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Debt Sustainability Monitor

2025

EUROPEAN ECONOMY

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The Debt Sustainability Monitor and its role for fiscal surveillance

The Debt Sustainability Monitor (DSM) plays an important role in identifying fiscal sustainability risks in EU Member States, based on the latest available information. Part I of the report assesses risks in the short, medium and long term, and discusses a wide range of additional risk factors. These various approaches complement each other and lead to an overview of fiscal sustainability risks from different angles, by identifying their timing, nature and size. The 2025 DSM is based on the Commission 2025 autumn forecast ([1]) and incorporates the ageing cost projections from the 2024 Ageing Report, which was jointly prepared by the Commission and the Economic Policy Committee. The assessment of short-term developments takes into account information up to 31 December 2025. Methodological details are available in the annexes, ensuring transparency.

The DSM is descriptive, not prescriptive; its findings are a crucial input to the European Semester. The DSM does not make recommendations on what fiscal policy *should* do but assesses the implications of unchanged fiscal policy for the debt dynamics over the medium term, through its debt sustainability analysis (DSA). The DSM also gauges the long-term impact on debt of the projected change in ageing-related expenditure, given the initial budgetary conditions. On that basis, the findings of the DSM, including the country-specific overviews (Part II of the DSM), are an important input to guide policies under the European Semester. In particular, they can serve as analytical underpinnings to country-specific recommendations related to pensions, healthcare and long-term care.

The role of the DSA has expanded with the reformed EU fiscal framework, in that case for a normative use. With fiscal sustainability at its core, the new framework gives the Commission's DSA methodology an increased role in EU fiscal surveillance, as the anchor to compute prior guidance and assess Member States' medium-term plans. The DSA-based methodology can also have a role in certain procedures, for instance to ensure that activating the national escape clause preserves fiscal sustainability and to compute corrective paths under the excessive deficit procedure. While the methodologies used in the DSM and for the EU fiscal framework are closely linked, their aim differs substantially. The standard DSA of the DSM assumes unchanged policy, taking the budgetary position as given, and assesses the risks it implies for fiscal sustainability. Under the EU fiscal framework, the approach is reversed to define fiscal adjustment paths so that fiscal sustainability is ensured. Chapter 5 is dedicated to topics related to the EU fiscal framework.

Main findings of the 2025 DSM

Chapter 1 assesses short-term risks as captured by indicators of liquidity risk and markets' perception of sovereign risks. The chapter assesses both government gross financing needs over the short term and financing conditions – in other words, how much money governments would need to raise from the financial markets or other sources in the next two years, and at what cost. The analysis shows that gross financing needs are expected to remain elevated in four countries in 2026-2027 (Belgium, France, Italy and Finland), mostly due to maturing debt and budget deficits. As regards financing conditions, long-term bond yields continue to put pressure on public finances. At the same time, financial markets' perceptions and sovereign credit ratings remain overall stable and favourable for most Member States – with downgrades for some countries but upgrades for others, implying that all EU Member States now have investment-grade rating, including Greece. All these elements are reported in the **individual country fiches in Part II**, along with country-specific details based on the other chapters, too.

Chapter 2 focuses on the medium-term fiscal sustainability risks as assessed by the DSA and identifies 12 Member States at high risk, against 10 at medium risk and 5 at low risk.

([1]) As the 2025 DSM applies a no-fiscal-policy-change assumption as from 2027, it removes the fiscal adjustment included in the Commission autumn 2025 forecast for that year. This implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027.

The DSA includes both *deterministic* projections (which rely on pre-defined scenarios with specific assumptions for fiscal, macroeconomic and financial variables up to 2036) and *stochastic* projections (which apply a wide range of possible shocks, to account for uncertainty). The medium-term risk classification is based on several criteria, including the projected level of debt in the next 10 years, its increasing or decreasing trend, the amount of uncertainty around the baseline projection, and the degree of available leeway for the government to maintain (or tighten) its fiscal position. For the 12 countries that are found to be at high risk, this classification is mainly driven by the debt dynamics at unchanged fiscal policy, either because their debt ratio is already high and still increasing (Belgium, Spain, France and Italy), because their debt is projected to pass the 90% of GDP threshold (Germany, Hungary, Austria, Poland, Romania, Slovakia and Finland), or because their debt, albeit declining, is projected to remain at a high level and with only moderate room for additional consolidation (Greece). For the EU as a whole, the debt-to-GDP ratio is projected to increase over the next 10 years, from 83% in 2025 to 100% in 2036, in the absence of new fiscal measures beyond 2026. This reflects the expected increase in defence expenditure in 2026 as well as projected gradual increases in both the cost of population ageing and interest expenditure over the medium term. Other future trends in expenditure that are not covered in the DSA, such as those related to climate change and defence, are discussed in Chapters 4 and 5, respectively.

Chapter 3 finds high long-term fiscal sustainability risk for 6 Member States, medium risk for 14 and low risk for the remaining 7 countries. The long-term risk classification relies on two complementary indicators measuring the immediate fiscal effort (in 2027) that would be needed to ensure that debt has desirable features in the long term – namely, that it stabilises and that it respects the Treaty reference value of 60% of GDP. The "debt-stabilisation indicator", S2, thus measures the adjustment needed to stabilise public debt over the long term, regardless of the level at which stabilisation is achieved. It is complemented by the "debt-reduction indicator", S1, which measures the adjustment that would bring debt to 60% in 2070. For the six countries assessed at high risk (Belgium, Luxembourg, Hungary, Malta, Slovenia and Slovakia), the main driving factor is the projected increase in ageing-related expenditure (on pensions, healthcare and long-term care), in some cases along with a high initial level of deficit and/or debt.

Chapter 4 complements the first three chapters by analysing a broad range of additional aggravating or mitigating risk factors that are partially reflected in the previous chapters. It covers four main categories of factors. First, those related to the structure of the debt, be it in terms of e.g. maturity or debt holders. Second, the existence of government liabilities beyond the usual approach of public debt in its "Maastricht" or "EDP" definition, for instance contingent liabilities that expose public finances to the possible materialisation of certain events. Third, the amount of government assets, qualifying the "gross debt" approach by a "net debt" approach. Fourth, a section is dedicated to four scenarios aiming to account for the impact of climate change under different policy settings. The wide-ranging analysis in this chapter highlights favourable developments (such as the fact that the investor base remains large, diversified and mainly domestic, and the decline in the recourse to government guarantees) but also identifies emerging or potential sources of concerns (stemming for instance from climate change and the non-banking financial sector).

Finally, Chapter 5 is dedicated to three special topics related to the EU fiscal framework that are relevant for the monitoring of debt sustainability. It first summarises the Commission's June 2025 assessment of compliance with one crucial condition for the activation of the national escape clause, namely the preservation of debt sustainability over the medium term. Second, the chapter presents an "MTP scenario" embedded in the latest available macroeconomic outlook. According to that scenario, if Member States implement the adjustment path from their medium-term plan (MTP) until the end, this will put debt on a lower path than under the scenario at unchanged policy in all the countries where debt currently exceeds 60% of GDP. At the aggregate EU level, the debt-to-GDP ratio in 2036 would be more than 20 pps. lower than under current policies. Finally, the chapter presents the "DSA working group", a sub-committee of the Economic and Financial Committee tasked with exploring possible improvements to the DSA-based methodology for the EU fiscal framework. The working group has agreed on two changes (regarding the fiscal multiplier and the stochastic projections) that are explained in boxes of Chapter 2.

Table 1: **Fiscal sustainability risk classification by time horizon**

	Overall MEDIUM-TERM risk category	Overall LONG-TERM risk category
BE	HIGH	HIGH
BG	MEDIUM	LOW
CZ	MEDIUM	MEDIUM
DK	LOW	LOW
DE	HIGH (MEDIUM)	MEDIUM
EE	MEDIUM (LOW)	MEDIUM (LOW)
IE	LOW	MEDIUM
EL	HIGH	LOW
ES	HIGH	MEDIUM
FR	HIGH	MEDIUM
HR	MEDIUM	LOW
IT	HIGH	LOW (MEDIUM)
CY	MEDIUM	LOW
LV	MEDIUM	MEDIUM (LOW)
LT	MEDIUM	MEDIUM
LU	LOW	HIGH
HU	HIGH	HIGH (MEDIUM)
MT	LOW	HIGH
NL	MEDIUM (LOW)	MEDIUM
AT	HIGH	MEDIUM
PL	HIGH	MEDIUM
PT	MEDIUM	LOW
RO	HIGH	MEDIUM
SI	MEDIUM	HIGH (MEDIUM)
SK	HIGH	HIGH
FI	HIGH	MEDIUM
SE	LOW	MEDIUM (LOW)

Note: If different, the risk classification from the DSM 2024 is shown in brackets.

Source: Commission services.

Table 2: **Summary heat map of fiscal sustainability risks**

	Heat map for medium-term risks in the EU countries - Debt sustainability analysis (DSA)																											
	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-fiscal-policy-change scenario)	HIGH	LOW	LOW	LOW	HIGH	LOW	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	LOW	MEDIUM	MEDIUM	LOW	HIGH	LOW	LOW	HIGH	HIGH	LOW	MEDIUM	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	137.4	40.4	56.0	13.8	91.0	56.2	20.3	123.5	107.7	144.0	68.4	149.1	20.1	74.2	65.7	20.1	102.5	40.8	58.7	102.0	106.8	83.1	89.8	75.1	101.2	113.9	43.6
Debt peak year	2036	2036	2036	2025	2036	2036	2025	2025	2036	2036	2036	2036	2025	2036	2036	2026	2036	2027	2036	2036	2036	2025	2036	2036	2036	2036	2036
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	88%	76%	32%	69%	90%	89%	50%	33%	47%	81%	55%	43%	26%	75%	68%	70%	57%	50%	82%	88%	86%	29%	60%	54%	44%	92%	100%
Stochastic projections	HIGH	MEDIUM	LOW	LOW	HIGH	MEDIUM	LOW	MEDIUM	HIGH	HIGH	LOW	HIGH	MEDIUM	MEDIUM	MEDIUM	LOW	HIGH	LOW	LOW	HIGH	LOW	MEDIUM	MEDIUM	MEDIUM	HIGH	HIGH	LOW
Probability of debt in 2030 > debt in 2025	90%	71%	73%	11%	98%	96%	24%	15%	42%	95%	61%	57%	4%	85%	88%	29%	81%	36%	81%	81%	100%	27%	81%	48%	98%	94%	81%
Difference between the 10th and 90th percentile in 2030 (p.p. of GDP)	22.7	30.1	16.9	14.1	13.5	25.2	24.5	40.0	26.2	18.1	24.3	27.2	27.9	35.3	28.3	13.1	25.4	19.5	13.6	20.4	18.8	30.0	35.9	19.5	18.2	19.3	10.4
'Historical SPB' scenario	HIGH	LOW	LOW	LOW	MEDIUM	LOW	LOW	HIGH	HIGH	HIGH	LOW	HIGH	LOW	MEDIUM	LOW	LOW	HIGH	LOW	LOW	HIGH	HIGH	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	125.8	32.1	56.6	9.5	68.7	37.1	35.0	97.5	113.3	146.1	55.4	151.5	32.5	66.0	58.2	18.6	97.8	37.9	53.5	91.5	91.8	88.6	92.1	69.8	97.0	110.7	30.1
Debt peak year	2036	2030	2036	2025	2036	2036	2036	2025	2036	2036	2025	2036	2025	2036	2036	2026	2036	2027	2036	2036	2036	2025	2036	2036	2036	2036	2027
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	83%	72%	32%	60%	64%	75%	62%	20%	61%	82%	35%	45%	33%	63%	55%	64%	56%	49%	74%	79%	73%	35%	60%	43%	41%	88%	79%
'Adverse r-g' scenario	HIGH	LOW	MEDIUM	LOW	HIGH	LOW	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	LOW	MEDIUM	MEDIUM	LOW	HIGH	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	147.6	43.6	60.3	15.5	97.9	59.4	22.2	133.3	116.3	155.6	74.0	162.5	22.8	79.8	70.4	21.9	110.8	43.9	63.0	109.8	114.7	90.6	96.7	80.2	108.2	122.2	46.5
Debt peak year	2036	2036	2036	2025	2036	2036	2025	2025	2036	2036	2036	2036	2025	2036	2036	2026	2036	2027	2036	2036	2036	2025	2036	2036	2036	2036	2036
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	88%	76%	32%	69%	90%	89%	50%	33%	47%	81%	55%	43%	26%	75%	68%	70%	57%	50%	82%	88%	86%	29%	60%	54%	44%	92%	100%
'Financial stress' scenario	HIGH	LOW	LOW	LOW	HIGH	LOW	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	LOW	MEDIUM	MEDIUM	LOW	HIGH	LOW	LOW	HIGH	HIGH	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	139.2	40.9	56.4	14.0	91.5	56.3	20.5	125.4	108.9	146.7	68.9	153.6	20.2	74.7	66.1	20.3	103.2	41.1	59.1	102.6	107.5	83.8	90.5	75.5	101.8	114.7	43.7
Debt peak year	2036	2036	2036	2025	2036	2036	2025	2025	2036	2036	2036	2036	2025	2036	2036	2026	2036	2027	2036	2036	2036	2025	2036	2036	2036	2036	2036
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	88%	76%	32%	69%	90%	89%	50%	33%	47%	81%	55%	43%	26%	75%	68%	70%	57%	50%	82%	88%	86%	29%	60%	54%	44%	92%	100%
'Lower SPB' scenario	HIGH	LOW	MEDIUM	LOW	HIGH	MEDIUM	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	LOW	MEDIUM	MEDIUM	LOW	HIGH	LOW	MEDIUM	HIGH	HIGH	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	142.0	44.8	61.7	18.3	96.2	61.9	24.6	129.5	112.9	148.9	73.3	154.6	25.2	79.2	70.7	24.6	108.6	44.7	63.6	106.8	112.1	88.3	95.3	80.3	106.0	118.7	48.6
Debt peak year	2036	2036	2036	2025	2036	2036	2025	2025	2036	2036	2036	2036	2025	2036	2036	2026	2036	2026	2036	2036	2036	2025	2036	2036	2036	2036	2036
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	92%	81%	34%	77%	100%	100%	55%	36%	59%	84%	62%	49%	29%	77%	76%	77%	61%	55%	88%	90%	89%	34%	61%	57%	52%	100%	100%
Overall MEDIUM-TERM risk category	HIGH	MEDIUM	MEDIUM	LOW	HIGH	MEDIUM	LOW	HIGH	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	MEDIUM	MEDIUM	LOW	HIGH	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	HIGH	HIGH	LOW
	Heat map for long-term risks in the 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	7.0	1.4	3.8	-1.0	4.1	2.9	3.3	-0.4	5.3	3.1	1.5	-1.0	0.1	2.2	5.1	7.1	6.7	8.1	3.9	4.2	5.6	-1.4	1.9	6.5	7.2	4.1	2.6
S1 indicator - Baseline scenario	5.9	0.7	2.6	-2.0	3.5	2.4	1.0	1.5	4.8	3.9	1.3	1.6	-1.1	2.4	4.0	2.0	5.3	3.1	2.5	3.7	5.3	0.8	3.3	4.9	6.2	3.1	0.9
Overall LONG-TERM risk category	HIGH	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	MEDIUM	LOW	MEDIUM	MEDIUM	LOW	LOW	LOW	MEDIUM	MEDIUM	HIGH	HIGH	HIGH	MEDIUM	MEDIUM	MEDIUM	LOW	MEDIUM	HIGH	HIGH	MEDIUM	MEDIUM

Source: Commission services

INTRODUCTION

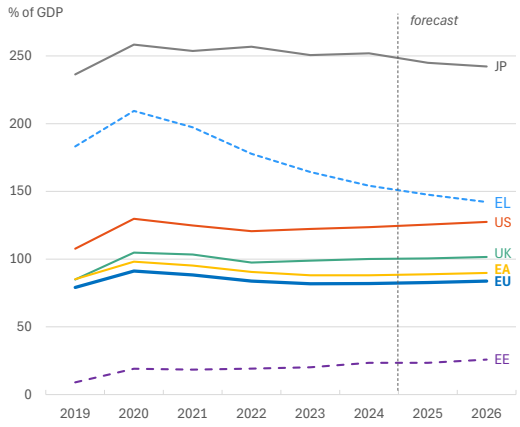
The Debt Sustainability Monitor (DSM) assesses fiscal sustainability risks using a well-established, comprehensive and multi-dimensional framework. It provides a comprehensive overview of fiscal sustainability risks over the short, medium, and long term, based on a set of transparent criteria and assumptions. The Commission's analytical framework integrates findings from the debt sustainability analysis (DSA) and two fiscal sustainability indicators (S1 and S2), which are briefly presented in this introduction and discussed in greater detail in the report. By identifying the size, nature and timing of risks, this framework plays a critical role in monitoring risks at Member State level and provides crucial input to guide fiscal policies in the EU fiscal framework. The key results are summarised in a heat map of fiscal sustainability risks by time horizon in the individual chapters and an overall heat map accompanying the non-technical summary.

This introduction addresses three points. First, it recalls the general state of public finances in the EU and the main challenges they are facing. Second, it explains the purpose of the DSM and its role in the economic governance framework. In particular, it focuses on the DSA methodology, which can be used either in a descriptive way, to assess risks at unchanged policies in the DSM, or in a normative way, to define or assess adjustment paths acting as budget constraints over the medium term. Third, it highlights how the various analyses presented in the DSM complement each other to assess all aspects of fiscal sustainability risks.

1. THE MAIN CHALLENGES TO PUBLIC FINANCES IN THE EU

At the aggregate level, the government debt-to-GDP ratio in the EU remains elevated, with large differences across Member States. Debt ratios in both the EU and the euro area have overall receded by close to 10 pps. since 2020, coming back to the vicinity of their pre-COVID-crisis levels. In 2025, debt was estimated to stand at 82.8% of GDP in the EU, according to the Commission 2025 autumn forecast. That is approximately 18 pps., 42 pps. and 170 pps. below the levels observed for the same year in the UK, the US and Japan, respectively (Graph 1). However, zooming in on the country level, there are sizeable differences across EU Member States, as can be seen from the two countries with the highest and lowest debt ratios in 2025 (respectively Greece and Estonia, see Graph 1).

Graph 1: **Debt in the EU and other advanced economies**



Source: Commission services

Looking ahead, public finances in the EU face substantial, lasting challenges. Some Member States continue to bear the budgetary legacy of the recent crises and have yet to reduce their high deficit and debt levels. This takes place in a context where several adverse trends put public finances under pressure. First, the difference between the level of interest rates and the economic growth rate (the "r-g" differential) is expected to become less and less favourable, in some cases even resulting in a debt-increasing "snowball effect" over the next decade, meaning that the dampening impact of nominal GDP growth on debt would no longer offset the increase in interest payments. Second, the rapid shift in the age structure of Europe's population – with fewer people of working age and a growing share of elderly and very old people – is expected to put public pension systems under strain and to intensity demand for health care and long-term care. Third, Russia's war of aggression against Ukraine in a context of heightened geopolitical tensions has made it urgent for Europe to rebuild its defence capabilities and ensure its security. That has motivated the activation of the national escape clause of the reformed EU fiscal framework to give Member States some leeway to ramp up expenditure on defence. Fourth, the impact of climate change is increasingly visible, affecting economic activity, public revenues and expenditure, and requires credible mitigation and adaptation policies.

Overall, the current level of debt only gives a partial picture of the risks to fiscal sustainability, which calls for a much more comprehensive analysis. The analysis of fiscal sustainability raises a wide range of questions. Are there signs of possible upcoming fiscal stress? What is the outlook for financing conditions, for what financing needs of governments? Based on reasonable macroeconomic and financial assumptions, including in case of realistic adverse shocks, what can be expected for the debt dynamics over the next 5 to 10 years in the absence of policy action? To what extent will ageing-related expenditure weigh on public finances in the long term? Can adherence to the requirements of the EU fiscal framework (including with the flexibility that it allows under the national escape clause) preserve or even strengthen fiscal sustainability? Can the choice of policy response to climate change affect the debt dynamics? What more can be learned from looking into the structure of government debt, or assets or liabilities that are not reflected in the usual metric of gross debt? All those questions are addressed in this report.

2. PURPOSE OF THE DSM AND ROLE IN THE EU FISCAL FRAMEWORK

The DSM is a well-established publication of DG ECFIN that identifies fiscal sustainability risks in EU Member States, based on the latest available information. The first Sustainability Report was published in October 2006 and focused on long-term fiscal sustainability risks. The subsequent reports have extended the analysis to the short- and medium-term risks, developing a wealth of analytical tools. By identifying the timing, nature and size of risks, this report plays a critical role in monitoring fiscal sustainability at Member State level and provides crucial analytical input to guide fiscal policies.

The DSM is descriptive, not prescriptive; it rests mainly on the technical assumption of unchanged fiscal policy. The DSM does not make recommendations on what fiscal policy *should* do but assesses the implications of unchanged fiscal policy for the debt dynamics over the medium term, through its debt sustainability analysis (DSA). Since the no-fiscal-policy-change assumption of the DSA baseline applies as from the year T+2 (2027 in this report), it implies a need to recalculate some of the variables of the latest Commission forecast for that year ([2]). Importantly, the no-fiscal-policy-change assumption is a purely technical, neutral assumption, and the DSA baseline is therefore not to be considered as a most-likely scenario.

The fiscal gap indicators used for the assessment of long-term fiscal sustainability risks highlights imbalances built up over time. To gauge the long-term impact on debt of the projected change in ageing-related expenditure, given also the initial budgetary conditions, the DSM calculates two quantitative indicators in the form of fiscal gap indicators – that is, these indicators measure the permanent adjustment in the fiscal position that would ensure sustainability. This approach makes it possible to assess risks in a comparable way across countries. It does not mean, however, that such an upfront adjustment is required but suggests where structural reforms could be needed ([3]). Conversely, a negative fiscal gap does not imply that the country *should* deconsolidate but that it has some leeway to ease its fiscal position when needed without putting long-term sustainability at risk.

The findings of the DSM are a crucial input to the European Semester. In addition to the chapters organised by time horizon, the findings are reported in country-specific overviews (the country fiches of Part II), to which the Country Reports of the Commission's Spring package directly refer.

([2]) The Commission autumn 2025 forecast includes the impact of policy measures up to 2027 provided they were sufficiently detailed, and adopted, or at least credibly announced, by the cut-off date of the forecast. As the 2025 DSM applies a no-fiscal-policy-change assumption as from 2027, it needs to remove the fiscal adjustment included in the Commission forecast for that year. This implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027. These corrected values are also used for the assessment of fiscal developments in the short term in Chapter 1.

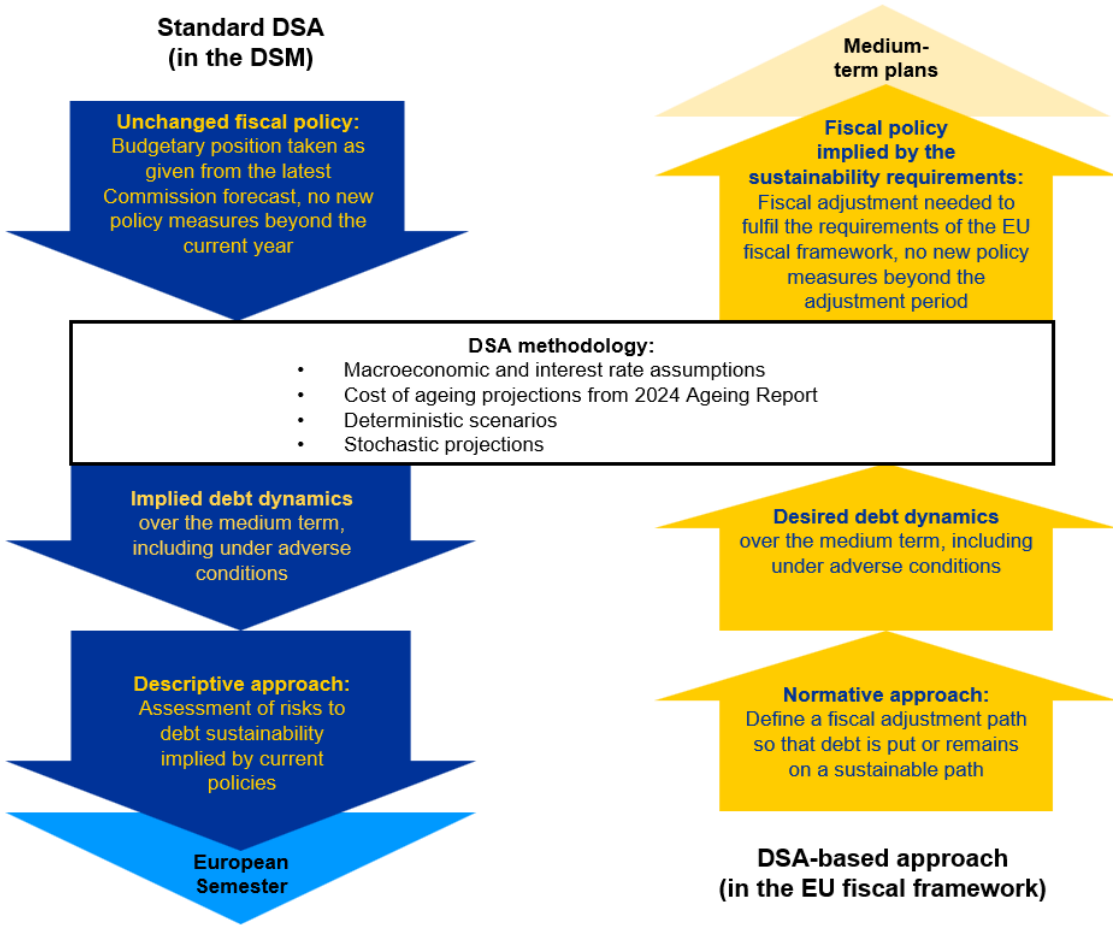
([3]) As already explained in the 2006 Sustainability Report: "[T]here are different ways to ensure long-term sustainability (…). Namely, governments typically choose a combination of consolidating the budgetary position over the medium term (either through expenditure reduction and/or tax hikes) and implementing structural reforms aiming at curbing long-term public expenditure (through lower nominal spending or higher GDP growth). Sustainability indicators should therefore be understood as measures of imbalances and not as a policy invitation to increase taxes in the medium term or to undertake any other specific policy measure."

Moreover, the findings can serve as analytical underpinnings to country-specific recommendations, e.g. related to pensions, healthcare and long-term care.

The role of the DSA has expanded with the reformed EU fiscal framework, in that case for a normative use. With fiscal sustainability at its core, the new framework gives the Commission's DSA methodology an increased role in EU fiscal surveillance, as the anchor to compute prior guidance and assess Member States' medium-term plans. The DSA-based methodology can also have a direct role in certain procedures, for instance to ensure that activating the national escape clause preserves fiscal sustainability and to compute corrective paths under the excessive deficit procedure.

While the methodologies used in the DSM and for the EU fiscal framework are closely linked, their aim differs substantially. The standard DSA of the DSM assumes unchanged policy, taking the budgetary position as given, and assesses the risks it implies for fiscal sustainability (Graph 2). Under the EU fiscal framework, the DSA-based approach ([4]) is used in reverse to define fiscal adjustment paths so that fiscal sustainability is ensured. Therefore, there is no contradiction between the two, but two different readings: one is a neutral projection while the other represents a budget constraint. To put the two approaches together, in addition to the standard approach at unchanged policy, the DSM 2025 also reflects the possible implications of compliance with the fiscal framework (in Chapter 5), in the same way that it used to have policy scenarios based on compliance with the Stability and Growth Pact and on the stability and convergence programmes.

Graph 2: **The DSM's standard DSA and the DSA-based approach used in the EU fiscal framework**



Source: Commission services

([4]) The approach used in the context of the EU fiscal framework uses nearly the same methodology as the standard DSA, except that it does not include the "historical structural primary balance" scenario. See Chapter II.1 of the 2023 DSM.

3. THE COMMISSION'S FRAMEWORK FOR ASSESSING FISCAL SUSTAINABILITY RISKS: STRUCTURE AND INTERNAL CONSISTENCY

Part I of the DSM presents the Commission's assessment of fiscal sustainability risks. In this edition, it uses the information available as of 31 December 2025, unless otherwise indicated, and it is based on the Commission 2025 autumn forecast and its T+10 extension ([5]). In addition, it reflects the long-term economic and budgetary projections of the Ageing Report 2024, jointly prepared by the European Commission and the Economic Policy Committee ([6]).

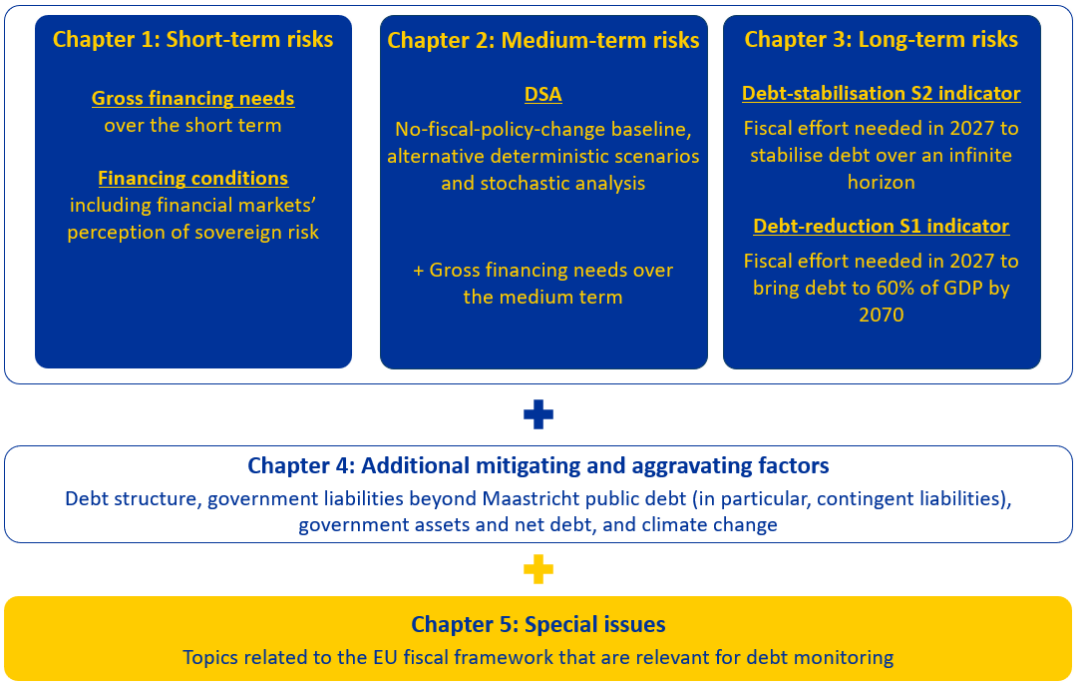
It includes four standard chapters and one special issue chapter (Graph 3). Chapters 1 to 3 cover specific time horizons, in line with the multidimensional approach to fiscal sustainability risks.

- **Chapter 1 assesses risks in the short term based on several indicators of liquidity risks and perceived sovereign risk.** The chapter analyses the amount and drivers of government gross financing needs over the next two years, as they are an important driver of liquidity risks over the short term. Financing conditions are also assessed, including through government bond yields, spreads, financial markets' perceptions of sovereign risk and sovereign credit ratings: these indicate at what cost the upcoming financing needs will be covered. Finally, Box 1.1 presents possible methodological paths to complete the analysis of short-term risks in the future.
- **Chapter 2 focuses on the medium-term fiscal sustainability risks, based on the debt projections and decision trees of the DSA.** The DSA includes both *deterministic* projections up to 2036 (which rely on pre-defined scenarios with specific assumptions for fiscal, macroeconomic and financial variables) and *stochastic* projections over a 5-year horizon (which apply a wide range of possible shocks, to account for uncertainty). Among the deterministic projections, the DSA baseline relies on a no-fiscal-policy-change assumption, and four alternative scenarios apply shocks to specific variables in order to identify additional vulnerabilities. The shocks include (i) reverting to past fiscal behaviour, (ii) lowering the level of the structural primary balance, (iii) experiencing a less favourable interest rate-growth differential ('r-g'), and (iv) facing temporary turmoil in financial markets. The medium-term risk classification is based on a clear list of criteria, including the projected level of debt, its increasing or decreasing trend, the degree of available leeway for the government to maintain (or tighten) its fiscal position, and the amount of uncertainty around the baseline projection. Finally, the analysis is complemented by an assessment of potential liquidity challenges, based on projections of government's gross financing needs over the medium term.
- **Chapter 3 identifies long-term fiscal sustainability risks, based on the fiscal effort it would take to stabilise debt and/or bring it to 60% of GDP in the long term.** The long-term risk classification relies on two complementary fiscal gap indicators measuring the upfront fiscal effort (in 2027) that would be needed to ensure that debt has desirable features in the long term – namely, that it stabilises and that it respects the Treaty reference value of 60% of GDP. The "debt-stabilisation indicator", S2, thus measures the adjustment needed to stabilise public debt over the long term, regardless of the level at which stabilisation is achieved. It is complemented by the "debt-reduction indicator", S1, which measures the adjustment that would bring debt to 60% in 2070.

([5]) It uses the commonly agreed methodology of the Economic Policy Committee for projecting medium-term GDP growth. This methodology incorporates the expected impact of already implemented reforms. See Blondeau, F., Planas, C. and Rossi, A. (2021), Output gap estimation using the European Union's commonly agreed methodology: Vade mecum and manual for the EUCAM software, *European Commission Discussion Paper*, No. 148, October.

([6]) European Commission (2024), 2024 Ageing Report, Volume 2, Economic and budgetary projections for the EU Member States (2022-2070), *European Economy Institutional Paper*, No. 279, 18 April.

Graph 3: **Main building blocks of the 2025 DSM**



Source: Commission services

- **Chapter 4 complements the first three chapters by analysing a broad range of additional aggravating or mitigating risk factors that are only partially reflected in the previous chapters.** The risk assessments based on the first chapters need to be complemented with a broader reading and interpretation of results to give due account to country-specific contexts. In particular, when a country is deemed to be at high risk in the short, medium or long term, it does not mean that fiscal stress is inevitable (in the short term) or that debt is unsustainable (in the medium to long term), but rather that there are significant fiscal sustainability vulnerabilities that need to be addressed by appropriate policy responses. Chapter 4 complements that analysis by considering additional risk factors. This approach is a key element of the Commission's framework and is in line with practices of other international institutions. The chapter covers four main categories of factors. First, those related to the structure of the debt, be it in terms of maturity or debt holders. Second, the existence of government liabilities beyond the usual approach of public debt in its "Maastricht" or "EDP" definition, for instance contingent liabilities that expose public finances to the possible materialisation of certain events. Third, the amount of government assets, qualifying the "gross debt" approach by a "net debt" approach. Fourth, a section is dedicated to four scenarios aiming to account for the impact of climate change under different policy settings.
- **Finally, Chapter 5 is dedicated to three special topics related to the EU fiscal framework that are relevant for the monitoring of debt sustainability.** It first summarises the Commission's June 2025 assessment of compliance with one crucial condition for the activation of the national escape clause, namely the preservation of debt sustainability over the medium term. Second, the chapter presents a new "MTP scenario", which assumes that Member States implement the adjustment path from their medium-term plan (MTP) until the end. This scenario allows the DSM to make a link with the provisions of the reformed EU fiscal framework, in the same way that older editions of the DSM used to include a "Stability and Growth Pact" scenario and a "Stability and convergence programmes" scenario. Finally, the chapter presents the "DSA working group", a sub-committee of the Economic and Financial Committee tasked with exploring possible improvements to the DSA-based methodology for the EU fiscal framework. The working group has agreed on two changes (regarding the fiscal multiplier and the stochastic projections) that are explained in boxes of Chapter 2.

Part II contains the country fiches, which present a detailed assessment of fiscal sustainability risks for each Member State. The fiches are based on the same approach as Part I but provide further insights into country-specific risks, with a comprehensive set of graphs and tables, including selected graphs illustrating the most relevant mitigating and aggravating risk factors for each country.

Part III includes annexes with methodological details. To make them easier to find, the annexes are explicitly associated with the chapter to which they refer. They provide transparent information on the methodology and data, as well as bibliographical references.

Part I

Fiscal sustainability analysis

1. SHORT-TERM FISCAL SUSTAINABILITY ANALYSIS

Main takeaways

Government gross financing needs

- In the EU on average, gross financing needs – an important predictor of short-term fiscal sustainability risks – are expected to increase only marginally between 2025 and 2027.
- At the country level, gross financing needs were elevated in five countries in 2025 (Belgium, Spain, France, Italy and Finland) and are projected to remain elevated in four of those countries over the period 2026-2027 (Belgium, France, Italy and Finland).
- Debt repayments, followed by budget deficits, are the main drivers of gross financing needs for most countries, and stock-flow adjustments are important for some countries.

Financial market trends and sovereign risks

- Most central banks in the EU have continued to ease their monetary policy in response to stabilising inflation and subdued growth.
- Ten-year government bond yields increased slightly in the EU in 2025. The announcement of the fiscal package in Germany pushed bond yields up, and they remain well above their pre-COVID average, thus sustaining pressure on public finances. Sovereign yield spreads between other EU countries and Germany declined slightly in 2025, and they remain the highest in Hungary and Romania. The ECB's composite indicator of systemic sovereign stress ("SovCISS") indicates that stress in euro area sovereign debt markets increased between mid-2024 and mid-2025 but decreased thereafter to long-time lows.
- Sovereign ratings remained stable and favourable for most EU countries in 2025, reflecting overall resilience in sovereign creditworthiness. Nevertheless, there were some notable upgrades (Greece, Spain, Italy) and downgrades (Belgium, France, Austria), reflecting country-specific risk factors. All Member States now have investment-grade rating by all three major agencies, for the first time in 15 years.

Predicting fiscal stress and possible future methodological developments

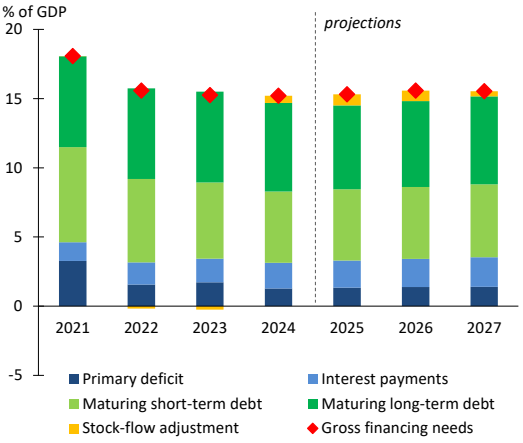
- This edition of the DSM discontinues the application of the S0 early-warning indicator in its existing form (see Box 1.1) in view of changes in the economic environment and advancements in the literature. The assessment of short-term sustainability risks continues on the basis of an economic reading of relevant indicators. Specific country risks are assessed and closely monitored in the context of the EU economic and fiscal surveillance processes.
- The Commission services intend to reflect on whether alternative and more updated tools could usefully contribute to this assessment in the future.

This chapter assesses short-term fiscal sustainability risks by analysing the developments in gross financing needs (Section 1.1.) and sovereign financing conditions (Section 1.2.).

1.1. GOVERNMENT GROSS FINANCING NEEDS OVER THE SHORT TERM

Gross financing needs are an important predictor of fiscal sustainability risks. They represent the flow of payments or financing needs the government faces to meet its debt servicing obligations (including redeeming or rolling over maturing debt) and cover the budget deficit (see Annex A1). Gross financing needs consist of three components: the government deficit (including interest payments), short- and long-term debt redemptions, and stock-flow adjustments. While gross financing needs, as a flow concept, mainly provide insight into the liquidity and rollover risks of government finances in the short to medium term, the stock of debt captures solvency risks over the longer term. This section focuses on assessing gross financing needs over the short-term forecast horizon, i.e. until 2027, while Section 2.3 in Chapter 2 analyses the medium-term horizon until 2036.

Graph 1.1: **Gross financing needs in the EU, by components**



Source: Commission services

In the EU on average, gross financing needs are expected to increase only marginally between 2025 and 2027 (see Graph 1.1). From 2023 to 2025, gross financing needs in the EU were stable around at around 15.3% of GDP (and around 16% for the euro area), and they are expected to increase slightly in 2026 before edging down in 2027 ([7]). While most of the components of gross financing needs are expected to increase slightly over these two years, in 2027 this is offset by a projected decline in stock-flow adjustments.

At the country level, gross financing needs remained elevated in five countries in 2025 and are projected to still be elevated in four of those countries by 2027 (see Table 1.1). Between 2024 and 2025, gross financing needs remained broadly unchanged. In 2025, gross financing needs exceeded 16% of GDP in five countries (Belgium, Spain, France, Italy and Finland), remaining over 20% of GDP in Italy and France. Looking ahead to 2026 and 2027, gross financing needs are expected to stay above 16% of GDP in four countries (Belgium, France, Italy and Finland).

Debt repayments, followed by budget deficits, are the main drivers of gross financing needs in 2025 for most countries, while stock-flow adjustments are important for some countries too (see Table 1.1). On average, debt repayments account for 73% of gross financing needs in the EU in 2025, of which close to 40% for maturing long-term debt and 34% from maturing short-term debt. In addition, roughly 22% of gross financing needs stem from government deficits, which are divided between interest expenditure (13%) and primary deficits (9%). Finally, stock-flow adjustments (SFA) account for 5% of gross financing needs in the EU on average, but in some, typically low-debt countries they play a much more significant role ([8]).

([7]) According to the Commission's S0 indicator, gross financing needs above 16% of GDP signal elevated risks, see Annex 1.4 of the DSM 2024.

([8]) Stock-flow adjustment refers to the discrepancy between a government's budget deficit and the change in its debt level over a given period. This adjustment accounts for factors that affect public debt but are not captured in the budget balance, such as financial transactions (e.g., privatisations, loans, or asset purchases), accumulation or use of cash buffers, changes in the valuation of debt instruments (e.g., exchange rate fluctuations) or accounting differences between cash-based and accrual-based measures of budget balance.

Significant positive stock-flow adjustments are expected for several countries in 2026 and 2027 due to country-specific factors. In Lithuania, the accumulation of a cash buffer by the social security fund is the key factor behind the positive SFA, as its surplus cannot be used to finance the state deficit and therefore the state has additional borrowing needs which it covers from the market. In other cases, cash-accrual adjustments in the deficit, which are partly related to defence investments (e.g. in Poland), or to the Recovery and Resilience Facility (RRF) (e.g. in Portugal) drive the SFAs. In Italy, the impact of the *Superbonus* scheme contributes significantly to the increase in SFAs, while for Greece, the on-lending of the RRF loans under the Loan Facility contributes the most to the positive SFAs.

Table 1.1: **Gross financing needs by country**

(% of GDP)	2021	2022	2023	2024	2025	2026	2027	Components in 2025				
								Primary deficit	Interst payments	Maturing short-term debt	Maturing long-term debt	SFA
BE	*18.7*	*18.9*	*18.7*	*18.6*	*19.7*	*19.5*	*19.9*	2.9	2.4	8.5	4.4	1.5
DE	*18.3*	15.3	14.5	13.0	14.3	15.4	15.8	1.9	1.1	5.0	6.1	0.1
EE	2.8	4.2	3.1	5.6	2.7	5.6	5.9	0.8	0.5	1.7	0.0	-0.3
IE	5.4	2.4	1.7	1.8	2.1	2.5	2.7	-2.0	0.5	0.6	2.4	0.7
EL	15.6	*17.5*	15.6	9.0	8.2	8.7	8.6	-4.3	3.3	4.2	3.4	1.7
ES	*23.7*	*18.5*	*18.5*	15.7	*16.4*	15.0	15.4	0.0	2.5	4.8	8.0	1.1
FR	*24.9*	*21.8*	*20.2*	*22.3*	*21.6*	*21.1*	*21.9*	3.2	2.3	7.9	8.1	0.0
HR	14.6	6.3	10.6	9.0	12.6	12.7	12.0	1.4	1.5	2.5	7.1	0.2
IT	*25.3*	*22.5*	*24.7*	*24.5*	*23.3*	*23.7*	*22.4*	-0.9	3.9	7.9	10.5	1.9
CY	5.4	4.0	2.5	2.4	1.4	4.2	3.9	-4.6	1.3	0.2	4.6	0.0
LV	10.3	5.2	7.8	6.8	8.7	8.5	10.8	1.9	1.2	0.1	4.3	1.2
LT	6.0	5.1	4.8	6.6	7.3	11.0	9.6	1.3	1.0	0.0	3.4	1.7
LU	2.6	3.6	4.4	2.9	3.6	3.6	3.1	0.4	0.4	0.1	1.9	0.8
MT	14.1	8.4	9.0	8.1	8.2	7.5	7.5	2.0	1.2	2.9	1.6	0.6
NL	11.2	10.2	8.5	7.8	8.9	10.5	8.5	1.2	0.7	3.4	2.1	1.6
AT	*19.4*	*19.0*	15.8	14.9	15.2	15.3	15.7	2.7	1.7	4.8	5.9	0.1
PT	12.2	10.6	4.0	9.4	9.7	10.5	10.4	-2.2	2.1	2.6	4.7	2.3
SI	10.4	8.2	7.8	7.5	7.7	7.4	8.0	0.9	1.3	2.5	3.4	-0.5
SK	7.7	4.4	8.6	10.8	10.1	10.1	11.0	3.4	1.6	0.2	5.0	-0.2
FI	11.8	14.3	15.9	*17.9*	*20.1*	*19.2*	*18.6*	2.8	1.6	10.2	3.3	2.1
EA	***19.5***	***16.8***	***16.3***	15.9	***16.1***	***16.4***	***16.3***	**1.2**	**2.0**	**5.6**	**6.5**	**0.8**
BG	3.2	4.4	3.9	4.9	8.5	5.9	4.6	2.1	0.9	0.1	1.7	3.6
CZ	10.5	10.2	7.2	5.7	5.9	6.2	6.3	0.5	1.3	0.6	2.7	0.8
DK	8.7	5.3	4.8	4.7	4.5	4.5	4.3	-3.1	0.7	1.5	3.7	1.7
HU	*16.9*	14.7	*17.7*	13.7	14.9	15.2	14.3	0.6	4.0	4.5	5.4	0.5
PL	7.4	7.5	9.4	14.8	14.0	15.3	15.3	4.3	2.4	0.5	5.3	1.5
RO	10.7	11.6	13.9	*16.1*	13.8	12.4	12.9	5.3	3.1	2.5	2.9	0.0
SE	8.9	5.7	6.4	10.3	9.2	9.8	9.9	0.9	0.7	7.5	0.0	0.0
EU	***18.1***	15.6	15.3	15.2	15.3	15.6	15.5	**1.3**	**2.0**	**5.2**	**6.1**	**0.8**

(1) GFN are calculated as the sum of the budget deficit, redemption of main debt instruments (securities and loan principal repayments), as well as stock-flow adjustments (SFA). (2) For post-programme surveillance countries (such as EL, ES, IE, CY and PT), figures take into account the repayment schedule of official loans. (3) Figures in red italics exceed 16% of GDP.

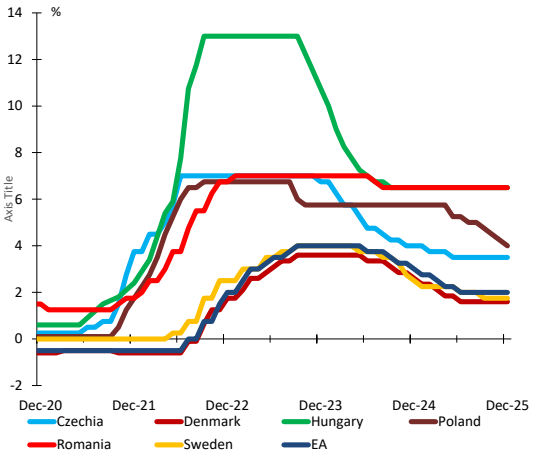
Source: Commission services

1.2. SOVEREIGN FINANCING CONDITIONS

This section analyses sovereign financing conditions using a set of indicators that reflect financial markets' perception of sovereign risk. High-frequency financial data provide valuable and timely information to monitor short-term debt dynamics and detect the emergence of adverse developments in fiscal sustainability, including self-reinforcing debt dynamics ([9]). Since market dynamics can be influenced by various factors, a comprehensive analysis taking into account several sources of information is essential for a thorough understanding of sovereign financing conditions.

Most EU central banks have continued to ease their monetary policy in response to disinflation and deteriorated growth outlook (see Graph 1.2). All European central banks have continued lowering their policy rates, especially in the first half of 2025, except for the Hungarian and Romanian central banks. The ECB's policy rate settled at 2% as of July 2025, down from 3% at the end of 2024. The Swedish Riksbank and the Danish Central Bank lowered their policy rates even further, to 1.75% and 1.6% respectively. Poland, and Czechia lowered their rates as well, by 175 and 50 basis points respectively in 2025, while policy rates in Hungary and Romania remained unchanged in 2025 at 6.5% due to sustained concerns about inflation.

Graph 1.2: **Overview of key policy rates of major central banks in the EU**



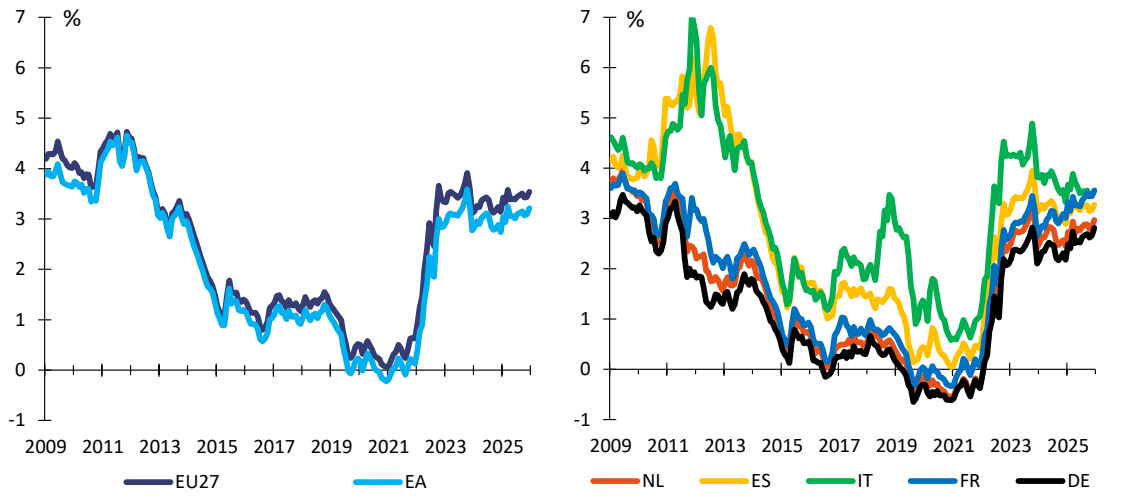
Cut-off date: 31 December 2025

Source: Commission services

Ten-year government bond yields increased slightly in the EU in 2025 (see Graph 1.3). After stabilising at the end of 2024 around 3.1% and 2.7% in the EU and euro area respectively, bond yields have edged higher on aggregate in 2025. This was driven, in particular, by the announcement of a sizeable fiscal package in Germany in March 2025, which pushed bond yields to their highest level in 2025, and to 3.6% in the EU as a whole. In the second half of the year, bond yields have moderated somewhat but remained above their end-2024 levels, hovering around 3.5% and in 3.1% in the EU and in the euro area respectively. Long-term government bond yields thus remain well above their pre-COVID average, thus fiscal pressure from debt servicing costs continues to increase, as maturing debt is repriced at higher interest rates.

([9]) For discussion of the market expectations on sovereign debt default and risks of self-fulfilling crisis channel, see Calvo G. (1988), Servicing the public debt: The role of expectations, *American Economic Review*, 78(4), 647-661. For an application of the EU sovereign crisis event see Miller, M., and Zhang, L. (2014), Saving the euro: Self-fulfilling crisis and the "Draghi Put", in: Stiglitz, J.E. and Heymann, D. (eds.), *Life after debt*. International Economic Association Series. Palgrave Macmillan, London.

Graph 1.3: **Ten-year sovereign bond yields (EU/EA aggregate and five largest economies)**

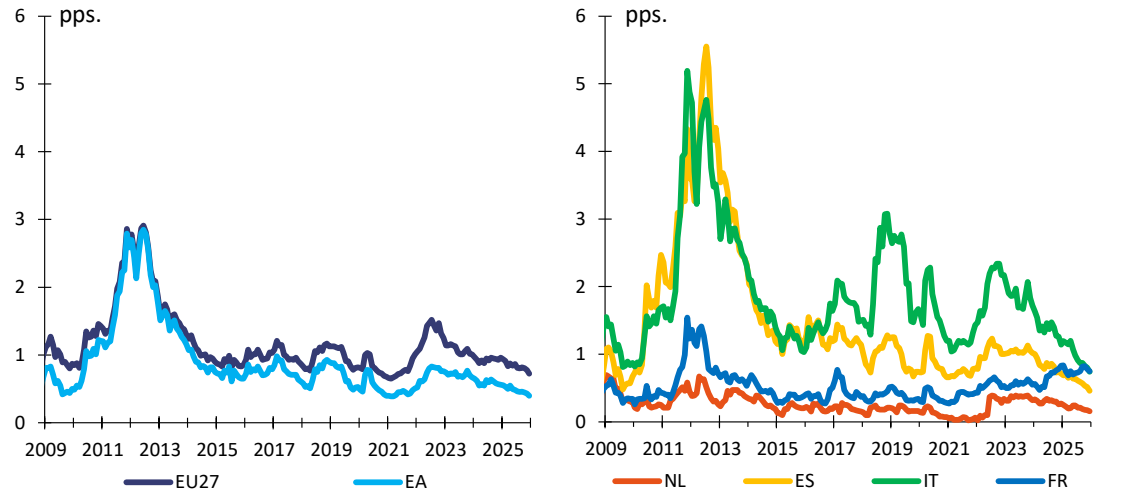


Cut-off date: 31 December 2025

Source: Commission services based on ECB LTIR database

Sovereign yield spreads slightly declined in 2025 (see Graph 1.4). The sovereign yield spreads versus the German bund declined by around 20 basis points between end-2024 and end-2025, reaching 0.7 pps. in the EU and 0.4 pps. in the euro area. Almost all Member States recorded a decline in spreads on average in 2025, with the exception of a few countries (including France), where country-specific risk factors – also reflected in the higher policy rates in case of Hungary and Romania – have prevented the spreads from moderating for most of the year.

Graph 1.4: **Ten-year sovereign bond spreads vis-à-vis the German bund (EU/EA aggregate and four largest EU economies)**



Cut-off date: 31 December 2025

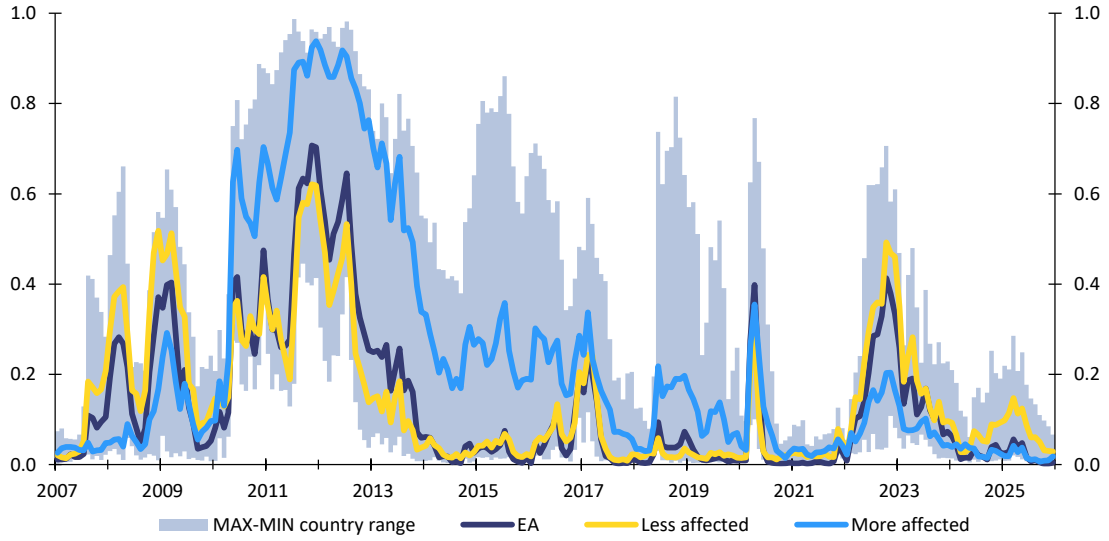
Source: Commission services based on ECB-LTIR database

The ECB's composite indicator of systemic sovereign stress (SovCISS) indicates that stress in euro area sovereign debt markets increased between mid-2024 and mid-2025, but has declined since (see Graph 1.5).([10]) The indicator signalled receding systemic stress levels until mid-

([10]) The SovCISS (Composite indicator of systemic sovereign stress) follows the CISS (Composite indicator of systemic stress) methodology developed in Holló et al. (2012), CISS – A Composite Indicator of Systemic Stress in the Financial System,

2024, driven by expectations of a more accommodative monetary policy from the ECB. Stress levels started to increase again on the back of budgetary challenges and the muted growth outlook. As uncertainty about global trade policies declined, by the end of 2025 systemic sovereign stress levels have come to low levels not seen since late-2020.

Graph 1.5: **Composite indicator of systemic stress (SovCISS) in euro area sovereign bond markets**



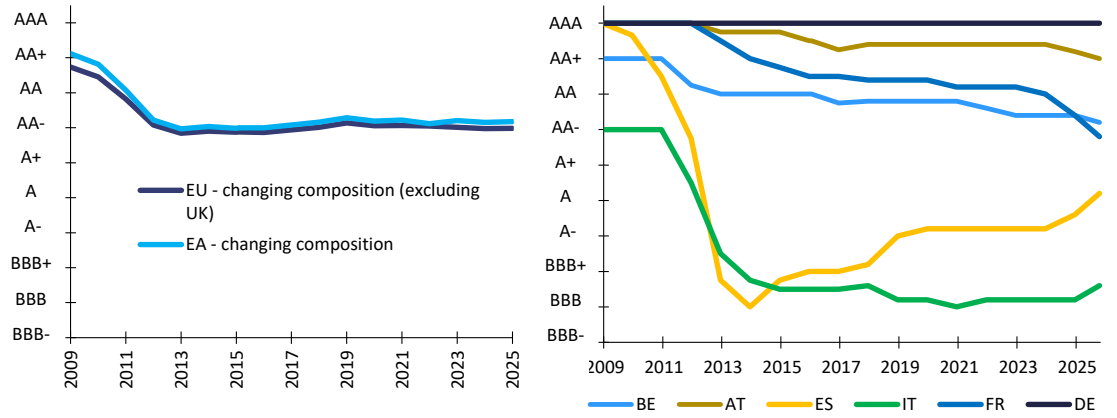
The SovCISS is a composite indicator that measures systemic stress in sovereign debt markets within the euro area and several euro area countries. It integrates various indicators of credit risk, volatility and liquidity at different bond maturities to provide a comprehensive measure of stress in sovereign markets. It is available for the euro area and 11 euro area countries (AT, BE, FI, FR, DE, EL, IE, IT, NL, PT, ES). Countries more affected by the crisis include EL, IE, IT, PT, ES, while less affected countries are AT, BE, FI, FR, DE, NL. Cut-off date: 31 December 2025.

Source: Commission services based on ECB data.

Long-term foreign-currency sovereign ratings have remained stable and favourable for most EU countries in 2025, reflecting overall resilience in sovereign creditworthiness (see Graph 1.6, Table 1.2). The relatively high ratings for the EU and euro area as a whole in 2024 were supported by stable or improved ratings across most Member States. While most Member States' rating remained unchanged, there have been notable upgrades. In particular, Spain was upgraded by all three major rating agencies in 2025 on account of its growth performance, and Italy was upgraded by S&P and Fitch mostly due to prudent fiscal policy. By contrast, Fitch downgraded Austria, France and Belgium to due concerns about fiscal policy. As Moody's upgraded Greece to Baa3 in March 2025, for the first time in 15 years, all Member States have investment-grade rating by all three major agencies.

ECB Working Paper Series, No. 1426. Stress symptoms are measured along three dimensions: (i) risk spreads, (ii) yield volatilities, and (iii) bid-ask spreads. For details, see Garcia-de-Andoain, C. and Kremer, M. (2018), Beyond spreads: measuring sovereign market stress in the euro area, ECB Working Paper Series, No. 2185.

Graph 1.6: **Long-term foreign-currency sovereign ratings (EU/EA aggregates and selected economies)**



Ratings are computed as simple average (using an alphanumeric conversion table) of long-term foreign currency ratings, assigned by the major rating agencies

Source: Commission services based on Moody's, S&P, Fitch, DBRS and Scope.

Table 1.2: **Long-term foreign-currency sovereign credit ratings (as of 31 December 2025)**

	Moody's			S&P			Fitch		
	Rating	Outlook	Since	Rating	Outlook	Since	Rating	Outlook	Since
BE	Aa3	Negative	12/10/2024	AA	Negative	25/04/2025	A+	Stable	13/06/2025
BG	Baa1	Stable	03/02/2023	BBB+	Stable	10/07/2025	BBB+	Stable	10/07/2025
CZ	Aa3	Stable	24/11/2023	AA-	Stable	24/08/2011	AA-	Stable	23/02/2024
DE	Aaa	Stable	28/02/2014	AAA	Stable	13/01/2012	AAA	Stable	21/09/2000
DK	Aaa	Stable	23/08/1999	AAA	Stable	27/02/2001	AAA	Stable	10/11/2003
EE	A1	Stable	31/03/2010	A+	Stable	31/05/2024	A+	Stable	28/07/2023
IE	Aa3	Positive	16/08/2024	AA	Positive	15/11/2024	AA	Stable	31/05/2024
EL	Baa3	Stable	14/03/2025	BBB	Stable	18/04/2025	BBB	Stable	14/11/2025
ES	A3	Stable	26/09/2025	A+	Stable	12/09/2025	A	Stable	26/09/2025
FR	Aa3	Negative	24/10/2025	A+	Stable	17/10/2025	A+	Stable	12/09/2025
HR	A3	Stable	08/11/2024	A-	Positive	13/09/2024	A-	Stable	20/09/2024
IT	Baa2	Stable	21/11/2025	BBB+	Stable	12/04/2025	BBB+	Stable	19/09/2025
CY	A3	Stable	22/11/2024	A-	Positive	14/11/2025	A-	Positive	21/11/2025
LV	A3	Stable	13/02/2015	A	Stable	31/05/2024	A-	Stable	15/11/2024
LT	A2	Stable	12/02/2021	A	Stable	31/05/2024	A	Stable	31/01/2020
LU	Aaa	Stable	28/02/2014	AAA	Stable	14/01/2013	AAA	Stable	21/09/2000
HU	Baa2	Negative	29/11/2024	BBB-	Negative	11/04/2025	BBB	Negative	05/12/2025
MT	A2	Stable	18/11/2022	A-	Stable	13/03/2020	A+	Stable	11/08/2017
NL	Aaa	Stable	07/03/2014	AAA	Stable	20/11/2015	AAA	Stable	11/07/2014
AT	Aa1	Negative	22/08/2025	AA+	Stable	14/02/2025	AA	Stable	06/06/2025
PL	A2	Negative	19/09/2025	A-	Stable	12/10/2018	A-	Negative	05/09/2025
PT	A3	Stable	17/11/2023	A+	Stable	29/08/2025	A	Stable	12/09/2025
RO	Baa3	Negative	14/03/2025	BBB-	Negative	25/01/2025	BBB-	Negative	17/12/2024
SI	A3	Positive	11/10/2024	AA	Stable	06/06/2025	A+	Stable	03/10/2025
SK	A3	Stable	13/12/2024	A+	Negative	25/04/2025	A-	Stable	08/12/2023
FI	Aa1	Stable	03/06/2016	AA+	Stable	16/09/2016	AA	Stable	25/07/2025
SE	Aaa	stable	04/04/2002	AAA	Stable	16/02/2004	AA+	Stable	08/03/2004

Source: Commission services based on Moody's, S&P and Fitch

Box 1.1: Possible methodological developments to assess short-term fiscal sustainability risks

Until the Debt Sustainability Monitor 2024, the analysis of short-term fiscal sustainability risks relied mainly on the S0 early-warning indicator. This indicator was initially developed in response to the experience from the 2008 global financial crisis and the subsequent sovereign debt crisis, with the aim to provide an early-detection mechanism for fiscal stress in the year ahead. It followed a signalling approach and incorporated information from 25 contemporaneous and lagged variables. The indicator covered risks to fiscal sustainability stemming from both the fiscal and financial-competitiveness areas, acknowledging that fiscal stress could have non-fiscal roots.

To remain a state-of-the-art tool, the S0 indicator would need to be reviewed in light of recent developments in the economic environment and literature. Since the introduction of the S0 indicator, the macroeconomic context has changed, the EU governance framework has been reformed, and new advancements have been made in the economic literature in terms of modelling and predicting episodes of fiscal stress. This calls for rethinking the design and purpose of the S0 indicator. Its use in its existing form is therefore discontinued with this edition.

It could be explored whether new approaches to gauging short-term risks could usefully be implemented in the future. Possible methodological improvements could reflect recent advancements in data availability and modelling techniques, with the aim to strengthen the early-warning capacity of future indicators. The following is an indicative and non-exhaustive list of possible avenues.

The use of quarterly data could provide more timely signals of short-term risks. Introducing quarterly data – particularly for financial-market and macroeconomic variables – could improve timeliness and allow earlier detection of sudden changes in financing conditions. The use of more frequent data series would be valuable during periods of heightened uncertainty, when annual snapshots may miss important turning points.

Machine-learning (ML) models could strengthen accuracy. Modern supervised ML techniques could potentially improve predictive performance by capturing non-linear relationships between variables and fiscal stress outcomes, which may better account for interactions between variables and changing economic conditions ([1]). The application of ML models for detecting fiscal stress would need to preserve interpretability, i.e. it would need to allow identifying specific sources of vulnerability ([2]).

There may be scope to revisit the set of variables and use alternative transformations. Future approaches could rely on new market-based stress indicators or variables reflecting emerging vulnerabilities ([3]). Alternative transformations of existing variables, such as different lag structures, and the use of leading indicators, such as the Commission forecasts, could also help improve predictive power.

Any future indicator measuring short-term fiscal risks would need to be carefully assessed against the objective of providing timely and reliable signals to inform economic and fiscal surveillance.

([1]) See e.g. Bluwstein K., Buckmann M., Joseph A., Kapadia S., and Simsek O. (2023), Credit growth, the yield curve and financial crisis prediction: Evidence from a machine learning approach. *Journal of International Economics*.
([2]) See e.g. Liu L., Chen C., and Wang B. (2022), Predicting financial crises with machine learning methods. *Journal of Forecasting*.
([3]) See e.g. Hellwig K. (2021), Predicting fiscal crises: A machine learning approach. *International Monetary Fund*.

2. MEDIUM-TERM FISCAL SUSTAINABILITY ANALYSIS

Main takeaways

The analysis of medium-term fiscal sustainability risks relies on the Commission's comprehensive debt sustainability analysis (DSA) framework. The DSA combines deterministic debt projections up to 2036 with stochastic projections covering a wide range of possible shocks. The projections include the impact of ageing-related expenditure. They consider alternative scenarios to the 'no-fiscal-policy-change' baseline, such as reverting to past fiscal behaviour, implementing only part of the forecast structural adjustment, benefiting from a less favourable interest rate-growth ('r-g') differential, and facing temporary turmoil on financial markets. This is complemented by an assessment of liquidity challenges based on governments' gross financing needs.

In the EU as a whole, at unchanged fiscal policy, the debt-to-GDP ratio is projected to increase over the next 10 years towards 100% of GDP, driven by gradual increases in the cost of ageing and in interest expenditure. In the baseline, the 'r-g' differential is assumed to remain only slightly negative by 2036, after increasing throughout the projection period mostly because of rising implicit interest rates. The favourable impact of this differential on debt dynamics – the 'snowball effect' – will therefore not be large enough to offset the increasing pressure from ageing costs on public finances. An alternative scenario shows that the increase in debt for the EU as a whole could be less pronounced if the structural primary balance converged back to the level of small deficit observed on average in the past 15 years (compared to the larger deficit assumed in the baseline). Conversely, a more limited fiscal adjustment, a less favourable 'r-g' differential or temporary financial stress would worsen the debt dynamics.

The stochastic projections point to uncertainty around the baseline. With an 80% probability, debt will lie between 80% and 96% of GDP in the European Union as a whole by 2030, and there is a 79% probability of it being higher than its 2025 level (82.7% of GDP) In 2030, the debt ratio in the European Union could stand above or below 88% of GDP with equal probability. High uncertainty in some countries reflects historically volatile macro-financial and fiscal conditions.

Overall, 12 Member States are found to be at high medium-term fiscal sustainability risk, 10 at medium risk and 5 at low risk. The high-risk classification is mainly driven by the debt dynamics under the no-fiscal-policy-change baseline, due either to currently high and still increasing debt ratios (Belgium, Spain, France and Italy), debt increasing beyond 90% of GDP (Germany, Hungary, Austria, Poland, Romania, Slovakia and Finland), or debt declining but remaining at a high level and with only moderate room for additional consolidation (Greece). In several cases, the stochastic analysis confirms the high risk of higher debt in 5 years' time (Belgium, Germany, Spain, France, Italy, Hungary, Austria, Slovakia, and Finland) and shows significant uncertainty surrounding the baseline projections (Greece and Romania). Projected financing needs suggest that countries with the highest debt ratios could also be potentially exposed to liquidity challenges.

Table 2.1: **Overview of the medium-term risk classification**

Source: Commission services.

The debt sustainability analysis (DSA) captures medium-term challenges in a comprehensive way. First, the DSA includes the impact of ageing-related costs. Second, it considers both favourable and adverse scenarios in addition to the baseline. Third, it accounts for uncertainty by simulating a wide range of 10 000 possible shocks. Last but not least, by taking a historical perspective, it takes into account the plausibility of projected debt paths and the feasibility of fiscal consolidation measures, if needed.

This chapter is organised as follows. Going through the various elements of the DSA toolkit, the chapter starts with a baseline for debt trajectories over the next 10 years, along with a set of additional deterministic debt projections underpinned by alternative assumptions (Section 2.1). To assess how a broad range of possible shocks could affect debt in the coming years, the DSA also relies on stochastic debt projections, which allow to gauge the uncertainty around the baseline (Section 2.2). Finally, the DSA is complemented by projections of governments' gross financing needs over the next decade, which provide information on potential liquidity risks (Section 2.3). The chapter concludes with an overall assessment of medium-term fiscal risks and a comparison with the 2024 Debt Sustainability Monitor (DSM) (Section 2.4). It also includes five boxes: Box 2.1 details the assumptions underpinning the baseline and the alternative deterministic scenarios, Box 2.2 discusses the role of the fiscal consolidation space in the Commission's DSA risk classification, Box 2.3 presents the revised methodology for the stochastic projections, Box 2.4 describes the impact of the debt of the EU institutions and bodies on the consolidated debt of the European Union and Box 2.5 presents the change of the fiscal multiplier assumption.

2.1. DETERMINISTIC GOVERNMENT DEBT PROJECTIONS

The first component of the DSA consists in a set of deterministic projections based on various scenarios. Each deterministic projection provides a single path for debt until 2036 under certain assumptions for budgetary, macroeconomic and financial variables. In addition to the baseline, four other scenarios are taken into account for the medium-term risk classification. These are the 'historical structural primary balance (SPB)', 'lower SPB', 'adverse interest-growth rate differential (r-g)' and 'financial stress' scenarios. They highlight the impact on debt of alternative assumptions for fiscal policy, real GDP growth and interest rates (Table 2.2) and can affect the risk classification if they signal higher risk than the baseline (see Section 2.4). For non-euro area Member States, an additional stress test affecting the exchange rate provides further information on risks, although without affecting the risk classification; its assumptions are described in Box 2.1 and its results are provided in the country fiches.

Table 2.2: **Debt projections in the deterministic scenarios**

	Baseline 2025	Baseline 2036	Difference to the baseline in 2036 (pps.) 'Historical SPB' scenario	'Lower SPB' scenario	'Adverse r-g' scenario	'Financial stress' scenario
BE	107.1	137.4	-11.6	4.6	10.1	1.8
BG	28.5	40.4	-8.4	4.4	3.2	0.5
CZ	43.4	56.0	0.6	5.7	4.2	0.4
DK	28.9	13.8	-4.3	4.5	1.7	0.2
DE	63.5	91.0	-22.3	5.2	6.9	0.5
EE	23.4	56.2	-19.1	5.7	3.2	0.1
IE	33.1	20.3	14.7	4.3	1.9	0.1
EL	147.6	123.5	-26.1	6.0	9.7	1.8
ES	100.0	107.7	5.6	5.2	8.6	1.2
FR	116.3	144.0	2.1	4.9	11.6	2.7
HR	56.2	68.4	-13.0	4.9	5.6	0.5
IT	136.4	149.1	2.5	5.5	13.5	4.6
CY	56.4	20.1	12.3	5.0	2.6	0.1
LV	48.3	74.2	-8.2	5.1	5.6	0.5
LT	39.8	65.7	-7.5	5.0	4.7	0.4
LU	26.8	20.1	-1.6	4.4	1.7	0.2
HU	73.7	102.5	-4.7	6.1	8.3	0.7
MT	47.0	40.8	-2.9	3.8	3.1	0.3
NL	45.2	58.7	-5.2	4.9	4.3	0.4
AT	81.4	102.0	-10.4	4.9	7.8	0.7
PL	59.5	106.8	-15.0	5.3	7.9	0.7
PT	91.3	83.1	5.5	5.1	7.4	0.6
RO	59.1	89.8	2.3	5.4	6.8	0.7
SI	65.2	75.1	-5.4	5.1	5.0	0.3
SK	61.9	101.2	-4.2	4.8	7.0	0.6
FI	88.1	113.9	-3.3	4.8	8.3	0.8
SE	34.5	43.6	-13.5	5.0	2.9	0.2
EU	82.8	100.0	-6.5	5.1	7.9	1.4
EA	88.8	105.4	-6.1	5.1	8.4	1.6

Source: Commission services.

The deterministic projections feed into the medium-term risk classification using the debt level in 2036, the debt trajectory and the available 'fiscal consolidation space'. While a high level of debt can be a source of vulnerability, it is only a crude indicator of sustainability. That is why the risk classification relies on two more criteria in addition to the debt level. One is the path projected to be followed by debt over the coming decade. The debt level and the debt path, as reflected in the peak year and the overall change in debt, are reported below for each scenario in a dedicated graph. The other one is the 'fiscal consolidation space'. This space is measured by how often more stringent fiscal positions than

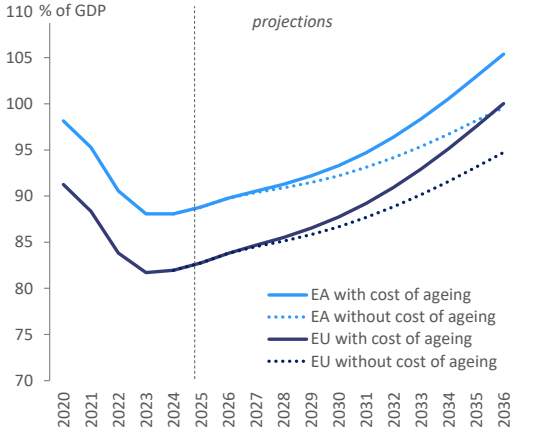
assumed in a given scenario were observed in the past in the country under consideration – technically, this consists in looking at (one minus) the percentile rank of the projected SPB within the distribution of SPBs observed in the past in the country. This gives an indication of whether the country has plausible fiscal room for manoeuvre to take adjustment measures if necessary. Therefore, a high level of debt or an increasing debt path in the baseline do not necessarily imply high sustainability risks, as long as the government has available 'consolidation space' to rein in debt ([11]). Box 2.2 discusses in more details the role of this indicator, while Annex A3 describes the decision tree applied along the three criteria used to assess the risk signal associated to each scenario.

This section focuses on the economic reading and main results of each scenario. It explains why the selected scenarios are relevant in the current context, and it discusses the results both for the aggregate level and across countries. In particular, it explains how the risk classification is established, including the criteria underpinning it (as depicted in the respective graphs). Box 2.1 includes further technical information on the underlying assumptions, and detailed projection tables can be found in the statistical annex A5.

2.1.1. Baseline: no fiscal policy change

The baseline for the medium-term debt projections assumes that structural primary budgetary positions remain at their 2026 level until 2036, except for the impact of ageing-related costs. The 2026 level is the one expected in the Commission 2025 autumn forecast (for the EU as a whole, an SPB of -1.1% of GDP), which includes the impact of policy measures adopted by the end of October 2025 ([12]). As from 2027, the projections do not incorporate any new measures, and the SPB is only affected by changes in the cost of ageing as projected in the 2024 Ageing Report ([13]) (for the EU as a whole, the overall SPB level including the impact of ageing costs is projected to gradually decline to -2.1% by 2036, see Annex A5).

Graph 2.1: **Gross government debt baseline projections, EU and euro area**



Source: Commission services.

This assumption implies that the fiscal adjustment that Member States committed to in their medium-term plans for the period beyond 2026 is not taken into account in the projections. Therefore, this adjustment does not affect the medium-term risk classification. By contrast, Chapter 5 presents two sets of projections that are related to the implementation of the EU fiscal framework. One set gauges the impact of an increase in defence expenditure under the national escape clause; the other assesses how debt would evolve over the medium term if Member States followed their medium-term plans over the coming years.

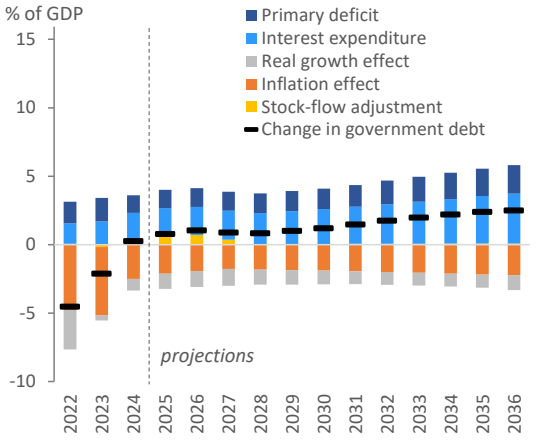
([11]) This is in line with the definition of debt sustainability risks used by the IMF, the ECB and the Commission. Debt is deemed unsustainable only in cases when there is *no politically and economically feasible fiscal path that can at least stabilise debt over the medium term* (under the baseline and realistic shock scenarios), keeping rollover risk at an acceptably low level while preserving potential growth.

([12]) Moreover, GDP growth over 10 years is projected in line with the EU commonly agreed methodology.

([13]) https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en

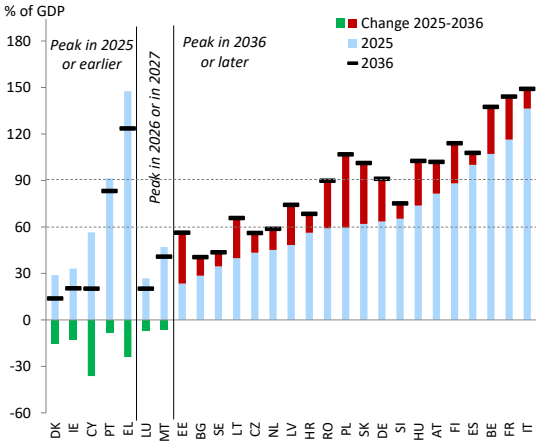
The baseline points to a continuous increase of the debt ratio in the EU over the next 10 years, mainly driven by the rising cost of ageing and interest expenditure. At unchanged policies, by 2036 debt would reach 100% of GDP in the EU ([14]). The projected debt for the euro area as a whole follows a similar path (Graph 2.1). The projected increase in debt is partly due to the impact of the cost of ageing in the EU, which is visible in the worsening primary deficit (Graph 2.2). Positive stock-flow adjustments also drive the debt dynamics, mainly between 2025 and 2027 ([15]), as discussed in Chapter 1. Moreover, interest expenditure as a ratio to GDP is set to almost double by 2036 compared to 2024. On the other hand, the debt-reducing effect stemming from real GDP growth and inflation is projected to broadly stabilise over that period. Considered together, the developments in nominal growth and interest expenditure are expected to combine into a gradually less favourable snowball effect ([16]) that would even turn positive in the last years of the projection, thereby reinforcing the debt-increasing impact of the primary deficit and of positive stock-flow adjustments ([17]).

Graph 2.2: **Drivers of the change in debt under the baseline, EU**



Source: Commission services.

Graph 2.3: **Gross government debt projections for EU Member States under the baseline (2025-2036)**



Source: Commission services.

The projected debt paths of individual Member States show contrasted situations. In 5 countries (Denmark, Ireland, Greece, Cyprus and Portugal), the debt ratio projected for 2036 is below the level of 2025 (Graph 2.3). In all these countries, debt started declining after the peak of 2020 and is expected to further decline over the medium term. In 2 Member States (Luxembourg and Malta), debt is projected to increase over the first two years before slowly declining until the end of the projections. In the remaining 20 Member States, at unchanged policies, debt is projected to increase overall between 2025 and 2036, in some cases starting from a high level (Italy, France, Belgium and Spain). In three of those 20 countries (Spain, Croatia and Slovenia), debt would first broadly stabilise before increasing, while in all other cases it would steadily increase over the projection period.

([14]) Box 2.4 clarifies the concept of EU debt that is used in this report. It explains, in particular, that it does not consider the contribution of the debt of the 'Institutions and bodies of the European Union', which is negligeable and is projected to decline after reaching a peak in 2027 (at a level below 3% of GDP).

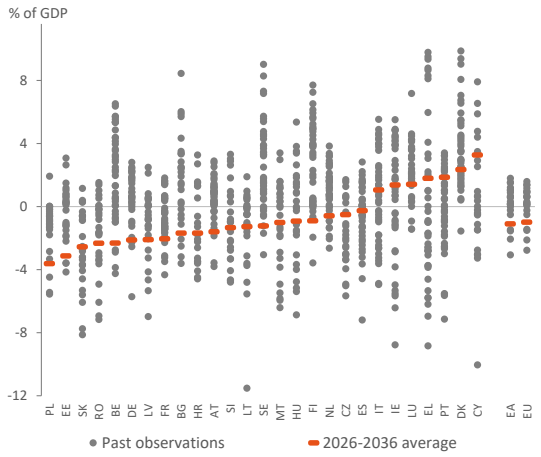
([15]) In the DSA framework, stock-flow adjustments are assumed to be equal to zero beyond the first two years, except in specific cases such as the building up of public pension funds (as in Luxembourg and Finland). See Chapter II.2 in the 2023 DSM for further details.

([16]) The snowball effect, which is closely related to the interest rate-growth differential, represents the combined impact of interest expenditure, inflation and real GDP growth on debt dynamics.

([17]) For further details on the breakdown of the change in debt, see the statistical annex A5.

In most countries, the debt paths envisaged in the baseline rely on low SPB levels by historical standards, suggesting sizeable fiscal consolidation space. This can be seen by plotting the projected SPB level (before cost of ageing) against country-specific SPB values observed in the last decades (Graph 2.4). As most countries have often recorded higher SPBs than the level assumed in the baseline, they can realistically aim to move again towards such higher levels in the coming decade, improving the debt dynamic compared to the baseline; this is discussed in the historical SPB scenario below. However, fiscal consolidation space appears more limited in some post-programme countries that are running large structural primary surpluses while their historical track record was often weaker (e.g. Greece, Cyprus and Portugal).

Graph 2.4: **Structural primary balance projected under the baseline and past observations**



Notes: (1) The 2026-2036 average is the value in the baseline before cost of ageing. (2) In this graph, past annual observations start at the earliest in 1980 (depending on the country), end in 2024 and include crisis years.

Source: Commission services.

Sustainability risk classification in the baseline

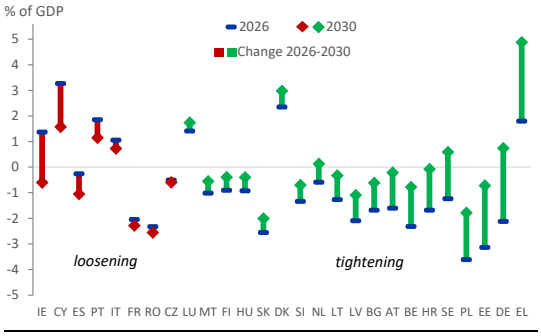
Based on the analysis above, the sustainability risk signal extracted from the baseline indicates that:

- **10 countries are at high risk.** These countries are Belgium, Germany, Spain, France, Italy, Hungary, Austria, Poland, Slovakia and Finland. In all these countries, debt is increasing and remains or goes above the threshold of 90% of GDP of the DSA decision tree for the deterministic scenarios (detailed in Annex A3).
- **6 countries are at medium risk.** This is the case for countries where debt is steadily increasing and ends up between 60% and 90% of GDP by the end of the baseline projections, namely in Croatia, Latvia, Lithuania, Romania and Slovenia. It is also the case for Greece, where, despite staying at a very high level by 2036, debt is steadily decreasing. Furthermore, as indicated by the fiscal consolidation space indicator, the assumed SPB level for Greece in the baseline could plausibly be maintained in the future given the country's historical track record of significantly higher SPB levels.
- **11 countries are at low risk.** For five countries – Bulgaria, Czechia, Estonia, the Netherlands and Sweden – debt is increasing but remains below 60% of GDP. Moreover, the assumed SPB is low by historical standards, indicating that these countries have sufficient fiscal consolidation space for corrective measures, should they become necessary. For the other six countries – Denmark, Ireland, Cyprus, Luxembourg, Malta and Portugal – debt is declining, reaching by 2036 a level below 60% of GDP for all but Portugal, where debt remains at an intermediate debt level (lying between 60% and 90% of GDP). In the case of Portugal, the fiscal consolidation space indicator also suggests that, based on the country's track record, there is some fiscal room, albeit moderate, for further consolidation if needed.

These results are also reported in the heat map at the end of this chapter, in Table 2.6.

2.1.2. Policy scenario: historical structural primary balance

Graph 2.5: **'Historical SPB' scenario: structural primary balance in 2026 and 2030**



Note: The 'historical SPB' scenario assumes that the SPB gradually converges, from 2027 to 2030, to the SPB observed on average in 2010-2024.

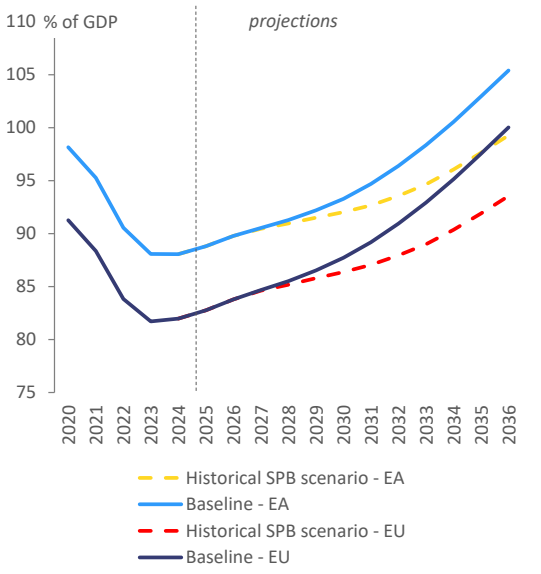
Source: Commission services.

The first alternative scenario assumes a change in fiscal policy over the medium term – namely that the SPB will gradually converge to its average past value. This scenario illustrates the prospect of countries reverting to average past fiscal behaviour instead of keeping the SPB at its 2026 level. More specifically, by 2030, each country's SPB would reach the average value observed in the country over the past 15 years, i.e. in 2010-2024 (Graph 2.5). While a majority of the Member States' SPBs are already expected to stand in 2026 within 1 pp. of their historical average, this scenario would imply significant tightening for 10 countries and significant loosening for two countries. In this scenario, by 2030, there would still be a structural primary deficit, although in most cases less pronounced, in a majority of Member States.

Compared with the baseline, reverting to past structural positions would slow down but not prevent the increase in debt in the EU. For the EU as a whole, the structural primary deficit would fall from 1.1% of GDP in 2026 to 0.3% by 2030. Nevertheless, debt would increase throughout the projection period, albeit at a weaker pace than in the baseline (Graph 2.6). The same would happen in the euro area if the structural primary deficit of 1% of GDP in 2026 gradually improved by 2030 to the historical standard, a small primary deficit of 0.2% of GDP.

Across countries, the 'historical SPB' scenario affects debt projections in both directions. Compared with the baseline, this scenario affects the 2036 debt level in a direction and by an amount consistent with the shock on the SPB, with the largest increases in Ireland and Cyprus and the biggest reductions in Greece and Germany. Among the high-debt countries, debt would increase considerably less than in the baseline in Belgium and decline faster in Greece (for comparisons, see Table 2.2 above).

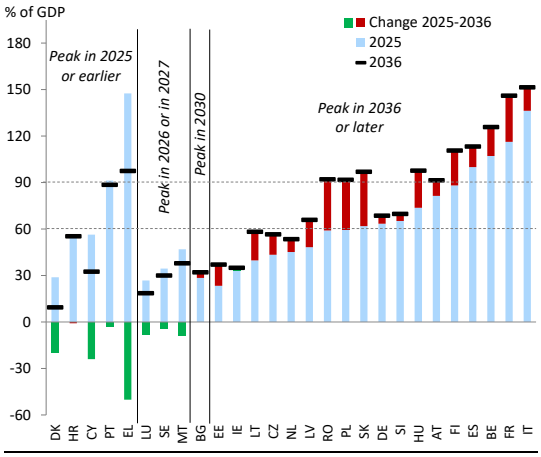
Graph 2.6: **Debt projections: 'historical SPB' scenario vs. baseline, EU and euro area**



Note: The 'historical SPB' scenario assumes that the SPB gradually converges, from 2027 to 2030, to the SPB observed on average in 2010-2024. The SPB then remains constant, except for the impact of the cost of ageing.

Source: Commission services.

Graph 2.7: **Gross government debt projections under the 'historical SPB' scenario**



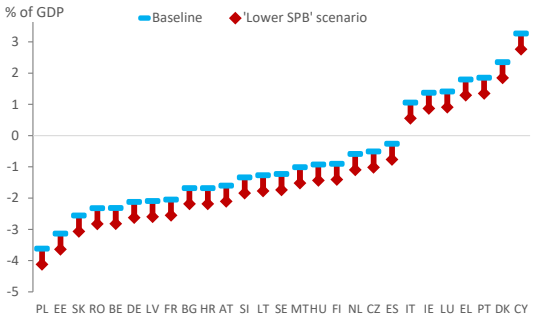
Source: Commission services.

