EXECUTIVE SUMMARY

1. MONITORING DEBT SUSTAINABILITY RISKS REMAINS ESSENTIAL

The EU economy has closed the gap with its pre-pandemic output levels in 2021 on the back of successful vaccination campaigns and decisive policy support, though exceptional uncertainties and downside risks loom ahead

After a severe recession in 2020 prompted by an unprecedented pandemic, the EU economy strongly rebounded in 2021, with a GDP growth rate of 5%, higher than expected in earlier Commission forecast. ([1]) This vigorous rebound was largely driven by the successful vaccination campaigns in many EU countries, allowing a progressive easing of restrictions since last spring. In early November, economic activity in the EU was projected to expand solidly in 2022, notably supported by the full deployment of the Recovery and Resilience Facility (RRF). In 2023, real GDP growth was expected to remain robust at 2½%. Thanks to the strong and well-coordinated EU crisis response, the damage to the EU economy so far appears considerably less than initially feared. This report is based on the Commission Autumn forecast. Since then, the invasion of Ukraine by Russia has been a watershed moment, increasing risks surrounding the economic outlook. Specifically, the strength of the recovery remains dependent on future developments related to the COVID-19 and, importantly, to the geopolitical situation. Amid high uncertainty, economic risks notably relate to the aggravating and protracted supply constraints and bottlenecks, as well as surging energy and food prices constraining growth and fuelling inflationary pressures.

Public finances took a serious hit

In 2020, the sharp economic downturn and forceful fiscal policy response led to an unprecedented increase in headline deficit and debt ratios in the EU. In particular, the EU aggregate government deficit increased from a historically low of around 0.5% of GDP in 2019 to around 7% in 2020. It is forecast to have narrowed marginally in 2021, notwithstanding continued discretionary fiscal measures to shelter households, workers and firms from the impact of the COVID-19. On the basis of the Commission Autumn forecast, the aggregate budget deficit in the EU is forecast to halve in 2022, and on an unchanged policy basis, further decrease to 2.2% in 2023. The aggregate government debt-to-GDP ratio of the EU rose by over 13 pps. in 2020, reaching around 92%, mirroring the spike in deficits, as well as temporary unfavourable interest-growth rate differential (snowball) effect. The EU aggregate debt ratio in the EU is expected to only slightly decline by 2023, but it should remain (well) above 100% of GDP in six Member States (Belgium, Greece, Spain, France, Italy, and Portugal). The invasion of Ukraine by Russia significantly increased risks surrounding this outlook, with an expected increase of defence spending and necessary accompanying measures to cushion the impact of the crisis (e.g. heightened energy prices) and support energy diversification.

NextGenerationEU is expected to improve the quality of public finances and lift potential growth over the short- and medium term

NextGenerationEU (NGEU) allows supporting all Member States, in particular those hardest hit by the COVID-19, with a €806.9 billion fund. ([2]) Its centre piece, the Recovery and Resilience Facility (RRF), which entered into force in February 2021, provides financing support to reforms and investments in Member States until end 2026. In particular, the RRF aims at making European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. This joint, coordinated action at the European level, benefits all

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([1]) European Commission (2021a).
([2]) In current (2021) prices, representing more than 5½% of 2021 GDP.

Member States, not least due to significant spillover effects across countries. [3] In particular, the RRF is expected to strengthen the quality of public finances, and to lift potential growth over the short- and medium-term, thus contributing to reducing debt sustainability risks.

Favourable financing conditions have allowed sustaining higher levels of debt than in the past

Financing conditions have dramatically improved over the past decades, consistently with a trend decline of interest rates. They temporarily deteriorated at the onset of the COVID-19 outbreak. Thus, despite historically elevated debt ratios, interest payments have continued to decrease, with the interest-growth rate differential ('r-g') turning negative before the COVID-19 crisis on average and for most EU countries. While future macro-financial developments remain uncertain, the low interest rate environment is the result of several factors: ageing societies, lower trend productivity growth and excess savings on the one hand; 'unconventional' monetary policies of central banks on the other hand. This differential is expected to remain negative going forward, but the COVID-19 crisis, the Russian war of aggression against Ukraine and exceptional uncertainty on the economic outlook make it extraordinarily difficult to predict the future development of the interest-growth rate differential.

Future macro-financial developments are uncertain

In this context, some leading economists have argued that higher debt levels can be more easily sustained than in the past. [4] Yet, historically, a negative 'r-g' has not prevented the occurrence of debt sustainability problems or debt crises. [5] Importantly, neither the growth rate of the economy, nor prevailing interest rates are independent from the level of debt. [6] As debt increases, the convenience value of public debt is expected to decrease. The rise in the cost of servicing debt would then shrink the value of future deficits that the private sector is willing to finance indefinitely, meaning that higher debt must be repaid by taxation. [7] This needs to be borne in mind in a context where population ageing and climate change are expected to put additional pressures on public finances. Hence, a negative 'r-g' reduces fiscal sustainability challenges at a given level of debt, but does not eliminate them. In this context, assessing fiscal sustainability risks appears particularly critical at the current juncture.

2.   FSR 2021: METHODOLOGY AND USE

The report updates the assessment of fiscal sustainability risks compared with the DSM 2020

This edition of the Fiscal Sustainability Report (FSR 2021) provides an update of fiscal sustainability risks faced by Member States, previously assessed in the Debt Sustainability Monitor (DSM) 2020. It offers a snapshot of the situation, based on the latest available Commission macroeconomic and fiscal forecast (Autumn 2021). [8] The assessment also relies on the Economic Policy Committee (EPC) commonly agreed methodology to project medium-term GDP growth, [9] adjusted for the expected impact from NextGenerationEU (NGEU) investment (see below). Last, it reflects agreed

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[3] Pfeiffer et al. (2021).
[4] Blanchard (2019).
[5] Mauro. and Zhou (2020).
[6] Pamies et al. (2021).
[7] Reis (2021).
[8] The Winter forecast published by the European Commission in February is an interim forecast, only providing an update of GDP growth and inflation forecast.
[9] The so-called T+10 methodology commonly agreed with the Output Gap Working Group (OGWG), see Havik et al. (2014).

long-term economic and budgetary projections from the joint European Commission - EPC 2021 Ageing Report.

