BRIEFING

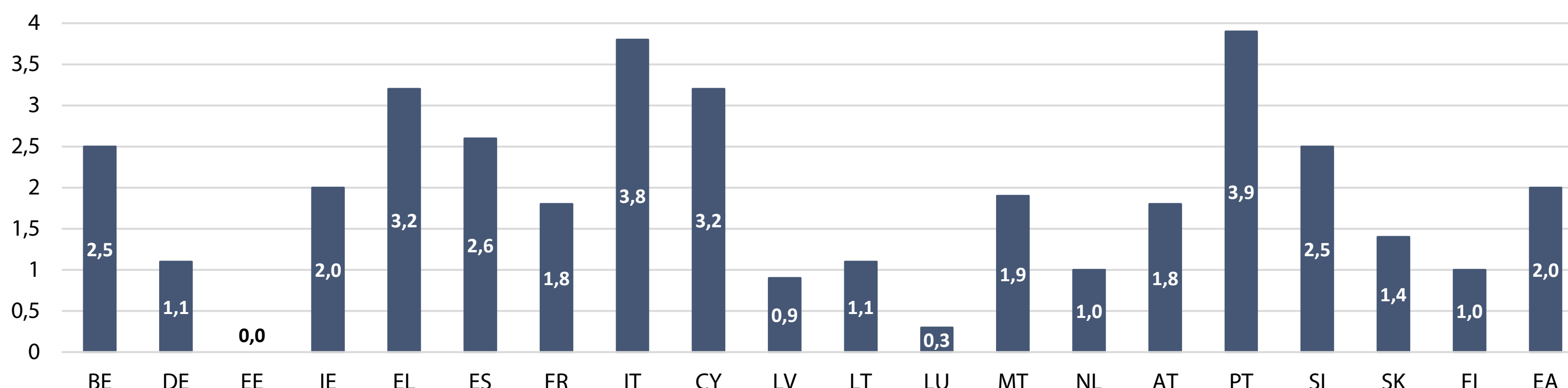
Public finances in Euro Area Member States: selected indicators

This document presents selected indicators on public finance for the Euro Area Member States and the Euro Area as a whole for 2017 (estimates) and in 2018 (forecasts). For each indicator, a short explanation and the source used is provided. A final section provides a summary on how the sustainability of public debt is assessed by European and international institutions.

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

- Estonia was the country with the lowest **debt-to-GDP ratio** (9%), and Greece the one with the highest (178.6%) in 2017.
- Spain was the country with the highest **budget deficit** (3.1% of GDP), and Malta the one with the **highest budget surplus** (3.9% of GDP) in 2017.
- Greece had the highest **structural budget surplus** (4% of GDP) and Spain had the highest **structural budget deficit** (3%) in 2017.
- Estonia had the lowest expenditure for **interest on public debt** (0% of GDP), and Portugal had the highest (3.9% of GDP) in 2017.
- In terms of **Gross Financing Needs** for 2018, Italy shows the highest requirement (22.1% of GDP), and Luxembourg the lowest one (0.3% of GDP).
- According to the latest assessment by the European Commission, the following Member States present high **risk of fiscal sustainability in the medium term:** Belgium, Spain, France, Italy and Portugal **(**Greece was not part of this assessment).

Chart: Expenditure for interest payments on public debt, as % of GDP - 2017 (Source: Eurostat)



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EN

Member State	Government Debt % GDP		Government Surplus/deficit % GDP		Government Structural balance % potential GDP		Government Expenditure for Interest on public debt % GDP		Holders of government debt % of total government debt June 2018			Yield on sovereign bonds (10 years)	GDP Growth (y-o-y)	Gross Financing Needs % GDP[3]	Medium-term fiscal sustaina-bility[4]
	2017	2018[1]	2017	2018[1]	2017	2018[1]	2017	2018[1]	Non-residents	Domestic Financial Institutions (incl. central bank)	Domestic Households and Companies	August 2018	2017	2018[1]	
BE	103.1	101.5	-1.0	-1.1	-1.3	-1.4	2.5	2.3	52.0	44.2	3.8	0.71	1.7	17.4	High
DE	64.1	60.2	1.3	1.2	1.5	1.2	1.1	1.0	49.5	48.6	1.9	0.29	2.2	3.5	Low
EE	9.0	8.8	-0.3	0.0	-1.2	-1.3	0.0	0.1	62.3	36.7	1.0	:	4.9	:	Low
IE	68.0	65.6	-0.3	-0.2	-0.1	-0.6	2.0	1.7	59.6	29.6	10.9	0.86	7.2	7.0	Low
EL	178.6	177.8	0.8	0.4	4	2.5	3.2	3.3	80.8[2]	:	:	4.18	1.4	10.3	:
ES	98.3	97.6	-3.1	-2.6	-3	-3.3	2.6	2.4	44.1	55.5	0.4	1.40	3.0	17.2	High
FR	97.0	96.4	-2.6	-2.3	-2.1	-2.1	1.8	1.7	49.9	47.9	2.2	0.70	2.2	10.1	High
IT	131.8	130.7	-2.3	-1.7	-1.7	-1.7	3.8	3.6	32.3	62.1	5.7	3.16	1.6	22.2	High
CY	97.5	105.7	1.8	2.0	1.4	0.8	3.2	3.0	82.2	14.2	3.7	2.22	4.2	7.4	Medium
LV	40.1	37.0	-0.5	-1.1	-1.2	-1.9	0.9	0.8	67.6	24.0	8.4	0.95	4.5	1.8	Low
LT	39.7	36.0	0.5	0.5	-0.6	-0.7	1.1	0.8	73.3	24.0	2.7	0.31	3.8	6.1	Medium
LU	23.0	22.6	1.5	0.9	1.8	0.8	0.3	0.3	42.7	56.4	0.9	0.47	2.3	0.3	Low
MT	50.8	47.1	3.9	1.1	3.5	0.6	1.9	1.6	12.2	62.1	25.7	1.46	6.7	3.0	Low
NL	56.7	53.5	1.1	0.7	0.5	-0.1	1.0	0.8	35.9	62.4	1.8	0.47	2.9	6.7	Low
AT	78.4	74.8	-0.7	-0.5	-0.6	-0.8	1.8	1.6	67.1	32.5	0.5	0.60	2.6	6.2	Medium
PT	125.7	122.5	-3.0	-0.9	-1.1	-1.1	3.9	3.5	54.0	33.2	12.7	1.82	2.8	13.2	High
SI	73.6	69.3	0.0	0.5	-0.6	-1.1	2.5	2.0	66.0	33.1	0.4	0.77	4.9	5.0	Medium
SK	50.9	49.0	-1.0	-0.9	-1	-1.2	1.4	1.3	57.5	41.8	0.8	0.92	3.2	8.2	Low
FI	61.4	60.4	-0.6	-0.7	-0.1	-0.8	1.0	0.9	67.4	30.7	1.9	0.56	2.8	7.3	High
EA-19	88.6	86.5	-0.9	-0.7	-0.6	-0.8	2.0	1.8	:	:.	:	:	2.4	:	