This scenario leads to a worsening of the risk signal for two countries: Romania and Greece. Despite a historical SPB only slightly lower than the level assumed in the baseline for Romania, this worsening of the fiscal position is sufficient to tilt debt just above 90% of GDP in 2036 (Graph 2.7). For Greece, debt is declining faster in this scenario than in the baseline, but this result relies on an ambitious fiscal assumption, as the historical SPB is significantly tighter than what is assumed in the baseline (Graph 2.5). Maintaining it over the medium term would be challenging and the fiscal consolidation space indicator signals a possibility of fiscal fatigue. Therefore, for both countries, the risk signal is notched up from medium to high risk (see the detailed heat map at the end of this chapter, in Table 2.6).

The risk signal improves for Germany, Croatia and Lithuania. The debt of Germany is only slightly increasing in this scenario. Moreover, its level in 2036 remains close (but above) 60% of GDP, far from the 91% of GDP projected in the baseline. This implies a lower risk signal in this scenario, which goes from high to medium (see Table 2.6). For Lithuania, even though debt is on an increasing path as in the baseline, the debt level remains below 60% of GDP at the end of the projections. By contrast, the debt path changes for Croatia in this scenario compared to the baseline, with the debt peak year moving from 2036 to 2025 and debt remaining below 60% of GDP in 2036. Consequently, for both countries, the risk signal is lowered from medium to low in this scenario (see Table 2.6).

2.1.3. Policy scenario: lower structural primary balance

Graph 2.8: **Structural primary balance in 2026-2036 in the baseline and the 'lower SPB' scenario**



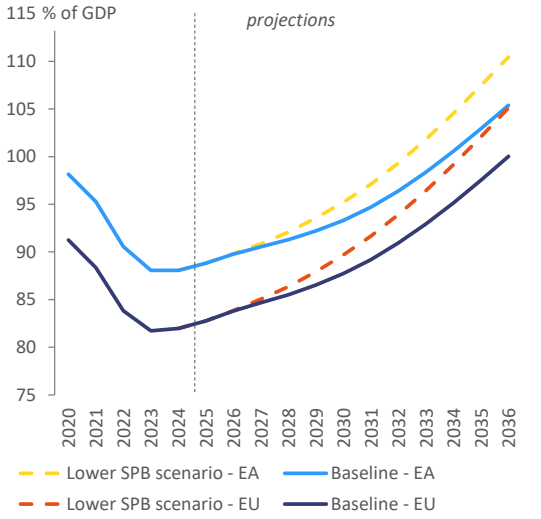
Note: The 'lower SPB' scenario assumes a reduction by 0.5 pp. of GDP of the SPB level compared with the baseline.

Source: Commission services.

The 'lower SPB' scenario assumes, for 2026 and 2027, less fiscal consolidation (or more fiscal expansion) than in the baseline, implying a negative level shift in the structural primary balance. In this scenario, the SPB level is assumed to be reduced by 0.5 pp. of GDP in total, with a reduction of 0.25 pp. in both 2026 and 2027. Afterwards, the SPB is kept at this lower level than in the baseline (Graph 2.8) until the end of the projections. For seven countries, the SPB level remains positive despite the negative shock (Denmark, Ireland, Greece, Italy, Cyprus, Luxembourg, and Portugal).

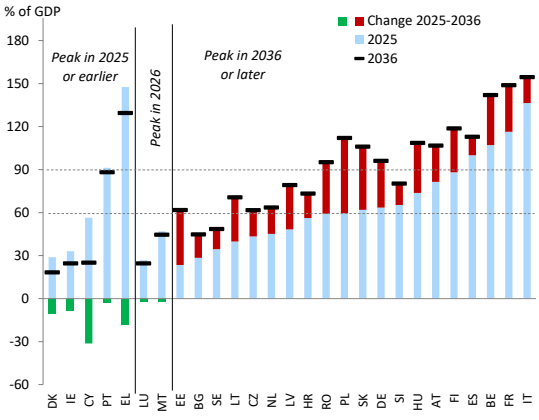
The lower SPB levels under this scenario would imply a more rapid increase in debt in the EU over the medium term, compared with the baseline. By construction, the 'lower SPB' scenario increases debt compared to the baseline in all Member States (for comparisons, see Table 2.2 above). Both in the EU and in the euro area as a whole, the debt ratio would be about 5 pps. higher than in the baseline by 2036, rising to 105% of GDP in the EU as a whole (Graph 2.9).

Graph 2.9: **Debt projections: 'lower SPB' scenario vs. baseline, EU and euro area**



Source: Commission services.

Graph 2.10: **Gross government debt projections under the 'lower SPB' scenario**



Source: Commission services.

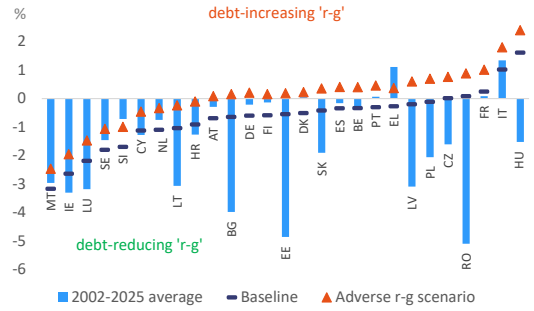
This scenario signals higher risks than in the baseline for Czechia, Estonia, the Netherlands and Romania. For the first three countries, debt is increasing above 60% of GDP by 2036 (see Graph 2.10), thereby indicating higher risks than in the baseline: medium instead of low (see Table 2.6). For Romania, debt exceeds 90% of GDP by the end of the projections and the risk signal is notched up from medium to high (see Table 2.6).

2.1.4. Stress test: adverse 'r-g' differential

This scenario captures risks related to a reversal or a reduction of the currently favourable interest rate-growth differential throughout the projection period. The 'r-g' differential assumed in the baseline remains favourable (i.e., negative) (Graph 2.11), although increasing over the projection period. Stress-testing this differential is important to assess the consequences for debt sustainability risks of a possible less favourable snowball effect. To do so, the difference between *market* interest rates and nominal GDP growth is permanently increased by 1 pp. compared to the baseline, through 0.5 pps. lower growth and 0.5 pps. higher market interest rates, thus combining a deteriorated macroeconomic environment and tighter financing conditions ([18]). Depending on the debt structure and gross financing needs, this shock gradually translates into a higher 'r-g' differential where r is the *implicit* interest rate. This diminishes the debt-reducing impact of the snowball effect or reinforces its debt-increasing impact, in those countries where 'r-g' is already projected to turn positive during the next 10 years (Belgium, Bulgaria, Czechia, Denmark, Germany, Estonia, Greece, Spain, France, Italy, Latvia, Hungary, Austria, Poland, Portugal, Romania, Slovakia, and Finland).

([18]) The same shock is applied to both short-term and long-term market rates.

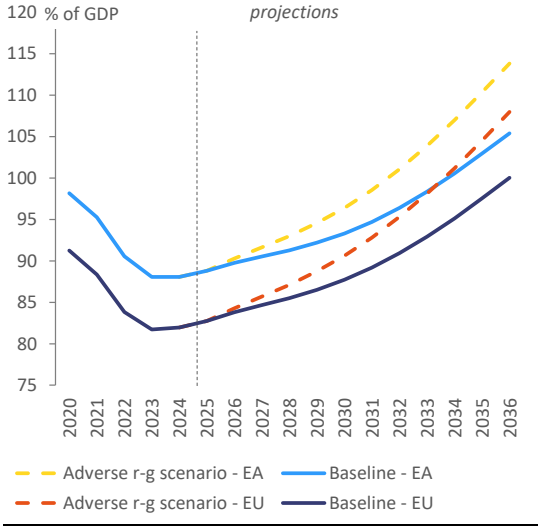
Graph 2.11: **Interest-growth rate differential in the baseline and the 'adverse r-g' scenario, 2026-2036 averages**



Note: The 'adverse r-g' scenario assumes that the differential between the market interest rate and nominal GDP growth is permanently 1 pp. higher than in the baseline from 2026 to 2036. This graph shows the impact on the differential between the implicit interest rate and nominal GDP growth, taking into account the debt maturity structure.

Source: Commission services.

Graph 2.12: **Debt projections: 'adverse r-g' scenario vs. baseline, EU and euro area**

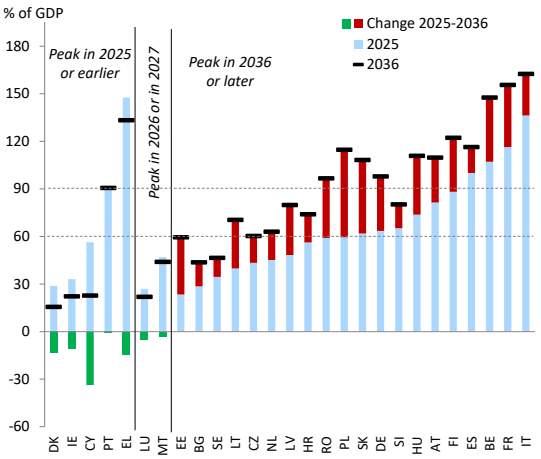


Source: Commission services.

Both on aggregate and in individual countries, this scenario has adverse implications for debt developments. On aggregate, debt would grow faster than in the baseline, exceeding 105% of GDP by 2036 in the EU as a whole (Graph 2.12). At the country level, the effect would be particularly large (above 10 pps.) in Italy, France, and Belgium (see Table 2.2).

This scenario leads to higher risk than the baseline for Czechia, the Netherlands, Portugal and Romania. As in the 'lower SPB' scenario, debt in 2036 is above 60% of GDP for Czechia and the Netherlands and above 90% of GDP for Romania (Graph 2.13), thereby indicating higher risks than in the baseline (see Table 2.6). For Portugal, the adverse macro-financial conditions imply that debt does not drop below 90% of GDP by the end of the projections, and the risk signal extracted from this scenario is therefore notched up from medium to high compared to the baseline (see Table 2.6).

Graph 2.13: **Gross government debt projections under the 'adverse r-g' scenario**

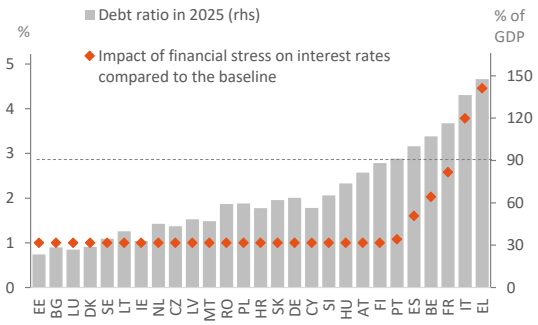


Source: Commission services.

2.1.5. Stress test: financial stress

This scenario aims to capture risks linked to stylised, differentiated temporary turmoil on financial markets. Under this scenario, a one-year shock affects market interest rates in 2026 ([19]). Furthermore, unlike the 'adverse r-g' scenario which applies the same shock on all countries, the scenario assumes that financial turmoil hits high-debt countries harder: while a flat 1 pp. interest rate hike applies to all countries, it is augmented by a 'risk premium' for highly indebted countries ([20]) (Graph 2.14).

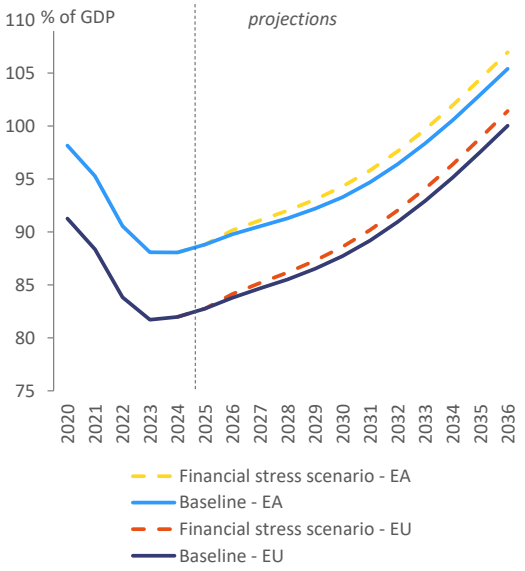
Graph 2.14: **Impact of the 'financial stress' scenario on interest rates in 2026**



Notes: The 'financial stress' scenario assumes that, in 2026, market interest rates are temporarily raised by 1 pp., plus a risk premium in countries where debt exceeded 90% of GDP in 2025 (90% being the debt threshold used to identify high risk in the DSA classification). The risk premium is equal to 0.06 times the excess of debt over 90% of GDP.

Source: Commission services.

Graph 2.15: **Debt projections: 'financial stress scenario vs. baseline, EU and euro area**



Source: Commission services.

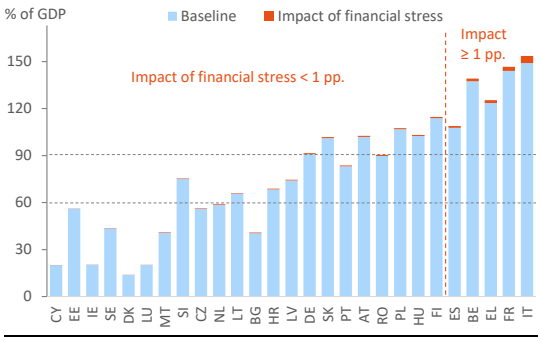
Despite its temporary nature, the shock on interest rates has a persistent, albeit limited, adverse impact on debt dynamics. As can be seen for the EU and euro area as a whole, the debt path would be only slightly above the baseline, by around 1.5 pps. by 2036 (Graph 2.15). The initial impact on debt would be limited, as the higher interest rates would only affect newly issued debt. The gap would, however, be persistent and increase over time, as the shock would affect the service of debt newly issued in 2026 and make higher interest payments generate in turn new debt each year, compared with the baseline. This scenario would also have a non-negligible impact on gross financing needs, in particular in the year after the shock, when the higher rates on newly issued debt would start affecting interest payments (see Annex A2).

High-debt Member States are more affected by the 'financial stress' scenario. This scenario increases debt by more than 1 pp. by 2036 in only five countries, namely those with the highest projected debt ratios for 2036 in the baseline – Belgium, Greece, Spain, France and Italy (Graph 2.16). This is because higher interest rates affect interest payments more strongly if they apply to a high debt, and this effect is exacerbated by the assumption that high-debt countries are subject to larger shocks on interest rates. To a lesser extent, the sensitivity of individual countries to the interest shock also depends on the maturity structure of their debt, because a shorter maturity implies that the shock on the market rate is more rapidly transmitted to the implicit interest rate. Finally, the impact is also affected by developments in gross financing needs.

([19]) The same shock is applied to both short-term and long-term market rates.

([20]) The risk premium is equal to 0.06 times the excess of debt over 90% of GDP based on Pamies, S., Carnot, N., and Patarau, A (2021), 'Do fundamentals explain differences between euro area sovereign interest rates?', *European Economy Discussion Paper*, No. 141.

Graph 2.16: **Gross government debt projections for 2036, 'financial stress' scenario vs. baseline**



Note: Countries are ranked by increasing impact of financial stress.
Source: Commission services.

Compared to the baseline, the risk signal is increased for Romania, from medium to high (see Table 2.6)**.** This follows from the fact that the debt level in 2036 is projected to exceed 90% of GDP.

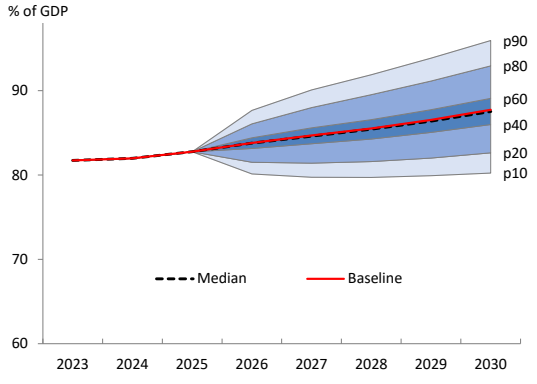
2.2. STOCHASTIC GOVERNMENT DEBT PROJECTIONS

Stochastic debt projections account for wide-ranging uncertainty around the baseline. Unlike deterministic projections, the outcome of stochastic projections is not a single debt path under a specific scenario, but a distribution of debt paths resulting from a wide set of shocks. These projections aim to show the impact on debt dynamics of numerous possible shocks affecting governments' budgetary positions, economic growth, interest rates and exchange rates compared to the baseline. The shocks, applied in up to 10 000 different simulations, are calibrated to capture country-specific conditions, namely the volatility observed over the past and the correlation between the different variables.

This year, two refinements are introduced to the Commission methodology for the stochastic debt projections. They aim to recognise that shocks are persistent and do not necessarily follow a joint-normal distribution. These changes are presented in Box 2.3 and the analytical underpinnings are detailed in Annex A4.

The results of stochastic projections are shown in a fan chart around the baseline. The cone covers 80% of all simulated debt paths over a 5-year horizon, with the lower and upper limits representing respectively the 10th and 90th percentiles of the distribution. This means that, if future shocks follow the same pattern as in the past, there is an 80% probability that debt will actually lie within that cone in the next 5 years. The chart excludes the debt paths derived from the 20% most extreme shocks, or 'tail events'. The different shades within the cone represent different portions of the overall distribution of debt paths.

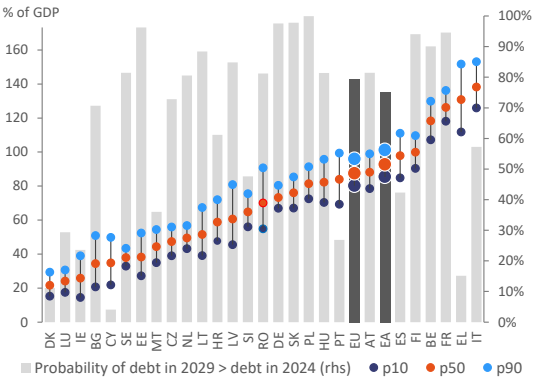
Graph 2.17: **Stochastic debt projections, European Union, 2026-2030**



Source: Commission services.

The stochastic projections point to some uncertainty over the debt trajectory in the EU. For 2030, they suggest that, with an 80% probability, the EU debt ratio will lie between 80% and 96% of GDP, a range of 16 pps. (Graph 2.17). The median debt ratio for 2030 is estimated at 88% of GDP, i.e. there is an equal probability that debt will be higher or lower than that level. Moreover, the stochastic projections suggest with a 79% probability that debt will be higher in 2030 than it was in 2025.

Graph 2.18: **Stochastic debt projections for EU Member States**



Notes: How to read this graph: for each country, there is an 80% probability that debt in 2030 will lie between the dark blue dot (the 10th percentile of the debt distribution) and the pale blue dot (the 90th percentile). The more these two points are distant, the higher the uncertainty. The median debt level in 2030 is indicated by the red dot. The grey bars indicate the probability with which debt will be higher in 2030 than it was in 2025.

Source: Commission services.

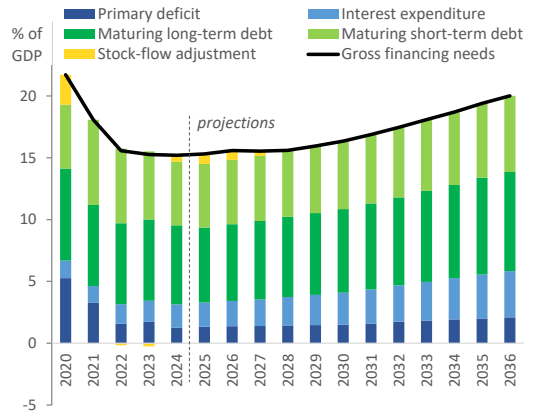
The probability of an increase in debt and the degree of uncertainty varies greatly across countries. The results for individual countries are summarised in Graph 2.18. Among the countries with the highest debt levels in 2025, the stochastic analysis points to a high risk of even higher debt in 5 years' time in some countries (especially in Belgium, France and Finland, and to a lesser extent in Spain, Italy and Austria) and significant uncertainty surrounding the baseline projections in Greece, where the cone size is 40 pps. in 2030. Among the other countries, uncertainty appears to be particularly elevated e.g. for Bulgaria, Cyprus, Italy, Latvia, Lithuania, Portugal and Romania, where the cone is close to or larger than 30 pps. in 2030. Such uncertainty around the baseline reflects a high historical volatility of macro-financial and fiscal conditions. At the other end of the spectrum, uncertainty for Denmark is among the lowest, with the debt ratio likely to lie within a narrow range of 15% to 29% of GDP in 2030; moreover, debt in Denmark is clearly projected to decrease, as indicated by the very low probability of debt exceeding the 2025 level in 2030.

2.3. MEDIUM-TERM GOVERNMENT GROSS FINANCING NEEDS

Projected gross financing needs (GFN) over the medium term serve as a measure of governments' upcoming liquidity challenges. While debt is a stock, GFN are a flow metric that provides complementary information. The projected trajectory of GFN indicates to what extent governments may need to use financial markets over the coming years to finance deficits or other debt-creating flows (recorded as stock-flow adjustments), repay or roll over maturing debt, and service their debt ([21]). Elevated GFN projections therefore suggest a higher vulnerability with regard to liquidity risks.

Under an unchanged fiscal policy assumption, GFN in the EU are projected to rise in the coming decade. Over the period 2026-2036, GFN should average 17.2% of GDP (Graph 2.19). Beyond the short-term developments (discussed in Chapter 1), the upward trajectory projected for the next 10 years is driven by three trends. First, a gradual increase in interest expenditure, almost doubling between 2026 and 2036 as a ratio to GDP. Second, the need to amortise a slightly larger amount of long-term debt. And third, a rebound in primary deficits as from 2027, mainly reflecting higher ageing-related expenditure. On the other hand, maturing short-term debt should broadly stabilise at around 6% of GDP.

Graph 2.19: **General government gross financing needs and their drivers, baseline, EU**

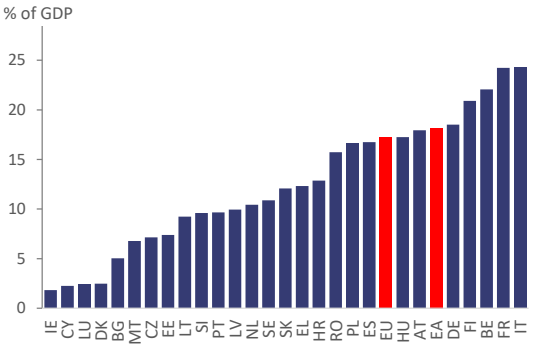


Source: Commission services.

([21]) For a more elaborate description of GFN and their use for the assessment of short-term sustainability risks, see Chapter 1.

The GFN projections indicate larger-than-average liquidity challenges in most high-debt Member States. In the seven Member States with the highest and increasing debt ratios (Belgium, Germany, France, Italy, Hungary, Austria and Finland), GFN are projected to exceed the EU level on average between 2026 and 2036 under the baseline (Graph 2.20), pointing to potential liquidity challenges. By contrast, for five Member States with the lowest projected debt levels for 2036 under the baseline (Bulgaria, Denmark, Ireland, Luxembourg and Cyprus), GFN would be limited to 5% of GDP at most.

Graph 2.20: **General government gross financing needs under the baseline, 2026-2036 average**



Source: Commission services.

2.4. OVERALL MEDIUM-TERM RISKS

2.4.1. Overall medium-term risk classification

To establish the medium-term risk classification, decision trees extract risk signals from the deterministic and stochastic DSA projections. These decision trees are detailed in Annex A3. The risk signal coming from each deterministic projection (including the baseline and the alternative scenarios and stress tests) is mainly driven by the projected debt level in 10 years' time, possibly notched up or down by the information on the debt path and the available 'fiscal consolidation space'. Moreover, the risk signal coming from the stochastic projections depends on the probability of an increase in debt and on the amount of uncertainty. If the baseline signals low or medium risk, the risk category can be increased by one notch by the stochastic projections or the other deterministic projections if they identify higher risk. However, neither the stochastic projections nor the additional scenarios and stress tests can notch *down* the risk signal resulting from the baseline.

Based on this approach, 12 EU countries are deemed at high fiscal sustainability risk over the medium term. These are Belgium, Germany, Greece, Spain, France, Italy, Hungary, Austria, Poland, Romania, Slovakia and Finland (Table 2.6). In the case of Belgium, Spain, France and Italy, every component of the DSA (i.e. the baseline, the other deterministic scenarios and the stochastic projections) points to high risk, because their debts are well above 90% of GDP and increasing under all scenarios – a trend also largely confirmed by the stochastic projections. In Germany, Hungary, Austria, Poland, Slovakia and Finland, the debt ratio is projected to pass the 90% threshold in the course of the next 10 years at unchanged policies and under most alternative scenarios, coming from initial levels below 60% in the case of Poland, and close to but above 60% in the case of Germany and Slovakia. Stochastic analysis also underlines the high risk of an increase in debt in Hungary, Austria, Slovakia and Finland. In Romania, debt is also on an upward path, and while it would remain just below 90% of GDP under the baseline, it would exceed that threshold under more adverse macro-financial assumptions. For Greece, debt is declining in all scenarios, although remaining above 90% of GDP. However, these results rely on rather ambitious fiscal assumptions, which signal a possibility of fiscal fatigue, especially in the historical SPB scenario.

For 10 other countries, the analysis points to medium risk over the medium term. These are Bulgaria, Czechia, Estonia, Croatia, Cyprus, Latvia, Lithuania, the Netherlands, Portugal and Slovenia. In seven of these countries, debt is on an overall increasing trend and projected to reach by 2036 levels above 60% of GDP in the baseline (in Croatia, Latvia, Lithuania and Slovenia) and/or under more adverse conditions (in Czechia, Estonia and the Netherlands). In Bulgaria, although debt would remain under 60% of GDP under all scenarios, it is increasing with a relatively high degree of certainty, as indicated by the stochastic analysis. Finally, two countries, namely Cyprus and Portugal, are deemed at medium risk despite a projected steady decline in debt. In the case of Cyprus, debt would fall well below 60% of GDP. However, there is substantial uncertainty around the baseline. It is driven by the high volatility of the primary balance and of nominal GDP growth observed in the past, as reflected in

the large cone size from the stochastic projections. This sets the risk category to medium. For Portugal, the risk stems from the elevated level of debt and the large uncertainty surrounding the baseline.

Finally, the remaining five Member States are found to be at low risk over the medium term. These are Denmark, Ireland, Luxembourg, Malta and Sweden. In these countries, the baseline, the deterministic scenarios and the stochastic projections all point to low risk. This classification is not modified by the few sources of vulnerability. In particular, debt is on an upward path in Sweden but starting from a very low level. In Malta, debt would increase in the first years of the projections before returning to a downward path. In Ireland, reverting to historical structural budgetary positions would put debt on an increasing path, while keeping debt below 60% over the projection horizon ([22]).

2.4.2. Comparison with the 2024 DSM results

Overall risk classification

Table 2.3: **Overall medium-term risk classifications in the 2024 and 2025 DSM**

2024 DSM \ 2025 DSM	low	medium	high
low	DK, IE, LU, MT, SE	**EE, NL**	
medium		BG, CZ, HR, CY, LV, LT, PT, SI	**DE**
high			BE, EL, ES, FR, IT, HU, AT, PL, RO, SK, FI

Note: The countries in bold have changed classifications between the two reports.

Source: Commission services.

In total, three countries change categories compared with the 2024 DSM, with the assessment being less favourable in all cases. Germany moves from medium to high risk in the medium-term risk classification, while Estonia and the Netherlands move from low to medium risk (see Table 2.3). The worsened risk classifications mainly reflect less favourable fiscal assumptions than in the 2024 DSM. The debt ratio in 2035 (the end point of the previous report) is revised upward by 23.8 pps of GDP and 21.4 pps of GDP, respectively in Estonia and in Germany. These revisions reflect in particular the deteriorated SPB levels (see Table 2.5) that weighs on the debt dynamics, pushing debt above 90% of GDP by 2036 in all scenarios in the case of Germany (see Table 2.2) and above 60% of GDP in the 'lower SPB' scenario in the case of Estonia (see Graph 2.10). For the Netherlands, the revision is less pronounced, with the projected debt being 8.2 pps. of GDP higher by 2035 also due to the less favourable SPB assumption. If debt remains below 60% of GDP in the baseline (see Table 2.4), it crosses the threshold in two scenarios: the 'lower SPB' scenario and the adverse 'r-g' scenario.

Debt projections

Compared with the 2024 DSM, debt projections are revised upward on aggregate, albeit with sizeable differences between countries. Compared to the 2024 DSM, the debt level expected for 2035 ([23]) in this report is higher by 4.7 and 4.5 pps of GDP, respectively for the EU and the euro area as a whole (see Table 2.4). This limited revision masks large differences across countries. In 17 countries, debt is revised upward for 2035. Beyond Germany and Estonia (discussed above), debt levels are expected to be higher by more than 10 pps. than in the 2024 DSM for Hungary, Finland and Sweden. In the remaining 10 countries, debt is revised downward, by more than 10 pps. in the case of Italy and by more than 20 pps. in the case of Romania (see Table 2.4).

([22]) Moreover, in the case of Ireland, alternative metrics to GDP, such as GNI* used at national level, would result in a higher projected debt ratio.

([23]) 2035 is the end point in the 2024 DSM.

The revisions to debt paths in the medium term are mainly explained by the no-fiscal-policy-change SPB level and changes in the 'r-g' differential. With a few exceptions, the upward revisions of the debt paths compared with those of the 2024 DSM are driven by lower assumed no-fiscal-policy-change SPB positions over the medium term, and the opposite holds for downward debt revisions (Table 2.5). The changes in SPB assumptions reflect the shift in the year to which they are anchored (2026 in this report, against 2025 in the 2024 DSM) as well as observed budgetary developments in 2025. This is explained, in part, by the forecast increase in defence expenditure in 2026. Moreover, the 'r-g' differential was revised upward in most countries, thereby reducing the (still negative) snowball effect. This reflects higher nominal implicit interest rates in almost all Member States, with Italy and the Netherlands being the only two exceptions. Potential output growth and the inflation outlook over the medium term are almost unchanged on aggregate. At the country level, revisions go in both directions. When revised downward, potential growth and inflation assumptions reduce the 'r-g' differential. When revised upward, they tend to increase it. Yet, for those countries where the upward revision occurs, it is generally not enough to overwrite the effect of the higher nominal interest rates. The 'r-g' differential assumptions are revised downward for five countries only (Spain, Croatia, Lithuania, Luxembourg and Poland), thereby having dampening effects on debt dynamics. Finally, as the assumptions for the cost of ageing are based on the 2024 Ageing Report in both the 2024 and the 2025 DSM (with a one-year shift in the time window), they have a limited impact for most countries.

Table 2.4: **Baseline debt projections in the 2024 and 2025 DSM**

	Debt (Commission forecast) 2026			Debt (DSA baseline) 2035		
	2024 DSM	2025 DSM		2024 DSM	2025 DSM	
BE	107.0	109.9	2.9	124.5	133.7	9.1
BG	25.0	30.6	5.5	41.2	39.6	-1.6
CZ	44.6	44.1	-0.5	52.7	54.1	1.4
DK	28.9	27.7	-1.2	20.0	15.0	-5.0
DE	62.8	65.2	2.4	66.4	87.8	21.4
EE	25.1	25.9	0.8	29.6	53.4	23.8
IE	36.7	32.5	-4.2	14.0	20.7	6.6
EL	141.3	142.1	0.8	116.7	123.7	7.1
ES	101.0	98.2	-2.8	111.4	105.1	-6.3
FR	117.6	118.1	0.5	142.8	140.8	-2.0
HR	56.6	56.1	-0.5	63.6	66.5	3.0
IT	139.2	137.9	-1.3	157.1	147.0	-10.1
CY	56.1	51.0	-5.1	29.0	22.0	-6.9
LV	50.7	49.9	-0.8	63.7	71.7	8.0
LT	43.3	44.7	1.4	57.6	62.7	5.1
LU	28.7	27.1	-1.6	25.1	20.5	-4.6
HU	72.5	73.9	1.4	83.7	97.9	14.2
MT	49.8	47.2	-2.6	46.7	41.0	-5.7
NL	46.4	47.9	1.4	48.5	56.7	8.2
AT	82.0	82.8	0.8	97.1	99.2	2.1
PL	62.5	64.9	2.4	92.7	102.0	9.3
PT	89.8	89.2	-0.6	74.3	82.4	8.2
RO	59.9	61.1	1.2	109.4	86.0	-23.4
SI	63.5	63.7	0.2	67.5	72.6	5.1
SK	60.7	64.0	3.3	96.6	96.4	-0.3
FI	86.3	90.9	4.5	97.8	111.8	14.1
SE	31.2	35.3	4.1	24.1	42.5	18.4
EU	83.4	83.8	0.4	92.8	97.5	4.7
EA	90.0	89.8	-0.3	98.4	102.9	4.5

Source: Commission services.

Table 2.5: **Main baseline assumptions in the 2024 and 2025 DSM (2026-2035 averages except for cost of ageing: change over the projection period)**

	Structural primary balance (% GDP)			Change in cost of ageing (% GDP)			'r-g' differential (%)				Inflation (%)			Potential growth (%)			Nominal implicit interest rate (%)			
	2025 DSM	2024 DSM	Revision	2025 DSM	2024 DSM	Revision	2025 DSM	2024 DSM	Revision		2025 DSM	2024 DSM	Revision	2025 DSM	2024 DSM	Revision	2025 DSM	2024 DSM	Revision	
BE	-2.3	-1.9	-0.4	1.2	1.2	0.0	-0.4	-0.7	0.3	BE	2.1	2.2	-0.1	1.2	1.2	0.1	3.1	2.8	0.3	BE
BG	-1.7	-2.5	0.8	-1.0	-0.9	-0.1	-0.7	-1.0	0.2	BG	2.5	2.5	0.0	2.3	2.0	0.3	4.0	3.5	0.5	BG
CZ	-0.5	-0.4	-0.1	0.8	1.0	-0.2	-0.1	-0.4	0.4	CZ	2.4	2.4	0.0	1.4	1.5	-0.1	3.8	3.6	0.2	CZ
DK	2.3	1.7	0.6	1.4	1.6	-0.2	-0.5	-1.5	1.0	DK	1.9	2.3	-0.4	1.2	1.3	-0.1	2.8	2.1	0.7	DK
DE	-2.1	-0.2	-1.9	1.3	1.2	0.1	-0.7	-0.9	0.3	DE	2.2	2.3	0.0	0.7	0.7	0.0	2.5	2.2	0.3	DE
EE	-3.1	-0.6	-2.6	-0.3	-0.2	-0.1	-0.6	-0.6	0.0	EE	2.6	2.7	-0.2	0.8	0.6	0.2	3.1	3.1	0.0	EE
IE	1.4	2.7	-1.3	1.3	1.3	0.0	-2.8	-3.0	0.2	IE	2.0	2.0	0.0	3.4	2.8	0.6	2.2	1.9	0.3	IE
EL	1.8	1.8	0.0	0.4	0.3	0.1	-0.4	-0.7	0.3	EL	2.3	2.3	0.1	1.2	1.2	0.0	2.9	2.6	0.3	EL
ES	-0.3	-0.5	0.2	2.0	1.9	0.1	-0.4	-0.3	-0.1	ES	2.2	2.2	0.0	1.6	1.4	0.3	3.2	3.1	0.1	ES
FR	-2.1	-2.6	0.5	0.1	0.1	0.0	0.2	0.1	0.1	FR	2.0	2.0	0.0	0.7	0.8	0.0	3.0	2.9	0.1	FR
HR	-1.7	-1.3	-0.4	-0.2	-0.3	0.1	-1.0	-0.8	-0.2	HR	2.5	2.2	0.3	2.0	1.8	0.2	3.3	3.0	0.3	HR
IT	1.1	0.1	0.9	1.2	1.1	0.1	1.0	1.0	0.0	IT	2.0	2.1	0.0	0.4	0.5	-0.1	3.4	3.5	-0.1	IT
CY	3.3	3.2	0.0	1.5	1.7	-0.2	-1.2	-1.8	0.7	CY	2.1	2.3	-0.3	2.2	2.1	0.1	2.8	2.3	0.5	CY
LV	-2.1	-1.6	-0.5	0.0	0.0	0.0	-0.3	-0.7	0.4	LV	2.5	2.2	0.3	1.2	1.6	-0.4	3.5	3.2	0.3	LV
LT	-1.3	-0.8	-0.5	1.6	1.8	-0.2	-1.1	-1.0	-0.1	LT	2.6	2.2	0.4	1.8	1.7	0.1	3.4	3.1	0.3	LT
LU	1.4	0.9	0.5	1.8	1.5	0.3	-2.3	-2.0	-0.3	LU	2.7	2.0	0.7	1.6	1.8	-0.2	2.4	2.2	0.2	LU
HU	-0.9	-0.1	-0.8	1.0	0.6	0.4	1.5	1.0	0.5	HU	3.0	3.1	-0.1	1.4	1.8	-0.4	6.3	6.1	0.2	HU
MT	-1.0	-1.9	0.9	-0.5	-0.7	0.2	-3.3	-3.6	0.3	MT	2.2	2.2	0.0	4.6	4.7	-0.1	3.3	3.2	0.1	MT
NL	-0.6	0.1	-0.7	1.7	1.5	0.2	-1.2	-1.3	0.1	NL	2.3	2.3	0.0	1.1	1.2	-0.1	2.3	2.4	-0.1	NL
AT	-1.6	-1.6	0.0	1.0	1.1	-0.1	-0.8	-0.9	0.1	AT	2.5	2.1	0.3	1.0	1.1	-0.1	2.8	2.5	0.4	AT
PL	-3.6	-2.8	-0.8	0.1	0.2	-0.1	-0.2	-0.1	-0.2	PL	3.0	3.1	-0.1	2.5	2.2	0.3	5.4	5.3	0.1	PL
PT	1.8	2.5	-0.6	2.2	2.1	0.1	-0.4	-0.6	0.2	PT	2.2	2.2	0.0	1.2	1.0	0.2	3.0	2.7	0.3	PT
RO	-2.3	-5.4	3.1	0.1	0.2	-0.1	-0.1	-0.7	0.7	RO	5.1	4.6	0.6	1.2	1.6	-0.4	6.5	5.6	0.9	RO
SI	-1.3	-0.7	-0.6	1.6	1.7	-0.1	-1.8	-2.2	0.4	SI	2.4	2.5	-0.1	2.2	2.5	-0.2	2.7	2.7	0.0	SI
SK	-2.6	-3.2	0.6	1.7	1.9	-0.2	-0.5	-1.0	0.5	SK	2.7	2.7	0.0	1.3	1.5	-0.2	3.6	3.2	0.4	SK
FI	-0.9	-0.1	-0.8	0.5	0.4	0.1	-0.6	-0.9	0.3	FI	2.0	2.1	-0.1	1.0	0.9	0.1	2.6	2.3	0.4	FI
SE	-1.2	0.4	-1.6	0.2	0.0	0.2	-1.8	-1.9	0.1	SE	2.2	1.9	0.3	1.7	1.7	-0.1	2.2	1.8	0.4	SE
EU	-1.1	-0.7	-0.4	1.0	1.0	0.0	-0.4	-0.6	0.2	EU	2.3	2.3	0.0	1.2	1.1	0.0	3.1	2.9	0.2	EU
EA	-1.0	-0.6	-0.4	1.1	1.1	0.1	-0.4	-0.5	0.1	EA	2.2	2.2	0.0	1.0	1.0	0.1	2.9	2.7	0.2	EA

Notes: The no-fiscal-policy-change assumption for the SPB over the entire projection period corresponds to the 2025 SPB level for the 2024 DSM (from the Commission 2024 autumn forecast), and the 2026 level for the 2025 DSM (from the Commission 2025 autumn forecast). The change in cost of ageing is measured from 2025 to 2035 for the 2024 DSM and from 2026 to 2036 for the 2025 DSM but is in both cases based on the projections of the 2024 Ageing Report. For the 'r-g' differential and its drivers (inflation, potential growth and the nominal implicit interest rate), the table reports the average over the period 2026-2035, which is covered by both the 2024 and 2025 DSMs.

Source: Commission services.

Table 2.6: **Heat map of medium-term fiscal sustainability risks in EU countries**

	Heat map for medium-term risks in the EU countries - Debt sustainability analysis (DSA)																											
	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-fiscal-policy-change scenario)	HIGH	LOW	LOW	LOW	HIGH	LOW	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	LOW	MEDIUM	MEDIUM	LOW	HIGH	LOW	LOW	HIGH	HIGH	LOW	MEDIUM	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	137.4	40.4	56.0	13.8	91.0	56.2	20.3	123.5	107.7	144.0	68.4	149.1	20.1	74.2	65.7	20.1	102.5	40.8	58.7	102.0	106.8	83.1	89.8	75.1	101.2	113.9	43.6
Debt peak year	2036	2036	2036	2025	2036	2036	2025	2025	2036	2036	2036	2036	2025	2036	2036	2026	2036	2027	2036	2036	2036	2025	2036	2036	2036	2036	2036
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	88%	76%	32%	69%	90%	89%	50%	33%	47%	81%	55%	43%	26%	75%	68%	70%	57%	50%	82%	88%	86%	29%	60%	54%	44%	92%	100%
Stochastic projections	HIGH	MEDIUM	LOW	LOW	HIGH	MEDIUM	LOW	MEDIUM	HIGH	HIGH	LOW	HIGH	MEDIUM	MEDIUM	MEDIUM	LOW	HIGH	LOW	LOW	HIGH	LOW	MEDIUM	MEDIUM	MEDIUM	HIGH	HIGH	LOW
Probability of debt in 2030 > debt in 2025	90%	71%	73%	11%	98%	96%	24%	15%	42%	95%	61%	57%	4%	85%	88%	29%	81%	36%	81%	81%	100%	27%	81%	48%	98%	94%	81%
Difference between the 10th and 90th percentile in 2030 (p.p. of GDP)	22.7	30.1	16.9	14.1	13.5	25.2	24.5	40.0	26.2	18.1	24.3	27.2	27.9	35.3	28.3	13.1	25.4	19.5	13.6	20.4	18.8	30.0	35.9	19.5	18.2	19.3	10.4
'Historical SPB' scenario	HIGH	LOW	LOW	LOW	MEDIUM	LOW	LOW	HIGH	HIGH	HIGH	LOW	HIGH	LOW	MEDIUM	LOW	LOW	HIGH	LOW	LOW	HIGH	HIGH	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	125.8	32.1	56.6	9.5	68.7	37.1	35.0	97.5	113.3	146.1	55.4	151.5	32.5	66.0	58.2	18.6	97.8	37.9	53.5	91.5	91.8	88.6	92.1	69.8	97.0	110.7	30.1
Debt peak year	2036	2030	2036	2025	2036	2036	2036	2025	2036	2036	2025	2036	2025	2036	2036	2026	2036	2027	2036	2036	2036	2025	2036	2036	2036	2036	2027
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	83%	72%	32%	60%	64%	75%	62%	20%	61%	82%	35%	45%	33%	63%	55%	64%	56%	49%	74%	79%	73%	35%	60%	43%	41%	88%	79%
'Adverse r-g' scenario	HIGH	LOW	MEDIUM	LOW	HIGH	LOW	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	LOW	MEDIUM	MEDIUM	LOW	HIGH	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	147.6	43.6	60.3	15.5	97.9	59.4	22.2	133.3	116.3	155.6	74.0	162.5	22.8	79.8	70.4	21.9	110.8	43.9	63.0	109.8	114.7	90.6	96.7	80.2	108.2	122.2	46.5
Debt peak year	2036	2036	2036	2025	2036	2036	2025	2025	2036	2036	2036	2036	2025	2036	2036	2026	2036	2027	2036	2036	2036	2025	2036	2036	2036	2036	2036
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	88%	76%	32%	69%	90%	89%	50%	33%	47%	81%	55%	43%	26%	75%	68%	70%	57%	50%	82%	88%	86%	29%	60%	54%	44%	92%	100%
'Financial stress' scenario	HIGH	LOW	LOW	LOW	HIGH	LOW	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	LOW	MEDIUM	MEDIUM	LOW	HIGH	LOW	LOW	HIGH	HIGH	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	139.2	40.9	56.4	14.0	91.5	56.3	20.5	125.4	108.9	146.7	68.9	153.6	20.2	74.7	66.1	20.3	103.2	41.1	59.1	102.6	107.5	83.8	90.5	75.5	101.8	114.7	43.7
Debt peak year	2036	2036	2036	2025	2036	2036	2025	2025	2036	2036	2036	2036	2025	2036	2036	2026	2036	2027	2036	2036	2036	2025	2036	2036	2036	2036	2036
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	88%	76%	32%	69%	90%	89%	50%	33%	47%	81%	55%	43%	26%	75%	68%	70%	57%	50%	82%	88%	86%	29%	60%	54%	44%	92%	100%
'Lower SPB' scenario	HIGH	LOW	MEDIUM	LOW	HIGH	MEDIUM	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	LOW	MEDIUM	MEDIUM	LOW	HIGH	LOW	MEDIUM	HIGH	HIGH	LOW	HIGH	MEDIUM	HIGH	HIGH	LOW
Debt level (2036)	142.0	44.8	61.7	18.3	96.2	61.9	24.6	129.5	112.9	148.9	73.3	154.6	25.2	79.2	70.7	24.6	108.6	44.7	63.6	106.8	112.1	88.3	95.3	80.3	106.0	118.7	48.6
Debt peak year	2036	2036	2036	2025	2036	2036	2025	2025	2036	2036	2036	2036	2025	2036	2036	2026	2036	2026	2036	2036	2036	2025	2036	2036	2036	2036	2036
Fiscal consolidation space (1-percentile rank of avg SPB 2026-2036)	92%	81%	34%	77%	100%	100%	55%	36%	59%	84%	62%	49%	29%	77%	76%	77%	61%	55%	88%	90%	89%	34%	61%	57%	52%	100%	100%
Overall MEDIUM-TERM risk category	HIGH	MEDIUM	MEDIUM	LOW	HIGH	MEDIUM	LOW	HIGH	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	MEDIUM	MEDIUM	LOW	HIGH	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	HIGH	HIGH	LOW

Source: Commission services

Box 2.1: Deterministic debt projection scenarios: the main assumptions

The Commission's government debt projections provide trajectories for debt over the next 10 years, i.e. until 2036, based on the Commission 2025 autumn forecast. The projections rely on assumptions about key macroeconomic, financial and fiscal variables. Importantly, the Commission baseline debt projections rest to a large extent on assumptions and methodologies commonly agreed with the EU Member States represented in different Council formations ([1]). This ensures that the results are comparable across countries and consistent with other EU processes, in particular the European Semester and fiscal surveillance under the Stability and Growth Pact (SGP). The general approach in this report is the same as in the 2023 and 2024 DSMs, except for the changes discussed in Boxes 2.2, 2.3 and 2.5.

The baseline

The baseline constitutes the starting point for the debt sustainability analysis, as it is the central scenario around which alternative scenarios and sensitivity tests are built. The assumptions under the baseline are as follows ([2]):

- **Real GDP growth rates** are those of the Commission 2025 autumn forecast for T+1, i.e. 2026 in this report. For T+2 (2027), actual growth is based on the autumn forecast, adjusted for fiscal multiplier effects ([3]). Beyond that, ***actual GDP growth rates*** are derived from the ***potential*** growth estimates using the EPC/OGWG 'T+10 methodology' ([4]) and a standard assumption for the closure of the ***output gap*** ([5]).

- **Inflation (as measured by the GDP deflator)** converges linearly from current country-specific values to market-based euro inflation expectations by T+10 ([6]). Beyond T+10, inflation converges to the ECB's 2% target by T+30 at the latest ([7]) and remains constant afterwards. For more details, see Chapter 2, Box I.2.1 in the FSR 2021.

- The **primary balance** is projected as follows:

– Assuming no fiscal policy change, the ***structural primary balance*** (SPB) ***before costs of ageing*** is assumed to remain constant at its value forecast for T+1, i.e. currently 2026, over the remainder of the projection period. Two elements are added to it to obtain the overall SPB: ***ageing-related expenditure*** (including pension, health care, long-term care and education expenditure) as projected in the joint Commission - Council *Ageing Report 2024*, and ***property income*** on government financial and non-financial assets ([8]).

– The ***cyclical component*** reflecting the effect of automatic stabilisers is calculated as the product of the output gap and country-specific budget balance semi-elasticities agreed with the Member States and used

([1]) In particular, two technical working groups of the Economic Policy Committee (EPC), namely the Potential output working group (POWG) and the Ageing working group (AWG).
([2]) For a detailed description of the debt dynamic equation and the impact of macro variables on the debt ratio projections, see Annex A2.
([3]) Real GDP growth in 2027 in this report is therefore real GDP growth in the forecast, minus the fiscal multiplier times the change in SPB in the forecast, with the fiscal multiplier having a standard value of 0.6.
([4]) Potential GDP growth over 10 years is projected in line with the EU commonly agreed methodology. It incorporates the expected favourable impact implemented reforms.
([5]) In line with the EPC/POWG methodology, the output gap is assumed to close within 5 years after the last outturn year, i.e., by 2030 this round, after which actual and potential GDP growth coincide.
([6]) For non-euro area countries targeting an inflation rate other than 2% (namely Poland, Romania and Hungary), half of the inflation spread vis-à-vis the euro area observed in T+2 is applied to the T+10 target (i.e. the market-based euro inflation expectation).
([7]) For non-euro area countries targeting inflation, the national central banks' targets are used, namely 2% for Czechia and Sweden, 2.5% for Poland and Romania, and 3% for Hungary.
([8]) For details, see Annex A2.4.

(Continued on the next page)

Box (continued)

for budgetary surveillance under the SGP ([9]). The cyclical component is, by construction, equal to zero once the output gap closes.

– ***One-off and other temporary measures*** are set to zero beyond T+2.

- **Interest rates** are projected as follows:

– ***Long-term interest rates*** on new and rolled-over debt converge linearly from country-specific current values to country-specific market-based forward nominal rates by T+10. Beyond that, they converge to 2% in real terms by T+30 (4% in nominal terms for most EU countries) and remain constant afterwards ([10]). These assumptions are based on the *Ageing Report 2024 (Volume 1)*.

– ***Short-term interest rates*** on new and rolled-over debt converge linearly from current values to market-based forward nominal rates by T+10 ([11]). Beyond that, they converge to 2% in nominal terms by T+30, assuming a yield curve coefficient of 0.5 ([12]). These assumptions are also based on the *Ageing Report 2024 (Volume 1)*.

– ***Implicit interest rates*** are derived endogenously in the debt projection model based on the above assumptions on market interest rates, the maturity structure of government debt and projected financing needs ([13]).

- **The exchange rate** for non-euro area countries is the Commission forecast for T+1 (currently 2026), with no appreciation or depreciation afterwards.

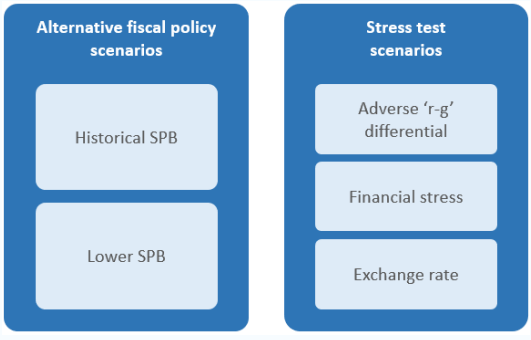
- The **stock-flow adjustment (SFA)** is set to zero beyond the T+2 forecast horizon, except for some specific cases. For more details, see Chapter II.2 in the DSM 2023 and Box 2.2 in the DSM 2024.

In addition to the baseline, this report includes five deterministic scenarios. They reflect alternative assumptions for two types of factors that affect debt paths, namely discretionary fiscal policy decisions and changes in macroeconomic conditions (see Map 1).

Alternative fiscal policy scenarios

This report includes two fiscal policy scenarios, in which fiscal policy differs from the baseline no-fiscal-policy-change assumption. These scenarios incorporate a feedback effect of fiscal policy on GDP growth via a fiscal multiplier of 0.6, meaning that a fiscal consolidation of 1 pp. of GDP reduces GDP growth by 0.6 pp. in the same year compared to the baseline – and, conversely, a fiscal expansion raises it by 0.6 pp. ([14]).

Map 1: ***Deterministic scenarios for debt projections: alternative fiscal policy and stress-test scenarios***



1. **The 'historical SPB' scenario** uses the Commission forecast until T+1, after which it assumes that the SPB converges gradually to its historical average in 4 years, i.e. by 2030. The

([9]) The budget semi-elasticities (for taxes and expenditure) are as reported in Mourre, G. and Poissonnier, A. (2019), 'The semi-elasticities underlying the cyclically-adjusted budget balance: an update and further analysis', European Economy Discussion Paper 98.
([10]) Nominal long-term interest rates converge to 4.5% for Poland and Romania, and 5% for Hungary, given these countries' higher inflation targets.
([11]) For more details, see Box 3.1 in European Commission (2020), Debt Sustainability Monitor 2019, European Economy, Institutional Paper, 120.
([12]) This factor of 0.5 reflects the standard slope of the euro area yield curve.
([13]) For a detailed discussion, see Annex A2.2.
([14]) The fiscal multiplier assumption is discussed in Box 2.5.

(Continued on the next page)

Box (continued)

historical average is based on available data for 2010-2024. This scenario helps assessing whether the baseline is realistic, given past fiscal performance.

2. **The 'lower SPB' scenario** assumes that the SPB deteriorates by 0.25 pp. of GDP in two successive years, in 2026 and 2027 and remains constant at that reduced level afterwards plus the changes in the cost of ageing. Overall, the SPB is set at a level lower by 0.5 pp of GDP compared to its level in the baseline ([15]).

Stress-test scenarios

Three stress tests indicate how shocks to macro-financial variables may affect debt trajectories compared to the baseline. The shocks affect real GDP growth, interest rates and exchange rates.

1. **The 'adverse r-g' scenario** assumes that the interest rate-growth differential is permanently higher than in the baseline, by 1 pp., as of 2026. This higher differential is obtained by applying simultaneous adverse shocks to short- and long-term market interest rates and to economic growth. This scenario illustrates the risk of a moderate worsening or reversal of the interest-growth rate differential, while the baseline currently still rests on the assumption of relatively contained financing conditions (in line with markets' expectations) for most Member States.

2. **The 'financial stress' scenario** assumes a one-year increase in market interest rates by 1 pp. in 2026 for all countries. Moreover, a risk premium is added for those countries where debt exceeded 90% of GDP in 2025, in line with the findings in Pamies et al. (2021) ([16]).

3. **The sensitivity test on the nominal exchange rate** applies a shock – equal to the maximum annual change in the country's exchange rate observed over the last 10 years – for the first year of the forecast horizon (2026), after which the baseline assumption prevails. This stress test only applies to non-euro area countries.

([15]) In the 2025 DSM, the 'lower SPB' scenario applies an exogenous shock (of 0.5 pp. of GDP, corresponding to half of the historical standard deviation of the SPB over all EU countries). In the previous editions of the report, the SPB shock was relying on the planned adjustment in the forecast, with the SPB improving by 50% less (or deteriorating by 50% more) than what was in the Commission's forecast. This change aims at aligning the assumptions of the 'lower SPB' scenario used in the standard DSA with the assumptions of the 'lower SPB' scenario used in the DSA for the EU fiscal framework.

([16]) The risk premium is equal to 0.06 times the excess of the 2025 debt level over 90%. This is based on Pamies, S., Carnot, N. and Patarau, A. (2021), 'Do fundamentals explain differences between euro area sovereign interest rates?', European Economy Discussion Paper, No. 141.

Box 2.2: The role of fiscal consolidation space in the DSA risk classification

This box explains the reason for a marginal adjustment to the decision tree used for the deterministic projections, as it may counterintuitively lead to a (temporarily) deteriorated risk classification for some countries that are undertaking fiscal consolidation. Namely, when the structural primary balance improves over time, it gets tighter by historical standards, which in turn gradually reduces the available fiscal consolidation space. This can mechanically lead to a deterioration of the risk classification despite the favourable impact of consolidation on the debt dynamic. In this report, the decision tree is adjusted by lowering the effective threshold that is used to gauge the plausibility of fiscal assumptions according to historical standards. This solution preserves the debt sustainability analysis (DSA) methodology, keeping a role for the assessment of realism but preventing the occurrence of counterintuitive results as Member States implement their national medium-term plans.

Origin of the "fiscal consolidation space" indicator

"Fiscal consolidation space" is an indicator used in the Commission's DSA to gauge the plausibility of a given level of structural primary balance (SPB) by historical standards. Technically, it measures how that SPB level compares against levels observed in the past in a country. It is defined as one minus the percentile rank of that level in the country-specific distribution of SPBs ([1]). If, for example, a fiscal consolidation space of 100% is associated with a certain level of SPB, it means that the SPB levels recorded in the country have always been at least as stringent as that level.

The concept originally draws on the consensus definition of debt (un)sustainability, for which realism is a crucial condition. According to the definition used by the IMF, the ECB and the Commission, debt is deemed unsustainable only in cases when "there is no *politically and economically feasible* fiscal path that can at least stabilise debt over the medium term". In other words, if there is a *theoretical* fiscal path that could stabilise debt, but that path implies levels of SPB that could not plausibly be achieved by historical standards, then debt is deemed at risk of being unsustainable. Using fiscal consolidation space, feasibility (or plausibility, or realism) is measured against past behaviour, in the sense that if the country has already achieved that level of SPB (or higher levels) often enough in the past, it can realistically achieve it again ([2]).

Role of fiscal consolidation space in the DSA

The fiscal consolidation space indicator plays a role – albeit secondary – in the medium-term risk classification. The deterministic part of the DSA assesses risks to debt sustainability at unchanged fiscal policy, that is, if the SPB (excluding changes in the cost of ageing) remains over the next 10 years at a same *given* level, namely the one forecast for the short term. The risk classification is mainly driven by the debt *level* projected on that basis, and then by the debt *trajectory*. The third criterion, based on fiscal consolidation space, is used to qualify the baseline assumption that the SPB would remain at that same level over the medium term, given the country's track record.

- If the assumed SPB is low by historical standards (i.e. the country has sufficient available fiscal consolidation space), this indicates realistic political and economic room for corrective measures if needed, which reduces risk;
- On the other hand, limited consolidation space suggests that there is little policy margin to curb a projected increase in debt or cushion shocks, which would contribute to risk;
- Finally, a declining debt path may still involve some risk if it rests on an SPB assumption that appears demanding, especially over an extended period.

([1]) Since the Fiscal Sustainability Report 2021, the percentile rank is calculated based on the historical country-specific distributions of SPBs (for details, see Box I.2.2. of the FSR 2021). Consistently with the approach used for the stochastic analysis, extreme values are winsorised at the 5th and 95th percentiles.

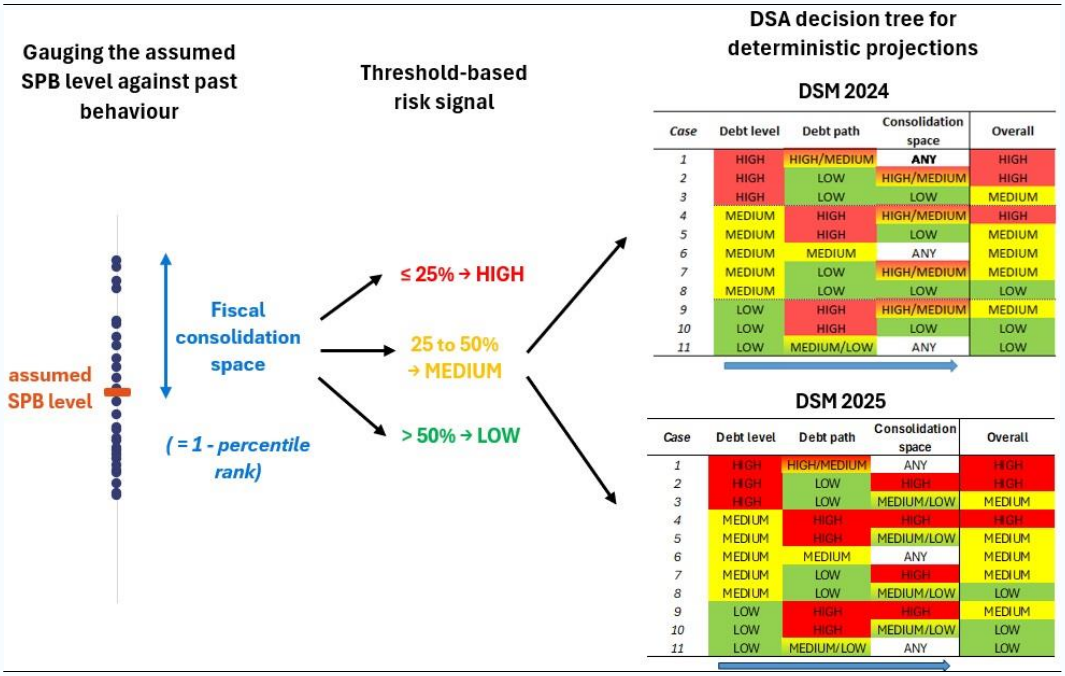
([2]) Realism can also be assessed based on other fiscal variables, such as the level of government gross financing needs (GFN), as done by the IMF (see International Monetary Fund. Strategy, Policy, & Review Department (2022), *Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries*, Policy Papers, No. 2022/039). The ECB uses the primary balance for its "fiscal fatigue" indicator (see Bouabdallah, O. et al. (2017), *Debt sustainability analysis for euro area sovereigns: a methodological framework*, Occasional Paper, No 185).

(Continued on the next page)

Box (continued)

To reflect these various cases, the "fiscal consolidation space" indicator intervenes in the last step of the decision tree related to the DSA deterministic scenarios. Map 1 provides an encompassing view of the various steps from the historical distribution of SPBs to the risk classification. The first step consists in calculating the indicator. The second assigns a risk signal in line with the following thresholds: low risk if fiscal consolidation space is larger than 50%, medium risk if it is between 25% and 50%, and high risk if there is less than 25% space. Finally, the signal is combined, through a decision tree summarised in the tables on the right-hand side, together with the risk signals derived from the debt level and the debt path. The indicator can affect the risk signal of a scenario in both directions. According to the methodology used in the DSM 2024 (upper table), the risk signal derived from the debt level in T+10 is notched up if the debt path points to high risk and the consolidation space points to medium or high risk (cases 4 and 9). Indeed, in these cases, countries have an increasing debt and limited consolidation space, meaning that there is a chance that there is no feasible adjustment path to curb the debt path. Conversely, the risk is notched down if both the debt path and the consolidation space indicator point to low risk (cases 3 and 8). In these cases, even if the projected debt level is high or medium, the debt path is decreasing, and the country has enough space to take measures in case of adverse shocks.

Map 1: **From the historical distribution of SPBs to the risk classification**



Source: Commission services

Borderline countries improving their fiscal position faster than the historical median

At unchanged methodology, the risk classification could worsen even though (or actually: precisely because) a country's fiscal position is improving. The improvement in the SPB has a favourable impact on the debt dynamics but it also gradually reduces the available fiscal consolidation space, as that higher SPB assumption ranks higher in the historical distribution of SPBs. The mechanical implication based on the decision tree of the DSM 2024 could be a deterioration in the risk classification. At unchanged methodology, this could be the case of countries currently in case 5 with an increasing debt and a fiscal consolidation space just above 50%: a small improvement in their fiscal position would not significantly change their debt dynamic but it would reduce their fiscal consolidation space, possibly dropping just below the 50% threshold. In such a situation, these countries would fall under case 4 and the associated risk signal would be downgraded from medium to high risk. This would happen although their overall fiscal position would have improved and while their fiscal consolidation space would remain relatively large.

(Continued on the next page)

Box (continued)

As medium-term plans are gradually implemented, SPBs are expected to improve, which could lead to a mechanical worsening of the risk classification. In the baseline, eight countries (Czechia, Ireland, Greece, Spain, Italy, Cyprus, Portugal and Slovakia) have a fiscal consolidation space that lies between 25% and 50%, indicating that their margin to curb a projected increase in debt or cushion shocks is reduced. The fiscal consolidation space of the remaining 19 countries is above 50%, indicating larger adjustment possibilities. Nonetheless, for a few countries (Croatia, Malta, Romania and Slovenia), it is already approaching the 50% threshold.

Adjustment of the DSA decision tree

To avoid such counterintuitive results, an adjustment of the decision tree is introduced in this report: the effective threshold (the one that can trigger a change in the risk classification of the scenario) is lowered from 50% to 25%. Consequently, the main distinction for fiscal consolidation space would be between high and not-high risk – encompassing the current low and medium risks – rather than between low and not-low risk – encompassing the current medium and high risks (see the lower table on the right-hand side of Map 1). This change is warranted, as the 25% threshold appears to be more relevant to identify countries for which fiscal consolidation space is limited, rather than countries where there is large room for manoeuvre. At the same time, this change ensures that the fiscal consolidation space indicator remains a crucial concept for the assessment of debt sustainability. The 25% threshold corresponds to the 75th percentile threshold also in use by the IMF to assess the realism of assumptions.

This change lowers the overall medium-term risk classification for three countries, Czechia, Portugal and Slovenia. In this report, these three countries are overall assessed at medium risk over the medium term (see Section 2.4). When using the decision three of the DSM 2024, their overall medium-term risk category would have been high.

Box 2.3: Revision of the stochastic debt projections: rationale, description and impact

This box presents two technical refinements to the Commission's stochastic debt projections that are introduced in this report ([1]). These refinements aim to recognise that shocks are persistent and do not necessarily follow a joint-normal (Gaussian) distribution. They result in a smaller "cone width" for all Member States, i.e. they reduce the uncertainty around the baseline, but have a mixed impact on the probability of debt increasing over a 5-year horizon, depending on the direction of the debt path in the baseline. Overall, this refined methodology leads to a more robust and reliable framework for simulating future debt trajectories. However, from a policy perspective, the methodological improvements do not affect the resulting risk assessment in this report.

Rationale for reconsidering the stochastic projections

Since 2012, the Commission's stochastic debt projections have been based on a variance-covariance matrix approach, calibrated to country-specific conditions, to simulate uncertainties in debt dynamics ([2]). This methodology uses quarterly series of key variables, specifically the primary balance, nominal GDP growth, interest rates and exchange rates (for non-euro area countries only), to generate historical shocks, defined as the first difference. Assuming a joint normal distribution with zero mean and a variance-covariance matrix equal to the historical one, the methodology draws random vectors of simulated shocks. These shocks are then applied to the baseline projections via Monte Carlo simulations, generating a distribution of possible debt-to-GDP trajectories over a 5-year horizon. Over the past decade, this methodology has been very stable, with only two minor technical improvements: in 2015 ([3]), when shocks to the primary balance were introduced, and in 2023 ([4]), when the data collection and treatment were improved.

However, this approach exhibits two shortcomings, namely the absence of autocorrelation in shocks and the reliance on a pre-defined (Gaussian) distribution. These assumptions could potentially limit the accuracy of the analysis as shocks can be influenced by previous events and can be non-normally distributed. By neglecting autocorrelation, the model may fail to capture the full impact of economic shocks, potentially underestimating the lasting effects of downturns and booms or overestimating the impact of shocks for series that are erratic or that display mean-reverting tendencies. Gaussian distribution underestimates the likelihood of extreme events, which can occur more frequently than predicted by traditional statistical models that assume joint-normal distributions. Moreover, by definition, a Gaussian distribution is symmetric, whereas the true distribution of economic shocks may exhibit significant asymmetry. Failing to account for this asymmetry can lead to an underestimation of the risks, as the true distribution of shocks may have a longer tail on the downside. In contrast, "fat-tailed" distributions, which assign a higher probability to extreme events, would provide a more accurate representation of reality, especially if they are flexible enough to account for skewed distributions.

Description of the refined methodology

There is no standardised approach to stochastic debt projections, but the literature distinguishes two broad categories: model-based and model-free approaches. Model-based approaches, such as the vector autoregressive model used by the ECB ([5]), rely on the estimation of pre-defined relationships between different economic variables, which are then used to simulate potential future debt trajectories. These approaches are considered to be able to capture complex interactions between variables, but they are also more rigid and reliant on the assumptions of the underlying model. Moreover, they are computationally demanding

([1]) This box updates the results of Bec et al (2025), *The Stochastic Simulations of the Commission's Debt Sustainability Analysis. A Refined Approach*. European Economy Discussion Papers 226, using the projections of this report and extends them by assessing the impact of the methodological changes on the Commission's analysis of medium-term fiscal sustainability risk.

([2]) For a detailed account of the Commission's methodology in used until 2024, see Annex A4 in European Commission (2025) *Debt Sustainability Monitor 2024*, European Economy Institutional Paper 306. and Berti, K. (2013). *Stochastic public debt projections using the historical variance-covariance matrix approach for EU countries*. European Economy - Economic Papers 2008 - 2015 480.

([3]) See European Commission (2016), *Fiscal Sustainability Report 2015*, European Commission Institutional Paper 18.

([4]) See European Commission (2024), *Debt Sustainability Monitor 2023*, European Commission Institutional Paper 271.

([5]) Warmedinger, T., C. Checherita-Westphal, F. Drudi, R. Setzer, R. De Stefani, O. Bouabdallah, and A. Westphal (2017). *Debt sustainability analysis for euro area sovereigns: a methodological framework*. Occasional Paper Series 185.

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Box (continued)

and can lead to overfitting when dealing with many variables. On the other hand, model-free approaches, such as the methodologies used by the Commission and the IMF ([6]), do not rely on a pre-defined structure. Instead, based on historical data, they generate a large number of paths to the key drivers of the debt accumulation equation, which are subsequently combined into a multitude of debt trajectories. These approaches are more flexible, and data driven. As they do not rely on a specific economic model or theory, they are less prone to model misspecification. Moreover, they are often simpler to implement and require less computational power.

While preserving the flexibility of the model-free approach, two changes to the Commission methodology were introduced with the aim of ensuring a better empirical representation of the distribution of shocks:

- The new methodology allows for the persistence of shocks by **applying a pre-filtering approach with a shock-specific lag structure.** Following the method of sieves ([7]), the series of historical shocks are filtered using simple autoregressive processes (i.e., by regressing the historical shocks on a certain number of their own lags) to model the autocorrelation in the data.

- The new methodology relaxes the reliance on a Gaussian distribution by **implementing a bootstrapping technique.** Rather than drawing shocks from a pre-defined joint normal distribution, the randomisation process in the new approach uses a variable-block bootstrap approach. In practical terms, a large number of independently distributed residuals are drawn from the fitted uncorrelated residuals. To preserve the time-specific relationship between the variables, the fitted residuals are bootstrapped concurrently. In other words, they are shuffled (with replacement) while preserving their temporal simultaneity, so that, for example, the residuals from 2020Q2 remain together, although moved to a different date.

Annex A4 provides a detailed account of the methodology.

Implications for DSA classification

To assess the implications of these refinements, we consider the two main indicators linked to the stochastic analysis that are used by the Commission to assess fiscal sustainability risks. These are: (i) the "cone width", as measured by the difference between the 90th and 10th percentiles of the probability distribution of the debt-to-GDP ratio, and (ii) the probability that the debt ratio is higher at the end of the five-year projection period than at the beginning.

Because the pre-filtering of the shocks acts as a smoother stabilising erratic series, the new approach implies a smaller cone width for all Member States. Table 1 presents a comparison of the cone widths obtained when using the methodology of the 2024 DSM or the new methodology of the 2025 DSM as described above. On average, the cone width decreases by 6.9 pps. Yet, the impact is not homogeneous. For some countries, the reduction of the cone size is larger than for others – with the largest reduction for Bulgaria (-19.3 pps.). Only in the case of Spain is the cone size unchanged, at 26.2 pps. Bec et al. (2025) confirms that the correction of the autocorrelation drives these results, through its stabilising effect on the most erratic series. Isolating the contribution of each shock, by re-simulating the model with one shock at a time while setting all other shocks to zero, shows that the reduction in the cone width is mainly driven by the primary balance shocks.

Table 1: **Cone width under the old and new methodologies**

Country	Methodology of 2024 DSM (1)	Methodology of 2025 DSM (2)	Difference (2)-(1)
BE	27.8	22.7	-5.1
BG	49.5	30.1	-19.3
CZ	23.8	16.9	-6.9
DK	17.2	14.1	-3.1
DE	14.5	13.5	-1.0
EE	31.4	25.2	-6.2
IE	33.2	24.5	-8.6
EL	51.7	40.0	-11.8
ES	26.2	26.2	0.0
FR	20.4	18.1	-2.3
HR	28.0	24.3	-3.7
HU	38.9	25.4	-13.6
IT	31.0	27.2	-3.8
CY	43.8	27.9	-15.8
LV	43.3	35.3	-7.9
LT	28.5	28.3	-0.1
LU	21.6	13.1	-8.5
MT	35.4	19.5	-15.9
NL	15.8	13.6	-2.2
AT	28.7	20.4	-8.3
PL	21.6	18.8	-2.8
PT	43.6	30.0	-13.6
RO	46.8	35.9	-10.9
SI	24.6	19.5	-5.1
SK	22.8	18.2	-4.5
FI	23.5	19.3	-4.2
SE	11.4	10.4	-0.9
Average	29.8	22.9	-6.9

Source: Commission services.

([6]) International Monetary Fund. Strategy, Policy, & Review Department (2022), *Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries*. Policy Papers, No. 2022/039

([7]) Bühlmann, P. (1997). *Sieve bootstrap for time series*. Bernoulli 3, 123–148. and Corsetti et al. (2022). *One money, many markets.* Journal of the European Economic Association, 20(1), 513-548

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Box (continued)

Table 2: **Probability that debt increases under the old and new methodologies**

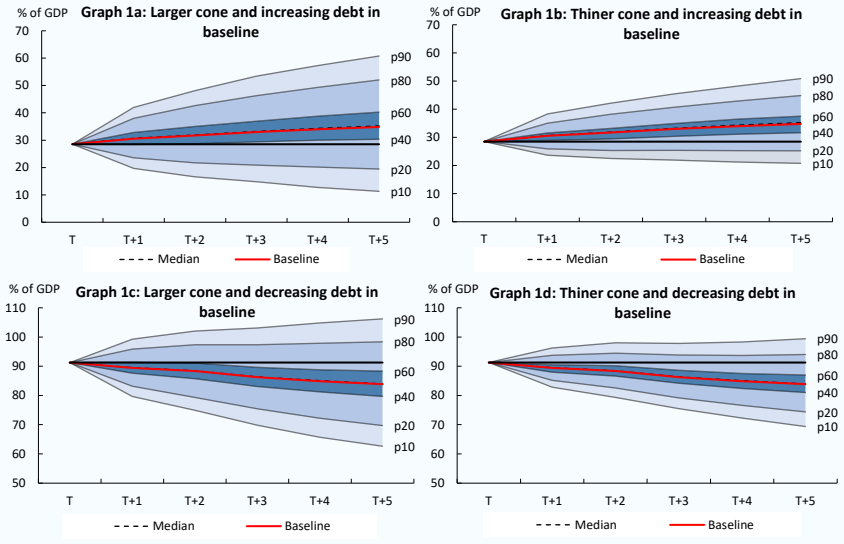
Country	Methodology of 2024 DSM (1)	Methodology of 2025 DSM (2)	Difference (2)-(1)
BE	84.7	90.1	5.4
BG	63.7	70.7	7.0
CZ	66.9	72.8	5.9
DK	15.2	11.2	-4.1
DE	96.3	97.5	1.3
EE	92.5	96.3	3.8
IE	25.5	23.6	-1.9
EL	25.1	15.2	-9.9
ES	34.1	42.3	8.3
FR	98.1	94.6	-3.5
HR	61.9	61.2	-0.7
HU	75.6	81.4	5.8
IT	63.3	57.2	-6.1
CY	11.0	4.1	-6.9
LV	77.9	84.9	7.0
LT	83.7	88.4	4.7
LU	36.2	29.4	-6.8
MT	44.6	36.0	-8.6
NL	80.6	80.6	0.0
AT	72.7	81.5	8.8
PL	99.8	100.0	0.2
PT	33.4	26.8	-6.6
RO	76.6	81.2	4.7
SI	43.1	47.6	4.5
SK	93.5	97.8	4.3
FI	87.6	94.1	6.5
SE	76.9	81.4	4.5
Average	63.7	64.7	1.0

Source: Commission services.

In contrast, the probability that debt increases over a 5-year horizon can move in both directions, depending on the debt path in the baseline. The impact of the new approach on the probabilities depends on two factors: i) the cone width, which is smaller for all countries, and ii) the direction of the debt-to-GDP ratio in the baseline scenario. Graph 1 shows that, when debt increases in the baseline scenario, a smaller cone width around the same baseline level mechanically leads to a higher probability of debt increasing over the 5-year horizon. Intuitively, when the debt ratio in T+5 is projected to be higher than in T, a smaller cone width results in fewer simulations in which debt declines over the horizon. Conversely, a larger cone width reduces this probability. The opposite effect occurs when debt decreases in the baseline scenario. Effectively, Table 2 shows that the largest increase in the probability is observed for Austria (+8.8 pps.), where debt is projected to increase in the baseline, while the largest reduction is observed for Greece (-9.9 pps.), where debt is decreasing.

The refined SDSA methodology changes the risk signal extracted from the stochastic projections only for Portugal, but it does not modify its overall medium-term risk category, which remains medium. The uncertainty surrounding the baseline is smaller (Table 1) while debt is on a declining trend, thereby leading to a lower probability that debt increases in 5 years' time (Table 2). Because this probability falls below 30% (i.e., the threshold associated with the criterion on the probability), the risk signal improves from high to medium risk for Portugal (see Annex A3 for a detailed account of the decision tree for the stochastic DSA). Its overall medium-term risk category remains unchanged, at medium risk.

Graph 1: **The relationship between the cone width and the probability that debt increases**



Source: Commission services.

Box 2.4: The debt of the European Union

In this report, the EU and euro area aggregates for general government debt are the weighted sum of the 'general government debt' ([1]) of the 27 Member States, following the same definition as in ECFIN AMECO database ([2]). This concept measures the stock of gross consolidated debt at year-end of all EU Member States. It is a 'gross' concept as government-owned assets vis-à-vis counterparts outside the general government are not netted out ([3]). Whereas Eurostat in its press release ([4]) publishes figures for the aggregates that are corrected for intergovernmental loans (for example, made through the European Financial Stability Facility), the historical data and the EU debt projections in the Commission's forecast and in this report are published on a non-consolidated basis. For 2024, this implies an aggregate debt-to-GDP ratio that is somewhat higher than the general government debt ratio published by Eurostat in its news release 21 October 2025 (by 1.4 pps. in the euro area 20 and by 1.3 pps. in the EU).

The 'EU debt' concept should be distinguished from the 'aggregate debt of the EU Member States,' as it jointly considers the debt of the 27 Member States and the debt of the 'Institutions and bodies of the European Union'. The statistical sector 'Institutions and bodies of the European Union' (S.1315) includes the institutions financed from the general budget of the EU – i.e., the European Commission, the European Parliament, and the Council, – as well as the European Financial Stability Facility and the European Stability Mechanism ([5]), the Single Resolution Fund/Single Resolution Board, the Modernisation Fund, the Joint Sickness Insurance Scheme and the European Peace Facility. They are part of the domestic economy of the European Union, but not of its Member States. Hence, to provide a complete picture of the overall debt burden of the general government sector within the European economy, the EU debt must consider the liabilities of these institutions too. At the same time, it also needs to net out the debt raised by these institutions that is subsequently on-lent to the Member States.

The contribution of the sector of 'Institutions and bodies of the EU' to the EU debt remains limited ([6]). Until 2020, the debt raised by the EU institutions was relatively modest (in % of GDP terms). Moreover, as most of it was directly on-lent to Member States, it was already recorded as their own debt. Since then, the borrowings of the EU institutions have gradually increased, following the introduction of Next Generation EU (NGEU) with the implementation of the Recovery and Resilience Facility (RRF), and the recent establishment of the Ukraine Facility and other ad hoc support to Ukraine. Because a substantial part of these programmes was used to provide grants to Member States or financial assistance to third countries, the corresponding EU borrowings were not recorded as debt of the Member States. Table 1 shows that the debt of the 'Institutions and bodies of the EU' stood at 4.9% of EU27 GDP at the end of 2024, up from 3.6% in 2021. After netting out the part of EU borrowing that is subsequently lent out to Member States, the contribution of the EU institutions to the EU debt amounted to 1.6% in 2024, while it was 0.4% in 2021.

([1]) Following the Maastricht definition, the general government debt includes the liabilities of the following subsectors: central government, state government, local government, and social security. Moreover, it only considers financial liabilities related to the following debt instruments: currency, deposits, debt securities and loans. It excludes monetary gold and SDRs; equity and investment fund shares; insurance, pensions, and standardised guarantee schemes; financial derivatives; and other accounts payable such as trade credits.

([2]) The database is available here: AMECO database - Economy and Finance - European Commission

([3]) The choice of gross debt as benchmark indicator was laid down in the Treaty. See Art. 126 and Protocol 12 of the Treaty on the Functioning of the European Union.

([4]) The latest press release is available here: Euro area and EU government deficit at 3.1% of GDP - Euro indicators - Eurostat

([5]) The Manual on Government Deficit and Debt (Section 1.9 'European entities related to the euro area sovereign debt crisis') clarifies that the European Financial Stability Facility and the European Stability Mechanism (along other EU institutions), also belong to the statistical sector 'Institutions and bodies of the European Union.' For more details see: Annual statistical accounts of the EU institutions and bodies subsector - Statistics Explained - Eu…

([6]) In December 2023, Eurostat published, for the first time, data for the statistical sector 'Institutions and bodies of the European Union' in a format comparable with other fiscal statistics (i.e., based on national accounts /ESA 2010). The information includes revenue, expenditure, net lending/borrowing as well as Maastricht debt, and currently covers the years as of 2021. The new database is available here: https://ec.europa.eu/eurostat/data/database, dataset identifiers gov_eu_nfa, gov_eu_fa, gov_eu_debt

(Continued on the next page)

Box (continued)

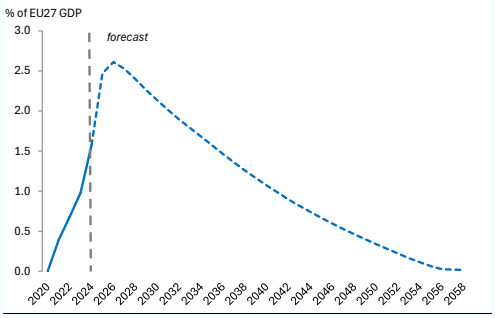
Table 1: **The debt of the European Union, 2021-2024 (% EU27 GDP)**

	2021	2022	2023	2024
(1) **Aggregate debt of the 27 Member States of the EU**	**86.7%**	**82.3%**	**80.5%**	**80.7%**
(2) **Debt of the Institutions and bodies of the EU**	**3.6%**	**4.0%**	**4.3%**	**4.9%**
(2a) Contribution to the debt of the EU	0.4%	0.7%	1.0%	1.6%
of which:				
Member States non-repayable support (i.e., RRF/REPowerEU grants)	0.3%	0.6%	0.8%	1.1%
MFA and Ukraine Facility loan	0.0%	0.1%	0.2%	0.2%
(3) **Debt of the European Union** (1+2a)	**87.1%**	**83.0%**	**81.5%**	**82.3%**

The contribution of the subsector 'Institutions and bodies of the EU' to the 'consolidated debt of the EU' nets out the part of the debt that is on-lent to the EU 27 Member States. The net borrowing due to the grants provided to the EU Member States through the Recovery and Resilience Facility (RRF) will be repaid by future budgets (post-2028). Macro-financial assistance programmes (MFA) and the Ukraine Facility loans will be reimbursed according to a pre-defined redemption profile.
Source: Eurostat database ([gov_eu_debt] Debt of the EU institutions) and the Consolidated annual accounts of the European Union – Financial year 2024 - European Commission.

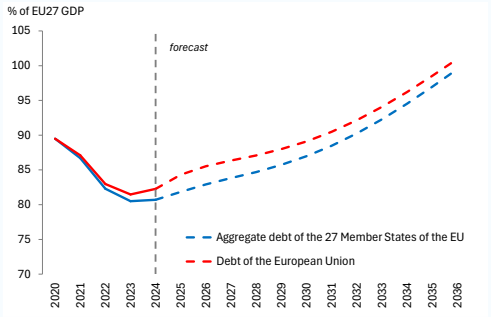
Assuming unchanged policies, the contribution of the EU institutions to the EU debt would rise slightly until 2027, while remaining below 3%, and progressively decline thereafter (see Graph 1). Reflecting the NGEU commitments until the end of 2026 ([7]) and assuming the full disbursement of the provision of financial assistance under the Ukraine Loan Cooperation Mechanism and the Ukraine Facility by the end of 2027 ([8]), the part of the debt of the sector of 'Institutions and bodies of the European Union' that corresponds to the borrowings that finance grants to EU Member States or loans to third countries should continue to increase until 2027. However, beyond 2027, this debt is expected to progressively diminish once the repayment of the NGEU-related grants starts ([9]). Ultimately, the difference between the EU debt and the aggregate debt of the 27 EU Member States is projected to slightly increase compared to its level in 2024, before slowly disappearing over time (see Graph 2).

Graph 1: **Contribution of the Institutions and bodies of the EU to the EU debt**



Source: Commission services.

Graph 2: **Aggregate debt of the EU 27 Member States vs EU debt**



Source: Commission services.

([7]) We assume that, by the end of 2026, €338 billion of grants under the RRF would have been financed through borrowing operations. The reimbursement of the EU bonds linked to these grants would start in 2028. In line with the Commission proposal on the next Multiannual Financial Framework (see SWD (2025) 570 final/2), we assume a fixed annual envelope for repayment of principal and interest for the borrowings that finance NGEU grants to EU Member States, resulting in a non-linear reduction of the corresponding outstanding debt. Repayment of borrowings financing loans to third countries is instead linear.

([8]) The outstanding stock of macro-financial assistance programmes (MFA) and its evolution until 2070 reflects the redemption profile of current MFAs. The projections also take into account the debt of the EU Institutions issued to provide financial assistance to Ukraine under the programme MFA+ to Ukraine, the Ukraine Facility and the Ukraine Loan Cooperation Mechanism (i.e., the EU's contribution to the G7's "Extraordinary Revenue Acceleration" (ERA) loan initiative for Ukraine). Projections do not include other loan support to Ukraine. Therefore, this assessment does not take into account the 19 December 2025 Council agreement for a €90 billion joint loan to support Ukraine over 2026-2027.

([9]) The interest payment and principal repayment on the NGEU-grants related debt of the 'Institutions and bodies of the European Union' will be financed through future EU budgets.

Box 2.5: The updated fiscal multiplier assumption

This box presents the new assumption about the value of the fiscal multiplier, which measures how economic activity reacts to fiscal policy. In 2015, the value of the fiscal multiplier in the DSA methodology was set at 0.75, based on empirical evidence at the time. Starting with this issue of the DSM and consistently with the outcome of a discussion with the DSA Working Group (see Chapter 5), the value is lowered to 0.6. This box provides an overview of why the size of the multiplier matters for debt sustainability, before explaining how the new assumed value of 0.6 should better reflect macroeconomic behaviour under normal economic times, based on the literature.

The fiscal multiplier in the standard DSA methodology and the EU fiscal framework

The fiscal multiplier effect measures how GDP responds to fiscal stimulus. A multiplier of 0.75 means that a fiscal consolidation of 1 pp., measured as a 1 pp. improvement in the structural primary balance (SPB), reduces actual GDP growth by 0.75 pp. in the same year. By affecting the level of GDP, the fiscal multiplier effect has a direct impact on the deficit- and debt-to-GDP ratios through the denominator effect. In addition, it affects the cyclical component of the budget balance, which in turn affects the level of the headline balance and, to some extent, the debt dynamics. The multiplier effect is meant to capture short-term demand-side effects, while potential growth is assumed to remain unchanged ([1]).

The value of the multiplier matters to some extent for the standard DSA. The DSA baseline assumes unchanged fiscal policy, therefore there is no fiscal stimulus to respond to. The only exception is for the first year of the projection (2027 in this report), for which the change in SPB included in the Commission T+2 forecast is removed to revert to a no-fiscal-policy-change assumption: this causes a feedback effect on GDP (relative to the forecast). Moreover, the multiplier plays a role in the two policy scenarios of the DSA, in which shocks are applied on the SPB, namely the "historical SPB" scenario and the "lower SPB" scenario.

The fiscal multiplier is also an important element of the DSA-based methodology within the EU fiscal framework. It partially drives the adjustment required to fulfil the DSA-based deficit and debt requirements, and it may also affect the potential additional adjustment needed to comply with the deficit benchmark, the deficit resilience safeguard and the debt sustainability safeguard. As one of the assumptions of the DSA-based methodology used in the EU fiscal framework, the value of the multiplier was subject to a dedicated discussion in the DSA working group (see Chapter 5).

Reviewing the value of the fiscal multiplier in light of the economic literature

In the literature, the size of the multipliers is found to depend on both structural and cyclical factors, as well as on the policy instruments. First, some structural characteristics of the economy affect the size of fiscal multipliers, such as the degree of trade openness and labour market rigidity, the size of automatic stabilisers and of the public sector, and the fixed or floating exchange rate regime. Moreover, some temporary characteristics of the state of the economy and the policy mix affect fiscal multipliers too: these include adverse times (from downturns to recessions and financial crises) versus good or normal times, the degree of monetary policy accommodation and whether the economy is at the zero lower bound (ZLB) ([2]). Finally, the design of fiscal policy matters as well. This regards the composition of the fiscal impulse (e.g. what type of instruments are used, and whether the measures target households with low or high marginal propensity to consume) and whether that impulse is implemented in a single country or jointly with other countries, with potential spillover effects.

Estimates of fiscal multipliers also exhibit significant variability across time and countries for methodological reasons. This is because they rely on a variety of models, which are computed over different

([1]) In addition to this "pure" multiplier effect, the DSA methodology also builds on the three-year output gap closure rule as defined in the EU commonly agreed methodology (EUCAM) to estimate potential growth and output gaps. This rule requires the output gap to close after some time, reflecting the assumption that there are underlying adjustment mechanisms in the economy that drag it back towards its potential. The output gap closure rule in the EUCAM is mechanical and states that the output gap should be equal to zero three years after the last year of the forecast horizon. By default, the closure is linear, meaning that the gap closes by one third every year (in the absence of fiscal stimulus).

([2]) See Fiscal Sustainability Report 2015 for more explanations, and Coenen et al. (2012) for QUEST simulations suggesting larger multipliers during recessions than in normal times, due to, e.g., monetary policy constraints.

(Continued on the next page)

Box (continued)

periods and country samples (Gechert, 2015). Moreover, the complexity of isolating the impact (including direct and second-round effects) of fiscal measures on GDP from other simultaneous shocks affecting the economy renders the estimation of genuine fiscal multiplier effects empirically challenging.

