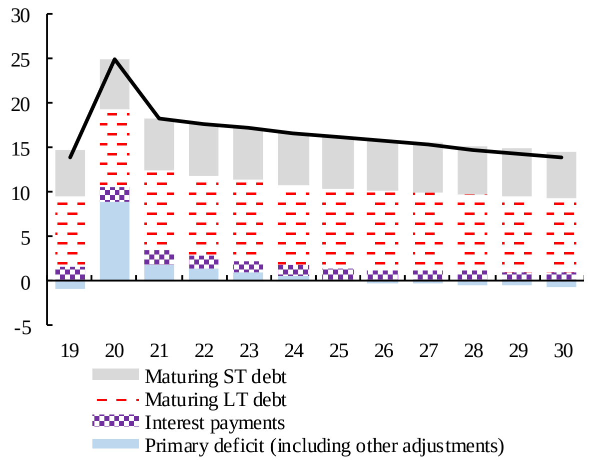
Graph 2: **Government debt: projected level, change (2020 versus 2030) and peak year, by country, % of GDP**



Source: Commission services

Government gross financing needs are also expected to decrease over the medium-term in the baseline, reaching values close to their pre-crisis levels. This reduction would be supported by the gradual improvement of the primary balance, moving from a deficit to close to balance or surplus by 2030 in all euro area Member States, and the reducing burden of debt servicing.

Graph 3: **Government gross financing needs, euro area aggregate by component, % of GDP, baseline**



Source: Commission services

Under more adverse macro-financial conditions, the government debt-to-GDP ratio would reach higher values over the medium term, although it would still be on a stable or declining path in most euro area Member States (see section 3). Such circumstances could occur in case e.g. of slower recovery to pre-crisis GDP growth, or higher yields on government debt. The simultaneous need of euro area (and other) economies to issue more debt could also make market financing more tense, increasing in turn borrowing costs. A combination of delayed and/or more gradual economic recovery and adverse financial conditions (0.5 pp. lower GDP growth combined with 500 bp. higher interest rates) would entail upward pressures to the debt-to-GDP ratio, with only late declines projected in some countries. Government gross financing needs would also reach higher values by 2030 than under the baseline, yet remaining at levels that are considered manageable for advanced economies.

2.4 Additional factors and overall assessment

The composition of government debt mitigates debt vulnerabilities in euro area Member States. Euro area governments have increased the average maturity of their debt over the past years[6], and a large share of their liabilities is issued at fixed rates. These developments allow dampening the effect of potential rises in financing costs and reducing rollover risks. Moreover, in most Member States, a significant share of government debt is held by residents, contributing to the resilience of the debt position to global market fluctuations. In countries where the share of non-residents is higher, holdings by official lenders and / or the Eurosystem also constitute stable financing sources. In some countries, the positive Net International Investment Position (NIIP) also highlights how the private

[6] See for example, ECB, Debt securities and service by EU governments, monthly, February 2020.

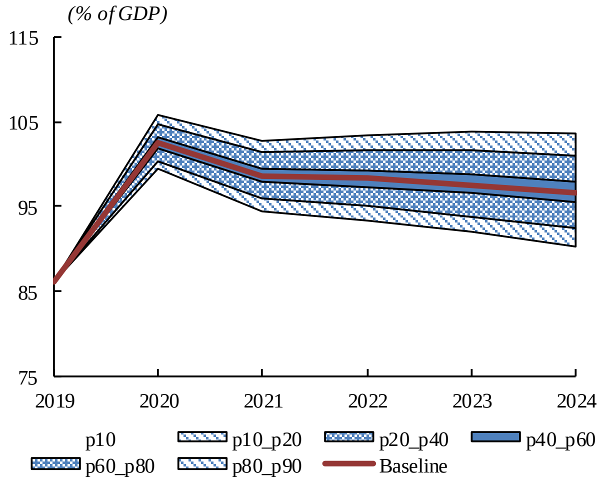
sector’s strong net creditor position more than compensates the government’s debtor position[7].

However, risks exist related to the unprecedented nature of the crisis and uncertainty about its future evolution. Particularly large uncertainties surround the current set of projections, notably related to the duration of the confinement measures and to the strength of the recovery. Relatedly, contingent liability risks may arise from the private sector, via the possible materialisation of government guarantees put in place to support firms and self-employed. Government guarantees announced so far average above 15% of GDP across the euro area, representing a significant potential risk on public finances if some were to be called. Yet, these additional contingent liabilities reflect necessary measures adopted by governments in order to support the economy[8]. They could be alleviated down the road in case European solutions to support the economy were put in place. (Implicit) contingent liabilities risks could also come from latent financial sector vulnerabilities. However, these risks seem overall more contained, notably as banks’ balance sheets have been considerably strengthened over the last decade[9]. Conversely, upward risks exist: the European and national recovery plans could bring a faster recovery than assumed in the baseline, in particular fostering stronger investment dynamics, with favourable longer-tem impacts on potential growth. Larger positive impacts on potential growth could also come from the stepping-up of structural reforms.

Stochastic simulations allow illustrating some of the downward and upward uncertainties surrounding baseline projections. By simulating a large set of joint shocks to growth, interest rates and the primary balance, they illustrate the range of possible (debt) outcomes. In particular, the risks stemming from explicit guarantees can be partially captured in the assessment through such simulations[10]. According to these stochastic simulations, for the euro area as a whole, the debt-to-GDP ratio should lie between around 90% and slightly more than 100% of GDP by 2024 with an 80% probability.

[7] See European Commission *Debt Sustainability Monitor 2019* for more detailed information on the debt profile. See European Commission *2020 Alert Mechanism Report* for more detailed information on net external positions.
[8] They have been allowed by a revision of the EU State aid guidelines.
[9] See Annex 1 assessing financial stability risks in the euro area.
[10] Indeed, stochastic projections are based on the historical volatility of underlying macroeconomic variables, including the primary balance, whose past developments reflect to some extent the materialisation of contingent liabilities (e.g. during the last financial crisis).

Graph 4: **Stochastic projections, government debt-to-GDP ratio, euro area**



Source: Commission services

Overall, the debt sustainability assessment indicates that, notwithstanding risks, the debt position remains sustainable over the medium-term in all euro area Member States, also given important mitigating factors. In particular, even if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline scenario is expected to be on a sustainable trajectory over the medium term in all Member States, consistent with euro area Member States remaining subject to the EU's economic and fiscal co-ordination and surveillance frameworks. Government financing needs are also projected to reduce, after the peak foreseen for 2020. Delayed and more gradual economic recovery and adverse financial conditions would however entail upward pressures to the debt-to-GDP ratio, with only late declines projected in some countries. Contingent liabilities, related to the significant government guarantees to firms and self-employed put in place as a response to the crisis, represent also tangible risks. Nonetheless, the profile of government debt mitigates debt vulnerabilities in euro area Member States, with notably a lengthening of maturities over the past years and relatively stable financing sources. The historically low level of borrowing costs, despite recent financial market volatility, is another important mitigating factor.

Section 3 - Country specific results

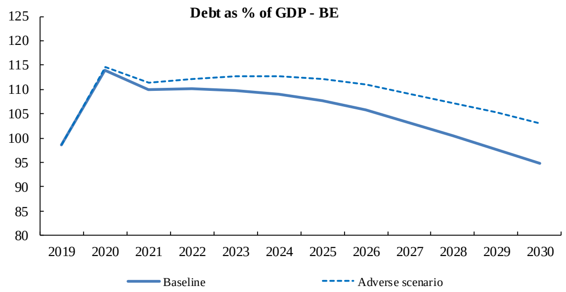
DSA – Belgium

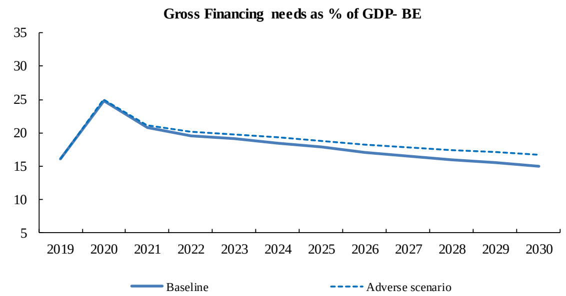
- **Government debt and gross financing needs projections**

The Commission 2020 spring forecast expects the COVID crisis to have a large economic impact. The GDP would shrink by more than 7% in 2020 and rebound by almost 7% in 2021. The fiscal deficit would widen to around 9% of GDP in 2020, before narrowing to about 4% of GDP in 2021. As a result, government debt would increase from almost 100% of GDP in 2019 to 110% of GDP in 2021.