Notes: (1) forecast; (2) for EL, complete data are not available: 80.8 corresponds to loans; (3) the GFN for EL, ES, IE, PT and CY figures exclude loans; (4) European Commission assessment in 2018. *Please see the table overleaf for more information on definitions and sources.*

Indicator	Definition/Explanation	Source
Government debt	The government debt is defined as the total consolidated gross debt at nominal value at the end of the year in the following categories of government liabilities: currency and deposits, debt securities and loans. The aggregate for Euro Area is non-consolidated: it includes EUR 234.6 billion of intergovernmental loans (bilateral and through EFSF, to Greece, Ireland and Portugal).	Eurostat and European Commission Spring 2018 Forecast, Table 42
Government surplus/deficit	The government surplus/deficit is the difference between its revenues and expenditures.	Eurostat and European Commission Spring 2018 Forecast, Table 36
Government structural 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.	AMECO and European Commission Spring 2018 Forecast, Table 41
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.	Eurostat, and European Commission Spring 2018 Forecast, Table 37
Holders of government debt	Domestic financial institutions include the Central Bank, the domestic banks and domestic non-monetary financial institutions (insurance companies, pension funds, monetary funds, investment funds). For detailed data on shares of sovereign bonds held by domestic banks, see ECB Greece: complete data are not available; 80.8 corresponds to loans, mostly held by EFSM/EFSF/ESM.	Eurostat: Structure of government debt (gov_10dd_sgd)
Yield on sovereign bonds	Long-term interest rates: percentage per year, secondary market yields of government bonds with maturities of close to ten years. Estonia does not have such securities.	ECB: Harmonised long-term interest rates for convergence assessment purposes
GDP growth	Percentage change of GDP on previous year (2016), real.	Eurostat: Annual national accounts (nama10)
Gross Financing Needs	Data reported here are the sum of maturing debt (government securities) and budget deficit for 2018. Figures may exclude loans, which could be relevant in countries that have received financial assistance during the economic and financial crisis (Greece, Portugal, Ireland, Spain, and Cyprus). For Greece, Latvia and Luxembourg, the source is ECB. *For more information on GFN, please see next page.*	IMF, Fiscal Monitor 2018, Table A23; and ECB: Debt securities issuance and service by EU governments
Medium Term Debt Sustainability	The assessment relies on the joint use of the European Commission Debt Sustainability Analysis and an indicator that shows the additional adjustment required over next 5 years to reach 60% public debt-to-GDP ratio by 2032, including financing for additional expenditure due to population ageing. *Please see note in the last page.*	European Commission, Debt Sustainability Monitor 2017, Table 1

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.
The IMF, the COM 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, financial conditions and policy variables (i.e. budgetary decisions, including expenditures, revenues and privatisations).

For the assessment of the debt sustainability, **two indicators** are typically 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;
- The general government **Gross Financing Needs-to-GDP (GFN-to-GDP)**, which quantifies the country's debt payment obligations (principal plus interests, plus new primary deficit), in relation to its economy. This indicator takes into account the debt structure (i.e. maturity, interest rates and interest deferrals).

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

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

- As to the debt-to-GDP ratio, thresholds appear to vary across countries, depending on macroeconomic fundamentals and debt management capacities (e.g. Argentina defaulted when its debt was around 60% of GDP, while Japan continues to sustain debt of more than 200% of GDP). The IMF benchmark is set at 85%.
- Regarding the GFN-to-GDP indicator, the IMF guidelines (p. 32) indicate that the ratio 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*."

A recent ESM publication 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.

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