On the other hand, when the budgetary composition of fiscal consolidation is assumed to be equally revenue- and expenditure-driven, variability across countries is relatively low. Simulations in the QUEST model, which assumes identical behavioural and technological parameters across countries while openness and (public) capital stocks are different, show that short-term fiscal multipliers vary less across countries if fiscal consolidation is equally spread between cuts in government expenditure and tax hikes (proportionately to their share in the budget) than when it relies on certain individual policy instruments.

Without differentiating between the policy instruments, and taking all states of the economy into account, the average fiscal multiplier in the literature is very close to the Commission's former assumption of 0.75. That assumption was based on empirical evidence in 2015, in particular from Carnot and De Castro (2015) ([3]) and broadly consistently with the model-based simulations of the QUEST model performed in the early 2010s for the EU as a whole (Roeger and in 't Veld, 2010, and Coenen et al., 2012). To put it in a broader perspective, Map 1 reports estimates of the fiscal multipliers found in the literature, for various macroeconomic environments and types of policy measures. Focusing on estimates that are not associated with a specific policy instrument (reported as 'Overall' in the graph), the average estimate for multipliers in both normal and crisis times is 0.74. Against this average, an assumption of 0.75 proved reasonable and unbiased, given the diversity of country-specific situations. It was also close to the assumptions of other international institutions such as the IMF (0.75; 2017) and the ECB (0.55; 2017).

However, the literature generally estimates slightly lower levels for the fiscal multiplier in normal times. Excluding estimates in crisis times or at the ZLB but including 'unspecified times', the average for the 'Overall' category is 0.62; focusing on normal times only, the average is 0.50. In line with that, an updated estimate of the fiscal multipliers in the QUEST model in normal times points to a broadly similar value, when the budgetary composition of a two-year fiscal consolidation is assumed to be equally revenue- and expenditure-driven (0.4, see Graph 4)([4]).

Conclusion

Based on this analysis, a uniform but slightly lower value for the fiscal multiplier appears to be an appropriate assumption. Regarding the macroeconomic environment, the DSA working group came to the conclusion that a fiscal multiplier of 0.75 was slightly on the high side compared with recent estimates in the economic literature when excluding crisis years, and that a lower level of 0.6 would be more in line with those. For the same reason, this new value is also used in the DSM. Finally, it should be noted that while the Commission uses a common value for the fiscal multiplier to underpin the prior guidance of all countries, Member States can use a different value in their own plans, provided it is justified by country-specific economic conditions and the composition of the adjustment, and consistent with the economic literature.

([3]) See Annex A7 for detailed references.
([4]) In these new simulations, the consumers' and firms' behaviour (in terms of substitution between imports and domestically produced goods) was redefined in a way that implies a larger import leakage in case of a fiscal shock. This contributes to reducing the fiscal multiplier effect.

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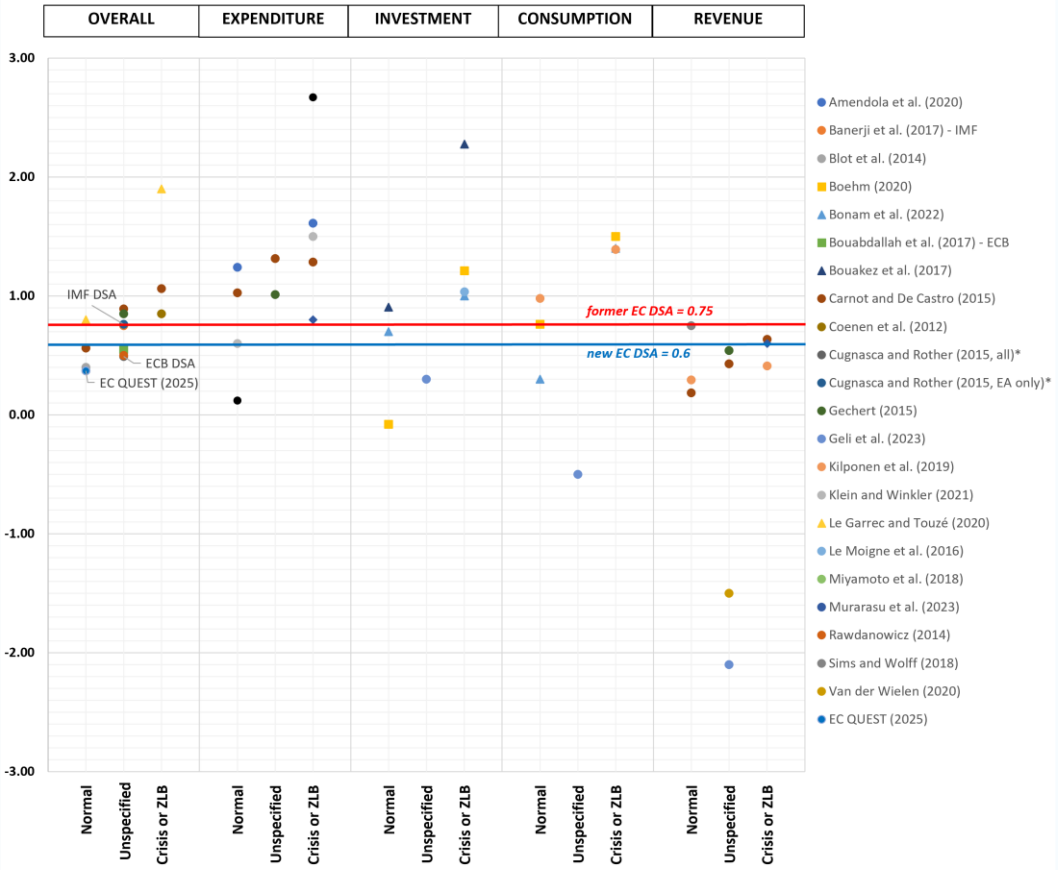
Box (continued)

Map 1: **Overview of fiscal multipliers in the literature**



Notes: (1) Distinction by policy instrument: "Overall" refers to the general impact of fiscal policy, not related to a specific policy instrument. "Expenditure" and "Revenue" focus on the impact of policy measures on the expenditure side and the revenue side, respectively. "Investment" and "Consumption" report estimated multipliers of measures affecting government investment and government consumption. (2) Distinction by economic situation: "Normal" refers to periods outside crisis or ZLB years, "Unspecified" refers to estimates for which the information on the economic situation is not specified and may therefore include both crisis and non-crisis years, and "Crisis or ZLB" refers to periods when monetary policy is constrained and/or accommodative, generally leading to higher fiscal multipliers.
Source: Commission services

3. LONG-TERM FISCAL SUSTAINABILITY ANALYSIS

Main takeaways

The long-term risk classification is based on two complementary indicators that show the fiscal effort that would fulfil two different long-term fiscal conditions. The main driver of the classification is the "debt-stabilisation indicator", S2, which measures the fiscal adjustment that would be needed in 2027 to stabilise public debt over the long term, regardless of the level at which stabilisation is achieved. The complementary "debt-reduction indicator", S1, measures the fiscal adjustment in 2027 that would bring the government debt-to-GDP ratio to 60% in 2070, thus capturing vulnerabilities associated with high debt levels. Both indicators account for the expected change in age-related spending as projected in the 2024 Ageing Report.

Roughly half of the Member States are found to have medium fiscal sustainability risks, and the other half is again broadly equally split between the high- and low-risk categories (see Table 3.1). More precisely, 6 Member States (Belgium, Luxembourg, Hungary, Malta, Slovenia and Slovakia) have high fiscal sustainability risks in the long term, 14 (Czechia, Germany, Estonia, Ireland, Spain, France, Latvia, Lithuania, the Netherlands, Austria, Poland, Romania, Finland and Sweden) medium risks and 7 (Bulgaria, Denmark, Greece, Croatia, Italy, Cyprus and Portugal) low risks. This assessment mainly results from the findings of the S2 indicator, with the S1 indicator deteriorating the risk category in only one case (for Romania, from low to medium risk).

The increase in ageing-related expenditure is the main driver of high long-term sustainability risks in all cases. The initial budgetary position also contributes to the high risk in some cases. Among the Member States at medium risk, for five countries (Czechia, Ireland, Spain, Lithuania and the Netherlands), the main driver is also the projected increase in ageing costs, while for seven others (Estonia, Germany, France, Latvia, Poland, Romania and Sweden), the unfavourable initial budgetary position matters more; for Austria and Finland, both factors contribute to a similar extent. Low long-term sustainability risks reflect a combination of contained cost of ageing in the long term and generally favourable initial budgetary positions. Decreasing ageing costs offset the impact of a more demanding initial budgetary position only in two cases (Bulgaria and Croatia), while the opposite happens for Cyprus, with a favourable initial budgetary position offsetting the impact of rising ageing costs.

Table 3.1: **Overview of the long-term risk classification**

Legend:			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
HIGH	Long-term risk	Overall																											
MEDIUM		S2																											
LOW		S1																											

Notes: S2: debt-stabilisation indicator; S1: debt-reduction indicator.

Source: Commission services.

This chapter assesses fiscal sustainability risks over the long term. The assessment is based on two complementary fiscal gap indicators that show the upfront permanent fiscal adjustment that would be needed in 2027 to fulfil two different long-term fiscal conditions:

- The *"debt-stabilisation indicator"*, S2, measures the fiscal effort that would stabilise government debt in the long term. Because it relies on the infinite version of the government intertemporal budget constraint, the S2 indicator is the leading indicator for the long-term risk assessment (see Annex A6).
- The *"debt-reduction indicator"*, S1, measures the fiscal effort that would bring the government debt-to-GDP ratio to 60% by 2070, thus applying a finite version of the budget constraint and a specific debt target equal to the reference value of the Treaty. It complements the signal provided by the S2 indicator, accounting for high debt levels.

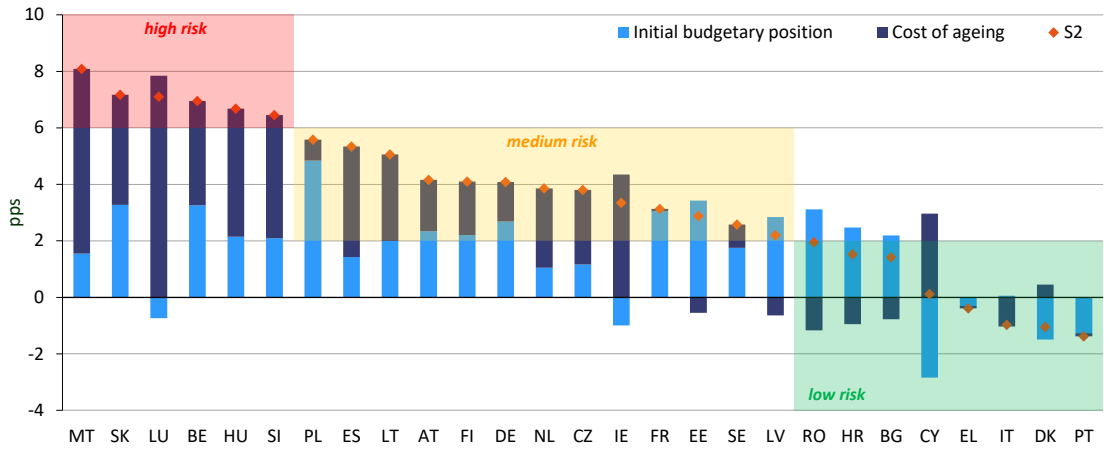
The chapter is structured as follows. Section 3.1 describes the results for the S2 indicator, Section 3.2 focuses on the findings of the S1 indicator, and Section 3.3 concludes with the overall risk classification. The box at the end of the chapter details the sensitivity scenarios around the baseline scenarios underlying the long-term fiscal sustainability indicators.

3.1. THE DEBT-STABILISATION INDICATOR S2

S2 – baseline

The S2 indicator measures the permanent adjustment of the structural primary balance (SPB) in 2027 that would stabilise public debt in the long term. It consists of two components, namely (i) the 'initial budgetary position', which measures the gap between the initial SPB in 2026 and the SPB that would stabilise the debt ratio; and (ii) ageing costs, comprising the projected change in public spending on pensions, healthcare, long-term care and education as provided by the 2024 Ageing Report. In contrast to the debt-reduction indicator S1, neither the level at which debt stabilises nor the timing is predefined for the S2 indicator (see Annex A6).

Graph 3.1: **S2 (effort required in 2027 to stabilise debt over an infinite time horizon) – baseline**



Source: Commission services.

The S2 indicator identifies 6 Member States with high risk, 13 with medium and 8 with low fiscal risk in the long term (see Graph 3.1 and Table 3.1). High risk corresponds to a large upfront adjustment of the SPB of at least 6 pps., medium risk to an adjustment of between 2 and 6 pps., while low risk means that a small permanent adjustment of maximum 2 pps., or even a negative adjustment, is sufficient to stabilise debt over an infinite time horizon. Importantly, a negative value does not mean that the country *should* deconsolidate; it only means that it has some leeway for fiscal expansion, if needed, without putting debt sustainability at risk.

Table 3.2: **S2 (effort required in 2027 to stabilise debt over an infinite time horizon) – breakdown**

	S2 (pps)	S2 components (pps)					
		Initial budgetary position*	Cost of ageing				
			Total	*Pensions***	*Healthcare*	*Long-term care*	*Education*
BE	**7.0**	3.3	3.7	2.1	0.5	1.6	-0.6
BG	**1.4**	2.2	-0.8	-1.2	0.2	0.2	0.0
CZ	**3.8**	1.2	2.6	0.7	0.7	1.2	0.1
DK	**-1.0**	-1.5	0.5	-2.4	0.6	2.6	-0.4
DE	**4.1**	2.7	1.4	0.5	0.5	0.3	0.2
EE	**2.9**	3.4	-0.5	-1.1	0.6	0.5	-0.5
IE	**3.3**	-1.0	4.3	2.4	1.3	1.1	-0.4
EL	**-0.4**	-0.3	-0.1	-0.6	0.7	0.0	-0.2
ES	**5.3**	1.4	3.9	2.6	1.0	0.7	-0.4
FR	**3.1**	3.1	0.1	-0.5	0.6	0.6	-0.6
HR	**1.5**	2.5	-0.9	-1.3	0.6	0.1	-0.4
IT	**-1.0**	0.1	-1.0	-1.6	0.6	0.6	-0.5
CY	**0.1**	-2.8	3.0	2.6	0.6	0.1	-0.4
LV	**2.2**	2.8	-0.6	-1.2	0.5	0.2	-0.2
LT	**5.1**	2.0	3.1	2.0	0.6	0.7	-0.2
LU	**7.1**	-0.7	7.8	5.8	0.9	1.4	-0.2
HU	**6.7**	2.1	4.5	3.6	0.4	0.3	0.3
MT	**8.1**	1.5	6.5	3.3	1.6	1.6	0.0
NL	**3.9**	1.0	2.8	1.0	0.6	1.6	-0.5
AT	**4.2**	2.3	1.8	-0.2	1.0	1.2	-0.2
PL	**5.6**	4.8	0.7	-0.8	0.8	0.6	0.0
PT	**-1.4**	-1.3	-0.1	-1.7	1.1	0.4	0.1
RO	**1.9**	3.1	-1.2	-2.1	0.6	0.3	0.0
SI	**6.5**	2.1	4.4	3.1	0.8	0.7	-0.2
SK	**7.2**	3.3	3.9	1.5	1.0	1.2	0.2
FI	**4.1**	2.2	1.9	0.6	0.5	1.6	-0.8
SE	**2.6**	1.8	0.8	-0.3	0.6	1.1	-0.6
EU	**3.3**	1.9	1.3	0.2	0.7	0.7	-0.3
EA	**3.3**	1.8	1.4	0.4	0.7	0.7	-0.3

* Gap between the initial and the debt-stabilising SPB (prior to the cost of ageing).
** Net of taxes on pensions and compulsory social security contributions paid by pensioners.
Source: Commission services.

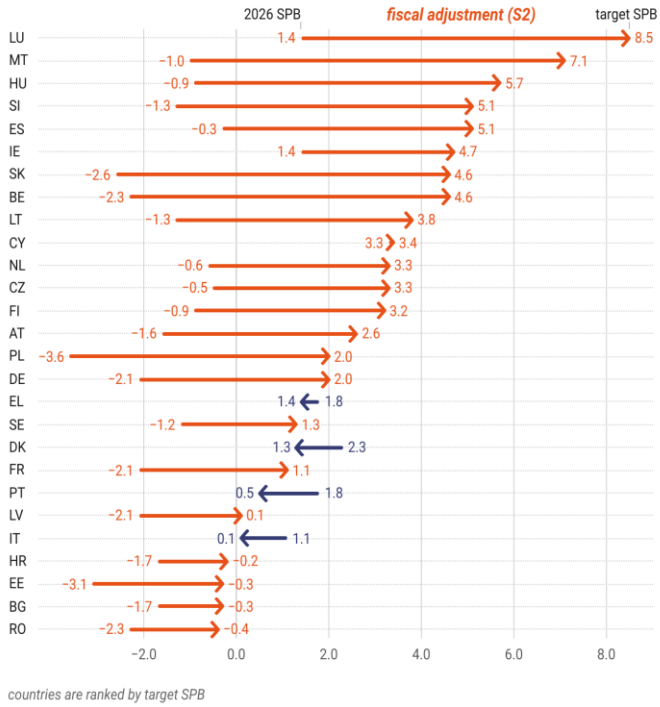
In many cases, both the initial budgetary position and the projected ageing costs matter for the S2 indicator. The 'initial budgetary position' measures the gap between the initial SPB and the debt-stabilising SPB and ignores future ageing costs, which are measured separately. In all Member States except for Greece and Portugal, at least one of the components requires a fiscal adjustment (Table 3.2). Also in four other Member States (Denmark, Ireland, Cyprus, Luxembourg), the initial budgetary position is negative, which means that the structural primary balance could deteriorate without destabilising the debt ratio – not accounting for any ageing costs. In six other Member States (Bulgaria, Estonia, Croatia, Italy, Latvia and Romania), the contribution of ageing costs to the S2 indicator is similarly negative, which implies that no fiscal adjustment is needed to stabilise debt *all else being equal*.

For the six high-risk countries, ageing costs are the main determinant of the S2 indicator. For Luxembourg and Malta, the ageing component exceeds 6 pps. of GDP, meaning that ageing costs alone suffice to put these countries in the high-risk category. The high projected increase in ageing costs in those countries stems from pension expenditure and, to a lesser extent, from healthcare and long-term care expenditure (see Table 3.2).

S2 – implied structural primary balance

In most countries, a high SPB would be needed to stabilise the debt ratio in the long term. The SPB that would stabilise the debt ratio over an infinite time horizon can be calculated as the sum of (i) the SPB in 2026 and (ii) the upfront and permanent fiscal adjustment that would stabilise the debt ratio in the long term, i.e. the S2 value. As shown in Graph 3.2, to stabilise debt in the long term, a structural primary surplus of above 8% of GDP would be needed for Luxembourg, 7% of GDP for Malta, almost 6% for Hungary and around 4-5% of GDP in six other cases.

Graph 3.2: **S2 – implied structural primary balance (% of GDP)**

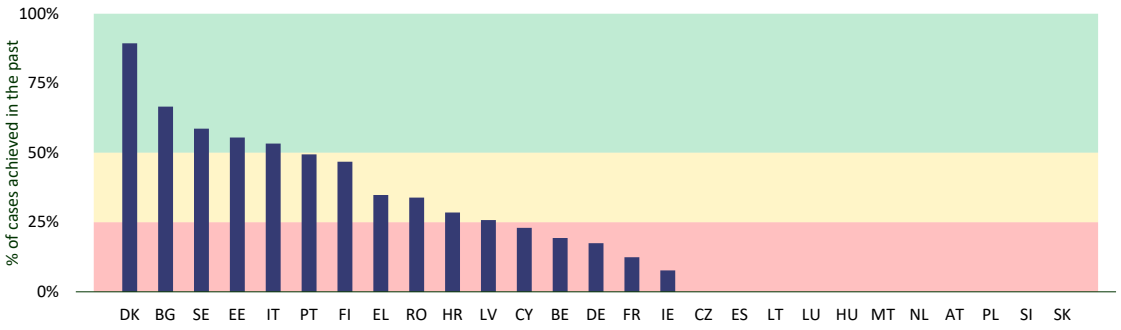


Blue arrows indicate countries with a negative S2 value, i.e. implying a lower SPB compared to the 2026 SPB.

Source: Commission services.

For many Member States, the S2 indicator implies particularly demanding fiscal positions compared with historical evidence. A comparison with past fiscal performance gives an idea about the plausibility of effectively achieving the SPBs implied by the S2 indicator. For each country, that SPB can be compared with the distribution of SPBs since 1980 ([24]). This allows assessing how realistic the implied fiscal position is, relative to past performance. In particular, it identifies the cases where the S2 implies an SPB that would be hard to sustain in the long term, assuming this SPB can be achieved in the first place. Graph 3.3 orders the countries according to their implied SPBs' percentile rank. It shows that the S2-implied SPB has never been achieved by Czechia, Spain, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Slovenia and Slovakia ([25]). For Ireland, France, Germany, Belgium and Cyprus, the implied SPB level was reached only less than 25% of the time in the past four decades. Among the countries for which the implied SPB was achieved less than 25% of the time, only Cyprus has a low-risk classification according to the S2 indicator (see Table 3.2). Cyprus's classification rests, in other words, on the assumption that the country would maintain forever its starting position, namely a relatively large primary surplus that is currently considered demanding by historical standards.

Graph 3.3: **S2 – plausibility of the implied structural primary balance**



Based on available structural primary balances since 1980.

Source: Commission services.

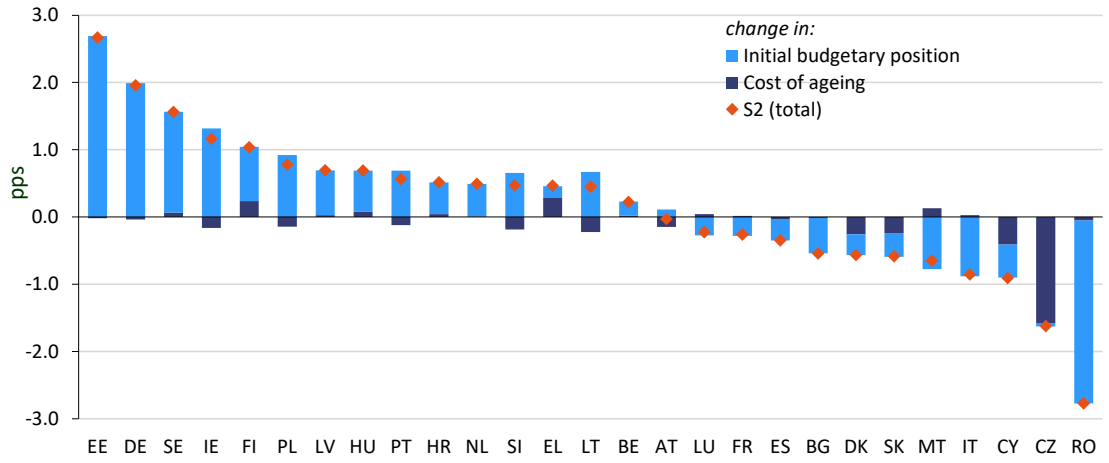
([24]) For some countries, data are not available for the entire period since 1980.

([25]) This factual observation does not mean that such a level of SPB could not be achieved in the future.

S2 – comparison with previous updates

Compared to the 2024 DSM, S2 rose by at least 1 pp. for Estonia, Germany, Sweden, Ireland and Finland, reflecting worse initial budgetary positions. Graph 3.4 provides a comparison of the S2 results with those in the 2024 DSM, allocating the change in the overall S2 value between the initial budgetary position and the cost of ageing components. Considering that the ageing cost projections in both reports are based on the 2024 Ageing Report ([26]), the ageing component is very similar, and therefore revisions in S2 are nearly entirely due to changes in the initial budgetary position. The exception is Czechia, for which updated pension projections were endorsed in April 2025, sizeably reducing the cost of ageing component. For a little more than half of the Member States, S2 was revised upwards. The largest revisions almost amount to +/-3 pps for Estonia and Romania respectively, reflecting sizeable deterioration/improvement in the initial SPB (i.e. SPB in 2026 as projected in the Commission 2025 Autumn Forecast vs. SPB in 2025 projected a year earlier), while they are more limited for most of the other Member States. Compared to the 2024 DSM, the S2-based risk classification changed for Estonia. Latvia, Sweden (from low to medium), Hungary, Slovenia (from medium to high) and Romania (from medium to low risk).

Graph 3.4: **S2 – difference between 2025 DSM and 2024 DSM**



Source: Commission services.

S2 – sensitivity analysis

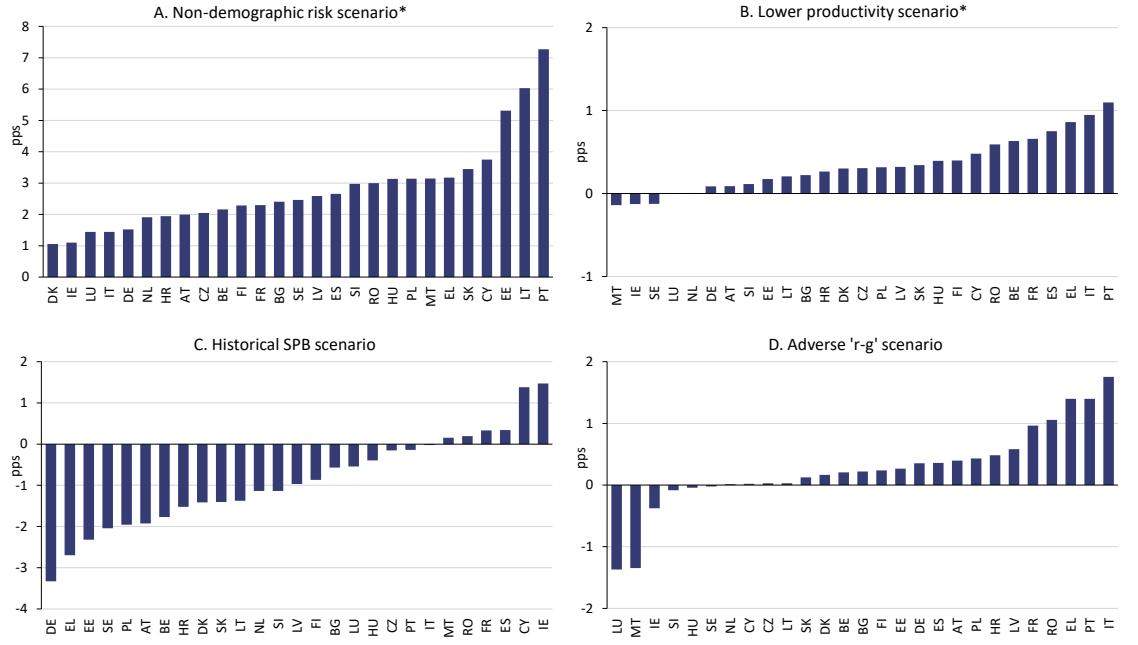
Four sensitivity scenarios are conducted to capture uncertainty around the baseline S2 indicator. To illustrate the impact of the uncertainty associated with long-term projections, the S2 'no-fiscal policy change' baseline results are compared with the results under four alternative macro-fiscal scenarios. Box 3.1 provides the technical assumptions for each of them, as well as the detailed results. Graph 3.5 presents the results in terms of deviation from the baseline.

- The **non-demographic risk scenario** adjusts the healthcare and long-term care expenditure projections for possible developments in non-demographic factors such as technological progress and convergence process. Under this scenario, S2 would be higher in all Member States, often considerably so (see Graph 3.5-A). For Portugal, Lithuania and Estonia, S2 would be at least 5 pps. higher than the baseline results. Moreover, compared to the baseline, six additional countries would be assessed at high risk based on the S2 indicator: Estonia, Spain, Lithuania, Austria, Poland and Finland. Only Denmark and Italy remain in the low-risk category under this scenario.

([26]) European Commission and EPC (2024), '2024 Ageing Report: Economic and budgetary projections for the EU Member States (2022-2070)', European Economy, Institutional Paper 279.

- The **lower productivity scenario** calculates the S2 in case ageing cost projections are based on less favourable productivity growth. For most countries, this scenario would increase the S2 indicator, though generally to a limited extent (see Graph 3.5-B), with the impact notably reflecting pension benefit indexation rules. The adverse impact of lower productivity is the highest in Portugal, Italy, Greece, Spain, France, Belgium, and Romania, imposing an additional fiscal adjustment of between 0.5 pps. and 1 pp. of GDP. Spain shifts to high risk under this scenario.
- The **historical SPB scenario** assumes that the SPB converges to its historical average level, thus improving (deteriorating) the initial budgetary position when the SPB forecast for 2026 is below (above) the historical average. Reconnecting with past budgetary performance would lower the fiscal effort needed to stabilise debt for most Member States (see Graph 3.5-C). The S2 indicator for Germany and Greece would be around 3 pps. lower than its baseline value. For Estonia, Sweden, Poland, Austria and Belgium, the difference is around 2 pps. On the other hand, the fiscal adjustment would be significantly higher for Ireland and Cyprus, reflecting the strong fiscal position forecast in 2026 compared with historical performance. Under this scenario, the risk classification would improve for Belgium, Slovenia, Slovakia from high to medium risk, for Estonia and Sweden from medium to low risk, while Romania would make the opposite move.
- The **adverse 'r-g' scenario** assumes a 1 pp. higher difference between interest rates and GDP growth. This implies a less favourable snowball effect and, especially for countries with high debt levels, a higher fiscal adjustment to stabilise the debt ratio ([27]). Italy, Portugal and Greece would be the most affected by a widening interest rate-growth differential (see Graph 3.5-D). Their S2 value would go up by about 1.5 pps. Under this scenario, Croatia and Romania move from low to medium risk, and Poland from medium to high risk, while Luxembourg goes from high to medium risk.
-

Graph 3.5: **S2 – sensitivity analysis (deviations from baseline)**



*2024 Ageing Report scenario.

Source: Commission services.

([27]) In exceptional circumstances, the impact can be favourable because of debt stabilisation at a low level.

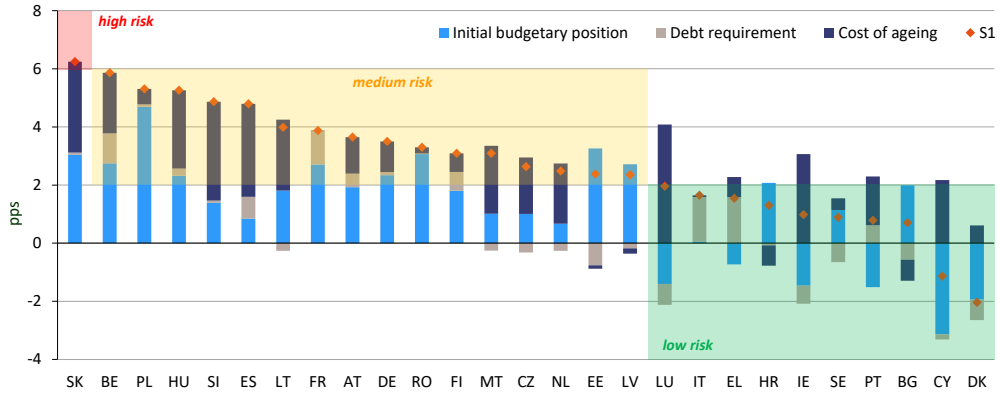
3.2. THE DEBT-REDUCTION INDICATOR S1

S1 – baseline

The S1 indicator measures the permanent fiscal effort in 2027 that would bring the debt-to-GDP to 60% by 2070. The S1 indicator comprises three components: (i) the 'initial budgetary position', which measures the gap between the 2026 SPB and the debt-stabilising SPB; (ii) the 'debt requirement', which is related to the distance of the current debt-to-GDP ratio to the 60% reference value; and (iii) future ageing costs. The thresholds associated with S1 are the same as with the S2 indicator. Another similarity with S2 is that a negative value of S1 does not mean that the country *should* deconsolidate in order to raise its debt to 60% of GDP; it only means that it has some leeway for fiscal expansion, if needed, while keeping its debt at a prudent level.

According to the S1 indicator, only Slovakia is identified as being at high risk in the long term. (see Graph 3.6) The S1 indicator is just above the threshold of high risks for Slovakia equally due to an unfavourable initial budgetary position and the projected increase in ageing costs.. By contrast**,** 16 countries are at medium risk and 10 at low risk in the long term.

Graph 3.6: **S1 (effort required in 2027 to bring debt to 60% of GDP by 2070) – baseline**



Source: Commission services.

As for the S2, in many cases, both the initial budgetary position and the projected ageing costs matter for the S1 indicator. In 15 countries, the increase in ageing costs by 2070 contributes by more than 1 pp. to the S1 indicator, with a maximum contribution of over 4 pps. for Luxembourg (see Table 3.3). In most of those Member States, the high ageing cost contribution is primarily driven by an expected increase in pension expenditure, with higher spending on healthcare and long-term care also playing a role for all Member States. On the other hand, a projected decline in pension expenditure reduces the sustainability gap in several cases.

In most Member States, S1 includes an unfavourable budgetary position. The unfavourable initial budgetary positions in 2026 imply that, at unchanged policy, debt would increase over the projection period in 21 Member States even if ageing-related expenditure remained constant. The initial budgetary position component contributes by more than 1 pp. to the S1 indicator in 18 Member States, with a maximum contribution of 4.7 pps. for Poland (see Table 3.3). Six countries can allow their SPB to deteriorate to a varying extent without endangering debt stabilisation, before accounting for ageing costs and preventing the debt ratio to surpass 60% of GDP in 2070.

Government debt ratios exceeding in 2026 the 60% threshold also contribute to higher levels of the S1 indicator in 14 Member States. Since the S1 indicator requires debt ratios to converge to 60% of GDP, the larger the current gap to the reference value, the larger the implied fiscal

adjustment ([28]). Projected debt ratios for 2026 range from 26% for Estonia to 142% for Greece. As a result, those two countries have the smallest and largest "debt requirement" contributions to S1, of -0.8 pps. and 1.6 pps., respectively (see Table 3.3). The debt reduction component alone requires a fiscal adjustment of more than 1 pp. in Greece, Italy, France and Belgium, the four Member States with the highest projected debt-to-GDP ratios in 2026 .

Table 3.3: **S1 (effort required in 2027 to bring debt to 60% of GDP by 2070) – breakdown**

	S1 (pps)	S1 components (pps)						
		Initial budgetary position*	Debt require-ment	Cost of ageing				
				Total	*Pensions***	*Healthcare*	*Long-term care*	*Education*
BE	**5.9**	2.7	1.0	2.1	1.2	0.3	1.0	-0.4
BG	**0.7**	2.0	-0.6	-0.7	-1.1	0.3	0.2	0.0
CZ	**2.6**	1.0	-0.3	1.9	0.7	0.5	0.7	0.0
DK	**-2.0**	-1.9	-0.7	0.6	-1.4	0.4	1.8	-0.2
DE	**3.5**	2.3	0.1	1.1	0.3	0.3	0.3	0.1
EE	**2.4**	3.3	-0.8	-0.1	-0.4	0.4	0.3	-0.4
IE	**1.0**	-1.5	-0.6	3.1	1.9	0.9	0.6	-0.3
EL	**1.5**	-0.7	1.6	0.7	0.1	0.6	0.0	-0.1
ES	**4.8**	0.8	0.8	3.2	2.3	0.8	0.5	-0.4
FR	**3.9**	2.7	1.1	0.0	-0.4	0.4	0.4	-0.5
HR	**1.3**	2.1	-0.1	-0.7	-0.9	0.4	0.1	-0.3
IT	**1.6**	0.1	1.5	0.1	-0.5	0.5	0.5	-0.4
CY	**-1.1**	-3.1	-0.2	2.2	2.0	0.4	0.1	-0.3
LV	**2.4**	2.7	-0.2	-0.2	-0.6	0.4	0.2	-0.2
LT	**4.0**	1.8	-0.3	2.4	1.8	0.4	0.5	-0.3
LU	**2.0**	-1.4	-0.7	4.1	3.0	0.6	0.7	-0.2
HU	**5.3**	2.3	0.2	2.7	2.1	0.3	0.1	0.2
MT	**3.1**	1.0	-0.3	2.3	1.1	0.8	0.7	-0.2
NL	**2.5**	0.7	-0.3	2.1	0.8	0.4	1.2	-0.4
AT	**3.7**	1.9	0.5	1.3	0.0	0.8	0.7	-0.2
PL	**5.3**	4.7	0.1	0.5	-0.4	0.6	0.4	0.0
PT	**0.8**	-1.5	0.6	1.7	0.4	0.9	0.3	0.1
RO	**3.3**	3.1	0.0	0.2	-0.5	0.5	0.2	0.0
SI	**4.9**	1.4	0.1	3.4	2.5	0.6	0.4	-0.2
SK	**6.2**	3.0	0.1	3.1	1.4	0.8	0.7	0.2
FI	**3.1**	1.8	0.7	0.6	0.0	0.3	1.0	-0.6
SE	**0.9**	1.1	-0.7	0.4	-0.2	0.3	0.7	-0.4
EU	**3.2**	1.6	0.5	1.1	0.3	0.5	0.5	-0.2
EA	**3.3**	1.5	0.6	1.2	0.4	0.5	0.5	-0.2

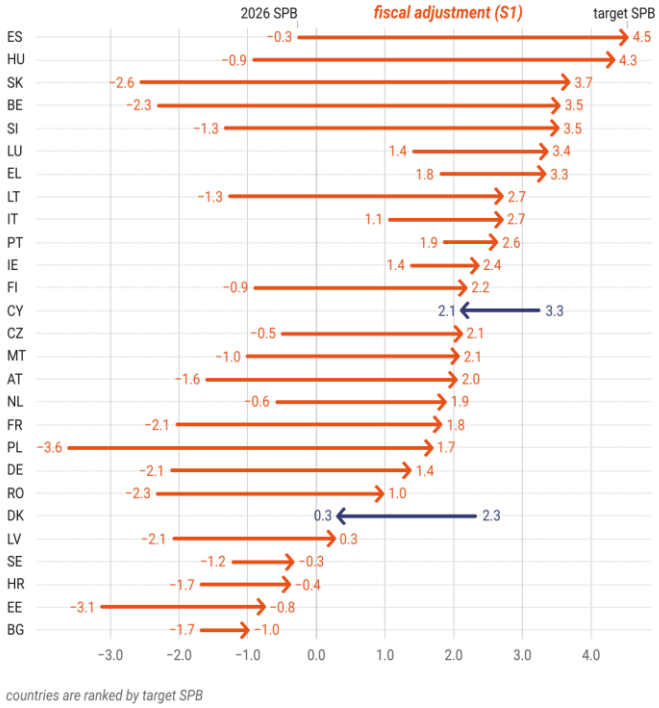
* Gap between the initial and the debt-stabilising SPB (prior to the cost of ageing).
** Net of taxes on pensions and compulsory social security contributions paid by pensioners.
Source: Commission services.

([28]) For countries with debt below 60% of GDP in 2026, the implied effort is negative, meaning that, all else equal, reaching the 60% of GDP level corresponds to a deterioration of the SPB.

S1 – implied structural primary balance

The S1 adjustment determines the SPB corresponding to convergence to a debt-to-GDP ratio of 60% in 2070. This implied SPB is the sum of (i) the SPB in 2026 and (ii) the S1 value (the assumed adjustment in 2027). A SPB of more than 4% of GDP would be needed in Spain and Hungary to bring government debt to 60% of GDP (see Graph 3.7) in 2070. For Slovakia, Belgium, Slovenia, Luxembourg and Greece, the implied SPB is at least 3% of GDP.

Graph 3.7: **S1 – implied structural primary balance (% of GDP)**

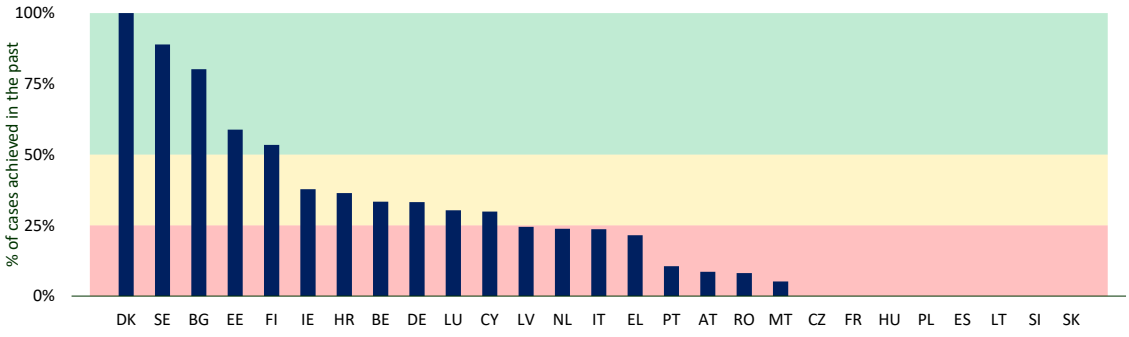


Blue arrows indicate countries with a negative S1 value, i.e. implying a worse SPB compared to the 2026 SPB.

Source: Commission services.

The percentile rank of the implied SPB gives an indication of the plausibility of the fiscal adjustment implied by S1. The implied SPB can be benchmarked against the distribution of available SPBs for each country since 1980 ([29]). This allows assessing how realistic the required fiscal position is, relative to past performance. Graph 3.8 orders the countries according to their implied SPBs' percentile rank. The implied SPB has never been achieved by Czechia, France, Hungary, Poland, Spain, Lithuania, Slovenia, and Slovakia. For Malta, Romania, Austria and Portugal, the implied SPB was only achieved occasionally, and for Greece, Italy, the Netherlands and Latvia, less than 25% of the time. For Greece, Italy and Portugal, the low-risk classification as per the S1 indicator thus rests on the assumption of maintaining a relatively large SPB by historical standards.

Graph 3.8: **S1 – plausibility of the implied structural primary balance**



Based on available structural primary balances since 1980.

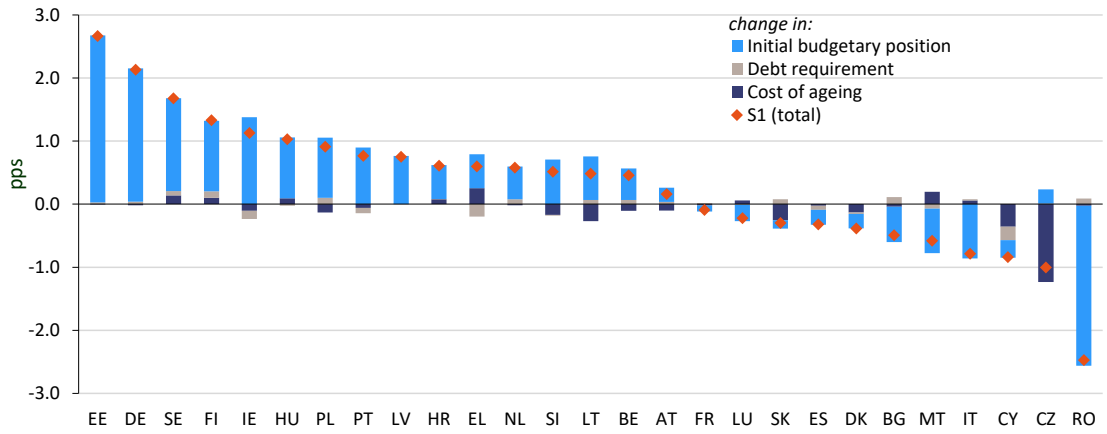
Source: Commission services.

([29]) For some countries, data are not available for the entire period since 1980.

S1 – comparison with previous updates

Compared with the 2024 DSM, worse initial budgetary positions result in an S1 that is at least 1 pp. higher for six Member States. Graph 3.9 provides a comparison of the S1 results with those in the 2024 DSM, breaking down the overall change into the contributions from the initial budgetary position, the debt requirement and the cost of ageing. Because the ageing projections have not changed since the 2024 DSM except for Czechia ([30]) – only the year has shifted – and the starting debt levels did not change considerably one year later, the initial budgetary position is the main driver of the revisions. 16 Member States have an upward revision, with a maximum of +2.7 pps. of GDP for Estonia. Among the 11 Member States with a downward revision in the current update, the biggest change is for Romania (-2.5 pps.). Compared to the 2024 DSM, the S1-based risk signal has changed for Germany, Estonia, the Netherlands (from low to medium) and for Italy and Luxembourg (from medium to low risk).

Graph 3.9: **S1 – difference between 2025 DSM and 2024 DSM (pps.)**



Source: Commission services.

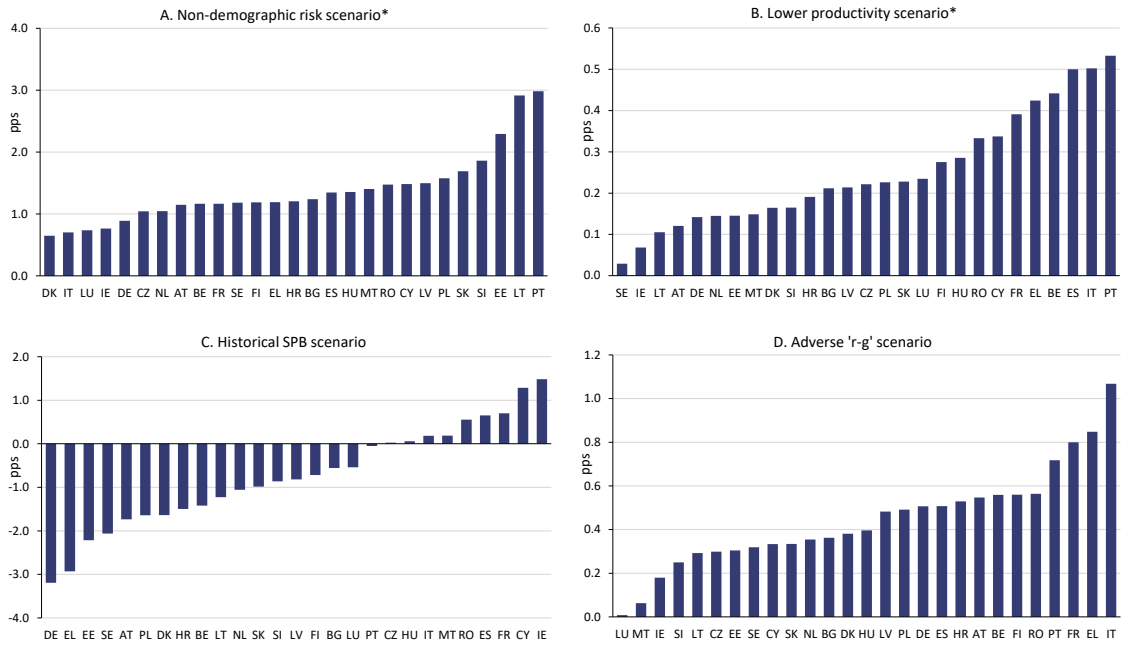
S1 – sensitivity analysis

Four sensitivity scenarios are conducted to capture uncertainty surrounding the baseline S1 indicator. The same scenarios as for the S2 indicator are considered (see definitions in the previous section and in Box 3.1). Graph 3.10 presents the results in terms of deviations from the baseline.

- Under the **non-demographic risk scenario**, S1 is higher for all Member States (see Graph 3.10-A). The impact is roughly 1 pp. for most countries, with Estonia (+2.3 pps.), Lithuania (+2.9 pps.) and Portugal (+3.0 pps.) exceeding 2 pps.. Under this scenario, in addition to Slovakia, also Belgium, Spain, Lithuania, Hungary, Poland and Slovenia are considered at high fiscal risk. The risk signal moves from low to medium for Greece, Croatia, Italy, Luxembourg, Portugal and Sweden.
- Under the **lower productivity scenario**, the S1 changes to a lesser extent compared to the baseline (see Graph 3.10-B). The S1 indicator rises for all Member States but by a maximum of 0.5 pps of GDP for Portugal, Italy and Spain. Risk categories are mostly unchanged, with the exceptions of Belgium (from medium to high risk), and Italy and Luxembourg (both from low to medium risk).
- The **historical SPB scenario** assumes that the budgetary position converges from the forecast SPB level for 2026 to the country's historical average, , thus either lowering or increasing the S1 value depending on whether the SPB improves or deteriorates. If the past fiscal performance were assumed to be repeated, the fiscal effort to reduce the debt ratio to 60% of GDP by 2070 would fall by at least 2 pps. for Germany, Greece, Estonia and Sweden (see Graph 3.10-C), while it would

([30]) For Czechia, updated pension projections were endorsed in April 2025 notably reducing the increase in ageing costs.

Graph 3.10: **S1 – sensitivity analyses (deviations from baseline in pps.)**



*2024 Ageing Report scenario; see also Box 3.1.

Source: Commission services.

increase by more than 1 pp. for Cyprus and Ireland. As regards the S1-based risk classification, Ireland would go from low to medium risk, while Slovakia from high to medium risk and Germany, Estonia, Latvia, the Netherlands, Austria from medium to low risk.

- Under the **adverse 'r-g' scenario**, a less favourable snowball effect is assumed so that a higher fiscal adjustment is needed to reduce high debt ratios to 60% Italy, Greece, France and Portugal, the countries with the highest initial debt levels, would be the most affected by a higher interest rate-growth differential (see Graph 3.10-D). Their S1 value would go up by around 1 pp.. In terms of risk signals, Romania moves to high risk, while Latvia, the Netherlands and Finland would move from low to medium risk.

3.3. OVERALL LONG-TERM RISKS

The overall long-term fiscal sustainability risks are assessed based on both the S2 and S1 indicators. As discussed in Annex A6, the S2 indicator provides the starting point for the overall assessment of long-term fiscal risks. In addition, the S1 indicator, capturing vulnerabilities due to high debt levels, may lead to a one-notch deterioration of the risk classification. Table 3.4 shows the risk classifications based on both indicators separately and provides the overall long-term risk classification.

- **Six Member States face high fiscal sustainability risks in the long term** (Belgium, Hungary, Luxembourg, Malta, Slovenia and Slovakia). This risk classification is based on the S2 indicator, with the S1 indicator confirming the high-risk classification for Slovakia. The main driver of the high S2 indicator is the projected increase in ageing costs for all those Member States. The initial budgetary position alone also contributes significantly in most of those countries, by more than 2 pps. for Belgium, Hungary, Slovenia and Slovakia, and to a lesser extent for Malta, while it makes a negative contribution for Luxembourg.

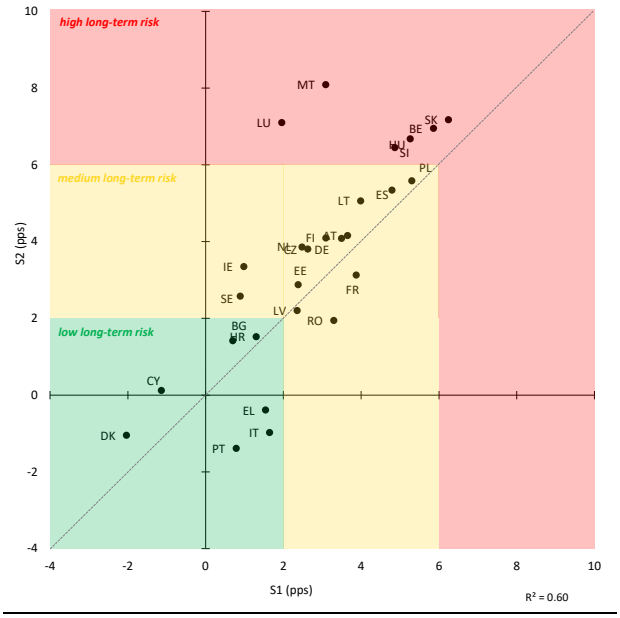
- **Fourteen Member States face medium fiscal sustainability risks in the long term** (Czechia, Germany, Estonia, Ireland, Spain, France, Latvia, Lithuania, the Netherlands, Austria, Poland, Romania, Finland and Sweden). The only country for which S1 worsens the risk classification compared to the low-risk signal from S2 is Romania. For that country, S2 points to low risk because the projected decline in the cost of ageing by 2070 would facilitate debt stabilisation over an infinite horizon (as that favourable contribution would be applied forever), but at a high level (135% of GDP). By contrast, S1 signals medium risk, as some adjustment is needed to cater for the increase in the cost of ageing up to the 2050s and to ensure that debt is limited to 60% of GDP by 2070. For all the other countries, S1 either confirms the medium-risk signal of S2 or indicates low risk, not affecting the S2 signal. For Czechia, Ireland, Spain, Lithuania and the Netherlands, the main driver of risks is the projected increase in ageing costs. The main driver is the unfavourable initial budgetary position for Estonia, Germany, France, Latvia, Poland, Romania and Sweden. For Austria and Finland, both factors contribute to a similar extent.
- **Seven Member States have low fiscal sustainability risks in the long term** (Bulgaria, Denmark, Greece, Croatia, Italy, Cyprus and Portugal). This reflects a combination of contained cost of ageing in the long term and generally favourable initial budgetary positions. In the cases of Bulgaria and Croatia, decreasing ageing costs offset the impact of a more demanding initial budgetary position. The opposite is the case for Cyprus with a favourable initial budgetary position offsetting the impact of rising ageing costs.

Table 3.4: **Overall long-term risk classification, S2 and S1 indicators**

	Overall	S2	S1
BE	high	high	medium
BG	low	low	low
CZ	medium	medium	medium
DK	low	low	low
DE	medium	medium	medium
EE	medium	medium	medium
IE	medium	medium	low
EL	low	low	low
ES	medium	medium	medium
FR	medium	medium	medium
HR	low	low	low
IT	low	low	low
CY	low	low	low
LV	medium	medium	medium
LT	medium	medium	medium
LU	high	high	low
HU	high	high	medium
MT	high	high	medium
NL	medium	medium	medium
AT	medium	medium	medium
PL	medium	medium	medium
PT	low	low	low
RO	medium	low	medium
SI	high	high	medium
SK	high	high	high
FI	medium	medium	low
SE	medium	medium	low

Source: Commission services.

Graph 3.11: **Relationship between S2 and S1**



Source: Commission services.

In most cases, the S1 indicator confirms the conclusion derived from the S2 indicator alone. The S2 and S1 indicators show a high correlation despite capturing somewhat different objectives: debt stabilisation over the long term – irrespective of the debt level – versus debt convergence to the 60% of GDP reference threshold (see Graph 3.11) ([31]). The signals correspond for the majority of the countries (19 out of 27).

([31]) The correlation between S1 and S2, as measured by the R^2 value, amounts to 0.6 (see Graph 3.11).

Compared to the 2024 DSM, overall long-term fiscal sustainability risks have

- ***decreased in Italy***. Italy moves from medium to low risk, given that the S1 indicator now confirms the low signal from the S2 indicator
- ***increased in five Member States***. Estonia, Latvia and Sweden move from low to medium risk in light of worsened initial budgetary positions. Hungary and Slovenia were both borderline cases in the previous edition, and a more unfavourable initial budgetary position now tilts the S2 indicator into the high-risk category.
- ***remained unchanged*** in the other 21 Member States (see Table 3.5 for a comparison).

Table 3.5: **Overall long-term risk classifications in the 2025 and the 2024 DSM**

2024 DSM \ 2025 DSM	Low	Medium	High
Low	BG, DK, EL, HR, CY, PT	**EE, LV, SE**	
Medium	**IT**	CZ, DE, IE, ES, FR, LT, NL, AT, PL, RO, FI	**HU, SI**
High			BE, LU, MT, SK

The long-term risk classification of countries in green improved compared to the 2024 DSM.

Source: Commission services.

Box 3.1: The sensitivity scenarios of the long-term fiscal sustainability indicators (S1 and S2)

This box describes and presents the results of four sensitivity scenarios for the long-term sustainability indicators (S2 indicator measuring the required upfront effort to stabilise debt over infinite horizon and the S1 indicator measuring the required upfront permanent effort to bring debt to 60% of GDP by 2070).

- **The non-demographic risk scenario** adjusts the healthcare and long-term care expenditure projections for possible developments in non-demographic factors, such as technological progress and convergence. It is based on a sensitivity scenario from the 2024 Ageing Report, where it is called 'Risk scenario'. It assumes a partial continuation of upward healthcare expenditure trends, notably due to technological progress, and an upward convergence of coverage and costs of long-term care towards the EU average.

- **The lower productivity scenario** determines the S1 and S2 values in case ageing cost projections are based on lower productivity growth compared with the baseline. This scenario is based on a sensitivity scenario from the 2024 Ageing Report, where it is called 'Lower TFP growth scenario'. While the Ageing Report baseline projections assume a gradual convergence of total factor productivity growth (TFP) to 0.8% for all Member States, this scenario assumes convergence to 0.6%.

- **The historical SPB scenario** assumes that the structural primary balance (SPB) converges to its historical average level, thus either improving or deteriorating the initial budgetary position, depending on how the SPB forecast for 2026 compares against the historical average. This scenario uses the Commission autumn 2025 forecast until 2026, followed by gradual convergence to the historical SPB average by 2030; then the unique and permanent fiscal adjustment takes place in 2031. The historical average is based on available data for 2009-2024.

- **The adverse 'r-g' scenario** applies a 1 pp. higher difference between nominal interest rates (r) and nominal GDP growth (g), compared with the baseline. This 'r-g' differential determines the snowball effect. The scenario thus entails a less favourable snowball effect and, especially for countries with high debt levels, a higher required fiscal adjustment to stabilise or reduce the debt ratio.

Table 1: ***Results of sensitivity scenarios (pps.)***

S1 indicator (required upfront permanent effort to bring debt to 60% of GDP by 2070)

	Baseline	Non-demographic risk*	Lower productivity*	Historical SPB	Adverse 'r-g'
BE	5.9	7.0	6.3	4.4	6.4
BG	0.7	1.9	0.9	0.1	1.1
CZ	2.6	3.7	2.9	2.7	2.9
DK	-2.0	-1.4	-1.9	-3.7	-1.7
DE	3.5	4.4	3.6	0.3	4.0
EE	2.4	4.7	2.5	0.2	2.7
IE	1.0	1.7	1.1	2.5	1.2
EL	1.5	2.7	2.0	-1.4	2.4
ES	4.8	6.1	5.3	5.4	5.3
FR	3.9	5.0	4.3	4.6	4.7
HR	1.3	2.5	1.5	-0.2	1.8
IT	1.6	2.3	2.1	1.8	2.7
CY	-1.1	0.3	-0.8	0.1	-0.8
LV	2.4	3.9	2.6	1.5	2.8
LT	4.0	6.9	4.1	2.8	4.3
LU	2.0	2.7	2.2	1.4	2.0
HU	5.3	6.6	5.5	5.3	5.7
MT	3.1	4.5	3.2	3.3	3.2
NL	2.5	3.5	2.6	1.4	2.8
AT	3.7	4.8	3.8	1.9	4.2
PL	5.3	6.9	5.5	3.7	5.8
PT	0.8	3.8	1.3	0.7	1.5
RO	3.3	4.8	3.6	3.9	3.9
SI	4.9	6.7	5.0	4.0	5.1
SK	6.2	7.9	6.5	5.3	6.6
FI	3.1	4.3	3.4	2.4	3.7
SE	0.9	2.1	0.9	-1.2	1.2

S2 indicator (required upfront effort to stabilise debt over infinite horizon)

	Baseline	Non-demographic risk*	Lower productivity*	Historical SPB	Adverse 'r-g'
BE	7.0	9.1	7.6	5.2	7.2
BG	1.4	3.8	1.6	0.8	1.6
CZ	3.8	5.9	4.1	3.7	3.8
DK	-1.0	0.0	-0.7	-2.5	-0.9
DE	4.1	5.6	4.2	0.8	4.4
EE	2.9	8.2	3.1	0.6	3.1
IE	3.3	4.5	3.2	4.8	3.0
EL	-0.4	2.8	0.5	-3.1	1.0
ES	5.3	8.0	6.1	5.7	5.7
FR	3.1	5.4	3.8	3.5	4.1
HR	1.5	3.5	1.8	0.0	2.0
IT	-1.0	0.5	0.0	-1.0	0.8
CY	0.1	3.9	0.6	1.5	0.1
LV	2.2	4.8	2.5	1.2	2.8
LT	5.1	11.1	5.3	3.7	5.1
LU	7.1	8.5	7.1	6.6	5.7
HU	6.7	9.8	7.1	6.3	6.6
MT	8.1	11.2	7.9	8.2	6.7
NL	3.9	5.8	3.9	2.7	3.9
AT	4.2	6.2	4.2	2.2	4.6
PL	5.6	8.7	5.9	3.6	6.0
PT	-1.4	5.9	-0.3	-1.5	0.0
RO	1.9	4.9	2.5	2.1	3.0
SI	6.5	9.4	6.6	5.3	6.4
SK	7.2	10.6	7.5	5.8	7.3
FI	4.1	6.4	4.5	3.2	4.3
SE	2.6	5.0	2.5	0.5	2.6

Notes: (i) The cells are highlighted in line with the thresholds for the long-term risk classification: above 6 pps. (red), between 2 and 6 pps. (yellow) and below 2 pps. (green). (ii) * 2024 Ageing Report scenario.
Source: Commission services.

4. ADDITIONAL AGGRAVATING AND MITIGATING RISK FACTORS FOR FISCAL SUSTAINABILITY

Main takeaways

This chapter explores additional aggravating and mitigating risk factors for fiscal sustainability. While these factors are partially reflected in the analysis of the previous chapters, a specific analysis is important to obtain a more complete picture of fiscal sustainability risks. The risk factors include the structure of debt, government liabilities not included in the EDP definition of debt, in particular contingent liabilities, as well as government assets and net debt.

Recent developments in the structure of government debt remain overall favourable across the EU. Over the last decade, a general trend of lengthening of debt maturities has been observed. In 2024, maturities remain at an elevated level, while many countries have started to reduce them. Recourse to short-term government debt continues to decline on average, although it has slightly increased in some Member States in 2024. The investor base remains large and diversified in many Member States and mainly domestic for a majority of Member States. A few non-euro area Member States are exposed to foreign exchange rate risks with a significant share of their debt being denominated in foreign currency.

Risks concerning government non-EDP liabilities and contingent liabilities appear overall limited across the board. Among non-EDP debt liabilities, 'other accounts payable' remains, in 2024, the most significant component, while receding in many Member States for some years. Regarding contingent liabilities, the recourse to government guarantees was moderate and declining in most countries. In addition, the EU banking sector appears resilient. At the same time, some vulnerabilities may stem from the non-banking financial sector and call for close monitoring ahead.

Government holdings of (large) stock of financial assets in some Member States continue to mitigate fiscal sustainability risks. Country rankings for indebtedness are similar when comparing gross and net debt ratios. For the EU as a whole, net debt stood at 66% of GDP in 2024 (versus 81% for the Maastricht debt). As for, the broader concept of net financial worth, netting all government financial assets against all financial liabilities, it stood at 54% of GDP (about 12pps higher than net debt).

Climate change is emerging as a relevant macro-fiscal risk. It affects economic activity, public revenues and expenditure needs through its physical impacts and through the policies and structural adjustments required for mitigation and adaptation. These risks can influence investment patterns, production structures, potential growth and, ultimately, the trajectory of public finances. Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented action scenarios.

This chapter complements the results presented in the previous chapters with an analysis of additional risk factors for fiscal sustainability. Such additional aggravating or mitigating risk factors, which are only partially factored in in the quantitative results presented in the previous chapters, can be particularly relevant in times of stress and elevated uncertainty. The following factors are examined: the composition of government debt, notably in terms of maturity, holders and currency denomination (Section 4.1); government liabilities not included in the standard government EDP debt aggregate and contingent liabilities, including those stemming from financial and non-financial corporations (Section 4.2); government assets and the concepts of net debt and net financial worth (Section 4.3); and risks related to climate change (Section 4.4). ([32])

4.1. STRUCTURE OF GOVERNMENT DEBT

The structure of government debt can play an important role in ensuring sustainable public finances in different ways. First, by determining the level and response of interest payments to changes in economic and financial conditions. Second, by influencing the degree of risks, notably refinancing and rollover risks. An optimal government debt portfolio should minimise interest payments subject to a prudent degree of refinancing and rollover risks (cost-risk trade-off).

The debt composition needs to be analysed along several dimensions. In this section, the analysis focuses on three aspects: (i) the maturity structure, including the share of short-term debt in total government debt (at original maturity) and the average maturity of the debt, (ii) the sectoral composition of the investor base and its development over time, and (iii) other factors of debt structure like its composition by instrument, currency type of interest rate.

Table 4.1: **Government debt structure - Selected indicators, 2024**

	1. Share of short-term debt (% of total debt)		2. Average residual maturity of debt securities		3. Debt held by non-residents (% of total debt)		
	In % of total debt (2024)	*Annual change (pps)*	*In years (Nov. 2025)*	*change over 4 years (pps)*	*Total non-resident (2024)*	*Non-EA resident (2024)*	
BE	8.2	-0.5	10.8	-0.1	62.0	26.1	**BE**
BG	0.2	-0.1	8.5	1.3	54.7	36.5	**BG**
CZ	3.7	1.3	5.9	-0.4	23.6	18.2	**CZ**
DK	4.8	-1.3	8.6	-0.6	30.4	28.4	**DK**
DE	7.5	-1.4	8.2	0.7	48.6	24.5	**DE**
EE	10.9	3.0	5.1	-2.2	78.1	42.9	**EE**
IE	6.8	-0.1	10.6	-0.3	49.5	3.3	**IE**
EL	4.5	-1.1	8.9	-0.6	76.4	8.3	**EL**
ES	5.6	0.4	7.7	0.0	46.2	19.6	**ES**
FR	9.5	1.4	8.2	-0.2	53.5	31.2	**FR**
HR	7.0	2.1	5.1	-0.4	29.8	-3.5	**HR**
IT	11.6	-0.8	7.0	-0.1	34.0	15.0	**IT**
CY	1.1	0.3	7.8	-0.1	59.0	16.1	**CY**
LV	2.7	0.2	6.6	-1.0	71.1	31.5	**LV**
LT	0.2	0.2	8.1	-0.7	70.9	32.7	**LT**
LU	2.0	-0.3	7.3	0.7	55.7	21.1	**LU**
HU	6.9	-0.5	5.8	-0.6	36.7	27.9	**HU**
MT	7.7	0.7	6.8	-1.3	21.3	6.5	**MT**
NL	9.9	1.6	9.0	0.9	43.9	17.8	**NL**
AT	6.1	-0.6	13.3	1.8	65.3	26.6	**AT**
PL	1.9	0.3	4.8	0.6	34.6	28.6	**PL**
PT	20.5	1.5	7.9	0.9	47.2	15.1	**PT**
RO	8.3	1.8	6.5	-0.7	48.9	36.7	**RO**
SI	3.5	-1.1	9.0	-1.1	55.5	14.0	**SI**
SK	0.6	0.0	8.6	0.3	57.6	21.5	**SK**
FI	10.3	-2.7	7.9	0.5	59.0	30.7	**FI**
SE	28.2	-1.6	4.1	-0.7	24.1	18.7	**SE**

(1) Short-term debt (original maturities) includes currency and deposit, short-term debt securities and short-term loans.

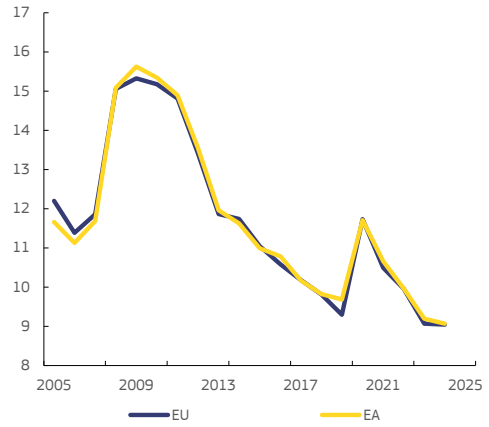
Source: Commission services based on ECB, Eurostat and IMF

([32]) Some other factors are not examined in this chapter. This concerns in particular the quality of institutions. As shown by a rich literature, the quality of institutions is an important supporting factor of public debt sustainability. In the EU, a deeply integrated region of mainly advanced economies, evidence suggests that the quality of institutions would be on average higher and less heterogeneous than in other parts of the world (for a literature review, see Box 1.2 in European Commission (2019), Fiscal Sustainability Report 2018, *European Economy Institutional Paper*, No. 094.

4.1.1. Maturity structure

Share of short-term debt

Graph 4.1: **Share of short-term debt (% of total government debt): Evolution in the EU and EA – 2005-2024**



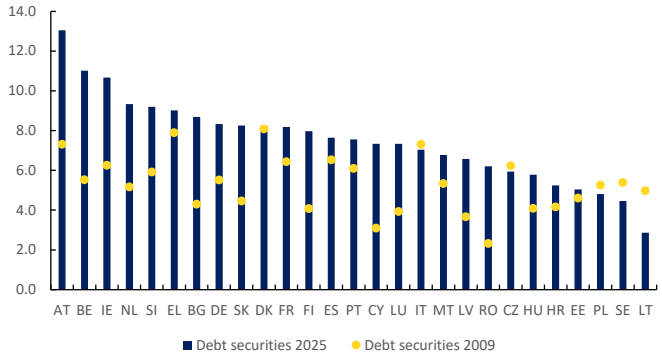
(1) Share of short-term debt includes currency and deposit, short-term debt securities and short-term loans.

Source: Eurostat.

Short-term debt at the EA and EU level has continued to decline but it has increased in a number of Member States (see Graph 4.1)**.** With a high share of short-term debt, a government may be vulnerable to increases in the interest rate, and to rapid changes in financial markets' perceptions ([33]). The share of short-term debt is relatively high in Sweden and Portugal (both above 20% of total debt), as well as Italy, Estonia and Finland (all above 10%). At the same time, the share of short-term debt is a downward trend or stabilising for most of the countries, with Sweden and Finland posting the highest annual decline (Table 4.1).

Average maturity of debt

Graph 4.2: **Average residual maturity of debt securities (in years) – 2009 vs. 2025**



(1) In absence of the data for year 2009 for EE, HR and LT, the first year available is used, which is 2010 (LT), 2012 (HR) and 2019 (EE).

Source: Eurostat

The average maturity of government debt remains high, reducing vulnerabilities. The average (residual) maturity of government debt (securities) has increased significantly compared to years around the 2008 global financial crisis. Although it has stabilised lately, with many Member States adjusting their maturities downwards (see Table 4.1), the average maturity remained at a high value of close to 8 years on average at the end 2025 (see Graph 4.2). The maturity was particularly long in 2025 in Austria, Belgium and Ireland (above 10 years). In contrast, the maturities are shorter than 5 years in Sweden and Poland. A significant decrease in maturities is recorded in Estonia (-2.2pps) and Malta (-1.3pps) ([34]). The shorter maturities in Estonia, Croatia, Poland and Sweden should be considered in the context of debt ratios

([33]) If the structure of debt tends to be fairly stable over time, in the wake of major (financial) crises or large scale financial innovation (such as quantitative easing), changes in the debt composition can be large and sudden (see Abbas et al (2014) and also European Commission (2019), Box 3.4.

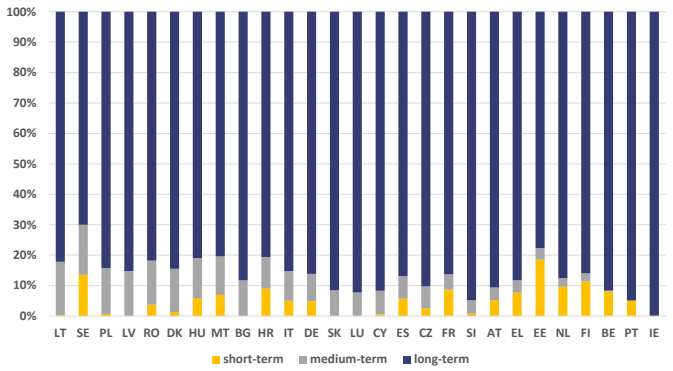
([34]) A number of other indicators are worth considering in parallel to the average maturity of debt, namely the weight of short-term debt as a share of GDP, the level of a country's international reserves in the case of external short-term debt of non-euro area Member States. The extent to which international reserves are greater or equal than the country's stock of short-term external debt (the Greenspan-Guidotti rule) shows whether the country has enough resources to counter a

below or slightly above 60% of GDP, and with external debt which is either limited or negative (see Section 4.2.4.). This, overall, mitigates vulnerabilities in the short term.

Composition of debt by initial maturity

The bulk of the outstanding debt is incurred on a long-term basis, also alleviating the financing risks. For all Member States, the largest part of debt is made out of long-term securities (between 69.5% in Sweden and nearly 100% in Lithuania). There is a visible share of medium-term debt (with maturity between 1 and 5 years) in all Member States, but its importance varies significantly across Member States (from 17.5% of total debt in Lithuania to less than 1% in Belgium, Portugal and Ireland) (Graph 4.3).

Graph 4.3: **Composition of government debt securities by initial maturities, 2024**

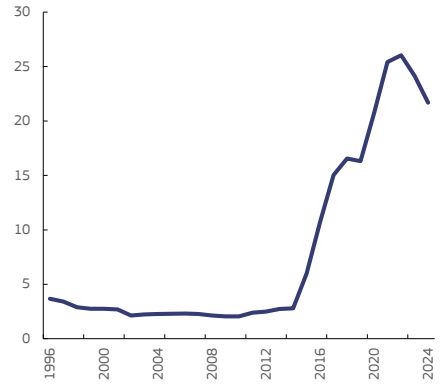


(1) Short-term debt includes debt up to a year, medium-term debt up to 5 years and long-term debt beyond.

Source: ECB CSEC database.

4.1.2. Composition by debt holders: the investor base

Graph 4.4: **Share of government debt held by domestic central banks (% of total govt. debt, EA aggregate)**



(1) Based on Maastricht debt (at face value).

Source: ECB.

The Member States' investor base remains solid, though in some cases, the substantial share of debt held by non-residents may need to be monitored. A significant foreign investor base highlights a country's creditworthiness and reduces the risks of adverse loops between the sovereign and the national banking systems ([35]). At the same time, it can also be more volatile and prone to sudden stops in situations of heightened uncertainty. Several euro-area Member States have large shares of foreign-held government debt, including the Baltic countries, Greece, Austria, Belgium, Cyprus, Finland, Slovakia, Luxembourg, Slovenia, and France (all beyond 50% of total government debt; see Table 4.1). In some cases, this high share still reflects important official lending associated with past financial assistance programmes, for instance in Cyprus and to a lesser extent in Greece and Portugal (see Graph 4.4). For some other non-euro area Member States such as Romania, the significant share of foreign-held debt could be associated with a search for yield given the more emerging markets status of these countries and their relatively small local-currency markets.

A significant share of government debt continues to be held by domestic financial institutions and in particular national central banks, and the ECB for euro area Member States. The share of debt held by domestic central banks, which has significantly increased notably reflecting asset purchase programmes (see Graph 4.4), is currently on a downward path. In 2025, in most Member States, at least one third of general government debt was held by domestic central

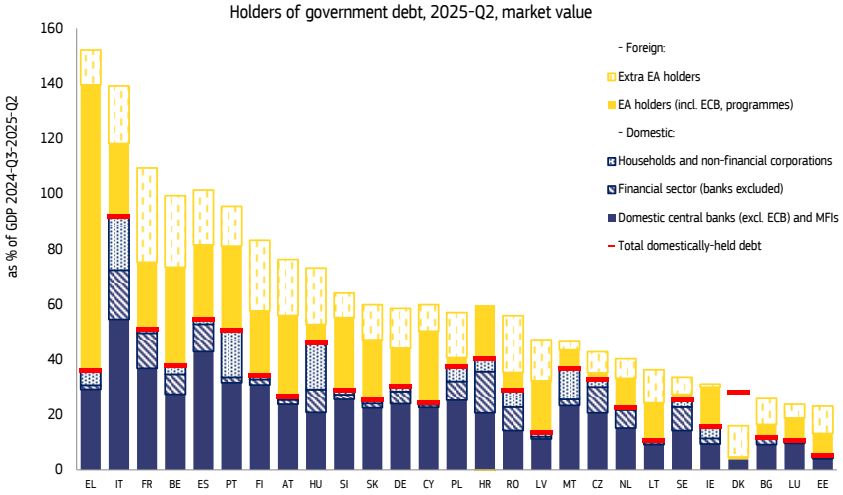
sudden stop in capital flows and its capacity to service its short-term external debt. Section 4.2.4 below reviews the developments of the net external debt.

([35]) See Bouabdallah et al (2017).

banks and monetary financial institutions (MFIs) (see Graph 4.5 below). The largest shares are observed in Czechia (48%), Poland (45%), Sweden (43%), Spain (42%), and Germany (41%)). For high-debt countries, this share varies from less than 20% (Greece) to about 40% (Italy).

In some euro area Member States, however, significant shares of general government debt are also held by non-euro area central banks in the form of reserve assets, suggesting that home bias is receding. The largest shares are recorded for Lithuania, France, Finland, Austria, Belgium, Germany and Slovakia (above 20% of GDP). For other euro area economies (i.e., Greece, Ireland, Cyprus, Lithuania, Latvia, Estonia, Austria, Belgium, and Slovakia), the rest of the euro area financial sector has become a more important holder of government debt than the domestic financial sector, as the euro area grows more integrated financially and financial institutions follow harmonised prudential rules under the Single Rulebook (see Table 4.1 and Graph 4.5). In a few cases, relatively larger shares of government debt held by foreign investors outside the euro area that are not reserve asset holders ('unallocated') may bear risks associated with this potentially more volatile basis (e.g., France, Italy, Romania, Hungary and Spain with shares of around 20% of total debt, respectively).

Graph 4.5: **Holders of general government debt (market value, % of GDP, 2025-Q2)**



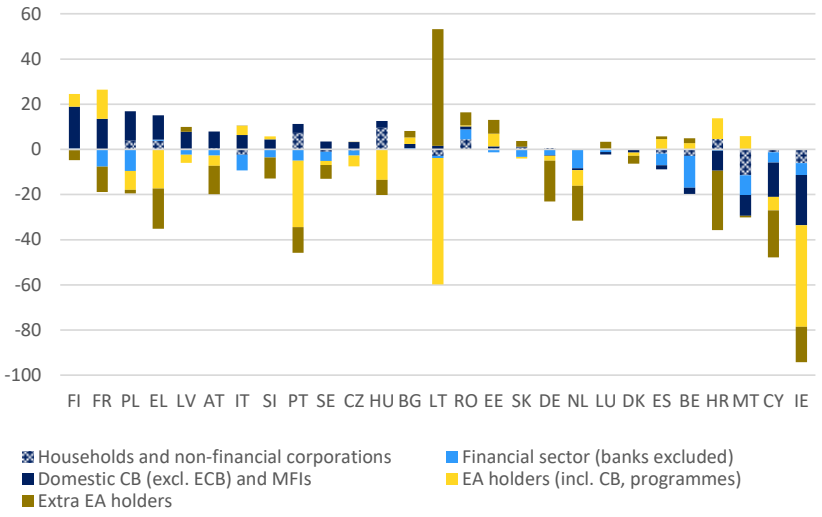
(1) Data for Denmark is partly missing.

Source: Commission services based on ECB, Eurostat and IMF.

Yet, over the recent years, the investor base has seen significant shifts, most notably in favour of domestic sectors, still considered as a more stable funding source than other investor groups. As illustrated by Graph 4.6, there is a wide heterogeneity across Member States about the government debt holding developments. Although the period considered includes both the period when central banks holdings rose and when they have started to scale back their positions in the sovereign debt market, there is a noticeable reduction of foreign holdings (both from EA and extra-EA holders) and, at the same time, a rise of the share of the households and non-financial corporations and to a lesser extent the domestic banks (central banks and MFIs).([36])

([36]) The increasing prominence of households as a domestic investor group is also reported in the ECB Financial Stability Review, November 2025.

Graph 4.6: **Changes in sectoral government debt holdings, 2013-2025, pps**



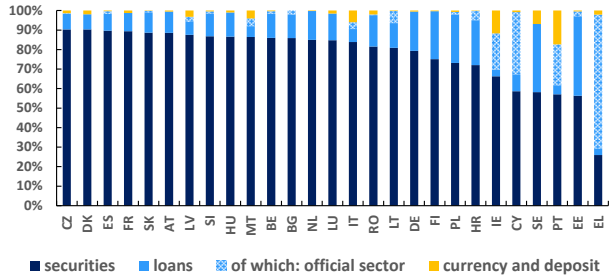
(1) Based on partial information for DK.

Source: Commission services based on ECB, Eurostat and IMF.

4.1.3. Other aspects of debt structure

Composition by instrument

Graph 4.7: **Government debt by instrument, 2024**



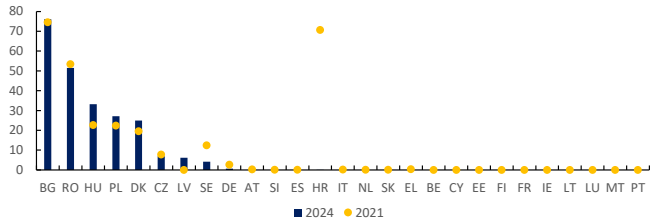
Source: Eurostat.

Government debt securities represent the bulk of total debt in most Member States. The Maastricht debt is composed of the stock of liabilities in three different financial instruments, according to the ESA 2010 classification. The main instrument is debt securities, commonly in the form of bills, commercial papers and bonds, which account for the major bulk of the government gross debt in the EU (83% in 2024). The two other instruments tend to be less significant across Member States: loans (which represented 14% of the EU debt in 2024), and currency – when issued by governments – and deposits – held by entities classified inside general government (together 3%) ([37]).

([37]) The share of loans can nevertheless be significant in some Member States, in particular in those that have benefited over the past years from financial assistance in the form of official loans.

Currency denomination composition

Graph 4.8: **Public debt in foreign currency (in share of total debt, %)**

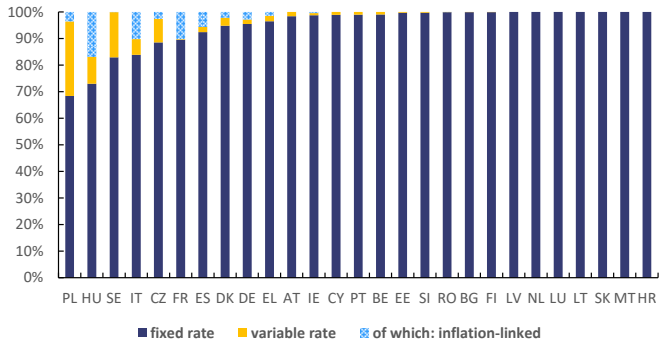


Source: Eurostat.

The share of debt denominated in foreign currency is significant only for few non-euro area Member States. This is the case of Bulgaria, which has however recently adopted the euro ([38]) and Romania, with a share of 76% and 51% of total debt respectively, as well as Hungary and Poland with a share around 30% of total debt (see Graph 4.8). For these Member States, hedging of foreign currency positions can mitigate potential exchange rate risks ([39]), whereas pegs or currency boards also significantly reduce exposure to fiscal risks from the share of public debt in foreign currency ([40]). Over time, the share of foreign currency borrowing has stabilised or slightly decreased in some of these countries (i.e., Czechia, Germany, Romania, Sweden) but it has increased in others (i.e., Bulgaria, Croatia, Denmark, Hungary, Poland).

Debt at fixed versus variable interest rate

Graph 4.9: **Structure of government debt securities-based interest rates, 2024**



Source: ECB CSEC database.

In most Member States, the share of debt securities at variable interest rate in government debt is overall limited (Graph 4.9)([41]). Securities at flexible interest rate directly respond to changes in policy interest rates. In 2024, variable interest rate securities accounted for more than 10% of government debt only in Poland (31.6%), Hungary (26.9), Sweden (17.1), Italy (16.1), Czechia (11.4) and France (10.4).

4.2. BEYOND EDP DEBT: RISKS FROM OTHER DIRECT AND CONTINGENT GOVERNMENT LIABILITIES

While the standard DSA framework focuses on 'government debt', in particular the 'Maastricht' or 'EDP' debt in EU countries, government liabilities refer to a wider concept. This section aims to fill this gap by analysing the size and, where possible, the evolution of government liabilities other than 'EDP (or Maastricht) debt' in the EU. By broadening the focus of the standard debt

([38]) On 1 January 2026, Bulgaria was the 21st EU Member State to adopt the euro. Since 1997, Bulgaria had a currency board, and nearly all of its foreign currency debt was issued in euro.

([39]) Hedging operations are not taken into account in the DSM.

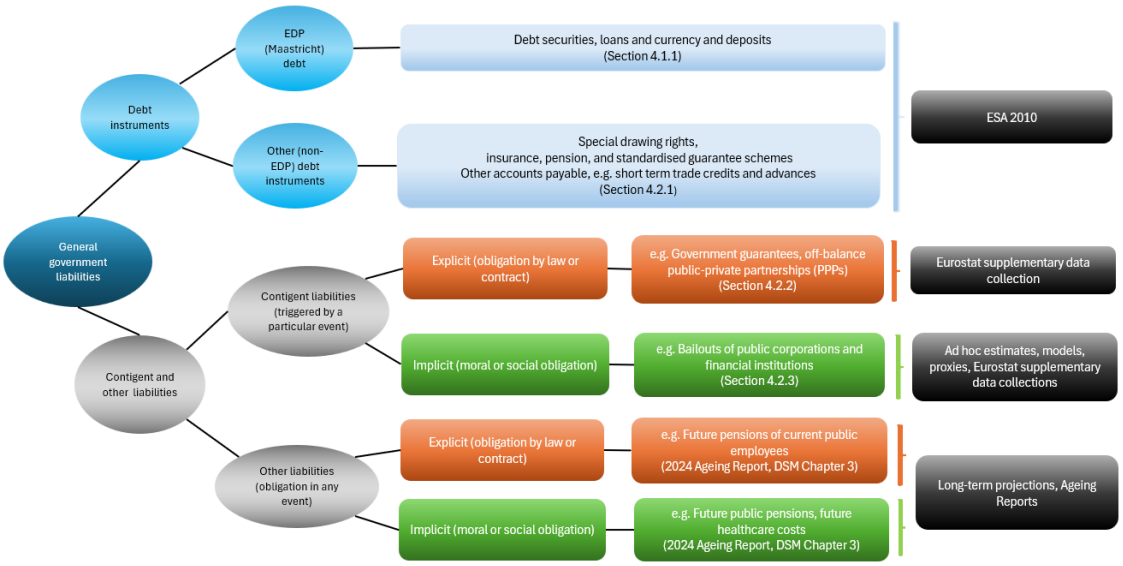
([40]) On the idiosyncrasies of different exchange rate regimes and the extent to which exchange rate shocks could impact the public debt-to-GDP ratios see European Commission (2017), - Chapter 2, Box 2.2.

([41]) Note that usually government debt management offices hedge their positions on flexible rate instruments, so that the changes in interest rate payments due to flexible interest rates is (at least partly) compensated by opposites flows, reflected in stock-flow adjustments.

sustainability analysis, such a complementary analysis makes it possible to identify additional risk factors compared to the DSA results provided in Chapter 2.

Government liabilities are diverse in nature and classifying them into clear-cut categories is not a straightforward exercise. Government liabilities can be grouped into different categories that are not mutually exclusive and may overlap, calling for caution when putting together and interpreting the related developments. an illustrative categorisation of the gross liabilities of general government is provided by Graph 4.10 ([42]). A first important distinguishing feature of government liabilities relates to how they are recorded. Some liabilities, e.g. EDP Maastricht debt and other (non-EDP) debt instruments, are recorded on governments' balance sheets (*on-balance*) and in the general government sector for national accounts purposes, while others are recorded *off balance*, and subject only to reporting as memorandum or analytical items. Another distinction ([43]) can be made between on the one hand *direct* versus *contingent* liabilities, and on the other hand *implicit* versus *explicit* liabilities. Based on the discussion above, the *on-balance* sheet liabilities illustrated in Graph 4.10 are direct and explicit. In the case of the *off-balance* sheet liabilities, the split is between direct and contingent liabilities, and in turn, each category is decomposed further into explicit and implicit liabilities.

Graph 4.10: **Illustrative categorisation of gross financing liabilities of general government**



(1) The debt sustainability analysis (DSA) is grounded on the EDP (Maastricht) debt. However, the long-term fiscal sustainability analysis also accounts for specific categories of the off-balance sheet government liabilities, such as implicit liabilities linked to the payment of future public pensions, health care and social security benefits, where a moral or social obligation of the government to intervene is expected. The long-term projections for this age-related public spending rely on assumptions about (i) the long-term path of the fiscal primary balance, which, for instance, embeds other liabilities such as future civil service wages, and (ii) the ageing costs, such as public pensions, health care and long-term care (see the 2024 Ageing Report). As for risks related to contingent liabilities arising from possible interventions to support public corporations and financial institutions, see Section 4.2.3.

Source: Commission services.

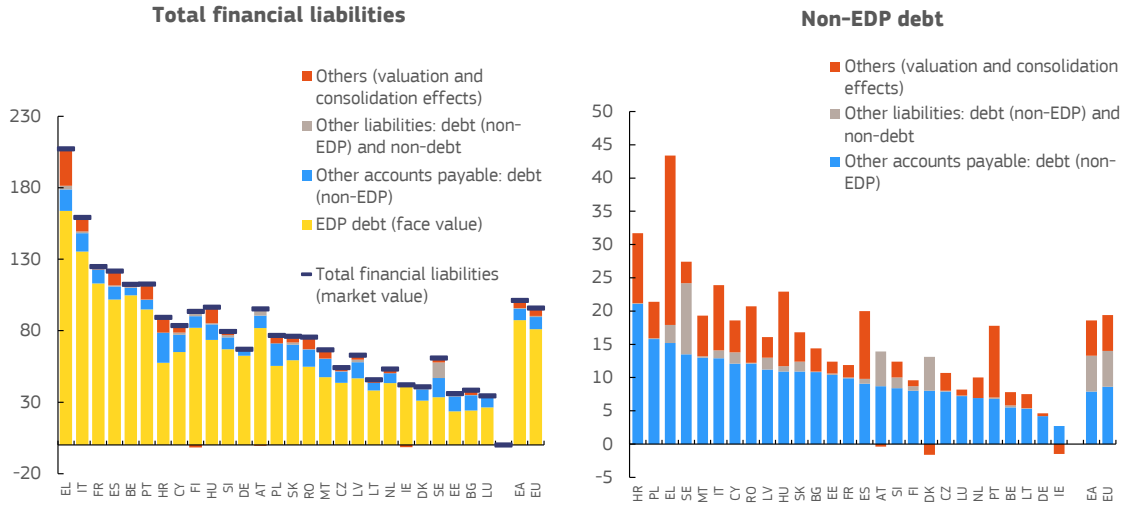
This section covers government liabilities that are not included in the EDP debt, following the various categories (Graph 4.10.). Section 4.2.1. focuses on the government total financial liabilities and their main components, i.e. the EDP debt and non-EDP debt. The risks linked to other government liabilities that are not included in the EDP debt and that stem from explicit and implicit contingent liabilities are dealt in Sections 4.2.2. and 4.2.3. respectively, while Section 4.2.4. reviews the additional risk from the external and private sectors.