Under the baseline, government debt would progressively decline, falling back to below the 2019 level in 2030. Supported by the favourable interest-growth rate differential and a gradual fiscal policy adjustment, debt would decrease to around 95% of GDP in 2030. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would decline to above 100% of GDP in 2030.

Under the baseline, government gross financing needs (GFN) are estimated at above 20% of GDP in 2020-21. They would fall over the projection period, to 15% of GDP in 2030. Under the more adverse scenario, GFN would decrease at a slightly slower pace.





- **Additional factors and overall assessment**

Belgian market financing conditions remain accommodative to date, with low yields and broad access. Yields are low by historical standards and the yield spread relative to the 10-year German Bund has remained close to the average observed over the past year. The most recent issuances of long-term bonds had a high bid-to-cover ratio and carried a yield of about zero. The implicit yield of the Belgian debt stock stands at less than 2%, compared to about 4% a decade ago. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt and the external position mitigate debt vulnerabilities. The government debt stock is almost completely composed of liabilities issued at fixed rates and the average maturity stands at 10 years. As a result, a rise in financing costs would affect outstanding debt only very gradually. Belgium's strongly positive Net International Investment Position (NIIP) highlights how the private sector's strong net creditor position more than compensates the government's debtor position. At the same time, contingent liability risks stemming from the private sector create some uncertainty, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis.

Overall, the debt sustainability assessment indicates that, notwithstanding risks, the debt position remains sustainable over the medium term, also given important mitigating factors. In particular, if the debt position deteriorates as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

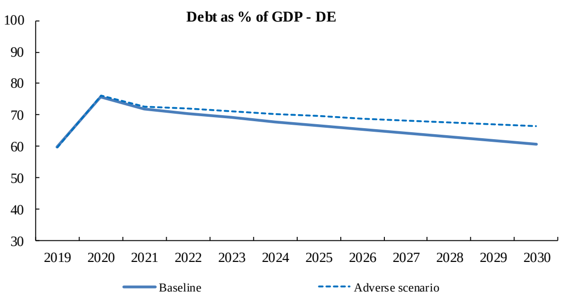
DSA – Germany

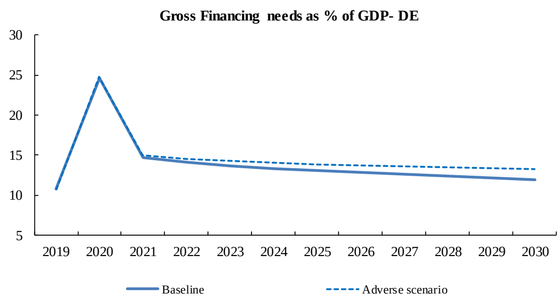
- **Government debt and gross financing needs projections**

The Commission 2020 spring forecast expects the COVID crisis to produce a large economic impact, with a more than 6% drop in GDP in 2020 followed by a rebound of close to 6% in 2021. The fiscal deficit is foreseen at 7% of GDP in 2020 and 1½% of GDP in 2021. In that context, the German government debt should increase from 60% of GDP in 2019 to close to 72% of GDP by 2021.

Under the baseline, government debt would progressively decline over the projection horizon, reaching around 60% of GDP in 2030, supported by the favourable interest-growth rate differential and by a relatively solid fiscal position. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would remain on a downward but more gradual path, reaching more than 65% of GDP in 2030.

Under the baseline, government gross financing needs (GFN), at around 25% in 2020, would decrease over the projection period, reaching 12% of GDP in 2030. Under a more adverse scenario, GFN would still steadily diminish, albeit more moderately.





- **Additional factors and overall assessment**

German market financing conditions are very favourable: Germany is a benchmark issuer facing no refinancing difficulties. It also uses available cash buffers to cover some of its financing needs. Contained bid-ask spreads and high bid-to-cover ratios despite the historically low (even negative) yields, even at longer maturities, attest of the 'safe haven' status of the German sovereign. This reflects a steady decline of the debt-to-GDP ratio, up to the crisis, that further established Germany's capacity to cater for the sustainability of its debt. Moreover, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile and status of the German government debt mitigate debt vulnerabilities. The structure of the German government debt, notably in terms of maturity, and the positive Net International Investment Position (NIIP), are mitigating factors. At the same time, contingent liability risks stemming from the private sector create some uncertainty, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis.

Overall, the debt sustainability assessment indicates that the debt position remain sustainable over the medium-term, also given important mitigating factors (including the debt profile and status). In particular, while the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

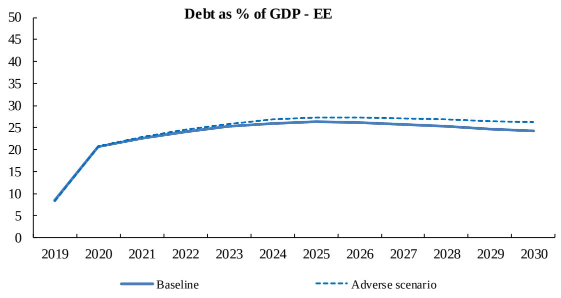
DSA – Estonia

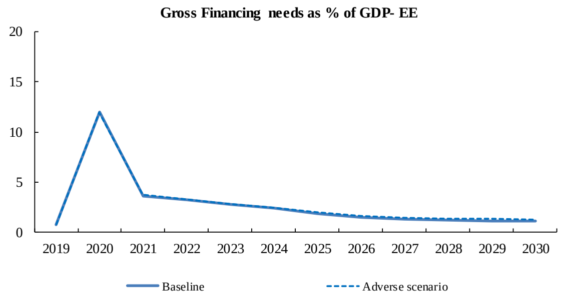
- **Government debt and gross financing needs projections**

The Commission 2020 spring forecast expects the COVID crisis to have a large economic impact. The Estonian economy would shrink by about 7% in 2020 while expanding by around 6% in 2021. The fiscal deficit is expected to widen to above 8% of GDP in 2020 and to narrow to around 3½% in 2021. As a result, the debt-to-GDP ratio would go from around 8% in 2019 to almost 23% in 2021.

Under the baseline, government debt broadly stays around the very low 2021 level during the projection horizon. Supported by a gradual fiscal policy adjustment and a favourable interest-growth rate differential, the debt-to-GDP ratio would remain fairly stable, at around 25% of GDP in 2030. Considering that, despite the considerable fiscal impact of COVID-19, government debt would remain very low, the sensitivity of the debt trajectory to macroeconomic shocks is limited. Under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would stand at only slightly more than 25% of GDP in 2030.

Under the baseline, government gross financing needs (GFN), temporarily close to more than 10% of GDP in 2020, are projected to fall to 1% of GDP by 2030. The difference under the adverse scenario would be negligible.





- **Additional factors and overall assessment**

Estonia's exposure to financial markets is very limited and financial reserves considerable. Considering the very low level of government debt, there has been no need for Estonia to issue long-term bonds. Instead, the country has borrowed to a limited extent from banks. Borrowing thus far in 2020 was on favourable terms. To finance the fiscal stimulus, the government nevertheless plans to issue long-term bonds. Asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area. Some potential risks linked to contingent liabilities, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis, exist.

Overall, the debt sustainability assessment indicates that the debt position remains sustainable over the medium term, also given its very low level. In particular, if the debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable trajectory over the medium term.