Fiscal sustainability risks faced by Member States are assessed according to the comprehensive horizontal fiscal sustainability framework used in the previous reports, [10] including some methodological improvements. This framework brings together in a synthetic way results on debt sustainability analysis (DSA) and fiscal sustainability indicators. It allows gaining a horizontally consistent overview of fiscal sustainability risks across time horizons (short, medium and long term) and across countries, based on a set of transparent criteria.

The report benefits from some important methodological improvements

The FSR 2021 contains some important methodological improvements. *First*, the baseline assumptions have been refined, in particular, by increasing the consistency between assumptions for interest rates and inflation rates (both of which now reflect financial market expectations). Moreover, owing to the substantial expected impact from NGEU over the medium-term, the standard 'T+10' GDP growth projections have been adjusted to reflect the NGEU investment spending profile over 2024-26. [11] *Second*, some adjustments have been brought to the DSA tool, notably reflecting the post-COVID-19 crisis environment, and latest advances in DSA frameworks in other international institutions. [12] The set of stress tests has been refined, to better account for risks linked to possible financial stress and to a moderate increase of the 'r-g' differential. The DSA risk classification has also been revised to further reflect the importance of the debt trajectory, of 'fiscal consolidation space' (comparing the current fiscal position with the historical performance of each Member State), [13] and the uncertainty surrounding baseline projections through an increased role given to stochastic projections in the assessment. Last, but not least, contrary to previous editions, the results for Greece included in the report are based on the same horizontal approach used for other countries.

The FSR 2021 also explores new topics

In this edition of the FSR, several new topics are discussed in thematic chapters. A *first* thematic chapter discusses how the expected impact of NGEU investment on GDP growth and debt projections is integrated in the medium-term analysis. A *second* chapter presents a framework and some first stylised simulations to illustrate fiscal risks due to extreme weather and climate-related events, which are expected to increase in frequency and severity in the next decades as a result of climate change. [14] Lastly, a *third* chapter summarises the debate and discusses the latest developments in the 'r-g' differential, as well as the implications of a moderate reversal of (pre-crisis) favourable trends.

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[10] In particular, as in the FSR 2018 and the DSM 2019, the baseline relies on a 'no-fiscal policy change' scenario, whereby the structural primary balance is assumed to remain constant at its last forecast value (2023), being only modified by projected ageing costs over the medium- and long-term. On the other hand, due to the exceptional crisis circumstances, the DSM 2020 assumed a gradual return of the structural primary balance to the pre-crisis forecast level. This round, as EU economies are expected to have fully recovered by 2023 to their pre-pandemic GDP levels, the standard baseline fiscal assumption is applied.

[11] This adjustment is based on the Quest model (see thematic Chapter 1 of the report).

[12] See IMF (2021).

[13] So far, the projected debt level played a major role in the overall medium-term fiscal risk assessment.

[14] This analysis is meant to complement the assessment of fiscal sustainability challenges, but is not incorporated at this stage in the horizontal assessment framework (notably in the risk classification).

The FSR results are used in the context of EU regular surveillance, ranging from standard monitoring to financial assistance

The Commission analysis of fiscal sustainability challenges presented in this report contributes to the monitoring and coordination of Member States' fiscal policies. It plays a key role in the context of the SGP [15] and of the European Semester, the EU integrated surveillance framework, including for the formulation of structural-fiscal country-specific recommendations and for post-programme surveillance. These results also provide the starting point for the assessment of debt sustainability in the framework of financial assistance. [16]

3. KEY RESULTS

Short-term fiscal risks have receded, but vulnerabilities remain in few countries

Still significant fiscal deficits in 2021 and a halt in the correction of macroeconomic imbalances, as a result of the COVID-19 crisis, [17] imply that short-term risks of fiscal stress are identified in few countries. According to the early-warning indicator used by the European Commission, the S0 indicator, Greece and Cyprus are found to face such short-term vulnerabilities, due to both fiscal and macro-financial variables. Nonetheless, the overall situation appears decidedly less critical than during the Global Financing Crisis (GFC). In 2009, S0 flagged short-term risks of fiscal stress in as many as seventeen countries, notably due to severe macroeconomic imbalances. The extraordinary monetary policy interventions put into place since March 2020, together with decisive EU policy actions, including the adoption of NextGenerationEU in 2020, have contributed to stabilising sovereign financing conditions so far, lessening risks of short-term fiscal stress. Such favourable support should remain significant going forward, notwithstanding a gradual winding down of Eurosystem asset purchases dependent on the evolving assessment of the outlook (see Chapter 1).

Government debt is expected to remain fairly high over the medium term at unchanged policies

In the EU as a whole, *at unchanged fiscal policy*, [18] government debt is projected to decline as a ratio to GDP until the mid-2020s, when the rising cost of ageing would reverse the trend. Hence, by 2032, the debt ratio would remain close to its 2023 forecast value (around 90% of GDP). The 'r-g' differential is assumed to remain negative over the next decade, [19] supporting the initial debt reduction and dampening the projected increasing pressure of ageing costs on public finances. At the same time, the debt paths envisaged in the baseline assume the persistence of the current negative structural primary balance (SPB), low by historical standards, suggesting sizeable 'fiscal consolidation space' in most countries. [20] Alternative

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[15] See FSR 2018 for a detailed description of the multiple roles of this analysis in the context of the SGP. Moreover, according to the 'general escape clause', "in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective, *provided that this does not endanger fiscal sustainability in the medium term*". (see https://ec.europa.eu/info/sites/info/files/economy-finance/2_en_act_part1_v3-adopted_text.pdf).

[16] See European Commission - ESM (2021): https://ec.europa.eu/info/sites/default/files/economy-finance/swp_on_dsa_financial_assistance.pdf.

[17] However, the narrowing of macroeconomic imbalances, observed prior to the COVID-19 crisis, is expected to resume going forward with the recovery during 2021.

[18] In this report, the baseline 'no-fiscal policy change' scenario assumes that the structural primary balanced is only modified by projected (net) ageing costs beyond the last forecast year (i.e. 2023).

[19] This assumption does not take into account the latest developments related to the war in Ukraine, notably the rise in inflation and interest rates. On the other hand, over the long term, financing conditions are assumed to normalise, with an 'r-g' differential converging to 0.5 pp. of GDP in line with the commonly agreed assumptions of the 2021 Ageing Report.