([42]) The categorisation is based on the Public Sector Debt Statistics: Guide for Compilers and Users - 2013

([43]) See Brixi and Mody (2002); Cebotari, 2008 and OECD (2015) for a detailed discussion of the classification of government liabilities.

4.2.1. *On-balance sheet debt:* EDP and non-EDP debt

Graph 4.11: **Debt and non-debt financial liabilities (% of GDP, 2024)**



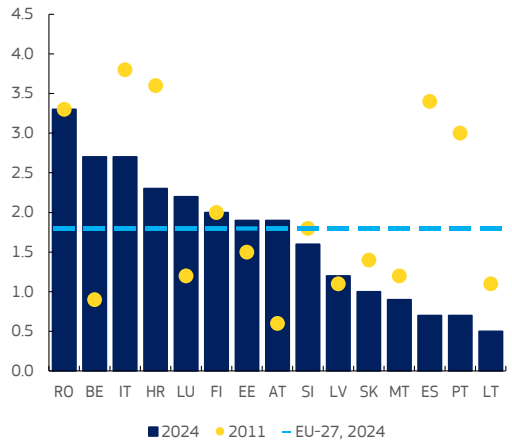
Note (1) Based on the ESA 2010 classification, "Other liabilities: debt (non-EDP) and non-debt") includes (i) F1 - monetary gold and special drawing rights (SDRs) (ii) F5 - equity and investment fund shares, (iii)F6 - insurance, pensions and standardised guarantees, and (iv) F7 - financial derivatives and employee stock options. (2) Other accounts receivable/payable are financial assets and liabilities created as counterparts to transactions where there is a timing difference between these transactions and the corresponding payments. (3) "Others (valuation and consolidation effects)" refers to the difference between the "Total financial liabilities (market value)" and "Other liabilities: debt (non-EDP) and non-debt" items. (4) For Greece, the components do not add up as the latest available detailed data is for 2023 while EDP debt is for 2024.

Source: Commission services based on Eurostat.

Among total *on-balance* government gross liabilities, the EDP-debt liabilities are the main component; the other liabilities constitute the non-EDP debt. In the EU as a whole, the EDP debt stood at 81% of GDP in 2024 and accounted for more than 80% of total gross financial liabilities (see Graph 4.11, left-hand side). The remainder of the total liabilities consists of 'other debt instruments', which together constitute the 'non-EDP debt'. These are non-debt financial instruments and a gap due to different valuation and consolidation methods applied to financial liabilities (see the blue, grey and orange bars on the left-hand side of Graph 4.11, with the right-hand side of the graph zooming in on that non-EDP debt) ([44]). The size of non-EDP debt varies widely across Member States. In 2024, it ranged from 1.2% of GDP in Ireland to 43.4% in Greece.

([44]) The valuations of the EDP debt and ESA 2010 balance sheets are different. In particular, total gross EDP debt of the general government is valued at face value, while in ESA 2010, government gross liabilities are valued at market prices.

Graph 4.12: **Trade credits and advances in selected Member States (% of GDP, 2011 vs. 2024)**



Source: Eurostat.

Within the non-EDP debt liabilities, 'other accounts payable' remains the most significant component. 'Other accounts payable', which reflect liquidity needs and often fluctuate with economic conditions, include trade credits and advances. These are in most cases outstanding short-term liabilities of the government from transactions of goods and services, and to a lesser extent other timing differences in settling obligations ([45]). During periods of financial distress, this debt instrument can become an important government financing alternative. Over time, stocks of trade credits and advances have noticeably receded in many Member States but tended to grow in others (see Graph 4.12). In 2024, these liabilities were the highest in Romania, Belgium and Italy as a share of GDP ([46]).

Other liabilities (debt and non-debt financial instruments) are typically a narrow set of total government liabilities (see Graph 4.11)**.** In 2024, these other liabilities were most relevant for Sweden (10.7% of GDP – of which mainly insurance, pensions and standardised guarantees), Austria (5.2% – of which mainly equity and investment funds), Finland (5.1% – of which mainly financial derivatives and employee stock options), Greece (2.7% – of which mainly monetary gold and SDRs), while they accounted for less than 2% of GDP in the other Member States.

The gap reflecting valuation and consolidation effects can be relatively large in some Member States (see Graph 4.11)**.** Ranging from +25.5% to -1.6% of GDP in 2024, this gap was the highest in Greece (25.5%), followed by Hungary, Portugal, Croatia and Spain (all between 10% and 12%). In most cases, the magnitude of this gap is mostly affected by the impact of different valuation bases for the EDP debt (at face value) and gross financial liabilities (at market value), and to a lesser extent by the impact of the consolidation method (EDP debt is consolidated both within and between the subsectors of the general government, gross financial liabilities only within subsectors). The consolidation effects are in fact small in most Member States ([47]).

4.2.2. *Off-balance sheet: Explicit* contingent liabilities

This sub-section contains an overview of explicit contingent liabilities, as reported by Eurostat. While ESA2010 does not record government's (explicit) contingent liabilities in government balance sheets, they can have a substantial impact on public finances if certain obligations are called because adverse uncertain events materialise. Member States are required to publish supplementary information on contingent liabilities that could provide a useful indication of potential fiscal risk for public finances ([48]). In order to monitor such liabilities, which go beyond the standard debt metric,

([45]) According to ESA 2010 categorisation, trade credits and advances (F81) refers to "financial claims arising from the direct extension of credit by the suppliers of goods and services to their customers, and advances for work that is in progress or is yet to be undertaken, in the form of prepayment by customers for goods and services not yet provided". While expenditure for goods and services (not paid yet) is included in ESA government expenditure in line with the accrual principle (and thus impacts the debt), the stock of trade credits and advances payable are not included in the government (EDP) debt.

([46]) See Eurostat (2025a) for more details on stock of Liabilities of Trade Credits and Advances.

([47]) See Eurostat (2025b), for more details on stock-flow adjustments.

([48]) These data requirements were introduced in the context of the 2011 'Six-pack' reform to strengthen the EU economic governance.

several indicators are considered below ([49]): (i) government guarantees and liabilities related to public-private partnerships (PPPs); and (iii) contingent liabilities related to government interventions to support financial institutions during financial stress periods. ([50]).

Government guarantees and liabilities related to private-public partnerships (PPPs)

Government guarantees, while declining overall, still represent a source of potential fiscal cost in several Member States, with one-off guarantees representing the largest category (see Graph 4.13)**.** Government guarantees are typically issued to promote economic stability or pursue other public policy objectives, as for example guarantees on student loans or on the losses incurred by exporters in case of non-payment by a trading partner. More recently, guarantees were also largely provided to non-financial private entities for export promotion, and to public and private financial institutions during the COVID-19 pandemic ([51]). For the EU as a whole, after a peak at 16% of GDP in 2012, public guarantees had declined to around 10% of GDP in 2019, reflecting mainly the unwinding of government guarantee schemes for financial institutions granted in the context of the global financial crisis in a number of countries. After a rebound in 2020 at 15% due to COVID-19-related guarantee schemes, the recourse to public guarantees has progressively decreased since then, to around 13% of GDP in 2023. In 2023, the highest stock of outstanding government guarantees was recorded in the Netherlands (30.4% of GDP)([52]), followed by Finland (17.9%), Italy (15.3%), Germany (14.6%), France (13.5%). in Spain, France, and Italy, these include guarantees provided to promote exports and to support financial institutions during the COVID-19 pandemic. In Finland, a sizeable part of the guarantees was related to export guarantees, student loans and funds for supporting housing construction.

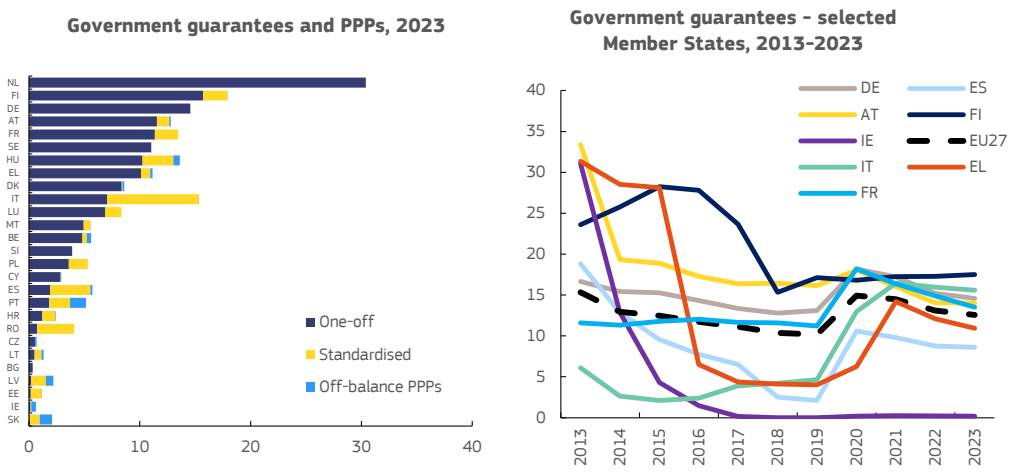
([49]) This information can also be found in the statistical country fiches of this report. Note that some of this information may be overlapping, e.g., guarantees issued in the context of government interventions in the financial sector form a subset of total government guarantees. For this reason, evaluating the total risk by summing up the indicators could overestimate the potential impact.

([50]) Data on government liabilities in relation to the financial sector interventions that are contingent on future events are further detailed as government guarantees on the liabilities and assets of financial institutions, government issued securities under liquidity schemes, and liabilities of special purpose entities. Note that guarantees extended to financial institutions are a sub-set of guarantees reported under the 'six-pack' obligations. Data on explicit contingent liabilities are collected and published by Eurostat since 2009 on Eurostat website, and are also published nationally. Also see Box 4.2 on the actual government interventions.

([51]) See ECB Economic Bulletin, Issue 6/2020, Box 7 "Public loan guarantees and bank lending in the COVID-19 period".

([52]) For the Netherlands, the figures for the period of 2010-2021 have been significantly revised upwards in the context of the revision policy of National accounts. The largest revision at the level of central government is mainly due to the reclassification of two guarantee funds Waarborgfonds Sociale Woningbouw (WSW) and Waarborgfonds Eigen Woningen (WEW) within this governmental sector. See for more detail: StatLine - Government; debt guarantees, off-balance PPP, non-performing loans

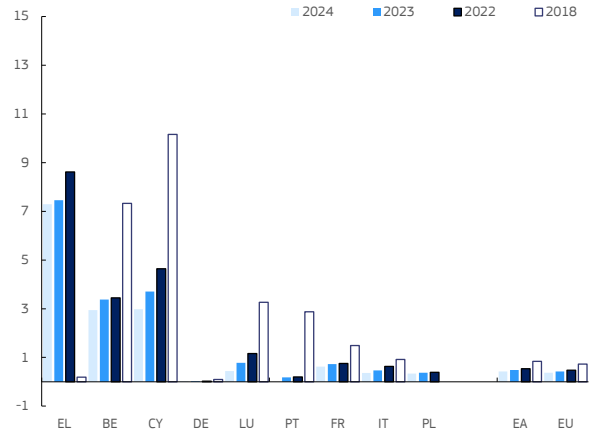
Graph 4.13: **Government guarantees and PPPs in the EU (% of GDP)**



Source: Eurostat.

Contingent liabilities related to government interventions to support financial institutions

Graph 4.14: **Contingent liabilities linked to the financial sector in the EU (in % of GDP, 2018-2024)**



Source: Eurostat.

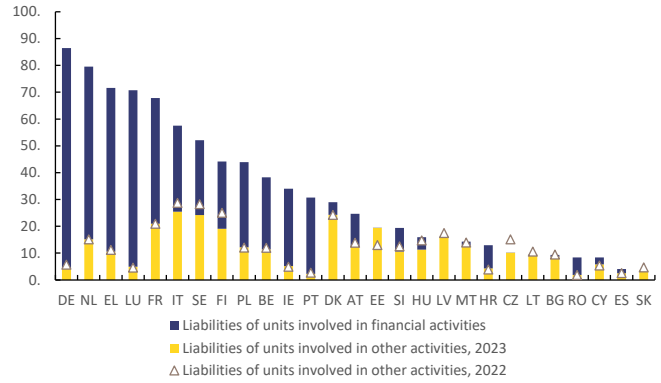
Contingent liabilities related to government interventions to support financial institutions pursue their trend decline. Following an increase during and immediately after the 2008 global financial crisis, the financial exposure of the government, due to the financial stability schemes, has been steadily declining for the EU/EA as whole. As shown in Graph 4.14, in 2024, only a handful of Member States recorded contingent liabilities linked to financial stability schemes like Greece (7% of GDP), Cyprus and Belgium (both 3%), and France, Luxembourg, Italy and Poland (less than 1% each). Improved financial stability in recent years did not require a renewal of the expiring guarantees issued as part of support packages for financial institutions. Furthermore, the bank recovery and resolution framework and the single resolution mechanism have provided a credible alternative to direct public support (see also Box 4.2 about state aid for EU banks).

4.2.3. *Off-balance* sheet: *Implicit* contingent liabilities

As illustrated by Graph 4.10**, besides the existence of potential *explicit* contingent liabilities, governments can also have *implicit* contingent liabilities.** The latter refer to contingent liabilities that might arise from government social or political obligations that are not legally binding. For instance, ensuring the systemic solvency of the national banking sector might be viewed as an *implicit* contingent liability for a government. As with *explicit* contingent liabilities, ESA 2010 does not include them in government balance sheets. However, and being mindful of the subjective nature of this kind of contingent liabilities, considering *implicit* contingent liabilities contributes to the holistic approach for a sound assessment of fiscal sustainability risks

Implicit contingent liabilities from public entities outside general government

Graph 4.15: **Gross liabilities of public corporations outside general government (% of GDP), 2023**



Note: (1) France and The Netherlands: data refers to 2022.

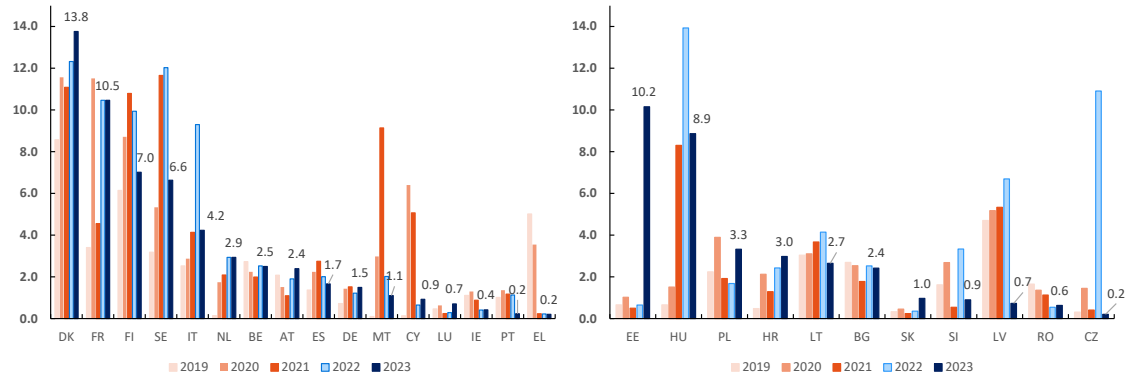
Source: Eurostat.

The level of gross liabilities of public corporations classified outside general government varies widely among EU Member States. In 2023, liabilities of public corporations were the highest in Germany (86.5 %), the Netherlands (79.5%), Greece (71.7%), Luxembourg (70.8%) and France (67.9%). On the other hand, small amounts of public corporation liabilities were recorded in Slovakia (3.7%), Spain (4.1%), Cyprus (8.4%), Romania (8.4%) Bulgaria (9.3%), with in these countries but Romania a clear predominance of liabilities of non-financial corporations (see Graph 4.15).

Financial institutions tend to have significantly higher amounts of debt liabilities. In some Member States, the liabilities of public financial institutions controlled by general government drives the high level of liabilities of public corporations, e.g. in Germany (95%), Luxembourg (93%), Greece and Ireland (85% each), the Netherlands (81%) and Romania (78%). Most of these liabilities consist of deposits held by households or by other private or public entities. It is worth noting that these are gross liabilities, while financial institutions also have significant financial assets (see Section 4.3. below) and the risks stemming from banks are greatly alleviated by banking regulation and supervision (see for Box 4.1- Assessing risks stemming from banks for fiscal sustainability analysis: What are the lessons learnt from the implementation of the EU banking Regulation?".).

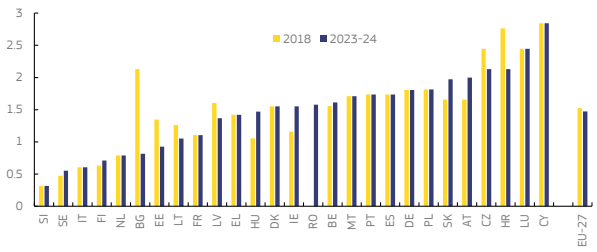
Public non-financial corporations' liabilities are relatively limited and have been decreasing in a majority of Member States. In 2023, the Member States posting the highest levels of liabilities for these corporations were Italy (25.5% of GDP), Sweden (24.2%), Denmark (24.3 %) and France (20.1% - (see Graph 4.15). These countries are also among the ones with the public non-financial corporation recorded the larger losses (see Graph 4.16).

Graph 4.16: **Liabilities of government controlled non-financial entities classified outside general, of which loss-making non-financial units (% of GDP), 2019-2023**



Source: Eurostat

Graph 4.17: **Governance of government-controlled entities, 2018 vs. 2023-24**



(1) Member States ranked in ascending order from most (0) to least (6) competition friendly (2) no data for Romania in 2018.

Source: OECD 2023-24 PRM database.

Many Member States have room to make the governance of their SOEs stronger. The risk stemming from public corporations involved in commercial activities is also a function of governance mechanisms. The practices regarding the management and regulation of the public corporations should support a level playing field with privately-owned firms to ensure a competitive and efficient market place. As illustrated in Graph 4.17, there is a wide variation in terms of corporate governance of public corporation, with many countries having room to make the governance of their SOEs stronger, as for instance Cyprus, Luxembourg, Croatia and Czechia. Over time, a majority of Member States have overall stabilised their governance score.

Implicit contingent liabilities related to the banking sector

In this section, the potential risks stemming from banks are examined through a set of key indicators, drawing from the EU banking regulation as well as the dedicated literature ([53]). Recent developments are monitored on the basis of selected variables on banks' (i) asset riskiness, (ii) capitalisation, (iii) liquidity and funding, and (iv) profitability. These areas are identified by the EU banking regulation and the literature as among the critical ones in determining the banks' default risks and acting as early-warning signals of potential adverse repercussions on the real economy and eventually on public finances (see Tables 4.2 and 4.3 below) ([54]).

([53]) The EU has adopted a number of Regulations and Directives to bolster banks' resilience: (i) Directive (EU) 59/2014 'Bank Recovery and Resolution Directive 'or 'BRRD'; (ii) EU Bank Recovery and Resolution Regulations 2015 (S.I. No. 289 of 2015) or 'BRR Regulations'; (iii) Regulation (EU) No 806/2014 'Single Resolution Mechanism Regulations' or 'SRMR'; and (iv) Regulation (EU) No 575/2013 'Capital Requirements Regulations' or 'CRR'. All of the above have been amended at various points in time.

([54]) See Box 4.1 - "Assessing risks stemming from banks for fiscal sustainability analysis: What are the lessons learnt from the implementation of the EU banking Regulation?".

Table 4.2: **Banking sector risks in the EU – Selected indicators on asset riskiness and capitalization**

	Asset riskiness				Capitalization						
	Risk weighted assets		NPLs		CET1		Tier1		Solvency ratio		
	in % of total assets - 2024	annual change (pps)	in % of total assets -2024	annual change (pps)	2024	annual change (pps)	2024	annual change (pps)	2024	annual change (pps)	
BE	34.9	-0.3	0.8	0.0	16.1	-0.1	17.2	-0.1	19.4	0.2	**BE**
BG	49.7	-0.4	4.5	-0.2	22.5	1.0	23.6	0.9	23.9	1.0	**BG**
CZ	35.2	5.9	2.4	0.2	19.2	-2.6	20.4	-1.8	22.4	-1.8	**CZ**
DK	33.5	4.5	1.5	0.0	19.3	-0.1	20.4	-0.3	23.1	-0.1	**DK**
DE	39.9	0.1	1.5	0.3	16.9	0.7	17.7	0.8	19.4	0.8	**DE**
EE	47.6	0.9	1.5	0.0	17.9	-0.3	18.7	-0.5	21.5	1.0	**EE**
IE	42.0	0.4	2.1	-0.3	14.8	-0.7	16.8	-0.6	19.7	-0.5	**IE**
EL	46.8	-2.0	6.9	-1.4	15.9	0.4	16.7	0.5	19.7	0.9	**EL**
ES	39.7	0.5	3.7	-0.1	13.4	0.3	15.0	0.3	17.5	0.5	**ES**
FR	31.7	0.2	2.2	0.1	16.0	0.1	17.3	0.1	19.7	0.2	**FR**
HR	37.2	-1.1	6.6	-1.5	20.8	0.2	20.8	0.2	21.4	0.0	**HR**
IT	37.9	0.3	2.4	-0.2	16.1	0.3	17.7	0.4	20.1	0.3	**IT**
CY	41.0	5.3	7.5	-2.5	20.4	0.5	22.2	0.4	24.9	0.1	**CY**
LV	57.7	3.7	3.2	-0.1	19.5	-0.8	19.8	-0.7	22.0	-0.4	**LV**
LT	13.6	-15.8	2.4	-1.1	28.3	8.0	28.3	8.1	28.5	7.0	**LT**
LU	38.6	0.1	4.5	2.4	24.5	0.9	25.2	0.9	26.1	0.9	**LU**
HU	54.5	-0.4	3.4	-1.0	18.4	1.2	18.4	1.2	19.8	0.4	**HU**
MT	41.4	1.3	1.9	0.1	20.2	-0.7	21.9	-0.9	25.5	-0.2	**MT**
NL	33.6	0.4	1.2	0.1	16.1	-0.4	18.2	-0.2	20.9	-0.2	**NL**
AT	46.0	-0.2	2.1	0.0	17.5	-0.1	18.6	-0.1	20.8	0.2	**AT**
PL	36.8	-1.7	3.8	-2.0	19.9	0.4	20.0	0.4	20.9	0.4	**PL**
PT	43.6	-0.4	2.2	-0.2	18.7	1.3	19.2	1.3	20.7	1.2	**PT**
RO	37.0	-0.3	3.3	-0.4	19.7	1.1	19.7	1.1	22.9	0.8	**RO**
SI	60.1	4.3	1.7	-0.1	16.7	-0.7	17.1	-0.8	19.7	-1.0	**SI**
SK	47.8	-3.2	2.7	0.0	21.7	0.3	21.7	0.3	22.3	0.2	**SK**
FI	32.0	0.9	1.6	0.1	18.1	-0.1	19.8	0.2	22.1	0.1	**FI**
SE	30.6	0.3	2.0	0.2	19.0	-0.1	20.7	0.2	22.7	0.3	**SE**
EA average	40.7	-0.2	2.9	-0.2	18.5	0.4	19.5	0.5	21.6	0.6	**EA average**
EU average	40.4	0.1	2.9	-0.3	18.8	0.4	19.7	0.4	21.8	0.5	**EU average**

(1) For capitalisation, the EU the actual banking regulation requires all banking institutions to always satisfy the following own funds requirements: (i) Common Equity Tier 1 (CET1) capital ratio of 4,5%; (ii) a Tier 1 capital ratio of 6%; and (iii) a total capital (Solvency) ratio of 8%, plus a capital conservation buffer of CET 1 capital equal to 2,5 % of their total risk exposure amount.

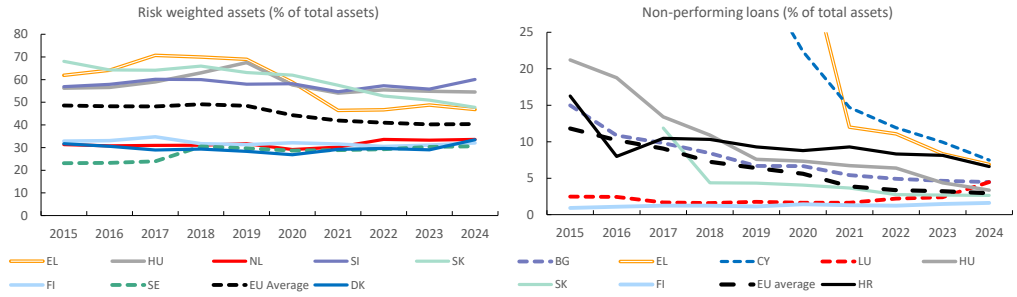
Source: ECB Data Portal - Consolidated Banking data.

Riskiness indicators for 2024 confirm the declining trend initiated over recent years in most Member States. The ratio of risk-weighted assets on total assets (RWA/TA), which accounts for the expected riskiness or so-called 'risk density' of banks' balance sheets as per Basel III ([55]), shows a general downward trend as of 2019, with some stabilisation in 2023 and 2024. In 2024, the EU average ratio was 40.4%, with Slovenia, Latvia and Hungary above 50% and Lithuania at the lower end, (13.6%) ([56]). Non-performing loans have been also falling in most countries, indicating a further reduction of the risks from credit quality. In 2024, the highest ratios of non-performing loans over total lending (NPL/TL) were reported by Cyprus (7.5%), Greece (6.9%) with Croatia (6.6%). Hungary and Bulgaria, despite a descending trend, stand above the EU average. Compared to 2023, Luxembourg's NPL ratio has been growing from a low value of 1.6% in the early 2020s to 4.5% in 2024, above the EU average (see Table 4.2 and Graph 4.18).

([55]) Basel III refers to a set of an internationally agreed measures, developed in response to the global financial crisis (GFC), by the Basel Committee on Banking Supervision. The Basel standards are implemented in the EU via the Capital Requirements Regulation – Regulation (EU) 575/2013 –, and the latest components of Basel III are applied since 1 January 2025. The purpose is to strengthen by setting minimum requirements, the regulation, supervision and risk management for internationally active banks. See www. BIS.org for further information.

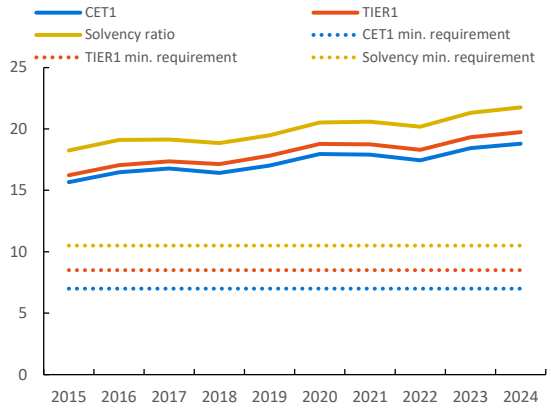
([56]) Note that Basel III and its EU implementation set no regulatory benchmark for RWA/TA ratio. In practice, since higher assets' riskiness can be covered by higher capitalization, different values of RWA/TA can also reflect different choices (or business models) among the banks.

Graph 4.18: **Banks' asset riskiness indicators in the EU – selected Member States**



Source: ECB Data Portal - Consolidated Banking data.

Graph 4.19: **Banks' capitalisation requirements (% of risk weighted assets) - EU average**



Source: ECB Data Portal - Consolidated Banking data.

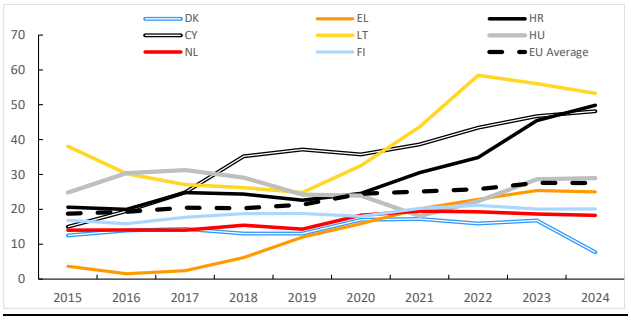
Banks overall continue to be well capitalised in the EU, far beyond the required regulatory minimum thresholds ([57]). As illustrated in Graph 4.19, the average EU capitalisation values are clearly higher than the requested levels of 7% for CET1, 8.5% for TIER 1, and 10.5% for the solvency ratio, all indices showing a positive trend and increasing over time. The increase in the capitalisation indexes (+3.6 for the solvency ratio and +3.5 for TIER1 from 2015 to 2024) is mainly driven by the rise of its highest quality component, i.e. CET1 (+3.0 in the same period). As shown in Table 4.2 above, for the three capitalisation variables in 2024, Lithuania stands out as the Member State with the highest annual increase (+8pps for the CET1), while Czechia recorded the most pronounced decrease (-2.6pps for the CET1). EBA stress test carried out in 2025 also confirms the good health of the EU banking sector.([58])

([57]) See also Box 4.3 on Minimum Requirement for Own Funds and Eligible Liabilities (MREL).

([58]) The 2025 EU-wide stress test shows that European banks would remain resilient even under a severe hypothetical economic downturn, featuring a sharp deterioration in the global macro-financial environment, driven by a resurgence in geopolitical tensions, entrenched trade fragmentation, including increase in tariffs, and persistent supply shocks. EU banks, despite bearing losses of EUR 547bn, maintain strong capital positions and their capacity to continue supporting the economy. The capital depletion under the adverse stress test scenario amounts to 370 bps, resulting in a CET1 ratio at the end of the scenario of 12%. See here.

Liquidity risks continued to recede in many Member States, whilst only a handful of countries recorded a deterioration. The liquidity ratio (defined as the ratio of liquid assets on total assets) has been on an upward trend since 2015 (see Graph 4.20) ([59]). Table 4.3 shows that in 2024, the lowest ratios in 2024 were reported by Denmark (7.7%) and France (15.1%). Denmark, the Netherlands, Sweden, and Finland, due to specific lending markets (see also the loan-to-deposit ratios), tend to post lower liquidity levels. There has been a significant improvement in Greece, where the ratio was the lowest a decade ago and has been progressively increasing over time, to reach, in 2024, a level close to -although still below- the EU average. Compared to 2023, the liquidity ratio decreased the most in Denmark (-9.2pps) and Slovenia (-3.9pps).

Graph 4.20: **Liquid assets (in % of total assets) in the EU - selected Member States**



Source: ECB Data Portal - Consolidated Banking data.

Table 4.3: **Banking sector risks – Selected indicators on liquidity, funding and profitability**

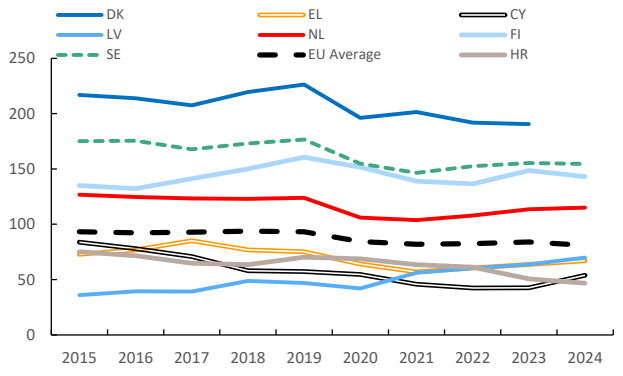
	Liquidity and funding				Profitability				
	Liquid assets		Loans-to-deposit ratio		RoA		RoE		
	in % of total assets -2024	annual change (pps)	2024	annual change (pps)	2024	annual change (pps)	2024	annual change (pps)	
BE	23.1	-0.7	91.2	-2.6	0.8	-0.1	11.4	-0.3	**BE**
BG	30.4	-0.5	62.8	1.2	1.3	0.0	10.8	-0.5	**BG**
CZ	NA	0.0	78.9	1.4	1.3	-0.1	14.9	-3.7	**CZ**
DK	7.7	-9.2	NA	NA	0.8	0.0	12.5	0.3	**DK**
DE	17.3	-0.1	91.3	1.3	0.4	0.0	5.5	-0.2	**DE**
EE	30.2	-0.4	84.1	1.4	1.4	-0.1	13.9	-0.6	**EE**
IE	28.6	0.1	75.5	0.1	1.3	0.1	13.0	0.7	**IE**
EL	25.0	-0.4	67.1	3.5	1.2	0.0	11.7	-0.3	**EL**
ES	19.3	0.2	88.8	0.8	0.9	0.2	13.9	1.9	**ES**
FR	15.1	-1.8	100.8	-0.3	0.4	0.0	6.4	0.4	**FR**
HR	49.8	4.4	46.8	-3.9	1.0	-0.1	12.1	-1.2	**HR**
IT	19.5	-0.8	81.6	3.4	1.2	0.1	13.7	0.5	**IT**
CY	48.1	1.4	53.9	11.4	1.9	0.0	17.7	-4.2	**CY**
LV	33.3	-1.4	70.0	6.2	1.5	-0.3	11.3	-2.2	**LV**
LT	53.3	-1.8	37.6	3.9	0.7	-0.2	11.1	-2.2	**LT**
LU	31.5	1.1	66.5	0.5	0.8	0.1	6.4	0.8	**LU**
HU	28.9	0.3	71.2	1.8	2.3	0.0	19.7	-2.2	**HU**
MT	32.0	1.7	65.8	0.7	1.0	0.0	9.7	-0.6	**MT**
NL	18.3	-0.4	115.0	1.4	0.7	0.0	10.6	-0.6	**NL**
AT	20.2	0.2	98.5	2.3	1.0	-0.2	9.8	-2.0	**AT**
PL	34.7	1.0	63.2	-1.8	1.4	0.1	15.7	0.7	**PL**
PT	32.9	3.3	62.2	-1.6	1.4	0.1	13.8	0.9	**PT**
RO	33.6	3.7	59.9	-0.8	1.6	0.4	21.9	4.8	**RO**
SI	24.6	-3.9	73.6	4.6	1.7	-0.2	14.8	-2.7	**SI**
SK	19.6	2.9	99.7	-2.1	0.9	-0.3	7.4	-2.0	**SK**
FI	20.1	0.1	143.0	-5.5	0.9	0.0	13.3	-0.3	**FI**
SE	19.5	0.0	154.6	-0.7	1.0	0.0	13.0	-0.6	**SE**
EA average	28.1	0.2	80.6	1.3	1.1	0.0	11.4	-0.7	**EA average**
EU average	27.6	-0.1	80.9	-3.1	1.1	0.0	12.4	-0.6	**EU average**

Source: ECB Data Portal - Consolidated Banking data.

([59]) Liquidity levels are subject to regulatory minimum requirements, which vary by bank. Hence, there exist no unique regulatory benchmark, and this because the liquidity minimum requirements are set to ensure that a bank has an adequate stock of unencumbered high-quality liquid assets. This means that these assets can be converted into cash easily and immediately can be used to meet, on private markets, the bank liquidity needs for a 30-day calendar liquidity stress scenario.

The high variability of the loan-to-deposit ratios among Member States reflects diversified lending markets in the EU. Countries such as Sweden, Finland, Denmark, and the Netherlands record higher loan-to-deposit ratios, with banks mainly focused on lending activities. Conversely, the banking systems of Lithuania, Hungary, and Cyprus are more focused on deposit collection (with lower loan-to-deposit ratios). At the EU level, the loan-to-deposit ratio shows an overall slight descending trend, from 93.3% in 2019 to 80.9% in 2024 (Graph 4.21 and Table 4.3).

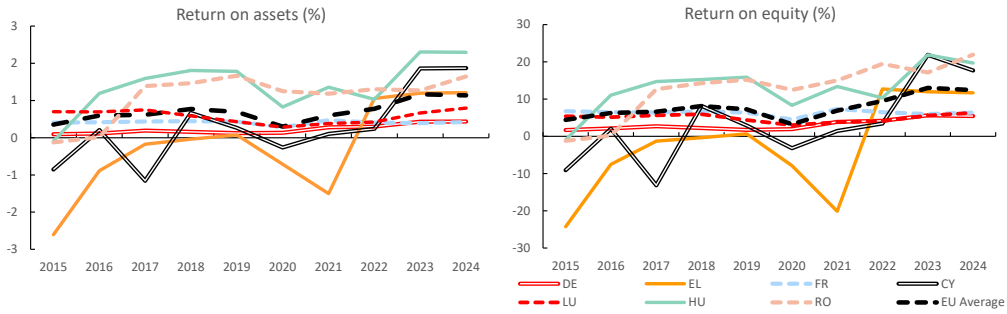
Graph 4.21: **Loan-to-deposit ratios in the EU - selected Member States**



Source: ECB Data Portal - Consolidated Banking data.

Banks' profitability continues to be robust in most Member States, although decelerating compared to previous years. The return on assets (RoA), which accounts for the bank's asset income generation, and the return on equity (RoE), which measures the equity remuneration, have been on an overall upward trend since after the COVID-19 crisis, due to the positive effects of inflation and interest rates. As shown in Table 4.3 and Graph 4.22, in 2024, the highest values in both metrics () are recorded in Hungary (2.3% and 19.7% for RoA and RoE respectively), Cyprus (1.9% and 17.7%), Slovenia (1.7% and 14.8%) and Romania (1.6% and 21.9%). Developments for Greece are also noticeable with a steady recovery from the COVID-19 crisis. Compared to 2023, most favourable developments are recorded by Romania (+4.8pps) and Spain (+1.9pps).

Graph 4.22: **Banks' profitability in the EU – Selected Member States**



Source: ECB Data Portal - Consolidated Banking data.

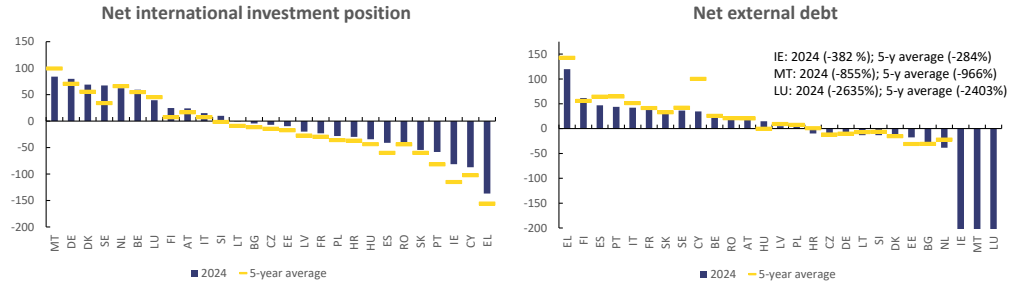
Overall, at the EU level, risks stemming from banks and potential adverse repercussions for public finances appear contained and limited, with the banking sector strengthening its resilience year after year, although the non-bank financial sector deserves monitoring. In a context of stronger regulation and supervision following the 2008 global financial crisis and the 2012 euro area sovereign debt crisis, as well as high interest rates over recent years, favourable developments in profitability have allowed European banks to further strengthen their capitalisation levels and reduce their asset riskiness, mainly by increasing their highest quality component (CET1), and to increase their liquidity ratios. However, besides the banking sector *per se,* one area of the

financial sector deserving close monitoring going forward is the non-bank financial sector ([60]), which has been expanding significantly and could be source of vulnerability of the financial system looking ahead. While their significance and market dynamics vary considerably across entity types and jurisdictions, non-bank financial institutions currently account for about 60% of financial sector assets in the euro area.

4.2.4. Additional risk factors from the external and private sectors ([61])

Net investment position and net external debt

Graph 4.23: **Net international investment position and net external debt (% of GDP), 2024**



Source: Eurostat.

In 2024, the net international investment positions (NIIP) and net external debt continued to improve in almost all Member States, reducing vulnerabilities (see Graph 4.23) ([62]). The NIIP and net external debt are relevant for fiscal sustainability analysis, as they provide additional information about the financial stability and creditworthiness of an economy, with implications for financing conditions ([63]). In 2024, the top net borrowing economies in the EU were Greece (-137.0% of GDP), Cyprus (-87.1%) Ireland (-81.4%), and Portugal (-58.3%). In 2024, the gap between creditor and debtor Member States in terms of NIIP narrowed somewhat, delivering some rebalancing. Similarly, in 2024, the net external debt declined further in almost all Member States ([64]). The highest levels of net external debt are recorded in Greece (119.7% of GDP), Finland (61.6%), Spain (47.1%), Portugal (43.7%) and Italy (42.2%). Net external debt has been reduced over time for most Member States, as external balances are increasing, credit growth has moderated, and banking systems have been strengthened.

([60]) According to ESA 2010, Eurostat defines the non-bank financial sector as entities within the broader financial corporation sector excluding Monetary Financial Institutions (banks) and central banks, encompassing investment funds, insurance corporations, pension funds, and other financial intermediaries (OFIs), focusing on institutions facilitating credit and investment outside traditional banking.

([61]) These indicators are monitored under the Macroeconomic Imbalances Procedure. See for more details the 2026 Alert Mechanism Report.

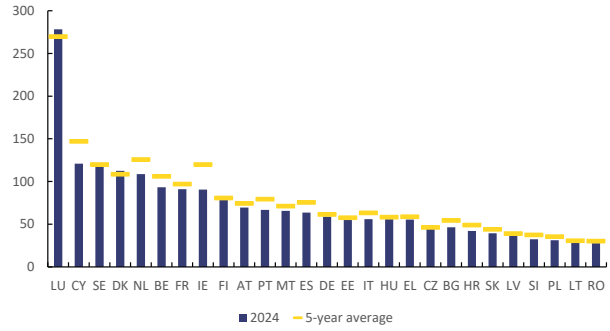
([62]) As defined by Eurostat, the international investment position (IIP) is an economy's financial statement that shows, at a point in time, the value of (i) financial assets of residents of an economy that are claims on non-residents or are gold bullion held as reserve assets, and (ii) the liabilities of residents of an economy to non-residents. The difference between the country's external financial assets and liabilities is the net position in the IIP (NIIP) and represents either a net claim (positive) on or a net liability (negative) to the rest of the world. In other words, NIIP provides a comprehensive snapshot of a country's financial relationship with the rest of the world Additionally, the NIIP at the end of a specific period reflects not only financial flows but also other changes (changes in volume, exchange rate changes, and other price changes) during the period, all of which affect the current value of a country's total claims on non-residents and total liabilities to non-residents.

([63]) By reflecting the balance between domestic savings and investment, the NIIP can offer insights into a country's economic growth potential. A positive NIIP may indicate a higher domestic savings rate, which can fuel investment in productive assets. In opposite, a deteriorating NIIP might signal an excessive borrowing adversely impacting the country's credit rating and eventually its borrowing costs.

([64]) Net external debt is defined as gross external debt (i.e. total outstanding amount of the actual current - and not contingent- liabilities that an economy owes to foreign creditors) net of external assets in debt instruments.

Private sector debt

Graph 4.24: **Non-financial corporation debt (% of GDP), 2024**



Source: Eurostat.

In 2024, non-financial corporate (NFC) debt-to-GDP ratios continued to decline in almost all EU Member States. Monitoring these developments matter for fiscal sustainability analysis as, over history, a rapid accumulation of private sector debt has been associated with increased risks of financial instability and stress, potentially resulting in financial turmoil with repercussions for fiscal sustainability. In 2024, private debt ratios remain elevated in the EU, despite some reduction in recent years, driven by both high nominal GDP growth and muted credit flows in the context of rising financing costs. As shown in Graph 4.24), the ratio was, by far, the highest in Luxembourg (278.2% of GDP), followed by Cyprus (120.9%), Denmark (112.4%) and the Netherlands (108.6%).

4.3. BEYOND GROSS DEBT: GOVERNMENT ASSETS, NET DEBT AND NET FINANCIAL WORTH

Government assets are also relevant for fiscal sustainability analysis, although there are practical limitations ([65]). On the one hand, government-held assets can become a source of fiscal risks that might materialise suddenly. This is, for example, the case of loss-making state-owned companies prompting governments into capital injections (see Section 4.2.3.). On the other hand, government assets generate revenue, albeit volatile, such as interests or dividends, which are included in the structural government balance calculations ([66]). Hence, by setting out assets against liabilities – to compute government net debt and net financial worth through a balance sheet approach – government assets, if sold off, can, in principle, contribute to reduce debt. In practice, however, effective control, marketability, liquidity, earmarking of financial means and societal concerns limit this possibility. The valuation of assets is also intricate, in particular for non-financial assets ([67]).

Net government debt ([68]) offsets gross debt with financial assets corresponding to debt instruments (i.e. currency, deposits, debt securities and loans) ([69])**.** Net debt provides a measurement of how much gross debt would remain after liquidating financial assets to redeem part of the outstanding debt. In practice, in the EU context, net debt entails the consideration of two items

([65]) The literature documents the possible significant effects that net debt can have on government financing costs and the occurrence of fiscal crises, though the direct impact of assets is less clear. See for instance Gruber and Kamin (2012) that report a robust and significant effect of fiscal positions, including net debt, on long-term bond yields for OECD countries. In contrast, Henao-Arbelaez and Sobrinho (2017) find that the presence of financial assets does not significantly reduce sovereign spreads and the probability of debt crises in advanced economies, contrary to what is the case for emerging economies.

([66]) These revenues also affect the S1 and S2 indicators via the structural balance.

([67]) See further details on the valuation of government assets, see the Fiscal Sustainability Report 2018, Box 5.1.

([68]) General government debt, also referred to as 'Maastricht debt' or 'EDP debt' comprises financial liabilities related to the following debt instruments: currency, deposits, debt securities and loans. The stock of gross consolidated debt at year-end is measured at nominal (face) value rather than at market value. Making use of gross debt means that government-owned assets vis-à-vis counterparts outside the general government are not netted out. The fact that figures are consolidated across the general government sector means that any liability of which the counterpart is another general government unit is netted out.

([69]) A more conservative approach would be to restrict assets to those that are considered highly liquid, such as deposits and certain debt securities.

that are valued differently, i.e. EDP debt is valued at nominal value while financial assets are marked-to-market when possible. This also means that valuation effects will be larger for financial assets than for government debt and fluctuate along the economic cycle.

Interpreting net debt figures requires caution as the difference between gross and net debt can be substantial. Several reasons can explain discrepancy between gross and net debt. For instance, selling off financial assets may have an effect on net debt without immediately affecting gross debt ([70]). Alternatively, when governments intervene to bail out state-owned enterprises, gross debt rises but the parallel acquisition of a portfolio of financial assets might (partly) neutralise the operation's impact on net debt ([71]). In addition, financial assets' quality could clearly be an issue in such a scenario and the marketability of such assets would realistically be limited in the near term. Moreover, the valuation of financial assets, based on observed market values, might drop substantially in the event of rising market pressures, and the sale of large amounts of government assets might itself induce negative effects on market valuation. Also, maturity mismatches between liabilities and assets need to be reckoned with.

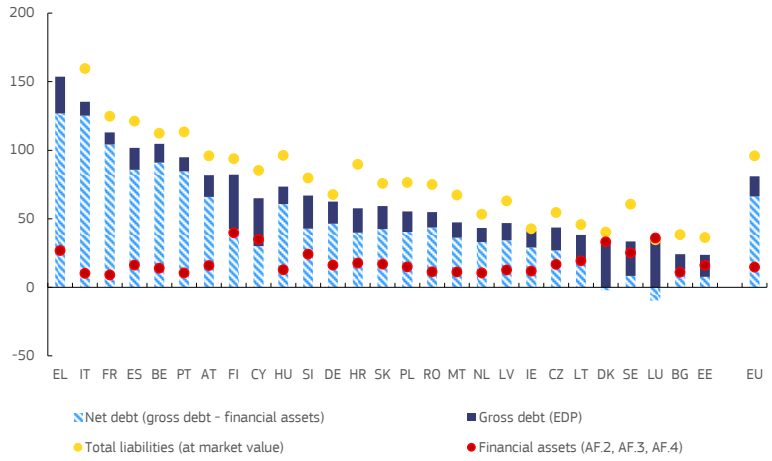
In 2024, the net debt ([72]) in the EU was about 15 pps. of GDP lower than gross debt, with sizeable differences across Member States. This essentially reflects the large variation of government financial assets across Member States, which is due to the set-up of pension systems, the past realisation of contingent events, or country-specific fiscal policies such as maintenance of large cash buffers. The difference between gross and net debt was more than 30 pps. of GDP for Finland, Luxembourg, Cyprus, and Denmark, and between 20 and 30 pps. in the cases of Greece, Sweden, Slovenia and Croatia (see Graph 4.25). The difference between gross and net debt is about 10 pps. of GDP in Bulgaria, France, Italy, Portugal Ireland and the Netherlands. For Denmark and Luxembourg, among the Member States with the lowest gross debt, net debt is even negative (-2.1 and -9.2% of GDP respectively) Among the Member States with the highest government debt, i.e., Greece, Italy, Portugal, France, Spain and Belgium, the net debt is around 15 pps. of GDP lower than gross debt (though for Greece, the difference is higher at about 27 pps. of GDP due to large cash buffers). Also in net terms, these countries have the highest debt burden among EU Member States. Overall, Member States rankings for indebtedness are similar when comparing gross and net debt.

([70]) See Eurostat (2014), "Measuring Net Government Debt; Theory and Practice", Eurostat statistical Working paper, 2014 edition.

([71]) Only in case such assets concern bonds or loans, they will impact the net debt calculation used in this chapter, which does not include equity holdings.

([72]) Measured as the difference between, on the one hand, EDP debt and, on the other hand, financial assets in the form of currency and deposits (AF.2), debt securities (AF.3) and loans (AF.4).

Graph 4.25: **Gross and net debt, total liabilities and financial assets in 2024 (% of GDP)**

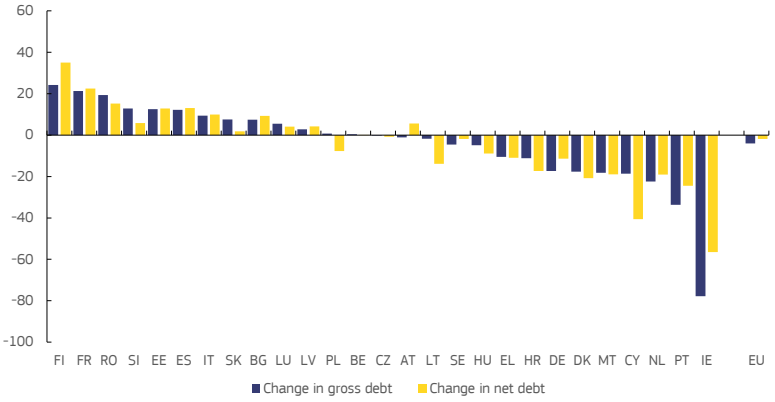


Note: (1) Data for Greece are partial and refer to the year 2023.

Source: Commission services based on Eurostat data.

Over the past decade, gross and net debt ratios have decreased only in a small majority of Member States. The largest decrease in both gross and net debt ratios is recorded in Ireland, Portugal, Cyprus, the Netherlands, Denmark and Malta. Overall, the changes in gross debt are relatively well correlated with the ones in net government debt. (Graph 4.26).

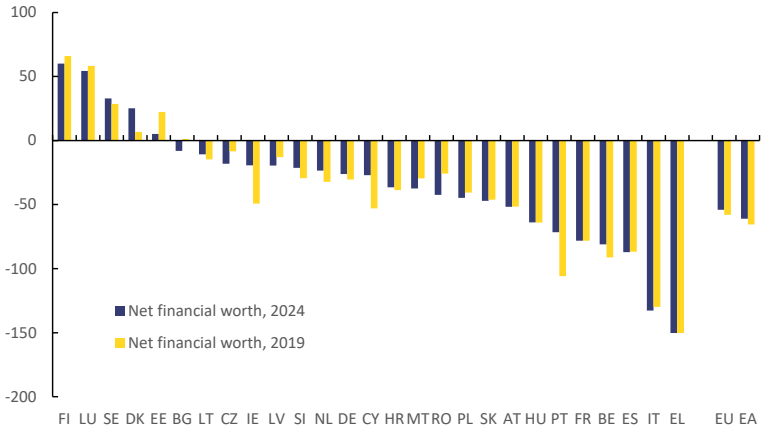
Graph 4.26: **Change in gross and net government debt ratios (pps. of GDP, 2012-2024)**



Note: (1) The following financial assets are considered for the calculations of net debt: currency and deposits (AF.2), debt securities (AF.3), and loans (AF.4). (2) Data for Greece are partial and refer to the year 2023 for net government debt.

Source: Commission services based on Eurostat data.

Graph 4.27: **Net Financial worth in the EU (% of GDP), 2019 vs. 2024**



Source: Eurostat.

The broader concept of 'net financial worth' can be computed by netting all financial assets against all financial liabilities ([73])([74]). Besides currency, deposits, debt securities and loans that are considered for the net debt, the 'net financial worth' concept includes other financial assets/liabilities like monetary gold and special drawing rights; equity and investment fund shares; insurance, pension and standardised guarantee schemes; financial derivatives; and other accounts receivable or payable ([75]). At the aggregate EU level, in 2024, these liabilities and assets partly offset each other so that net financial worth (-54% of GDP of GDP) is somewhat higher (by about 10pps) than net debt (-66%). The net financial worth is affected by transactions or other economic flows. Debt securities being the main financial instrument of liabilities on the EU governments' debt (see Graph 4.7 above), the values of these instruments, traded on the financial markets, changes over time and can be sometimes volatile. Compared to 2019, the EU net financial worth in 2024 was about 4 pps. of GDP lower, with large variation across Member States (Graph 4.27). Portugal and Ireland post the highest increase (34.4pps and 29.8pps respectively while Estonia and Romania record largest drops (-17.2 pps and -16.6pps respectively).

([73]) On the relevance and the practical shortcomings of the consideration of the government financial assets for fiscal sustainability, see Box 5.1 in FSR 2018.

([74]) An even broader concept of total 'net worth' would include also non-financial assets, thus considering all the elements on both sides of government balance sheets. The main non-financial assets of public authorities in the EU are infrastructure and natural resources, with other non- financial assets (e.g. military equipment and intellectual property). The analysis of these non-financial assets is particularly challenging as hampered by data problems related to a sound valuation (i.e. these assets derive their value from their intrinsic characteristics and properties and are oftentimes non-marketable) and erratic data availability from official sources

([75]) Concerning the liabilities, there are also valuation and consolidation effects given the difference between the EDP debt definition and financial liabilities in national accounts (see section 4.2.1.).

Box 4.1: Assessing risks stemming from banks for fiscal sustainability analysis

What are the lessons learnt from the implementation of the EU Banking Regulation?

This box discusses, based on the economic literature, how banking risk and its monitoring for fiscal sustainability have changed following improvements in the EU banking regulatory framework over the last 15 years. The 2008 global financial crisis (GFC) and the 2012 European sovereign debt crisis revealed that banks may pose substantial fiscal threats requiring an unprecedented level of state interventions, thereby transferring high costs to taxpayers. Since those two crises, stronger EU regulation and supervision ([1]) have significantly transformed the European banking landscape and greatly reduced the probability of government bailouts. This calls for reconsidering the overall fiscal risk stemming from banks and its surveillance, in particular by drawing on the economic literature.

In the literature, models on banks' default risk vary widely in terms of methodology, assumptions and samples. Various models and metrics aim to support policymakers and stakeholders in formulating regulations, and to shape supervision and resolution practices that guide the banking sector towards safe territories and prevent potential systemic stress ([2]). These models may display very different results and performances (both in terms of explanatory and predictive power), depending on their specifications and purpose. For the analysis of potentially systemic crises stemming from the banking sector, one category of models stands out: the simulation-based models, which are built on estimations of the banks' asset riskiness and thereby on the distribution of the banks' income and possible losses. Such models provide a sound and powerful analytical framework. In particular, in the Commission's SYMBOL model (Systemic Model for Banking Originated Losses)([3]), which has often been used for the DSM, Monte Carlo simulations combine common and idiosyncratic shocks, and contagion effects are estimated by transferring the losses through the interbank market. As reported by Zedda and Cannas (2017) which compares the predictive performance of different models, SYMBOL manages to identify the higher level of systemic risk in 2007, more than other

([1]) Several new EU mechanisms and legal provisions have bolstered banks' resilience, managing crises and limiting their impact on public finances. These include (i) a dedicated EU framework to manage banking crises, preserve financial stability and protect depositors and taxpayers, the so-called "Crisis Management and Deposit Insurance (CMDI) framework, containing the Bank Recovery and Resolution Directive, BRRD, the Single Resolution Mechanism Regulation, SRMR, and the Deposit Guarantee Scheme Directive (DGSD) acting together with relevant national legislation (ii) dedicated State aid rules for banks in financial difficulties, consisting of six Crisis Communications (, i.e. the Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis ('2008 Banking Communication') (OJ C 270, 25.10.2008, p. 8); the Communication on the recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition ('Recapitalisation Communication') (OJ C 10, 15.1.2009, p. 2); the Communication from the Commission on the treatment of impaired assets in the Community financial sector ('Impaired Assets Communication') (OJ C 72, 26.3.2009, p. 1); the Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules ('Restructuring Communication') (OJ C 195, 19.8.2009, p. 9); the Communication from the Commission on the application, from 1 January 2011, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis ('2010 Prolongation Communication') (OJ C 329, 7.12.2010, p. 7); and the Communication from the Commission on the application, from 1 January 2012, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis ('2011 Prolongation Communication') (OJ C 356, 6.12.2011, p. 7). The state aid rules for banks, are intrinsically interconnected with and complementary to the CMDI framework.,).

([2]) The economic literature includes different classes of models. First, models focusing on sets of financial ratios informing about banking sector-specific financial risk drivers under the CAMELS framework (referring to Capital adequacy, Asset quality, Management quality, Earnings, Liquidity, and Sensitivity to market risk). This type of models was pioneered by the Altman (1968) Z-score model. See also Gaul & Jones (2021), Sahajwala and Van den Bergh (2000); Cole and White (2012), Henderson et al. (2020). Second, models connecting profitability metrics with financial ratios and macroeconomic variables. See for instance, Short (1979); Bourke (1989); Molyneux and Thornton (1992); Demirgüc-Kunt and Huizinga (2000); Goddard et al. (2004), Elekdag et al. (2020); Mirovic et al., (2024); Laporšek et al. (2024). Third, market-based models using stock price data for listed banks to estimate financial distress and default likelihood. See for instance, Acharya et al. (2014), Brownlees and Engle (2012), Boucher et al. (2014), Engle et al. (2015), Dungey et al. (2010), Forbes and Rigobon (2001), Singh et al. (2013), Vallascas and Keasey (2013), Roesch and Scheule (2014), Zhang et al. (2015), Engle et al. (2024), Armanious (2024), Acharya et al. (2025). Finally, simulation-based models that simulate systemic crises and their fiscal impacts. See for instance, Humphrey (1986), Angelini, Maresca, and Russo (1996), Sheldon and Maurer (1998), Allen and Gale (2000), Freixas et al. (2000), Furfine (2003), Degryse and Nguyen (2007), Wells (2004), and Upper and Worms (2004), Drehmann and Tarashev (2013), Zedda and Cannas (2017), Zhang et al. (2020), Wang. et al (2022); Gómez Fernández-Aguado et al. (2024).

([3]) The SYMBOL model was jointly developed by EU Joint Research Centre (JRC) and European Commission (DG FISMA). For more details on SYMBOL see for instance De Lisa et al. (2011) and Benczur et al. (2015).

(Continued on the next page)

Box (continued)

models. It also finds a much safer banking system in 2013, well below the overall riskiness for the year preceding the 2008 crisis.

In the aftermath of the GFC, and in parallel with the Basel III reform ([4]), a comprehensive reform of the European banking regulatory framework and supervisory architecture has been implemented to make the European financial system more resilient. The aim was primarily to ensure the consistent application of the regulatory banking framework across the EU and to enhance banks' loss-absorbing capacity. This was accompanied by the creation of the Single Rulebook and the Single Supervisory Mechanism, the implementation of the Basel standards, and the setting up of a Banking Union to break the sovereign-bank nexus and facilitate private risk-sharing across borders, while reducing the need for public risk-sharing ([5]). Hence, by creating a common supervision mechanism and a common resolution mechanism, the Banking Union has the potential to create deeper financial integration and better allocation of bank resources that are underpinned by a resilient financial system, where taxpayers are not required to bail out banks in distress. This has fundamentally altered the regulatory frameworks for supervision, recovery and resolution.

As reported in the literature, the EU bank regulatory framework has brought significant improvements. The Capital Requirements Directive (CRD IV)([6]) and the Capital Requirements Regulation (CRR)([7]) ensure that financial institutions hold sufficient capital and liquidity to manage risks and absorb potential losses, while the Bank Recovery and Resolution Directive (BRRD)([8]) limits the possibilities of public support for ailing banks that enter into resolution. Banks should, as a rule, primarily use their required internal resources (the 'bail-in' tool) and, if needed, bank-funded safety nets, the use of which also needs to comply with state aid conditions. The BRRD also provides a clear and comprehensive regime that covers both national and cross-border bank failures. The effectiveness of the BRRD implementation is widely reported in the economic literature, with a significant reduction of the risk-related interconnections ('feedback loop') between sovereign entities and the banking sector, and marked improvements in loss-absorbing capacity (LAC) ([9]). In addition, some analyses about the impact of increased bank's capitalisation level, capital conservation buffers, and bail-in safety measures implemented at the EU level also show that, for two crises of similar dimension before and after the BRRD implementation, the expected effects of a financial crisis would be reduced by 90 percent for public finances after the Directive came into force ([10]). Other studies reveal that bank capitalisation also improved with the introduction of Minimum Requirements for own funds and Eligible Liabilities (MREL) and the reporting of banks' loss-absorbing capacity ([11]), also implying a significant reduction of the possibility for taxpayers to bear the government bail-out costs (see also Box 4.2 on MREL).

Yet, the successful implementation of the EU bank resolution framework has not totally dissolved the risk of contingent liabilities stemming from banks for public finances. In times of severe economic stress and under strict conditions ([12]), public bailouts can be an effective complementary tool to the bail-in mechanisms. For instance, the BRRD provides for the possibility for precautionary recapitalisation of banks that are still solvent to remedy a serious disturbance in the economy of a Member State and preserve financial stability. The BRRD also provides for Government Financial Stabilisation Tools (GFSTs), a last resort device which can be used after the bail-in of a minimum of 8% of total liabilities (including capital) and allowing

([4]) Basel III introduced a number of key reforms of international standards for the banking sector, including a strengthening of capital requirements and liquidity metrics and the curbing of the banks' leverage ratio.
([5]) The Banking Union has three Pillars: (i) the Single Supervisory Mechanism (SSM), (ii) the Single Resolution Mechanism (SRM) equipped with a Single Resolution Fund or SRF) and (iii) the European Deposit Guarantee Scheme (EDIS), which is still pending. The banking Union also relies on a Single Rulebook. The most relevant legal acts of the Single rulebook are: the Capital Requirements Regulation (CRR – Regulation (EU) 575/2013), the Capital Requirements Directive (CRD – Directive 2013/36/EU), , the BRRD, the SRMR and the Deposit Guarantee Schemes Directive (DGSD – Directive 2014/49/EU)..
([6]) Directive 2013/36/EU : https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0338:0436:En:PDF:,
([7]) Regulation (EU) No 575/2013: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02013R0575-20250629
([8]) Directive 2014/59/EU: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0059
([9]) See, for instance, Galliani, C. and S. Zedda (2014), Tanasie et al. (2015), Benczur et al. (2017), Covi and Eydam (2018), Fiordalisi et al (2020), Homma and Suzuki (2023), Cutura (2021), Lamers et al. (2021), Monjas et al. (2023), Velliscig et al. (2024) and Meyland and Schäfer (2025).
([10]) See for instance Tanasie et al (2015).
([11]) See Sironi (2018) showing that from 2011 to 2017, the level of Group 1 banks' CET1 capital has increased by 84.0%.
([12]) The conditions refer to the EU State aid rules as laid down in the 2013 Commission Banking Communication and other related Crisis Communications. See 2013 Commission Banking Communication, OJ C 216, 30.7.2013, p. 1–15

(Continued on the next page)

Box (continued)

Member States to offer public equity support or take under temporary public ownership.([13]) Moreover, banks under national insolvency law can still receive state aid, which may, in some cases, require taxpayer money for orderly market exit. National insolvency regime differences may also create country-specific public intervention conditions. Governments can also recapitalise banks in market conditions. While the latter cases fall outside the scope of the EU state aid rules, it is generally still public money that is used for this purpose. Therefore, monitoring potential fiscal risks from banking sector liabilities, even if residual, remains relevant. ([14])

Overall, reconsidering the approach to monitor fiscal risk stemming from banks is warranted. Simulation-based analysis as with the SYMBOL model, which up to last year was routinely used in the DSM to gauge the possible repercussions of stress episodes, has shown its usefulness in times of regulation shaping and testing ([15]). At the same time, relying on the new banking regulatory framework in place and the surveillance by the bank surpervisory authorities, monitoring the fiscal risk stemming from banks can also be performed on the basis of a set of key observables variables. These variables should be those identified by the EU banking regulation and the economic literature as critical in determining the banks' default risks and providing early-warning signals of potential repercussions on the economy and public finances. This is why, in this chapter (Section 4.2.4), developments in the banking sector are monitored using selected variables measuring four critical characteristics of banks: their asset riskiness (using risk-weighted asset and NPL ratios), capitalisation (using the CET1, TIER 1 and solvency ratio), their liquidity and funding (using liquid assets and the loans-to-deposit ratio), and their profitability (using RoA and RoE).

([13]) In accordance with the goals of the new regulatory framework for bank resolution, state aid is relegated as an option to be tapped into only in exceptional circumstances. For instance, if resolution financing arrangements (e.g. recourse to resolution funds) are not sufficient, then alternative financing sources like GFSTs can be available. As means of direct financial support from national public funds, they can only be granted under strict conditions and must comply with the EU state aid framework. More specifically, they must be used as a last resort tool to avoid a systemic crisis. Member States may provide extraordinary public financial support through GFSTs in accordance with Articles 56(3) and Article 37(10) of the BRRD and with the EU State aid framework, including direct intervention to avoid the wind-up of the institution, in view of meeting the objectives for resolution referred to in Article 31(2) of the same directive.

([14]) Some further risks for public finances stemming from the banking sector may still persist, awaiting the completion of the Banking Union with the establishment of EDIS, and calling for a close monitoring of the fiscal risks arising outside the realm of public finances. See for instance, ECB (2020), 'and BIS (2020).

([15]) The SYMBOL model offers the non-negligible advantage of possibly being run under alternative "counterfactual" specifications, allowing adjustments to its assumptions as necessary. This has allowed its use to assess the effects of various EU legal proposals concerning the implementation of the EU Banking Union, e.g. the EU regulatory resolution tools and the amount of Minimum Capital Requirement (MCR) in the context of the design of the EU Capital Requirement Directive and Regulation (CRD IV and CRR respectively) package as well as the Banking Resolution and Recovery Directive (BRRD). For an illustration of the EU banking regulation framework testing, see for instance Benczur et al. (2017).

Box 4.2: Government support to EU financial institutions 2013-2023.

In the EU, public support to businesses is allowed only under strict conditions to ensure fair competition and a level playing field across companies. The Treaty on the Functioning of the EU (TFEU), which generally prohibits State aid, explicitly states that aid "to remedy a serious disturbance in the economy of a Member State" may be considered compatible with the internal market. ([1]) This leaves room for a number of exceptions for which government interventions can be considered compatible with the functioning of the Single Market.

As regards the financial sector, over the last decade, stronger EU regulation and supervision following the 2008 global financial crisis (GFC) and the 2012 Euro area sovereign debt crisis have greatly reduced the probability of government bailouts. In the years, several new mechanisms and legal provisions have been put in place to increase the resilience of the financial sector, and notably the banking sector, to manage crises and limit their impacts on public finances.([2]) As a rule, the EU bank resolution framework greatly limits the possibilities of public support for banks that are failing or likely to fail and that enter resolution due to its requirements for using, primarily, the bank's required internal resources and, if needed, private, industry-funded safety nets in complement to State aid conditions, such as burden-sharing and establishing long-term viability of aided banks, as laid down in the 2013 Banking Communication ([3]) and other related Crisis Communications. However, banks being wound up under national insolvency law can, where necessary, still receive State aid, with taxpayer money being used to ensure an orderly market exit.

Against this background, some government interventions implying (in principle residual) costs for EU public finances stemming from the EU banking sector still occur, while being on a clear declining trend since 2020. ([4]) Since the COVID-19 outbreak, the war of aggression against Ukraine, and the consequent adoption by the Commission of the corresponding Temporary Frameworks for State aid measures([5]), Member States have targeted their State aid at undertakings that could not cover their liquidity needs due to the pandemic or due to economic effects of the war of aggression against Ukraine. The banking sector has indirectly benefitted from this support to the real economy, showing increased resilience so far. The level of State aid approved in the form of capital or capital-like instruments in 2023 has stabilised since 2021 at EUR 13 bn, mainly due to measures in Poland, and more concretely to the successive prolongations of a resolution scheme. Regarding approved liquidity aid, new aid (EUR 3.3 bn) in the form of guarantees was approved in 2023, after getting to zero in 2022. This results from the reintroduction of a Greek scheme and an amendment to the Polish bank resolution scheme launched in 2022, however, the total amount of guarantees approved remains at very low levels compared to the period before 2021 (Graph 1, left-hand side).([6]) The amount of State aid used by banks in 2023 has steadily continued to decline compared to the previous years, driven by the reduction of guaranteed instruments and recapitalisation measures (Graph 1, right-hand side).

([1]) Article 107(3)(b) TFEU

([2]) See for instance (i) the six Commission 'Crisis Communications', i.e. Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis ('2008 Banking Communication') (OJ C 270, 25.10.2008, p. 8); Communication on the recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition ('Recapitalisation Communication') (OJ C 10, 15.1.2009, p. 2); Communication from the Commission on the treatment of impaired assets in the Community financial sector ('Impaired Assets Communication') (OJ C 72, 26.3.2009, p. 1); Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules ('Restructuring Communication') (OJ C 195, 19.8.2009, p. 9); Communication from the Commission on the application, from 1 January 2011, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis ('2010 Prolongation Communication') (OJ C 329, 7.12.2010, p. 7) and Communication from the Commission on the application, from 1 January 2012, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis ('2011 Prolongation Communication') (OJ C 356, 6.12.2011, p. 7) and, (ii) the Bank Recovery and Resolution directive (BRRD).

([3]) 2013 Commission Banking Communication, OJ C 216, 30.7.2013, p. 1–15

([4]) See State Aid Scoreboard 2024, published by DG COMP (April 2025)

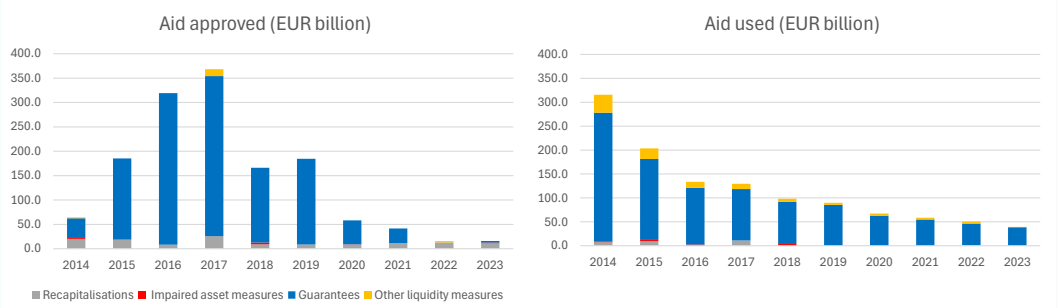
([5]) See the measures related to The State Aid Temporary Framework.

([6]) Liquidity support under the COVID-19 Temporary Framework and the TCTF is not reflected here, as the financial sector
was excluded from these temporary State aid regimes.

(Continued on the next page)

Box (continued)

Graph 1: **Graph 1: EU State aid to banks - 2013-2023**



(1) The DG COMP's State aid scoreboard summarises the amounts of public support to EU financial institutions that the Commission authorised based on notifications by the Member States ("State aid approved") and the amounts of aid disbursed by the Member States ("State aid used").
Source: State Aid scoreboard 2024, DG COMP, European Commission

Box 4.3: The minimum requirement for own funds and eligible liabilities (MREL) for EU banks

In June 2014, the EU adopted the Bank Recovery and Resolution Directive (BRRD), thereby creating a harmonized framework across the EU Member States for dealing with national and cross-border bank failures in the EU.([1]) One of the key elements of the Directive is the "bail-in" resolution tool which provides that losses and recapitalisation burden are to be borne by the institution's own shareholders and investors instead of relying on public financial support. In order to ensure this, institutions must have, at all times, a sufficient level of capital and eligible liabilities (i.e. loss absorption and recapitalization resources). This is especially important to enable effective use of resolution tools, to maintain critical functions, to avoid the need for recourse to taxpayers' money, and to restore the institution's capital position after resolution. This is the purpose of the minimum requirement for own funds and eligible liabilities (MREL), introduced by the BRRD, acting as a crucial element in underpinning institutions' resolvability.([2])

In practice, the MREL is set for institution([3]) , based on the preferred resolution strategy defined by resolution authorities as well as bank specific characteristics.([4]) To comply with MREL, institutions must have sufficient capital (Common Equity Tier 1, Additional Tier 1 and Tier 2) and eligible liabilities. Only liabilities meeting certain conditions (e.g. residual maturity of at least one year and some other characteristics) are eligible for MREL purposes.([5]). It is worth noting that bail-in-able liabilities include not only MREL-eligible liabilities but also other instruments, such as senior unsecured and subordinated debt with remaining maturities of less than one year, preferred deposits and liabilities arising from derivatives. As a result, in case of resolution, the volume of liabilities available for bail-in, in principle, may exceed the volume of liabilities that count toward fulfilling the MREL target.

Overall, European banks are generally holding sufficient loss-absorbing capacity, crucial for orderly bank resolutions. Banks, under the Single Resolution Board (SRB)'s remit, continue to meet their MREL targets.([6]) The average MREL target for resolution entities was 27.9% of the Total Risk Exposure Amount (TREA) as of the first half of 2025 (Graph 1). The SRB also reports positive progress with a negligible aggregate shortfall across all banks around €0.3 billion, i.e. less than 0.01% of Total Risk Exposure Amount – TREA (Graph 1). The latter is attributed to banks still under transitional periods to meet final targets beyond 1 January 2024.

([1]) See for instance (i) Directive (EU) 59/2014 'Bank Recovery and Resolution Directive' or 'BRRD'; (ii) EU Bank Recovery and Resolution Regulations 2015 (S.I. No. 289 of 2015) or 'BRR Regulations'; (iii) Regulation (EU) No 806/2014 'Single Resolution Mechanism Regulations' or 'SRMR'; and (iv) Regulation (EU) No 575/2013 'Capital Requirements Regulations' or 'CRR'. All of the above have been amended at various points in time.

([2]) Depending on their systemic importance and the jurisdictions where they operate, financial institutions must comply with a total loss-absorbing capacity (TLAC) and a minimum requirement for own funds and eligible liabilities (MREL). In 2015, the Financial Stability Board (FSB) issued an international standard for TLAC requirements for global systemically important banks (G-SIBs). This requirement is similar and additional to the MREL, as it seeks to ensure that G-SIBs have sufficient own funds and eligible liabilities that can be used in the event of resolution. The MREL and the TLAC are therefore complementary elements of a common framework, although the TLAC only applies to G-SIBs, so there are fewer institutions subject to the TLAC requirement than to the MREL.

([3]) As well as other entities such as financial holding companies, as defined in article 1 of BRRD.

([4]) MREL is expressed as a percentage of the total risk exposure amount and of the total exposure measure of the relevant entity.

([5]) MREL-eligible liabilities do not include (i) liabilities with a remaining maturity of less than one year, (ii) deposits from natural persons, small and medium-sized enterprises (SMEs), and (iii) other liabilities that are explicitly excluded from bail-in. These exemptions aim to preserve customer confidence and market stability and comprise in particular liabilities to institutions with an original maturity of less than seven days and covered deposits.

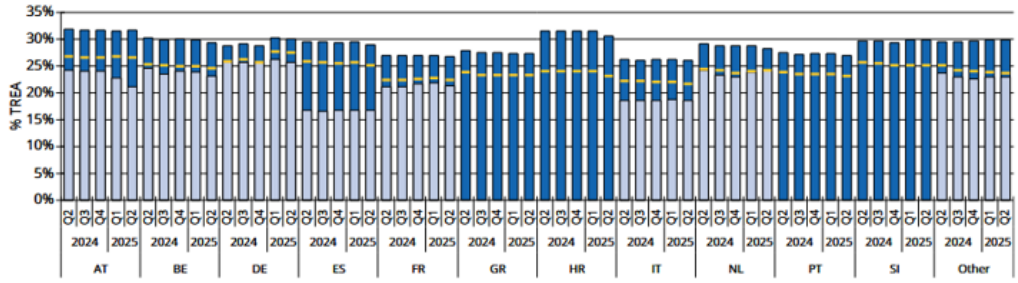
([6]) Besides the SRB, the European Banking Authority (EBA) is also monitoring MREL compliance. Both institutions concur about the overall achievement of the MREL targets and the minimal remaining shortfalls.

(Continued on the next page)

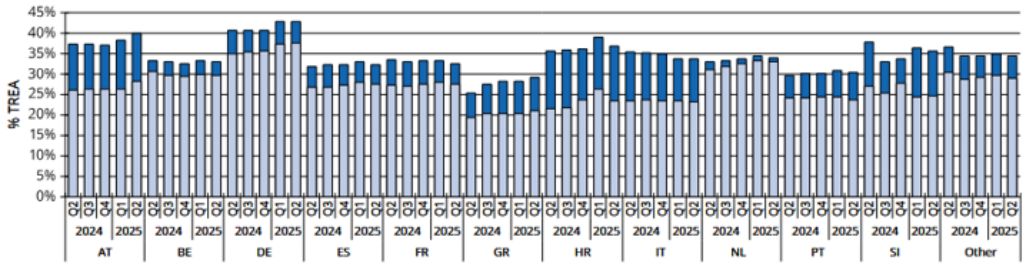
Box (continued)

Table 1: **MREL final targets for resolution entities vs. MREL resources, % total risk exposure amount**

a. External MREL final targets (of which subordination) for resolution entities

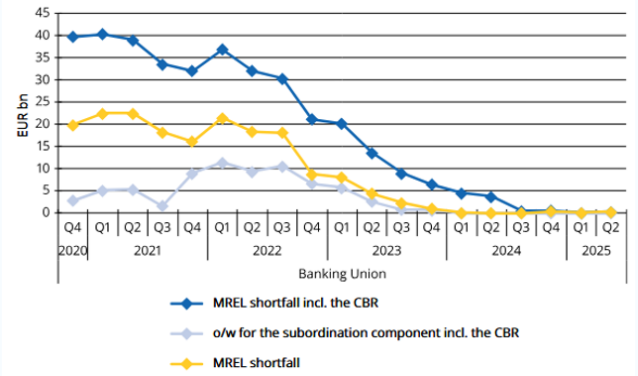


b. External MREL-eligible liabilities (of which subordinated) and own funds



(1) The MREL for resolution entities (external MREL) is set at the consolidated level of the resolution group; it has to be met with own funds at the level of the resolution group and eligible liabilities issued externally by the resolution entity. The MREL for entities that are not themselves resolution entities ('non-resolution entities') at individual level or sub-consolidated level to ensure internal bail-in capability, where applicable.
Source: Single Resolution Board (SRB)- MREL Dashboard H1.2025.

Graph 1: **MREL external shortfalls (of which subordination), EUR bn**



(1) CBR refers to the combined buffer requirement.
Source: Single Resolution Board (SRB)- MREL Dashboard H1.2025.

4.4. RISKS STEMMING FROM CLIMATE CHANGE

Understanding how different climate policy pathways and climate-related physical risks translate into macroeconomic and fiscal outcomes is important for assessing debt sustainability in the decades ahead. At the EU level, the *2019 Debt Sustainability Monitor* featured the main theoretical mechanisms underlying climate change risks (both physical and transition) to debt sustainability. A thematic chapter in the *2021 Fiscal Sustainability Report* and the related Discussion Paper (Gagliardi et al., 2022) provided an empirical assessment - in the form of stylised stress tests - of the potential impact of acute physical risks from climate change on public finances. Recent work by the Commission (Salmon-Genel, 2025) has provided an overview of key concepts, possible methodologies, and available tools to thoroughly assess the macro-fiscal risks from climate change. A related Discussion Paper (Gagliardi, 2025) features a structured stylised scenario-based approach encompassing both *physical* and *transition* risks into the Commission's Debt Sustainability Analysis (DSA).

Climate change is emerging as a relevant macro-fiscal risk. It affects economic activity, public revenues and expenditure needs through its physical impacts and through the policies and structural adjustments required for mitigation and adaptation. These risks can influence investment patterns, production structures, potential growth and, ultimately, the trajectory of public finances. Climate-related risks are often grouped into two broad categories (Salmon-Genel, 2025; Feyen et al., 2020) ([76]):

- The ***physical risks*** of a changing climate, which may arise from the impacts of *acute* climate-related hazards, whose variety, frequency and severity are expected to increase with global warming, and of *chronic* climate-related hazards resulting from the gradual transformation of the environment due to global warming.
- The ***transition risks*** from moving towards a low-carbon and more climate-resilient economy. Transition risks may arise from 'the move towards a more resilient, low-carbon economy, which is induced by climate policies as well as shifts in technology and consumer preferences' (Feyen et al., 2020). They may stem from the economic and fiscal impacts of both climate change mitigation and adaptation efforts.([77])

Both risks can have material macroeconomic and fiscal impacts, but they differ in timing, magnitude and country exposure. *Physical risks* may affect the economy through both supply- and demand-side channels. These include lower labour supply and productivity due to extreme temperatures, reduced agricultural yields, damage to capital and critical infrastructure, and the diversion of resources from productive investment to reconstruction and adaptation, with direct implications for public revenues and spending. *Transition risks,* driven by climate targets and international commitments, entail profound shifts in investment, production and consumption patterns. These changes can influence the scale of required public and private investment, the composition of tax revenues and budgetary pressures associated with the transition. In both cases, the effects can propagate across borders through global market interactions (Batten et al., 2020).([78])

This section complements the Commission's DSA-based assessment in Chapter 2 with a simplified scenario analysis of climate change and related policy action, based on the long-term scenarios developed by the Network for Greening the Financial System (NGFS).([79]) This analysis examines how these scenario narratives affect macroeconomic conditions and long-run debt

([76]) Despite such conceptual distinction (used throughout the section), *physical* and *transition* risks 'are not independent of each other but tend to interact' (Batten et al., 2020; p. 3), as inadequate policy actions to fight climate change can aggravate physical risks and, in turn, intensify transition risks (Gagliardi et al., 2022; NGFS, 2020).

([77]) This section focuses exclusively on mitigation efforts. An assumption of static adaptation levels is used.

([78]) For a detailed conceptual overview of the links between climate change, the economy and public finances, see Salmon-Genel (2025) and Gagliardi (2025).

([79]) (') Since 2018, an increasing number of central banks and supervisors around the world have joined forces in the Network for Greening the Financial System (NGFS) to help build a common understanding of how climate change affects economies and financial systems.

trajectories in the EU. The NGFS scenarios are incorporated into the 'no-fiscal-policy-change' baseline of the DSA by translating their projected macroeconomic impacts through deviations in real GDP growth only. This approach captures the combined transition and physical-risk effects embedded in NGFS projections, while keeping the remaining DSA assumptions unchanged. The discussion first describes the NGFS scenario narratives and their integration into the DSA (Section 4.4.1). It then presents the main results for the EU and individual Member States (Section 4.4.2). Country-specific charts can be found in the country fiches in Part II.

4.4.1. Climate scenario analysis and the Debt Sustainability Analysis (DSA)

Climate-economic analysis is surrounded by high uncertainty. While it is well established that climate change is occurring, significant uncertainty persists regarding when, where, and to what extent its impacts will fully materialise. This reflects multiple unknowns: the evolution of climate policies and global emissions, technological and behavioural responses, complex climate-economic feedback effects, and the possibility of non-linear tipping points. These sources of uncertainty make modelling climate-related macroeconomic and fiscal risks inherently challenging. As a result, no single methodological approach can fully capture the range of plausible outcomes, and estimates are sensitive to the choices embedded in each model.

In this context, scenario analysis offers a practical way forward. Rather than forecasting a single outcome, scenarios provide a structured means of exploring alternative paths, under different assumptions about emissions trajectories, climate policies and physical impacts. Countries and international institutions rely on a variety of scenario frameworks, each with its own simplifying assumptions and analytical strengths. The analysis below draws on the NGFS climate scenario framework - a widely used set of scenarios that complements other approaches and provides a consistent starting point for exploring long-term climate-related fiscal risks.

4.4.1.1. The NGFS Scenario Narratives: An Overview

The NGFS scenarios have been developed to provide a common starting point for analysing the impact of climate risks on the economy and the financial system. They map out different futures, depending on how climate change (*physical risks*), transition policies, technological developments and changes in preferences (*transition risks*) evolve across a wide range of regions and sectors. Importantly, the NGFS scenarios are not forecasts. They are intended to explore the range of plausible futures (neither the most probable nor the most desirable) for the assessment of financial risk and to prepare the financial system for the shocks that may arise (NGFS, 2024). ([80])

The NGFS scenarios are based on a suite-of-models approach to jointly but indirectly capture climate, macroeconomic and financial contingencies. The models used to derive the NGFS scenarios can be classified into three broad categories: *physical risk models*([81]), *transition risk models*([82]) and *macro-financial models*.([83])

([80]) While the NGFS scenarios are constantly improved, one must be fully aware of the uncertainty and limitations of climate and economic modelling. For instance, tipping points are not represented. The NGFS scenarios have three essential features: (i) they take a long-term perspective, providing a common starting point for analysing climate-related risks and their impact on the economy and the financial system; (ii) they cover the global economy, producing results that are internally consistent, applicable at the global level and comparable across regions; and (iii) they represent a global public good as they are the product of an international collaboration among leading academic institutions that (a) combine state-of-the-art climate models to capture the interactions between transition, physical and macro-financial risk, and (b) make the results available (based on the pre-defined assumptions) as a set of climate pathways accessible to anyone, anywhere in the world on the NGFS Scenarios Portal. The NFGS also recently published the first vintage of short-term scenarios narratives (over a period of T+5), which are only somewhat comparable to the long-term ones.

([81]) These include acute and chronic physical risk models. Starting from the Phase IV vintage, acute physical risks are assessed for four hazards at country level with various channels of transmission. Chronic physical risks are assessed with a damage function. Both sets of models project physical risk based on the Global Temperature Paths measured in Global Mean Temperatures (GMTs) (NGFS, 2024).

([82]) Transition risk models include three Integrated Assessment Models (IAMs), specifically REMIND-MAgPIE, GCAM and MESSAGEix-GLOBIOM, that derive the impacts of different policy ambitions on the energy and transition-relevant sectors (transportation, buildings, industry etc.), emissions, and land use (NGFS, 2024).

The NGFS scenarios are based on a set of long-term narratives:

- ***Orderly*** scenarios assume climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued.
- ***Disorderly*** scenarios explore higher transition risks due to policies being delayed or divergent across countries and sectors. For example, (shadow) carbon prices([84]) are typically higher for a given temperature outcome.
- ***Hot house world*** scenarios assume that some climate policies are implemented in some jurisdictions, but globally efforts are insufficient to halt significant global warming. The scenarios result in severe physical risk including irreversible impacts.
- ***Too-little-too-late*** scenarios assume that a late and uncoordinated transition fails to limit physical risks.

The NGFS scenarios are regularly updated. This is done to make sure they are brought up to date with latest economic and climate data, policy commitments, and model versions around both physical and transition risks. For the purposes of this DSA exercise, the analysis relies on the Phase IV vintage (released in 2023). ([85])

More specifically, the analysis is based on four long-run scenarios([86]):

Current Policies**:** currently implemented policies are preserved, leading to high physical risks. As such, this represents a more *realistic* baseline, combining the ongoing but insufficient mitigation policies with additional losses stemming from unmitigated climate change.([87])

Below 2°C: early and coordinated action, gradually increasing the stringency of climate policies, giving a 67% chance of limiting global warming to below 2°C.

Delayed Transition: no additional climate policies are implemented until 2030. Strong policies are then needed to limit warming to below 2°C.

([83]) The macroeconomic modelling relies on the NiGEM model (a version specifically modified for the purpose of producing the NGFS scenarios, developed from the National Institute for Economic and Social Research - NIESR), to understand the consequences of transition and physical risk on the key macro-financial fundamentals (NGFS, 2024). The NIGEM model equally includes the possibility of sensitivity analyses to fiscal policy assumptions around carbon tax revenues.

([84]) Shadow carbon prices are defined as the marginal abatement cost of an incremental ton of greenhouse gas emissions. Prices are influenced by the stringency of policy as well as how technology costs will evolve (NGFS, 2024).

([85]) In 2024, the NGFS released a more up-to-date version (Phase V) of the long-term climate scenarios. Phase V introduces two main updates: i) updates with the latest GDP and population pathways and the most recent country level commitments up to March 2024 and use of the latest release (v3.0) of the Shared-Socioeconomic Pathways (SSPs); ii) use of an updated damage function to capture physical risk, based on Kotz et al. (2024), to be aligned with the latest climate science research (NGFS, 2024). However, the revised damage function has recently generated substantial academic debate regarding its sensitivity and underlying assumptions. To avoid introducing additional methodological uncertainty at this stage, this section relies on the previous version of the scenarios (Phase IV), which is not affected by these issues (although the damage function used in Phase IV remains equally surrounded by caveats and uncertainty around projections of physical risks). The NGFS is constantly working to further improve the scenarios, including with regard to physical risks, and an updated methodology will be used for the next release of long-term scenarios, to be published end of 2026 (https://www.ngfs.net/en/publications-and-statistics/publications/ngfs-climate-scenarios-central-banks-and-supervisors-phase-v).

([86]) This section relies on *four* out of the *seven* existing scenarios. Additional scenarios found in Phase IV are: *Low Demand* and *Net Zero 2050* (under the *Orderly* narrative) and *National Determined Contributions* (NDCs – under the *Hot House World* narrative).

([87]) In Phase IV (released in 2023), this relies on: i) the new country-level policies to reach net-zero emissions with a cut-off date of March 2023, contributing to slightly decreasing physical risks; ii) GDP and population data using the latest snapshot from the IMF World Economic Outlook 2022; iii) the current geopolitical context, including consequences of the war in Ukraine on energy prices, contributing to an overall increase in disorderliness; the latest trends in renewable energy technologies (e.g., solar and wind), and key mitigation technologies; for example, capital costs for solar PV will decrease faster according to the new projections. The damage function is based on a methodology set out in Kalkuhl & Wenz (2020).