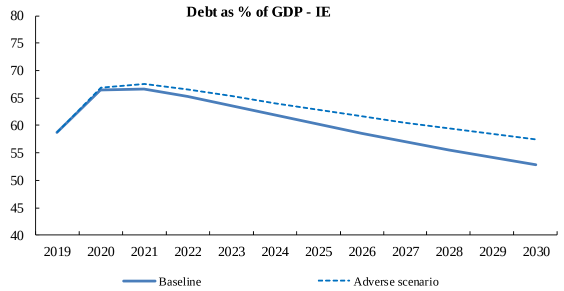
DSA – Ireland

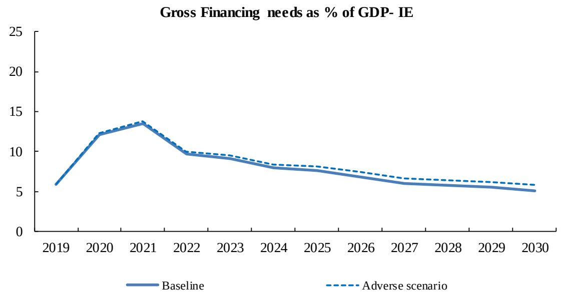
- **Government debt and gross financing needs projections**

The Commission 2020 spring forecast expects the COVID crisis to produce a large economic impact, with an 8% drop in real GDP in 2020 followed by a rebound of 6% in 2021. The fiscal deficit is projected at around 5½% of GDP and 3% of GDP in 2020 and 2021, respectively. In this context, the Irish general government debt would increase from less than 60% of GDP in 2019 to 67% of GDP by 2021.

Under the baseline, the government debt-to-GDP ratio would progressively decline over the projection horizon, reaching close to 50% of GDP in 2030, supported by a gradual fiscal policy adjustment and by the favourable interest – growth rate differential. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would still remain on a downward path, yet reaching a slightly higher level than under the baseline (at above 55% of GDP in 2030).

Under the baseline, government gross financing needs (GFN), at around 13% of GDP in 2020-21, government gross financing needs would also decline over the projection period, reaching 5% of GDP in 2030. Under a more adverse scenario, GFN would still decline, but would reach a slightly higher value than in the baseline.





- **Additional factors and overall assessment**

Irish sovereign financing conditions remain accommodative to date: recent debt issuances faced no sign of market pressures, with high bid-to-cover ratios. Market interest rates are low by historical standards, and the average interest rate on government debt is now close to 2% compared with 4% five years ago. Large Treasury cash and liquid assets holdings have enabled covering recent financing needs without difficulty. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt mitigates debt vulnerabilities. The average weighted maturity of Irish debt is approximately 10 years, one of the highest in the EU, dampening the negative effect of potential increases in financing costs and reducing rollover risks. Interest payments would remain contained by historical standards throughout the projection period, even under more adverse conditions. Official loans, Eurosystem and retail holdings make up over 50% of Irish government debt, representing stable sources. The steady evolution of liquidity buffers also contributes to the resilience of the debt position to global market fluctuations. Some degree of uncertainty is related to the contingent liability risks stemming from the private sector. Furthermore, alternative debt metrics, based on gross national income (GNI*) indicate a higher debt burden - than measured by the debt-to-GDP ratio (in Ireland, GDP also reflects the importance of multinationals' activities).

Overall, the debt sustainability assessment indicates that the debt position remains sustainable over the medium-term, also given important mitigating factors linked to the debt profile. In particular, if the government debt position were to deteriorate as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

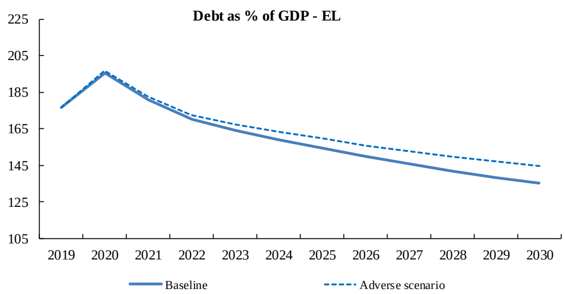
DSA – Greece

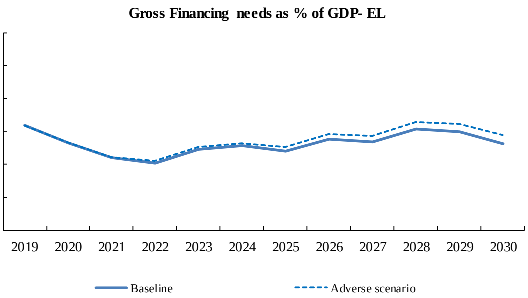
- **Government debt and gross financing needs projections**

Based on Commission spring forecast, the COVID crisis is expected to produce a large economic impact, with 9¾% drop in GDP in 2020 followed by a rebound of about 7¾% in 2021. The fiscal deficit is expected to reach about 6½ % of GDP in 2020, narrowing down to more than 2% of GDP in 2021. In that context, the Greek government debt should increase from 176½ % of GDP in 2019 to more than 180% of GDP by 2021.

Under the baseline, government debt would decline over the projection horizon, reaching 135% of GDP in 2030, assuming a return to a solid fiscal position and economic recovery. The debt trajectory is mildly sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth) the debt ratio would continue to decrease and gradually declining to less than 145% of GDP by 2030.

Under the baseline, government gross financing needs (GFN) are expected to be broadly stable over the projection period. Representing some 13% of GDP in 2020, government gross financing needs would hover around this level over the projection period. Under the adverse scenario, GFN would only slightly increase to about 14% of GDP, on average, over the projection period.





- **Additional factors and overall assessment**

Greek market financing conditions remain accommodative to date: recent debt issuances faced no sign of market pressures, with bid-to-cover ratios in line with auctions in previous months. While yields volatility increased end-March, they remain at low levels by historical standards. Large Treasury liquidity buffers enabled covering recent financing needs without difficulty. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt mitigates debt vulnerabilities. A large share of debt is financed at low rates by official lenders and the average maturity increased largely over the past years to over 20 years, achieving a large dampening of the effect of potential rises in financing costs and reducing rollover risks. Interest payments would remain low by historical standards throughout the projection period due to the interest deferral of official debt, even under more adverse conditions. The important share of government debt held by official lenders and the stable evolution of liquidity buffers also contribute to the resilience of the debt position to global market fluctuations. Yet, the negative Net International Investment Position (NIIP), which has deteriorated over the last few years, constitutes a potential aggravating factor. Some degree of uncertainty related to contingent liability risks from the private sector, including materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis, is also present.

Overall, the debt sustainability assessment indicates that notwithstanding risks, the debt position remains sustainable over the medium-term, also given important mitigating factors (including the debt profile). In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

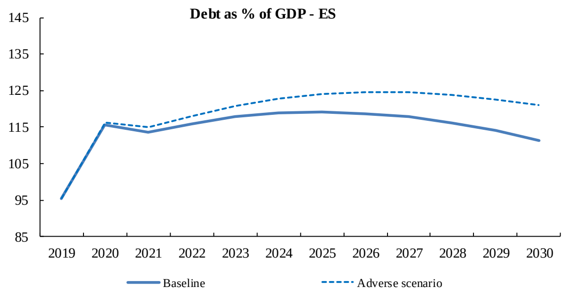
DSA – Spain

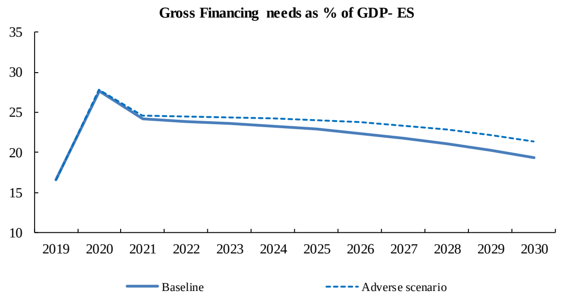
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with a 9½% drop in real GDP in 2020 followed by a rebound of 7% in 2021. The fiscal deficit is foreseen at 10% of GDP in 2020 and at 6¾% of GDP in 2021. In that context, the Spanish government debt would increase from 95½% of GDP in 2019 to 113¾% of GDP by 2021.

Under the baseline, government debt would progressively decline, to reach a level close to 110% of GDP in 2030, supported by a gradual fiscal policy adjustment and a favourable interest-growth differential. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would reach a higher level at around 120% of GDP in 2030, yet remaining on a downward path by the end of the projection period .