[20] This can be seen by plotting the projected SPB level against country-specific SPB values observed in the last decades. Most countries have often recorded higher SPBs than the level assumed in the baseline and can therefore plausibly aim to move again towards such levels in the coming decade, improving sustainability compared to the baseline.

scenarios show in fact that debt could fall back to its pre-crisis level by 2032 if the structural primary balance converged back to the slight surplus observed on average in the past 15 years. *Conversely*, a weaker fiscal position, a less favourable 'r-g' differential or – to a lesser extent – temporary financial stress would worsen debt dynamics. In general, stochastic projections point to considerable uncertainty over the debt trajectory in the euro area as a whole and in many Member States.

Compared to the DSM 2020, the projected government debt ratio is broadly unchanged over the medium-term, with significant cross-country differences however. On the one hand, the debt position in 2022 is generally more favourable than forecasted a year ago, notably reflecting the stronger-than-expected recovery, while the integration of the NGEU investment has a favourable impact on medium-term GDP growth and debt projections. On the other hand, the lower level of the (structural) primary balance expected by 2023, compared with the pre-crisis forecast, [21] weighs on the projected debt dynamic. This reflects the higher government expenditure ratio, resulting from permanent discretionary measures in some countries (see Chapter 2).

Medium term risks are high in eleven EU countries, medium in eight and low in eight

In terms of medium-term risk classification, the debt sustainability analysis points to ten countries being at high fiscal sustainability risk (Belgium, Greece, Spain, France, Croatia, Italy, Malta, Portugal, Slovenia and Slovakia). The results are driven by high and / or increasing baseline debt ratios (Belgium, Greece, Spain, France, Italy, Slovenia and Slovakia), [22] along with elevated uncertainty surrounding the baseline projections, as highlighted by the stochastic analysis (Portugal) and vulnerability to more adverse macro-financial conditions (Croatia), or a weaker fiscal position (Malta). The S1 indicator [23] results generally confirm this assessment, with only one additional country (Romania) classified at high risk according to this indicator. Five additional countries appear at medium risk according to the DSA (including Bulgaria, Czechia, Cyprus, Hungary and the Netherlands), with overall consistent signals across the different scenarios considered. In Bulgaria and Hungary, the DSA risk classification reflects large uncertainty (as captured by stochastic simulations). The S1 indicator points at medium risk also in Germany, Austria and Finland. Eight countries (Denmark, Estonia, Ireland, Latvia, Lithuania, Luxembourg, Poland and Sweden) are classified at low risk both according to the DSA and the S1 indicator results. [24]

Long term risks are high in nine EU countries, medium in thirteen and low in five

Over the long-term, the S2 indicator [25] points to seven Member States being at high fiscal sustainability risks (Belgium, Czechia, Luxembourg, Hungary, Malta, Slovenia and Slovakia). This risk classification is driven by a sharp projected increase of ageing costs by 2070, weighed down in most cases by the initial budgetary position. High risks over the long-term are identified in

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[21] In the DSM 2020, the structural primary balance was assumed to converge back to its pre-crisis forecast level (as per the DSM 2019), as exceptional measures adopted as a response to the COVID-19 crisis were expected to be phased-out or financed by public revenue increases.

[22] For Greece, the high projected *level* plays an important role in the classification, while the debt *trajectory* is declining. For Slovakia, the increasing debt *trajectory* contributes to the result (despite the moderated projected debt *level*). For other countries, both the level and the increasing trend drive the classification.

[23] The S1 indicator measures the required fiscal adjustment to bring the government debt-to-GDP ratio to 60% in the medium-term.

[24] In the case of Ireland however, when scaling government debt with GNI, a more accurate measure of repayment capacity in this country, medium term vulnerabilities appear more important than suggested according to the standard GDP metric.

[25] The S2 indicator measures the fiscal adjustment required to stabilise government debt in the long term.

another two countries (Spain and Italy), notably due to debt vulnerabilities. Eight further Member States are found to be at medium fiscal sustainability risk according to the S2 indicator (including Bulgaria, Germany, Ireland, the Netherlands, Austria, Poland, Romania and Finland). Medium risks over the long-term are found in another five Member States (Greece, France, Croatia, Cyprus and Portugal), reflecting vulnerabilities of the debt positions. The remaining five Member States (Denmark, Estonia, Latvia, Lithuania and Sweden) are classified at low long-term risk, on the back of projected decrease of ageing costs (Estonia and Latvia), and / or a favourable initial budgetary position (notably Denmark and Sweden). Long-term ageing cost projections are surrounded by considerable uncertainty and risks, including policy risks such as possible reform reversals or the need for measures to counteract a projected decline in pension adequacy.

Medium- and long-term fiscal sustainability risks remain elevated compared with last year

Compared with the DSM 2020, an important improvement is observed *in the short term* risk classification, notably supported by the economic recovery in 2021 - with now only two countries at risk of fiscal stress in the upcoming year (2022), against eleven countries in the DSM 2020.

Over the medium term, the number of high-risk countries has slightly increased compared with last year's assessment, with two additional countries in this category this year (at constant perimeter, considering that no classification was provided for Greece last year): Croatia (mainly on account of its debt dynamics under the 'adverse r-g' scenario) and Malta (due to the significantly worse forecast structural primary balance in 2023). Concerning the medium risk category, a net total of two more countries are classified at medium risk compared to the DSM 2020, with some changes in the composition of countries in this risk category. In particular, Bulgaria, Czechia and Germany moved from low to medium risk (notably due to the worsened fiscal assumption in the baseline), while Croatia moved from medium to high risk. As a result, four less countries are classified at low risk in the FSR 2021 compared with last year.

Over the long term, a net total of four additional countries are now deemed to face high long-term risks. Czechia, Spain, Italy, Hungary and Malta went from the medium to the high risk category, while Romania moved from high to medium risk. The deterioration for the former countries is driven by an increase of the S2 indicator, and largely reflects a worsening of the initial budgetary position (due to worsened fiscal assumptions). (^{26}) For Romania, the improvement in the risk classification also reflects a reduction of the long-term fiscal gap indicator. Three less countries are classified at medium risk, while the same number of countries is deemed at low risk in this FSR. These results largely reflect the commented downgrade from medium to high risk of five countries, another country (Poland) having moved from low to medium risk, while two further countries upgraded (Romania from high to medium risk, and Sweden from medium to low risk).

(^{26}) The revision of ageing costs (2021 Ageing Report projections versus 2018 Ageing Report projections used in the 2020 DSM) generally contributes to a more limited extent to the changes in the risk classification over the long term.