Fragmented Action: delayed and divergent climate policy response among countries globally, leading to high physical and transition risks. Countries with net zero targets achieve these only partially (80% of the target), while the other countries follow current policies.

The NGFS-based DSA approach and related results are described in Section 4.4.1.2.

4.4.1.2. Climate debt projections – Assumptions and Design

This sub-section constructs a set of long-term climate scenarios for each EU Member State within the DSA, drawing on the NGFS framework. The analysis starts from the standard deterministic 'no-fiscal-policy-change' DSA baseline, which overall abstracts from the macroeconomic and fiscal effects of climate change and climate policies. As such, the DSA baseline serves as a *purely technical benchmark* without climate impacts, providing a neutral reference point against which alternative climate pathways can be assessed. On this basis, NGFS-based climate scenarios are overlaid to examine how different combinations of physical and transition risks translate into long-run debt dynamics.

The purpose of this exercise is not to quantify the *full* potential fiscal cost of climate change or climate policies, but to provide an illustrative, scenario-based assessment of how alternative climate pathways may affect debt sustainability exclusively through their macroeconomic implications. The results should therefore be interpreted primarily in *qualitative* and *comparative* terms, focusing on the relative ordering of scenarios, rather than on the precise magnitude of the projected debt impacts. Moreover, as the analysis relies on the Phase IV vintage of the NGFS scenarios - which conservatively capture physical risks due to caveats in the underlying damage function - the quantitative effects are likely to understate the potential long-run fiscal consequences of climate change. Accordingly, numerical impacts should be interpreted as indicative of the relative macro-fiscal implications of timely and coordinated policies versus current, delayed, or fragmented climate action.

A comprehensive assessment of the macro-fiscal implications of climate change and climate action requires modelling a wide range of *direct* and *indirect* transmission channels (Salmon-Genel, 2025):

***Direct* channels:** immediate pressure on public budgets from climate-related damages and policies, such as emergency and reconstruction spending, support to affected households and firms, and transition-related public investment or compensation measures.

***Indirect* channels:** effects arising through the broader macroeconomic environment, as physical and transition risks influence output, productivity, sectoral activity and tax bases, thereby shaping revenues, expenditure pressures and borrowing conditions over time.

Quantifying these channels jointly in a fully consistent manner remains challenging. Existing approaches typically capture selected elements of physical or transition risks but rely on simplified representations of climate–economy interactions and on assumptions regarding future policies, technological developments and behavioural responses.([88]) For example, projecting expenditure pressures from more frequent and intense extreme weather events requires detailed assumptions on the timing, scale and severity of future shocks, as well as on countries' adaptation strategies. Moreover, the *direct* fiscal consequences of physical and transition risks depend critically on the extent of global mitigation efforts and the degree of international coordination on climate action, which shape the trajectory of global temperatures and, among other things, the frequency and intensity of climate-related hazards over time.

Against this background, and with the objective of designing a coherent and internally consistent set of NGFS-based scenarios, a *deliberately simplified* approach is adopted. The analysis focuses on the *indirect* macroeconomic channel through which climate change and climate

([88]) See, for instance, Gagliardi (2025) for the EU, the Office for Budgetary Responsibility (OBR, 2024) for the UK, or the OECD's EDISON toolkit (2025).

action - via both physical and transition risks - affect output and, ultimately, debt-to-GDP ratios. The direct costs incurred by governments when responding to climate-related disasters are not included. Accordingly, this section relies exclusively on the NGFS macroeconomic outputs. For each scenario, the series for real GDP levels by Member State are used to compute annual deviations, over the period 2025–2050, from the NGFS climate-neutral reference path (as defined in the NiGEM model; see Footnote 106). These deviations reflect the combined macroeconomic effects of transition risks - stemming from differences in policy stringency, carbon prices, and sectoral adjustment - and physical risks embedded in the NGFS damage pathways.

These scenario-specific GDP deviations are then overlaid onto the DSA baseline. Concretely, actual and potential GDP growth are adjusted year by year over the projection horizon, allowing climate impacts to influence the long-run output path while keeping all other baseline assumptions unchanged. This ensures that the scenarios differ solely through their implications for economic growth, in line with the simplified and scenario-consistent design adopted in this analysis.

Each NGFS scenario inherently incorporates an assumption regarding the recycling of carbon tax revenues. In this analysis, a specific recycling option is adopted. It is assumed that, in all scenarios, 100% of carbon tax revenues are channelled into higher transfers to households.([89])

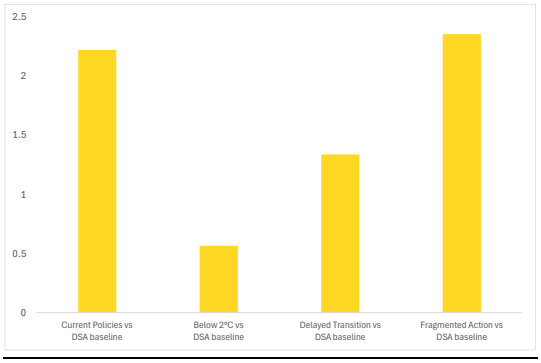
Overall, this setup allows the climate narratives to influence the DSA exclusively through their impact on growth. The resulting projections show how alternative climate pathways may amplify or dampen long-term fiscal pressures relative to a climate-agnostic baseline. The next subsections present the main quantitative implications for each scenario.

4.4.2. Scenario results

This sub-section presents the macro-fiscal implications of the NGFS-based climate scenarios. Results for the EU aggregate are illustrated in Graph 4.33.

([89]) In the pre-defined assumptions under Phase IV, the following recycling options are foreseen: 100% of revenues is channelled to reduce household taxes (for *Current policies*, *Delayed Transition*, and *Fragmented Action*), 50% of revenues are channelled towards an increase in government investment and 50% of revenues are used to reduce government debt (for *Net Zero* and *Below 2°C*). However, several amendments to the EU ETS Directive have been adopted to achieve the goals set out in the European Climate Law. As of June 2023, Member States are obliged to use 100% of the revenue collected (or a financial equivalent) to support specific climate action and energy transformation purposes, except for any revenue that Member States spend in aid for electricity-intensive industries for indirect carbon costs. Purposes for which Member States can spend these revenues are: industrial decarbonisation; energy transformation; clean technologies; adaptation to climate change; decarbonisation of the transport sector; actions for just transition. Before amendments to the Directive, Member States were encouraged to spend at least 50% of their revenues on climate action and energy transformation purposes.

Graph 4.28: **Debt-to-GDP (pps. difference in 2050) - NGFS scenarios vs DSA baseline**



(1) The graph displays deviations (in pps of GDP) of debt projections between the Current Policies, Below 2°C, Delayed Transition, and Fragmented Action scenarios with respect to the 'no-fiscal-policy-change' DSA baseline in 2050.

Source: NGFS, NiGEM and Commission calculations.

Graphs 4.33 compare the debt-to-GDP ratio in 2050 under the 'no-fiscal-policy-change' DSA baseline with the corresponding projections derived from the NGFS *Current Policies*, *Below 2°C*, *Delayed Transition*, and *Fragmented Action* scenarios for the EU aggregate. Results in Graph 4.33 show that, by mid-century, the *Current Policies* scenario results in a higher debt ratio (by more than 2 pps of GDP – leading to a debt ratio of 119% of GDP on average) relative to the DSA baseline (at around 117% of GDP on average in 2050), reflecting the gradual accumulation of adverse macroeconomic effects embedded in the NGFS pathway. These effects stem primarily from weaker long-run output associated with unmitigated physical risks and, more generally, less favourable growth prospects compared with a climate-neutral reference. By contrast, the *Below 2°C* scenario is associated with a more contained and broadly similar debt trajectory relative to DSA baseline, illustrating how timely and orderly mitigation efforts can help limit long-term fiscal pressures by supporting more resilient macroeconomic outcomes.

Graph 4.33 also underscores the costs of departing from an orderly and coordinated transition path. The *Fragmented Action* scenario typically shows the most adverse deviation (by almost 3 pps. of GDP - leading to a debt ratio of 120% of GDP in 2050), as delayed and uneven policy implementation across countries results in persistently high physical risks combined with inefficient transition dynamics. The *Delayed Transition* scenario also entails higher debt (by almost 1.5 pps of GDP – leading to a debt ratio of around 118% of GDP in 2050), reflecting the costs of postponing mitigation efforts and the need for more abrupt policy adjustments later on, but also smaller adverse effects than under a fragmented global response, due to lower physical risks associated with stronger mitigation efforts. Overall, the chart highlights that climate change can translate into persistent fiscal impacts over time through macroeconomic channels alone, even in the absence of (among other things) explicit direct climate-related spending shocks.

Graph 4.33 also highlights the fiscal implications of alternative transition strategies. It is possible to infer the deviations of the *Delayed Transition* and *Fragmented* Action scenarios relative to the *Below 2°C* benchmark. For the EU aggregate, both scenarios would lead to higher debt ratios compared with the *Below 2°C* pathway, reflecting weaker long-run growth and the accumulation of climate-related damages. Among the two, the *Fragmented Action* scenario typically shows the most adverse deviation (by almost 2 pps. of GDP in 2050 – leading to a debt ratio of around 119% of GDP compared to around 117% of GDP on average). The *Delayed Transition* scenario also entails higher debt, but to a lower extent (around 118% of GDP on average in 2050, compared to around 117% of GDP). Taken together, these results reinforce the message that early, credible and internationally coordinated climate action is associated with more favourable long-term debt outcomes, while delayed and especially fragmented approaches entail potentially higher macroeconomic and fiscal costs.

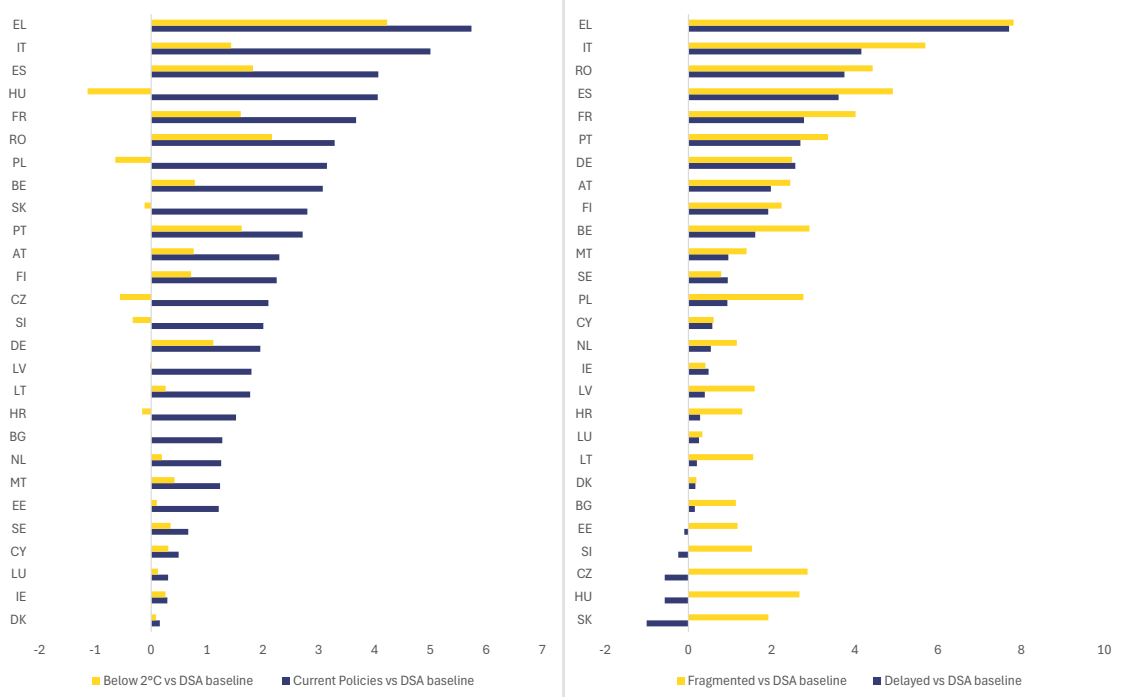
Country-specific patterns reveal substantial heterogeneity in both the baseline comparison (*DSA baseline* versus *Current Policies*) and the deviations from the *Below 2°C* pathway across alternative transition scenarios (Graph 4.34). These differences reflect a combination of factors, including countries' exposure to physical climate risks, the energy intensity and carbon dependence of their production structures, and underlying macroeconomic conditions shaping long-run debt dynamics.

In the comparison between *the DSA baseline* and *Current Policies*, all Member States exhibit a more pronounced increase in debt ratios by 2050 under *Current Policies* (Graph 4.34), pointing to a higher sensitivity of long-term growth prospects to unmitigated physical risks. This is

particularly visible in countries with greater exposure to climate hazards or where economic activity is more affected by climate-related disruptions. This is particularly the case for Southern European countries, such as Greece (around 6 pps. higher debt), Italy (around 5 pps. higher debt), Spain (around 4 pps. higher debt), and Portugal (around 3 pps. higher debt). Central and Eastern European countries also appear to be significantly affected (Hungary, Poland, Romania, Slovakia, and Czechia reporting an average debt increase by around 3 pps of GDP). More continental Member States (such as France and Belgium) also report a significant debt increase (around 4 pps). Higher debt ratios (by around 2-3 pps. of GDP) are reported in the remaining Member States. Much smaller debt ratios (between 1 and 5 pps. of GDP lower in 2050, depending on the country) are reported when comparing the *Below 2°C* scenario with respect to the DSA baseline - highlighting the benefits of orderly and timely mitigation actions.

When comparing the *Delayed Transition* and *Fragmented Action* scenarios relative to the *DSA baseline*, the results underscore the importance of early and coordinated mitigation efforts (Graph 4.34). The *Delayed Transition* scenario generally exhibits overall mild increases from the *Below 2°C* pathway. While postponing mitigation efforts entails higher long-term costs than an orderly transition, the eventual convergence towards stronger climate policies limits the extent of physical risks. The magnitude of debt deviations varies across countries. By contrast, the *Fragmented Action* scenario emerges as the most adverse outcome, as it combines insufficient mitigation with uneven and uncoordinated policy responses across countries, resulting in inefficient adjustment dynamics and higher impacts from physical risks. This translates into sizable and widespread debt deviations relative to the *DSA baseline* across a large share of EU Member States. Particularly higher debt ratios are found in Greece, Italy, Romania, Spain and France (around 6 pps. of GDP), followed by Portugal, Germany, Austria, Finland and Belgium (on average 3 pps. of GDP). Higher debt ratios (on average 2 pps. of GDP) are reported in the remaining Member States.

Graph 4.29: **Debt-to-GDP (pps. difference) in 2050, NGFS scenarios vs DSA baseline**



(1) The graph displays deviations (in pps. of GDP) of debt projections between the Current Policies, Below 2°C, Delayed Transition, and Fragmented Action scenarios with respect to the 'no-fiscal-policy-change' DSA baseline in 2050.

Source: NGFS, NiGEM and Commission calculations.

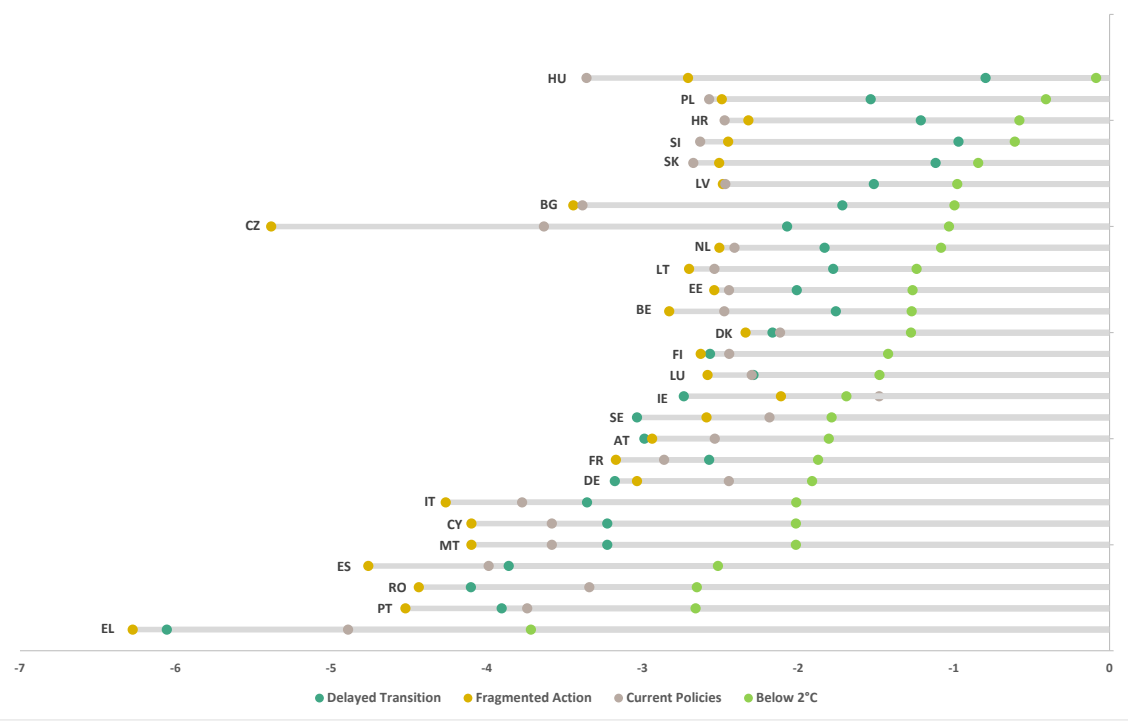
The macroeconomic drivers of these fiscal outcomes are shown in Graph 4.35, which summarises the real GDP growth deviations from the climate-neutral NGFS baseline in 2050. For the EU aggregate, the *Below 2°C* pathway implies the smallest long-run output loss (−1.5% in 2050), consistent with an orderly transition that limits physical risks and avoids disruptive

adjustment dynamics. By contrast, the *Current Policies* scenario is associated with a larger growth shortfall (−2.9% in 2050), reflecting the accumulation of unmitigated physical damages over time. The *Delayed Transition* pathway also implies a sizeable output loss (−2.5% in 2050), while the *Fragmented Action* scenario yields the most adverse outcome (−3.2% in 2050), consistent with its storyline of uneven and insufficient mitigation combined with persistently high physical risks and inefficient adjustment.

At the country level, Graph 4.35 reveals substantial dispersion in long-run output impacts across Member States. Under *Current Policies*, output losses are largest in Greece (-4.9%), Spain, Portugal, Italy, Malta, Cyprus (around -4%), as well as Romania, Hungary, Czechia, and Bulgaria (around -3.5%). Moderate deviations from the climate-neutral baseline (around -2.4%) are observed in the remaining countries. Under the *Below 2°C* pathway, more favourable outcomes are reported across all countries, with the least negative output deviations recorded for the Netherlands, Czechia, Bulgaria, Latvia, Slovakia, Slovenia, Croatia, Poland, and Hungary (an average of around -0.7%). Higher deviations, albeit way more favourable than if *Current Policies* are assumed to remain in place, are reported for Greece, Portugal, Romania, Spain, Malta, Cyprus, and Italy (an average of around -2.5%).

Differences become stark in the disorderly pathways. All countries would suffer higher GDP losses than under a *Below 2°C* setting and would almost approximate the *Current Policies* trends. Under a *Delayed Transition*, the largest negative deviations are found in Greece (-6.1%), as well as Portugal, Romania, Spain, Malta, Cyprus, Italy, and Germany (an average around -4%). Losses range around -2% in 2050 for the remaining ones. Under a *Fragmented Action*, which consistently delivers the worst outcomes across scenarios, the most severe output shortfalls are concentrated in Greece (-6.3%), Czechia (-5.4%), Portugal, Romania, Spain, Malta, Cyprus, and Italy (an average of around -4.4%). The remaining countries feature losses close to -3% in 2050, on average. This heterogeneity is consistent with differences in national economic structures and increased exposure and vulnerability to climate hazards under uneven and insufficient mitigation policies. Despite variation in magnitudes, the relative ordering across scenarios is broadly consistent across countries, mirroring the ranking observed in the debt deviations.

Graph 4.30: **Real GDP deviations (in 2050) of NGFS scenarios vs the NGFS climate-neutral baseline (%)**



(1) The graph displays deviations (in %) of real GDP projections between the NGFS Current Policies, Below 2°C, Delayed Transition, and Fragmented Action scenarios with respect to the climate-neutral NGFS baseline in 2050.

Source: NGFS, NiGEM and Commission calculations.

Overall, the analysis provides comparative evidence of how different climate action can affect long-term risks to public finances. Orderly and coordinated mitigation, as captured by the *Below 2°C* pathway, is associated with more resilient long-run macroeconomic outcomes and, in turn, more favourable debt dynamics. By contrast, continuing with currently implemented - but insufficient - mitigation policies, as well as pursuing delayed transition strategies, entails persistently weaker growth prospects and higher long-term macro-fiscal costs. These risks are further amplified under fragmented climate action, where uncoordinated and uneven policy responses across countries lead to higher economic losses and weaker fiscal outcomes. Given the simplified nature of the exercise, the results are only illustrative and, as such, represent a *lower bound* of the full potential impact of climate change and related action of public finances.([90]) Detailed country-level debt results are presented in the country fiches in Part II.

([90]) See, for instance, Gagliardi (2025) for a structured stylised approach integrating physical and transition risks from climate change into the European Commission's DSA.

5. SPECIAL ISSUES

The chapter presents three special topics relevant for the monitoring of debt sustainability. Section 5.1. summarises how the Commission assessed whether the activation of the national escape clause would preserve debt sustainability over the medium term. Section 5.2. presents stylised debt projections which assume that, over the remainder of the adjustment period of their current medium-term plans, Member States follow the net expenditure paths endorsed by the Council. This analysis complements the standard DSA presented in Chapter 2, without affecting the risk classification. Finally, Section 5.3. presents the recently established working group in charge of discussing possible improvements to the DSA-based methodology for the EU fiscal framework.

5.1. ASSESSMENT OF THE FISCAL SUSTAINABILITY CONDITION FOR ACTIVATING THE NATIONAL ESCAPE CLAUSE

In a context of geopolitical and security challenges, the national escape clause (NEC) gives Member States some temporary budgetary leeway within the EU fiscal framework to step up defence expenditure. Russia's war of aggression against Ukraine and the changes in the policy orientations of the US have brought fundamental changes to the geopolitical landscape, making it urgent for Europe to rebuild its defence capabilities. The activation of the NEC, where requested, allows Member States to exceed the maximum growth rates of net expenditure as set by Council, to the extent that the net expenditure in excess of these maximum growth rates is not more than the increase in defence expenditure since 2021 (or 2024, if lower), capped at 1.5% of GDP. Moreover, the debt sustainability safeguard and deficit resilience safeguard are deactivated, i.e., they can no longer reduce the maximum net expenditure growth rates (this currently affects Germany and Finland).

This section summarises the Commission's fiscal sustainability assessment that underpinned the activation of the NEC in June 2025 ([91]). Assessing whether fiscal sustainability is preserved over the medium term is one of the conditions for the activation of the NEC. Art. 26(1) of Regulation (EU) 2024/1263 specifies that "following a request from a Member State and *on a recommendation by the Commission based on its analysis*, the Council may … adopt a recommendation allowing a Member State to deviate from its net expenditure path as set by the Council where exceptional circumstances outside the control of the Member State have a major impact on the public finances of the Member State concerned, *provided that such deviation does not endanger fiscal sustainability over the medium term*". The details regarding the fulfilment of the two other conditions – the existence of exceptional circumstances outside the control of the Member State and their major impact on public finances – were set out in the Commission recommendations ([92]) for Council recommendations activating the NEC. The analysis of fiscal sustainability covers all 16 Member States that requested the activation of the NEC in the spring of 2025, namely Belgium, Bulgaria, Czechia, Denmark, Germany, Estonia, Greece, Croatia, Latvia, Lithuania, Hungary, Poland, Portugal, Slovenia, Slovakia and Finland. It was based on the net expenditure paths as endorsed by the Council, where available, and on the Commission's prior guidance otherwise.

To assess whether the sustainability condition is fulfilled, scenarios with and without the NEC covering two successive medium-term plans were simulated. The approach consists in assessing (i) the potential impact of the NEC on government debt and deficit levels by the end of the activation period of the NEC and (ii) the corresponding potential additional fiscal adjustment that will be needed after that period to ensure that fiscal sustainability is preserved over the medium term. To do so, two rounds of plans were considered: the first plans covered the period 2025-2028, and the

([91]) The detailed analysis was published as an Institutional Paper on 5 June 2025, with an addendum on 16 September 2025 to include Germany and a second addendum on 15 January 2026 about Austria (not included in this summary), as: DG ECFIN (2025), 'Assessment of the Fiscal Sustainability Condition for Member States Requesting the Activation of the National Escape Clause', European Economy – Institutional Paper 321, https://economy-finance.ec.europa.eu/publications/assessment-fiscal-sustainability-condition-member-states-requesting-activation-national-escape_en

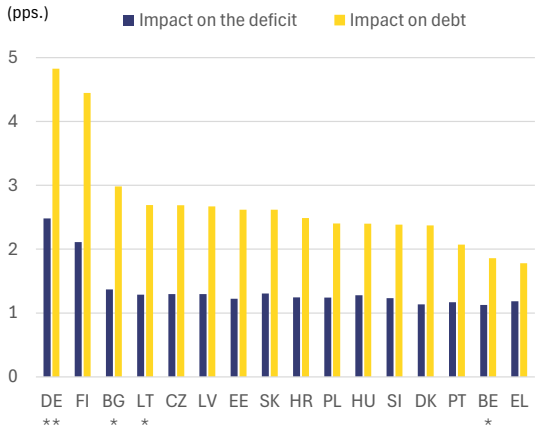
([92]) https://commission.europa.eu/publications/2025-european-semester-spring-package_en

second plans used 2028 as a starting point and covered the period 2029-2032. The impact of the NEC was calculated as the difference between a 'no-NEC' baseline scenario and a NEC scenario assuming a linear uptake up to the maximum additional expenditure allowed ([93]).

Fiscal sustainability and the DSA-based methodology remain at the core of the fiscal framework, including for this assessment. While the NEC provides temporary leeway to allow for a stepping up of defence expenditure, ultimately this will need to be addressed by budgetary adjustments. The new fiscal framework is well equipped to prepare for this, as it relies on successive multiannual plans with built-in memory. Therefore, the new plans after the period of activation of the NEC will need to account for higher debt and a deteriorated budget balance as a starting point, potentially leading to higher adjustment needs to meet all the requirements of the fiscal framework.

The simulations are stylised and indicative; they do not predetermine the future actual requirements. For the purpose of this exercise, it is assumed that the next round of plans will start in 2029 for all Member States. The actual adjustment needed to fulfil the criteria in the medium-term plans after the NEC will be calculated in due time, based on the latest available outturn data and forecast at that time. Therefore, the analysis does not set nor pre-judge any requirements for the period 2029-2032 but it only provides simulations of the potential implications of the deviations allowed under the NEC for future requirements.

Graph 5.1: **Impact of higher expenditure in 2025-2028 on the deficit- and debt-to-GDP ratios in 2028**



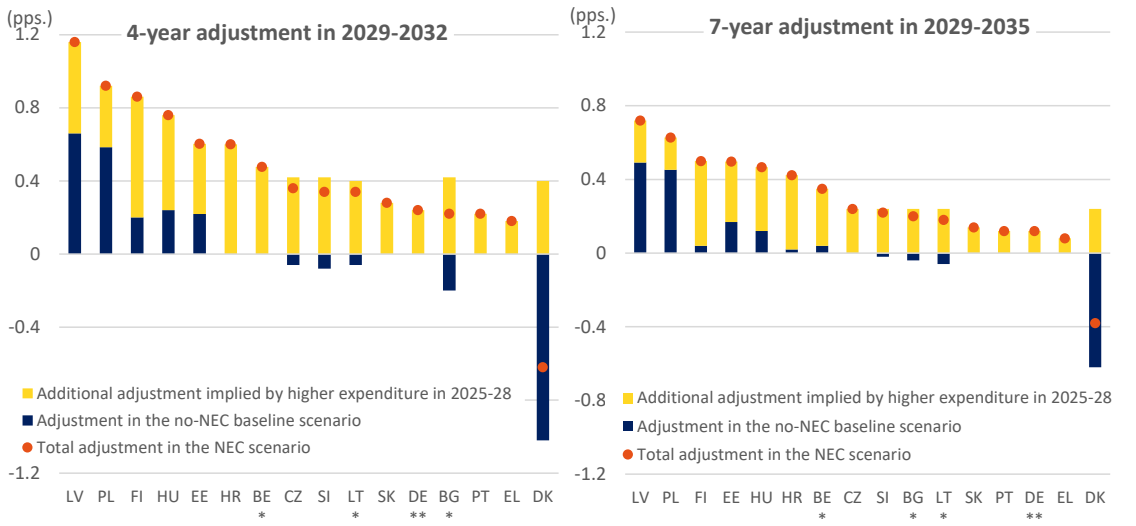
Notes: (*) The prior guidance based on the Commission 2024 autumn forecast was used. (**) The prior guidance based on the Commission 2025 spring forecast was used.

Source: Commission services

The results show that an increase in defence spending during the period covered by the NEC would require a larger adjustment effort in the subsequent period in order to preserve fiscal sustainability. Compared to the levels implied by the endorsed net expenditure paths, the deficit-to-GDP and debt-to-GDP ratios in 2028 could be on average higher by 1.4 pps. and 2.7 pps. respectively, assuming that the maximum allowed increase in defence spending (by 1.5% of GDP) materialises gradually over the period 2025-2028 (Graph 5.1). As a result, the higher expenditure in 2025-2028 would potentially imply, for a second round of plans starting in 2029, an additional effort of 0.40 pps. on average (or 0.24 pps. with an extended 7-year adjustment period, see Graph 5.2) in order to meet the DSA-based criteria and the deficit benchmark. This impact could be somewhat larger if the increase in defence expenditure was frontloaded in 2025, or proportionally lower if there was only a partial uptake of the allowed increase over the period 2025-2028. The application of the deficit resilience and debt sustainability safeguards in the second round of plans could increase the future requirements further for some countries.

([93]) That central NEC scenario was complemented by two side scenarios: one assuming frontloaded full uptake, the other assuming linear partial uptake.

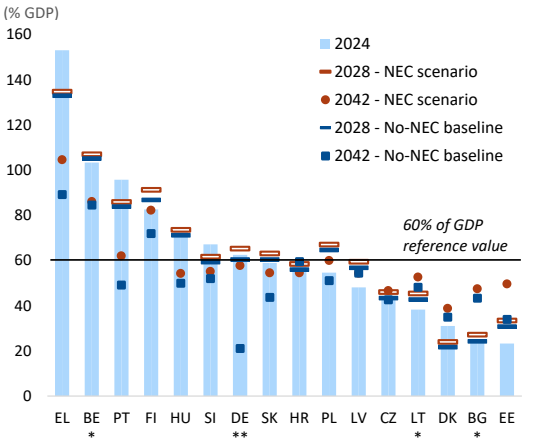
Graph 5.2: **Adjustment needs (in terms of change in the structural primary balance) in the second plans**



Notes: (*) The prior guidance based on the Commission 2024 autumn forecast was used. (**) The prior guidance based on the Commission 2025 spring forecast was used.
Source: Commission services

With this additional adjustment in the second plans, the decline in debt (where needed), albeit postponed, would be still ensured over the medium term. Graph 5.3 compares the debt dynamics in the baseline (in dark blue) and in the main NEC scenario (in red), for second plans with a 4-year adjustment period (the results are similar in the case of plans with an extended adjustment period). It shows that in all the countries where the debt ratio in 2028 (horizontal bars) is projected to exceed 60%, debt would decline over the medium term, i.e. until 2042 including the 10-year period at unchanged policies after the adjustment period. Since debt would start declining later or decline more slowly than under the baseline, the end-levels in the NEC scenario (red circles) are higher than in the baseline (blue squares) but the crucial condition for fiscal sustainability, i.e. the declining path, is confirmed.

Graph 5.3: **Debt paths from 2024 to 2042 (second plans with a 4-year adjustment period)**



Notes: (*) The prior guidance based on the Commission 2024 autumn forecast was used. (**) The prior guidance based on the Commission 2025 spring forecast was used.
Source: Commission services

The analysis concluded that the fiscal sustainability criterion was met, also stressing the importance of political commitment from national authorities. For the 16 Member States that requested the activation of the NEC in spring 2025, the limited projected increase in deficit and debt levels caused by the NEC, together with the authorities' commitment to implementing the necessary adjustment to fulfil all the requirements of the fiscal framework in the next round of plans, ensures that fiscal sustainability is preserved over the medium term.

5.2. THE MTP SCENARIO

This section illustrates, in a stylised manner, what the debt dynamics would be if Member States followed the endorsed net expenditure paths over the remainder of the adjustment period of their national medium-term plans (MTPs). The projection period is the same as for the deterministic scenarios of the DSA, namely until 2036. The "MTP scenario" follows the same logic as the former "Stability and Growth Pact scenario" and "Stability and convergence programme scenario" of the DSM ([94]). It is an illustrative, analytical policy scenario that reflects the requirements of the EU fiscal framework (embodied in the net expenditure paths endorsed by the Council), and it brings additional information without formally affecting the medium-term risk classification. Importantly, as any scenario, this is a stylised projection of fiscal developments over the coming years. The aim is to factor in information that has become available since last year – namely: partial outturn data on developments in 2025, updated macroeconomic forecasts, and the activation of the national escape clause (NEC) – while still using the remainder of the endorsed net expenditure paths as the basis for the fiscal paths. This scenario must therefore neither be considered as an assessment of compliance with the fiscal requirements in 2025 (this assessment will be done in spring 2026, based on detailed outturn data) nor as a recommendation for the coming years. In particular, the assumed corrections in 2026 as described below are purely illustrative and do not reflect any formal correction mechanism.

The situation in the first year of implementation of the plans, 2025, is taken as given. It is based on the Commission autumn 2025 forecast, which includes advanced information on macroeconomic and budgetary developments in 2025. Moreover, implementation is reflected in preliminary estimates of the cumulated balance in the control account, which measures the difference, as a percentage of GDP, between actual and recommended net expenditure growth (NEG). A debit in the control account indicates that the actual NEG was higher than recommended ([95]). For the 16 Member States for which the NEC has been activated, the "augmented" control account is used, that is, debits only measure deviations from the endorsed net expenditure path that exceed the flexibility allowed under the NEC ([96]). For the sake of readability, "control account" is used in the remainder of this section, and it is to be understood as either the normal or the augmented control account, as appropriate.

In contrast to the DSA baseline, the structural primary balance (SPB) in the MTP scenario does not remain unchanged as from 2026 but is gradually adjusted as implied by the endorsed net expenditure path. Two sub-scenarios are considered (see Box 5.1 for technical details).

- **MTP scenario without correction:** From 2026 until the end of the adjustment period (i.e. until 2028, 2029 or 2031, depending on the country), the NEG is exactly in line with the endorsed path in annual terms, irrespective of what happened up to 2025. After the adjustment period, the no-fiscal-policy-change assumption applies and the SPB is only affected by projected changes in the cost of ageing. This sub-scenario illustrates what would happen if countries followed the remainder of their plans, but taking into account the latest macroeconomic projections and the first year of implementation of the plans. This means that any possible positive or negative deviation from the endorsed path in 2025 has a lasting effect, as it remains uncorrected. In case the NEG in 2025 was broadly in line with the endorsed path, the scenario mostly shows the impact of the updated macroeconomic environment compared with the assumptions used in the plans. Overall, "without

([94]) See the 2020 DSM and the 2021 Fiscal Sustainability Report.

([95]) See the Commission communication assessing national fiscal policies of 25 November 2025 and the associated Staff Working Document for further details. See also the Code of conduct adopted by the Council on 5 December 2025, https://data.consilium.europa.eu/doc/document/ST-16230-2025-INIT/en/pdf.

([96]) As explained in Section 5.1, the flexibility allowed under the NEC includes the possibility to increase defence expenditure by up to 1.5% of GDP by 2028 and to disregard the impact of the debt sustainability safeguard and the deficit resilience safeguard on the fiscal requirements (this latter point only affects Germany and Finland; for Germany, the NEC activation and the endorsement of the NEG path were adopted at the same time, therefore the endorsed NEG path already excludes the impact of the safeguards).

correction" either means that there is an estimated debit in the control account that is not corrected, or that there is no debit to correct (which is the case for most countries based on estimated 2025 numbers).

- **MTP scenario with correction:** This sub-scenario assumes that debits in the control account are corrected, while credits are not (as this is not required by the EU fiscal framework). For the sake of simplicity and consistency, it is assumed that the correction applies to any estimated debit for 2025, irrespective of its size and of the level of the headline deficit, and that it is entirely implemented in 2026 (see Box 5.1 for details on the computations). From 2027 until the end of the adjustment period, the NEG follows the endorsed path, and beyond that there is no further policy change, as in the other sub-scenario. The annual NEG is therefore equal in both MTP sub-scenarios from 2027 onwards; but in the scenario with correction, the SPB level is higher from 2026 onwards for those countries that are expected to have a debit in the control account in 2025. Table 5.1 reports the estimated deviations in the control account in 2025 that were published as part of the Commission's Autumn 2025 package.

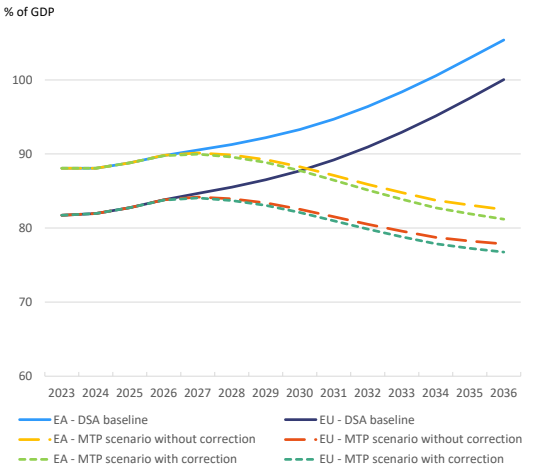
Table 5.1: **Preliminary estimates of cumulated deviations in the control account in 2025**

(% of GDP; positive means debit)	Preliminary estimate of the cumulated balance in 2025		Assumed debit to be corrected in 2026 in the MTP scenario with correction
	of the control account	of the augmented control account	
BE	0.3	-0.2	0
BG	1.3	0.1	0.1
CZ	-2.1	-2.5	0
DK	0.4	-1.1	0
DE	-0.3	-0.8	0
EE	-2.0	-3.5	0
IE	0.2		0.2
EL	-1.0	-1.2	0
ES	-0.1		0
FR	-0.2		0
HR	0.8	0.3	0.3
IT	-0.2		0
CY	-0.1		0
LV	-1.2	-2.0	0
LT	1.1	-0.4	0
LU	-0.3		0
HU	0.6	-0.5	0
MT	2.0		2.0
NL	1.3		1.3
AT	-0.2		0
PL	0.6	-0.9	0
PT	0.8	0.7	0.7
RO	0.1		0.1
SI	0.2	0.0	0.0
SK	-1.4	-2.3	0
FI	-0.4	-2.0	0
SE	-1.0		0

Notes: Preliminary estimates based on the Commission autumn 2025 forecast. For the 16 Member States for which the NEC has been activated (in grey shade), the augmented control account is used.

Source: Commission services

Graph 5.4: **Debt projections under the DSA baseline and the MTP scenario without and with correction**

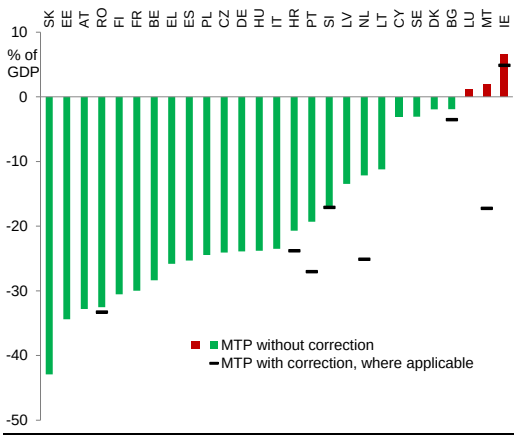


Source: Commission services

While at unchanged policies, aggregate debt in the EU would keep rising in the next 10 years, it would decline as from 2027 if the NEG was in line with the endorsed paths. In the EU as a whole, by 2036 the debt-to-GDP ratio would be 23 pps. lower in the MTP scenario with correction than in the DSA's no-fiscal-policy-change baseline (Graph 5.4). In the euro area, debt would be 24 pps. lower. That is because the fiscal adjustment continues until the end of the adjustment period in the MTP scenario, while in the DSA baseline there is, by construction, no consolidation beyond 2026. Debt would be reduced by about one percentage point less if debits in the control account were not corrected in 2026.

For most EU Member States, following the recommended NEG paths rather than not taking any action brings a clear benefit in terms of debt dynamics. Graph 5.5 shows the difference in debt level in 2036 between the MTP scenario and the DSA baseline. In all but three countries, debt ratios would be lower in the MTP scenario, in most cases by at least 10 pps. (green vertical bars). Correcting debits in the control account as they are currently estimated would further reduce debt by up to 19 pps. in individual countries (distance between the end of the vertical bars and the horizontal black lines). The three countries where debt would be slightly higher in the MTP scenario than in the DSA baseline (Ireland ([97]), Luxembourg and Malta – in the latter, only in the sub-scenario without correction) would still keep their debt well below 60% of GDP.

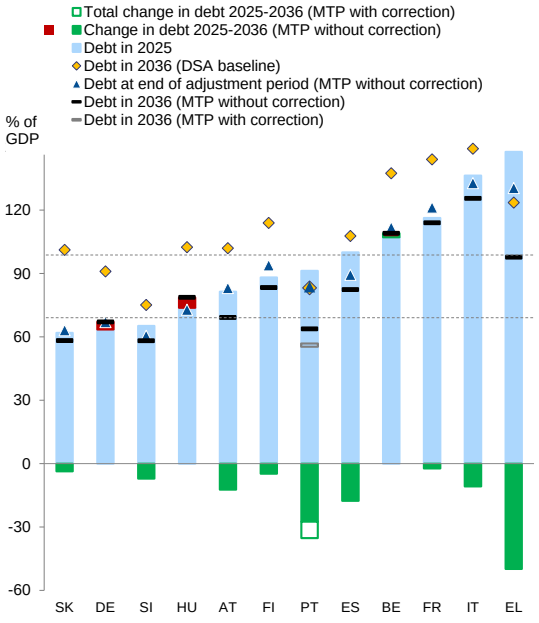
Graph 5.5: **Difference to the DSA baseline's 2036 debt level**



Notes: The green and red bars show the difference between the debt level in 2036 in the MTP scenario without correction and in the DSA baseline. The black lines show the additional impact of correcting estimated debits in the control account.

Source: Commission services

Graph 5.6: **Debt dynamics in the countries with debt above 60% of GDP**



Notes: (1) The graph show countries where debt exceeds 60% of GDP in 2025 in the Commission autumn 2025 forecast. (2) Two countries are estimated to have a cumulated debit in their control account in 2025: Slovenia (of less than 0.05, therefore not visible on the graph) and Portugal.

Source: Commission services

The difference to the DSA baseline is larger for countries with a high initial level of debt. For the countries starting from a debt level below 60% of GDP in 2025, debt in 2036 stands on average 12 pps. below the DSA baseline level in the MTP scenario without correction. The average gap increases to 27 pps. for the countries with an initial debt above 60% of GDP in 2025. Among the countries with the highest initial debt levels, for some countries (Portugal, Spain, Greece) the MTP scenario implies a steady decline in debt, while in others (Belgium, France and Italy), debt would continue to increase during the first years of the adjustment path before being put on a downward path (see Graph 5.6). As for the countries with initial debt levels between 60% and 90% of GDP, debt would be put on a declining path and/or brought below 60% of GDP in Austria, Slovakia, Slovenia and Finland, and it would remain broadly stable at slightly above 60% of GDP in Germany. In Hungary, debt would increase somewhat, mostly due to a debit in the normal control account, which is not corrected in the scenario with correction because there is no debit in the augmented control account.

To conclude, following the endorsed net expenditure paths would ensure that debt declines in the countries where this is needed. Moreover, as illustrated in Section 5.1., the existing plans considered in the MTP scenarios will be followed by subsequent plans that will, in turn, need to ensure that debt is on a plausibly declining path – even if expenditure on defence increases during the period covered by the NEC.

([97]) Following elections, Ireland has submitted a revised plan that was still being assessed by the cut-off date of this report.

Box 5.1: Technical assumptions for the MTP scenario

Reminder: Equivalence between the ex-ante budget constraint in terms of change in the structural primary balance and in terms of net expenditure growth

If a country does not need to implement any fiscal consolidation, its structural primary balance (SPB) can remain unchanged, which is conceptually equivalent to net expenditure growing in line with potential GDP:

(1) $$NEG_t^* = \dot{Y}_t^p$$

where NEG_t^* is the maximum allowed nominal net expenditure growth (in percent) in year *t* and $\dot{Y}_t^p$ is nominal potential GDP growth (also in percent) in the same year.

If, by contrast, some fiscal consolidation is required, this can be expressed either as an improvement in the SPB or as a lower NEG, using the standard formula to translate one into the other from an ex-ante perspective (be it to compute prior guidance or to use for projections, as in this scenario):

(2) $$NEG_t^* = \dot{Y}_t^p - \frac{\Delta SPB_t^*}{EXP_{2025}/Y_{2025}}$$

where ΔSPB_t^*, the required change in SPB (as a ratio to GDP) in year *t*, is normalised by the share of primary public expenditure (*EXP*) in GDP (*Y*), here assumed to remain constant at its 2025 level based on the Commission autumn 2025 forecast.

The use of a constant size of government disregards the possible impact of net expenditure growth on the primary expenditure-to-GDP ratio over time. This choice is made for its simplicity and because any other approach would require making an explicit assumption about the composition of the future fiscal adjustment across revenue and expenditure. Similarly, in the ex-ante approach, net expenditure growth is to be understood as an overall budget constraint that covers both the revenue and expenditure sides without further details about the composition.

By contrast, actual compliance with the net expenditure paths endorsed by the Council will be assessed ex post, in spring *t+1*, based on detailed outturn data. More precisely, the Commission will calculate the actual growth of the primary expenditure aggregate corrected for some elements ([1]) minus the incremental impact of discretionary revenue measures.

Computation of the illustrative correction in 2026 for estimated debits in the control account in 2025

As outturn data for 2025 was not yet available at the time of preparing this report, and given the purely illustrative nature of the simulations, the MTP scenario uses preliminary estimates of control account balances that were published as part of the Commission's autumn 2025 package ([2]). In this stylised setting, if there was a cumulated debit in the (augmented) control account in year *t-1* (here 2025), then this debit needs to be corrected. For simplicity, it is assumed in this scenario that *any* debit in year *t-1*, regardless of its size, is *entirely* corrected in year *t* (here 2026)([3]). This reduces the NEG in year *t* accordingly. Following the logic of equation (2), the NEG in year *t* in the MTP scenario with correction cannot exceed:

([1]) Several items are netted out from the primary government expenditure aggregate: expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-off measures. For further technical details, see Box 1 of the Commission Staff Working Document 951 of 25 November 2025 accompanying the Commission communication reflecting the economic governance framework in national fiscal policy, https://economy-finance.ec.europa.eu/publications/commission-communication-assessing-national-fiscal-policies_en

([2]) See the Commission communication assessing national fiscal policies of 25 November 2025, https://economy-finance.ec.europa.eu/publications/commission-communication-assessing-national-fiscal-policies_en.

([3]) Under the preventive arm, debits that remain below the annual and cumulative thresholds do not necessarily have to be corrected, and corrections do not have to take place in one single year.

(Continued on the next page)

Box (continued)

(3) $$NEG_t^{corr} = NEG_t^* - \frac{CD_{t-1}}{EXP_{2025}/Y_{2025}}$$

where $CD_{t-1} > 0$ is the cumulated debit in 2025, measured in percentage of GDP.

The corresponding change in SPB is computed using the standard formula:

(4) $$\Delta SPB_t = \left(\dot{Y_t^p} - NEG_t^{corr}\right).\frac{EXP_{2025}}{Y_{2025}}$$

NEG paths

The paths described as "endorsed NEG paths" refer to the net expenditure paths endorsed by the Council or corresponding to the latest Council recommendation. For most countries, these are the adjustment paths set out in the MTPs over 4 years, and otherwise the paths in the 5-year plans of Ireland, Lithuania and Luxembourg, or the 7-year adjustments for the plans with an extended adjustment period. For the Netherlands, the endorsed NEG path was the one from the Commission's prior guidance. For Romania, the NEG path corresponds to the 6-year corrective path under the ongoing excessive deficit procedure (EDP). For Germany, the NEG path does not include the impact of the debt sustainability safeguard and deficit resilience safeguard, due to the activation of the national escape clause ([4]). Finally, for Finland, the Commission adopted on 12 December 2025 a recommendation for a Council recommendation for a corrective path under an EDP. The recommended EDP path was computed over the remainder of the adjustment period of the initial plan (2026-2031) but removing the impact of the debt sustainability safeguard over the years in EDP (2026-2028). For the purpose of this specific scenario, the remainder of that path is used for the outer years (2029-2031) but applying again the debt sustainability safeguard.

SPB assumption

As the debt projection model is based on the SPB, in every remaining year *t* of the adjustment period (i.e. from 2026 in the MTP scenario without correction, and from 2027 in the MTP scenario with correction), the assumed change in SPB is derived from net expenditure growth using again the standard formula:

$$\Delta SPB_t = \left(\dot{Y_t^p} - NEG_t\right).\frac{EXP_{2025}}{Y_{2025}}$$

where NEG_t is in line with the endorsed NEG path as described above.

After the end of the adjustment period, the standard no-fiscal-policy-change assumption applies, i.e. the SPB is only affected by changes in the cost of ageing as projected in the 2024 Ageing Report.

Interaction with the national escape clause (NEC)

The MTP scenario takes into account the fact that the debt sustainability safeguard and the deficit resilience safeguard are deactivated during the period covered by the NEC. This implies that for Finland and Germany (the two countries for which the safeguards would be binding), the impact of the safeguards on the NEG path is netted out.

The projections in the MTP scenario also take into account the expected increase in defence expenditure in 2025, as forecast in the Commission autumn 2025 forecast. They do not include any further net increase afterwards. The implications of a full uptake of the flexibility allowed under the NEC, including both higher deficit and debt levels by 2028 and additional adjustment needs in the subsequent plan, are discussed in Section 5.1.

([4]) See the Council recommendation on the activation of the national escape clause for Germany (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025DC0514).

5.3. THE DSA WORKING GROUP

Following the 2024 reform, the EU fiscal framework rests on a methodology based on the Commission's DSA to assess country-specific consolidation needs. This methodology is used by the Commission both to calculate the prior guidance provided to Member States and to assess the plausibility of the adjustment paths put forward by Member States in their national medium-term plans (MTPs). Ahead of the preparation of the first plans, the methodology was presented in a dedicated chapter of the DSM 2023 ([98]). Moreover, the Excel files underpinning the prior guidance, including for each country the underlying macroeconomic and financial assumptions and the debt projection model, are available on the Commission website, ensuring transparency ([99]).

Regulation (EU) 2024/1263 (the "preventive arm Regulation") provides the legal basis for the establishment of a DSA working group (DSA WG) to explore possible improvements to the methodology. Recital (21) of the Regulation specifies that for the first MTPs, "the plausibility of government debt declining in the medium term should be based on the methodology described in the Commission's Debt Sustainability Monitor 2023", after which "a working group on debt sustainability analysis should explore possible methodological improvements, including on the underlying assumptions". The recital also details the composition of the working group, namely "experts from the Member States, the Commission and the European Central Bank", with the European Fiscal Board and the European Stability Mechanism invited as observers.

The DSA WG has already agreed on some improvements to the methodology. The DSA WG was set up in 2024 and is attached to the Economic and Financial Committee of the Council. The mandate of the DSA WG is restricted to the methodology used in the context of the preparation and assessment of plans. It first convened in July 2024 and has met on a quarterly basis since then. Whenever changes are agreed by the working group, the Commission implements them and timely communicates on the changes in the DSM. So far, the working group has agreed on adjusting the methodology for the stochastic projections, as described in Box 2.3, and on lowering the value of the fiscal multiplier, as explained in Box 2.5.

([98]) See Chapter II.1 of the DSM 2023 on "The DSA methodology in the new economic governance framework", https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en

([99]) In the "fiscal surveillance" section of each country at https://economy-finance.ec.europa.eu/economic-surveillance-eu-member-states/country-pages_en

Part II

Country fiches

1. BELGIUM

This fiche assesses fiscal sustainability risks for Belgium over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain large, at around 20% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk remain investment grade, although in June 2025 Fitch downgraded Belgium's rating from AA- to A+ with a stable outlook. The other main rating agencies kept their ratings unchanged in 2025, although S&P revised its AA rating outlook from stable to negative in April 2025.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase over the medium term, reaching around 137% of GDP in 2036 ([100]). The increase in the government debt ratio is partially driven by the assumed structural primary deficit of 2.3% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([101]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([102]). Moreover, ageing-related expenditure is projected to increase, weighing on public finances. At the same time, the snowball effect is expected to turn positive, i.e. unfavourable, as from 2034, adding further pressure on public finances. Government gross financing needs are expected to remain large and to increase over the projection period, approaching 26% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1.0 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB is lowered by 0.5 pps) and *the financial stress scenario* (in which market interest rates temporarily increase by 2.0 pps. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 10 pps., 5 pps and 2 pps, respectively. By contrast, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -0.8% of GDP), the debt ratio would be lower than the baseline level by around 12 pps. by 2036.

The stochastic projections run around the baseline indicate high risk due to the high probability of debt increasing over the next five years ([103])**.** The stochastic simulations indicate that the debt ratio will be higher in 2030 than in 2025 with a probability of 90%, pointing to high risk

([100]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 2.3% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.3% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([101]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Belgium commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Belgium follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([102]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([103]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

given the high initial debt level. Some uncertainty surrounds the baseline debt projection, as measured by the difference of around 23 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are high. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([104]). The high risk stems from the projected increase in ageing-related costs and the unfavourable initial deficit and debt levels.

The S2 debt-stabilisation indicator points to high risk. It signals that Belgium would need to improve its structural primary balance in 2027 by 7.0% of GDP to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing costs, which contributes 3.7 pps., of which 2.1 pps. stemming from pension expenditure and 2.1 pps. jointly from health care and long-term care expenditure, partially offset by a negative contribution from education. In addition, the needed effort is also due to the unfavourable budgetary position, contributing 3.2 pps.

The S1 debt-reduction indicator points to medium risk. This indicator shows that a significant fiscal effort of 5.9% of GDP would be needed in 2027 for Belgium to reduce its debt to 60% of GDP by 2070. This result is mainly driven by the initial high levels of deficit and debt, with the current unfavourable budgetary position contributing 2.7 pps. and the excess of debt over 60% of GDP contributing an additional 1 pp., followed by the projected increase in ageing costs, contributing the remaining 2.1 pps.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors relate to (i) the large share of government debt held by non-residents (Section 4.1.2), and (ii) the lack of effective budgetary coordination between the different levels of government, which may endanger compliance with the reformed EU fiscal rules, especially considering the fiscal vulnerabilities of some of the government entities. On the other hand, risk-mitigating factors include (i) the long average of debt maturity, which allows for a more gradual transmission of rising interest rates to the debt burden (Section 4.1.1), (ii) relatively stable financing sources, with a diversified, and large investor base (Section 4.1.2), and (iii) government debt being fully denominated in euro (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([104]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

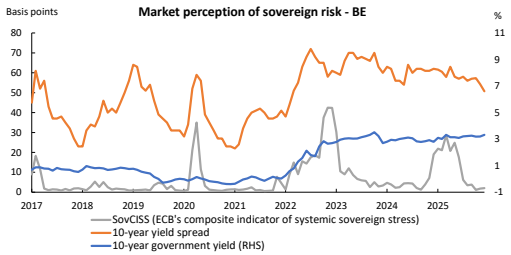
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	HIGH
	Debt level (2036), % of GDP	137.4	125.8	142.0	147.6	139.2				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	88%	83%	92%	88%	88%				
	Probability of debt ratio exceeding in 2030 its 2025 level						90%			
	Difference between 90th and 10th percentiles (% of GDP)						22.7			

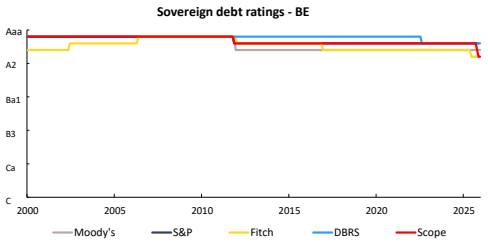
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	51

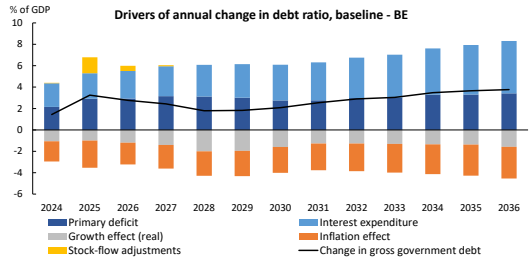
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

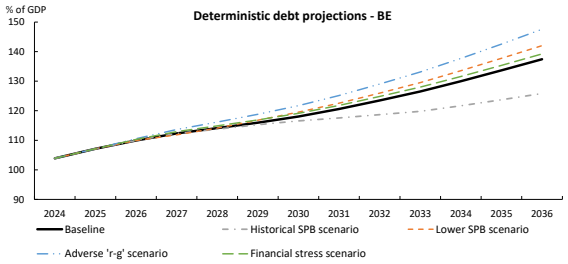


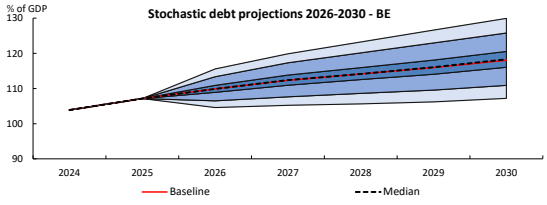


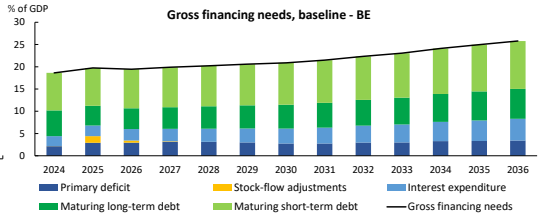
2. Medium-term fiscal sustainability risks

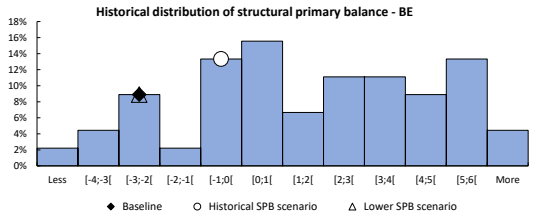
Belgium - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**103.9**	**107.1**	**109.9**	**112.3**	**114.1**	**116.0**	**118.0**	**120.6**	**123.5**	**126.5**	**130.0**	**133.7**	**137.4**
Change in the ratio (-1+2+3)	*1.4*	*3.3*	*2.8*	*2.4*	*1.8*	*1.8*	*2.1*	*2.5*	*2.9*	*3.0*	*3.5*	*3.7*	*3.8*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-2.1**	**-2.9**	**-2.9**	**-3.2**	**-3.1**	**-3.0**	**-2.8**	**-2.8**	**-3.0**	**-3.0**	**-3.3**	**-3.3**	**-3.4**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-1.8***	***-2.4***	***-2.3***	***-2.4***	***-2.6***	***-2.9***	***-2.8***	***-2.8***	***-3.0***	***-3.0***	***-3.3***	***-3.3***	***-3.4***
(1.1.1) Structural primary balance (before CoA)	*-1.8*	*-2.4*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*
(1.1.2) Cost of ageing (CoA)				*0.2*	*0.4*	*0.6*	*0.5*	*0.5*	*0.7*	*0.7*	*1.0*	*1.1*	*1.2*
Pensions				*0.1*	*0.2*	*0.4*	*0.3*	*0.4*	*0.5*	*0.6*	*0.7*	*0.8*	*0.9*
Health care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*
Long-term care				*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*	*0.5*
Education				*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.3*	*-0.3*	*-0.3*	*-0.4*
(1.1.3) Others (taxes and property income)				*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*
(1.2) Cyclical component	***-0.2***	***-0.5***	***-0.7***	***-0.7***	***-0.5***	***-0.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***-0.1***	***0.0***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-0.7**	**-1.1**	**-0.7**	**-0.8**	**-1.3**	**-1.2**	**-0.7**	**-0.2**	**-0.1**	**0.0**	**0.2**	**0.3**	**0.4**
(2.1) Interest expenditure	*2.2*	*2.4*	*2.6*	*2.8*	*3.0*	*3.1*	*3.3*	*3.5*	*3.8*	*4.0*	*4.3*	*4.6*	*4.9*
(2.2) Growth effect (real)	*-1.1*	*-1.0*	*-1.2*	*-1.4*	*-2.0*	*-2.0*	*-1.6*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.4*	*-1.6*
(2.3) Inflation effect	*-1.9*	*-2.5*	*-2.0*	*-2.2*	*-2.3*	*-2.4*	*-2.4*	*-2.5*	*-2.6*	*-2.7*	*-2.8*	*-2.9*	*-3.0*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**0.0**	**1.5**	**0.5**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*0.0*	*1.5*	*0.5*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-4.1	-4.8	-4.9	-5.2	-5.6	-6.0	-6.1	-6.3	-6.8	-7.0	-7.6	-7.9	-8.3
Gross financing needs	18.6	19.7	19.5	19.9	20.2	20.6	20.9	21.5	22.3	23.0	24.1	25.0	25.8

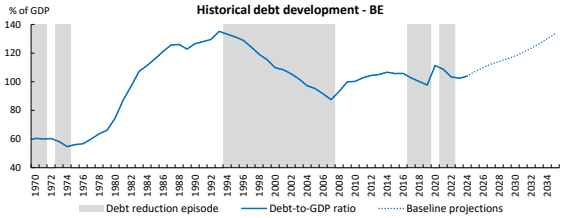


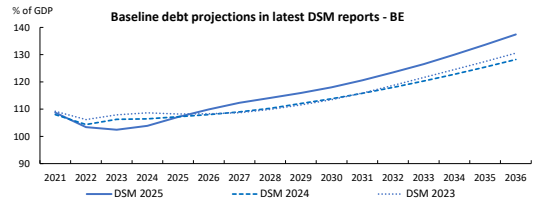


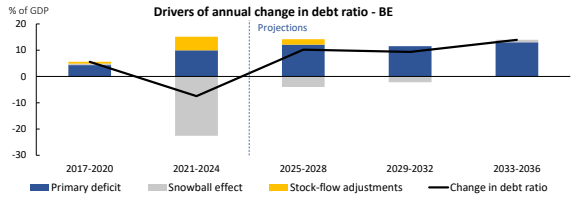












Belgium - Underlying assumptions of deterministic debt projections

1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	103.9	107.1	109.9	112.3	114.1	116.0	118.0	120.6	123.5	126.5	130.0	133.7	137.4
Primary balance	-2.1	-2.9	-2.9	-3.2	-3.1	-3.0	-2.8	-2.8	-3.0	-3.0	-3.3	-3.3	-3.4
Structural primary balance (before CoA)	-1.8	-2.4	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Real GDP growth	1.1	1.0	1.1	1.3	1.9	1.8	1.4	1.1	1.1	1.1	1.1	1.1	1.2
Potential GDP growth	1.8	1.6	1.5	1.4	1.5	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.2
Inflation rate	1.9	2.5	1.9	2.0	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.3
Implicit interest rate (nominal)	2.2	2.4	2.5	2.6	2.7	2.9	3.0	3.1	3.2	3.4	3.5	3.7	3.8
Gross financing needs	18.6	19.7	19.5	19.9	20.2	20.6	20.9	21.5	22.3	23.0	24.1	25.0	25.8
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	103.9	107.1	109.9	112.3	113.8	115.3	116.5	117.5	118.7	119.8	121.7	123.7	125.8
Primary balance	-2.1	-2.9	-2.9	-2.9	-2.6	-2.3	-1.8	-1.6	-1.6	-1.4	-1.8	-1.8	-1.9
Structural primary balance (before CoA)	-1.8	-2.4	-2.3	-1.9	-1.6	-1.2	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Real GDP growth	1.1	1.0	1.1	1.1	1.7	1.4	1.3	1.4	1.4	1.4	1.1	1.1	1.2
Gross financing needs	18.6	19.7	19.5	19.7	19.7	19.9	19.8	20.0	20.4	20.6	21.4	22.0	22.5
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	103.9	107.1	110.3	112.9	114.9	116.9	119.1	121.8	124.8	128.0	131.6	135.4	139.2
Implicit interest rate (nominal)	2.2	2.4	2.9	2.8	2.9	3.0	3.1	3.2	3.3	3.5	3.6	3.8	3.9
Gross financing needs	18.6	19.7	19.8	20.1	20.5	20.9	21.2	21.8	22.7	23.4	24.5	25.3	26.2
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	103.9	107.1	109.9	111.9	114.1	116.8	119.5	122.6	126.0	129.5	133.5	137.7	142.0
Primary balance	-2.1	-2.9	-3.1	-3.2	-3.3	-3.5	-3.3	-3.3	-3.5	-3.5	-3.8	-3.8	-3.9
Structural primary balance (before CoA)	-1.8	-2.4	-2.6	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Real GDP growth	1.1	1.0	1.3	1.9	1.6	1.4	1.3	1.1	1.1	1.1	1.1	1.1	1.2
Gross financing needs	18.6	19.7	19.6	19.9	20.4	21.1	21.5	22.2	23.2	24.0	25.1	26.1	27.0
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	103.9	107.1	110.5	113.7	116.2	118.8	121.7	125.2	129.0	133.1	137.7	142.5	147.6
Implicit interest rate (nominal)	2.2	2.4	2.6	2.8	2.9	3.1	3.2	3.4	3.5	3.7	3.9	4.0	4.2
Real GDP growth	1.1	1.0	0.6	0.8	1.4	1.3	0.9	0.6	0.6	0.6	0.6	0.6	0.7
Gross financing needs	18.6	19.7	19.6	20.2	20.7	21.2	21.7	22.5	23.5	24.4	25.7	26.8	27.9

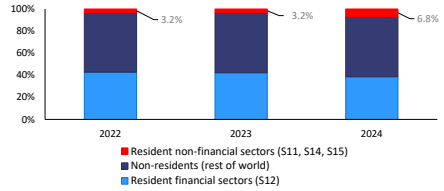
3. Long-term fiscal sustainability risks

S2 indicator **(effort required in 2027** **to stabilise debt over an infinite horizon)**	**DSM 2025**			**DSM 2024**
	Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)	**7.0**	**7.6**	**9.1**	**6.7**
of which				
Initial budgetary position	3.2	3.5	3.4	3.1
Ageing costs	3.7	4.0	5.7	3.7
of which *Pensions*	2.1	2.6	2.0	2.3
Health care	0.5	0.4	1.1	0.5
Long-term care	1.6	1.5	3.2	1.5
Education	-0.6	-0.5	-0.6	-0.6
Required structural primary balance related to S2	**4.6**	**5.3**	**6.8**	**4.6**

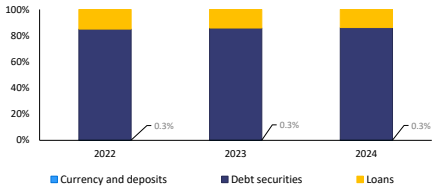
S1 indicator **(effort required in 2027** **to bring debt to 60% of GDP by 2070)**	**DSM 2025**			**DSM 2024**
	Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)	**5.9**	**6.3**	**7.0**	**5.4**
of which				
Initial budgetary position	2.7	3.0	2.7	2.2
Debt requirement	1.0	1.0	1.0	1.0
Ageing costs	2.1	2.4	3.3	2.2
of which *Pensions*	1.2	1.5	1.2	1.4
Health care	0.3	0.3	0.7	0.3
Long-term care	1.0	1.0	1.8	1.0
Education	-0.4	-0.4	-0.4	-0.5
Required structural primary balance related to S1	**3.5**	**4.0**	**4.7**	**3.2**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

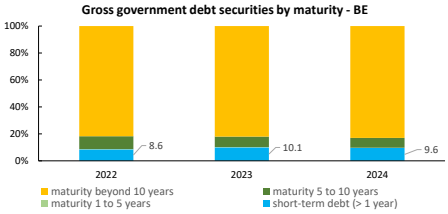
Debt by holder - BE



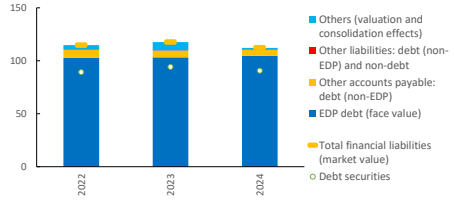
Debt by instrument - BE



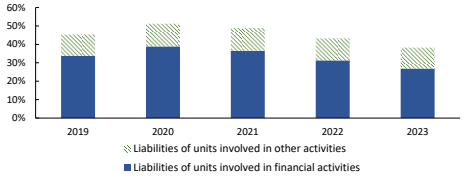
Gross government debt securities by maturity - BE



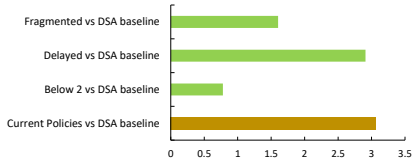
Debt and non-debt financial liabilities - BE



Liabilities of public corporations outside general government as % of GDP - BE



Climate change scenarios
Debt-to-GDP, difference in 2050 - BE



2. BULGARIA

This fiche assesses fiscal sustainability risks for Bulgaria over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain low, at around 5% of GDP on average over 2026-2027. Financial markets' perceptions of sovereign risk remain investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to increase steadily over the medium term, reaching around 40% of GDP in 2036 ([105]). The increase in the government debt ratio is partially driven by the assumed structural primary deficit of 1.7% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([106]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([107]). At the same time, the baseline projection benefits from a still favourable (although shrinking) snowball effect up to 2033 and age-related expenditure is projected to decline over the projection period. Government gross financing needs are expected to remain stable over the next decade, at around 5% of GDP.

The deterministic stress tests identify limited additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against alternative deterministic scenarios. Three scenarios lead to higher debt levels than the baseline. The *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.) results in a 4 pps. higher debt ratio in 2036, while the difference is 3 pps. for the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1.0 pp. compared with the baseline). Under the *financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline), the 2036 debt ratio would be marginally higher than the baseline projection. By contrast, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -0.6% of GDP), the debt ratio would be about 8 pps. lower in 2036.

The stochastic projections run around the baseline indicate medium risk due to the probability that debt increases and the high uncertainty surrounding the baseline projection ([108])**.** The stochastic simulations indicate that the debt ratio will be higher in 2030 than in 2025 with a probability of 71%, pointing to medium risk given the low initial debt level. Moreover, high uncertainty surrounds the baseline debt projection, as measured by the difference of 30 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([105]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 1.7% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (2.3% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([106]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Bulgaria commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([107]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([108]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([109]). The low-risk classification reflects the projected decrease in age-related spending and the currently low level of debt, which partially compensate for the debt-increasing impact of the unfavourable initial budgetary position.

The S2 debt-stabilisation indicator points to low risk. It signals that Bulgaria would need to improve its SPB in 2027 by only 1.4% of GDP to ensure that debt stabilises over the long term. The projected decrease in ageing costs – in particular declining pension spending – lowers the required adjustment by 0.8 pps., partly compensating for the 2.2 pps. adjustment that would be needed to stabilise the debt ratio given the initial deficit.

The S1 debt-reduction indicator also points to low risk. This indicator shows that a fiscal effort of only 0.7% of GDP would be needed for Bulgaria to prevent the debt ratio from exceeding 60% of GDP by 2070. A debt ratio projected at below 60% of GDP in 2027 and an expected decline in ageing costs largely offset the initial budgetary position.

4 – Finally, several additional risk factors need to be considered in the assessment. Risk-increasing factors are related to (i) the slightly increasing share of government debt held by non-residents (Section 4.1.2) and (ii) the share of non-performing loans in the Bulgarian banking sector (Section 4.2.2). Risk-mitigating factors are related to (i) the low share of short-term government debt (Section 4.1.1) and (ii) the small amount of general government contingent liabilities (Section 4.2). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([109]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

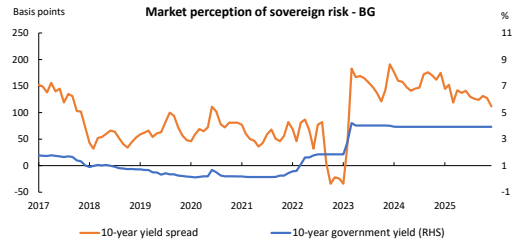
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	LOW	LOW	LOW	LOW	LOW	MEDIUM	LOW	LOW	LOW
	Debt level (2036), % of GDP	40.4	32.1	44.8	43.6	40.9				
	Debt peak year	2036	2030	2036	2036	2036				
	Fiscal consolidation space	76%	72%	81%	76%	76%				
	Probability of debt ratio exceeding in 2030 its 2025 level						71%			
	Difference between 90th and 10th percentiles (% of GDP)						30.1			

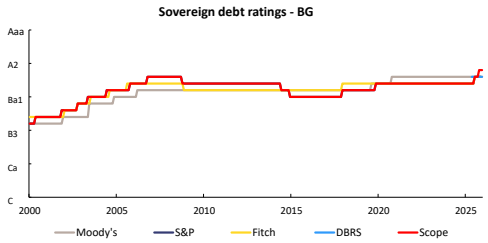
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	112

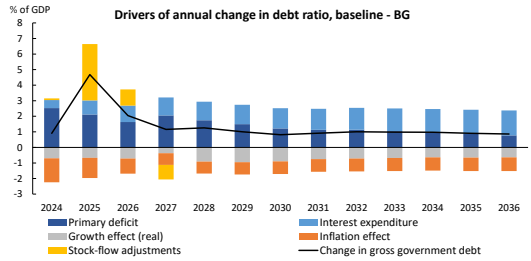
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

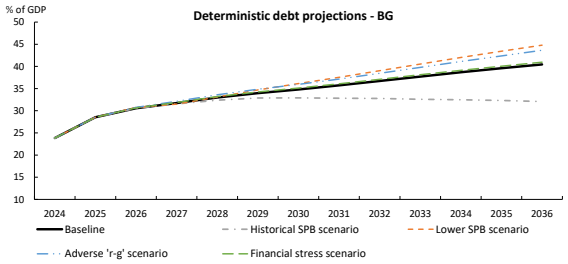


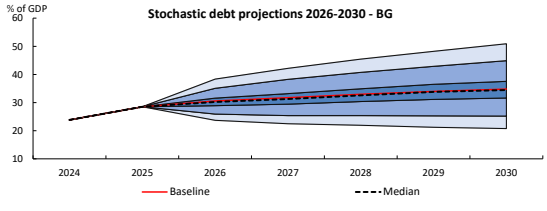


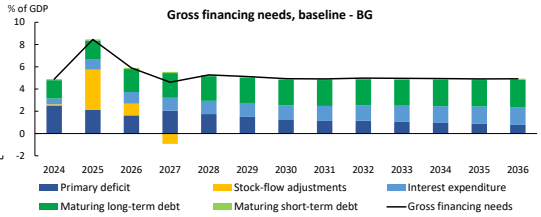
2. Medium-term fiscal sustainability risks

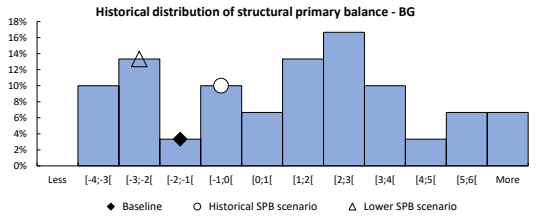
Bulgaria - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**23.8**	**28.5**	**30.6**	**31.7**	**33.0**	**34.0**	**34.8**	**35.7**	**36.7**	**37.7**	**38.7**	**39.6**	**40.4**
Change in the ratio (-1+2+3)	*0.9*	*4.7*	*2.0*	*1.2*	*1.3*	*1.0*	*0.8*	*0.9*	*1.0*	*1.0*	*1.0*	*0.9*	*0.9*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-2.5**	**-2.1**	**-1.6**	**-2.1**	**-1.7**	**-1.5**	**-1.2**	**-1.1**	**-1.1**	**-1.0**	**-1.0**	**-0.9**	**-0.8**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-2.2***	***-2.6***	***-1.7***	***-1.7***	***-1.5***	***-1.4***	***-1.2***	***-1.1***	***-1.1***	***-1.0***	***-1.0***	***-0.9***	***-0.8***
(1.1.1) Structural primary balance (before CoA)	*-2.2*	*-2.6*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*
(1.1.2) Cost of ageing (CoA)				*0.0*	*-0.2*	*-0.3*	*-0.5*	*-0.6*	*-0.6*	*-0.7*	*-0.8*	*-0.9*	*-1.0*
Pensions				*-0.1*	*-0.3*	*-0.5*	*-0.6*	*-0.7*	*-0.8*	*-0.9*	*-1.0*	*-1.1*	*-1.2*
Health care				*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Long-term care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Education				*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***0.2***	***0.1***	***0.1***	***-0.4***	***-0.2***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***-0.5***	***0.4***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-1.7**	**-1.1**	**-0.6**	**0.0**	**-0.5**	**-0.5**	**-0.4**	**-0.2**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.1**
(2.1) Interest expenditure	*0.5*	*0.9*	*1.1*	*1.2*	*1.2*	*1.2*	*1.3*	*1.4*	*1.4*	*1.5*	*1.5*	*1.6*	*1.6*
(2.2) Growth effect (real)	*-0.7*	*-0.7*	*-0.7*	*-0.4*	*-0.9*	*-0.9*	*-0.9*	*-0.7*	*-0.7*	*-0.7*	*-0.6*	*-0.7*	*-0.6*
(2.3) Inflation effect	*-1.5*	*-1.3*	*-1.0*	*-0.8*	*-0.8*	*-0.8*	*-0.8*	*-0.8*	*-0.8*	*-0.8*	*-0.9*	*-0.9*	*-0.9*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**0.1**	**3.6**	**1.0**	**-0.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*0.1*	*3.6*	*1.0*	*-0.9*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-2.7	-3.5	-2.7	-2.8	-2.7	-2.7	-2.5	-2.5	-2.5	-2.5	-2.5	-2.4	-2.4
Gross financing needs	4.9	8.5	5.9	4.6	5.3	5.1	4.9	4.9	5.0	5.0	4.9	4.9	4.9

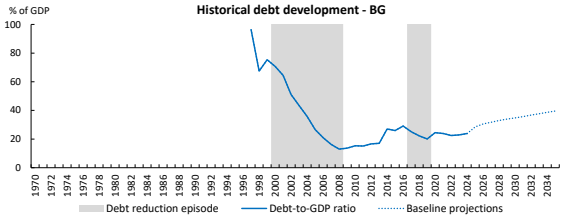


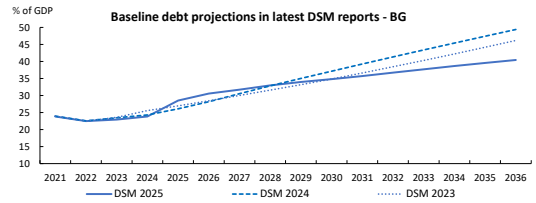


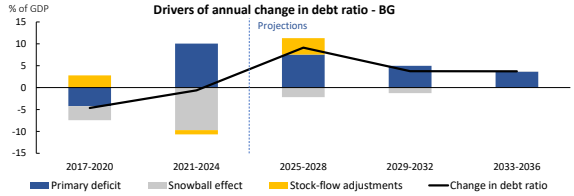












Bulgaria - Underlying assumptions of deterministic debt projections

1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.8	28.5	30.6	31.7	33.0	34.0	34.8	35.7	36.7	37.7	38.7	39.6	40.4
Primary balance	-2.5	-2.1	-1.6	-2.1	-1.7	-1.5	-1.2	-1.1	-1.1	-1.0	-1.0	-0.9	-0.8
Structural primary balance (before CoA)	-2.2	-2.6	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
Real GDP growth	3.4	3.0	2.7	1.3	3.0	3.0	2.8	2.3	2.1	1.9	1.8	1.8	1.7
Potential GDP growth	3.8	3.3	2.8	2.7	2.6	2.5	2.5	2.3	2.1	1.9	1.8	1.8	1.7
Inflation rate	7.2	5.8	3.5	2.5	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Implicit interest rate (nominal)	2.5	4.1	3.9	3.9	4.0	4.0	4.0	4.1	4.1	4.1	4.2	4.2	4.2
Gross financing needs	4.9	8.5	5.9	4.6	5.3	5.1	4.9	4.9	5.0	5.0	4.9	4.9	4.9
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.8	28.5	30.6	31.6	32.4	32.9	32.9	32.8	32.8	32.6	32.5	32.3	32.1
Primary balance	-2.5	-2.1	-1.6	-1.8	-1.3	-0.9	-0.4	-0.2	-0.1	0.0	0.1	0.2	0.3
Structural primary balance (before CoA)	-2.2	-2.6	-1.7	-1.4	-1.2	-0.9	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Real GDP growth	3.4	3.0	2.7	1.1	2.9	2.7	2.6	2.5	2.3	2.2	1.8	1.8	1.7
Gross financing needs	4.9	8.5	5.9	4.4	4.8	4.4	4.0	3.8	3.7	3.5	3.3	3.2	3.1
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.8	28.5	30.6	31.9	33.2	34.2	35.1	36.1	37.1	38.1	39.1	40.1	40.9
Implicit interest rate (nominal)	2.5	4.1	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.3	4.3
Gross financing needs	4.9	8.5	6.0	4.7	5.3	5.2	5.0	5.0	5.1	5.0	5.0	5.0	5.0
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.8	28.5	30.7	31.5	33.1	34.7	36.1	37.5	39.0	40.5	42.0	43.4	44.8
Primary balance	-2.5	-2.1	-1.8	-2.1	-1.9	-1.9	-1.7	-1.6	-1.6	-1.5	-1.5	-1.4	-1.3
Structural primary balance (before CoA)	-2.2	-2.6	-1.9	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Real GDP growth	3.4	3.0	2.8	2.7	2.5	2.3	2.4	2.3	2.1	1.9	1.8	1.8	1.7
Gross financing needs	4.9	8.5	6.1	4.6	5.4	5.5	5.5	5.5	5.7	5.7	5.7	5.8	5.8
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.8	28.5	30.7	32.1	33.6	34.9	35.9	37.1	38.5	39.8	41.1	42.4	43.6
Implicit interest rate (nominal)	2.5	4.1	4.1	4.1	4.2	4.3	4.4	4.4	4.5	4.5	4.6	4.6	4.6
Real GDP growth	3.4	3.0	2.2	0.8	2.5	2.5	2.3	1.8	1.6	1.4	1.3	1.3	1.2
Gross financing needs	4.9	8.5	6.0	4.7	5.4	5.3	5.1	5.2	5.3	5.3	5.3	5.3	5.4

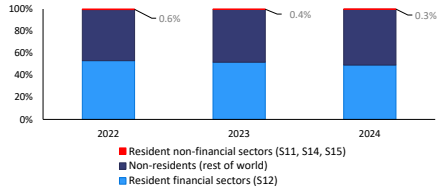
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**1.4**	**1.6**	**3.8**	**2.0**
of which					
Initial budgetary position		2.2	2.2	2.2	2.7
Ageing costs		-0.8	-0.6	1.6	-0.8
of which	*Pensions*	-1.2	-1.0	-1.2	-1.2
	Health care	0.2	0.2	1.0	0.3
	Long-term care	0.2	0.2	1.9	0.2
	Education	0.0	0.0	0.0	0.0
Required structural primary balance related to S2		**-0.3**	**0.0**	**2.1**	**-0.4**

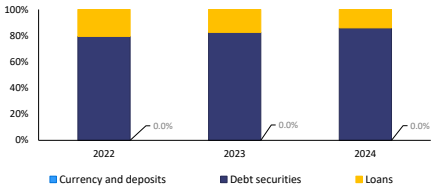
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**0.7**	**0.9**	**1.9**	**1.2**
of which					
Initial budgetary position		2.0	2.0	2.0	2.5
Debt requirement		-0.6	-0.5	-0.6	-0.7
Ageing costs		-0.7	-0.6	0.5	-0.7
of which	*Pensions*	-1.1	-1.0	-1.1	-1.1
	Health care	0.3	0.3	0.9	0.3
	Long-term care	0.2	0.1	0.8	0.1
	Education	0.0	0.0	0.0	0.0
Required structural primary balance related to S1		**-1.0**	**-0.8**	**0.2**	**-1.1**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

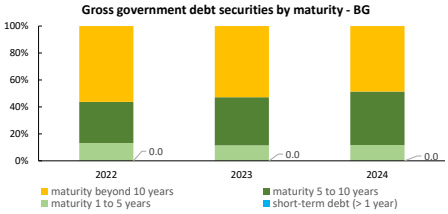
Debt by holder - BG



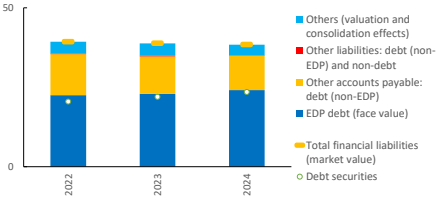
Debt by instrument - BG



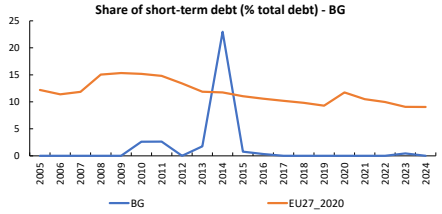
Gross government debt securities by maturity - BG



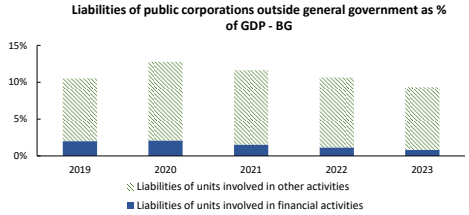
Debt and non-debt financial liabilities - BG



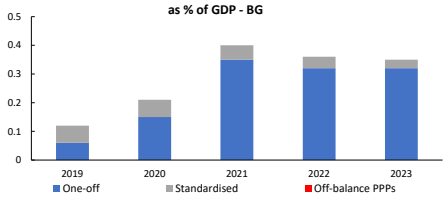
Share of short-term debt (% total debt) - BG



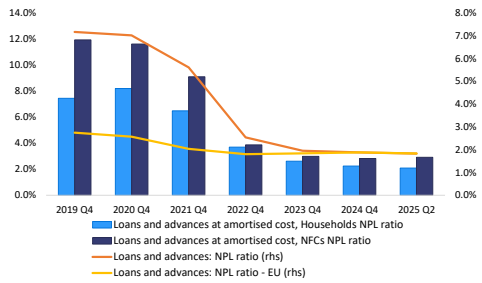
Liabilities of public corporations outside general government as % of GDP - BG



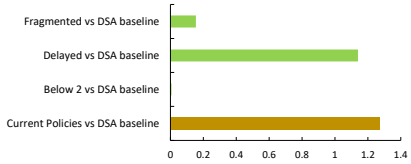
Government guarantees and off-balance PPPs as % of GDP - BG



NPL (% of gross loans) - BG



Climate change scenarios
Debt-to-GDP, difference in 2050 - BG



3. CZECHIA

This fiche assesses fiscal sustainability risks for Czechia over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain low, at around 6% over 2026-2027. Financial markets' perceptions of sovereign risk remain positive, as confirmed by the 'AA' rating that the three major rating agencies assigned to Czech government debt.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to increase but remain below 60% of GDP in the medium term, reaching around 56% of GDP in 2036 ([110]). The debt increase is partly driven by the assumed structural primary deficit of 0.5% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([111]). This structural primary balance (SPB) level is rather ambitious compared with past fiscal performance ([112]). Moreover, ageing-related expenditure is projected to increase, and the snowball effect is expected to turn positive, i.e. unfavourable, as from 2030, weighing on the debt dynamics. Government gross financing needs are expected to increase over the projection period and reach 9% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against alternative deterministic scenarios. All scenarios lead to higher debt levels than the baseline. Under the *lower structural primary balance (SPB) scenario* (in which the SPB level is lowered by 0.5 pps), the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1 pp. compared with the baseline), the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -0.6% of GDP), and the *financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 6 pps., 4 pps., 0.6 pps. and 0.4 pps., respectively.

The stochastic projections run around the baseline indicate low risk, due to a low probability of debt increasing over the next five years ([113])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 73%, pointing to medium risk given the relatively low initial debt level. At the same time, the uncertainty surrounding the baseline debt projection is low, as measured by the difference of 17 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([110]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 0.5 % of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.4% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([111]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Czechia commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([112]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past., as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([113]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 debt-stabilisation indicator) and to bring it to 60% of GDP (S1 debt-reduction indicator) over the long term ([114]). The medium risk stems from the projected increase in ageing costs and, to a lesser extent, the unfavourable initial budgetary position.

The S2 debt-stabilisation indicator points to medium risk. It signals that Czechia would need to improve its structural primary balance in 2027 by 3.8 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing-related costs (contributing 2.6 pps.), primarily driven by health care and long-term care (contributing jointly 1.9 pps), with pensions also contributing 0.7 pps. The unfavourable initial budgetary position adds another 1.2 pps.