Under the baseline, government gross financing needs (GFN), representing some 25% of GDP in 2020-21, would also decline over the projection period, reaching less than 20% of GDP in 2030. Under a more adverse scenario, GFN would still decline, but would reach a higher level than in the baseline.





- **Additional factors and overall assessment**

Market conditions for financing debt remain favourable, with the most recent debt auctions in March confirming sufficient demand for both long- and short-term government securities. Yields on 10-year bonds are still low by historical standards, and spreads against the 10-year German bund remain contained. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The government debt profile mitigates vulnerabilities. The country benefits from a relatively stable investor base, with an important share of government debt held domestically (more than 50%) or by EA holders (around one third). Moreover, the average maturity of government debt has lengthened over time, reaching close to 8 years. A large share of debt is issued at fixed rates and interest payments would remain contained by historical standards throughout the projection period, even under more adverse conditions. Yet, some degree of vulnerability is related to the negative Net International Investment Position (NIIP) and contingent liability risks stemming from the private sector including via the possible materialisation of state guarantees to firms and self-employed during the COVID-19 crisis.

Overall, the debt sustainability assessment indicates that notwithstanding risks, the debt position remains sustainable over the medium-term, also given important mitigating factors (including the debt profile). In particular, even if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (slightly declining) trajectory over the medium term.

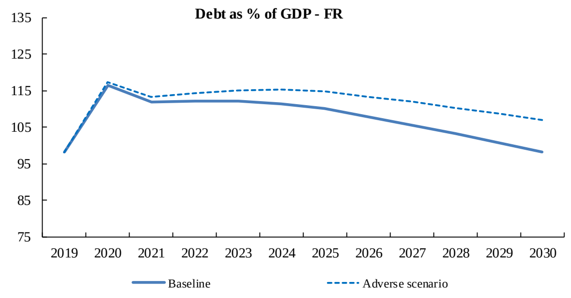
DSA – France

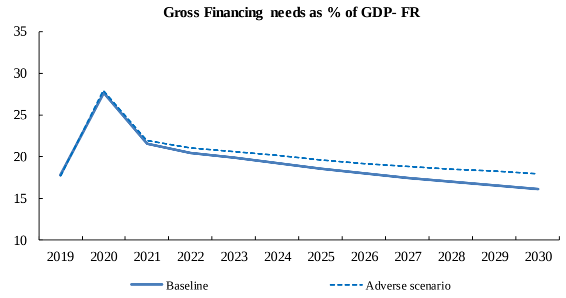
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with about 8% drop in GDP in 2020 followed by a rebound of around 7½% in 2021. The fiscal deficit is foreseen at 10% of GDP and at around 4% of GDP in 2020 and 2021, respectively. In that context, the French government debt should increase from less than 100% of GDP in 2019 to more than 110 % of GDP by 2021.

Under the baseline, government debt would progressively decline over the projection horizon, reaching less than 100% of GDP in 2030, supported by a gradual fiscal policy adjustment and by the favourable interest-growth rate differential. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would remain on a downward path, yet reaching a higher value of above 105% of GDP in 2030.

Under the baseline, government gross financing needs (GFN), representing more than 25% of GDP in 2020, would also decline over the projection period, reaching around 15% of GDP in 2030. Under a more adverse scenario, GFN would diminish slightly less rapidly.





- **Additional factors and overall assessment**

French debt market financing conditions remain highly accommodative to date: recent debt issuances faced no sign of market pressures, with generous bid-to-cover ratios, in line with past months' issuances. Yields levels are still very low, close to zero for the 10-year bonds, albeit no longer in negative territory. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt and the external position mitigate debt vulnerabilities. The share of short-term debt has been stable, while the average maturity increased over the past years, staying at somewhat above 8 years recently, dampening the effect of potential rises in financing costs and reducing rollover risks. Interest payments would remain contained by historical standards throughout the projection period, even under more adverse conditions. The important share of government debt held by euro area residents and the stable evolution of liquidity buffers also contribute to the resilience of the debt position to global market fluctuations. The relatively small negative Net International Investment Position (NIIP), which moved closer to balance over the last few years, constitutes an additional mitigating factor. Yet, some degree of uncertainty related to contingent liability risks stemming from the private sector, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis, is present.

Overall, the debt sustainability assessment indicates that notwithstanding risks, the debt position remain sustainable over the medium-term, also given important mitigating factors (including the debt profile). In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

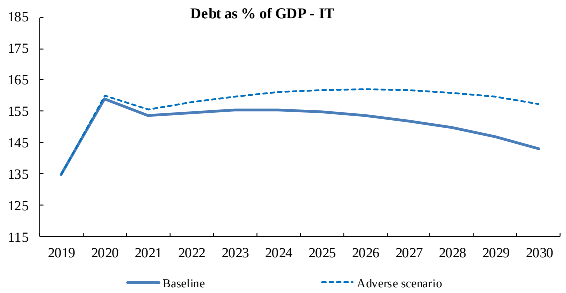
DSA – Italy

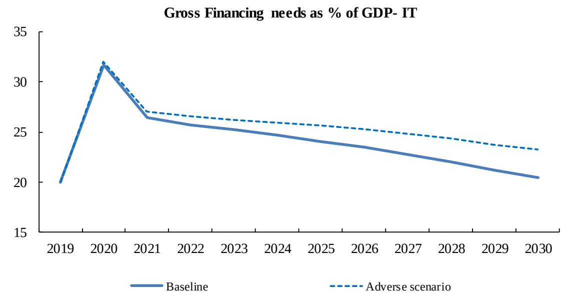
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with a drop in GDP in 2020 of 9½%, followed by a rebound of 6½% in 2021. The headline deficit is projected at around 11% of GDP and 5¾% of GDP in 2020 and 2021, respectively. In that context, the Italian government debt is set to increase from close to 135% of GDP in 2019 to almost 154% of GDP by 2021.

Under the baseline, government debt would progressively decline over the projection horizon to reach *above 140% of GDP in 2030*, supported by a gradual fiscal policy adjustment and by the economic recovery. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would reach a higher value, at more than 155% of GDP in 2030, yet remaining on a downward path.

Under the baseline, government gross financing needs (GFN), representing more than 25% of GDP in 2020-21, would decline over the projection period, reaching around 20% of GDP in 2030. Under a more adverse scenario, GFN would still diminish, but more moderately.





- **Additional factors and overall assessment**

Italian market financing conditions remain accommodative to date: recent debt issuances faced no sign of market pressures, with bid-to-cover ratios in line with auctions in previous months. Yields are low by historical standards, and the yield spread relative to the 10-year German Bund has remained contained. Large Treasury liquidity buffers enabled covering recent financing needs without difficulty. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt and the external position mitigate debt vulnerabilities. A large share of debt is issued at fixed rates and the average maturity increased over the past years reaching close to 8 years, dampening the effect of potential rises in financing costs and reducing rollover risks. Interest payments would remain contained by historical standards throughout the projection period, even under more adverse conditions. The important share of government debt held by residents and the stable evolution of liquidity buffers also contribute to the resilience of the debt position to global market fluctuations. The Net International Investment Position (NIIP), which has moved close to balance over the last few years, constitutes an additional mitigating factor. Yet, some degree of uncertainty, related to contingent liability risks stemming from the private sector, including via the possible materialisation of state guarantees to firms and self-employed during the COVID-19 crisis, is present.