Several additional factors need to be considered in the overall assessment

Beyond the debt projections and the risk classification provided in this report, additional risk factors are analysed and considered in the overall assessment. On the downside, risks are related to the presence of contingent liabilities, notably related to government guarantees to the private sector, which have been part of the necessary policy response to the COVID-19 crisis, but also represents a source of additional vulnerability. These contingent liabilities amounted to about 14% of GDP in 2020 for the EU as a whole, with large differences across Member States. Any possible future impact on public debt and deficit crucially depends on the extent to which these guarantees are taken up by the private sector and eventually called. In the banking sector, risk reduction indicators point to further improvement up to mid-2021, in particular, regarding the level of non-performing loans' ratios. While a later increase of non-performing loans cannot be excluded, the ability of the banking sector to absorb the shock appears overall higher than during the global financial crisis. At the same time, simulations based on the Symbol model, show that in case of a more severe deterioration of the macro-financial situation, some countries would remain vulnerable to contingent liabilities' risk stemming from the banking sector (see Chapter 4).

However, on the upside, many factors contribute to mitigating debt sustainability risks across the EU, notably the lengthening of debt maturities in recent years, relatively stable financing sources (with a diversified and large investor base), and still historically low borrowing costs, supported by the Eurosystem' interventions. Moreover, the implementation of the *structural reforms* under the NGEU/RRF, not taken into account in the medium-term projections (which reflect only the investment impact), is likely to have a positive and persistent impact on overall EU GDP growth in the coming years, contributing to further mitigating debt sustainability risks of Member States.

Table 1: **Fiscal sustainability risk classification by Member States (in brackets, risk classification in the DSM 2020 whenever the risk classification has changed)**

	Overall **SHORT-TERM** risk category	Overall **MEDIUM-TERM** risk category	S1 indicator - overall risk assessment	Debt sustainability analysis - overall risk assessment	S2 indicator - overall risk assessment	Overall **LONG-TERM** risk category	
BE	LOW (HIGH)	HIGH	HIGH	HIGH	HIGH (MEDIUM)	HIGH	BE
BG	LOW	MEDIUM (LOW)	LOW	MEDIUM (LOW)	MEDIUM	MEDIUM	BG
CZ	LOW	MEDIUM (LOW)	MEDIUM (LOW)	MEDIUM (LOW)	HIGH (MEDIUM)	HIGH (MEDIUM)	CZ
DK	LOW	LOW	LOW	LOW	LOW	LOW	DK
DE	LOW	MEDIUM (LOW)	MEDIUM (LOW)	LOW	MEDIUM	MEDIUM	DE
EE	LOW	LOW	LOW	LOW	LOW	LOW	EE
IE	LOW	LOW	LOW	LOW	MEDIUM	MEDIUM	IE
EL	HIGH	HIGH	HIGH	HIGH	LOW	MEDIUM	EL
ES	LOW (HIGH)	HIGH	HIGH	HIGH	MEDIUM (LOW)	HIGH (MEDIUM)	ES
FR	LOW (HIGH)	HIGH	HIGH	HIGH	LOW	MEDIUM	FR
HR	LOW (HIGH)	HIGH (MEDIUM)	MEDIUM (LOW)	HIGH (MEDIUM)	LOW	MEDIUM	HR
IT	LOW (HIGH)	HIGH	HIGH	HIGH	MEDIUM (LOW)	HIGH (MEDIUM)	IT
CY	HIGH	MEDIUM	MEDIUM (LOW)	MEDIUM	LOW	MEDIUM	CY
LV	LOW (HIGH)	LOW	LOW	LOW	LOW	LOW	LV
LT	LOW	LOW	LOW	LOW	LOW	LOW	LT
LU	LOW	LOW	LOW	LOW	HIGH	HIGH	LU
HU	LOW	MEDIUM	MEDIUM (LOW)	MEDIUM	HIGH (MEDIUM)	HIGH (MEDIUM)	HU
MT	LOW	HIGH (LOW)	MEDIUM (LOW)	HIGH (LOW)	HIGH (MEDIUM)	HIGH (MEDIUM)	MT
NL	LOW	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	NL
AT	LOW	MEDIUM	MEDIUM (LOW)	LOW (MEDIUM)	MEDIUM	MEDIUM	AT
PL	LOW	LOW	LOW	LOW	MEDIUM (LOW)	MEDIUM (LOW)	PL
PT	LOW (HIGH)	HIGH	HIGH (MEDIUM)	HIGH	LOW	MEDIUM	PT
RO	LOW (HIGH)	HIGH	HIGH	MEDIUM (HIGH)	MEDIUM (HIGH)	MEDIUM (HIGH)	RO
SI	LOW	HIGH	HIGH (MEDIUM)	HIGH	HIGH (MEDIUM)	HIGH	SI
SK	LOW (HIGH)	HIGH	HIGH	HIGH	HIGH	HIGH	SK
FI	LOW (HIGH)	MEDIUM	MEDIUM	LOW (MEDIUM)	MEDIUM	MEDIUM	FI
SE	LOW	LOW	LOW	LOW	LOW (MEDIUM)	LOW (MEDIUM)	SE

(1) The overall short-term risk category is based on the S0 indicator results, the overall medium term risk category is based on the DSA and the S1 indicator's results, and the overall long-term risk category is based on the S2 indicator and the DSA results.
Source: Commission services.

Table 2: Summary heat map of fiscal sustainability challenges

	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
S0 overall index	0.31	0.32	0.24	0.18	0.31	0.22	0.36	0.48	0.34	0.45	0.38	0.28	0.47	0.26	0.17	0.30	0.34	0.31	0.32	0.18	0.22	0.40	0.31	0.18	0.24	0.26	0.27
Overall SHORT-TERM risk category	LOW	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	LOW	LOW	LOW	LOW	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW

Heat map for short-term risks in EU countries

	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
S1 indicator - Baseline scenario	8.4	-1.4	2.5	-5.3	0.3	-3.1	-0.6	6.8	6.2	6.3	1.6	10.3	1.0	-0.9	-1.4	-3.6	1.3	1.8	1.4	2.0	-0.6	6.7	3.9	6.0	3.2	0.0	-5.7
S1 indicator - overall risk assessment	HIGH	LOW	MEDIUM	LOW	MEDIUM	LOW	LOW	HIGH	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	MEDIUM	MEDIUM	MEDIUM	LOW	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW

Heat map for medium-term risks in EU countries — S1 indicator in EU countries
Debt sustainability analysis: Sovereign-debt sustainability risks in EU countries

	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
Baseline ('no-policy change' scenario)	HIGH	LOW	MEDIUM	LOW	LOW	LOW	LOW	HIGH	HIGH	MEDIUM	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	LOW	MEDIUM	MEDIUM	LOW	LOW	MEDIUM	MEDIUM	HIGH	HIGH	LOW	LOW
Debt level (2032)	133.6	36.4	67.1	15.6	61.6	25.7	45.7	154.7	126.1	122.3	76.7	161.6	77.8	48.8	39.4	18.2	68.1	73.2	62.8	76.3	48.3	126.2	76.9	95.2	72.2	63.9	11.2
Debt trajectory (debt peak year)	2032	2032	2032	2021	2021	2032	2021	2021	2032	2032	2021	2032	2021	2022	2023	2021	2021	2032	2032	2021	2021	2021	2032	2032	2032	2021	2021
Fiscal consolidation space (percentile rank avg SPB 2023-32)	98%	94%	81%	64%	71%	89%	65%	38%	92%	96%	48%	75%	42%	72%	35%	83%	67%	81%	92%	94%	69%	56%	81%	97%	48%	94%	60%
Stochastic projections																											
Probability of debt in 2026 greater than in 2021 (%)	66%	54%	79%	7%	27%	98%	22.2%	18%	57%	59%	21%	41%	16%	52%	38%	31%	31%	76%	44%	26%	14%	36%	71%	60%	41%	35.0%	0%
Difference of the 10th and 90th percentile in 2026 (p.p. of GDP)	37.4	50.7	28.8	19.9	26.9	9.0	31.4	64.7	40.3	21.7	28.9	42.7	43.7	34.6	30.4	28.2	43.9	27.6	28.3	32.3	17.5	58.7	42.3	27.8	31.7	24.5	9.1
Historical SPB scenario	HIGH	LOW	MEDIUM	LOW	LOW	LOW	LOW	HIGH	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	MEDIUM	MEDIUM	HIGH	HIGH	LOW	LOW
Debt level (2032)	109.7	23.7	52.1	16.4	49.5	17.0	52.8	143.0	116.7	114.3	75.7	137.2	67.8	48.1	45.3	11.1	60.7	51.5	54.7	68.9	51.2	121.0	66.4	77.4	69.5	54.5	11.6
Debt trajectory (debt peak year)	2026	2024	2032	2021	2021	2024	2021	2021	2027	2027	2021	2021	2021	2022	2023	2021	2021	2025	2021	2021	2021	2021	2032	2027	2032	2021	2021
Fiscal consolidation space (percentile rank avg SPB 2023-32)	86%	79%	33%	65%	38%	66%	77%	22%	73%	85%	48%	48%	29%	69%	53%	73%	59%	52%	83%	73%	75%	52%	75%	72%	45%	68%	60%
Adverse 'r-g' differential scenario	HIGH	LOW	MEDIUM	LOW	LOW	LOW	LOW	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW	LOW	LOW	LOW	MEDIUM	MEDIUM	LOW	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW	LOW
Debt level (2032)	143.0	38.6	71.6	17.5	66.8	27.2	48.8	165.6	136.1	131.4	82.6	174.8	83.6	52.5	42.4	19.5	73.7	78.4	67.5	81.8	51.7	136.3	82.0	101.6	76.4	68.2	12.4
Debt trajectory (debt peak year)	2032	2032	2032	2021	2021	2032	2021	2021	2032	2032	2032	2032	2021	2032	2023	2021	2021	2032	2032	2021	2021	2032	2032	2032	2032	2023	2021
Fiscal consolidation space (percentile rank avg SPB 2023-32)	86%	94%	81%	64%	71%	89%	65%	38%	92%	96%	48%	75%	42%	72%	35%	83%	67%	81%	92%	94%	69%	56%	75%	97%	48%	94%	60%
Financial stress scenario	HIGH	LOW	MEDIUM	LOW	LOW	LOW	LOW	HIGH	HIGH	MEDIUM	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	LOW	MEDIUM	LOW	LOW	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW	LOW
Debt level (2032)	135.6	36.7	67.6	15.9	62.2	25.8	45.9	159.0	128.9	124.5	77.2	167.9	78.1	49.3	39.7	18.3	68.7	73.9	63.4	76.8	48.6	128.5	77.4	95.8	72.6	64.3	11.3
Debt trajectory (debt peak year)	2032	2032	2032	2021	2021	2032	2021	2021	2032	2032	2021	2032	2021	2022	2023	2021	2021	2032	2032	2021	2021	2032	2032	2032	2032	2022	2021
Fiscal consolidation space (percentile rank avg SPB 2023-32)	98%	94%	81%	64%	71%	89%	65%	38%	92%	96%	48%	75%	42%	72%	35%	83%	67%	81%	92%	94%	69%	56%	75%	97%	48%	94%	60%
Lower SPB scenario	HIGH	LOW	MEDIUM	LOW	MEDIUM	LOW	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	MEDIUM	LOW	LOW	MEDIUM	HIGH	MEDIUM	MEDIUM	LOW	MEDIUM	MEDIUM	HIGH	MEDIUM	LOW	LOW
Debt level (2032)	141.3	39.1	76.6	34.2	79.6	33.7	59.8	184.0	126.7	134.1	78.5	173.2	90.3	77.4	52.9	18.4	82.0	94.5	75.2	86.6	50.0	127.8	83.1	103.7	84.5	70.2	16.2
Debt trajectory (debt peak year)	2032	2032	2032	2023	2032	2032	2032	2021	2032	2032	2021	2032	2021	2032	2032	2021	2032	2032	2032	2032	2021	2021	2032	2032	2032	2023	2021
Fiscal consolidation space (percentile rank avg SPB 2023-32)	100%	95%	91%	96%	96%	98%	80%	51%	92%	100%	50%	95%	75%	100%	64%	83%	74%	99%	100%	98%	70%	58%	100%	100%	65%	97%	70%
Debt sustainability analysis - overall risk assessment	HIGH	MEDIUM	MEDIUM	LOW	MEDIUM	LOW	LOW	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	HIGH	MEDIUM	MEDIUM	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW	LOW
Overall MEDIUM-TERM risk category	HIGH	MEDIUM	MEDIUM	LOW	MEDIUM	LOW	MEDIUM	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	HIGH	MEDIUM	MEDIUM	LOW	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW

Heat map for long-term risks in EU countries

	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
S2 indicator - Baseline scenario	7.8	3.4	7.7	-0.5	2.6	0.5	5.7	-2.5	2.2	1.8	1.3	2.1	1.9	0.7	1.7	7.1	6.1	10.2	5.3	3.5	3.5	0.0	4.7	12.1	10.6	3.0	0.8
Debt sustainability analysis - overall risk assessment	HIGH	MEDIUM	MEDIUM	LOW	MEDIUM	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	HIGH	MEDIUM	LOW	LOW	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW	LOW
Overall LONG-TERM risk category	HIGH	MEDIUM	HIGH	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	HIGH	MEDIUM	MEDIUM	HIGH	MEDIUM	LOW	LOW	HIGH	HIGH	HIGH	MEDIUM	MEDIUM	LOW	MEDIUM	MEDIUM	HIGH	HIGH	MEDIUM	LOW

Source: Commission services.

Table 3: **Fiscal sustainability challenges in EU Member States**

Member State	Fiscal sustainability risk assessment
BE	**Short-term risks: low.** Overall, the S0 indicator does not signal major short-term fiscal risks. Gross financing needs are high in the short term, though financing conditions should remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: high.** Over the medium term, fiscal sustainability risks are high overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 113% of GDP, is projected to continue rising, reaching 134% of GDP in 2032 in the baseline. The sensitivity to possible macro-fiscal shocks confirms this assessment. **Long-term risks: high.** Over the long term, both the sustainability gap indicator S2 and the DSA point to high risks. The S2 indicator mainly captures vulnerabilities linked to the high debt burden and to budgetary pressures stemming from population ageing.
BG	**Short-term risks: low.** Overall, the S0 indicator does not signal major short-term fiscal risks. Gross financing needs should still be contained in the short term. Yet, sovereign financing conditions are expected to remain favourable. **Medium-term risks: medium.** Over the medium term, fiscal sustainability risks appear to be medium overall, based on low risks from the sustainability gap indicator S1 and medium risks from a debt sustainability analysis (DSA) perspective. Government debt, currently at 27% of GDP, is projected to continue rising, reaching around 36% of GDP in 2032 in the baseline. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Over the long term, medium risk from the sustainability gap indicator S2, combined with medium vulnerabilities from the DSA contribute to the overall assessment. The S2 indicator mainly captures risks linked to the unfavourable initial budgetary position and costs of ageing.
CZ	**Short-term risks: low.** No overall short-term vulnerabilities are identified for Czechia, according to the S0 indicator. However, gross financing needs have significantly increased compared with the pre-crisis situation. Sovereign financing conditions are expected to remain favourable. **Medium-term risks: medium.** Medium-term fiscal sustainability risks appear medium overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 42% of GDP, is projected to rise, reaching around 67% of GDP in 2032 in the baseline. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: high.** Long-term fiscal sustainability risks appear high overall, combining the high risk according to the sustainability gap indicator S2 and the medium risk from a DSA perspective. The S2 long-term sustainability gap indicator points to risk linked to budgetary pressures stemming from population ageing and the initial budgetary position.

Table (continued)

DK	**Short-term risks: low.** Overall, no short-term vulnerabilities are identified for Denmark, according to the S0 indicator. Gross financing needs should be low in the short term. Sovereign financing conditions are expected to remain favourable.
	Medium-term risks: low. Over the medium term, fiscal sustainability risks appear to be low overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 41% of GDP, is projected to decrease in the baseline, to reach less than 20% of GDP in 2032 under unchanged policies. The limited sensitivity to possible macro-fiscal shocks also contributes to this assessment.
	Long-term risks: low. Over the long term, low risks from the sustainability gap indicator S2 as well as from the DSA contribute to the overall assessment. The S2 indicator reflects the favourable initial budgetary position which more than covers projected increases in ageing costs.
DE	**Short-term risks: low.** No overall short-term vulnerabilities are identified for Germany, according to the S0 indicator. However, gross financing needs remain large in the short term. Sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions and continued high demand for German government bonds.
	Medium-term risks: medium. Medium-term fiscal sustainability risks appear medium overall, combining the medium risk according to the sustainability gap indicator S1 and the low risk from a debt sustainability analysis (DSA) perspective. Government debt, currently at 71% of GDP, is projected to decline to around 62% of GDP in 2032 in the baseline.
	Long-term risks: medium. Long-term fiscal sustainability risks appear medium overall, combining the medium risk according to the sustainability gap indicator S2 and the low risk from a DSA perspective. The S2 long-term sustainability gap indicator points to risk linked to budgetary pressures stemming from population ageing.
EE	**Short-term risks: low.** Estonia does not have major short-term vulnerabilities according to the S0 indicator. Gross financing needs are expected to stay very manageable, also considering that financing conditions should remain favourable**.**
	Medium-term risks: low. Over the medium term, fiscal sustainability risks are low overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 19% of GDP, is projected to continue rising in the baseline, but to remain at modest levels, at 26% of GDP in 2032. Alternative and stress-test scenarios confirm this assessment.
	Long-term risks: low. Over the long term, both the sustainability gap indicator S2 and the DSA point to low risks, considering the low debt burden and the projected decline in age-related spending.

Table (continued)

IE	**Short-term risks: low.** No overall short-term vulnerabilities are identified for Ireland, according to the S0 indicator. Gross financing needs should remain limited in the short term. Sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: low.** Medium-term fiscal sustainability risks appear low overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, projected at 56% of GDP in 2021, is projected to decline, reaching around 46% of GDP in 2032 in the baseline. Alternative and stress-test scenarios confirm this assessment. **Long-term risks: medium.** Long-term fiscal sustainability risks appear medium overall, combining the medium risk according to the sustainability gap indicator S2 and the low risk from a DSA perspective. The S2 long-term sustainability gap indicator points to risk linked to budgetary pressures stemming from population ageing.
EL	**Short-term risks: high.** Overall, short-term vulnerabilities are identified for Greece, according to the S0 indicator. Moreover, gross financing needs remain substantial in the short term. However, sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions, while a large share of debt is held by the official sector. **Medium-term risks: high.** Medium-term fiscal sustainability risks appear high overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at more than 202% of GDP, is projected to substantially decline, yet remaining relatively high at 155% of GDP in 2032 in the baseline. The relative sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Long-term fiscal sustainability risks appear medium overall, combining the low risk according to the sustainability gap indicator S2 and the high risk from a DSA perspective.
ES	**Short-term risks: low.** Overall, the S0 indicator does not signal major short-term fiscal risks. Gross financing needs should still be large in the short term. Yet, sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: high.** Over the medium term, fiscal sustainability risks are high overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 120% of GDP, is projected to continue rising, reaching 126% of GDP in 2032 in the baseline. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: high.** Over the long term, medium risks from the sustainability gap indicator S2, combined with high vulnerabilities from the DSA contribute to the overall assessment. The S2 indicator mainly captures risks linked to the unfavourable initial budgetary position.