The S1 debt-reduction indicator also points to medium risk. This indicator shows that Czechia would need to improve its fiscal position by 2.6 pps. to limit its debt level to 60% of GDP by 2070. This result is also mainly driven by the projected increase in age-related public spending (contributing 1.9 pps.), and to a lesser extent the unfavourable initial budgetary position (1.0 pp.), partly offset by the initial low level of debt, contributing -0.3 pps.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, the announced backtracking on the pension reforms adopted at the end of 2024 (as included in the policy statement of the new government) can constitute a risk-increasing factor. The pension reforms have the potential to mitigate some of the long-term ageing-related fiscal sustainability risks. On the other hand, risk-mitigating factors include (i) the reduced share of short-term debt (Section 4.1.1), (ii) the relatively stable financing sources with a diversified and large investor base (Section 4.1.2), and (iii) the currency denomination of debt (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([114]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

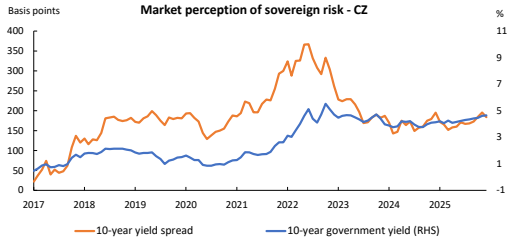
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	LOW	LOW	MEDIUM	MEDIUM	LOW	LOW	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	56.0	56.6	61.7	60.3	56.4				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	32%	32%	34%	32%	32%				
	Probability of debt ratio exceeding in 2030 its 2025 level						73%			
	Difference between 90th and 10th percentiles (% of GDP)						16.9			

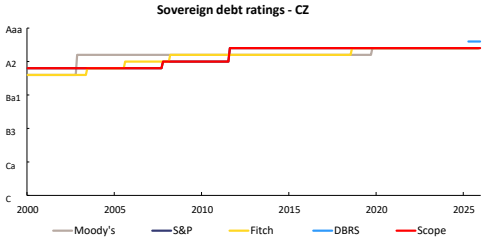
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	184

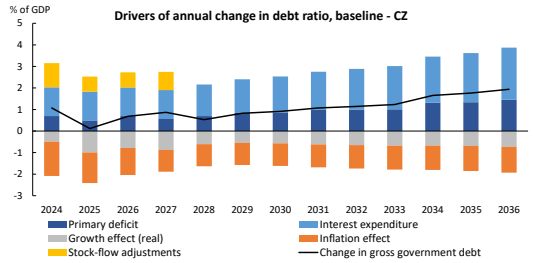
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

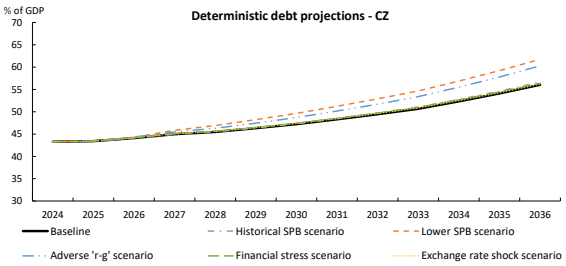


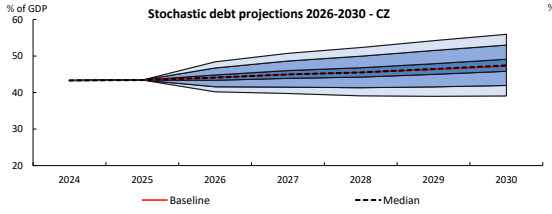


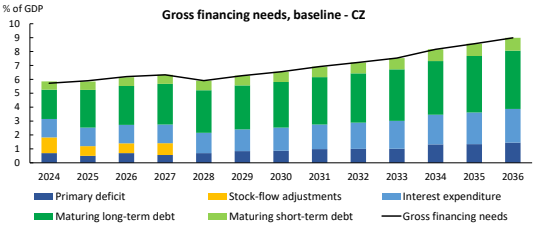
2. Medium-term fiscal sustainability risks

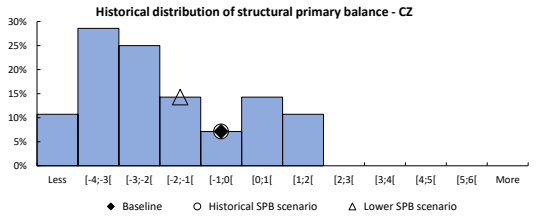
Czechia - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**43.3**	**43.4**	**44.1**	**45.0**	**45.5**	**46.3**	**47.2**	**48.3**	**49.5**	**50.7**	**52.3**	**54.1**	**56.0**
Change in the ratio (-1+2+3)	*1.1*	*0.1*	*0.7*	*0.9*	*0.5*	*0.8*	*0.9*	*1.1*	*1.1*	*1.2*	*1.7*	*1.8*	*1.9*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-0.7**	**-0.5**	**-0.7**	**-0.6**	**-0.7**	**-0.8**	**-0.9**	**-1.0**	**-1.0**	**-1.0**	**-1.3**	**-1.3**	**-1.5**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***0.0***	***-0.1***	***-0.5***	***-0.6***	***-0.7***	***-0.9***	***-0.9***	***-1.0***	***-1.0***	***-1.0***	***-1.3***	***-1.3***	***-1.5***
(1.1.1) Structural primary balance (before CoA)	*0.0*	*-0.1*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*
(1.1.2) Cost of ageing (CoA)				*0.1*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*0.7*	*0.7*	*0.8*
Pensions				*-0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.2*
Health care				*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*
Long-term care				*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*
Education				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***-0.7***	***-0.3***	***-0.2***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-0.7**	**-1.1**	**-0.7**	**-0.5**	**-0.2**	**0.0**	**0.0**	**0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**
(2.1) Interest expenditure	*1.3*	*1.3*	*1.3*	*1.3*	*1.5*	*1.6*	*1.7*	*1.8*	*1.9*	*2.0*	*2.1*	*2.3*	*2.4*
(2.2) Growth effect (real)	*-0.5*	*-1.0*	*-0.8*	*-0.9*	*-0.6*	*-0.5*	*-0.6*	*-0.6*	*-0.7*	*-0.7*	*-0.7*	*-0.7*	*-0.7*
(2.3) Inflation effect	*-1.6*	*-1.4*	*-1.3*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.1*	*-1.1*	*-1.1*	*-1.1*	*-1.2*	*-1.2*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**1.1**	**0.7**	**0.7**	**0.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*1.0*	*0.8*	*0.8*	*0.9*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.1*	*-0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-1.4	-1.4	-1.8	-2.0	-2.2	-2.4	-2.5	-2.8	-2.9	-3.0	-3.5	-3.6	-3.9
Gross financing needs	5.7	5.9	6.2	6.3	5.9	6.3	6.5	6.9	7.2	7.5	8.2	8.6	9.0

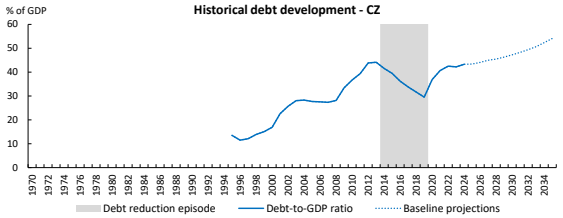


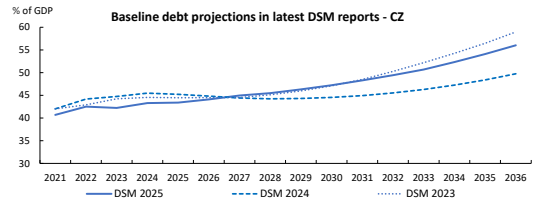


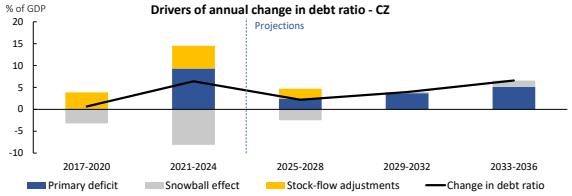












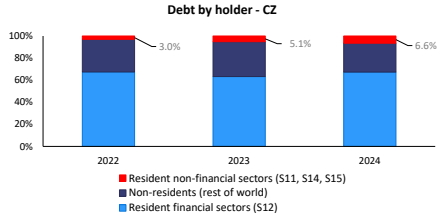
Czechia - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.3	43.4	44.1	45.0	45.5	46.3	47.2	48.3	49.5	50.7	52.3	54.1	56.0
Primary balance	-0.7	-0.5	-0.7	-0.6	-0.7	-0.8	-0.9	-1.0	-1.0	-1.0	-1.3	-1.3	-1.5
Structural primary balance (before CoA)	0.0	-0.1	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Real GDP growth	1.2	2.4	1.9	2.1	1.4	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Potential GDP growth	1.9	1.5	1.5	1.4	1.5	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Inflation rate	3.9	3.4	3.0	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Implicit interest rate (nominal)	3.3	3.3	3.2	3.2	3.4	3.6	3.7	3.9	4.1	4.2	4.4	4.5	4.6
Gross financing needs	5.7	5.9	6.2	6.3	5.9	6.3	6.5	6.9	7.2	7.5	8.2	8.6	9.0
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.3	43.4	44.1	45.0	45.5	46.4	47.3	48.5	49.7	51.0	52.8	54.6	56.6
Primary balance	-0.7	-0.5	-0.7	-0.6	-0.7	-0.9	-0.9	-1.0	-1.1	-1.1	-1.4	-1.4	-1.5
Structural primary balance (before CoA)	0.0	-0.1	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Real GDP growth	1.2	2.4	1.9	2.1	1.4	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Gross financing needs	5.7	5.9	6.2	6.3	5.9	6.3	6.6	7.0	7.3	7.6	8.3	8.7	9.1
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.3	43.4	44.2	45.1	45.6	46.5	47.4	48.5	49.7	51.0	52.7	54.4	56.4
Implicit interest rate (nominal)	3.3	3.3	3.4	3.3	3.5	3.6	3.8	4.0	4.1	4.3	4.4	4.6	4.7
Gross financing needs	5.7	5.9	6.3	6.4	6.0	6.3	6.6	7.0	7.3	7.6	8.2	8.6	9.1
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.3	43.4	44.2	45.9	46.9	48.2	49.6	51.2	52.9	54.7	56.9	59.2	61.7
Primary balance	-0.7	-0.5	-0.9	-1.2	-1.3	-1.4	-1.4	-1.5	-1.5	-1.5	-1.8	-1.8	-2.0
Structural primary balance (before CoA)	0.0	-0.1	-0.8	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Real GDP growth	1.2	2.4	2.0	1.7	1.5	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Gross financing needs	5.7	5.9	6.4	7.0	6.6	7.0	7.3	7.7	8.1	8.5	9.2	9.7	10.2
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.3	43.4	44.3	45.5	46.3	47.4	48.7	50.2	51.7	53.4	55.5	57.8	60.3
Implicit interest rate (nominal)	3.3	3.3	3.3	3.3	3.6	3.8	4.0	4.2	4.4	4.6	4.7	4.9	5.0
Real GDP growth	1.2	2.4	1.4	1.6	0.9	0.7	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Gross financing needs	5.7	5.9	6.3	6.4	6.1	6.5	6.8	7.3	7.6	8.0	8.8	9.2	9.8
6. Exchange rate depreciation scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.3	43.4	44.2	45.1	45.6	46.5	47.4	48.5	49.6	50.8	52.5	54.2	56.2
Exchange rate depreciation	0.0	0.0	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	5.7	5.9	6.2	6.3	5.9	6.3	6.6	6.9	7.2	7.5	8.2	8.6	9.0

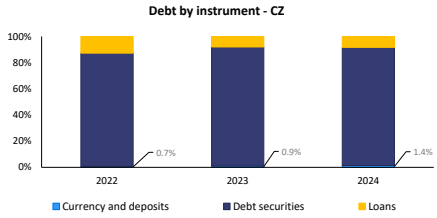
3. Long-term fiscal sustainability risks

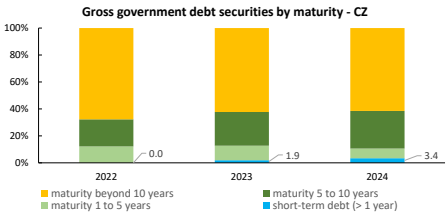
S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**3.8**	**4.1**	**5.9**	**5.4**
of which					
Initial budgetary position		1.2	1.3	1.2	1.2
Ageing costs		2.6	2.8	4.6	4.2
of which	*Pensions*	0.7	0.9	0.7	2.3
	Health care	0.7	0.6	1.5	0.6
	Long-term care	1.2	1.2	2.4	1.2
	Education	0.1	0.1	0.1	0.1
Required structural primary balance related to S2		**3.3**	**3.6**	**5.3**	**5.0**

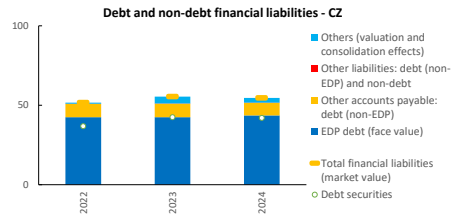
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**2.6**	**2.9**	**3.7**	**3.6**
of which					
Initial budgetary position		1.0	1.1	0.9	0.8
Debt requirement		-0.3	-0.3	-0.3	-0.3
Ageing costs		1.9	2.1	3.1	3.2
of which	*Pensions*	0.7	0.8	0.7	1.9
	Health care	0.5	0.5	1.1	0.5
	Long-term care	0.7	0.7	1.3	0.7
	Education	0.0	0.0	0.0	0.1
Required structural primary balance related to S1		**2.1**	**2.3**	**3.2**	**3.2**

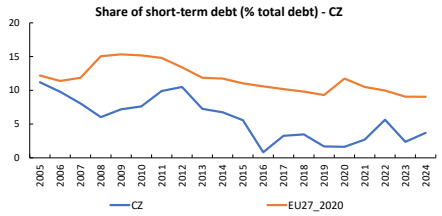
4. Additional aggravating and mitigating risk factors for fiscal sustainability

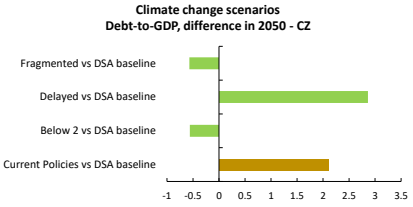












4. DENMARK

This fiche assesses fiscal sustainability risks for Denmark over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain low at around 4% of GDP on average over 2026-2027. Financial markets' perceptions of sovereign risk remain positive, as confirmed by the 'AAA' rating that the three major rating agencies assigned to the Danish government debt.

2 – Medium-term fiscal sustainability risks are low.

Under the DSA baseline, debt is projected to decline significantly and remain well below the 60% reference value in the medium term, reaching around 14% of GDP in 2036 ([115]). The debt reduction is supported by the assumed structural primary surplus of 2.3% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([116]). This structural primary balance (SPB) level is in line with past fiscal performance ([117]). Moreover, the baseline projection benefits from a still favourable (although declining) snowball effect. At the same time, ageing-related expenditure is projected to increase. Government gross financing needs are expected to remain very limited, declining over the projection period to around 1% of GDP by 2036.

The deterministic stress tests do not identify any additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against alternative deterministic scenarios. All scenarios confirm the declining path towards low levels of debt. Only under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of 3.0% of GDP) would the debt ratio be lower than under the baseline, by about 4 pps. of GDP in 2036. All the other scenarios lead to slightly higher debt levels than the baseline but still below 60% of GDP. Under the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps), the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1 pp. compared with the baseline), and the *financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline), the debt ratio would exceed the baseline level by 2036 by around 5 pps., 2 pps. and 0.2 pps., respectively.

The stochastic projections run around the baseline also point to low risk ([118])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of only 11%, pointing to low risk given the low initial debt level. Moreover, the uncertainty surrounding the baseline debt projection is low, as measured by the difference of 14 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([115]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary surplus, before changes in ageing costs, of 2.3 % of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.3% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([116]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Denmark commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([117]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([118]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (debt-stabilisation indicator S2) and to bring it to 60% of GDP (debt-reduction indicator S1) over the long term ([119]). The low risk stems from favourable initial budgetary position and the limited projected increase in ageing costs.

The S2 debt-stabilisation indicator points to low risk. The negative value (-1.0 pps.) signals that Denmark does not need to make any fiscal adjustment to ensure that debt stabilises over the long term. This result is mainly driven by the favourable initial budgetary position (contributing -1.5 pps.), which is partially offset by the projected increase in ageing-related costs (contribution of 0.5 pp.). Ageing cost developments are primarily driven by a projected increase in long-term care (2.6 pps.) and health-care spending (0.6 pps.), which is largely offset by a decrease in public pension and education expenditure, contributing -2.4 pps. and -0.4 pps. respectively.

The S1 debt-reduction indicator also points to low risk. The negative value (-2.0 pps.) indicates that does not need to improve its fiscal position to keep its below 60% of GDP by 2070. This result is also mainly driven by the favourable initial budgetary position (contributing -1.9 pps.) and to a lesser extent the low level of debt (-0.7 pps.), partly offset by the projected increase of the ageing-related public expenditure.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to contingent liability risks stemming from the private sector, although contingent liability risks stemming from the banking sector are rather low (Sections 4.2.2 and 4.2.3). These risks remain currently limited due to its relatively low level and the low take-up. On the other hand, risk-mitigating factors include (i) the relatively high debt maturity (Section 4.1.1), (ii) relatively stable financing sources with a diversified and large investor base (Section 4.1.2), and (iii) the currency denomination of debt (Section 4.1.3). In addition, Denmark's positive net international investment position helps mitigating vulnerabilities (Section 4.2.4). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([119]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

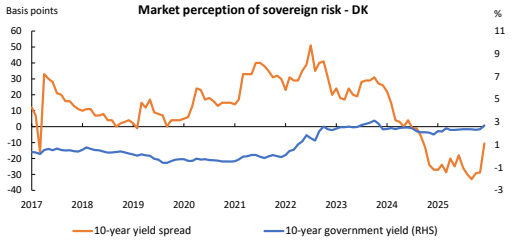
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
LOW	Overall	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW
	Debt level (2036), % of GDP	13.8	9.5	18.3	15.5	14.0				
	Debt peak year	2025	2025	2025	2025	2025				
	Fiscal consolidation space	69%	60%	77%	69%	69%				
	Probability of debt ratio exceeding in 2030 its 2025 level						11%			
	Difference between 90th and 10th percentiles (% of GDP)						14.1			

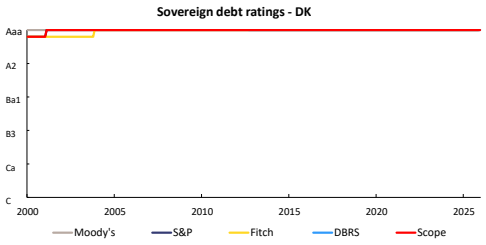
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	-11

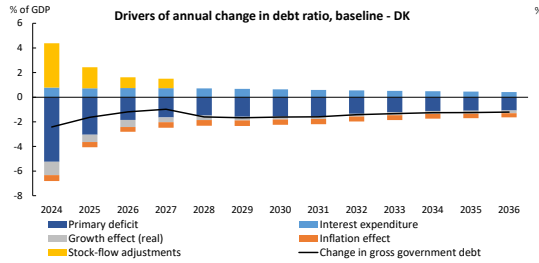
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

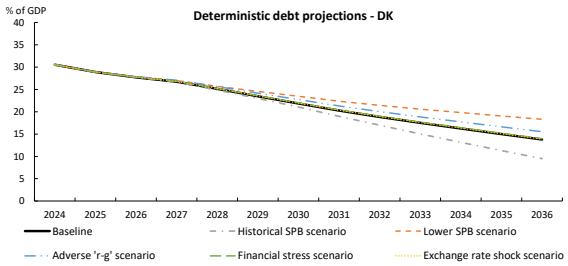


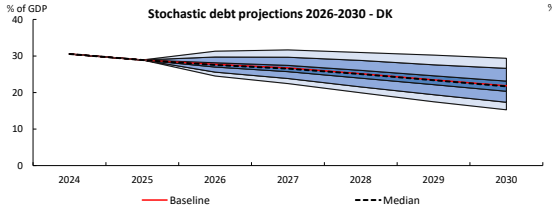


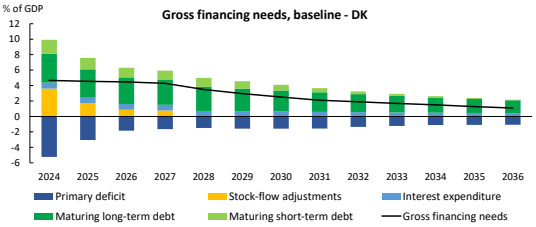
2. Medium-term fiscal sustainability risks

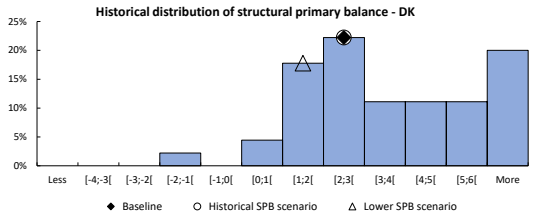
Denmark - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**30.5**	**28.9**	**27.7**	**26.7**	**25.1**	**23.5**	**21.9**	**20.3**	**18.8**	**17.5**	**16.3**	**15.0**	**13.8**
Change in the ratio (-1+2+3)	*-2.4*	*-1.6*	*-1.2*	*-1.0*	*-1.6*	*-1.7*	*-1.6*	*-1.6*	*-1.4*	*-1.3*	*-1.3*	*-1.2*	*-1.2*
of which													
(1) Primary balance (1.1+1.2+1.3)	**5.2**	**3.1**	**1.8**	**1.6**	**1.5**	**1.6**	**1.6**	**1.6**	**1.3**	**1.2**	**1.1**	**1.1**	**1.1**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***6.8***	***3.9***	***2.3***	***2.1***	***1.8***	***1.7***	***1.6***	***1.6***	***1.3***	***1.2***	***1.1***	***1.1***	***1.1***
(1.1.1) Structural primary balance (before CoA)	*6.8*	*3.9*	*2.3*	*2.3*	*2.3*	*2.3*	*2.3*	*2.3*	*2.3*	*2.3*	*2.3*	*2.3*	*2.3*
(1.1.2) Cost of ageing (CoA)				*0.3*	*0.6*	*0.8*	*0.9*	*0.9*	*1.1*	*1.3*	*1.4*	*1.4*	*1.4*
Pensions				*0.0*	*0.1*	*0.2*	*0.2*	*0.1*	*0.2*	*0.2*	*0.2*	*0.1*	*0.0*
Health care				*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Long-term care				*0.2*	*0.4*	*0.5*	*0.6*	*0.7*	*0.8*	*0.9*	*1.0*	*1.1*	*1.2*
Education				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(1.1.3) Others (taxes and property income)				*0.1*	*0.1*	*0.2*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.1*
(1.2) Cyclical component	***-1.0***	***-0.8***	***-0.5***	***-0.5***	***-0.3***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***-0.6***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-0.8**	**-0.3**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
(2.1) Interest expenditure	*0.8*	*0.7*	*0.7*	*0.7*	*0.7*	*0.7*	*0.6*	*0.6*	*0.6*	*0.5*	*0.5*	*0.5*	*0.4*
(2.2) Growth effect (real)	*-1.1*	*-0.6*	*-0.6*	*-0.4*	*-0.4*	*-0.3*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*
(2.3) Inflation effect	*-0.5*	*-0.4*	*-0.4*	*-0.5*	*-0.5*	*-0.5*	*-0.4*	*-0.4*	*-0.4*	*-0.4*	*-0.4*	*-0.4*	*-0.3*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**3.6**	**1.7**	**0.9**	**0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*3.6*	*1.7*	*0.9*	*0.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	6.0	3.1	1.6	1.4	1.1	1.0	0.9	1.0	0.8	0.7	0.6	0.6	0.7
Gross financing needs	4.7	4.5	4.5	4.3	3.5	3.0	2.5	2.1	1.9	1.7	1.5	1.3	1.1

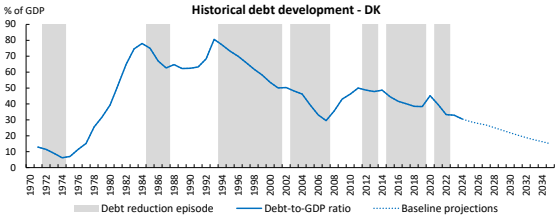


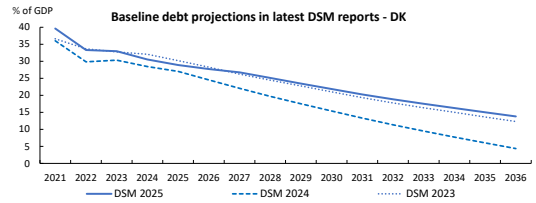


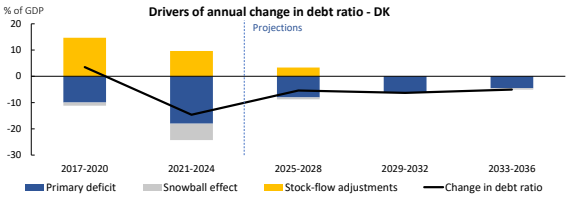












Denmark - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	30.5	28.9	27.7	26.7	25.1	23.5	21.9	20.3	18.8	17.5	16.3	15.0	13.8
Primary balance	5.2	3.1	1.8	1.6	1.5	1.6	1.6	1.6	1.3	1.2	1.1	1.1	1.1
Structural primary balance (before CoA)	6.8	3.9	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Real GDP growth	3.5	2.0	2.1	1.4	1.4	1.2	1.0	1.0	1.1	1.3	1.5	1.5	1.5
Potential GDP growth	2.1	1.7	1.5	1.4	1.1	0.9	0.8	1.0	1.1	1.3	1.5	1.5	1.5
Inflation rate	1.5	1.4	1.3	1.7	1.7	1.8	1.9	2.0	2.1	2.1	2.2	2.3	2.3
Implicit interest rate (nominal)	2.5	2.5	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.8	2.9	2.9	2.9
Gross financing needs	4.7	4.5	4.5	4.3	3.5	3.0	2.5	2.1	1.9	1.7	1.5	1.3	1.1
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	30.5	28.9	27.7	26.7	24.9	23.0	21.1	19.0	17.0	15.0	13.2	11.3	9.5
Primary balance	5.2	3.1	1.8	1.7	1.7	1.8	1.9	2.0	1.9	1.9	1.7	1.7	1.7
Structural primary balance (before CoA)	6.8	3.9	2.3	2.5	2.7	2.8	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Real GDP growth	3.5	2.0	2.1	1.3	1.4	1.0	0.9	1.1	1.3	1.4	1.5	1.5	1.5
Gross financing needs	4.7	4.5	4.5	4.2	3.3	2.6	2.0	1.4	1.0	0.7	0.4	0.1	-0.1
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	30.5	28.9	27.8	26.8	25.2	23.6	22.0	20.4	19.0	17.7	16.4	15.2	14.0
Implicit interest rate (nominal)	2.5	2.5	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	3.0
Gross financing needs	4.7	4.5	4.5	4.3	3.5	3.0	2.6	2.1	1.9	1.7	1.6	1.3	1.1
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	30.5	28.9	27.8	27.0	25.7	24.6	23.5	22.4	21.5	20.6	19.8	19.1	18.3
Primary balance	5.2	3.1	1.7	1.4	1.2	1.1	1.1	1.1	0.8	0.7	0.6	0.6	0.6
Structural primary balance (before CoA)	6.8	3.9	2.1	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Real GDP growth	3.5	2.0	2.2	1.8	1.2	1.0	0.9	1.0	1.1	1.3	1.5	1.5	1.5
Gross financing needs	4.7	4.5	4.6	4.5	3.9	3.6	3.3	3.0	3.0	2.8	2.8	2.6	2.5
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	30.5	28.9	27.9	27.1	25.7	24.2	22.7	21.3	20.0	18.9	17.7	16.6	15.5
Implicit interest rate (nominal)	2.5	2.5	2.7	2.9	2.9	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.3
Real GDP growth	3.5	2.0	1.6	0.9	0.9	0.7	0.5	0.5	0.6	0.8	1.0	1.0	1.0
Gross financing needs	4.7	4.5	4.5	4.4	3.6	3.1	2.7	2.4	2.2	2.0	1.8	1.6	1.4
6. Exchange rate depreciation scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	30.5	28.9	27.8	26.8	25.2	23.5	21.9	20.3	18.9	17.6	16.3	15.1	13.9
Exchange rate depreciation	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	4.7	4.5	4.5	4.3	3.5	3.0	2.5	2.1	1.9	1.7	1.5	1.3	1.1

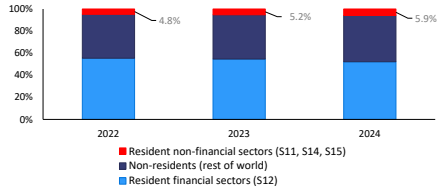
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**-1.0**	**-0.7**	**0.0**	**-0.5**
of which					
Initial budgetary position		-1.5	-1.5	-1.5	-1.2
Ageing costs		0.5	0.8	1.5	0.7
of which	*Pensions*	-2.4	-1.9	-2.3	-2.1
	Health care	0.6	0.6	1.3	0.6
	Long-term care	2.6	2.5	2.9	2.7
	Education	-0.4	-0.4	-0.4	-0.5
Required structural primary balance related to S2		**1.3**	**1.6**	**2.4**	**1.6**

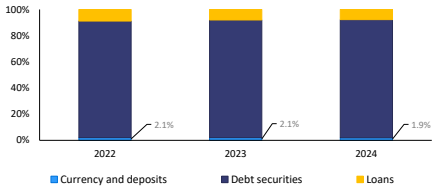
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**-2.0**	**-1.9**	**-1.4**	**-1.7**
of which					
Initial budgetary position		-1.9	-1.9	-1.9	-1.7
Debt requirement		-0.7	-0.7	-0.7	-0.7
Ageing costs		0.6	0.7	1.3	0.7
of which	*Pensions*	-1.4	-1.3	-1.4	-1.2
	Health care	0.4	0.4	0.9	0.4
	Long-term care	1.8	1.8	2.0	1.9
	Education	-0.2	-0.2	-0.2	-0.3
Required structural primary balance related to S1		**0.3**	**0.5**	**1.0**	**0.4**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

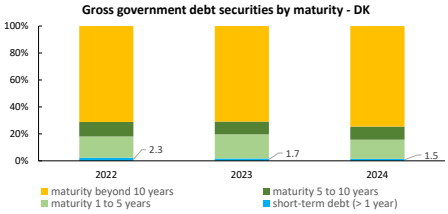
Debt by holder - DK



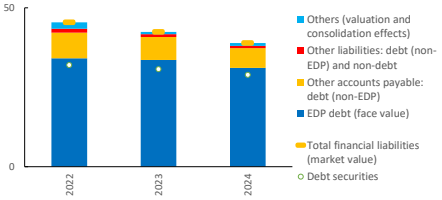
Debt by instrument - DK



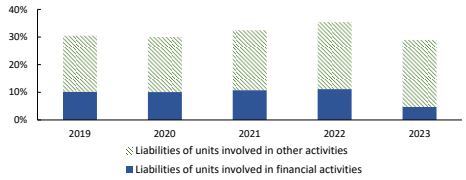
Gross government debt securities by maturity - DK



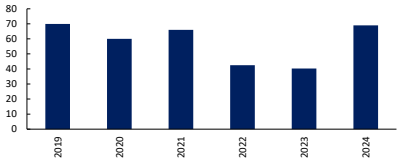
Debt and non-debt financial liabilities - DK



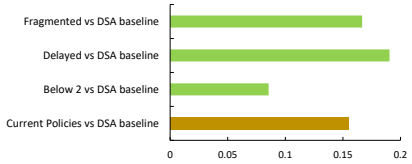
Liabilities of public corporations outside general government as % of GDP - DK



NIIP (% of GDP) - DK



Climate change scenarios
Debt-to-GDP, difference in 2050 - DK



5. GERMANY

This fiche assesses fiscal sustainability risks for Germany over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected at around 15.5% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are very favourable, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase steadily over the medium term, reaching 91% of GDP in 2036 ([120]). The increase in the government debt ratio is mainly driven by the assumed structural primary deficit of 2.1% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([121]). This structural primary balance (SPB) level is low compared with past fiscal performance, meaning that the country has already had tighter fiscal positions in the past ([122]). Moreover, ageing-related expenditure is projected to increase significantly, weighing on public finances. At the same time, the baseline projection benefits from a still favourable (although declining) snowball effect. Government gross financing needs are expected to increase to high levels over the projection period, reaching almost 23% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1.0 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.) and the *financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline), by 2036 the debt ratio would exceed the baseline by around 7 pps., 5 pps. and 1 pp., respectively. Finally, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of 0.7% of GDP), the debt ratio would be around 21 pps. lower than under the baseline by 2036.

The stochastic projections run around the baseline indicate high risk ([123]). The stochastic simulations indicate that the debt ratio will be higher in 2030 than in 2025 with a probability of 98%, pointing to high risk given the initial debt level. At the same time, low uncertainty surrounds the baseline debt projection, as measured by the difference of around 14 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt

([120]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 2.1% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (0.9% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([121]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Germany commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Germany follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([122]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past., as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([123]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

(S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([124]). The medium risk stems from the unfavourable initial deficit and the projected increase in ageing-related costs.

The debt-stabilisation S2 indicator points to medium risk. It signals that Germany would need to improve its structural primary balance in 2027 by 4.1 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the unfavourable initial budgetary position, which contributes 2.7 pps. Moreover, the projected increase in ageing costs contributes 1.4 pps., of which 0.5 pps. stem from pension expenditure and 1 pps. jointly come from health care, long-term care and education expenditure.

The debt-reduction S1 indicator also points to medium risk. This indicator shows that a fiscal effort of 3.5 pps. would be needed for Germany to reduce its debt to 60% of GDP by 2070. This result is also mainly driven by the unfavourable initial budgetary position (contributing 2.3 pps.). The projected increase in ageing costs contributes 1.1 pps.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors include a potential additional debt uptake (beyond the one included in the DSA baseline) allowed by (i) the reform of the debt brake and (ii) the creation of the special fund for infrastructure and climate neutrality. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years (Section 4.1.1), relatively stable financing sources with a diversified and large investor base (Section 4.1.2), a low share of public debt held in foreign currency (Section 4.1.3), and Germany's positive net international investment position (Section 4.2.4). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

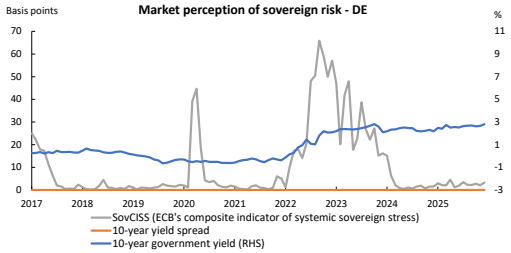
([124]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

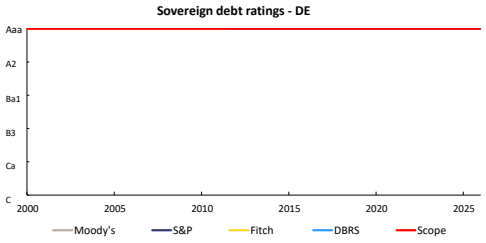
Overview of key fiscal sustainability risks

Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	HIGH	MEDIUM	HIGH	HIGH	HIGH	HIGH	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	91.0	68.7	96.2	97.9	91.5				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	90%	64%	100%	90%	90%				
	Probability of debt ratio exceeding in 2030 its 2025 level						98%			
	Difference between 90th and 10th percentiles (% of GDP)						13.5			

(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

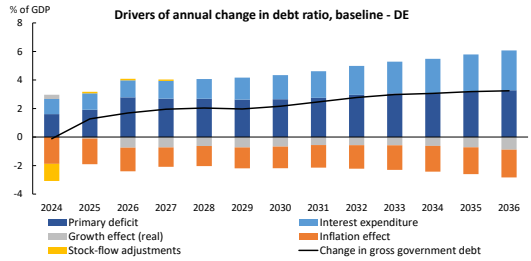
1. Short-term fiscal sustainability risks

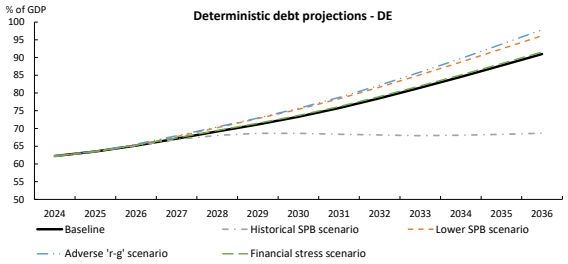


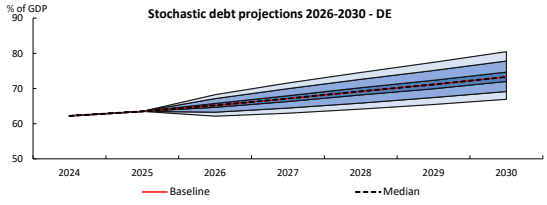


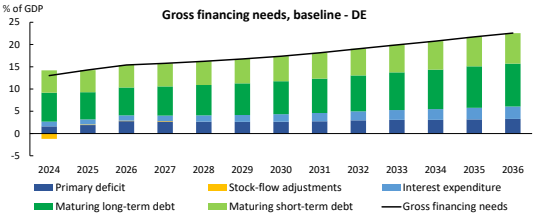
2. Medium-term fiscal sustainability risks

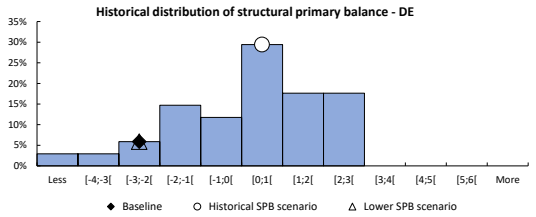
Germany - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**62.2**	**63.5**	**65.2**	**67.1**	**69.2**	**71.1**	**73.3**	**75.8**	**78.5**	**81.5**	**84.6**	**87.8**	**91.0**
Change in the ratio (-1+2+3)	*-0.1*	*1.3*	*1.7*	*1.9*	*2.0*	*2.0*	*2.2*	*2.5*	*2.8*	*3.0*	*3.1*	*3.2*	*3.2*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-1.6**	**-1.9**	**-2.8**	**-2.7**	**-2.7**	**-2.6**	**-2.6**	**-2.8**	**-3.0**	**-3.1**	**-3.1**	**-3.2**	**-3.3**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-0.7***	***-0.9***	***-2.1***	***-2.3***	***-2.4***	***-2.5***	***-2.6***	***-2.8***	***-3.0***	***-3.1***	***-3.1***	***-3.2***	***-3.3***
(1.1.1) Structural primary balance (before CoA)	*-0.7*	*-0.9*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*
(1.1.2) Cost of ageing (CoA)				*0.2*	*0.3*	*0.5*	*0.6*	*0.7*	*0.9*	*1.0*	*1.0*	*1.2*	*1.3*
Pensions				*0.1*	*0.2*	*0.2*	*0.3*	*0.4*	*0.5*	*0.6*	*0.6*	*0.7*	*0.7*
Health care				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*
Long-term care				*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Education				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.1*
(1.2) Cyclical component	***-0.9***	***-1.0***	***-0.7***	***-0.4***	***-0.2***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-0.5**	**-0.8**	**-1.2**	**-0.9**	**-0.6**	**-0.7**	**-0.5**	**-0.3**	**-0.2**	**-0.1**	**0.0**	**0.0**	**0.0**
(2.1) Interest expenditure	*1.1*	*1.2*	*1.2*	*1.2*	*1.4*	*1.5*	*1.7*	*1.9*	*2.0*	*2.2*	*2.4*	*2.6*	*2.8*
(2.2) Growth effect (real)	*0.3*	*-0.1*	*-0.7*	*-0.7*	*-0.6*	*-0.7*	*-0.7*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.7*	*-0.9*
(2.3) Inflation effect	*-1.9*	*-1.8*	*-1.7*	*-1.4*	*-1.4*	*-1.5*	*-1.5*	*-1.6*	*-1.6*	*-1.7*	*-1.8*	*-1.9*	*-1.9*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**-1.2**	**0.1**	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*-1.2*	*0.1*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-1.8	-2.0	-3.3	-3.6	-3.8	-4.1	-4.3	-4.6	-5.0	-5.3	-5.5	-5.8	-6.1
Gross financing needs	13.0	14.3	15.4	15.8	16.2	16.7	17.4	18.1	19.0	19.9	20.8	21.7	22.6

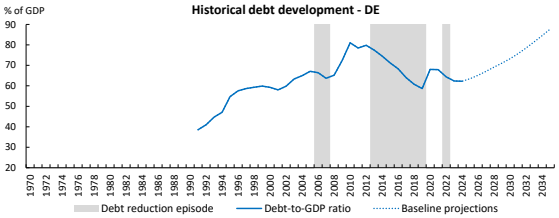


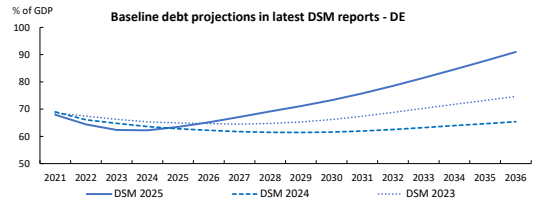


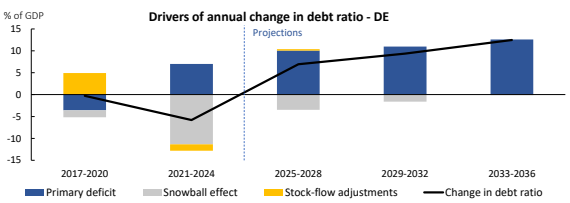












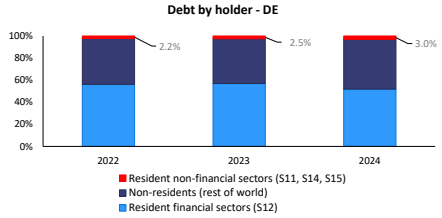
Germany - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.2	63.5	65.2	67.1	69.2	71.1	73.3	75.8	78.5	81.5	84.6	87.8	91.0
Primary balance	-1.6	-1.9	-2.8	-2.7	-2.7	-2.6	-2.6	-2.8	-3.0	-3.1	-3.1	-3.2	-3.3
Structural primary balance (before CoA)	-0.7	-0.9	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Real GDP growth	-0.5	0.2	1.2	1.2	1.0	1.1	1.0	0.8	0.8	0.8	0.8	0.9	1.0
Potential GDP growth	0.5	0.4	0.5	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.9	1.0
Inflation rate	3.1	3.0	2.7	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.3	2.3	2.3
Implicit interest rate (nominal)	1.7	1.9	2.0	2.0	2.1	2.3	2.5	2.6	2.8	2.9	3.0	3.2	3.3
Gross financing needs	13.0	14.3	15.4	15.8	16.2	16.7	17.4	18.1	19.0	19.9	20.8	21.7	22.6
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.2	63.5	65.2	66.9	68.0	68.6	68.6	68.4	68.2	68.0	68.1	68.3	68.7
Primary balance	-1.6	-1.9	-2.8	-2.2	-1.6	-1.0	-0.4	-0.3	-0.3	-0.2	-0.2	-0.3	-0.4
Structural primary balance (before CoA)	-0.7	-0.9	-2.1	-1.4	-0.7	0.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Real GDP growth	-0.5	0.2	1.2	0.7	0.7	0.7	0.8	1.2	1.2	1.2	0.8	0.9	1.0
Gross financing needs	13.0	14.3	15.4	15.3	15.1	14.9	14.6	14.6	14.7	14.7	14.9	15.2	15.4
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.2	63.5	65.3	67.3	69.4	71.5	73.7	76.2	79.0	82.0	85.1	88.3	91.5
Implicit interest rate (nominal)	1.7	1.9	2.2	2.1	2.2	2.4	2.5	2.7	2.8	2.9	3.1	3.2	3.3
Gross financing needs	13.0	14.3	15.5	15.9	16.3	16.9	17.5	18.2	19.2	20.0	20.9	21.8	22.7
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.2	63.5	65.3	67.7	70.2	72.8	75.4	78.4	81.6	85.1	88.7	92.4	96.2
Primary balance	-1.6	-1.9	-3.0	-3.1	-3.1	-3.1	-3.1	-3.3	-3.5	-3.6	-3.6	-3.7	-3.8
Structural primary balance (before CoA)	-0.7	-0.9	-2.4	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Real GDP growth	-0.5	0.2	1.4	1.1	0.9	1.0	1.0	0.8	0.8	0.8	0.8	0.9	1.0
Gross financing needs	13.0	14.3	15.5	16.2	16.8	17.5	18.2	19.1	20.1	21.1	22.1	23.1	24.1
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.2	63.5	65.6	67.9	70.4	72.9	75.7	78.8	82.2	85.9	89.7	93.7	97.9
Implicit interest rate (nominal)	1.7	1.9	2.1	2.1	2.4	2.6	2.8	3.0	3.1	3.3	3.5	3.6	3.7
Real GDP growth	-0.5	0.2	0.7	0.7	0.5	0.6	0.5	0.3	0.3	0.3	0.3	0.4	0.5
Gross financing needs	13.0	14.3	15.5	16.0	16.6	17.3	18.0	19.0	20.0	21.1	22.1	23.3	24.4

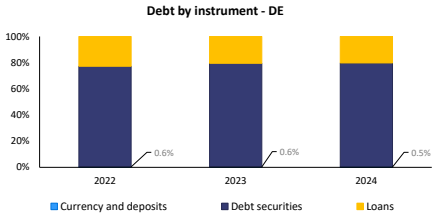
3. Long-term fiscal sustainability risks

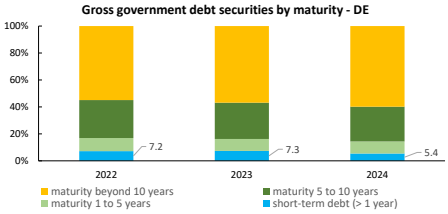
S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**4.1**	**4.2**	**5.6**	**2.1**
of which					
Initial budgetary position		2.7	2.8	2.7	0.7
Ageing costs		1.4	1.4	2.9	1.4
of which	*Pensions*	0.5	0.4	0.5	0.4
	Health care	0.5	0.4	1.2	0.5
	Long-term care	0.3	0.4	1.1	0.4
	Education	0.2	0.2	0.2	0.2
Required structural primary balance related to S2		**2.0**	**2.0**	**3.5**	**1.9**

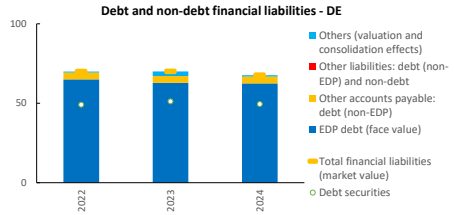
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**3.5**	**3.6**	**4.4**	**1.4**
of which					
Initial budgetary position		2.3	2.5	2.3	0.2
Debt requirement		0.1	0.1	0.1	0.1
Ageing costs		1.1	1.1	1.9	1.1
of which	*Pensions*	0.3	0.3	0.3	0.3
	Health care	0.3	0.3	0.8	0.3
	Long-term care	0.3	0.3	0.7	0.3
	Education	0.1	0.2	0.1	0.1
Required structural primary balance related to S1		**1.4**	**1.5**	**2.3**	**1.1**

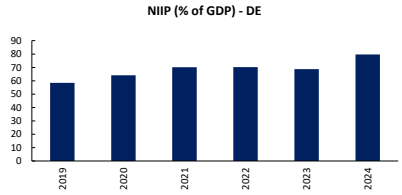
4. Additional aggravating and mitigating risk factors for fiscal sustainability

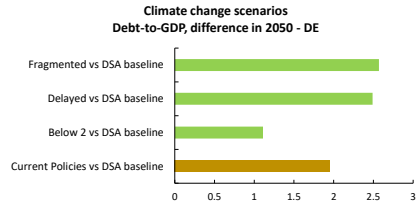












6. ESTONIA

This fiche assesses fiscal sustainability risks for Estonia over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain limited, at around 6% of GDP in 2026-2027. Financial markets' perceptions of sovereign risk are investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to increase steadily over the medium term, reaching around 56% of GDP in 2036, thus staying below the 60% reference value ([125]). The increase in the government debt ratio is driven by the assumed structural primary deficit of 3.1% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([126]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([127]). Age-related expenditure is projected to fall slightly. The baseline projection benefits from a still favourable (although declining) snowball effect up to 2029. Government gross financing needs are expected to rise, reaching around 9% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -0.7% of GDP), the debt ratio would be about 19 pps. lower in 2036. The other three scenarios lead to higher debt levels than the baseline. The *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.) results in a 6 pps. higher debt ratio in 2036, while the difference is 3 pps. for the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1.0 pp. compared with the baseline). Under the *financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline), the 2036 debt ratio would be marginally higher than the baseline projection.

The stochastic projections run around the baseline point to medium risk ([128])**.** The stochastic simulations indicate that the debt ratio will be higher in 2030 than in 2025 with a probability of 96%, pointing to medium risk given the low debt level in 2025. Some uncertainty surrounds the baseline debt projection, as measured by the difference of around 25 pps. of GDP between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt

([125]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 3.1% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([126]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Estonia commits to in its medium-term plan beyond 2025 is not taken into account in the projection.

([127]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([128]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

(S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([129]). The medium-risk classification reflects the high initial deficit, nuanced by the projected decrease in age-related spending and the low debt level.

The S2 debt-stabilisation indicator points to medium risk. It signals that Estonia would need to improve its SPB in 2027 by 2.9 pps. to ensure that debt stabilises over the long term. It reflects the adjustment of 3.4 pps. imply by the initial deficit, partly offset by the projected decrease in ageing costs, in particular declining pension spending (-1.1 pps.), which lowers the required adjustment by 0.5 pps.

The S1 debt-reduction indicator also points to medium risk. This indicator shows that a fiscal effort of 2.4 pps. would be needed for Estonia to prevent the debt ratio from exceeding 60% of GDP by 2070. A debt ratio projected at below 60% of GDP in 2027 and a limited decline in ageing costs are not sufficient to compensate for the impact of the initial budgetary position, which in itself would require a fiscal effort of 3.3% of GDP to keep the debt ratio at 60% in 2070.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, the large share of government debt held by non-residents can constitute a risk-increasing factor (Section 4.1.2). On the other hand, risk-mitigating factors include (i) the modest contingent liabilities (Sections 4.2.2 and 4.2.3) and (ii) the fact that the overall still low government debt is fully denominated in euro (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([129]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

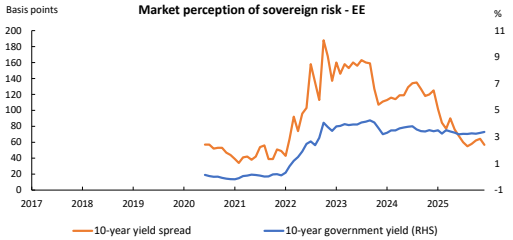
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	LOW	LOW	MEDIUM	LOW	LOW	MEDIUM	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	56.2	37.1	61.9	59.4	56.3				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	89%	75%	100%	89%	89%				
	Probability of debt ratio exceeding in 2030 its 2025 level						96%			
	Difference between 90th and 10th percentiles (% of GDP)						25.2			

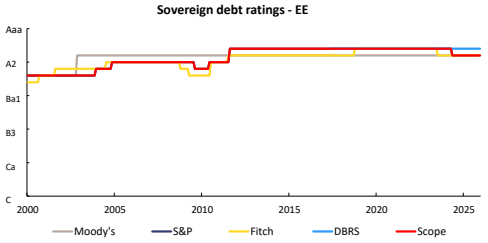
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	57

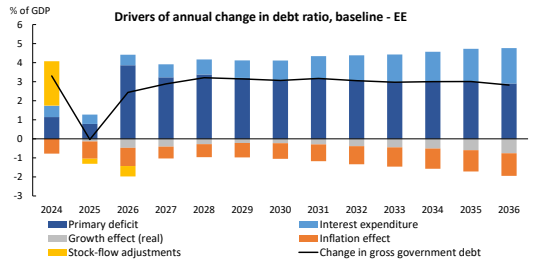
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

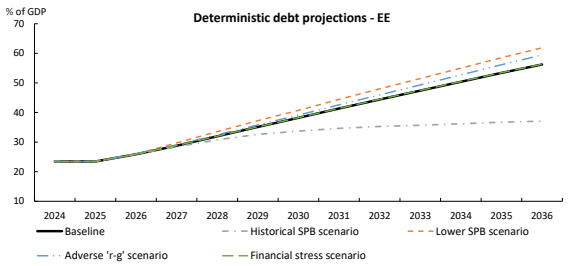


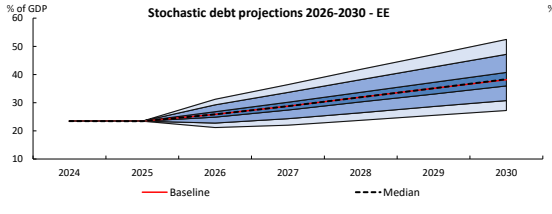


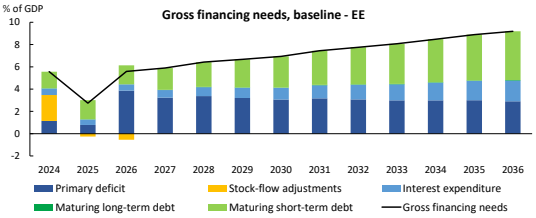
2. Medium-term fiscal sustainability risks

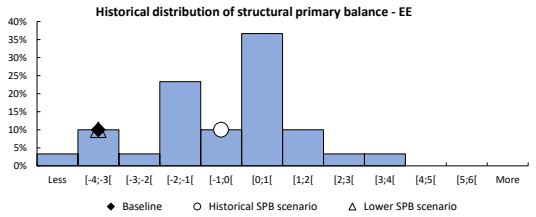
Estonia - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**23.5**	**23.4**	**25.9**	**28.8**	**32.0**	**35.1**	**38.2**	**41.3**	**44.4**	**47.4**	**50.4**	**53.4**	**56.2**
Change in the ratio (-1+2+3)	*3.3*	*0.0*	*2.4*	*2.9*	*3.2*	*3.1*	*3.1*	*3.2*	*3.1*	*3.0*	*3.0*	*3.0*	*2.8*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-1.1**	**-0.8**	**-3.9**	**-3.2**	**-3.4**	**-3.2**	**-3.1**	**-3.2**	**-3.1**	**-3.0**	**-3.0**	**-3.0**	**-2.9**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***0.4***	***0.6***	***-3.1***	***-3.0***	***-3.3***	***-3.2***	***-3.1***	***-3.2***	***-3.1***	***-3.0***	***-3.0***	***-3.0***	***-2.9***
(1.1.1) Structural primary balance (before CoA)	*0.4*	*0.6*	*-3.1*	*-3.1*	*-3.1*	*-3.1*	*-3.1*	*-3.1*	*-3.1*	*-3.1*	*-3.1*	*-3.1*	*-3.1*
(1.1.2) Cost of ageing (CoA)				*-0.1*	*0.1*	*0.0*	*-0.1*	*0.0*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.3*
Pensions				*0.0*	*0.1*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*
Health care				*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Education				*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.3*	*-0.3*	*-0.3*	*-0.4*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***-1.8***	***-1.5***	***-0.7***	***-0.2***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.3***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-0.2**	**-0.6**	**-0.9**	**-0.3**	**-0.2**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**
(2.1) Interest expenditure	*0.6*	*0.5*	*0.6*	*0.7*	*0.8*	*0.9*	*1.0*	*1.2*	*1.3*	*1.4*	*1.6*	*1.7*	*1.9*
(2.2) Growth effect (real)	*0.0*	*-0.1*	*-0.5*	*-0.4*	*-0.3*	*-0.2*	*-0.2*	*-0.3*	*-0.4*	*-0.4*	*-0.5*	*-0.6*	*-0.8*
(2.3) Inflation effect	*-0.8*	*-0.9*	*-1.0*	*-0.6*	*-0.7*	*-0.8*	*-0.8*	*-0.9*	*-0.9*	*-1.0*	*-1.1*	*-1.1*	*-1.2*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**2.3**	**-0.3**	**-0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*2.3*	*-0.3*	*-0.5*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-0.2	0.2	-3.7	-3.7	-4.0	-4.1	-4.1	-4.3	-4.4	-4.4	-4.6	-4.7	-4.8
Gross financing needs	5.6	2.7	5.6	5.9	6.4	6.7	6.9	7.4	7.8	8.1	8.5	8.9	9.2

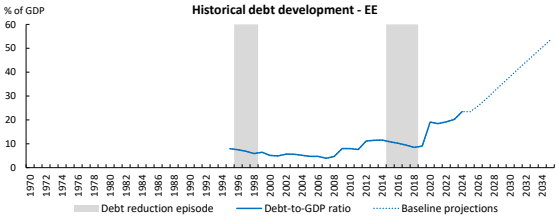


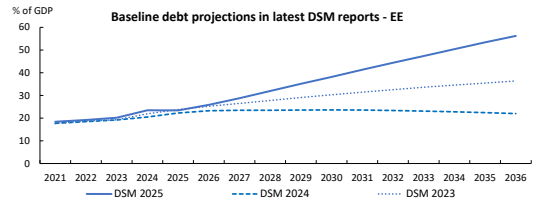


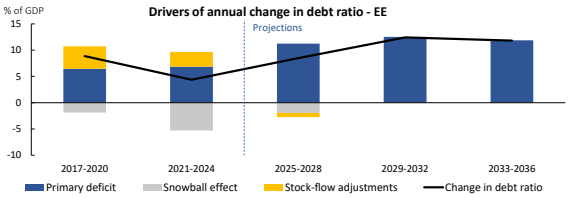












Estonia - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.5	23.4	25.9	28.8	32.0	35.1	38.2	41.3	44.4	47.4	50.4	53.4	56.2
Primary balance	-1.1	-0.8	-3.9	-3.2	-3.4	-3.2	-3.1	-3.2	-3.1	-3.0	-3.0	-3.0	-2.9
Structural primary balance (before CoA)	0.4	0.6	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1
Real GDP growth	-0.1	0.6	2.1	1.6	1.0	0.7	0.7	0.8	1.0	1.0	1.1	1.2	1.5
Potential GDP growth	-0.1	0.0	0.4	0.5	0.9	0.5	0.6	0.8	1.0	1.0	1.1	1.2	1.5
Inflation rate	4.0	4.0	4.3	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Implicit interest rate (nominal)	3.0	2.2	2.5	2.7	2.9	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.6
Gross financing needs	5.6	2.7	5.6	5.9	6.4	6.7	6.9	7.4	7.8	8.1	8.5	8.9	9.2
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.5	23.4	25.9	28.4	30.8	32.6	33.7	34.7	35.3	35.7	36.2	36.7	37.1
Primary balance	-1.1	-0.8	-3.9	-2.8	-2.5	-1.8	-1.1	-1.1	-0.8	-0.6	-0.6	-0.6	-0.5
Structural primary balance (before CoA)	0.4	0.6	-3.1	-2.5	-1.9	-1.3	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Real GDP growth	-0.1	0.6	2.1	1.3	0.8	0.5	0.5	1.1	1.3	1.4	1.1	1.2	1.5
Gross financing needs	5.6	2.7	5.6	5.5	5.5	5.1	4.7	4.8	4.7	4.5	4.6	4.7	4.7
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.5	23.4	25.9	28.8	32.0	35.2	38.2	41.4	44.5	47.5	50.5	53.5	56.3
Implicit interest rate (nominal)	3.0	2.2	2.6	2.8	2.9	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.6
Gross financing needs	5.6	2.7	5.6	5.9	6.4	6.7	7.0	7.5	7.8	8.1	8.5	8.9	9.2
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.5	23.4	26.0	29.7	33.5	37.2	40.7	44.4	48.0	51.5	55.0	58.5	61.9
Primary balance	-1.1	-0.8	-4.0	-3.9	-4.0	-3.8	-3.6	-3.7	-3.6	-3.5	-3.5	-3.5	-3.4
Structural primary balance (before CoA)	0.4	0.6	-3.4	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6
Real GDP growth	-0.1	0.6	2.3	1.1	1.1	0.8	0.8	0.8	1.0	1.0	1.1	1.2	1.5
Gross financing needs	5.6	2.7	5.8	6.6	7.2	7.4	7.7	8.3	8.6	9.0	9.5	10.0	10.3
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	23.5	23.4	26.0	29.0	32.4	35.8	39.1	42.6	46.0	49.3	52.7	56.1	59.4
Implicit interest rate (nominal)	3.0	2.2	2.6	2.9	3.0	3.2	3.3	3.4	3.6	3.7	3.8	3.9	4.0
Real GDP growth	-0.1	0.6	1.6	1.1	0.5	0.2	0.2	0.3	0.5	0.5	0.6	0.7	1.0
Gross financing needs	5.6	2.7	5.6	5.9	6.5	6.8	7.1	7.7	8.0	8.4	8.9	9.4	9.7

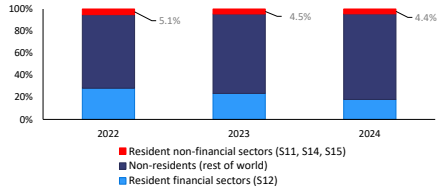
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**2.9**	**3.1**	**8.2**	**0.2**
of which					
Initial budgetary position		3.4	3.5	3.5	0.7
Ageing costs		-0.5	-0.4	4.7	-0.5
of which	*Pensions*	-1.1	-0.9	-1.0	-1.1
	Health care	0.6	0.5	1.3	0.5
	Long-term care	0.5	0.5	4.9	0.5
	Education	-0.5	-0.5	-0.5	-0.5
Required structural primary balance related to S2		**-0.3**	**-0.1**	**5.1**	**-0.3**

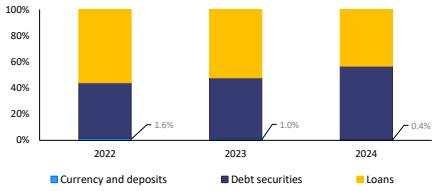
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**2.4**	**2.5**	**4.7**	**-0.3**
of which					
Initial budgetary position		3.3	3.3	3.2	0.6
Debt requirement		-0.8	-0.7	-0.8	-0.8
Ageing costs		-0.1	-0.1	2.3	-0.1
of which	*Pensions*	-0.4	-0.3	-0.4	-0.4
	Health care	0.4	0.4	1.0	0.4
	Long-term care	0.3	0.3	2.1	0.3
	Education	-0.4	-0.4	-0.4	-0.4
Required structural primary balance related to S1		**-0.8**	**-0.6**	**1.5**	**-0.8**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

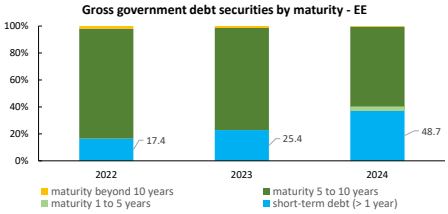
Debt by holder - EE



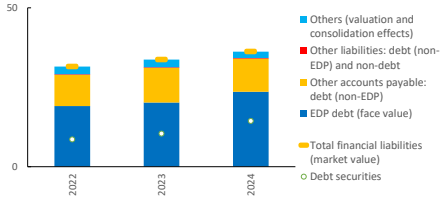
Debt by instrument - EE



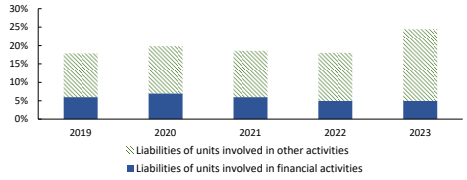
Gross government debt securities by maturity - EE



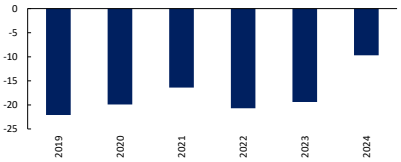
Debt and non-debt financial liabilities - EE



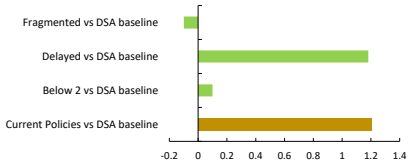
Liabilities of public corporations outside general government as % of GDP - EE



NIIP (% of GDP) - EE



Climate change scenarios
Debt-to-GDP, difference in 2050 - EE



7. IRELAND

This fiche assesses fiscal sustainability risks for Ireland over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain low, staying below 3% of GDP over 2026-2027. Irish sovereign debt remains investment grade, reflecting the investors' confidence, with all major rating agencies having a "AA" rating for Ireland.

2 – Medium-term fiscal sustainability risks are low.

Under the DSA baseline, debt is projected to decline steadily over the medium term, reaching around 20% of GDP in 2036 ([130]). The decline in the government debt ratio is partially driven by the structural primary surplus of 1.4% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([131]). This structural primary balance (SPB) level is in line with past fiscal performance ([132]). Ageing-related expenditure is projected to increase, weighing on public finances. At the same time, the baseline projection benefits from a still favourable (although declining) snowball effect. Moreover, government gross financing needs are expected to remain very low over the projection period.

The deterministic stress tests do not identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -0.6% of GDP), the debt ratio would exceed the baseline level by around 15 pps. by 2036, although remaining well below 60% of GDP. Under the *lower SPB scenario* (in which the SPB level deteriorates by 0.5 pps) and the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1.0 pp. compared with the baseline), by 2036 the debt ratio would be higher than in the baseline by around 4 pps. and 2 pps., respectively. Under the *financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline), the debt ratio would be broadly unchanged compared with the baseline.

The stochastic projections run around the baseline indicate low risk due to the low probability of debt increasing over the next five years ([133])**.** The stochastic simulations indicate that the debt ratio will be higher in 2030 than in 2025 with a probability of 24%, pointing to low risk given the low initial debt level. Some uncertainty surrounds the baseline debt projection, as measured by the difference of around 25 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([130]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary surplus, before changes in ageing costs, of 1.4% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (3.2% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([131]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Ireland commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([132]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([133]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([134]). The medium risk stems from the projected increase in ageing-related costs.

The S2 debt-stabilisation indicator points to medium risk. It signals that Ireland would need to improve its SPB by 3.3 pps. in 2027 to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing costs, which contributes 4.3 pps., of which 2.4 pps. stem from pension expenditure and 2.3 pps. jointly from health care and long-term care expenditure, partially offset by a negative contribution from education (-0.4 pps.). The favourable initial budgetary position (contributing -1.0 pps.) partly offsets the impact of ageing costs.

The S1 debt-reduction indicator points to low risk. This indicator shows that a fiscal effort of 1.0 pps. would be needed for Ireland to bring its debt to 60% of GDP by 2070. This effort would be needed due to the projected increase in ageing costs (contributing 3.1 pps.), which is not fully offset by the high initial fiscal surplus (contributing -1.5 pps.) and the current low level of debt below the 60% reference value (-0.6 pps. of GDP).

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors relate to (i) the negative net international investment position, though this largely reflects the presence of multinationals and the International Financial Services Centre (Section 4.2.4), and (ii) the concentration of tax revenues in a few MNEs in times of trade tensions and changing international corporate tax regulations. Moreover, alternative metrics to GDP suggest higher fiscal sustainability risks. On the other hand, risk-mitigating factors include (i) the relatively low share of short-term public debt, just above the EU average (Section 4.1.1), (ii) the gradual increases in pension contribution rates that Ireland legislated for 2024-2028, (iii) relatively stable financing sources with a diversified and large investor base (Section 4.1.2), (iv) the currency denomination of debt (Section 4.1.3) and (v) weighted average maturity is relatively high and most of it is fixed rate insulating it from market volatility (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([134]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

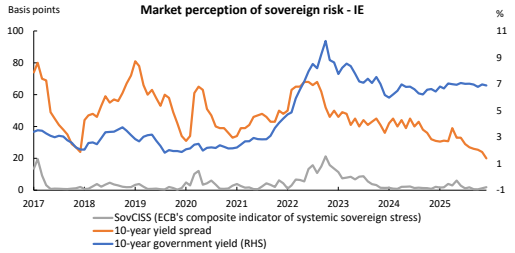
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
LOW	Overall	LOW	LOW	LOW	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM
	Debt level (2036), % of GDP	20.3	35.0	24.6	22.2	20.5				
	Debt peak year	2025	2036	2025	2025	2025				
	Fiscal consolidation space	50%	62%	55%	50%	50%				
	Probability of debt ratio exceeding in 2030 its 2025 level						24%			
	Difference between 90th and 10th percentiles (% of GDP)						24.5			

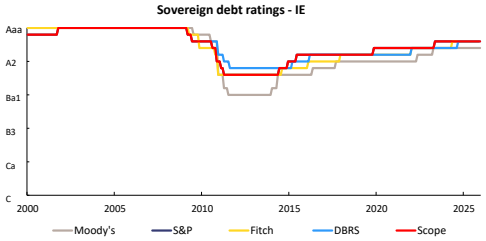
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	20

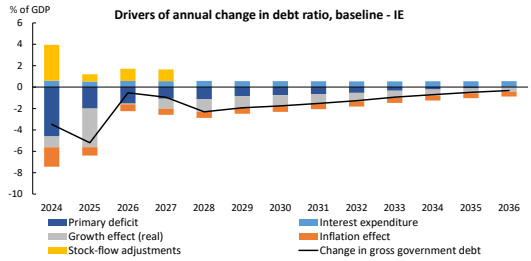
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

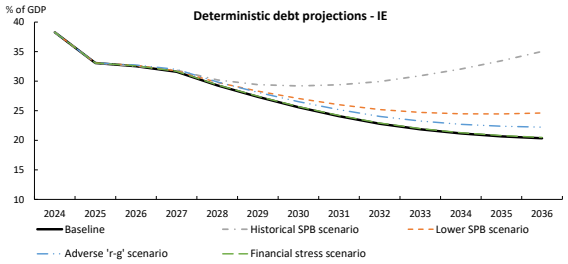


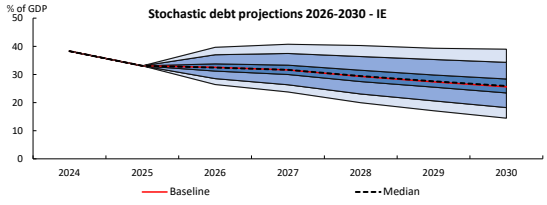


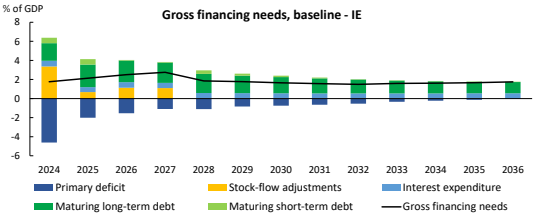
2. Medium-term fiscal sustainability risks

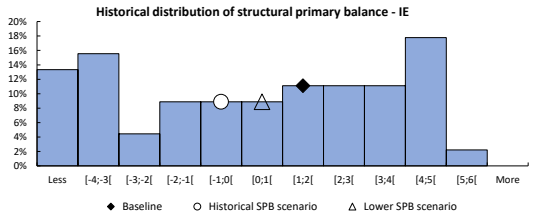
Ireland - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**38.3**	**33.1**	**32.5**	**31.6**	**29.3**	**27.4**	**25.6**	**24.1**	**22.8**	**21.9**	**21.2**	**20.7**	**20.3**
Change in the ratio (-1+2+3)	*-3.5*	*-5.2*	*-0.5*	*-0.9*	*-2.3*	*-1.9*	*-1.8*	*-1.5*	*-1.3*	*-0.9*	*-0.7*	*-0.5*	*-0.3*
of which													
(1) Primary balance (1.1+1.2+1.3)	**4.6**	**2.0**	**1.5**	**1.1**	**1.1**	**0.8**	**0.7**	**0.6**	**0.5**	**0.3**	**0.2**	**0.1**	**0.0**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***3.1***	***0.0***	***1.4***	***1.2***	***1.2***	***0.9***	***0.7***	***0.6***	***0.5***	***0.3***	***0.2***	***0.1***	***0.0***
(1.1.1) Structural primary balance (before CoA)	*3.1*	*0.0*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*
(1.1.2) Cost of ageing (CoA)				*0.2*	*0.2*	*0.5*	*0.6*	*0.7*	*0.8*	*1.0*	*1.1*	*1.2*	*1.3*
Pensions				*0.1*	*0.2*	*0.3*	*0.4*	*0.5*	*0.6*	*0.7*	*0.8*	*0.9*	*1.0*
Health care				*0.1*	*0.1*	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*0.5*
Long-term care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Education				*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.3*	*-0.3*	*-0.3*	*-0.4*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(1.2) Cyclical component	***-1.0***	***2.0***	***0.2***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***2.5***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-2.2**	**-3.9**	**-0.1**	**-0.9**	**-1.2**	**-1.1**	**-1.0**	**-0.9**	**-0.7**	**-0.6**	**-0.5**	**-0.4**	**-0.3**
(2.1) Interest expenditure	*0.6*	*0.5*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.5*	*0.5*	*0.5*	*0.5*	*0.6*	*0.6*
(2.2) Growth effect (real)	*-1.0*	*-3.6*	*-0.1*	*-0.9*	*-1.2*	*-1.1*	*-1.0*	*-0.9*	*-0.8*	*-0.7*	*-0.6*	*-0.4*	*-0.4*
(2.3) Inflation effect	*-1.8*	*-0.8*	*-0.6*	*-0.6*	*-0.6*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.5*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**3.4**	**0.7**	**1.1**	**1.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*3.4*	*0.7*	*1.1*	*1.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	2.5	-0.5	0.8	0.6	0.6	0.3	0.2	0.1	0.0	-0.2	-0.3	-0.4	-0.5
Gross financing needs	1.8	2.1	2.5	2.7	1.8	1.8	1.7	1.6	1.5	1.6	1.6	1.7	1.7

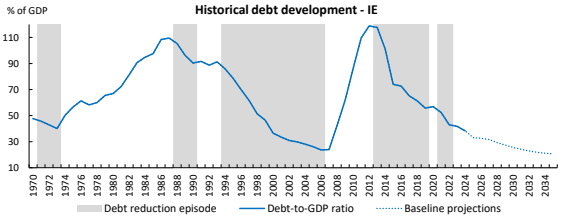


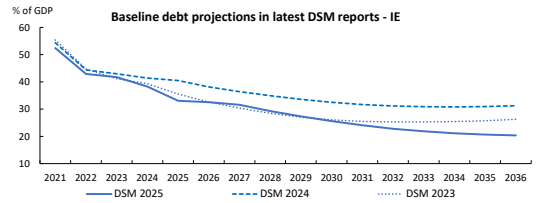


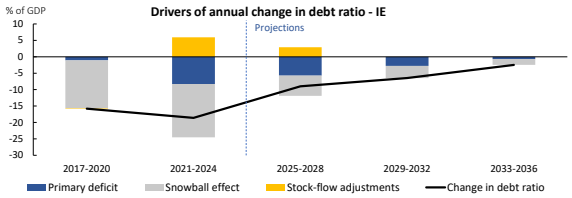












Ireland - Underlying assumptions of deterministic debt projections

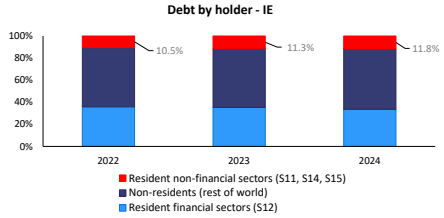
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.3	33.1	32.5	31.6	29.3	27.4	25.6	24.1	22.8	21.9	21.2	20.7	20.3
Primary balance	4.6	2.0	1.5	1.1	1.1	0.8	0.7	0.6	0.5	0.3	0.2	0.1	0.0
Structural primary balance (before CoA)	3.1	0.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Real GDP growth	2.6	10.7	0.2	3.0	4.0	4.0	4.0	3.8	3.4	3.1	2.6	2.2	2.1
Potential GDP growth	3.7	4.5	3.7	3.5	4.0	3.9	4.0	3.8	3.4	3.1	2.6	2.2	2.1
Inflation rate	4.5	2.1	2.0	1.8	1.8	1.9	2.0	2.0	2.1	2.2	2.2	2.3	2.3
Implicit interest rate (nominal)	1.5	1.5	1.8	1.8	1.9	2.0	2.1	2.3	2.4	2.5	2.6	2.7	2.8
Gross financing needs	1.8	2.1	2.5	2.7	1.8	1.8	1.7	1.6	1.5	1.6	1.6	1.7	1.7
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.3	33.1	32.5	31.8	30.2	29.4	29.2	29.4	29.9	30.9	32.1	33.5	35.0
Primary balance	4.6	2.0	1.5	0.7	0.4	-0.3	-0.9	-1.1	-1.3	-1.6	-1.7	-1.8	-1.9
Structural primary balance (before CoA)	3.1	0.0	1.4	0.9	0.4	-0.1	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Real GDP growth	2.6	10.7	0.2	3.3	4.2	4.1	4.1	3.5	3.2	2.8	2.6	2.2	2.1
Gross financing needs	1.8	2.1	2.5	3.1	2.3	2.9	3.3	3.6	3.8	4.2	4.4	4.6	4.9
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.3	33.1	32.6	31.7	29.4	27.5	25.7	24.2	22.9	22.0	21.3	20.8	20.5
Implicit interest rate (nominal)	1.5	1.5	1.9	1.8	2.0	2.1	2.2	2.3	2.4	2.5	2.6	2.8	2.9
Gross financing needs	1.8	2.1	2.6	2.8	1.9	1.8	1.7	1.6	1.5	1.6	1.6	1.7	1.8
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.3	33.1	32.7	31.8	29.8	28.3	27.1	26.0	25.2	24.7	24.5	24.5	24.6
Primary balance	4.6	2.0	1.4	0.9	0.8	0.4	0.2	0.1	0.0	-0.2	-0.3	-0.4	-0.5
Structural primary balance (before CoA)	3.1	0.0	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Real GDP growth	2.6	10.7	0.4	3.5	3.8	3.8	3.8	3.8	3.4	3.1	2.6	2.2	2.1
Gross financing needs	1.8	2.1	2.7	2.9	2.0	2.1	2.1	2.1	2.2	2.3	2.4	2.5	2.6
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.3	33.1	32.7	32.0	29.9	28.1	26.5	25.2	24.0	23.3	22.7	22.4	22.2
Implicit interest rate (nominal)	1.5	1.5	1.9	1.9	2.1	2.2	2.3	2.5	2.6	2.7	2.9	3.0	3.2
Real GDP growth	2.6	10.7	-0.3	2.5	3.5	3.5	3.5	3.3	2.9	2.6	2.1	1.7	1.6
Gross financing needs	1.8	2.1	2.6	2.8	1.9	1.9	1.7	1.7	1.7	1.8	1.8	1.9	2.0

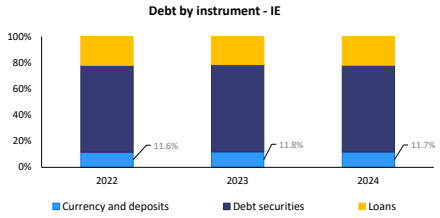
3. Long-term fiscal sustainability risks

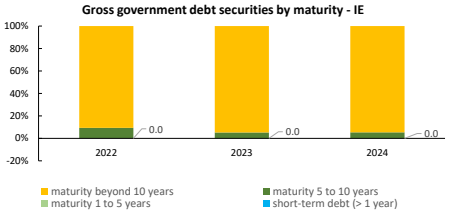
S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**3.3**	**3.2**	**4.5**	**2.2**
of which					
Initial budgetary position		-1.0	-1.0	-1.0	-2.3
Ageing costs		4.3	4.2	5.4	4.5
of which	*Pensions*	2.4	2.4	2.4	2.6
	Health care	1.3	1.2	1.9	1.3
	Long-term care	1.1	1.0	1.5	1.1
	Education	-0.4	-0.4	-0.4	-0.5
Required structural primary balance related to S2		**4.7**	**4.6**	**5.8**	**4.9**

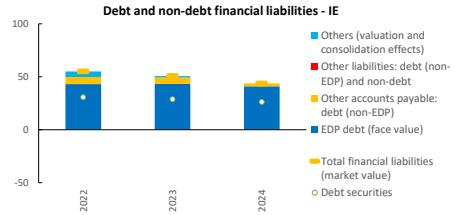
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**1.0**	**1.1**	**1.7**	**-0.2**
of which					
Initial budgetary position		-1.5	-1.4	-1.5	-2.8
Debt requirement		-0.6	-0.6	-0.6	-0.5
Ageing costs		3.1	3.1	3.9	3.2
of which	*Pensions*	1.9	1.9	1.9	2.0
	Health care	0.9	0.9	1.4	0.9
	Long-term care	0.6	0.6	0.9	0.7
	Education	-0.3	-0.3	-0.3	-0.4
Required structural primary balance related to S1		**2.4**	**2.4**	**3.1**	**2.5**

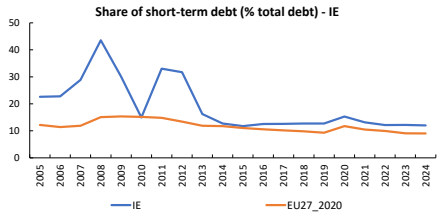
4. Additional aggravating and mitigating risk factors for fiscal sustainability

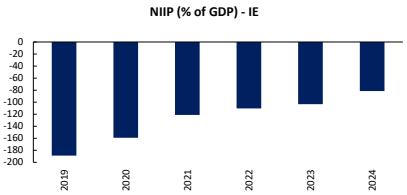


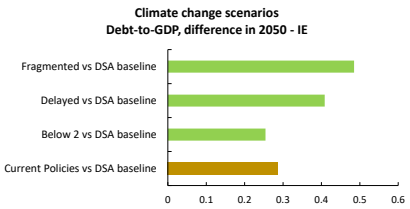












8. GREECE

This fiche assesses fiscal sustainability risks for Greece over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain low, at around 9% of GDP over 2026-2027. Greece maintains investment grade in its sovereign credit rating from three of the four major credit rating agencies.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to decline but remain high over the medium term, reaching around 124% of GDP in 2036 ([135]). The reduction in the government debt ratio is driven by the assumed structural primary surplus of 1.8% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([136]). This structural primary balance (SPB) level is rather ambitious compared with past fiscal performance ([137]). The debt decline also benefits from a still favourable (although declining) snowball effect up to 2033. Government gross financing needs are expected to increase to around 17% of GDP by 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three of them lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.) and the *financial stress scenario* (in which interest rates temporarily increase by 4.5 pps. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 10 pps, 6 pps. and 2 pps., respectively. By contrast, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of 4.9% of GDP), the debt ratio would be lower than under the baseline, by around 26 pps. in 2036.

The stochastic projections run around the baseline indicate medium risk due to high level of debt and the uncertainty around the baseline ([138])**.** These stochastic simulations indicate that the debt ratio will be higher in 2030 than in 2025 with a probability of 15%, pointing to medium risk given the high initial debt ratio. Moreover, high uncertainty surrounds the baseline debt projection, as measured by the difference of around 40 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2026 to stabilise debt (S2 indicator)

([135]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary surplus, before changes in ageing costs, of 1.8% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (average of 0.7%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([136]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Greece commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Greece follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([137]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([138]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

and to bring it to 60% of GDP (S1 indicator) over the long term ([139]). The low risk mainly reflects the initial budget surplus.

The debt-stabilisation S2 indicator points to low risk. It signals that Greece would not need to improve its SPB relative to the baseline to ensure that debt stabilises over the long term. This result is mainly driven by the favourable initial budgetary position (contribution of -0.3 pps.) and the projected decline in ageing costs (-0.1 pps.). Developments in ageing costs are primarily driven by a projected decrease in public pension expenditure (-0.6 pps.) and education expenditure (-0.2 pps), which is to a large extent offset by a projected increase in health-care spending (0.7 pps).

The S1 debt-reduction indicator also points to low risk. This indicator shows that Greece would need to further improve its fiscal position by only 1.5 pps. to reduce its debt to 60% of GDP by 2070. This result is mainly driven by the current level of the debt ratio above the 60% reference value (contributing 1.6 pps.) and the projected increase in ageing costs (contributing 0.7 pps.), partially offset by the favourable initial budgetary position (contribution of -0.7 pps.).