Overall, the debt sustainability assessment indicates that, notwithstanding risks, the debt position remains sustainable over the medium-term, also given important mitigating factors. In particular, even if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

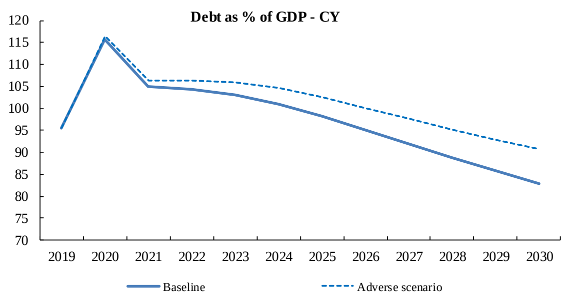
DSA – Cyprus

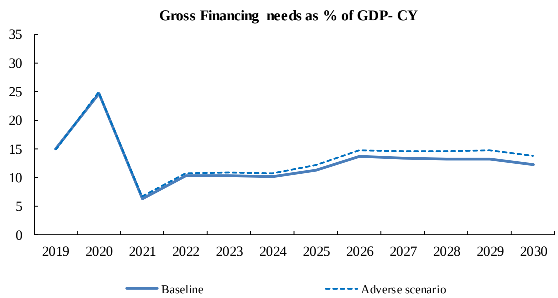
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with a 7½% drop in real GDP in 2020, followed by a rebound of 6% in 2021. The fiscal deficit is foreseen at 7% of GDP and at 1¾% of GDP in 2020 and 2021, respectively. In that context, Cypriot government debt should increase from 95½% of GDP in 2019 to 105% of GDP by 2021.

Under the baseline, government debt would progressively decline over the projection horizon, reaching above 80% of GDP in 2030, supported by a gradual fiscal policy adjustment and by a favourable interest-growth differential. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would set on a slightly higher path, although still declining to reach 90% of GDP in 2030.

Under the baseline, government gross financing needs (GFN), representing 24¾% in 2020, would decline to above 10% of GDP in 2030. Under a more adverse scenario, GFN would diminish slightly less.





- **Additional factors and overall assessment**

The Cypriot government is in a comfortable financing position, also considering recent bond issuances which strengthened the cash buffer held at the central bank. These are expected to cover financing needs until the end of year, even in the case of a more adverse scenario. Despite a spike in mid-March, sparked by the global epidemic, sovereign yields remain low by historical standards. So far, Cyprus continues to enjoy a positive market perception, being at investment grade by main credit agencies. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The government debt profile mitigates vulnerabilities. Debt is mainly held externally (approximately 80% of total debt), yet half of this amount are official loans. Hence, the investor base is relatively stable. Almost all debt is long-term, with share of short-term debt decreasing in recent years due to the issuance of bonds with very long maturities, and issued at fixed rate, dampening the effect of potential rises in financing costs and reducing rollover risks. Hence, interest payments would remain contained, even under more adverse conditions. Yet, the negative Net International Investment Position (NIIP) and sizeable contingent liability risks stemming from the private and public sectors represent potential sources of vulnerability.

Overall, the debt sustainability assessment indicates that notwithstanding risks, the debt position remain sustainable over the medium-term, also given important mitigating factors (including the debt profile). In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

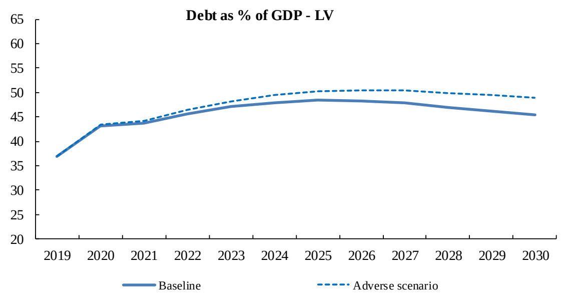
DSA – Latvia

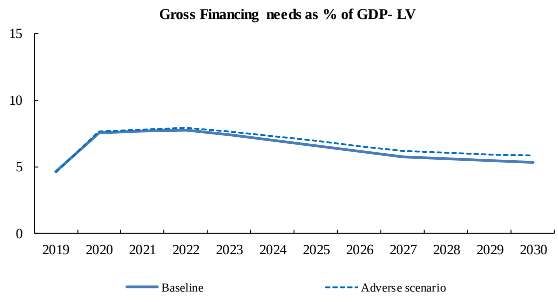
- **Government debt and gross financing needs projections**

The Commission 2020 spring forecast expects the COVID crisis to have a large economic impact. The Latvian economy would shrink by 7% in 2020 while growing by 6½% in 2021. Compared to a balanced budget in 2019, a fiscal deficit of more than 7% of GDP is expected in 2020. This deficit would narrow to 4½% of GDP in 2021. As a result, government debt is projected to rise from 37% of GDP in 2019 to less than 45% in 2021.

Under the baseline, government debt broadly stays around the low 2021 level during the projection horizon. Supported by the gradual fiscal policy adjustment and a favourable interest-growth rate differential, the debt-to-GDP ratio would remain fairly stable through 2030. The sensitivity of the debt trajectory to macroeconomic shocks is limited: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would be slightly higher than in the baseline at below 50% of GDP in 2030.

Under the baseline, government gross financing needs (GFN), at around 8% of GDP in 2020-21, would fall back to around 5% of GDP in 2030. Under the more adverse scenario, GFN would only be slightly higher.





- **Additional factors and overall assessment**

Latvian market financing conditions remain accommodative to date and financial reserves are considerable. Since the beginning of the year, conditions for debt issuances have remained favourable, with low yields by historical standards and a broadly stable spread relative to the 10-year German Bund in recent months. Moreover, Latvia has accumulated substantial cash buffers. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt and the external position mitigate debt vulnerabilities. Quasi all Latvian government debt has a long-term maturity, dampening the effects of potential rises in borrowing costs and reducing rollover risk. Yet, some potential risks linked to contingent liabilities, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis, exist.

Overall, the debt sustainability assessment indicates that the debt position remains sustainable over the medium term, also given mitigating factors. In particular, if the debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable trajectory over the medium term, at a relatively low level.

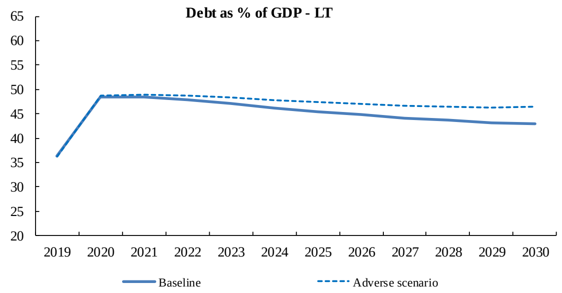
DSA – Lithuania

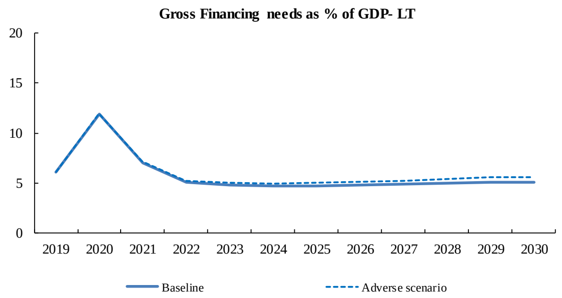
- **Government debt and gross financing needs projections**

The updated Commission services' scenario expects the COVID crisis to have a large economic impact. The GDP would shrink by 8% in 2020, followed by a growth rate of around 7½% in 2021. Compared to a small surplus in 2019, the budgetary balance is expected to record a deficit of around 7% of GDP in 2020, which would narrow to 2¾% of GDP in 2021. As a result, government debt is projected to rise from above 35% of GDP in 2019 to below 50% of GDP in 2021.

Under the baseline scenario, government debt would progressively decline over the projection horizon. Supported by the gradual fiscal policy adjustment and a favourable interest-growth rate differential, government debt is projected to start declining, falling back to below 45% of GDP in 2030. The sensitivity of the debt trajectory to macroeconomic shocks is limited: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would reach a slightly higher level than in the baseline, yet remaining on a declining path.

Under the baseline, government gross financing needs (GFN), at around 10% of GDP in 2020, *would fall back and stabilise at about 5% of GDP in 2022*. Under the more adverse scenario, GFN would only be slightly higher.





- **Additional factors and overall assessment**

Lithuanian market financing conditions remain accommodative to date. Yields are low by historical standards and the yield spread relative to the 10-year German Bund has remained close to the average observed over the past year. During the next months, Lithuania plans to borrow from the EIB, the Nordic Investment Bank and the Council of Europe Development Bank to ensure liquidity and funding of measures to fight COVID-19. Moreover, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area. Some potential risks linked to contingent liabilities, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis, exist.