Table (continued)

FR	**Short-term risks: low.** Overall, the S0 indicator does not signal major short-term fiscal risks for France. Although declining in the short term, gross financing needs should remain high. Yet, sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: high.** Over the medium term, fiscal sustainability risks are high, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. In the baseline, debt – currently at around 115% of GDP – is projected to increase over the medium term, exceeding 120% of GDP in 2032. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Low risks from the sustainability gap indicator S2, combined with high vulnerabilities from the DSA, contribute to the overall long-term assessment. S2 captures challenges linked to the large initial deficit, while ageing-related spending is expected to decline over the long term.
HR	**Short-term risks: low.** No short-term vulnerabilities are identified for Croatia, according to the S0 indicator. Gross financing needs should decline in the short term, and sovereign financing conditions are expected to remain favourable. **Medium-term risks: high.** Over the medium term, fiscal sustainability risks are high overall, based on medium risks from the sustainability gap indicator S1 and high vulnerabilities from a debt sustainability analysis (DSA) perspective. In the baseline, debt – currently at 82% of GDP – is overall projected to decline compared to its 2021 level, reaching 77% of GDP in 2032. Similar dynamics obtained under possible macro-fiscal shocks also contribute to this assessment. **Long-term risks: medium.** Low risks from the sustainability gap indicator S2, combined with high vulnerabilities from the DSA, contribute to the overall long-term assessment. The low value of S2 reflects the fact that the projected decline in ageing costs partially offsets the initial deficit.
IT	**Short-term risks: low.** Overall, the S0 indicator does not signal major short-term fiscal risks However, gross financing needs remain large. Sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: high.** Over the medium term, fiscal sustainability risks appear to be high overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently around 155% of GDP, is projected to continue rising, reaching around 161% of GDP in 2032 in the baseline. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: high.** Over the long term, medium risk from the sustainability gap indicator S2, combined with high vulnerabilities from the DSA contribute to the overall assessment. The S2 indicator mainly captures risks linked to the unfavourable initial budgetary position.

(Continued on the next page)

Table (continued)

CY	**Short-term risks: high.** Overall short-term vulnerabilities are identified for Cyprus, according to the S0 indicator. However, after the peak recorded in 2020, gross financing needs should revert to low levels in the short term. Also, sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: medium.** Over the medium term, fiscal sustainability risks appear to be medium overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 104% of GDP, is projected to substantially decrease in the baseline, yet remaining above the 60% of GDP threshold in 2032. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Over the long term, low risks from the sustainability gap indicator S2, combined with medium vulnerabilities from the DSA contribute to the overall assessment. The S2 indicator mainly captures budgetary pressures stemming from population ageing.
LV	**Short-term risks: low.** Latvia does not display major short-term vulnerabilities according to the S0 indicator. Yet, government gross financing needs are expected to remain well above their pre-crisis levels in 2022. Financing conditions should remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: low.** Over the medium term, fiscal sustainability risks are low overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 48% of GDP, is projected to linger at just below 50% of GDP over the next decade. Sensitivity tests show that some uncertainty surrounds the baseline projections. **Long-term risks: low.** Over the long term, both the sustainability gap indicator S2 and the DSA point to low risks, considering the limited debt level and the projected decline in age-related spending.
LT	**Short-term risks: low.** The S0 indicator does not detect major short-term vulnerabilities. Gross financing needs have come down from their peak in 2020 and financing conditions should remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: low.** Over the medium term, fiscal sustainability risks are low overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 45% of GDP, is projected to decrease to 39% of GDP over the next decade. Sensitivity tests show that some uncertainty surrounds the baseline projections. **Long-term risks: low.** Over the long term, both the sustainability gap indicator S2 and the DSA point to low risks, despite the projected increase in spending linked to population ageing.

Table (continued)

LU	**Short-term risks: low.** No overall short-term vulnerabilities are identified for Luxembourg, according to the S0 indicator. Moreover, gross financing needs should remain modest in the short term. Sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions and the country's AAA-rating. **Medium-term risks: low.** Medium-term fiscal sustainability risks appear low overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 26% of GDP, is projected to decline, reaching around 18% of GDP in 2032 in the baseline. Low sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: high.** Long-term fiscal sustainability risks appear high overall, combining the high risk according to the sustainability gap indicator S2 and the low risk from a DSA perspective. The S2 long-term sustainability gap indicator points to risk linked to budgetary pressures stemming from population ageing.
HU	**Short-term risks: low.** No overall short-term vulnerabilities are identified for Hungary, according to the S0 indicator. However, gross financing needs remain large in the short term (and relatively high beyond the short term). Sovereign financing conditions are relatively unfavourable. **Medium-term risks: medium.** Medium-term fiscal sustainability risks appear medium overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 79% of GDP, is projected to decline, reaching around 68% of GDP in 2032 in the baseline. However, significant sensitivity to possible macro-fiscal shocks contributes to the medium risk assessment. **Long-term risks: high.** Long-term fiscal sustainability risks appear high overall, combining the high risk according to the sustainability gap indicator S2 and the low risk from a DSA perspective. The S2 long-term sustainability gap indicator points to risk linked to budgetary pressures stemming from population ageing and the initial budgetary position.
MT	**Short-term risks: low.** Overall, the S0 indicator does not signal major short-term fiscal risks for Malta. Gross financing needs should decline in 2022, and sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: high.** Over the medium term, fiscal sustainability risks are high overall, based on medium risks from the sustainability gap indicator S1 and high vulnerabilities from a debt sustainability analysis (DSA) perspective. Government debt, currently at 61% of GDP, is projected to increase steadily, reaching around 73% of GDP in 2032 in the baseline. The main driver of this assessment is the high initial deficit, with sensitivity to possible macro-fiscal shocks also contributing. Reverting to past fiscal positions would reduce risks. **Long-term risks: high.** High risks from the sustainability gap indicator S2, combined with high vulnerabilities from the DSA, contribute to the overall long-term assessment. S2 captures challenges linked to budgetary pressures stemming from population ageing and to the high initial deficit.