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors relate to (i) the state guarantees (Section 4.2.2), (ii) the non-performing loans in the banking sector, although the share of non-performing loans witnessed a sharp reduction in the previous years, it remains above the EU average (Section 4.2.3), (iii) the negative net international investment position (Section 4.2.3), and (iv) contingent liabilities related to pending legal cases against the state as well as potential financial implications stemming from ongoing investigations and audits concerning the management of EU-funded agricultural schemes, including the Greek Payment Authority of Common Agricultural Policy (OPEKEPE). On the other hand, risk-mitigating factors are related to the structure of the debt. In particular, (i) the major share of debt is still held by official lenders at low interest rates (Section 4.1.1), (ii) the high level of cash buffers, (iii) the relatively long maturity debt structure, compared with peer Member States (Section 4.1.1), and (iv) the fact that public debt is completely denominated in euro, excludes currency risks (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([139]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

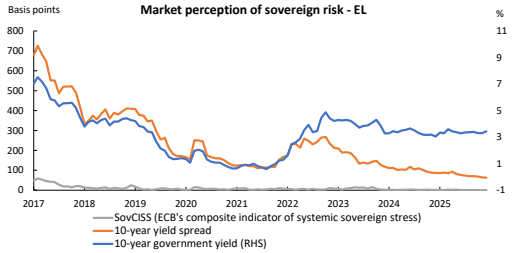
Overall	Medium term - Debt sustainability analysis (DSA)	Deterministic scenarios					Stochastic projections	Long term		Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress		S2	S1	
HIGH	Overall	MEDIUM	HIGH	MEDIUM	MEDIUM	MEDIUM	MEDIUM	LOW	LOW	LOW
	Debt level (2036), % of GDP	123.5	97.5	129.5	133.3	125.4				
	Debt peak year	2025	2025	2025	2025	2025				
	Fiscal consolidation space	33%	20%	36%	33%	33%				
	Probability of debt ratio exceeding in 2030 its 2025 level						15%			
	Difference between 90th and 10th percentiles (% of GDP)						40.0			

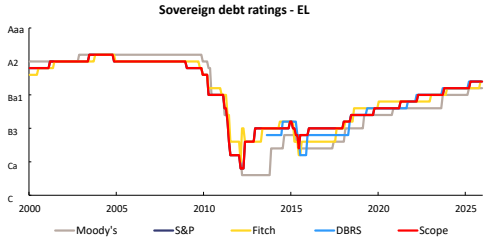
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	63

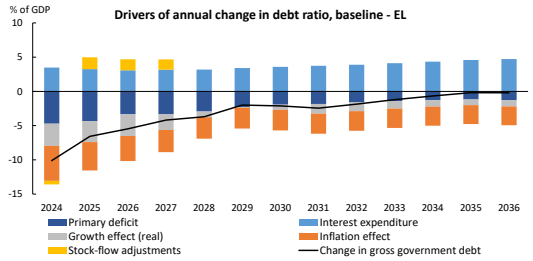
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

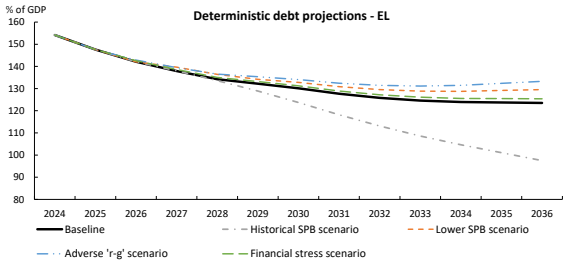


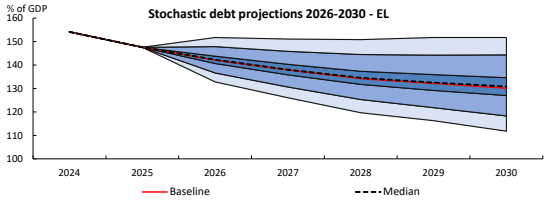


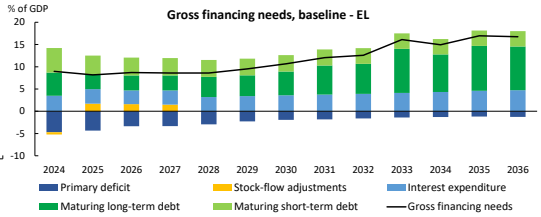
2. Medium-term fiscal sustainability risks

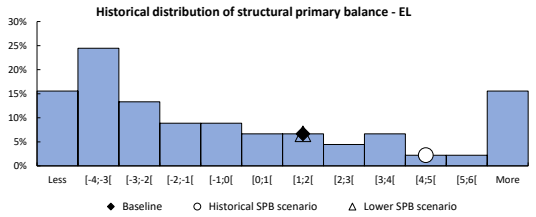
Greece - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**154.2**	**147.6**	**142.1**	**137.9**	**134.2**	**132.2**	**130.1**	**127.7**	**125.8**	**124.6**	**123.9**	**123.7**	**123.5**
Change in the ratio (-1+2+3)	*-10.1*	*-6.6*	*-5.5*	*-4.2*	*-3.7*	*-2.0*	*-2.1*	*-2.4*	*-1.9*	*-1.2*	*-0.7*	*-0.2*	*-0.2*
of which													
(1) Primary balance (1.1+1.2+1.3)	**4.7**	**4.3**	**3.4**	**3.3**	**2.9**	**2.3**	**1.9**	**1.8**	**1.6**	**1.4**	**1.3**	**1.2**	**1.3**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***3.8***	***3.2***	***1.8***	***1.9***	***2.0***	***2.0***	***1.9***	***1.8***	***1.6***	***1.4***	***1.3***	***1.2***	***1.3***
(1.1.1) Structural primary balance (before CoA)	*3.8*	*3.2*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*
(1.1.2) Cost of ageing (CoA)				*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.1*	*0.1*	*0.3*	*0.4*	*0.6*	*0.4*
Pensions				*-0.2*	*-0.3*	*-0.3*	*-0.3*	*-0.2*	*-0.1*	*0.1*	*0.2*	*0.4*	*0.2*
Health care				*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*	*0.4*	*0.4*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Education				*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*0.0*	*-0.1*
(1.2) Cyclical component	***1.1***	***1.4***	***1.6***	***1.5***	***1.0***	***0.3***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***-0.2***	***-0.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-4.9**	**-3.9**	**-3.7**	**-2.4**	**-0.8**	**0.3**	**-0.2**	**-0.6**	**-0.2**	**0.2**	**0.6**	**1.0**	**1.1**
(2.1) Interest expenditure	*3.5*	*3.3*	*3.1*	*3.2*	*3.2*	*3.4*	*3.6*	*3.7*	*3.9*	*4.1*	*4.3*	*4.6*	*4.7*
(2.2) Growth effect (real)	*-3.3*	*-3.1*	*-3.2*	*-2.3*	*-0.8*	*-0.1*	*-0.8*	*-1.4*	*-1.3*	*-1.1*	*-0.9*	*-0.8*	*-0.9*
(2.3) Inflation effect	*-5.1*	*-4.1*	*-3.6*	*-3.2*	*-3.1*	*-3.0*	*-3.0*	*-2.9*	*-2.9*	*-2.8*	*-2.8*	*-2.8*	*-2.7*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**-0.5**	**1.7**	**1.6**	**1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*-0.5*	*1.7*	*1.6*	*1.5*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	0.3	-0.1	-1.3	-1.3	-1.2	-1.5	-1.6	-1.9	-2.3	-2.7	-3.1	-3.4	-3.5
Gross financing needs	9.0	8.2	8.7	8.6	8.6	9.5	10.7	12.1	12.6	16.1	14.9	17.0	16.8

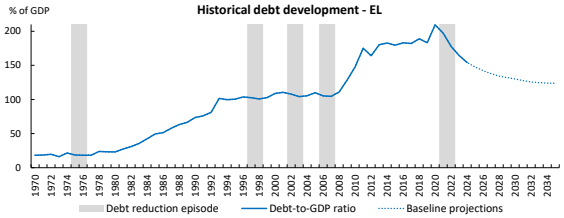


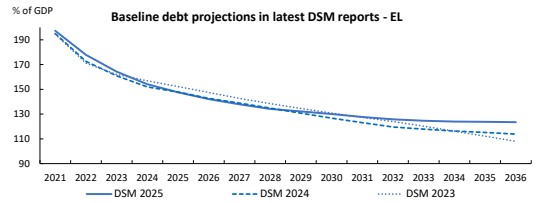


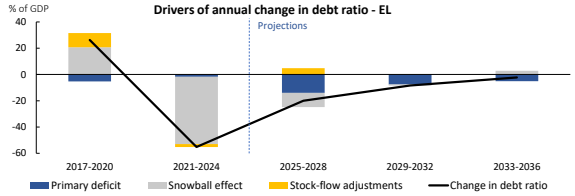












Greece - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	154.2	147.6	142.1	137.9	134.2	132.2	130.1	127.7	125.8	124.6	123.9	123.7	123.5
Primary balance	4.7	4.3	3.4	3.3	2.9	2.3	1.9	1.8	1.6	1.4	1.3	1.2	1.3
Structural primary balance (before CoA)	3.8	3.2	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Real GDP growth	2.1	2.1	2.2	1.7	0.6	0.1	0.6	1.1	1.0	0.9	0.8	0.7	0.8
Potential GDP growth	1.0	1.5	1.8	1.8	1.5	1.3	1.2	1.1	1.0	0.9	0.8	0.7	0.8
Inflation rate	3.2	2.8	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Implicit interest rate (nominal)	2.2	2.2	2.2	2.3	2.4	2.6	2.8	3.0	3.2	3.4	3.6	3.8	3.9
Gross financing needs	9.0	8.2	8.7	8.6	8.6	9.5	10.7	12.1	12.6	16.1	14.9	17.0	16.8
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	154.2	147.6	142.1	138.0	133.6	128.9	123.7	118.2	113.1	108.6	104.6	101.1	97.5
Primary balance	4.7	4.3	3.4	3.9	4.1	4.4	4.9	4.8	4.7	4.5	4.4	4.3	4.4
Structural primary balance (before CoA)	3.8	3.2	1.8	2.6	3.3	4.1	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Real GDP growth	2.1	2.1	2.2	1.2	0.3	0.5	0.7	1.2	1.1	1.0	0.8	0.7	0.8
Gross financing needs	9.0	8.2	8.7	8.1	7.7	7.3	7.2	7.8	7.6	10.2	8.6	9.8	9.1
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	154.2	147.6	142.6	138.6	135.0	133.2	131.2	128.9	127.2	126.1	125.6	125.5	125.4
Implicit interest rate (nominal)	2.2	2.2	2.5	2.4	2.5	2.7	2.9	3.1	3.3	3.5	3.7	3.9	4.0
Gross financing needs	9.0	8.2	9.2	8.8	8.8	9.8	10.9	12.3	12.9	16.4	15.2	17.3	17.1
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	154.2	147.6	142.1	139.6	136.4	134.2	132.8	130.8	129.5	128.9	128.8	129.2	129.5
Primary balance	4.7	4.3	3.2	2.6	2.2	1.8	1.4	1.3	1.1	0.9	0.8	0.7	0.8
Structural primary balance (before CoA)	3.8	3.2	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Real GDP growth	2.1	2.1	2.4	1.0	0.8	0.6	0.5	1.1	1.0	0.9	0.8	0.7	0.8
Gross financing needs	9.0	8.2	8.9	9.5	9.4	10.1	11.4	12.9	13.5	17.2	16.0	18.2	18.1
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	154.2	147.6	142.9	139.4	136.5	135.3	134.0	132.4	131.4	131.2	131.5	132.4	133.3
Implicit interest rate (nominal)	2.2	2.2	2.2	2.4	2.5	2.7	2.9	3.1	3.3	3.6	3.8	4.1	4.2
Real GDP growth	2.1	2.1	1.7	1.2	0.1	-0.4	0.1	0.6	0.5	0.4	0.3	0.2	0.3
Gross financing needs	9.0	8.2	8.8	8.8	8.9	9.9	11.2	12.7	13.4	17.2	16.2	18.5	18.5

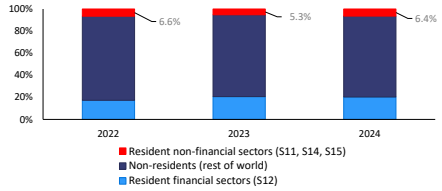
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**-0.4**	**0.5**	**2.8**	**-0.8**
of which					
Initial budgetary position		-0.3	0.0	-0.2	-0.5
Ageing costs		-0.1	0.5	3.1	-0.4
of which	*Pensions*	-0.6	0.0	-0.6	-0.8
	Health care	0.7	0.7	1.4	0.7
	Long-term care	0.0	0.0	2.4	0.0
	Education	-0.2	-0.2	-0.2	-0.3
Required structural primary balance related to S2		**1.4**	**2.3**	**4.6**	**0.8**

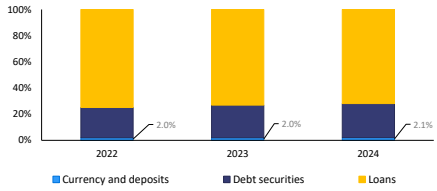
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**1.5**	**2.0**	**2.7**	**0.9**
of which					
Initial budgetary position		-0.7	-0.4	-0.7	-1.3
Debt requirement		1.6	1.5	1.6	1.8
Ageing costs		0.7	0.9	1.9	0.4
of which	*Pensions*	0.1	0.4	0.1	0.0
	Health care	0.6	0.6	1.1	0.6
	Long-term care	0.0	0.0	0.7	0.0
	Education	-0.1	-0.1	-0.1	-0.2
Required structural primary balance related to S1		**3.3**	**3.8**	**4.5**	**2.6**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

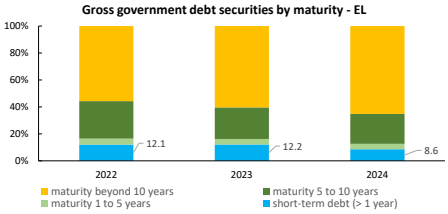
Debt by holder - EL



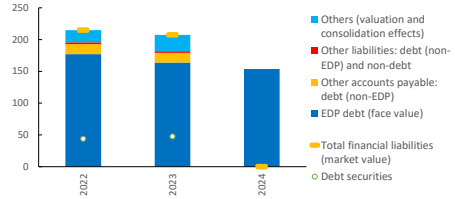
Debt by instrument - EL



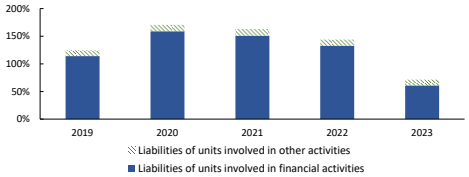
Gross government debt securities by maturity - EL



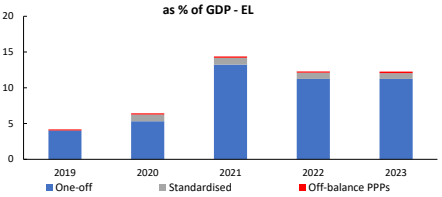
Debt and non-debt financial liabilities - EL



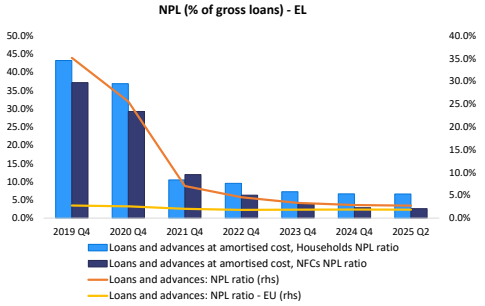
Liabilities of public corporations outside general government as % of GDP - EL



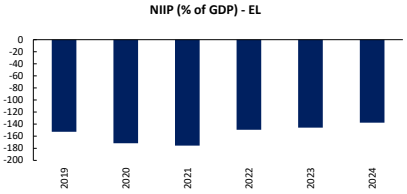
Government guarantees and off-balance PPPs as % of GDP - EL



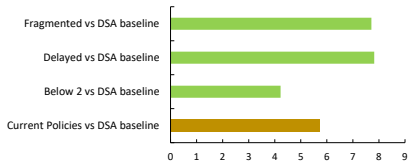
NPL (% of gross loans) - EL



NIIP (% of GDP) - EL



Climate change scenarios
Debt-to-GDP, difference in 2050 - EL



9. SPAIN

This fiche assesses fiscal sustainability risks for Spain over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected at around 15% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are investment grade. The main rating agencies (Fitch, Standard & Poor's, Moody's and Scope) recently upgraded their assessment, reflecting the country's strong economic performance and the investor's confidence in its financial stability.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to decline slightly until 2028 before increasing again over the medium term, reaching around 108% of GDP in 2036 ([140]). The baseline rests on the assumption of a structural primary deficit of 0.3% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([141]). This structural primary balance (SPB) level is in line with past fiscal performance ([142]). Moreover, ageing-related expenditure is projected to increase, weighing on public finances. At the same time, the baseline projection benefits from a still favourable (although declining) snowball effect up to 2032. Government gross financing needs are expected to remain large and to increase over the projection period, approaching 20% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. All four scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1.0 pp. compared with the baseline), the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -1.0% of GDP), the *lower SPB scenario* (in which the SPB is lowered by 0.5 pps) and *the financial stress scenario* (in which market interest rates temporarily increase by 1.6 pps. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 9 pps., 6 pps., 5 pps. and 1 pp., respectively.

The stochastic projections run around the baseline indicate high risk due to the high probability of debt increasing over the next five years ([143])**.** The stochastic simulations indicate that the debt ratio will be higher in 2030 than in 2025 with a probability of 42%, pointing to high risk given the high initial debt level. A relatively large uncertainty surrounds the baseline debt projection, as measured by the difference of around 26 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([140]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 0.3% of GDP from 2026 onwards; (ii) inflation converging linearly towards inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.3% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([141]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Spain commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Spain follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([142]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([143]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([144]). The medium risk stems from the projected increase in ageing-related costs and the unfavourable initial deficit and debt levels.

The S2 debt-stabilisation indicator points to medium risk. It signals that Spain would need to improve its SPB by 5.3 pps. in 2027 to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing costs, which contributes 3.9 pps., of which 2.6 pps. stem from pension expenditure and 1.7 pps. jointly from health care and long-term care expenditure, partially offset by a negative contribution from education ([145]). The remaining 1.4 pps. is due to the unfavourable initial budgetary position.

The S1 debt-reduction indicator also points to medium risk. This indicator shows that a significant fiscal effort of 4.8 pps. would be needed for Spain to reduce its debt to 60% of GDP by 2070. This result is driven by the projected increase in ageing costs, contributing 3.2 pps., while the initial high levels of deficit and debt, including the current unfavourable budgetary position and the excess of debt over 60% of GDP, each contribute an additional 0.8 pps.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors relate to the slightly increasing share of government debt held by non-residents (Section 4.1.2). On the other hand, risk-mitigating factors include (i) the debt maturity in line with the EU average, after a progressive lengthening in recent years (Section 4.1.1), (ii) relatively stable financing sources featuring a well-diversified and large investor base (Section 4.1.2), and (iii) the very large share of debt denominated in euro (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([144]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

([145]) The pension reform includes measures aiming to preserve adequacy and intergenerational equity, including by increasing the effective retirement age and contributions to the pension system, while minimising the impact on the tax wedge on labour. The impact of the legislated revenue measures of the 2023 pension reform, such as the intergenerational equity mechanism, are not included in this projection.

Overview of key fiscal sustainability risks

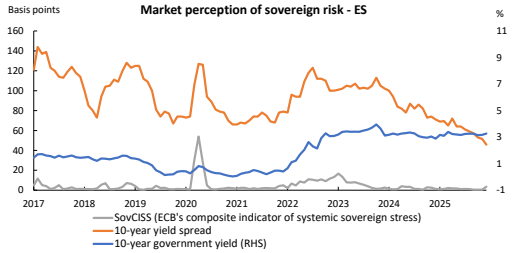
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	107.7	113.3	112.9	116.3	108.9				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	47%	61%	59%	47%	47%				
	Probability of debt ratio exceeding in 2030 its 2025 level						42%			
	Difference between 90th and 10th percentiles (% of GDP)						26.2			

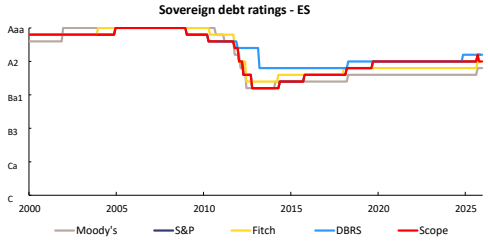
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	46

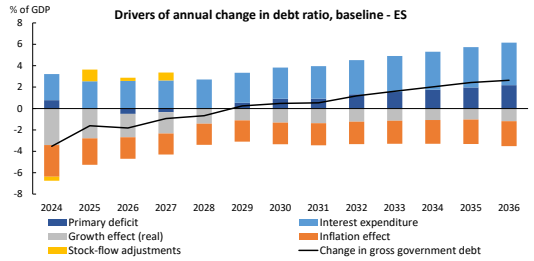
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

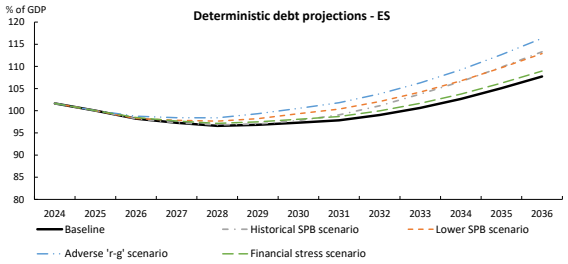


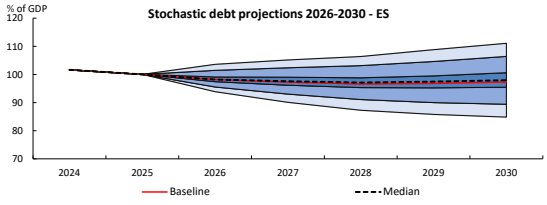


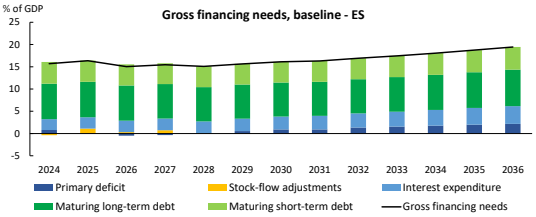
2. Medium-term fiscal sustainability risks

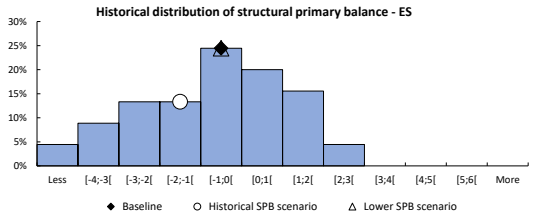
Spain - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**101.6**	**100.0**	**98.2**	**97.3**	**96.6**	**96.8**	**97.3**	**97.8**	**99.0**	**100.6**	**102.7**	**105.1**	**107.7**
Change in the ratio (-1+2+3)	*-3.5*	*-1.6*	*-1.8*	*-0.9*	*-0.7*	*0.2*	*0.5*	*0.5*	*1.2*	*1.6*	*2.0*	*2.4*	*2.6*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-0.8**	**0.0**	**0.5**	**0.3**	**0.0**	**-0.5**	**-0.9**	**-0.9**	**-1.3**	**-1.5**	**-1.8**	**-2.0**	**-2.2**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-1.0***	***-0.6***	***-0.3***	***-0.4***	***-0.5***	***-0.7***	***-0.9***	***-0.9***	***-1.3***	***-1.5***	***-1.8***	***-2.0***	***-2.2***
(1.1.1) Structural primary balance (before CoA)	*-1.0*	*-0.6*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*	*-0.3*
(1.1.2) Cost of ageing (CoA)				*0.1*	*0.2*	*0.4*	*0.6*	*0.7*	*1.1*	*1.3*	*1.5*	*1.7*	*2.0*
Pensions				*0.1*	*0.2*	*0.4*	*0.5*	*0.7*	*1.0*	*1.2*	*1.4*	*1.6*	*1.8*
Health care				*0.0*	*0.1*	*0.1*	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*	*0.5*
Long-term care				*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*
Education				*0.0*	*-0.1*	*-0.1*	*-0.2*	*-0.3*	*-0.3*	*-0.3*	*-0.4*	*-0.4*	*-0.5*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
(1.2) Cyclical component	***1.1***	***1.1***	***0.9***	***0.7***	***0.5***	***0.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***-0.9***	***-0.5***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-3.9**	**-2.7**	**-1.6**	**-1.3**	**-0.7**	**-0.3**	**-0.4**	**-0.4**	**-0.1**	**0.1**	**0.3**	**0.5**	**0.5**
(2.1) Interest expenditure	*2.4*	*2.5*	*2.6*	*2.6*	*2.7*	*2.8*	*2.9*	*3.0*	*3.2*	*3.4*	*3.6*	*3.8*	*4.0*
(2.2) Growth effect (real)	*-3.4*	*-2.8*	*-2.2*	*-2.0*	*-1.4*	*-1.1*	*-1.3*	*-1.4*	*-1.2*	*-1.1*	*-1.1*	*-1.0*	*-1.2*
(2.3) Inflation effect	*-3.0*	*-2.5*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.1*	*-2.1*	*-2.2*	*-2.2*	*-2.3*	*-2.3*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**-0.4**	**1.1**	**0.3**	**0.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*-0.4*	*1.1*	*0.3*	*0.7*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-3.4	-3.2	-2.8	-3.0	-3.2	-3.5	-3.8	-4.0	-4.5	-4.9	-5.3	-5.7	-6.2
Gross financing needs	15.7	16.4	15.0	15.4	15.1	15.6	16.1	16.3	16.9	17.4	18.1	18.7	19.4

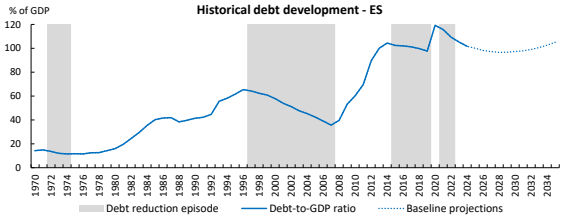


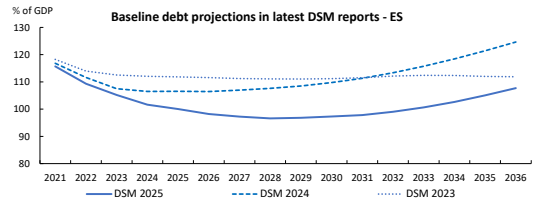


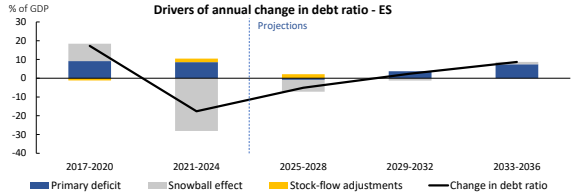












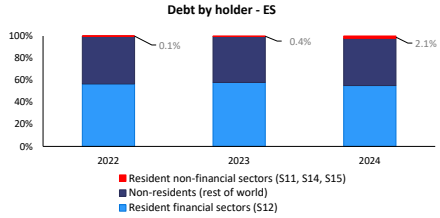
Spain - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	101.6	100.0	98.2	97.3	96.6	96.8	97.3	97.8	99.0	100.6	102.7	105.1	107.7
Primary balance	-0.8	0.0	0.5	0.3	0.0	-0.5	-0.9	-0.9	-1.3	-1.5	-1.8	-2.0	-2.2
Structural primary balance (before CoA)	-1.0	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Real GDP growth	3.5	2.9	2.3	2.1	1.5	1.2	1.4	1.5	1.3	1.2	1.1	1.0	1.2
Potential GDP growth	2.6	2.8	2.6	2.4	1.9	1.7	1.7	1.5	1.3	1.2	1.1	1.0	1.2
Inflation rate	2.9	2.5	2.1	2.0	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.3
Implicit interest rate (nominal)	2.5	2.6	2.7	2.8	2.9	3.0	3.1	3.2	3.4	3.5	3.7	3.8	3.9
Gross financing needs	15.7	16.4	15.0	15.4	15.1	15.6	16.1	16.3	16.9	17.4	18.1	18.7	19.4
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	101.6	100.0	98.2	97.3	96.8	97.0	97.8	99.1	101.1	103.7	106.6	109.8	113.3
Primary balance	-0.8	0.0	0.5	0.2	-0.3	-0.8	-1.3	-1.5	-2.0	-2.3	-2.5	-2.8	-3.0
Structural primary balance (before CoA)	-1.0	-0.6	-0.3	-0.5	-0.7	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Real GDP growth	3.5	2.9	2.3	2.2	1.6	1.5	1.5	1.3	1.1	1.0	1.1	1.0	1.2
Gross financing needs	15.7	16.4	15.0	15.6	15.4	15.9	16.5	16.9	17.8	18.6	19.4	20.2	21.0
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	101.6	100.0	98.5	97.7	97.1	97.5	98.1	98.7	100.0	101.7	103.8	106.2	108.9
Implicit interest rate (nominal)	2.5	2.6	3.0	2.9	3.0	3.1	3.2	3.3	3.5	3.6	3.7	3.9	4.0
Gross financing needs	15.7	16.4	15.3	15.6	15.3	15.9	16.3	16.5	17.1	17.7	18.3	19.0	19.7
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	101.6	100.0	98.2	97.8	97.7	98.2	99.3	100.4	102.1	104.2	106.7	109.7	112.9
Primary balance	-0.8	0.0	0.3	-0.1	-0.5	-0.9	-1.4	-1.4	-1.8	-2.0	-2.3	-2.5	-2.7
Structural primary balance (before CoA)	-1.0	-0.6	-0.5	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Real GDP growth	3.5	2.9	2.4	2.0	1.5	1.3	1.3	1.5	1.3	1.2	1.1	1.0	1.2
Gross financing needs	15.7	16.4	15.2	15.9	15.7	16.2	16.9	17.1	17.8	18.5	19.2	19.9	20.7
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	101.6	100.0	98.8	98.4	98.4	99.3	100.5	101.8	103.8	106.3	109.2	112.6	116.3
Implicit interest rate (nominal)	2.5	2.6	2.8	2.9	3.1	3.2	3.4	3.5	3.7	3.8	4.0	4.2	4.3
Real GDP growth	3.5	2.9	1.8	1.6	1.0	0.7	0.9	1.0	0.8	0.7	0.6	0.5	0.7
Gross financing needs	15.7	16.4	15.2	15.7	15.5	16.2	16.8	17.2	17.9	18.6	19.4	20.3	21.2

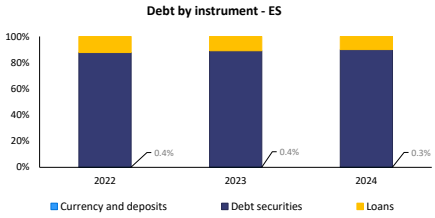
3. Long-term fiscal sustainability risks

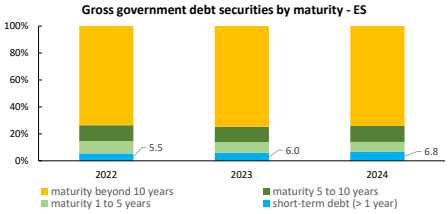
S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**5.3**	**6.1**	**8.0**	**5.7**
of which					
Initial budgetary position		1.4	1.6	1.4	1.7
Ageing costs		3.9	4.5	6.6	3.9
of which	*Pensions*	2.6	3.2	2.6	2.6
	Health care	1.0	1.0	1.6	1.1
	Long-term care	0.7	0.7	2.8	0.7
	Education	-0.4	-0.4	-0.4	-0.5
Required structural primary balance related to S2		**5.1**	**5.8**	**7.7**	**5.1**

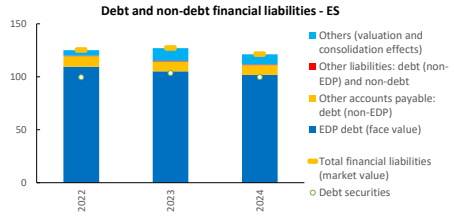
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**4.8**	**5.3**	**6.1**	**5.1**
of which					
Initial budgetary position		0.8	1.0	0.8	1.1
Debt requirement		0.8	0.7	0.8	0.8
Ageing costs		3.2	3.6	4.6	3.2
of which	*Pensions*	2.3	2.7	2.3	2.3
	Health care	0.8	0.8	1.2	0.9
	Long-term care	0.5	0.5	1.5	0.5
	Education	-0.4	-0.4	-0.4	-0.5
Required structural primary balance related to S1		**4.5**	**5.0**	**5.9**	**4.5**

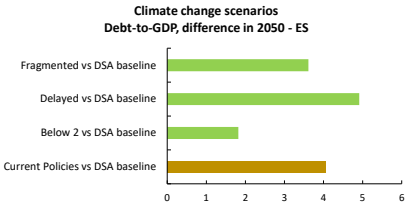
4. Additional aggravating and mitigating risk factors for fiscal sustainability











10. FRANCE

This fiche assesses fiscal sustainability risks for France over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain large, at close to 22% of GDP in 2026-2027. Financial markets' perceptions of sovereign risk remain investment grade, although the three main credit rating agencies revised downwards their grading or outlook for France in the course of 2025 in a context of uncertainty around the budgetary process. Despite some tensions, the 10-year sovereign spread with respect to the German Bund has remained below 90 bps and has recently been declining, reaching around 70 bps at the end of 2025.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase steadily over the medium term, reaching 144% of GDP in 2036 ([146]). The increase in the government debt ratio is mainly driven by the assumed structural primary deficit of 2.1% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([147]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([148]). Moreover, the snowball effect is expected to turn positive, i.e. unfavourable, as from 2030, weighing on the debt dynamics. At the same time, ageing-related expenditure is projected to remain broadly stable ([149]). Government gross financing needs are expected to remain large and to increase over the projection period, reaching around 28% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. All four scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.), *the financial stress scenario* (in which market interest rates temporarily increase by 2.6 pps. compared with the baseline) and the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -2.3% of GDP), by 2036 the debt ratio would exceed the baseline level by around 12 pps., 5 pps., 3 pps. and 2 pps., respectively.

The stochastic projections run around the baseline indicate high risk due to the high probability of debt increasing over the next five years ([150])**.** These stochastic simulations

([146]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 2.1% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (0.7% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([147]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that France commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If France follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([148]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past., as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([149]) This is based on projections from the 2024 Ageing Report, which include the full impact of the 2023 pension reform.

([150]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 95%, pointing to high risk given the high initial debt level. At the same time, the uncertainty surrounding the baseline debt projection is low, as measured by the difference of 18 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([151]). The medium risk stems from the high initial levels of deficit and debt.

The S2 debt-stabilisation indicator points to medium risk. It signals that France would need to improve its structural primary balance by 3.1 pps. to ensure that debt stabilises over the long term. This result is nearly entirely driven by the unfavourable budgetary position (contributing 3.0 pps.). Ageing-related expenditure adds another 0.1 pp., as upward pressure from health care and long-term care expenditure is almost entirely offset by negative contributions from education expenditure and pensions.

The S1 debt-reduction indicator also points to medium risk. This indicator shows that a significant fiscal effort of 3.9 pps. would be needed for France to reduce its debt to 60% of GDP by 2070. This result is driven by the initial high levels of deficit and debt, with the current unfavourable budgetary position contributing 2.7 pps. and the excess of debt over 60% of GDP contributing an additional 1.1 pps.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors relate to the contingent liability risks stemming from the private sector (with an ongoing sharp increase in corporate bankruptcies ([152])), including via the possible materialisation of state guarantees granted to firms and self-employed during the COVID-19 crisis (Sections 4.2.2 and 4.2.3). On the other hand, risk-mitigating factors include the relatively high debt maturity after a lengthening in recent years (Section 4.1.1) and relatively stable financing sources with a diversified and large investor base, which also helps alleviate the risks about the share of the debt held by foreign investors (Section 4.1.2). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([151]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

([152]) Part of such an increase is explained by a catch-up effect of bankruptcies that were put off during the COVID-19 crisis due to government support measures.

Overview of key fiscal sustainability risks

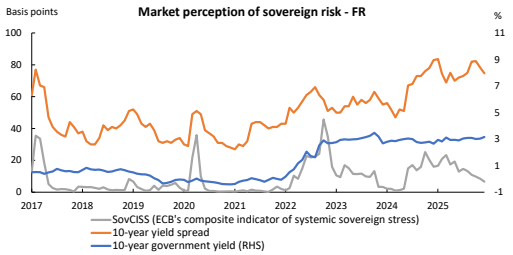
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	144.0	146.1	148.9	155.6	146.7				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	81%	82%	84%	81%	81%				
	Probability of debt ratio exceeding in 2030 its 2025 level						95%			
	Difference between 90th and 10th percentiles (% of GDP)						18.1			

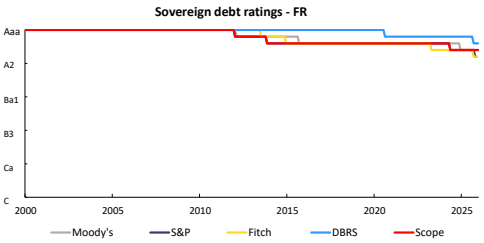
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	75

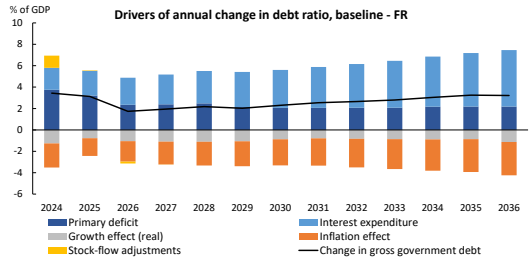
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

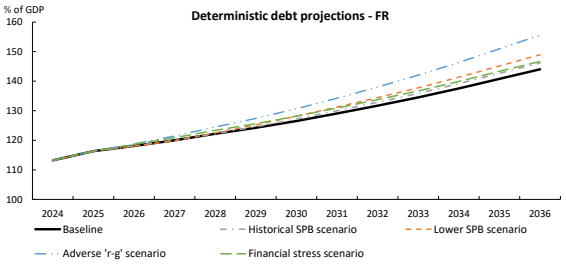


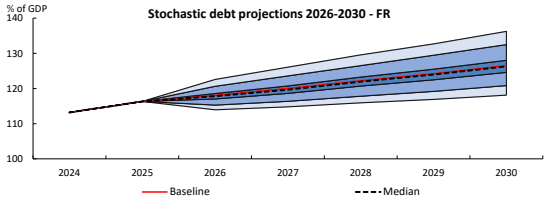


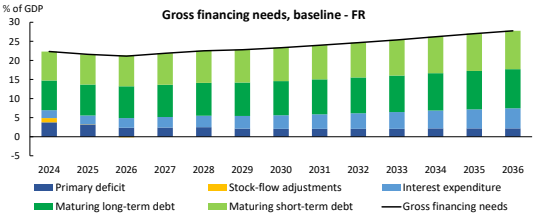
2. Medium-term fiscal sustainability risks

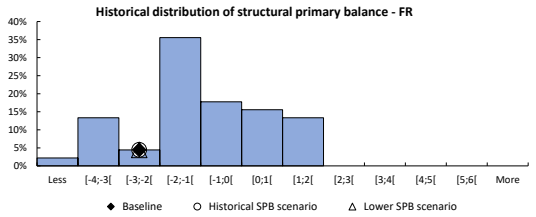
France - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**113.2**	**116.3**	**118.1**	**120.0**	**122.2**	**124.2**	**126.5**	**129.1**	**131.7**	**134.5**	**137.6**	**140.8**	**144.0**
Change in the ratio (-1+2+3)	*3.4*	*3.1*	*1.7*	*1.9*	*2.2*	*2.0*	*2.3*	*2.5*	*2.7*	*2.8*	*3.0*	*3.3*	*3.2*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-3.7**	**-3.2**	**-2.3**	**-2.4**	**-2.5**	**-2.1**	**-2.1**	**-2.1**	**-2.1**	**-2.1**	**-2.2**	**-2.2**	**-2.2**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-3.8***	***-3.0***	***-2.1***	***-2.1***	***-2.3***	***-2.1***	***-2.1***	***-2.1***	***-2.1***	***-2.1***	***-2.2***	***-2.2***	***-2.2***
(1.1.1) Structural primary balance (before CoA)	*-3.8*	*-3.0*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*
(1.1.2) Cost of ageing (CoA)				*0.0*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*
Pensions				*0.0*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.0*	*0.0*
Health care				*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*
Long-term care				*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.3*
Education				*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.3*	*-0.3*	*-0.4*	*-0.4*	*-0.4*	*-0.5*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(1.2) Cyclical component	***0.1***	***-0.2***	***-0.3***	***-0.3***	***-0.2***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-1.4**	**-0.1**	**-0.4**	**-0.4**	**-0.3**	**-0.1**	**0.2**	**0.5**	**0.6**	**0.7**	**0.9**	**1.1**	**1.0**
(2.1) Interest expenditure	*2.1*	*2.3*	*2.5*	*2.8*	*3.0*	*3.3*	*3.5*	*3.8*	*4.1*	*4.4*	*4.7*	*5.0*	*5.3*
(2.2) Growth effect (real)	*-1.3*	*-0.8*	*-1.0*	*-1.1*	*-1.1*	*-1.1*	*-0.9*	*-0.8*	*-0.8*	*-0.9*	*-0.9*	*-0.9*	*-1.1*
(2.3) Inflation effect	*-2.2*	*-1.7*	*-1.9*	*-2.1*	*-2.2*	*-2.3*	*-2.4*	*-2.5*	*-2.7*	*-2.8*	*-2.9*	*-3.1*	*-3.1*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**1.1**	**0.0**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*1.1*	*0.0*	*-0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-5.9	-5.3	-4.6	-4.8	-5.3	-5.3	-5.6	-5.9	-6.2	-6.5	-6.9	-7.2	-7.5
Gross financing needs	22.3	21.6	21.1	21.9	22.5	22.8	23.3	24.0	24.7	25.4	26.2	27.0	27.8

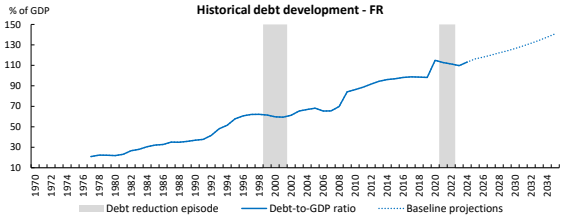


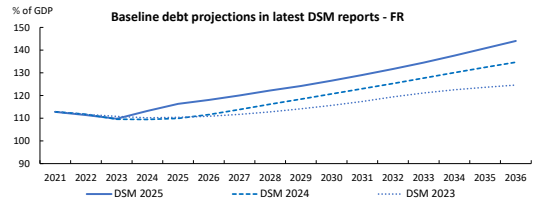


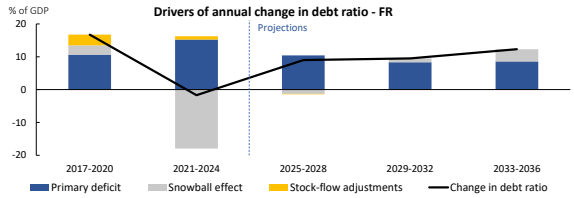












France - Underlying assumptions of deterministic debt projections

1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	113.2	116.3	118.1	120.0	122.2	124.2	126.5	129.1	131.7	134.5	137.6	140.8	144.0
Primary balance	-3.7	-3.2	-2.3	-2.4	-2.5	-2.1	-2.1	-2.1	-2.1	-2.1	-2.2	-2.2	-2.2
Structural primary balance (before CoA)	-3.8	-3.0	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Real GDP growth	1.2	0.7	0.9	1.0	0.9	0.9	0.7	0.6	0.7	0.7	0.7	0.6	0.8
Potential GDP growth	1.3	1.2	1.1	1.0	0.8	0.7	0.6	0.6	0.7	0.7	0.7	0.6	0.8
Inflation rate	2.1	1.5	1.7	1.8	1.9	1.9	2.0	2.1	2.1	2.2	2.2	2.3	2.3
Implicit interest rate (nominal)	1.9	2.1	2.2	2.4	2.6	2.8	2.9	3.1	3.3	3.4	3.6	3.7	3.9
Gross financing needs	22.3	21.6	21.1	21.9	22.5	22.8	23.3	24.0	24.7	25.4	26.2	27.0	27.8
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	113.2	116.3	118.1	120.0	122.2	124.6	127.2	130.0	132.9	135.9	139.2	142.7	146.1
Primary balance	-3.7	-3.2	-2.3	-2.4	-2.6	-2.3	-2.3	-2.3	-2.3	-2.3	-2.4	-2.4	-2.4
Structural primary balance (before CoA)	-3.8	-3.0	-2.1	-2.1	-2.2	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Real GDP growth	1.2	0.7	0.9	1.0	1.0	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.8
Gross financing needs	22.3	21.6	21.1	21.9	22.6	23.0	23.7	24.4	25.1	25.8	26.7	27.6	28.3
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	113.2	116.3	118.6	120.9	123.3	125.6	128.1	130.9	133.7	136.7	139.9	143.3	146.7
Implicit interest rate (nominal)	1.9	2.1	2.7	2.7	2.8	3.0	3.1	3.3	3.4	3.6	3.7	3.8	4.0
Gross financing needs	22.3	21.6	21.7	22.3	22.9	23.2	23.8	24.5	25.2	25.9	26.8	27.6	28.3
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	113.2	116.3	118.1	119.8	122.5	125.2	128.2	131.2	134.4	137.8	141.3	145.2	148.9
Primary balance	-3.7	-3.2	-2.5	-2.6	-2.8	-2.6	-2.6	-2.6	-2.6	-2.6	-2.7	-2.7	-2.7
Structural primary balance (before CoA)	-3.8	-3.0	-2.3	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Real GDP growth	1.2	0.7	1.1	1.3	0.8	0.7	0.6	0.6	0.7	0.7	0.7	0.6	0.8
Gross financing needs	22.3	21.6	21.3	22.0	22.8	23.3	24.0	24.8	25.6	26.4	27.3	28.2	29.1
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	113.2	116.3	118.8	121.5	124.5	127.4	130.7	134.3	138.0	142.0	146.3	151.0	155.6
Implicit interest rate (nominal)	1.9	2.1	2.3	2.6	2.8	3.0	3.2	3.4	3.6	3.8	4.0	4.1	4.3
Real GDP growth	1.2	0.7	0.4	0.5	0.4	0.4	0.2	0.1	0.2	0.2	0.2	0.1	0.3
Gross financing needs	22.3	21.6	21.3	22.3	23.1	23.6	24.3	25.2	26.1	27.1	28.2	29.3	30.3

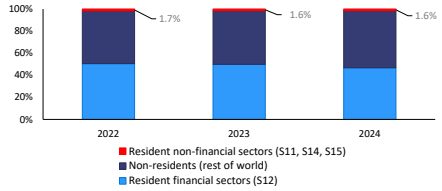
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**3.1**	**3.8**	**5.4**	**3.4**
of which					
Initial budgetary position		3.0	3.3	3.0	3.3
Ageing costs		0.1	0.5	2.4	0.1
of which	*Pensions*	-0.5	0.0	-0.5	-0.5
	Health care	0.6	0.5	1.2	0.6
	Long-term care	0.6	0.6	2.3	0.6
	Education	-0.6	-0.6	-0.6	-0.6
Required structural primary balance related to S2		**1.1**	**1.7**	**3.4**	**0.9**

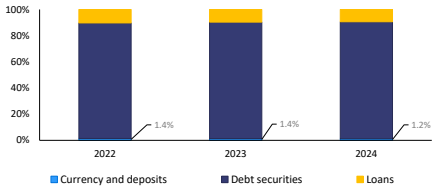
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**3.9**	**4.3**	**5.0**	**4.0**
of which					
Initial budgetary position		2.7	2.9	2.7	2.8
Debt requirement		1.1	1.1	1.2	1.1
Ageing costs		0.0	0.2	1.2	0.0
of which	*Pensions*	-0.4	-0.1	-0.4	-0.3
	Health care	0.4	0.4	0.8	0.4
	Long-term care	0.4	0.4	1.2	0.4
	Education	-0.5	-0.5	-0.5	-0.5
Required structural primary balance related to S1		**1.8**	**2.2**	**3.0**	**1.5**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

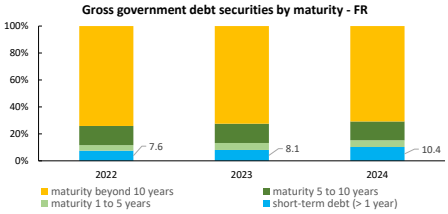
Debt by holder - FR



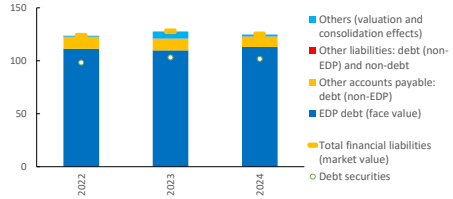
Debt by instrument - FR



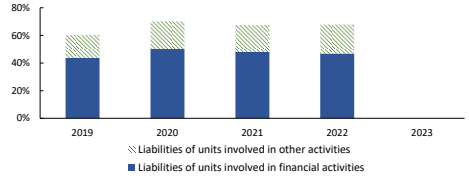
Gross government debt securities by maturity - FR



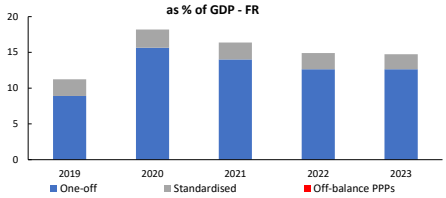
Debt and non-debt financial liabilities - FR



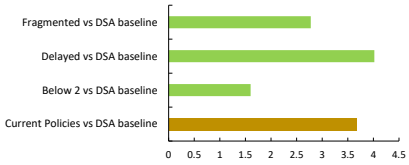
Liabilities of public corporations outside general government as % of GDP - FR



Government guarantees and off-balance PPPs as % of GDP - FR



Climate change scenarios
Debt-to-GDP, difference in 2050 - FR



11. CROATIA

This fiche assesses fiscal sustainability risks for Croatia over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to amount to just above 12% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk remain unchanged following the great improvement in 2024, when the main rating agencies upgraded Croatia to investment upper medium grade.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to increase over the medium term, reaching around 68% of GDP in 2036 ([153]). The increase in the government debt ratio is partially driven by the assumed structural primary deficit of 1.7% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([154]). This structural primary balance (SPB) level is in line with past fiscal performance ([155]). Ageing-related expenditure is projected to decrease slightly, alleviating some pressure on public finances. In addition, the baseline projection benefits from a declining but still favourable snowball effect until the early 2030s, that turns debt-increasing in the last years of the medium-term projection. Government gross financing needs are expected to remain large and to increase somewhat over the projection period, reaching 14% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Most scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1.0 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.) and *the financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 6 pps., 5 pps. and 1 pp., respectively. By contrast, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -0.1% of GDP), the debt ratio would be lower than in the baseline by 2036, by around 13 pps.

The stochastic projections run around the baseline indicate low risk ([156])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 it 2025 level with a probability of 61%, pointing to low risk given the low initial debt level. Some uncertainty surrounds the baseline debt projection, as measured by the difference of around 24 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([153]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 1.7% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.6% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([154]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Croatia commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([155]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([156]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([157]). The low risk stems from the somewhat unfavourable initial deficit partially offset by the projected decrease in ageing-related costs.

The S2 debt-stabilisation indicator points to low risk. It signals that Croatia would need to improve its SPB in 2027 by 1.5 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the unfavourable initial budgetary position, contributing 2.5 pps., partially offset by the projected decrease in ageing costs, contributing -0.9 pps. Within the ageing costs, the change is driven by the decrease in pension (-1.3 pps.) and education expenditure which more than offsets the increase in health care and long-term care expenditure.

The S1 debt-reduction indicator also points to low risk. This indicator shows that a fiscal effort of 1.3 pps. would be needed for Croatia to bring its debt to 60% of GDP by 2070. This result is also mainly driven by the unfavourable initial budgetary position (contributing 2.1 pps.), with the projected decrease in ageing costs (contributing -0.7 pps.) partially offsetting it.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, the share of non-performing loans, while decreasing remaining but still above the EU average, can constitute a risk-increasing factor in a context where contingent liability risks linked to the banking sector appear limited in view of the high capitalization and provisioning (Section 4.2.3). On the other hand, risk-mitigating factors include (i) the continued improvement of the NIIP, while being still negative. This includes the NIIP adjusted for non-defaultable instruments (reaching +23.8% of GDP in Q3 2024 - Section 4.2.4), and (ii) broadly stable financing sources, (Section 4.1.2). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([157]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

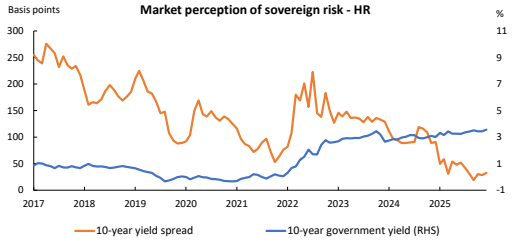
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	MEDIUM	LOW	MEDIUM	MEDIUM	MEDIUM	LOW	LOW	LOW	LOW
	Debt level (2036), % of GDP	68.4	55.4	73.3	74.0	68.9				
	Debt peak year	2036	2025	2036	2036	2036				
	Fiscal consolidation space	55%	35%	62%	55%	55%				
	Probability of debt ratio exceeding in 2030 its 2025 level						61%			
	Difference between 90th and 10th percentiles (% of GDP)						24.3			

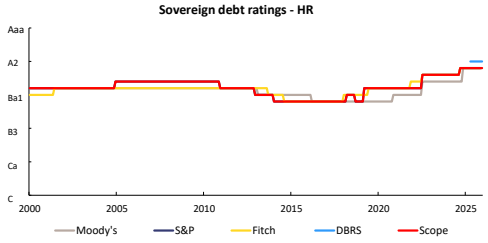
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	33

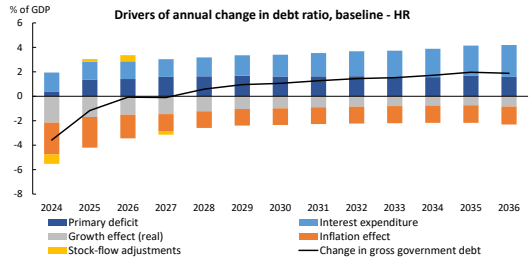
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

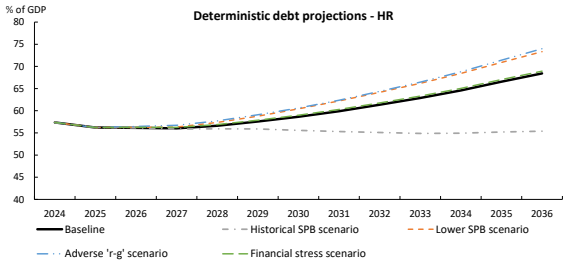


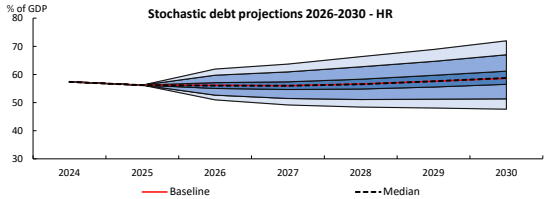


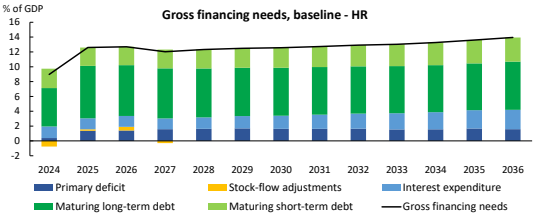
2. Medium-term fiscal sustainability risks

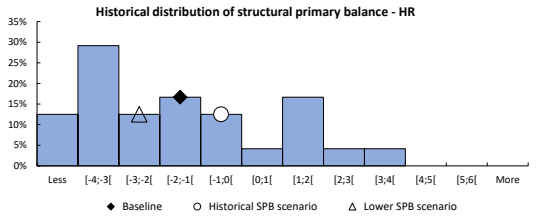
Croatia - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**57.4**	**56.2**	**56.1**	**56.0**	**56.6**	**57.6**	**58.6**	**59.9**	**61.3**	**62.9**	**64.6**	**66.5**	**68.4**
Change in the ratio (-1+2+3)	*-3.6*	*-1.2*	*-0.1*	*-0.1*	*0.6*	*1.0*	*1.1*	*1.3*	*1.4*	*1.5*	*1.7*	*2.0*	*1.9*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-0.4**	**-1.4**	**-1.4**	**-1.6**	**-1.6**	**-1.7**	**-1.6**	**-1.6**	**-1.6**	**-1.6**	**-1.6**	**-1.7**	**-1.6**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-1.4***	***-2.0***	***-1.7***	***-1.7***	***-1.7***	***-1.7***	***-1.6***	***-1.6***	***-1.6***	***-1.6***	***-1.6***	***-1.7***	***-1.6***
(1.1.1) Structural primary balance (before CoA)	*-1.4*	*-2.0*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*	*-1.7*
(1.1.2) Cost of ageing (CoA)				*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.1*	*-0.2*
Pensions				*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.3*	*-0.3*	*-0.4*
Health care				*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*
Education				*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***1.0***	***0.6***	***0.3***	***0.1***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-3.2**	**-2.7**	**-2.0**	**-1.4**	**-1.0**	**-0.7**	**-0.6**	**-0.4**	**-0.2**	**0.0**	**0.1**	**0.3**	**0.3**
(2.1) Interest expenditure	*1.6*	*1.5*	*1.5*	*1.4*	*1.5*	*1.7*	*1.8*	*1.9*	*2.0*	*2.2*	*2.3*	*2.5*	*2.6*
(2.2) Growth effect (real)	*-2.2*	*-1.7*	*-1.5*	*-1.5*	*-1.2*	*-1.0*	*-1.0*	*-0.9*	*-0.8*	*-0.8*	*-0.8*	*-0.7*	*-0.8*
(2.3) Inflation effect	*-2.6*	*-2.5*	*-1.9*	*-1.4*	*-1.4*	*-1.4*	*-1.4*	*-1.4*	*-1.4*	*-1.4*	*-1.4*	*-1.4*	*-1.5*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**-0.8**	**0.2**	**0.5**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*-0.8*	*0.2*	*0.5*	*-0.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-3.0	-3.4	-3.1	-3.1	-3.3	-3.4	-3.4	-3.5	-3.7	-3.7	-3.9	-4.1	-4.2
Gross financing needs	9.0	12.6	12.7	12.0	12.3	12.5	12.6	12.7	12.9	13.0	13.3	13.6	14.0

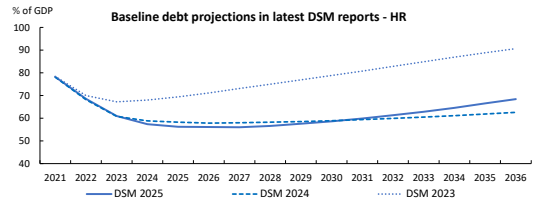


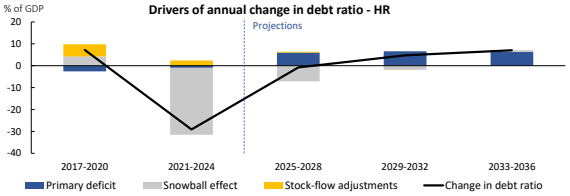












Croatia - Underlying assumptions of deterministic debt projections

1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	57.4	56.2	56.1	56.0	56.6	57.6	58.6	59.9	61.3	62.9	64.6	66.5	68.4
Primary balance	-0.4	-1.4	-1.4	-1.6	-1.6	-1.7	-1.6	-1.6	-1.6	-1.6	-1.6	-1.7	-1.6
Structural primary balance (before CoA)	-1.4	-2.0	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
Real GDP growth	3.8	3.2	2.9	2.7	2.3	1.9	1.8	1.6	1.5	1.4	1.2	1.2	1.3
Potential GDP growth	4.8	4.2	3.6	3.1	2.4	2.0	1.8	1.6	1.5	1.4	1.2	1.2	1.3
Inflation rate	4.5	4.6	3.6	2.5	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Implicit interest rate (nominal)	2.8	2.8	2.8	2.7	2.9	3.1	3.2	3.4	3.5	3.7	3.8	4.0	4.1
Gross financing needs	9.0	12.6	12.7	12.0	12.3	12.5	12.6	12.7	12.9	13.0	13.3	13.6	14.0
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	57.4	56.2	56.1	55.9	55.9	55.9	55.6	55.3	55.1	54.9	54.9	55.2	55.4
Primary balance	-0.4	-1.4	-1.4	-1.3	-1.0	-0.7	-0.2	-0.2	-0.1	0.1	0.0	-0.1	0.0
Structural primary balance (before CoA)	-1.4	-2.0	-1.7	-1.3	-0.9	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Real GDP growth	3.8	3.2	2.9	2.5	2.1	1.9	1.7	1.8	1.6	1.5	1.2	1.2	1.3
Gross financing needs	9.0	12.6	12.7	11.7	11.7	11.3	10.8	10.6	10.4	10.2	10.1	10.1	10.1
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	57.4	56.2	56.3	56.2	56.9	57.9	59.0	60.3	61.8	63.3	65.0	67.0	68.9
Implicit interest rate (nominal)	2.8	2.8	3.0	2.9	3.0	3.2	3.3	3.4	3.6	3.7	3.9	4.0	4.1
Gross financing needs	9.0	12.6	12.8	12.1	12.4	12.6	12.7	12.8	13.0	13.1	13.4	13.7	14.1
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	57.4	56.2	56.2	56.3	57.3	58.8	60.4	62.2	64.1	66.2	68.4	70.9	73.3
Primary balance	-0.4	-1.4	-1.6	-1.9	-2.0	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.2	-2.1
Structural primary balance (before CoA)	-1.4	-2.0	-1.9	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Real GDP growth	3.8	3.2	3.0	3.0	2.2	1.8	1.6	1.6	1.5	1.4	1.2	1.2	1.3
Gross financing needs	9.0	12.6	12.9	12.3	12.8	13.1	13.3	13.6	13.9	14.1	14.4	14.8	15.3
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	57.4	56.2	56.5	56.7	57.7	59.1	60.6	62.4	64.4	66.5	68.8	71.4	74.0
Implicit interest rate (nominal)	2.8	2.8	2.9	2.9	3.1	3.4	3.6	3.7	3.9	4.1	4.2	4.4	4.5
Real GDP growth	3.8	3.2	2.4	2.2	1.8	1.4	1.3	1.1	1.0	0.9	0.7	0.7	0.8
Gross financing needs	9.0	12.6	12.8	12.2	12.7	12.9	13.1	13.4	13.7	13.9	14.3	14.8	15.2

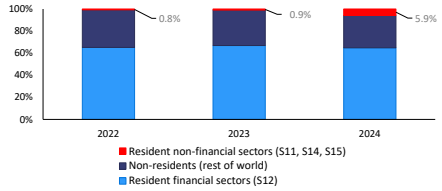
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**1.5**	**1.8**	**3.5**	**1.0**
of which					
Initial budgetary position		2.5	2.6	2.5	2.0
Ageing costs		-0.9	-0.8	1.0	-1.0
of which	*Pensions*	-1.3	-1.1	-1.3	-1.3
	Health care	0.6	0.6	1.6	0.6
	Long-term care	0.1	0.1	1.0	0.1
	Education	-0.4	-0.3	-0.4	-0.4
Required structural primary balance related to S2		**-0.2**	**0.1**	**1.8**	**-0.3**

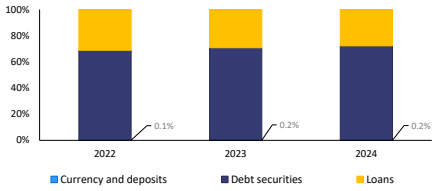
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**1.3**	**1.5**	**2.5**	**0.7**
of which					
Initial budgetary position		2.1	2.2	2.1	1.5
Debt requirement		-0.1	-0.1	-0.1	-0.1
Ageing costs		-0.7	-0.6	0.5	-0.8
of which	*Pensions*	-0.9	-0.8	-0.9	-1.0
	Health care	0.4	0.4	1.2	0.5
	Long-term care	0.1	0.1	0.5	0.1
	Education	-0.3	-0.3	-0.3	-0.3
Required structural primary balance related to S1		**-0.4**	**-0.2**	**0.8**	**-0.7**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

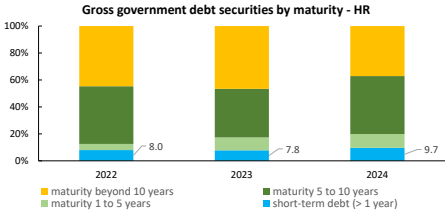
Debt by holder - HR



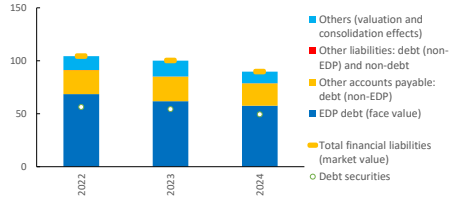
Debt by instrument - HR



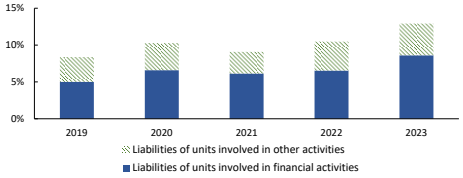
Gross government debt securities by maturity - HR



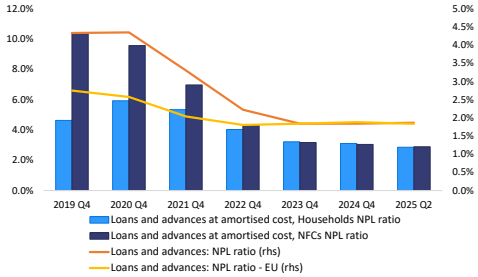
Debt and non-debt financial liabilities - HR



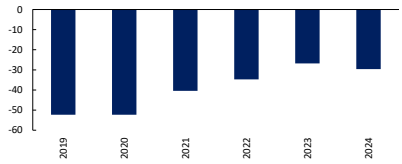
Liabilities of public corporations outside general government as % of GDP - HR



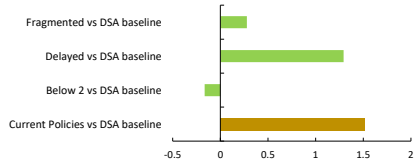
NPL (% of gross loans) - HR



NIIP (% of GDP) - HR



Climate change scenarios
Debt-to-GDP, difference in 2050 - HR



12. ITALY

This fiche assesses fiscal sustainability risks for Italy over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain large, at around 23% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase over the medium term, reaching around 149% of GDP in 2036 ([158]). The baseline projection assumes a structural primary surplus of 1.1% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([159]). This structural primary balance (SPB) level is broadly in line with past fiscal performance ([160]). The increase in the government debt ratio is mainly driven by an increasingly unfavourable snowball effect up to 2036. Moreover, ageing-related expenditure is projected to increase, weighing on public finances. Government gross financing needs are expected to remain large and to increase over the projection period, reaching around 27% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. All four scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.), *the financial stress scenario* (in which market interest rates temporarily increase by 3.8 pps. compared with the baseline) and the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of 0.7% of GDP), the debt ratio would exceed the baseline level by 2036 by around 13 pps, 6 pps, 5 pps. and 2 pps., respectively.

The stochastic projections run around the baseline indicate high risk due to the high probability of debt increasing over the next five years ([161])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 57%, pointing to high risk given the high initial debt level. At the same time, the uncertainty surrounding the baseline debt projection is high, as measured by the difference of around 27 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator)

([158]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary surplus, before changes in ageing costs, of 1.1% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (0.3% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([159]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Italy commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Italy follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([160]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([161]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

and to bring it to 60% of GDP (S1 indicator) over the long term ([162]). The low risk stems particularly from the initial budgetary position and the projected decrease in ageing costs over the long term.

The debt-stabilisation S2 indicator points to low risk. It signals that Italy would not need to improve its structural primary balance to ensure that debt stabilises over the long term. This result is driven by the projected decrease in ageing costs (contribution of -1.0 pps), mostly due to reduced pension expenditure.

The debt-reduction S1 indicator also points to low risk. This indicator shows that an effort of 1.6% of GDP in 2027 would be needed for Italy to reduce its debt to 60% of GDP by 2070. This result is mainly driven by the initial high debt level, contributing 1.5 pps.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to the share of short-term government debt (Section 4.1.1). On the other hand, risk-mitigating factors are related to (i) the structure of the debt, i.e. the major share of government debt is still held by domestic lenders (Section 4.1.2), and the fact that most of the public debt is denominated in euro excludes currency risks (Section 4.1.3), and (ii) the favourable net international investment position further mitigates fiscal risks (Section 4.2.4). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([162]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

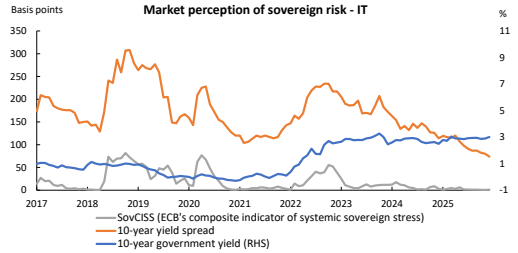
Overall	Medium term - Debt sustainability analysis (DSA)	Deterministic scenarios					Stochastic projections	Long term		
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress		S2	S1	Overall (S1 + S2)
HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	LOW	LOW	LOW
	Debt level (2036), % of GDP	149.1	151.5	154.6	162.5	153.6				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	43%	45%	49%	43%	43%				
	Probability of debt ratio exceeding in 2030 its 2025 level						57%			
	Difference between 90th and 10th percentiles (% of GDP)						27.2			

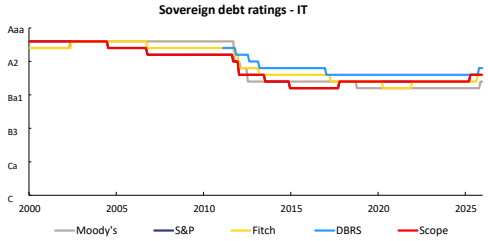
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	74

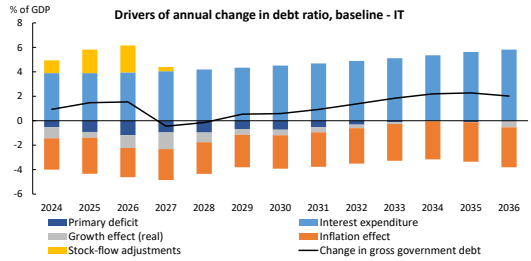
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

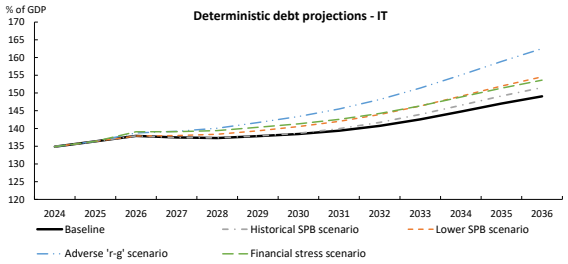


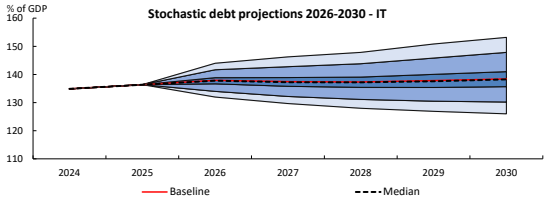


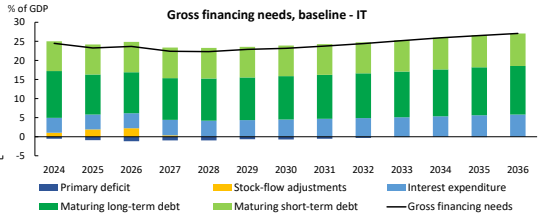
2. Medium-term fiscal sustainability risks

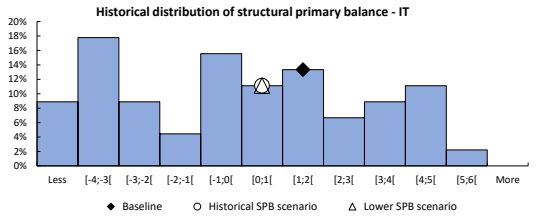
Italy - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**134.9**	**136.4**	**137.9**	**137.5**	**137.3**	**137.8**	**138.4**	**139.4**	**140.7**	**142.6**	**144.8**	**147.0**	**149.1**
Change in the ratio (-1+2+3)	*0.9*	*1.5*	*1.5*	*-0.4*	*-0.2*	*0.5*	*0.6*	*0.9*	*1.4*	*1.8*	*2.2*	*2.3*	*2.0*
of which													
(1) Primary balance (1.1+1.2+1.3)	**0.5**	**0.9**	**1.2**	**1.0**	**1.0**	**0.7**	**0.7**	**0.5**	**0.3**	**0.1**	**0.0**	**0.1**	**0.0**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-0.1***	***0.6***	***1.1***	***0.7***	***0.8***	***0.6***	***0.7***	***0.5***	***0.3***	***0.1***	***0.0***	***0.1***	***0.0***
(1.1.1) Structural primary balance (before CoA)	*-0.1*	*0.6*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*	*1.1*
(1.1.2) Cost of ageing (CoA)				*0.3*	*0.2*	*0.4*	*0.4*	*0.6*	*0.8*	*1.0*	*1.2*	*1.1*	*1.2*
Pensions				*0.2*	*0.2*	*0.3*	*0.4*	*0.6*	*0.8*	*0.9*	*1.0*	*1.0*	*1.1*
Health care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*
Long-term care				*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Education				*0.0*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.3*	*-0.3*	*-0.3*	*-0.4*	*-0.4*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*
(1.2) Cyclical component	***0.5***	***0.2***	***0.1***	***0.2***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.2***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**0.4**	**0.5**	**0.5**	**0.2**	**0.8**	**1.2**	**1.3**	**1.5**	**1.7**	**2.0**	**2.2**	**2.4**	**2.0**
(2.1) Interest expenditure	*3.9*	*3.9*	*4.0*	*4.1*	*4.2*	*4.3*	*4.5*	*4.7*	*4.9*	*5.1*	*5.4*	*5.6*	*5.8*
(2.2) Growth effect (real)	*-0.9*	*-0.5*	*-1.1*	*-1.4*	*-0.8*	*-0.5*	*-0.5*	*-0.4*	*-0.3*	*-0.2*	*0.0*	*0.0*	*-0.5*
(2.3) Inflation effect	*-2.6*	*-3.0*	*-2.4*	*-2.5*	*-2.6*	*-2.7*	*-2.7*	*-2.8*	*-2.9*	*-3.0*	*-3.1*	*-3.2*	*-3.3*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**1.0**	**1.9**	**2.2**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*1.0*	*1.9*	*2.2*	*0.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-4.0	-3.3	-2.9	-3.3	-3.4	-3.7	-3.8	-4.2	-4.6	-5.0	-5.3	-5.5	-5.8
Gross financing needs	24.5	23.3	23.7	22.4	22.3	22.9	23.2	23.8	24.4	25.2	25.9	26.5	27.1

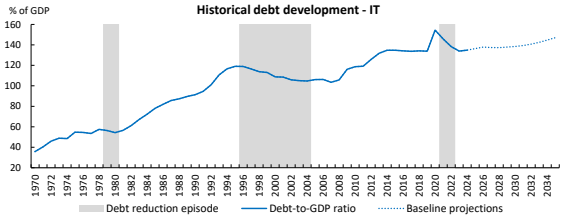


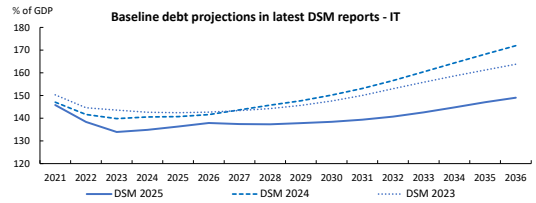


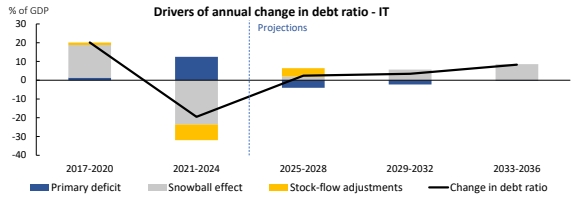












Italy - Underlying assumptions of deterministic debt projections

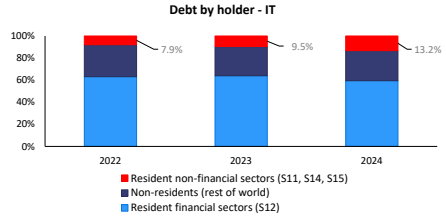
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	134.9	136.4	137.9	137.5	137.3	137.8	138.4	139.4	140.7	142.6	144.8	147.0	149.1
Primary balance	0.5	0.9	1.2	1.0	1.0	0.7	0.7	0.5	0.3	0.1	0.0	0.1	0.0
Structural primary balance (before CoA)	-0.1	0.6	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Real GDP growth	0.7	0.4	0.8	1.0	0.6	0.4	0.3	0.3	0.2	0.1	0.0	0.0	0.4
Potential GDP growth	1.3	0.9	0.9	0.9	0.7	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.4
Inflation rate	2.0	2.2	1.8	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.2	2.3	2.3
Implicit interest rate (nominal)	3.0	3.0	3.0	3.0	3.1	3.2	3.4	3.5	3.6	3.7	3.8	4.0	4.1
Gross financing needs	24.5	23.3	23.7	22.4	22.3	22.9	23.2	23.8	24.4	25.2	25.9	26.5	27.1
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	134.9	136.4	137.9	137.4	137.4	137.9	138.6	139.9	141.7	144.0	146.5	149.2	151.5
Primary balance	0.5	0.9	1.2	0.9	0.9	0.5	0.5	0.3	0.0	-0.2	-0.3	-0.2	-0.3
Structural primary balance (before CoA)	-0.1	0.6	1.1	1.0	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Real GDP growth	0.7	0.4	0.8	1.1	0.6	0.5	0.4	0.2	0.1	0.0	0.0	0.0	0.4
Gross financing needs	24.5	23.3	23.7	22.4	22.4	23.0	23.4	24.1	24.8	25.7	26.5	27.2	27.8
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	134.9	136.4	139.1	139.1	139.4	140.3	141.3	142.6	144.2	146.4	148.8	151.4	153.6
Implicit interest rate (nominal)	3.0	3.0	3.9	3.4	3.4	3.5	3.6	3.7	3.8	3.9	4.0	4.1	4.2
Gross financing needs	24.5	23.3	24.8	23.1	23.0	23.6	23.9	24.6	25.3	26.0	26.8	27.5	28.0
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	134.9	136.4	137.9	138.0	138.4	139.3	140.5	142.0	143.9	146.3	149.1	152.0	154.6
Primary balance	0.5	0.9	1.0	0.5	0.5	0.2	0.2	0.0	-0.2	-0.4	-0.5	-0.4	-0.5
Structural primary balance (before CoA)	-0.1	0.6	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Real GDP growth	0.7	0.4	0.9	0.9	0.6	0.4	0.3	0.3	0.2	0.1	0.0	0.0	0.4
Gross financing needs	24.5	23.3	23.8	22.9	22.9	23.5	24.0	24.6	25.4	26.3	27.1	27.8	28.5
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	134.9	136.4	138.7	139.2	140.1	141.7	143.4	145.5	148.2	151.4	155.1	158.9	162.5
Implicit interest rate (nominal)	3.0	3.0	3.1	3.2	3.3	3.5	3.6	3.8	3.9	4.1	4.2	4.4	4.5
Real GDP growth	0.7	0.4	0.3	0.5	0.1	-0.1	-0.2	-0.2	-0.3	-0.4	-0.5	-0.5	-0.1
Gross financing needs	24.5	23.3	23.9	22.9	23.0	23.8	24.3	25.2	26.1	27.2	28.2	29.2	30.0

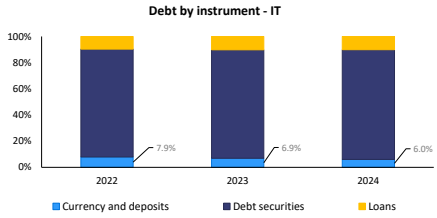
3. Long-term fiscal sustainability risks

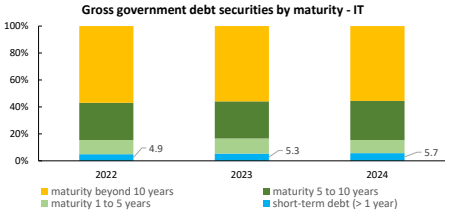
S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**-1.0**	**0.0**	**0.5**	**-0.1**
of which					
Initial budgetary position		0.0	0.4	0.0	0.9
Ageing costs		-1.0	-0.5	0.4	-1.1
of which	*Pensions*	-1.6	-1.0	-1.6	-1.6
	Health care	0.6	0.6	1.2	0.6
	Long-term care	0.6	0.5	1.4	0.6
	Education	-0.5	-0.5	-0.5	-0.6
Required structural primary balance related to S2		**0.1**	**1.0**	**1.5**	**0.0**

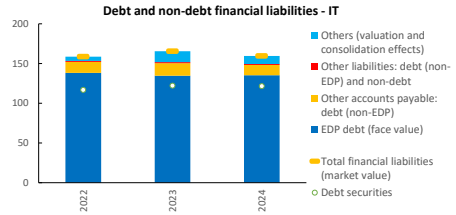
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**1.6**	**2.1**	**2.3**	**2.4**
of which					
Initial budgetary position		0.1	0.3	0.0	0.9
Debt requirement		1.5	1.4	1.5	1.5
Ageing costs		0.1	0.4	0.8	0.0
of which	*Pensions*	-0.5	-0.2	-0.5	-0.4
	Health care	0.5	0.5	0.8	0.5
	Long-term care	0.5	0.4	0.8	0.4
	Education	-0.4	-0.4	-0.4	-0.5
Required structural primary balance related to S1		**2.7**	**3.2**	**3.4**	**2.6**

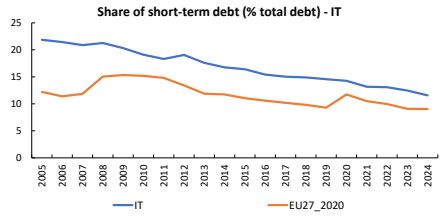
4. Additional aggravating and mitigating risk factors for fiscal sustainability

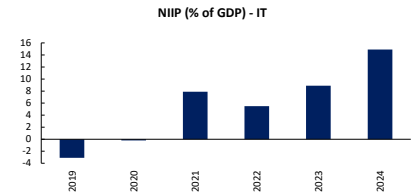


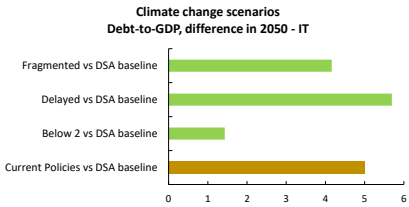












13. CYPRUS

This fiche assesses fiscal sustainability risks for Cyprus over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to increase but remain small, at around 4% of GDP over 2026-2027. Financial markets' perceptions of Cyprus are favourable as its debt rating continued to be upgraded in 2025, with Morningstar DBRS upgrading Cyprus to "A" rating in September and Standard and Poor's upgrading their A- rating outlook to positive in November.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to decline steadily over the medium term, reaching around 20% of GDP in 2036 ([163]). The decline in the government debt ratio is partially driven by the assumed structural primary surplus of 3.3% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([164]). This structural primary balance (SPB) level is rather ambitious compared with past fiscal performance ([165]). At the same time, ageing-related expenditure is projected to increase significantly, weighing on public finances. Finally, the baseline projection benefits from a still favourable (although declining) snowball effect. Government gross financing needs are expected to decline over the projection period, dwindling to 0.4% of GDP by 2036.

The deterministic stress tests identify limited additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three of the four scenarios lead to higher debt levels than the baseline. Under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of 1.6% of GDP), the *lower SPB scenario* (in which the SPB level deteriorates by 0.5 pps) and the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1.0 pp. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 12 pps., 5 pps. and 3 pps., respectively. Finally, under the *financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline), the debt ratio would be broadly unchanged compared to the baseline by 2036.

The stochastic projections run around the baseline indicate medium risk due to the large uncertainty around the projections ([166])**.** The stochastic simulations indicate that the debt ratio will be higher in 2030 than in 2025 with a probability of 4%, pointing to low risk given the low initial debt level. At the same time, high uncertainty surrounds the baseline debt projection, as measured by the difference of around 28 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([163]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary surplus, before changes in ageing costs, of 3.3% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (on average 1.7%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([164]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Cyprus commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([165]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([166]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([167]). The low risk stems from the favourable initial budgetary position which offsets the projected increase in ageing-related costs.

The S2 debt-stabilisation indicator points to low risk. It signals that Cyprus would only need to improve its structural primary balance by 0.1 pps. in 2027 to ensure that debt stabilises over the long term. This result is driven by the opposite contributions of, on the one hand, the projected increase in ageing costs (3.0 pps., of which 2.6 pps. stemming from pension expenditure and 0.7 pps. jointly from health care and long-term care expenditure, partially offset by a negative contribution from education) and, on the other hand, the favourable initial budgetary position (contributing -2.8 pps).

The S1 debt-reduction indicator also points to low risk. The negative value of this indicator shows that no fiscal effort is required to keep debt below 60% of GDP by 2070. This result is also mainly driven by the favourable initial budgetary position, which more than offsets the projected increase in ageing costs.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to (i) pressures for higher public wages due to automatic indexation, and (ii) the negative net international investment position (Section 4.2.3). On the other hand, risk-mitigating factors include (i) the relatively high debt maturities in recent years, (ii) the low share of short-term public debt (Section 4.1.1), (iii) substantial cash reserves, (iii) relatively stable financing sources with a diversified investor base (Section 4.1.2), and (iv) the currency denomination of debt exclusively in euro (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([167]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

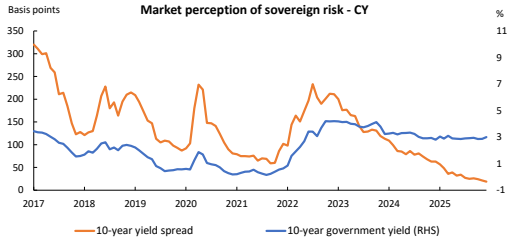
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	LOW	LOW	LOW	LOW	LOW	MEDIUM	LOW	LOW	LOW
	Debt level (2036), % of GDP	20.1	32.5	25.2	22.8	20.2				
	Debt peak year	2025	2025	2025	2025	2025				
	Fiscal consolidation space	26%	33%	29%	26%	26%				
	Probability of debt ratio exceeding in 2030 its 2025 level						4%			
	Difference between 90th and 10th percentiles (% of GDP)						27.9			

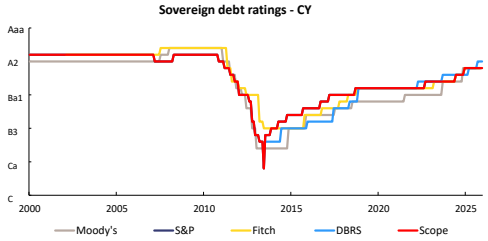
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	19

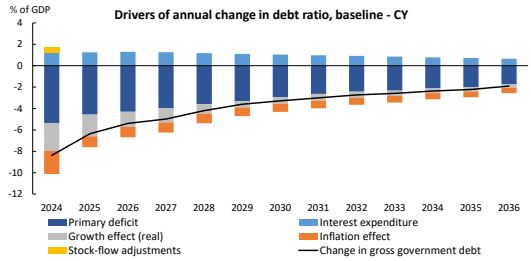
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

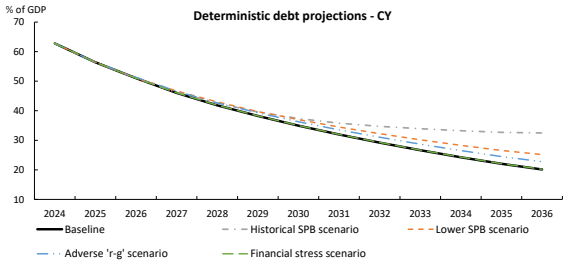


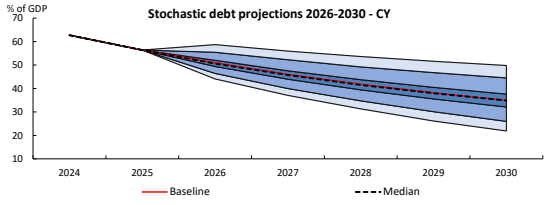


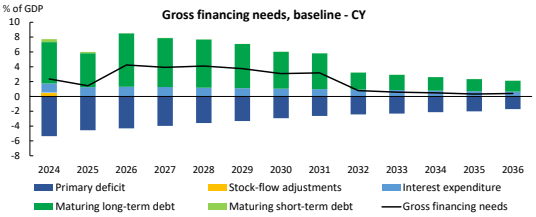
2. Medium-term fiscal sustainability risks

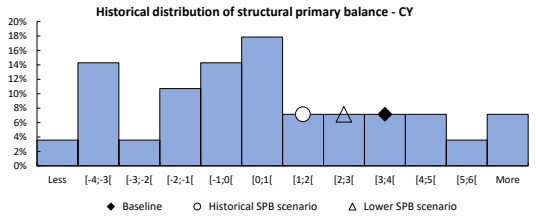
Cyprus - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**62.8**	**56.4**	**51.0**	**46.0**	**41.8**	**38.2**	**35.0**	**31.9**	**29.2**	**26.6**	**24.3**	**22.0**	**20.1**
Change in the ratio (-1+2+3)	*-8.4*	*-6.4*	*-5.4*	*-5.0*	*-4.2*	*-3.6*	*-3.3*	*-3.0*	*-2.7*	*-2.6*	*-2.4*	*-2.2*	*-1.9*
of which													
(1) Primary balance (1.1+1.2+1.3)	**5.4**	**4.6**	**4.3**	**4.0**	**3.6**	**3.3**	**2.9**	**2.6**	**2.4**	**2.3**	**2.1**	**2.0**	**1.7**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***3.7***	***3.3***	***3.3***	***3.2***	***3.0***	***3.1***	***2.9***	***2.6***	***2.4***	***2.3***	***2.1***	***2.0***	***1.7***
(1.1.1) Structural primary balance (before CoA)	*3.7*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*
(1.1.2) Cost of ageing (CoA)				*0.1*	*0.2*	*0.1*	*0.3*	*0.6*	*0.8*	*0.9*	*1.1*	*1.2*	*1.5*
Pensions				*0.1*	*0.2*	*0.1*	*0.3*	*0.5*	*0.7*	*0.8*	*1.0*	*1.1*	*1.2*
Health care				*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Education				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*
(1.2) Cyclical component	***1.7***	***1.5***	***1.0***	***0.8***	***0.5***	***0.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***-0.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-3.6**	**-1.8**	**-1.1**	**-1.0**	**-0.6**	**-0.3**	**-0.3**	**-0.4**	**-0.3**	**-0.3**	**-0.2**	**-0.2**	**-0.2**
(2.1) Interest expenditure	*1.2*	*1.3*	*1.3*	*1.3*	*1.2*	*1.1*	*1.0*	*1.0*	*0.9*	*0.9*	*0.8*	*0.7*	*0.7*
(2.2) Growth effect (real)	*-2.6*	*-2.0*	*-1.4*	*-1.3*	*-0.9*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.5*	*-0.4*	*-0.4*	*-0.4*
(2.3) Inflation effect	*-2.2*	*-1.0*	*-1.0*	*-1.0*	*-0.9*	*-0.8*	*-0.8*	*-0.7*	*-0.7*	*-0.6*	*-0.6*	*-0.5*	*-0.5*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*0.5*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	2.5	2.0	2.0	1.9	1.9	2.0	1.9	1.7	1.5	1.5	1.3	1.3	1.0
Gross financing needs	2.4	1.4	4.2	3.9	4.1	3.8	3.1	3.2	0.8	0.6	0.5	0.3	0.4

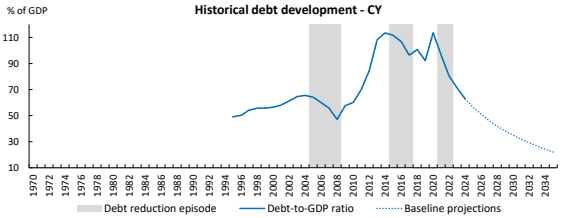


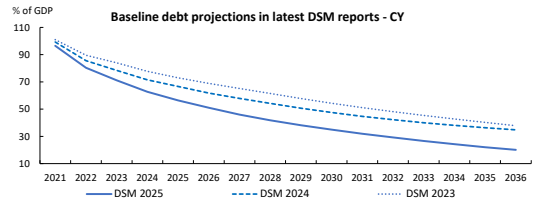


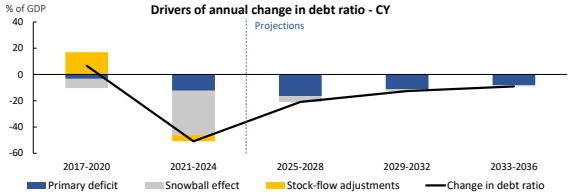












Cyprus - Underlying assumptions of deterministic debt projections

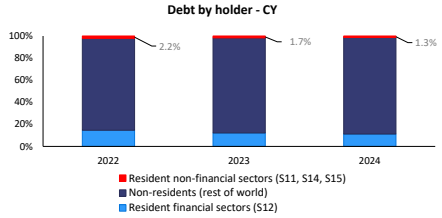
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.8	56.4	51.0	46.0	41.8	38.2	35.0	31.9	29.2	26.6	24.3	22.0	20.1
Primary balance	5.4	4.6	4.3	4.0	3.6	3.3	2.9	2.6	2.4	2.3	2.1	2.0	1.7
Structural primary balance (before CoA)	3.7	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Real GDP growth	3.9	3.4	2.6	2.7	2.0	1.4	1.7	1.9	1.8	1.8	1.7	1.7	1.7
Potential GDP growth	4.2	3.8	3.5	3.2	2.6	2.1	2.0	1.9	1.8	1.8	1.7	1.7	1.7
Inflation rate	3.1	1.6	1.7	1.9	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.3	2.3
Implicit interest rate (nominal)	1.8	2.1	2.4	2.6	2.7	2.7	2.8	2.9	3.0	3.0	3.1	3.1	3.1
Gross financing needs	2.4	1.4	4.2	3.9	4.1	3.8	3.1	3.2	0.8	0.6	0.5	0.3	0.4
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.8	56.4	51.0	46.2	42.6	39.6	37.4	35.8	34.7	33.9	33.2	32.7	32.5
Primary balance	5.4	4.6	4.3	3.7	3.0	2.5	1.8	1.3	0.9	0.6	0.4	0.3	0.0
Structural primary balance (before CoA)	3.7	3.3	3.3	2.8	2.4	2.0	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Real GDP growth	3.9	3.4	2.6	3.0	2.2	1.9	1.9	1.5	1.4	1.4	1.7	1.7	1.7
Gross financing needs	2.4	1.4	4.2	4.2	4.7	4.7	4.4	4.9	2.7	2.9	2.9	3.0	3.2
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.8	56.4	51.0	46.1	41.9	38.3	35.0	32.0	29.3	26.7	24.3	22.1	20.2
Implicit interest rate (nominal)	1.8	2.1	2.4	2.6	2.7	2.8	2.8	2.9	3.0	3.0	3.1	3.1	3.1
Gross financing needs	2.4	1.4	4.3	3.9	4.1	3.8	3.1	3.2	0.8	0.6	0.5	0.3	0.4
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.8	56.4	51.1	46.7	43.0	39.7	37.0	34.5	32.3	30.2	28.3	26.6	25.2
Primary balance	5.4	4.6	4.1	3.5	3.1	2.9	2.4	2.1	1.9	1.8	1.6	1.5	1.2
Structural primary balance (before CoA)	3.7	3.3	3.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Real GDP growth	3.9	3.4	2.8	2.6	2.0	1.6	1.5	1.9	1.8	1.8	1.7	1.7	1.7
Gross financing needs	2.4	1.4	4.4	4.4	4.7	4.3	3.8	4.0	1.6	1.4	1.4	1.2	1.4
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	62.8	56.4	51.3	46.6	42.7	39.3	36.3	33.5	31.0	28.7	26.5	24.5	22.8
Implicit interest rate (nominal)	1.8	2.1	2.4	2.7	2.8	2.9	3.0	3.1	3.2	3.3	3.3	3.4	3.4
Real GDP growth	3.9	3.4	2.1	2.2	1.5	0.9	1.2	1.4	1.3	1.3	1.2	1.2	1.2
Gross financing needs	2.4	1.4	4.3	4.0	4.3	4.0	3.4	3.5	1.1	0.9	0.8	0.6	0.7

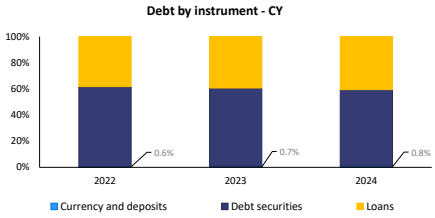
3. Long-term fiscal sustainability risks

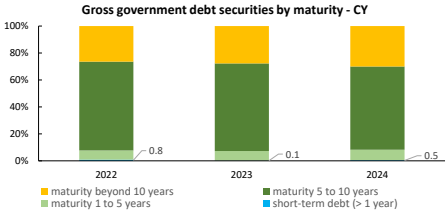
S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**0.1**	**0.6**	**3.9**	**1.0**
of which					
Initial budgetary position		-2.8	-2.7	-2.8	-2.4
Ageing costs		3.0	3.4	6.7	3.4
of which	*Pensions*	2.6	3.0	2.6	2.9
	Health care	0.6	0.6	1.5	0.7
	Long-term care	0.1	0.1	2.9	0.1
	Education	-0.4	-0.4	-0.4	-0.4
Required structural primary balance related to S2		**3.4**	**3.9**	**7.1**	**3.9**

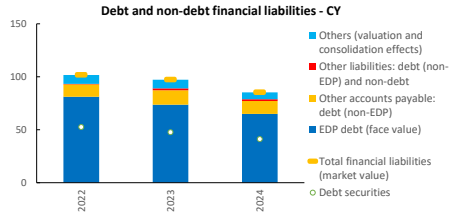
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**-1.1**	**-0.8**	**0.3**	**-0.3**
of which					
Initial budgetary position		-3.1	-3.1	-3.2	-2.8
Debt requirement		-0.2	-0.2	-0.2	0.0
Ageing costs		2.2	2.4	3.8	2.5
of which	*Pensions*	2.0	2.3	2.0	2.3
	Health care	0.4	0.4	1.1	0.4
	Long-term care	0.1	0.1	0.9	0.1
	Education	-0.3	-0.3	-0.3	-0.3
Required structural primary balance related to S1		**2.1**	**2.5**	**3.6**	**2.5**

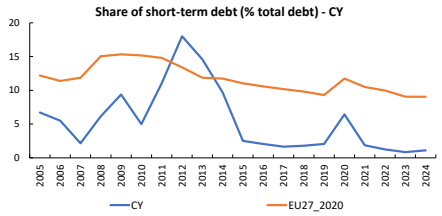
4. Additional aggravating and mitigating risk factors for fiscal sustainability

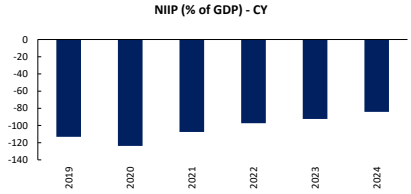


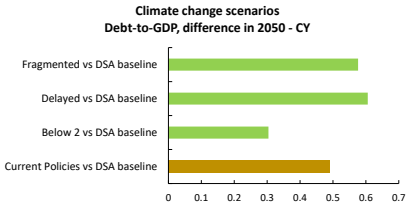












14. LATVIA

This fiche assesses fiscal sustainability risks for Latvia over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected at around 10% of GDP on average over 2026-2027. Financial markets' perceptions of sovereign risk remain investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to rise continuously over the medium term, reaching 74% of GDP in 2036 ([168]). The increase in the government debt ratio is mainly driven by the assumed structural primary deficit of 2.1% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([169]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([170]). Ageing-related expenditure is projected to remain stable over the projection period. Until 2029, the debt projections benefit from a favourable snowball effect, which turns neutral in 2030 and pushes up debt as of 2032. Government gross financing needs are expected to rise steadily over the projection period, to around 11% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Under the *historical structural primary balance (SPB) scenario* (in which the SPB returns to its historical 15-year average of -1.1% of GDP), the debt ratio would be about 8 pps. lower in 2036. The other three scenarios lead to higher debt levels than the baseline. The *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1.0 pp. compared with the baseline) results in a 6 pps. higher debt ratio in 2036, with a 5 pps. higher debt projection under the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.). Under the *financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline), the 2036 debt ratio would be marginally higher than the baseline projection.