Overall, the debt sustainability assessment indicates that the debt position remains sustainable over the medium term, also given mitigating factors. In particular, if the debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term, at a relatively low level.

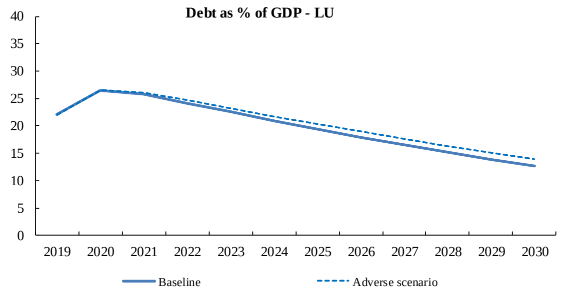
DSA - Luxembourg

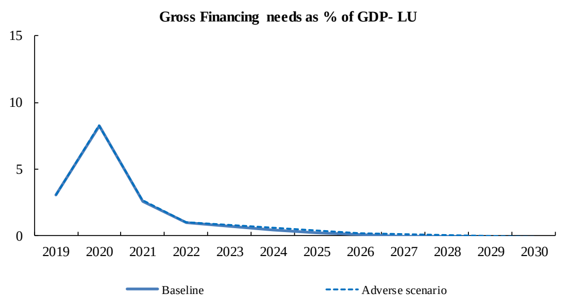
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with a 5½% drop in GDP in 2020 followed by a rebound of about 5¾% in 2021. The fiscal deficit is foreseen at 5% of GDP in 2020 and back to balance by 2021. In that context, Luxembourg government debt should increase from 22% of GDP in 2019 to more than 25% of GDP by 2021.

Under the baseline, government debt would progressively decline over the projection horizon, reaching less than 15% of GDP in 2030, supported by a solid fiscal position and by the favourable interest – growth rate differential. The debt trajectory is little sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would remain on a downward path, yet reaching a slightly higher value than under the baseline.

Under the baseline, government gross financing needs (GFN), representing some 8% of GDP in 2020, would decline over the projection period, reaching a value close to 0 in 2030. Under a more adverse scenario, GFN would be only marginally higher.





- **Additional factors and overall assessment**

Luxembourg debt market financing conditions remain accommodative to date: Luxembourg refinances itself at very low interest rates, still in negative territory beginning of April, confirming its "safe haven" status. Moreover, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area. Yet, some potential risks linked to contingent liabilities, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis, exist.

Overall, the debt sustainability assessment indicates that the debt position would remain sustainable over the medium-term, with very limited risks. In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to remain at very low levels and on a sustainable (declining) trajectory over the medium term.

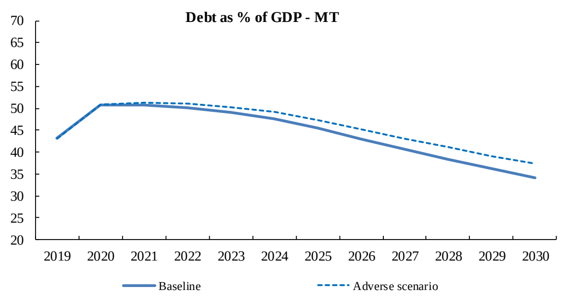
DSA – Malta

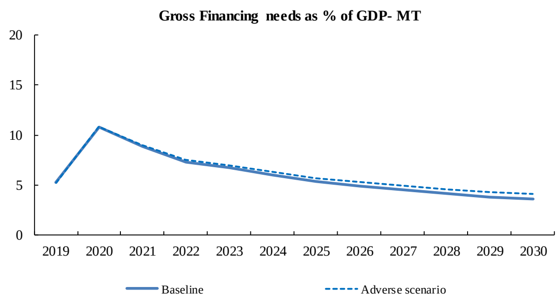
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with more than 5½% drop in GDP in 2020 followed by a rebound of 6% in 2021. The fiscal deficit is foreseen to reach about 6½% of GDP in 2020, narrowing down to 2½ % of GDP in 2021. In that context, Malta government debt should increase from 43% of GDP in 2019 to about 50% of GDP by 2021.

Under the baseline, government debt would progressively decline over the projection horizon, reaching less than 35% of GDP in 2030, supported by a gradual fiscal policy adjustment and by the favourable interest – growth rate differential. The debt trajectory is moderately sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would remain on a declining path over the projection period, yet reaching a slightly higher level than under the baseline.

Under the baseline, government gross financing needs (GFN), representing some 10½ % of GDP in 2020, would decline over the projection period, reaching around 3½ % of GDP in 2030. Under a more adverse scenario, GFN would only be only slightly higher than under the baseline.





- **Additional factors and overall assessment**

Malta debt market financing conditions remain accommodative to date: in light of its low public debt levels, recent debt issuances faced no sign of market pressures, with generous bid-to-cover ratios. Yields levels are low by historical standards and compared with other euro area countries. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt mitigates debt vulnerabilities. The important share of government debt held by residents additionally contributes to the resilience of the debt position to global market fluctuations. The positive Net International Investment Position (NIIP) is another mitigating factor. Yet, some potential risks linked to contingent liabilities, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis, exist.

Overall, the debt sustainability assessment indicates that the debt position would remain sustainable over the medium-term, with limited risks. In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to remain at relatively low levels and on a sustainable (declining) trajectory over the medium term.

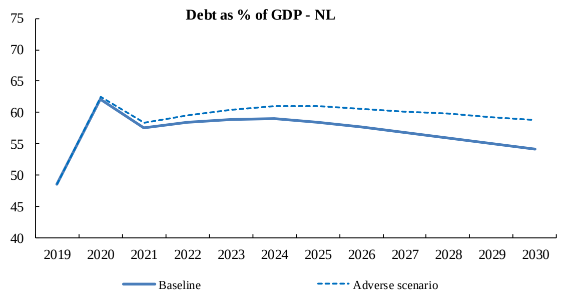
DSA – The Netherlands

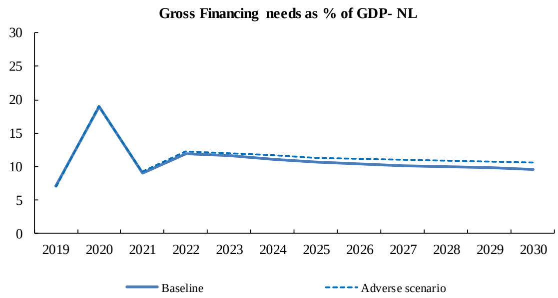
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with a close to 7% drop in GDP in 2020 followed by a rebound of 5% in 2021. The fiscal deficit is foreseen at 6¼% of GDP in 2020 and at 3½% of GDP in 2021. In that context, the Dutch government debt should increase from less than 50% of GDP in 2019 to close to 60% of GDP by 2021.

Under the baseline, government debt would progressively decrease over the projection horizon, reaching less than 55% of GDP in 2030, supported by a gradual fiscal policy adjustment and by the favourable interest – growth rate differential. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would reach a higher level than under the baseline, yet remaining on a downward path.

Under the baseline, government gross financing needs (GFN), representing almost 20% of GDP in 2020, would also decline over the projection period, reaching around 10% of GDP in 2030. Under a more adverse scenario, GFN would be only slightly higher than in the baseline.





- **Additional factors and overall assessment**

Dutch market financing conditions remain accommodative to date: recent debt issuances faced no sign of market pressures. Average yields on government debt are low by historical standards, and spreads against the 10-year German bund remain contained. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt mitigates debt vulnerabilities. A large share of debt is issued at fixed rates and the average maturity increased over the past years, dampening the effect of potential rises in financing costs and reducing rollover risks. Interest payments would remain contained by historical standards throughout the projection period, even under more adverse conditions. The composition of holders of Dutch government securities, and the Netherlands' broader attractiveness to sovereign debt investors as an advanced economy with a moderate government debt level, as well as the strongly positive Net International Investment Position (NIIP), constitute other mitigating factors. Yet, some degree of uncertainty related to contingent liability risks stemming from the private sector, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis, is present.