Table (continued)

NL	**Short-term risks: low.** Overall, the S0 indicator does not signal major short-term fiscal risks. Gross financing needs should decline after their surge in 2020-2021. Sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: medium.** Over the medium term, fiscal sustainability risks appear to be medium overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 57% of GDP, is projected to rise, reaching close to 63% of GDP in 2032 in the baseline scenario. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Over the long term, medium risk from the sustainability gap indicator S2, combined with medium vulnerabilities from the DSA contribute to the overall assessment. The S2 indicator mainly captures risks linked to the unfavourable initial budgetary position and the projected increase in ageing costs.
AT	**Short-term risks: low.** No overall short-term vulnerabilities are identified for Austria, according to the S0 indicator. Gross financing needs should decline in the short term, and sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: medium.** Over the medium term, fiscal sustainability risks appear to be medium overall, based on medium risk from the sustainability gap indicator S1 and low vulnerabilities from a debt sustainability analysis (DSA) perspective. Government debt, currently at 83% of GDP, is projected to decline over the projection horizon, reaching around 76% of GDP in 2032 in the baseline. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Medium risks from the sustainability gap indicator S2, combined with low vulnerabilities from the DSA contribute to the overall long-term assessment. The S2 indicator mainly captures risks linked to budgetary pressures stemming from population ageing.
PL	**Short-term risks: low.** No overall short-term vulnerabilities are identified for Poland, according to the S0 indicator. Gross financing needs should decline in the short term. **Medium-term risks: low.** Over the medium term, fiscal sustainability risks are low overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. In the baseline, debt — currently at 55% of GDP — is projected to remain at a relatively low level despite a rebound as from 2027, staying below 50% of GDP in 2032. The low sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Medium risks from the sustainability gap indicator S2, combined with low vulnerabilities from the DSA, contribute to the overall long-term assessment. S2 captures challenges linked to budgetary pressures stemming from population ageing and the high initial structural deficit.

Table (continued)

PT	**Short-term risks: low.** No overall short-term vulnerabilities are identified for Portugal, according to the S0 indicator. However, gross financing needs remain large in the short term. Sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: high.** Medium-term fiscal sustainability risks appear high overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, projected at 128% of GDP in 2021, is expected to rise as from 2027 in the baseline, after a temporary decline. It would reach around 126% of GDP in 2032, still below its current level. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Long-term fiscal sustainability risks appear medium overall, combining the low risk according to the sustainability gap indicator S2 and the high risk from a DSA perspective.
RO	**Short-term risks: low.** Overall, no short-term vulnerabilities are identified for Romania, according to the S0 indicator. Gross financing needs should be moderate in the short term. **Medium-term risks: high.** Over the medium-term, fiscal sustainability risks appear to be high overall, high according to the sustainability gap indicator S1 and medium from a debt sustainability analysis (DSA) perspective. Government debt, currently at close to 50% of GDP, is projected to increase in the baseline and exceed the 60% of GDP threshold by 2032. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Over the long term, medium risks from the sustainability gap indicator S2, combined with medium vulnerabilities from the DSA contribute to the overall assessment. The S2 indicator mainly captures risks linked to the unfavourable initial budgetary position.
SI	**Short-term risks: low.** Overall, no short-term vulnerabilities are identified for Slovenia, according to the S0 indicator. Gross financing needs should be moderate in the short term. Sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: high.** Over the medium-term, fiscal sustainability risks appear to be high overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at close to 78% of GDP, is projected to substantially increase in the baseline to reach about 95% of GDP by 2032. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: high.** Over the long term, high risks from the sustainability gap indicator S2, combined with high vulnerabilities from the DSA contribute to the overall assessment. The S2 indicator mainly captures risks linked to budgetary pressures from population ageing and vulnerabilities associated to the unfavourable initial budgetary position.
SK	**Short-term risks: low.** Overall, the S0 indicator does not signal major short-term fiscal risks. Gross financing needs should remain low in the short term. Sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: high.** Over the medium term, fiscal sustainability risks appear to be high overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently around 62% of GDP, is projected to continue rising, reaching around 72% of GDP in 2032 in the baseline. The sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: high.** Over the long term, medium risk from the sustainability gap indicator S2, combined with high vulnerabilities from the DSA contribute to the overall assessment. The S2 indicator mainly captures risks linked to the unfavourable initial budgetary position and the projected increase in ageing costs.

Table (continued)

FI	**Short-term risks: low.** No short-term vulnerabilities are identified for Finland, according to the S0 indicator. Gross financing needs should decline in the short term, and sovereign financing conditions are expected to remain favourable, notably supported by the Eurosystem's interventions. **Medium-term risks: medium.** Over the medium term, fiscal sustainability risks are medium overall, based on medium risk from the sustainability gap indicator S1 and low vulnerabilities from a debt sustainability analysis (DSA) perspective. In the baseline, debt — currently at 71% of GDP — is projected to be on a steady downward trend, approaching 60% of GDP in 2032. The low sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: medium.** Medium risk from the sustainability gap indicator S2, combined with low vulnerabilities from the DSA, contribute to the overall long-term assessment. The S2 indicator mainly captures vulnerabilities linked to budgetary pressures stemming from population ageing.
SE	**Short-term risks: low**. Overall, no short-term vulnerabilities are identified for Sweden, according to the S0 indicator. Gross financing needs should be low in the short term. Sovereign financing conditions are expected to remain favourable. **Medium-term risks: low.** Over the medium term, fiscal sustainability risks are low overall, both according to the sustainability gap indicator S1 and from a debt sustainability analysis (DSA) perspective. Government debt, currently at 37% of GDP, is projected to decrease in the baseline, reaching a very modest level in 2032 under unchanged policies. The reduced sensitivity to possible macro-fiscal shocks also contributes to this assessment. **Long-term risks: low.** Over the long term, low risks from the sustainability gap indicator S2, combined with low vulnerabilities from the DSA contribute to the overall assessment. The S2 indicator is supported by the favourable initial budgetary position which partly mitigates projected increases in ageing costs.

(1) This table presents an overview of the main findings described in volume 2 of the FSR 2021.
Source: Commission services.