Overall, the debt sustainability assessment indicates that the debt position remain sustainable over the medium-term, also given important mitigating factors (including the debt profile). In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

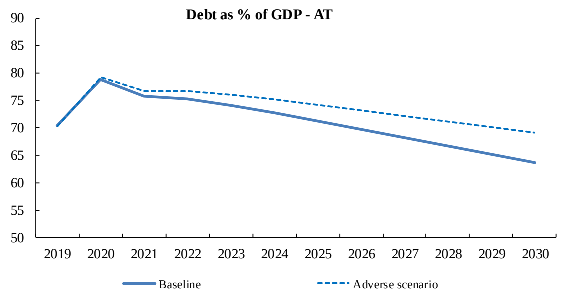
DSA – Austria

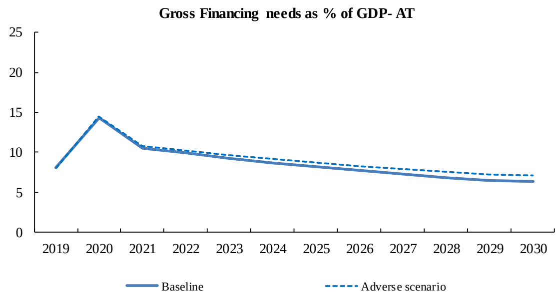
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with a 5½% drop in GDP in 2020 followed by a rebound of 5% in 2021. The fiscal deficit is projected at around 6% of GDP in 2020, narrowing to below 2% of GDP in 2021. In that context, the Austrian government debt should increase from around 70% of GDP in 2019 to around 75% of GDP by 2021.

Under the baseline, government debt would progressively decline over the projection horizon, to below 65% of GDP in 2030, supported by a gradual fiscal policy adjustment and by the favourable interest – growth rate differential. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would remain on a downward path, yet reaching a higher value, at almost 70% of GDP in 2030, than under the baseline.

Under the baseline, government gross financing needs (GFN), representing less than 15% of GDP in 2020, would also decline over the projection period, reaching 6% of GDP in 2030. Under a more adverse scenario, GFN would still diminish, but would reach a slightly higher value than in the baseline.





- **Additional factors and overall assessment**

Austrian sovereign financing conditions remain accommodative to date: recent debt issuances faced no sign of market pressures, with high bid-to-cover ratios, in line with previous months' issuances. Market interest rates are low by historical standards, and among the lowest across euro area countries. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt and the external position mitigate debt vulnerabilities. The average maturity increased over the past years, dampening the effect of potential rises in financing costs and reducing rollover risks. Interest payments would remain contained by historical standards throughout the projection period, even under more adverse conditions. The positive Net International Investment Position (NIIP) constitutes an additional mitigating factor. Yet, some degree of uncertainty is related to contingent liability risks stemming from the private sector, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis.

Overall, the debt sustainability assessment indicates that the debt position remains sustainable over the medium-term, also given important mitigating factors (including the debt profile). In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

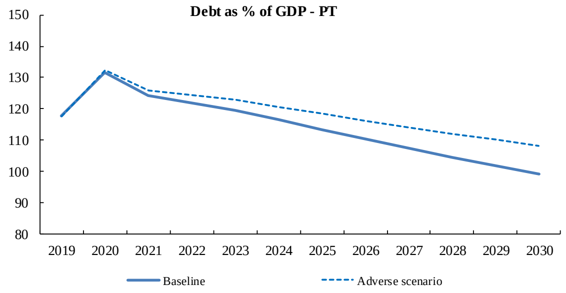
DSA - Portugal

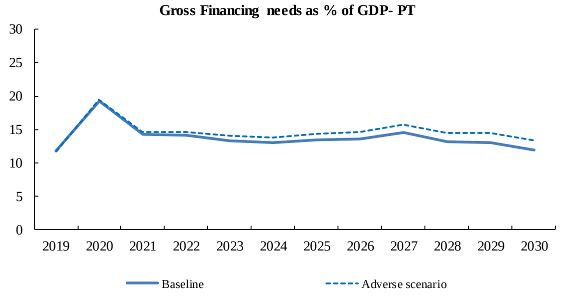
- **Government debt and gross financing needs projections**

The Commission 2020 spring forecast expects the COVID crisis to produce a large economic impact, with a drop in GDP of close to 7% in 2020 followed by a rebound of close to 6% in 2021. On that basis, the fiscal deficit is projected at 6½% of GDP in 2020, narrowing down to around 2% of GDP in 2021. In that context, the Portuguese government debt would increase from more than 115% of GDP in 2019 to more than 120% of GDP by 2021.

Under the baseline, government debt would substantially decline over the projection horizon, reaching around less than 100% of GDP in 2030, supported by a gradual fiscal policy adjustment and by a favourable interest-growth rate differential. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bps. higher interest rates combined with 0.5 pps. lower GDP growth), the debt ratio would remain on a downward but more gradual path, reaching above 105% of GDP in 2030.

Under the baseline, government gross financing needs (GFN), representing close to 20% of GDP in 2020, would decline over the projection period, reaching less than 12% of GDP in 2030. Under a more adverse scenario, GFN would still diminish, although somewhat less than in the baseline.





- **Additional factors and overall assessment**

Portuguese market financing conditions remain favourable to date: they reflect a steady improvement that has secured ‘investment’ grade ratings since October 2018, while official loans have a smooth redemption profile and are being repaid ahead of schedule. Yields are low by historical standards and the yield spread relative to the 10-year German Bund has remained contained. Sizeable Treasury liquidity buffers cover a significant share of the upcoming financing needs. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt mitigates debt vulnerabilities. The average maturity has remained high (around 8 years), containing the effect of potential rises in financing costs and reducing rollover risks. The implicit interest rate would remain low by historical standards throughout the projection period, even under more adverse conditions. Further diversification of the investor base, including an increase in the share of debt held by residents, also contributes to the resilience of the debt position to global market fluctuations. Yet, the negative Net International Investment Position (NIIP) and contingent liability risks stemming from the private sector and some public corporations, including via the possible materialisation of the state guarantees to firms and self-employed during the COVID-19 crisis, represent sources of vulnerability.

Overall, the debt sustainability assessment indicates that notwithstanding risks, the debt position remains sustainable over the medium term, also given important mitigating factors notably linked to the debt profile. Importantly, if the government debt position deteriorates as a result of the COVID-19 crisis in the short term, the debt-to-GDP ratio in the baseline is still expected to be on a sustainable (declining) trajectory over the medium term.

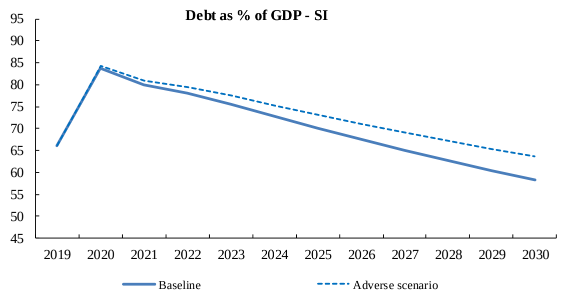
DSA – Slovenia

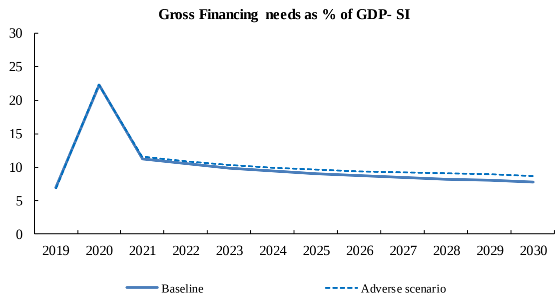
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with a 7% drop in real GDP in 2020 followed by a rebound of 6¾% in 2021. The fiscal deficit is foreseen at 7¼% of GDP in 2020 and at 2% of GDP in 2021. In that context, the Slovenian government debt should increase from 66% of GDP in 2019 to 80% of GDP by 2021.

Under the baseline, government debt would progressively decline over the projection horizon, reaching less than 60% of GDP in 2030, supported by a gradual fiscal policy adjustment and a favourable interest-growth differential. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would set on a higher path, yet still declining to reach above 60% of GDP in 2030.

Under the baseline, government gross financing needs (GFN), representing 22¼% of GDP in 2020, would also decline over the projection period, reaching less than 8% of GDP in 2030. Under a more adverse scenario, GFN would diminish only slightly less.





- **Additional factors and overall assessment**

Market conditions for financing debt remain accommodative: Slovenia has not faced difficulties with recent bonds' issuances, with all issuances oversubscribed. The debt principal for bonds maturing in 2020 has been already financed in January 2020. The available cash buffers would broadly cover the remaining GFN for 2020. Yields on government bonds remain low by historical standards, although they have increased since January 2020. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The government debt profile mitigates vulnerabilities. Nearly all government debt is long-term, held domestically, and issued at fixed interest rate, thus dampening the effect of potential rises in financing costs and reducing rollover risks. The average weighted maturity of government debt increased over recent years, to reach more than 9 years recently. Yet, some uncertainties need to be recognised. The Net International Investment Position (NIIP) is negative but improving, while contingent liability risks may stem from the private sector, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis.

Overall, the debt sustainability assessment indicates that notwithstanding some risks, the debt position remains sustainable over the medium-term, also given important mitigating factors (including the debt profile). In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.

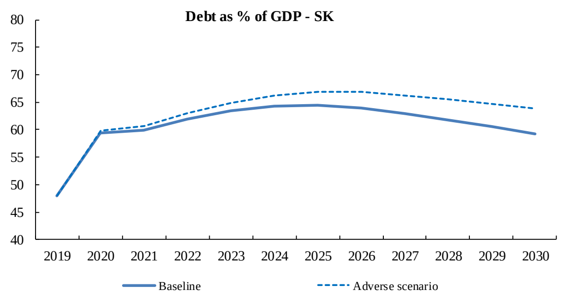
DSA – Slovakia

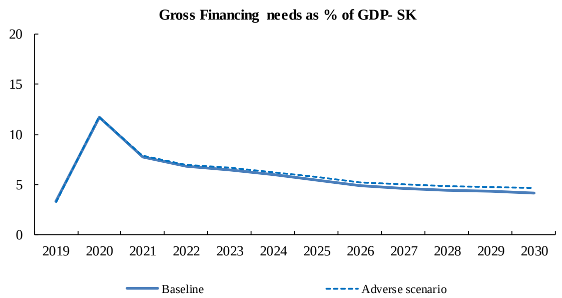
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with a 6¾% drop in GDP in 2020 followed by a rebound of 6½% in 2021. The fiscal deficit is foreseen at 8½% of GDP in 2020 and 4% of GDP in 2021. In that context, the Slovak government debt should increase from close to 50% of GDP in 2019 to close to 60% of GDP by 2021.

Under the baseline, government debt would be relatively stable at a moderate level over the projection horizon, supported by the favourable interest – growth rate differential and a gradual fiscal policy adjustment. The debt-to-GDP ratio would remain at a moderate level, below 60% of GDP in 2030. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would reach a slightly higher level at above 60% of GDP in 2030.

Under the baseline, government gross financing needs (GFN), representing some 12% in 2020, would decline over the projection period, reaching less than 5% of GDP in 2030. Under a more adverse scenario, GFN would be only slightly higher than in the baseline.





- **Additional factors and overall assessment**

Slovak market financing conditions remain in a good position to date: recent debt issuances faced no sign of market pressures. Yields on 10-year bonds are still low by historical standards, and spreads against the 10-year German bund remain contained. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt mitigates debt vulnerabilities. A large share of debt is issued at fixed rates and the average maturity increased over the past years, dampening the effect of potential rises in financing costs and reducing rollover risks. Interest payments would remain contained by historical standards throughout the projection period, even under more adverse conditions. The significant share of government securities held by residents also contributes to the resilience of the debt management to global market fluctuations. Yet, some degree of uncertainty is related to contingent liability risks stemming from the private sector, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis.

Overall, the debt sustainability assessment indicates that notwithstanding some risks, the debt position remain sustainable over the medium-term, also given important mitigating factors (including the debt profile). In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable trajectory over the medium term.

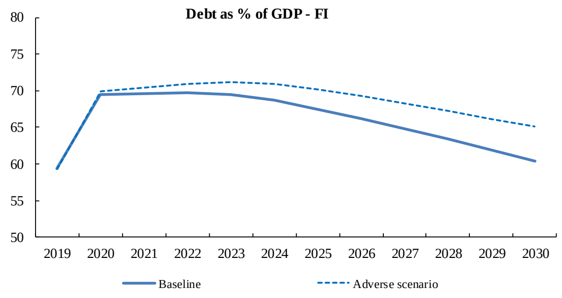
DSA - Finland

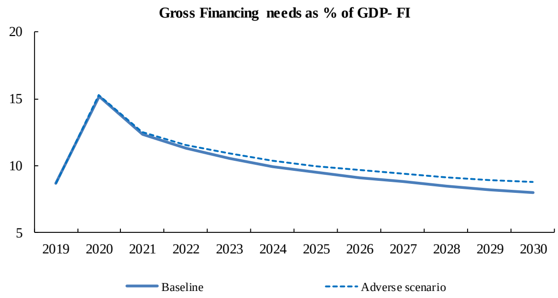
- **Government debt and gross financing needs projections**

Based on the Commission 2020 spring forecast, the COVID crisis is expected to produce a large economic impact, with 6¼% drop in GDP in 2020 followed by a rebound of 3¾% in 2021. The fiscal deficit is foreseen at around 7½% of GDP in 2020, narrowing down to around 3½% of GDP in 2021. In that context, the Finnish government debt should increase from less than 60% of GDP in 2019 to close to 70% of GDP by 2021.

Under the baseline, government debt would progressively decline over the projection horizon, reaching 60% of GDP in 2030, supported by a gradual fiscal policy adjustment and by the favourable interest – growth rate differential. The debt trajectory is sensitive to macroeconomic shocks: under more adverse macro-financial conditions (500 bp. higher interest rates combined with 0.5 pp. lower GDP growth), the debt ratio would remain on a downward path, yet reaching a higher value, at 65% of GDP in 2030, than in the baseline.

Under the baseline, government gross financing needs (GFN), representing around 15% of GDP in 2020-21, would also decline over the projection period, reaching 8% of GDP in 2030. Under a more adverse scenario, GFN would be only slightly higher than in the baseline.





- **Additional factors and overall assessment**

Finnish financing conditions remain accommodative to date: recent debt issuances faced no sign of market pressures, with bid-to-cover ratios in line with auctions in previous months. Yields on 10-year bonds are still low by historical standards, and spreads against the 10-year German bund remain contained. Large Treasury liquidity buffers enabled covering recent financing needs without difficulty. Going forward, asset purchases by the Eurosystem on the secondary market (as part of the Pandemic Emergency Purchase Programme and the Public Sector Purchase Programme) are expected to contribute to stabilising the sovereign debt markets in the euro area.

The profile of government debt and the external position mitigate debt vulnerabilities. Almost all debt consists of long-term bonds issued at fixed rates. The average maturity remained stable (at over 6 years) over the past years, reducing rollover risks. Finland’s effective financing costs decreased to less than 1% in 2019. Interest payments would remain contained by historical standards throughout the projection period, even under more adverse conditions. The recent steep increase of liquidity buffers also contributes to the resilience of the debt position to global market fluctuations. The close-to-balance Net International Investment Position (NIIP) constitutes an additional mitigating factor. Some degree of uncertainty is also related to contingent liability risks stemming from the private sector, including the materialisation of state guarantees to firms and self-employed granted during the COVID-19 crisis.

Overall, the debt sustainability assessment indicates that notwithstanding some risks, the debt position remains sustainable over the medium-term, also given important mitigating factors (including the debt profile). In particular, if the government debt position has deteriorated as a result of the COVID-19 crisis, the debt-to-GDP ratio in the baseline is expected to be on a sustainable (declining) trajectory over the medium term.