The stochastic projections run around the baseline indicate medium risk due to the medium uncertainty of the baseline projection ([171])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 85% pointing to medium risk given the low initial debt level. In addition, high uncertainty surrounds the baseline debt projection, as measured by the difference of around 35 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([168]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 2.1% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (average of 1.2%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([169]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Latvia commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([170]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by-one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([171]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([172]). The medium-risk classification reflects a projected decrease in age-related spending in the long term and a debt level currently still below the 60% reference value, which partially compensate for the debt-increasing impact of the expected deficit.

The S2 debt-stabilisation indicator points to medium risk. It signals that Latvia would need to improve its structural primary balance by 2.2 pps. to ensure that debt stabilises over the long term. The projected decrease in ageing costs – in particular falling pension spending – lowers the required adjustment by 0.6 pps., partly compensating for the 2.8 pps. adjustment that would be needed to stabilise the debt ratio given the initial budgetary position.

The S1 debt-reduction indicator also points to medium risk. This indicator shows that a fiscal effort of 2.4 pps. would be needed for Latvia to prevent the debt ratio from exceeding 60% of GDP by 2070. The key drivers are similar as for the S2 indicator.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors include (i) the relatively large share of public debt held by non-residents (Section 4.1.2), and (ii) the negative net international investment position (Section 4.2.4). On the other hand, risk-mitigating factors include (i) the low share of short-term debt in total debt (Section 4.1.1) and (ii) the fact that debt is largely denominated in euro (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([172]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

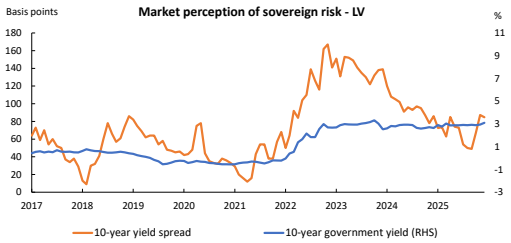
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	74.2	66.0	79.2	79.8	74.7				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	75%	63%	77%	75%	75%				
	Probability of debt ratio exceeding in 2030 its 2025 level						85%			
	Difference between 90th and 10th percentiles (% of GDP)						35.3			

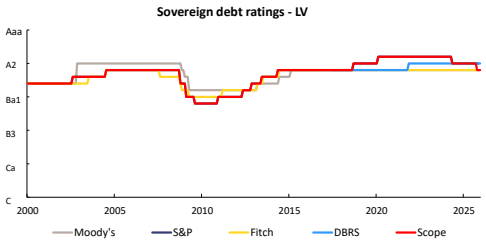
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	85

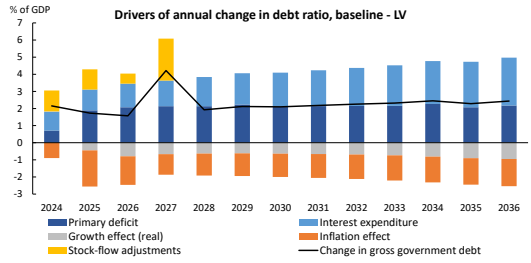
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

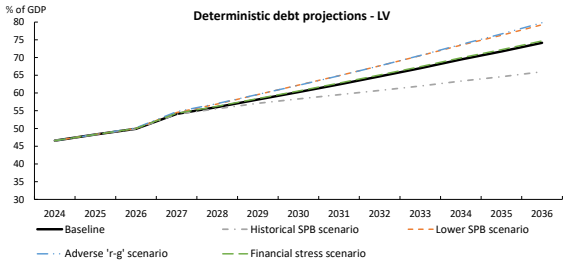


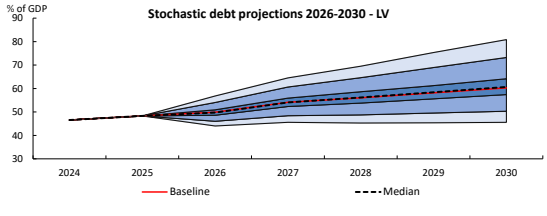


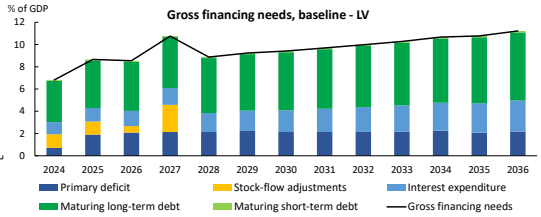
2. Medium-term fiscal sustainability risks

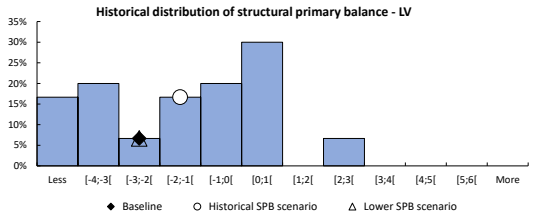
Latvia - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**46.6**	**48.3**	**49.9**	**54.1**	**56.0**	**58.2**	**60.2**	**62.4**	**64.7**	**67.0**	**69.4**	**71.7**	**74.2**
Change in the ratio (-1+2+3)	*2.2*	*1.7*	*1.6*	*4.2*	*1.9*	*2.1*	*2.1*	*2.2*	*2.3*	*2.3*	*2.5*	*2.3*	*2.4*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-0.7**	**-1.9**	**-2.1**	**-2.1**	**-2.1**	**-2.2**	**-2.1**	**-2.1**	**-2.1**	**-2.2**	**-2.3**	**-2.1**	**-2.2**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-0.4***	***-1.7***	***-2.1***	***-2.1***	***-2.1***	***-2.2***	***-2.1***	***-2.1***	***-2.1***	***-2.2***	***-2.3***	***-2.1***	***-2.2***
(1.1.1) Structural primary balance (before CoA)	*-0.4*	*-1.7*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*
(1.1.2) Cost of ageing (CoA)				*0.0*	*0.0*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*-0.1*	*0.0*
Pensions				*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.3*	*-0.3*
Health care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*
Education				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***-0.3***	***-0.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**0.2**	**-1.3**	**-1.1**	**-0.4**	**-0.2**	**-0.1**	**0.0**	**0.0**	**0.1**	**0.2**	**0.2**	**0.2**	**0.3**
(2.1) Interest expenditure	*1.1*	*1.2*	*1.4*	*1.5*	*1.7*	*1.8*	*2.0*	*2.1*	*2.2*	*2.4*	*2.5*	*2.7*	*2.8*
(2.2) Growth effect (real)	*0.0*	*-0.4*	*-0.8*	*-0.7*	*-0.6*	*-0.6*	*-0.6*	*-0.7*	*-0.7*	*-0.7*	*-0.8*	*-0.9*	*-0.9*
(2.3) Inflation effect	*-0.9*	*-2.1*	*-1.7*	*-1.2*	*-1.3*	*-1.3*	*-1.4*	*-1.4*	*-1.4*	*-1.5*	*-1.5*	*-1.5*	*-1.6*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**1.2**	**1.2**	**0.6**	**2.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*1.2*	*1.2*	*0.6*	*2.4*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-1.5	-2.9	-3.5	-3.6	-3.8	-4.1	-4.1	-4.2	-4.4	-4.5	-4.8	-4.7	-5.0
Gross financing needs	6.8	8.7	8.5	10.8	8.9	9.2	9.4	9.7	10.0	10.3	10.7	10.8	11.2

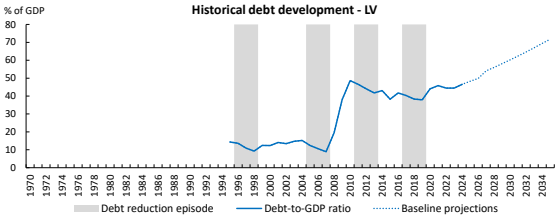


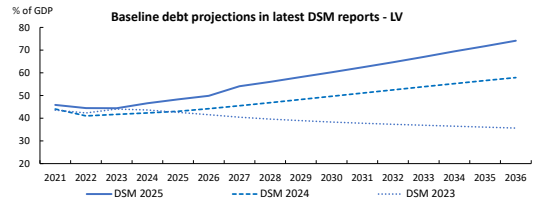


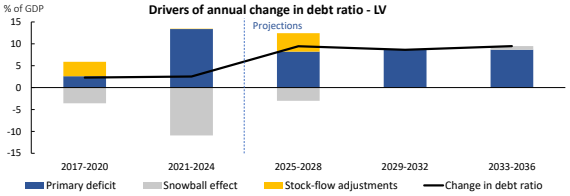












Latvia - Underlying assumptions of deterministic debt projections

1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.6	48.3	49.9	54.1	56.0	58.2	60.2	62.4	64.7	67.0	69.4	71.7	74.2
Primary balance	-0.7	-1.9	-2.1	-2.1	-2.1	-2.2	-2.1	-2.1	-2.1	-2.2	-2.3	-2.1	-2.2
Structural primary balance (before CoA)	-0.4	-1.7	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Real GDP growth	0.0	1.0	1.7	1.4	1.2	1.1	1.1	1.1	1.1	1.2	1.3	1.3	1.4
Potential GDP growth	0.0	0.9	1.1	1.5	1.2	1.1	1.1	1.1	1.1	1.2	1.3	1.3	1.4
Inflation rate	2.1	4.8	3.6	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Implicit interest rate (nominal)	2.5	2.8	3.0	3.1	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.0	4.0
Gross financing needs	6.8	8.7	8.5	10.8	8.9	9.2	9.4	9.7	10.0	10.3	10.7	10.8	11.2
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.6	48.3	49.9	54.0	55.6	57.1	58.3	59.5	60.7	61.9	63.4	64.6	66.0
Primary balance	-0.7	-1.9	-2.1	-1.9	-1.7	-1.6	-1.3	-1.2	-1.2	-1.2	-1.3	-1.1	-1.2
Structural primary balance (before CoA)	-0.4	-1.7	-2.1	-1.8	-1.6	-1.3	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Real GDP growth	0.0	1.0	1.7	1.2	1.1	1.1	1.1	1.3	1.3	1.3	1.3	1.3	1.4
Gross financing needs	6.8	8.7	8.5	10.6	8.5	8.5	8.4	8.5	8.6	8.7	9.0	9.0	9.3
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.6	48.3	50.0	54.3	56.3	58.4	60.6	62.8	65.1	67.4	69.9	72.2	74.7
Implicit interest rate (nominal)	2.5	2.8	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.8	3.9	4.0	4.1
Gross financing needs	6.8	8.7	8.6	10.8	9.0	9.3	9.5	9.8	10.1	10.4	10.7	10.9	11.3
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.6	48.3	50.0	54.5	56.9	59.6	62.2	64.9	67.7	70.5	73.5	76.3	79.2
Primary balance	-0.7	-1.9	-2.3	-2.5	-2.5	-2.7	-2.6	-2.6	-2.6	-2.7	-2.8	-2.6	-2.7
Structural primary balance (before CoA)	-0.4	-1.7	-2.3	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Real GDP growth	0.0	1.0	1.9	1.6	1.1	1.0	1.0	1.1	1.1	1.2	1.3	1.3	1.4
Gross financing needs	6.8	8.7	8.7	11.1	9.3	9.8	10.1	10.4	10.8	11.2	11.6	11.8	12.3
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.6	48.3	50.2	54.7	57.0	59.6	62.2	64.9	67.7	70.6	73.7	76.6	79.8
Implicit interest rate (nominal)	2.5	2.8	3.1	3.3	3.5	3.7	3.8	3.9	4.1	4.2	4.3	4.4	4.5
Real GDP growth	0.0	1.0	1.2	0.9	0.7	0.6	0.6	0.6	0.6	0.7	0.8	0.8	0.9
Gross financing needs	6.8	8.7	8.6	10.9	9.1	9.5	9.8	10.2	10.6	10.9	11.4	11.7	12.2

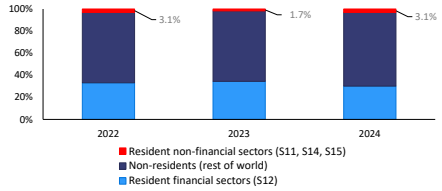
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**2.2**	**2.5**	**4.8**	**1.5**
of which					
Initial budgetary position		2.8	2.9	2.8	2.2
Ageing costs		-0.6	-0.4	2.0	-0.7
of which	*Pensions*	-1.2	-0.9	-1.2	-1.2
	Health care	0.5	0.4	1.4	0.5
	Long-term care	0.2	0.2	1.9	0.3
	Education	-0.2	-0.2	-0.2	-0.2
Required structural primary balance related to S2		**0.1**	**0.4**	**2.7**	**0.0**

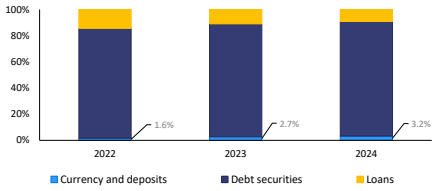
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**2.4**	**2.6**	**3.9**	**1.6**
of which					
Initial budgetary position		2.7	2.8	2.7	2.0
Debt requirement		-0.2	-0.2	-0.2	-0.2
Ageing costs		-0.2	-0.1	1.3	-0.2
of which	*Pensions*	-0.6	-0.4	-0.6	-0.6
	Health care	0.4	0.4	1.1	0.4
	Long-term care	0.2	0.2	0.9	0.2
	Education	-0.2	-0.2	-0.2	-0.2
Required structural primary balance related to S1		**0.3**	**0.5**	**1.8**	**0.0**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

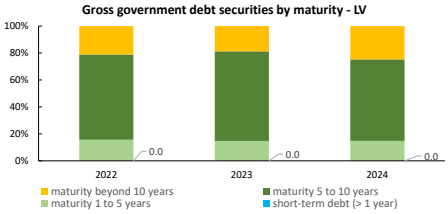
Debt by holder - LV



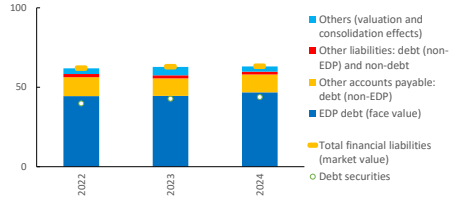
Debt by instrument - LV



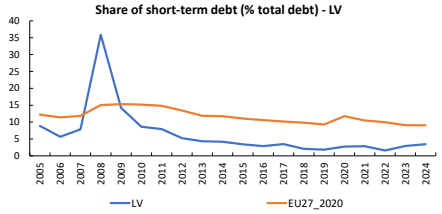
Gross government debt securities by maturity - LV



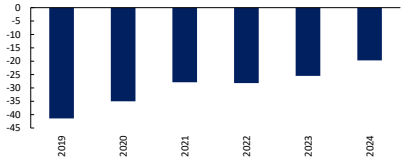
Debt and non-debt financial liabilities - LV



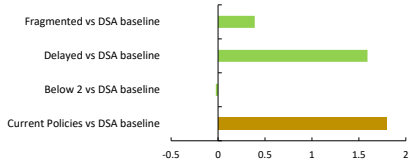
Share of short-term debt (% total debt) - LV



NIIP (% of GDP) - LV



Climate change scenarios
Debt-to-GDP, difference in 2050 - LV



15. LITHUANIA

This fiche assesses fiscal sustainability risks for Lithuania over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain low, at around 10% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are positive, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to increase over the medium term, reaching around 66% of GDP in 2036 ([173]). The increase in the government debt ratio is partially driven by the assumed structural primary deficit of 1.3% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([174]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([175]). Moreover, ageing-related expenditure is projected to increase, weighing on public finances. At the same time, the baseline projection benefits from a still favourable (although declining) snowball effect. Government gross financing needs are expected to increase, reaching around 11% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three out of four scenarios lead to higher debt levels than the baseline. Under the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.), the debt ratio would exceed the baseline level by around 5 pps. by 2036. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1.0 pp. compared with the baseline), and under *the financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline), the debt ratio would also be higher than in the baseline by 2036, by around 5 pps. and 0.5 pps. respectively. Under the *historical structural primary balance (SPB) scenario* (in which the SPB returns to its historical 15-year average of -0.3% of GDP), the debt ratio would be lower than under the baseline by around 7.5 pps. in 2036.

The stochastic projections run around the baseline indicate medium risk due to the medium probability of debt increasing over the next five years ([176])**.** These stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 88%, pointing to medium risk given the low initial debt level. High uncertainty surrounds the baseline debt projection, as measured by the difference of around 28 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([173]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 1.3% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (average of 1.8%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([174]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Lithuania commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([175]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past., as measured by-one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([176]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([177]). The medium risk stems from the projected increase in ageing-related costs and by the unfavourable initial deficit level.

The S2 debt-stabilisation indicator points to medium risk. It signals that Lithuania would need to improve its structural primary balance by 5.1 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing costs, which contributes 3.1 pps., of which 2.0 pps. stem from pension expenditure and 1.3 pps. jointly from health care and long-term care expenditure, partially offset by a negative contribution from education. The remaining required effort is due to the unfavourable initial budgetary position, contributing 1.9 pps.

The S1 debt-reduction indicator also points to medium risk. This indicator shows that a fiscal effort of 4.0 pps. would be needed for Lithuania to limit its debt to 60% of GDP by 2070. This result is also mainly driven by the projected increase in ageing costs (contributing 2.4 pps.). The initial deficit contributes an additional 1.8 pps.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand the relatively large share of public debt held by non-residents can constitute a risk-increasing factor (Section 4.1.2). On the other hand, risk-mitigating factors include (i) the low share of short-term debt in total debt (Section 4.1.1), and (ii) the fact that debt is fully denominated in euro (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([177]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

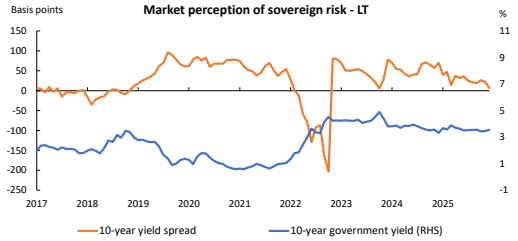
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	MEDIUM	LOW	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	65.7	58.2	70.7	70.4	66.1				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	68%	55%	76%	68%	68%				
	Probability of debt ratio exceeding in 2030 its 2025 level						88%			
	Difference between 90th and 10th percentiles (% of GDP)						28.3			

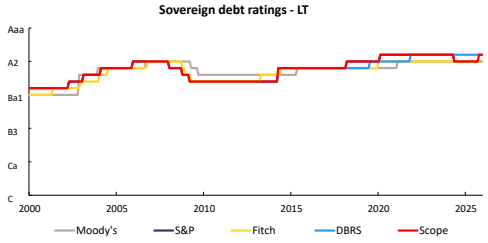
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	7

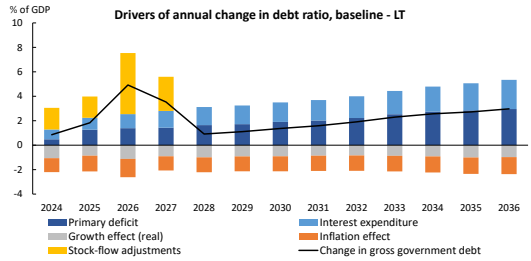
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

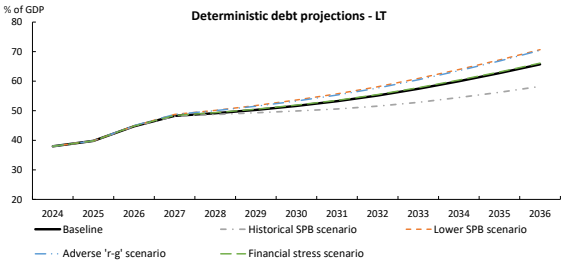


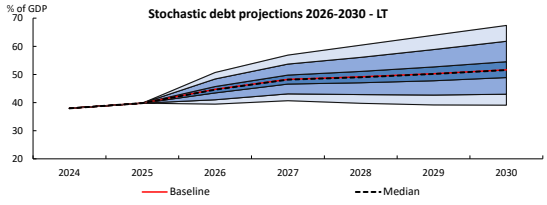


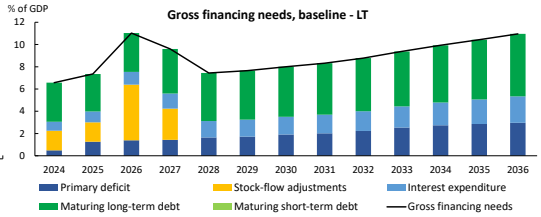
2. Medium-term fiscal sustainability risks

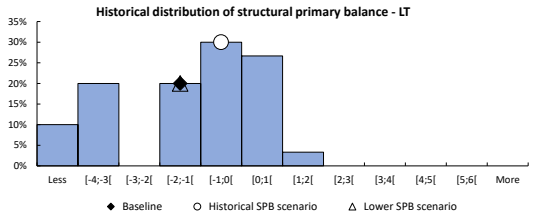
Lithuania - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**38.0**	**39.8**	**44.7**	**48.3**	**49.2**	**50.3**	**51.6**	**53.2**	**55.1**	**57.4**	**60.0**	**62.7**	**65.7**
Change in the ratio (-1+2+3)	*0.9*	*1.8*	*4.9*	*3.5*	*0.9*	*1.1*	*1.4*	*1.6*	*1.9*	*2.3*	*2.6*	*2.7*	*3.0*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-0.5**	**-1.3**	**-1.4**	**-1.4**	**-1.6**	**-1.7**	**-1.9**	**-2.0**	**-2.2**	**-2.5**	**-2.7**	**-2.9**	**-3.0**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***0.0***	***-0.9***	***-1.3***	***-1.4***	***-1.6***	***-1.7***	***-1.9***	***-2.0***	***-2.2***	***-2.5***	***-2.7***	***-2.9***	***-3.0***
(1.1.1) Structural primary balance (before CoA)	*0.0*	*-0.9*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*
(1.1.2) Cost of ageing (CoA)				*0.1*	*0.3*	*0.4*	*0.6*	*0.7*	*0.9*	*1.2*	*1.4*	*1.5*	*1.6*
Pensions				*0.0*	*0.2*	*0.3*	*0.5*	*0.6*	*0.8*	*0.9*	*1.1*	*1.2*	*1.3*
Health care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Long-term care				*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Education				*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***-0.5***	***-0.5***	***-0.1***	***-0.1***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-1.4**	**-1.2**	**-1.5**	**-0.7**	**-0.7**	**-0.6**	**-0.5**	**-0.4**	**-0.3**	**-0.2**	**-0.2**	**-0.1**	**0.0**
(2.1) Interest expenditure	*0.8*	*1.0*	*1.2*	*1.4*	*1.5*	*1.5*	*1.6*	*1.7*	*1.8*	*1.9*	*2.0*	*2.2*	*2.4*
(2.2) Growth effect (real)	*-1.1*	*-0.9*	*-1.1*	*-0.9*	*-1.0*	*-0.9*	*-0.9*	*-0.9*	*-0.8*	*-0.9*	*-0.9*	*-1.0*	*-1.0*
(2.3) Inflation effect	*-1.1*	*-1.3*	*-1.5*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.4*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**1.8**	**1.7**	**5.0**	**2.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*1.8*	*1.7*	*5.0*	*2.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-0.8	-1.9	-2.4	-2.7	-3.1	-3.2	-3.5	-3.7	-4.0	-4.4	-4.8	-5.1	-5.3
Gross financing needs	6.6	7.3	11.0	9.6	7.4	7.7	8.0	8.3	8.8	9.4	9.9	10.4	11.0

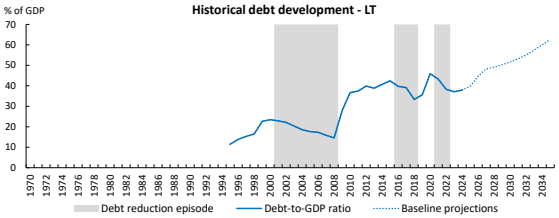


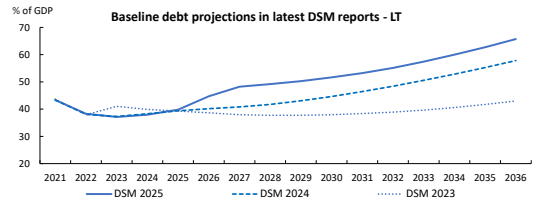


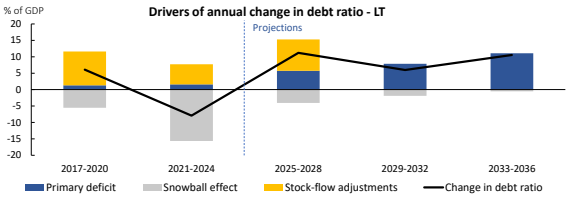












Lithuania - Underlying assumptions of deterministic debt projections

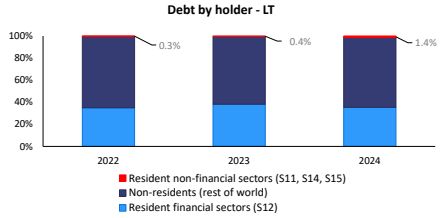
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.0	39.8	44.7	48.3	49.2	50.3	51.6	53.2	55.1	57.4	60.0	62.7	65.7
Primary balance	-0.5	-1.3	-1.4	-1.4	-1.6	-1.7	-1.9	-2.0	-2.2	-2.5	-2.7	-2.9	-3.0
Structural primary balance (before CoA)	0.0	-0.9	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Real GDP growth	3.0	2.4	3.0	2.1	2.1	1.9	1.9	1.7	1.6	1.6	1.7	1.7	1.6
Potential GDP growth	2.6	2.3	2.1	2.1	2.1	1.9	1.8	1.7	1.6	1.6	1.7	1.7	1.6
Inflation rate	3.2	3.5	3.9	2.6	2.6	2.6	2.5	2.5	2.4	2.4	2.3	2.3	2.3
Implicit interest rate (nominal)	2.3	2.7	3.1	3.2	3.2	3.3	3.3	3.4	3.5	3.6	3.7	3.8	4.0
Gross financing needs	6.6	7.3	11.0	9.6	7.4	7.7	8.0	8.3	8.8	9.4	9.9	10.4	11.0
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.0	39.8	44.7	48.1	48.7	49.3	49.9	50.6	51.6	52.8	54.5	56.2	58.2
Primary balance	-0.5	-1.3	-1.4	-1.3	-1.3	-1.1	-1.1	-1.2	-1.3	-1.6	-1.8	-1.9	-2.0
Structural primary balance (before CoA)	0.0	-0.9	-1.3	-1.0	-0.8	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Real GDP growth	3.0	2.4	3.0	2.0	2.1	1.8	1.8	1.9	1.8	1.8	1.7	1.7	1.6
Gross financing needs	6.6	7.3	11.0	9.4	7.1	7.0	7.1	7.3	7.5	8.0	8.4	8.8	9.2
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.0	39.8	44.8	48.4	49.4	50.5	51.9	53.5	55.5	57.8	60.4	63.1	66.1
Implicit interest rate (nominal)	2.3	2.7	3.3	3.3	3.3	3.3	3.4	3.5	3.5	3.6	3.8	3.9	4.0
Gross financing needs	6.6	7.3	11.1	9.7	7.5	7.7	8.1	8.4	8.8	9.4	10.0	10.5	11.0
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.0	39.8	44.9	48.7	50.1	51.8	53.6	55.7	58.1	60.9	64.0	67.2	70.7
Primary balance	-0.5	-1.3	-1.6	-1.8	-2.1	-2.2	-2.4	-2.5	-2.7	-3.0	-3.2	-3.4	-3.5
Structural primary balance (before CoA)	0.0	-0.9	-1.5	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Real GDP growth	3.0	2.4	3.2	2.2	2.1	1.8	1.8	1.7	1.6	1.6	1.7	1.7	1.6
Gross financing needs	6.6	7.3	11.2	10.0	7.9	8.2	8.7	9.1	9.6	10.3	10.9	11.4	12.0
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	38.0	39.8	44.9	48.8	50.0	51.5	53.3	55.3	57.7	60.5	63.5	66.8	70.4
Implicit interest rate (nominal)	2.3	2.7	3.2	3.4	3.5	3.5	3.6	3.7	3.9	4.0	4.1	4.3	4.4
Real GDP growth	3.0	2.4	2.5	1.6	1.6	1.4	1.4	1.2	1.1	1.1	1.2	1.2	1.1
Gross financing needs	6.6	7.3	11.1	9.7	7.7	7.9	8.3	8.7	9.3	9.9	10.6	11.2	11.8

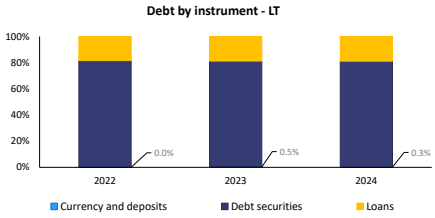
3. Long-term fiscal sustainability risks

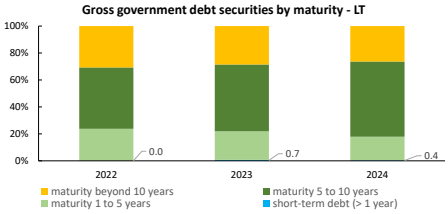
S2 indicator **(effort required in 2027** **to stabilise debt over an infinite horizon)**		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**5.1**	**5.3**	**11.1**	**4.6**
of which					
Initial budgetary position		1.9	2.0	2.0	1.3
Ageing costs		3.1	3.2	9.0	3.3
of which	*Pensions*	2.0	2.2	2.0	2.2
	Health care	0.6	0.6	1.5	0.6
	Long-term care	0.7	0.7	5.9	0.7
	Education	-0.2	-0.2	-0.2	-0.3
Required structural primary balance related to S2		**3.8**	**4.0**	**9.8**	**3.9**

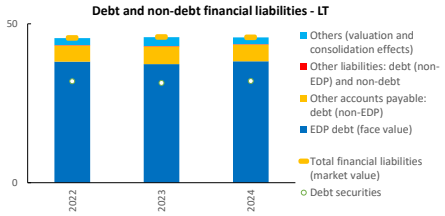
S1 indicator **(effort required in 2027** **to bring debt to 60% of GDP by 2070)**		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**4.0**	**4.1**	**6.9**	**3.5**
of which					
Initial budgetary position		1.8	1.9	1.8	1.1
Debt requirement		-0.3	-0.2	-0.3	-0.3
Ageing costs		2.4	2.5	5.4	2.7
of which	*Pensions*	1.8	1.8	1.8	2.0
	Health care	0.4	0.4	1.1	0.5
	Long-term care	0.5	0.5	2.7	0.5
	Education	-0.3	-0.3	-0.3	-0.3
Required structural primary balance related to S1		**2.7**	**2.8**	**5.6**	**2.8**

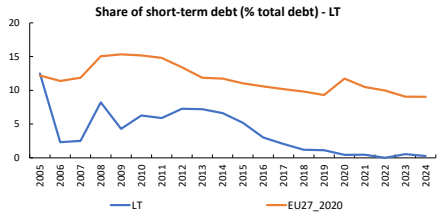
4. Additional aggravating and mitigating risk factors for fiscal sustainability

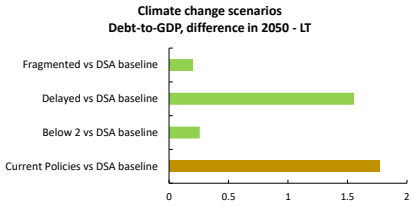












16. LUXEMBOURG

This fiche assesses fiscal sustainability risks for Luxembourg over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to decrease to around 3% of GDP on average over 2026-2027. Financial markets' perceptions of sovereign risk remain positive, as confirmed by the 'AAA' rating that the three major rating agencies assigned to Luxembourgish government debt.

2 – Medium-term fiscal sustainability risks are low.

Under the DSA baseline, debt is projected to gradually decrease and remain well below 60% of GDP in the medium term, reaching around 20% of GDP in 2036 ([178]). The debt reduction is supported by the assumed structural primary surplus of 1.4% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([179]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([180]). At the same time, ageing-related expenditure is projected to increase, weighing on public finances. The baseline projection benefits from a still favourable (although declining) snowball effect. Government gross financing needs are expected to remain at low levels over the projection period, reaching around 2% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Only under the *historical structural primary balance (SPB) scenario* (in which the SPB returns to its historical 15-year average of 1.7% of GDP) the debt ratio would be lower than under the baseline by about 1.6 pps. of GDP in 2036. All the other scenarios lead to higher debt levels than the baseline in 2036. Under the *lower structural primary balance (SPB) scenario* (in which the SPB level is lowered by 0.5 pps), the *adverse interest rate-growth differential scenario* (in which the *interest rate-growth* differential permanently deteriorates by 1 pp. compared with the baseline) and the *financial stress scenario* (in which the. market interest rates temporarily increase by 1 pp. compared with the baseline), the debt ratio would exceed the baseline level by 2036 by around 4 pps., 2 pps. and 0.2 pps., respectively.

The stochastic projections run around the baseline indicate low risk, due to a low probability of debt increasing over the next five years ([181])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 29%, pointing to low risk given the low debt level. The uncertainty surrounding the baseline debt projection is also low, as measured by the difference of 13 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([178]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary surplus, before changes in ageing costs, of 1.4 % of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (2.0% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([179]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Luxembourg commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([180]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past., as measured by-one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([181]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are overall high. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (debt-stabilisation indicator S2) and to bring it to 60% of GDP (debt-reduction indicator S1) over the long term ([182]). The high risk stems from the projected increase in ageing costs.

The S2 debt-stabilisation indicator points to high risk. It signals that relative to the baseline, Luxembourg would need to improve its structural primary balance by 7.1 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing-related costs (contributing of 7.8 pps.), which is only partly offset by the initial favourable fiscal position (0.7 pps.). Ageing cost developments are primarily driven by the projected increase in pensions (5.8 pps.) as well as long-term care and health-care spending (2.3 pps.).

The S1 debt-reduction indicator points to medium risk. This indicator shows that Luxembourg would need to improve its fiscal position by 2.0 pps. to bring its debt to 60% of GDP by 2070. This result is also mainly driven by the increase of the ageing-related public expenditure (contributing of 4.1 pps.), which is only partly offset by the favourable initial budgetary position (-1.4 pps.), and the low debt level, contributing -0.7 pps.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to (i) contingent liability risks stemming from the private sector (Sections 4.2.2 and 4.2.3) and (ii) changes in the international financial regulations. On the other hand, risk-mitigating factors include the (i) lengthening of debt maturity (Section 4.1.1), (ii) the relatively stable financing sources with a diversified and large investor base (Section 4.1.2), (iii) the government debt fully denominated in euro (Section 4.1.3), and (iv) the positive net international investment position (Section 4.2.4). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([182]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

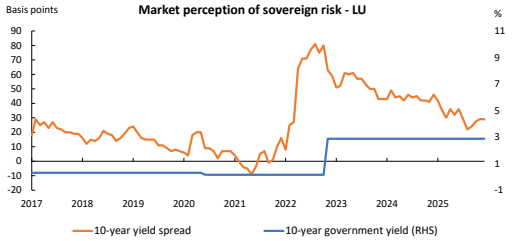
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
LOW	Overall	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	LOW	HIGH
	Debt level (2036), % of GDP	20.1	18.6	24.6	21.9	20.3				
	Debt peak year	2026	2026	2026	2026	2026				
	Fiscal consolidation space	70%	64%	77%	70%	70%				
	Probability of debt ratio exceeding in 2030 its 2025 level						29%			
	Difference between 90th and 10th percentiles (% of GDP)						13.1			

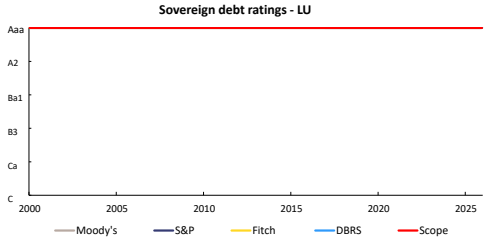
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	29

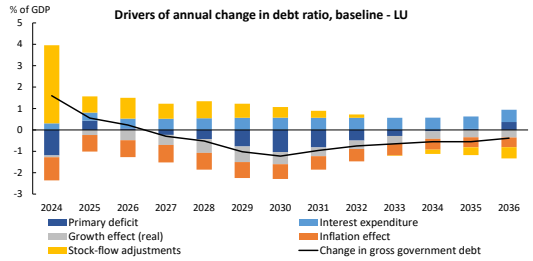
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

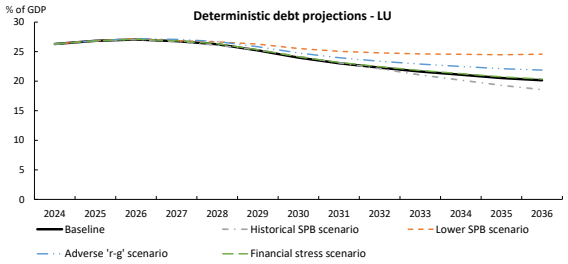


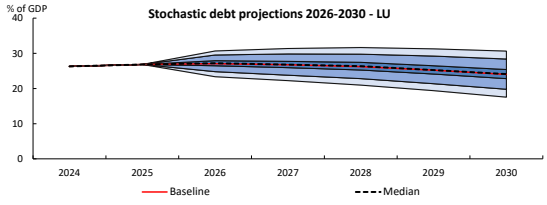


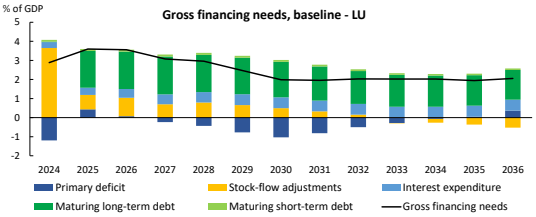
2. Medium-term fiscal sustainability risks

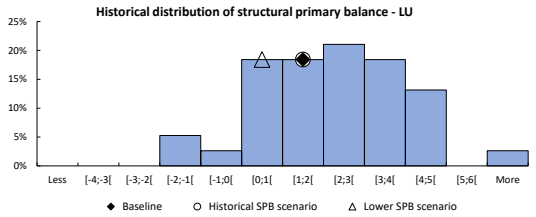
Luxembourg - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**26.3**	**26.8**	**27.1**	**26.8**	**26.2**	**25.2**	**24.0**	**23.0**	**22.3**	**21.6**	**21.1**	**20.5**	**20.1**
Change in the ratio (-1+2+3)	*1.6*	*0.6*	*0.2*	*-0.3*	*-0.5*	*-1.0*	*-1.2*	*-1.0*	*-0.7*	*-0.6*	*-0.6*	*-0.6*	*-0.4*
of which													
(1) Primary balance (1.1+1.2+1.3)	**1.2**	**-0.4**	**-0.1**	**0.2**	**0.4**	**0.8**	**1.0**	**0.8**	**0.5**	**0.3**	**0.1**	**-0.1**	**-0.4**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***2.9***	***1.3***	***1.4***	***1.5***	***1.3***	***1.1***	***1.0***	***0.8***	***0.5***	***0.3***	***0.1***	***-0.1***	***-0.4***
(1.1.1) Structural primary balance (before CoA)	*2.9*	*1.3*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*
(1.1.2) Cost of ageing (CoA)				*-0.1*	*0.1*	*0.3*	*0.4*	*0.6*	*0.9*	*1.2*	*1.4*	*1.5*	*1.8*
Pensions				*0.0*	*0.1*	*0.3*	*0.4*	*0.6*	*0.8*	*1.0*	*1.2*	*1.3*	*1.5*
Health care				*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*
Education				*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.0*	*0.0*
(1.2) Cyclical component	***-1.7***	***-1.8***	***-1.5***	***-1.3***	***-0.8***	***-0.3***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-0.9**	**-0.6**	**-0.8**	**-0.8**	**-0.9**	**-0.9**	**-0.7**	**-0.5**	**-0.4**	**-0.3**	**-0.3**	**-0.2**	**-0.2**
(2.1) Interest expenditure	*0.3*	*0.4*	*0.5*	*0.5*	*0.5*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*
(2.2) Growth effect (real)	*-0.1*	*-0.2*	*-0.5*	*-0.5*	*-0.6*	*-0.7*	*-0.6*	*-0.4*	*-0.4*	*-0.4*	*-0.4*	*-0.3*	*-0.4*
(2.3) Inflation effect	*-1.1*	*-0.8*	*-0.8*	*-0.8*	*-0.8*	*-0.7*	*-0.7*	*-0.6*	*-0.6*	*-0.5*	*-0.5*	*-0.5*	*-0.5*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**3.7**	**0.8**	**1.0**	**0.7**	**0.8**	**0.7**	**0.5**	**0.3**	**0.2**	**0.0**	**-0.2**	**-0.4**	**-0.5**
(3.1) Base	*3.7*	*0.8*	*1.0*	*0.7*	*0.8*	*0.7*	*0.5*	*0.3*	*0.2*	*0.0*	*-0.2*	*-0.4*	*-0.5*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	2.6	1.0	0.9	1.0	0.7	0.5	0.5	0.2	-0.1	-0.3	-0.5	-0.6	-0.9
Gross financing needs	2.9	3.6	3.6	3.1	3.0	2.5	2.0	2.0	2.0	2.0	2.0	1.9	2.1

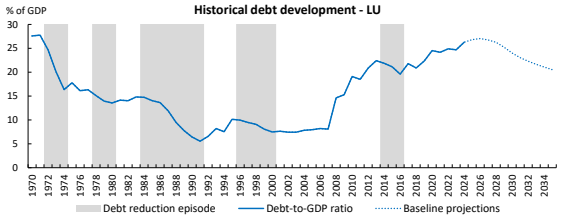


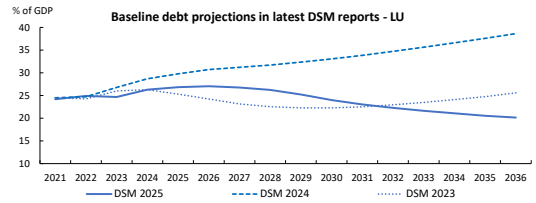


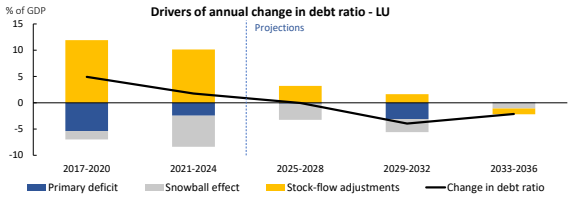












Luxembourg - Underlying assumptions of deterministic debt projections

1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	26.3	26.8	27.1	26.8	26.2	25.2	24.0	23.0	22.3	21.6	21.1	20.5	20.1
Primary balance	1.2	-0.4	-0.1	0.2	0.4	0.8	1.0	0.8	0.5	0.3	0.1	-0.1	-0.4
Structural primary balance (before CoA)	2.9	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Real GDP growth	0.4	0.9	1.9	1.8	2.5	3.0	2.4	1.8	1.8	1.7	1.7	1.7	1.8
Potential GDP growth	1.2	1.1	1.2	1.3	1.6	1.7	1.8	1.8	1.8	1.7	1.7	1.7	1.8
Inflation rate	4.6	3.0	3.0	3.1	3.0	2.9	2.8	2.7	2.6	2.5	2.4	2.3	2.3
Implicit interest rate (nominal)	1.3	1.5	1.8	2.0	2.2	2.3	2.4	2.5	2.6	2.7	2.7	2.8	2.9
Gross financing needs	2.9	3.6	3.6	3.1	3.0	2.5	2.0	2.0	2.0	2.0	2.0	1.9	2.1
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	26.3	26.8	27.1	26.7	26.1	25.3	24.2	23.1	22.1	21.1	20.2	19.3	18.6
Primary balance	1.2	-0.4	-0.1	0.3	0.6	0.7	0.9	0.9	0.7	0.6	0.4	0.3	0.0
Structural primary balance (before CoA)	2.9	1.3	1.4	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Real GDP growth	0.4	0.9	1.9	1.8	2.5	2.3	2.2	2.1	2.1	2.0	1.7	1.7	1.8
Gross financing needs	2.9	3.6	3.6	3.0	2.8	2.5	2.1	1.9	1.8	1.7	1.6	1.5	1.6
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	26.3	26.8	27.1	26.8	26.3	25.3	24.1	23.2	22.4	21.8	21.3	20.7	20.3
Implicit interest rate (nominal)	1.3	1.5	1.9	2.1	2.3	2.4	2.5	2.6	2.6	2.7	2.8	2.9	3.0
Gross financing needs	2.9	3.6	3.6	3.1	3.0	2.5	2.0	2.0	2.1	2.1	2.1	2.0	2.1
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	26.3	26.8	27.2	26.8	26.6	26.3	25.5	25.1	24.8	24.6	24.5	24.5	24.6
Primary balance	1.2	-0.4	-0.3	0.1	0.2	0.3	0.5	0.3	0.0	-0.2	-0.4	-0.6	-0.9
Structural primary balance (before CoA)	2.9	1.3	1.2	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Real GDP growth	0.4	0.9	2.0	2.5	2.2	2.4	2.4	1.8	1.8	1.7	1.7	1.7	1.8
Gross financing needs	2.9	3.6	3.7	3.2	3.2	3.0	2.6	2.6	2.8	2.8	2.9	2.8	3.0
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	26.3	26.8	27.2	27.1	26.7	25.8	24.8	24.0	23.4	22.9	22.5	22.1	21.9
Implicit interest rate (nominal)	1.3	1.5	1.9	2.2	2.3	2.5	2.6	2.7	2.9	3.0	3.1	3.2	3.3
Real GDP growth	0.4	0.9	1.4	1.3	2.0	2.5	1.9	1.3	1.3	1.2	1.2	1.2	1.3
Gross financing needs	2.9	3.6	3.6	3.1	3.0	2.6	2.1	2.1	2.2	2.2	2.2	2.2	2.3

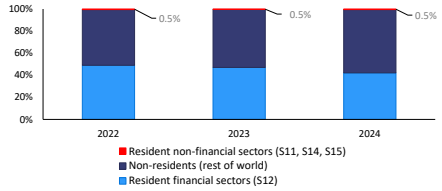
3. Long-term fiscal sustainability risks

S2 indicator **(effort required in 2027** **to stabilise debt over an infinite horizon)**	**DSM 2025**			**DSM 2024**
	Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)	**7.1**	**7.1**	**8.5**	**7.3**
of which				
Initial budgetary position	-0.7	-0.8	-0.7	-0.4
Ageing costs	7.8	7.9	9.3	7.8
of which *Pensions*	5.8	5.9	5.8	5.8
Health care	0.9	0.8	1.1	0.9
Long-term care	1.4	1.3	2.5	1.4
Education	-0.2	-0.2	-0.2	-0.2
Required structural primary balance related to S2	**8.5**	**8.5**	**10.0**	**8.4**

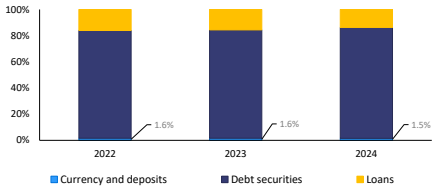
S1 indicator **(effort required in 2027** **to bring debt to 60% of GDP by 2070)**	**DSM 2025**			**DSM 2024**
	Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)	**2.0**	**2.2**	**2.7**	**2.2**
of which				
Initial budgetary position	-1.4	-1.4	-1.4	-1.1
Debt requirement	-0.7	-0.7	-0.7	-0.7
Ageing costs	4.1	4.2	4.8	4.0
of which *Pensions*	3.0	3.2	3.0	3.0
Health care	0.6	0.5	0.7	0.5
Long-term care	0.7	0.7	1.3	0.7
Education	-0.2	-0.2	-0.2	-0.2
Required structural primary balance related to S1	**3.4**	**3.6**	**4.1**	**3.2**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

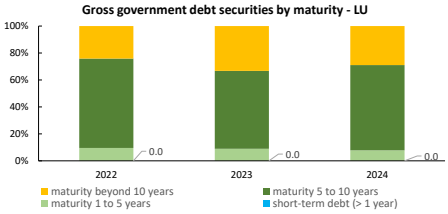
Debt by holder - LU



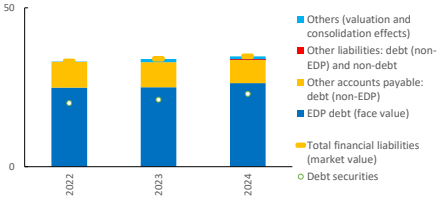
Debt by instrument - LU



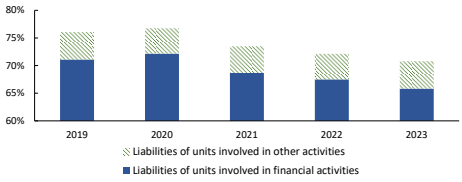
Gross government debt securities by maturity - LU



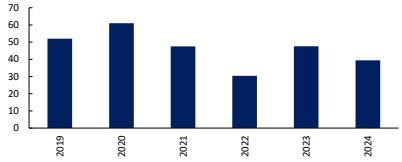
Debt and non-debt financial liabilities - LU



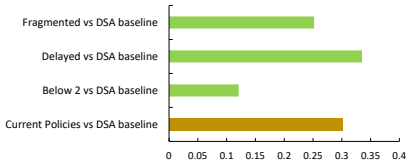
Liabilities of public corporations outside general government as % of GDP - LU



NIIP (% of GDP) - LU



Climate change scenarios
Debt-to-GDP, difference in 2050 - LU



17. HUNGARY

This fiche assesses fiscal sustainability risks for Hungary over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected at around 15% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase steadily, reaching around 103% of GDP in 2036 ([183]). The increase in the government debt ratio is mainly driven by the unfavourable snowball effect as of 2027. It is also due to the assumed structural primary deficit of 0.9% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([184]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([185]). Moreover, ageing-related expenditure is projected to increase, weighing on public finances. Government gross financing needs are expected to increase over the projection period, reaching high levels of around 21% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against alternative deterministic scenarios. Most scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1.0 pp. compared with the baseline), the debt ratio would exceed the baseline level by around 8 pps. by 2036. Under the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.), and *the financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline) the debt ratio would also be around 6 pps. and 0.5 pps higher than in the baseline by 2036, respectively. Under the *historical structural primary balance (SPB) scenario* (in which the SPB returns to its historical 15-year average of -0.4% of GDP), the debt ratio would be lower than under the baseline by around 5 pps. in 2036.

The stochastic projections run around the baseline indicate high risk due to the high probability of debt increasing over the next five years ([186])**.** These stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 81%, pointing to high risk given the initial debt level. Some uncertainty surrounds the baseline debt projection, as measured by the difference of around 25 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([183]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 0.9% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (average of 1.5%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([184]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Hungary commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Hungary follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5)

([185]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past., as measured by-one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([186]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are high. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([187]). The medium risk stems from the projected increase in ageing-related costs and the unfavourable initial deficit and debt levels.

The S2 debt-stabilisation indicator points to medium risk. It signals that Hungary would need to improve its structural primary balance by 6.7 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing costs, which contributes 4.5 pps., of which 3.6 pps. stem from pension expenditure and 1 pp. jointly from health care, long-term care and education expenditure. The remaining required effort is due to the unfavourable budgetary position, contributing 2.1 pps.

The S1 debt-reduction indicator also points to medium risk. This indicator shows that a significant fiscal effort of 5.3 pps. would be needed for Hungary to reduce its debt to 60% of GDP by 2070. This result is also mainly driven by the projected increase in ageing costs (contributing 2.7 pps.). The initial deficit and high debt level contribute an additional 2.3 pps. and 0.2 pps., respectively.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors relate to (i) the significant proportion of foreign currency debt, which exposes the government to exchange rate risk (Section 4.1.3), (ii) the high exposure of domestic banks to government debt, which poses a threat to both the financial sector and the government (Section 4.2.3), (iii) the sizable amount of redeemable retail government bonds, which accounted for approximately 20% of central government debt at the end of 2024 and poses a refinancing risk, and (iv) the high level of contingent liabilities arising from state guarantees, which poses additional fiscal risks, potentially straining public finances (Section 4.2.3). On the other hand, Hungary's government financing benefits from a diversified debt portfolio, which relies on multiple sources including bond issuances on international capital markets, a sizable retail bond programme, and the domestic financial sector (Section 4.1.2). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([187]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

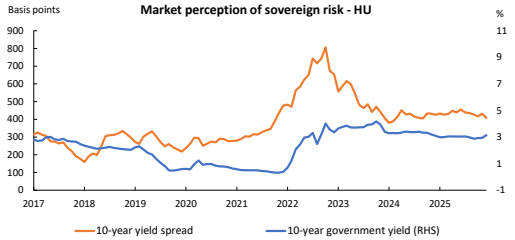
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	HIGH
	Debt level (2036), % of GDP	102.5	97.8	108.6	110.8	103.2				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	57%	56%	61%	57%	57%				
	Probability of debt ratio exceeding in 2030 its 2025 level						81%			
	Difference between 90th and 10th percentiles (% of GDP)						25.4			

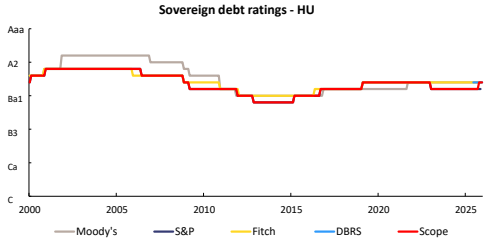
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	408

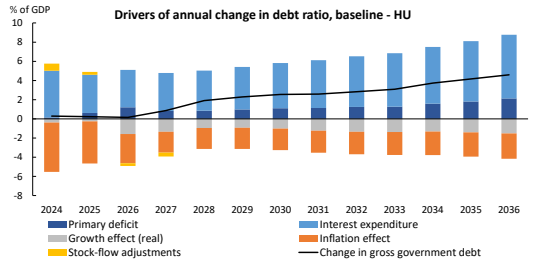
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

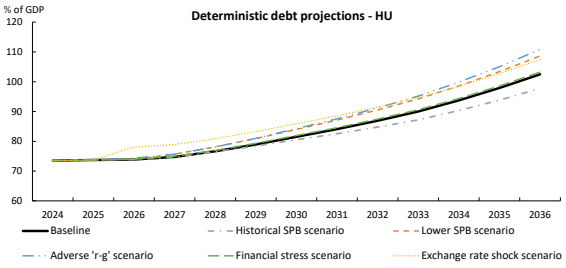


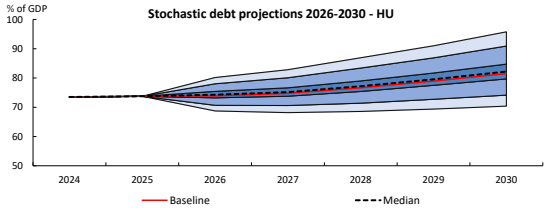


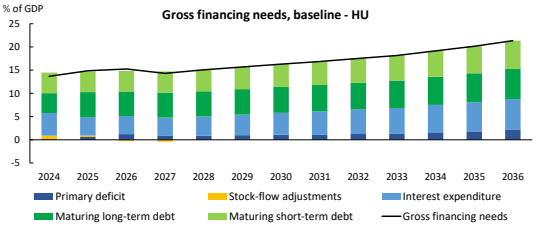
2. Medium-term fiscal sustainability risks

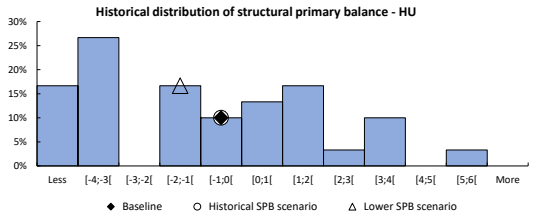
Hungary - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**73.5**	**73.7**	**73.9**	**74.8**	**76.7**	**79.0**	**81.5**	**84.1**	**86.9**	**90.0**	**93.7**	**97.9**	**102.5**
Change in the ratio (-1+2+3)	*0.3*	*0.2*	*0.2*	*0.9*	*1.9*	*2.3*	*2.6*	*2.6*	*2.8*	*3.1*	*3.7*	*4.2*	*4.6*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-0.1**	**-0.6**	**-1.2**	**-0.8**	**-0.9**	**-1.0**	**-1.1**	**-1.1**	**-1.2**	**-1.3**	**-1.6**	**-1.8**	**-2.1**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***0.4***	***0.2***	***-0.9***	***-0.9***	***-0.9***	***-1.0***	***-1.1***	***-1.1***	***-1.2***	***-1.3***	***-1.6***	***-1.8***	***-2.1***
(1.1.1) Structural primary balance (before CoA)	*0.4*	*0.2*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*
(1.1.2) Cost of ageing (CoA)				*-0.1*	*-0.1*	*0.0*	*0.1*	*0.1*	*0.2*	*0.2*	*0.5*	*0.7*	*1.0*
Pensions				*-0.1*	*-0.1*	*-0.1*	*0.0*	*0.0*	*0.1*	*0.1*	*0.3*	*0.4*	*0.6*
Health care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
Education				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*
(1.2) Cyclical component	***-0.5***	***-0.8***	***-0.3***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-0.6**	**-0.7**	**-0.8**	**0.4**	**1.0**	**1.3**	**1.4**	**1.5**	**1.6**	**1.8**	**2.1**	**2.4**	**2.5**
(2.1) Interest expenditure	*4.9*	*4.0*	*3.9*	*4.0*	*4.2*	*4.4*	*4.7*	*5.0*	*5.3*	*5.6*	*5.9*	*6.3*	*6.6*
(2.2) Growth effect (real)	*-0.4*	*-0.3*	*-1.6*	*-1.3*	*-1.0*	*-0.9*	*-1.0*	*-1.2*	*-1.3*	*-1.4*	*-1.3*	*-1.4*	*-1.5*
(2.3) Inflation effect	*-5.2*	*-4.4*	*-3.1*	*-2.2*	*-2.2*	*-2.2*	*-2.3*	*-2.3*	*-2.3*	*-2.4*	*-2.5*	*-2.5*	*-2.6*
(2.4) Exchange rate effect linked to the interest rate	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**0.7**	**0.3**	**-0.3**	**-0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*-0.1*	*0.5*	*0.5*	*-0.4*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.9*	*-0.2*	*-0.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-4.6	-3.8	-4.8	-4.8	-5.1	-5.4	-5.8	-6.1	-6.5	-6.9	-7.5	-8.1	-8.8
Gross financing needs	13.7	14.9	15.2	14.3	15.1	15.7	16.3	16.8	17.5	18.2	19.2	20.2	21.3

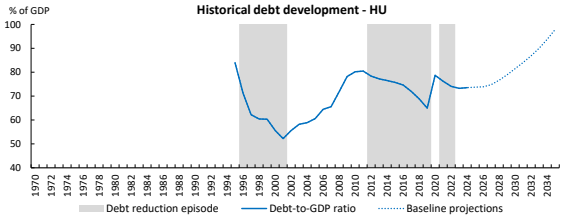


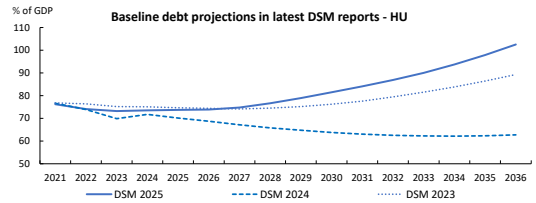


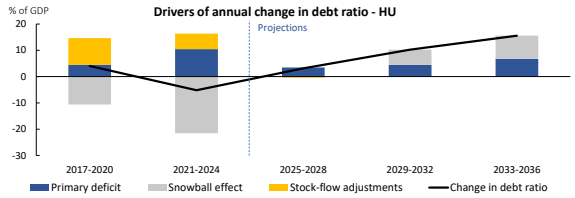












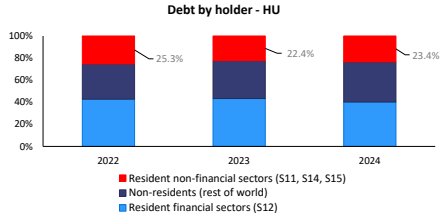
Hungary - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	73.5	73.7	73.9	74.8	76.7	79.0	81.5	84.1	86.9	90.0	93.7	97.9	102.5
Primary balance	-0.1	-0.6	-1.2	-0.8	-0.9	-1.0	-1.1	-1.1	-1.2	-1.3	-1.6	-1.8	-2.1
Structural primary balance (before CoA)	0.4	0.2	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Real GDP growth	0.6	0.4	2.3	1.9	1.3	1.3	1.3	1.6	1.7	1.6	1.5	1.6	1.6
Potential GDP growth	1.2	1.0	1.1	1.2	1.4	1.3	1.4	1.6	1.7	1.6	1.5	1.6	1.6
Inflation rate	7.6	6.4	4.3	3.0	3.0	3.0	2.9	2.9	2.9	2.8	2.8	2.8	2.8
Implicit interest rate (nominal)	7.2	5.8	5.7	5.6	5.8	6.0	6.2	6.4	6.6	6.7	6.9	7.0	7.1
Gross financing needs	13.7	14.9	15.2	14.3	15.1	15.7	16.3	16.8	17.5	18.2	19.2	20.2	21.3
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	73.5	73.7	73.9	74.7	76.5	78.4	80.5	82.5	84.8	87.2	90.3	93.8	97.8
Primary balance	-0.1	-0.6	-1.2	-0.7	-0.6	-0.7	-0.7	-0.6	-0.7	-0.7	-1.1	-1.3	-1.6
Structural primary balance (before CoA)	0.4	0.2	-0.9	-0.8	-0.7	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Real GDP growth	0.6	0.4	2.3	1.8	1.3	1.2	1.3	1.6	1.7	1.7	1.5	1.6	1.6
Gross financing needs	13.7	14.9	15.2	14.2	14.9	15.3	15.7	16.2	16.7	17.2	18.0	18.9	20.0
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	73.5	73.7	74.0	75.0	77.0	79.3	81.9	84.6	87.5	90.6	94.4	98.6	103.2
Implicit interest rate (nominal)	7.2	5.8	5.9	5.8	5.9	6.1	6.3	6.5	6.6	6.8	6.9	7.0	7.1
Gross financing needs	13.7	14.9	15.4	14.4	15.2	15.8	16.4	17.0	17.7	18.3	19.3	20.3	21.5
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	73.5	73.7	74.0	75.7	78.1	80.9	84.0	87.1	90.5	94.2	98.6	103.4	108.6
Primary balance	-0.1	-0.6	-1.4	-1.4	-1.4	-1.5	-1.6	-1.6	-1.7	-1.8	-2.1	-2.3	-2.6
Structural primary balance (before CoA)	0.4	0.2	-1.2	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Real GDP growth	0.6	0.4	2.4	1.5	1.4	1.3	1.4	1.6	1.7	1.6	1.5	1.6	1.6
Gross financing needs	13.7	14.9	15.4	15.0	15.8	16.5	17.2	17.8	18.6	19.4	20.5	21.6	22.9
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	73.5	73.7	74.3	75.7	78.1	81.0	84.2	87.6	91.2	95.2	99.9	105.1	110.8
Implicit interest rate (nominal)	7.2	5.8	5.8	5.8	6.1	6.3	6.5	6.7	6.9	7.1	7.3	7.4	7.5
Real GDP growth	0.6	0.4	1.8	1.4	0.8	0.8	0.8	1.1	1.2	1.1	1.0	1.1	1.1
Gross financing needs	13.7	14.9	15.4	14.6	15.5	16.2	17.0	17.7	18.6	19.4	20.6	21.8	23.3
6. Exchange rate depreciation scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	73.5	73.7	78.0	78.9	80.9	83.3	85.9	88.6	91.5	94.6	98.5	102.8	107.5
Exchange rate depreciation	0.0	0.0	9.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	13.7	14.9	16.0	15.1	15.9	16.5	17.1	17.7	18.4	19.0	20.1	21.1	22.3

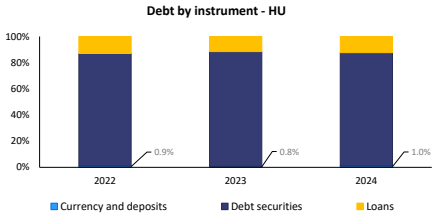
3. Long-term fiscal sustainability risks

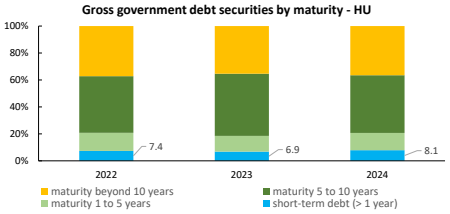
S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**6.7**	**7.1**	**9.8**	**6.0**
of which					
Initial budgetary position		2.1	2.3	2.2	1.5
Ageing costs		4.5	4.7	7.6	4.5
of which	*Pensions*	3.6	3.9	3.6	3.6
	Health care	0.4	0.4	1.1	0.4
	Long-term care	0.3	0.2	2.7	0.3
	Education	0.3	0.2	0.3	0.2
Required structural primary balance related to S2		**5.7**	**6.1**	**8.9**	**5.9**

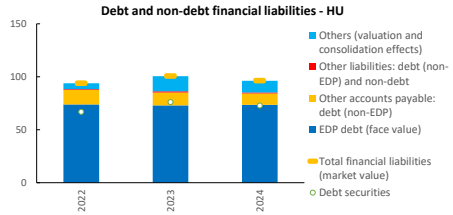
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**5.3**	**5.5**	**6.6**	**4.2**
of which					
Initial budgetary position		2.3	2.5	2.2	1.4
Debt requirement		0.2	0.2	0.3	0.3
Ageing costs		2.7	2.8	4.2	2.6
of which	*Pensions*	2.1	2.3	2.1	2.0
	Health care	0.3	0.3	0.8	0.3
	Long-term care	0.1	0.1	1.1	0.2
	Education	0.2	0.2	0.2	0.1
Required structural primary balance related to S1		**4.3**	**4.6**	**5.7**	**4.1**

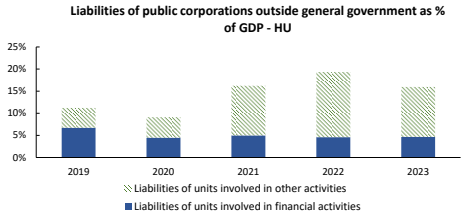
4. Additional aggravating and mitigating risk factors for fiscal sustainability

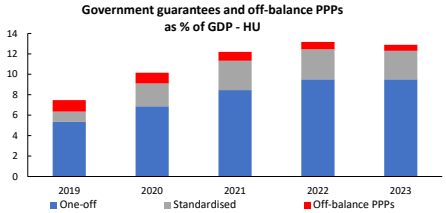


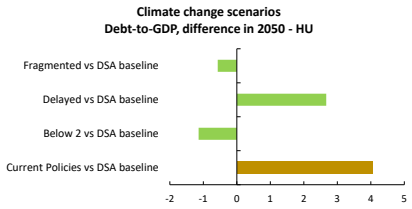












18. MALTA

This fiche assesses fiscal sustainability risks for Malta over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to amount to 7.5% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are low.

Under the DSA baseline, debt is projected to decline slowly over the medium term, reaching around 41% of GDP in 2036 ([188]). The decrease in the government debt ratio is underpinned by an assumed structural primary deficit of 1% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([189]). This structural primary balance (SPB) level is in line with past fiscal performance ([190]). At the same time, ageing-related expenditure is projected to decrease slightly over the medium term, supporting the debt reduction. Furthermore, the baseline projection benefits from a large favourable snowball effect. Government gross financing needs are expected to decrease gradually over the projection period, reaching 6.5% of GDP in 2036.

The deterministic stress tests identify limited additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three scenarios lead to higher debt levels than the baseline. Under the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.), the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1.0 pp. compared with the baseline) and the *financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline), the debt ratio would exceed the baseline level by 2036, by around 4 pps., 3 pps. and 0.3 pps., respectively. By contrast, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -0.6% of GDP), the debt ratio would be lower than in the baseline by 2036, by around 3 pps.

The stochastic projections run around the baseline indicate low risk due to the low probability of debt increasing over the next five years ([191])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 36%, pointing to low risk given the low initial debt level. Some uncertainty surrounds the baseline debt projection, as measured by the difference of around 20 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are high. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator)

([188]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 1% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (4.6% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([189]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Malta commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([190]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([191]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

and to bring it to 60% of GDP (S1 indicator) over the long term ([192]). The high risk mainly stems from the projected increase in ageing-related costs over the long term.

The S2 debt-stabilisation indicator points to high risk. It signals that Malta would need to improve its structural primary balance by 8.1 pps. in 2027 to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing costs, which contributes 6.5 pps., of which 3.3 pps. stems from pension expenditure and 3.2 pps. jointly from health care and long-term care expenditure. The remaining required effort is due to the initial budget deficit, contributing 1.5 pps.

The S1 debt-reduction indicator points to medium risk. This indicator shows that a fiscal effort of 3.1 pps. would be needed for Malta to limit its debt level to 60% of GDP by 2070. This result is also mainly driven by the projected increase in ageing costs (contributing 2.3 pps.) and, to a lesser extent, the initial budget deficit that contributes an additional 1 pp.

4 – Finally, several additional risk factors need to be considered in the assessment. Risk-mitigating factors include (i) a high share of domestically-held debt (Section 4.1.2) and (ii) Malta's positive international investment position (Section 4.2.4). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([192]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

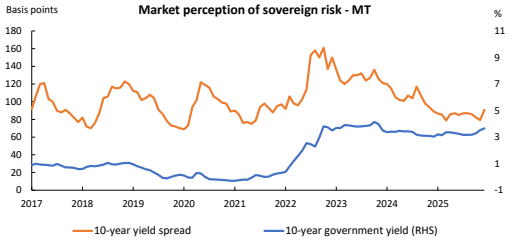
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
LOW	Overall	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	MEDIUM	HIGH
	Debt level (2036), % of GDP	40.8	37.9	44.7	43.9	41.1				
	Debt peak year	2027	2027	2026	2027	2027				
	Fiscal consolidation space	50%	49%	55%	50%	50%				
	Probability of debt ratio exceeding in 2030 its 2025 level						36%			
	Difference between 90th and 10th percentiles (% of GDP)						19.5			

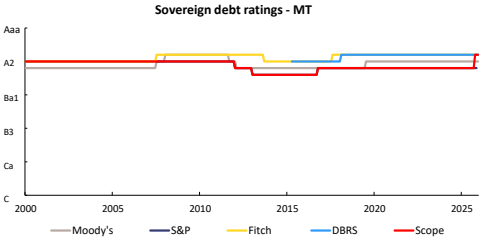
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	91

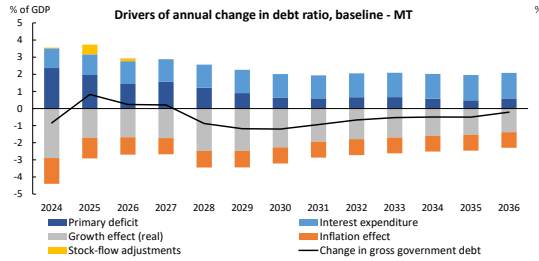
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

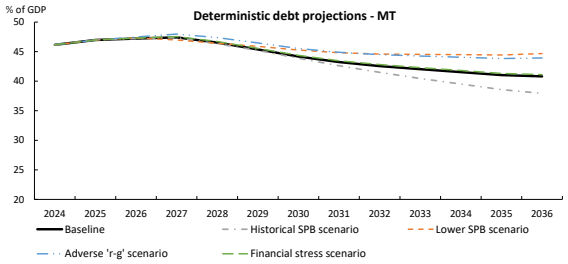


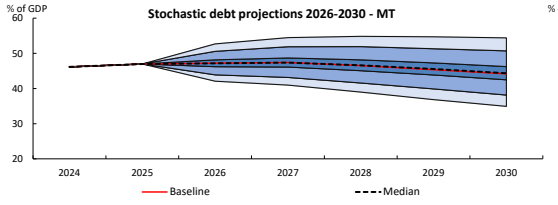


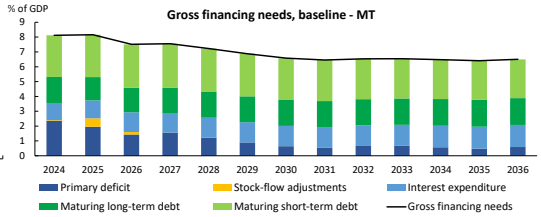
2. Medium-term fiscal sustainability risks

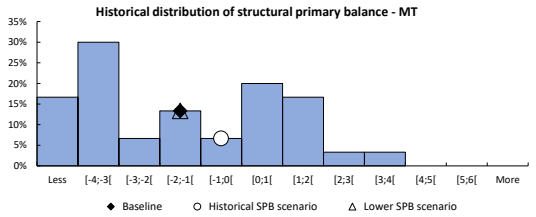
Malta - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**46.2**	**47.0**	**47.2**	**47.4**	**46.5**	**45.4**	**44.2**	**43.2**	**42.6**	**42.0**	**41.5**	**41.0**	**40.8**
Change in the ratio (-1+2+3)	*-0.8*	*0.8*	*0.2*	*0.2*	*-0.9*	*-1.2*	*-1.2*	*-0.9*	*-0.7*	*-0.5*	*-0.5*	*-0.5*	*-0.2*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-2.4**	**-2.0**	**-1.4**	**-1.6**	**-1.2**	**-0.9**	**-0.6**	**-0.6**	**-0.7**	**-0.7**	**-0.6**	**-0.5**	**-0.6**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-3.0***	***-2.0***	***-1.0***	***-0.8***	***-0.7***	***-0.7***	***-0.6***	***-0.6***	***-0.7***	***-0.7***	***-0.6***	***-0.5***	***-0.6***
(1.1.1) Structural primary balance (before CoA)	*-3.0*	*-2.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*
(1.1.2) Cost of ageing (CoA)				*-0.2*	*-0.3*	*-0.3*	*-0.4*	*-0.5*	*-0.4*	*-0.4*	*-0.5*	*-0.6*	*-0.5*
Pensions				*-0.1*	*-0.2*	*-0.3*	*-0.4*	*-0.5*	*-0.5*	*-0.6*	*-0.6*	*-0.7*	*-0.7*
Health care				*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Long-term care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*
Education				*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.3*	*-0.3*	*-0.3*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***0.7***	***0.0***	***-0.4***	***-0.7***	***-0.5***	***-0.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-3.2**	**-1.7**	**-1.4**	**-1.4**	**-2.1**	**-2.1**	**-1.8**	**-1.5**	**-1.3**	**-1.2**	**-1.1**	**-1.0**	**-0.8**
(2.1) Interest expenditure	*1.2*	*1.2*	*1.3*	*1.3*	*1.3*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.5*	*1.5*
(2.2) Growth effect (real)	*-2.9*	*-1.7*	*-1.7*	*-1.7*	*-2.5*	*-2.5*	*-2.3*	*-1.9*	*-1.8*	*-1.7*	*-1.6*	*-1.5*	*-1.4*
(2.3) Inflation effect	*-1.5*	*-1.2*	*-1.0*	*-0.9*	*-1.0*	*-1.0*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**0.0**	**0.6**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*0.0*	*0.6*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-4.2	-3.2	-2.3	-2.1	-2.1	-2.1	-2.0	-1.9	-2.1	-2.1	-2.0	-2.0	-2.1
Gross financing needs	8.1	8.2	7.5	7.5	7.2	6.9	6.6	6.5	6.5	6.5	6.5	6.4	6.5

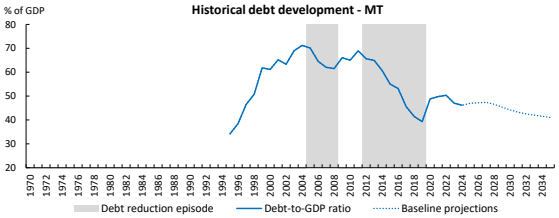


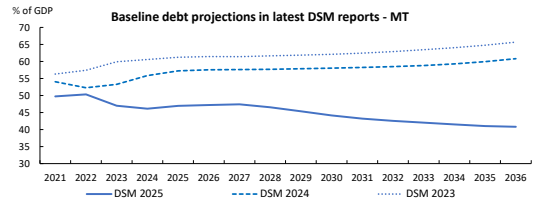


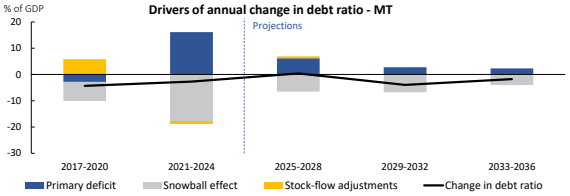












Malta - Underlying assumptions of deterministic debt projections

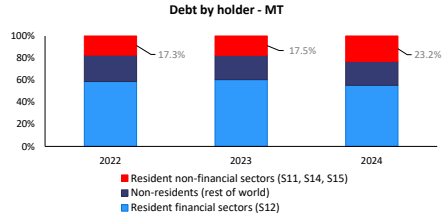
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.2	47.0	47.2	47.4	46.5	45.4	44.2	43.2	42.6	42.0	41.5	41.0	40.8
Primary balance	-2.4	-2.0	-1.4	-1.6	-1.2	-0.9	-0.6	-0.6	-0.7	-0.7	-0.6	-0.5	-0.6
Structural primary balance (before CoA)	-3.0	-2.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Real GDP growth	6.8	4.0	3.8	3.9	5.6	5.7	5.4	4.7	4.4	4.2	4.0	3.9	3.6
Potential GDP growth	5.5	5.4	4.7	4.6	5.1	5.0	5.0	4.7	4.4	4.2	4.0	3.9	3.6
Inflation rate	3.3	2.7	2.2	2.0	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.3
Implicit interest rate (nominal)	2.7	2.8	3.0	3.0	3.1	3.2	3.2	3.3	3.4	3.5	3.7	3.8	3.9
Gross financing needs	8.1	8.2	7.5	7.5	7.2	6.9	6.6	6.5	6.5	6.5	6.5	6.4	6.5
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.2	47.0	47.2	47.4	46.3	45.2	43.9	42.6	41.5	40.4	39.5	38.6	37.9
Primary balance	-2.4	-2.0	-1.4	-1.5	-1.0	-0.8	-0.5	-0.3	-0.3	-0.2	-0.1	0.0	-0.1
Structural primary balance (before CoA)	-3.0	-2.0	-1.0	-0.9	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Real GDP growth	6.8	4.0	3.8	3.8	5.6	5.4	5.2	4.9	4.6	4.4	4.0	3.9	3.6
Gross financing needs	8.1	8.2	7.5	7.5	7.0	6.8	6.4	6.1	6.1	5.9	5.8	5.6	5.7
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.2	47.0	47.3	47.5	46.7	45.5	44.4	43.5	42.8	42.3	41.8	41.3	41.1
Implicit interest rate (nominal)	2.7	2.8	3.2	3.1	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9
Gross financing needs	8.1	8.2	7.6	7.6	7.3	6.9	6.6	6.5	6.6	6.6	6.5	6.5	6.6
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.2	47.0	47.3	47.0	46.4	45.9	45.3	44.8	44.6	44.5	44.5	44.4	44.7
Primary balance	-2.4	-2.0	-1.6	-1.5	-1.3	-1.3	-1.1	-1.1	-1.2	-1.2	-1.1	-1.0	-1.1
Structural primary balance (before CoA)	-3.0	-2.0	-1.3	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
Real GDP growth	6.8	4.0	4.0	5.0	5.2	5.1	5.1	4.7	4.4	4.2	4.0	3.9	3.6
Gross financing needs	8.1	8.2	7.7	7.4	7.3	7.3	7.2	7.1	7.3	7.3	7.3	7.4	7.5
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	46.2	47.0	47.5	48.0	47.4	46.5	45.5	44.9	44.5	44.3	44.0	43.8	43.9
Implicit interest rate (nominal)	2.7	2.8	3.1	3.1	3.2	3.4	3.5	3.6	3.7	3.9	4.0	4.1	4.2
Real GDP growth	6.8	4.0	3.3	3.4	5.1	5.2	4.9	4.2	3.9	3.7	3.5	3.4	3.1
Gross financing needs	8.1	8.2	7.6	7.7	7.4	7.1	6.9	6.8	6.9	7.0	7.0	6.9	7.1

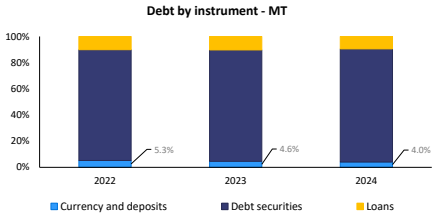
3. Long-term fiscal sustainability risks

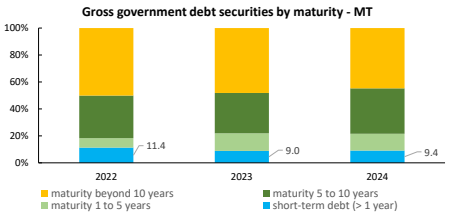
S2 indicator **(effort required in 2027** **to stabilise debt over an infinite horizon)**	**DSM 2025**			**DSM 2024**
	Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)	**8.1**	**7.9**	**11.2**	**8.7**
of which				
Initial budgetary position	1.5	1.6	1.6	2.3
Ageing costs	6.5	6.3	9.7	6.4
of which *Pensions*	3.3	3.4	3.3	3.2
Health care	1.6	1.5	2.5	1.6
Long-term care	1.6	1.5	3.8	1.7
Education	0.0	0.0	0.0	0.0
Required structural primary balance related to S2	**7.1**	**6.9**	**10.2**	**6.9**

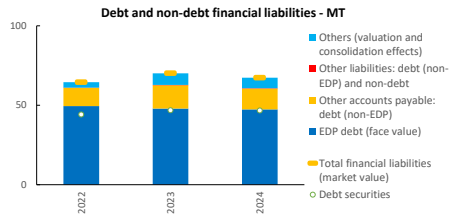
S1 indicator **(effort required in 2027** **to bring debt to 60% of GDP by 2070)**	**DSM 2025**			**DSM 2024**
	Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)	**3.1**	**3.2**	**4.5**	**3.7**
of which				
Initial budgetary position	1.0	1.1	1.0	1.7
Debt requirement	-0.3	-0.2	-0.3	-0.2
Ageing costs	2.3	2.4	3.7	2.1
of which *Pensions*	1.1	1.2	1.1	0.9
Health care	0.8	0.7	1.4	0.7
Long-term care	0.7	0.7	1.4	0.8
Education	-0.2	-0.2	-0.2	-0.3
Required structural primary balance related to S1	**2.1**	**2.2**	**3.5**	**1.8**

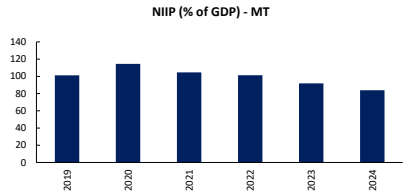
4. Additional aggravating and mitigating risk factors for fiscal sustainability

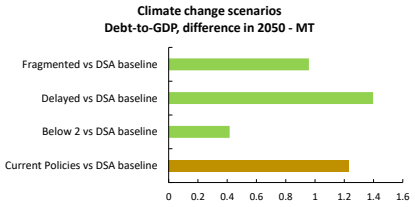












19. NETHERLANDS

This fiche assesses fiscal sustainability risks for the Netherlands over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain moderate, at around 10% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are very positive, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to increase over the medium term but stay below 60% of GDP, reaching around 59% of GDP in 2036 ([193]). The increase in the government debt ratio is partially driven by the assumed structural primary deficit of 0.6% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([194]). Moreover, ageing-related expenditure is projected to increase, weighing on public finances. At the same time, the baseline projection benefits from a still favourable (although declining) snowball effect. Government gross financing needs are expected to increase, reaching 13% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three out of four scenarios lead to higher debt levels than the baseline. Under the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps) and the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1.0 pp. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 5 pps. and 4 pps. respectively, exceeding 60% of GDP. Under *the financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline) the debt ratio would exceed the baseline level by 0.5 pps by 2036, still remaining below 60% of GDP. Finally, under *the historical SPB scenario* (in which the SPB returns to its historical 15-year average of 0.1% of GDP), the debt ratio would be 5 pps. lower than in the baseline.

The stochastic projections run around the baseline indicate low risk ([195])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 81%, which entails medium risk given the low initial debt level. At the same time, only low uncertainty surrounds the baseline debt projection, as measured by the difference of around 14 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt

([193]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 0.6% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.2% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([194]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([195]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

(S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([196]). The medium risk stems from the projected increase in ageing-related costs and the unfavourable initial deficit level.

The S2 debt-stabilisation indicator points to medium risk. It signals that the Netherlands would need to improve its SPB in 2027 by 3.9 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing costs, which contributes 2.8 pps., of which 1 pps stems from pension expenditure and 2.2 pps. jointly from health care and long-term care expenditure, partially offset by a negative contribution from education. The remaining required effort is due to the unfavourable budgetary position, contributing 1 pp.

The S1 debt-reduction indicator also points to medium risk. This indicator shows that fiscal effort of 2.5 pps. would be needed for the Netherlands to limit its debt to 60% of GDP by 2070. This result is also mainly driven by the projected increase in ageing costs (contributing 2.1 pps.) and, to a lesser extent, the initial deficit (0.7 pps.).

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors relate to the relatively large contingent liabilities (Section 4.2.2). On the other hand, risk-mitigating factors include (i) the lengthening of debt maturity in recent years (Section 4.1.1), (ii) relatively stable financing sources featuring a well-diversified and large investor base (Section 4.1.2), and (iii) the very large share of debt denominated in euro (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([196]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

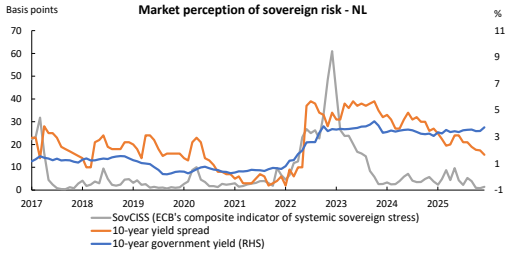
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	LOW	LOW	MEDIUM	MEDIUM	LOW	LOW	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	58.7	53.5	63.6	63.0	59.1				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	82%	74%	88%	82%	82%				
	Probability of debt ratio exceeding in 2030 its 2025 level						81%			
	Difference between 90th and 10th percentiles (% of GDP)						13.6			

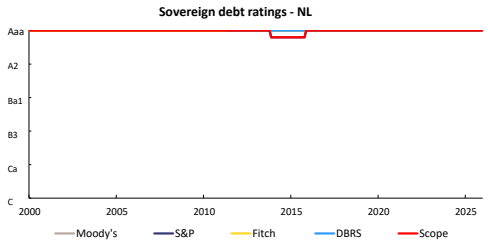
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	16

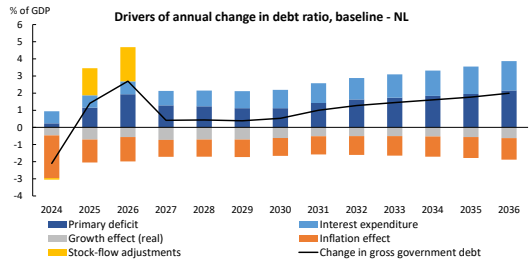
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

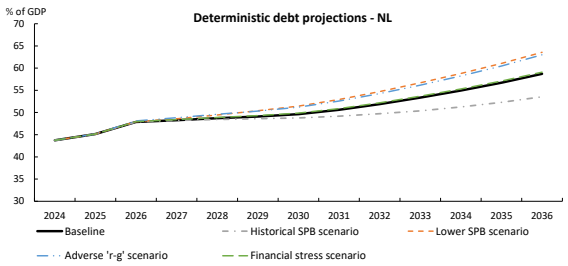


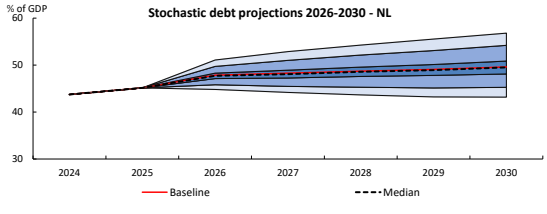


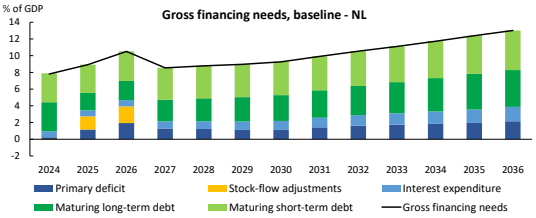
2. Medium-term fiscal sustainability risks

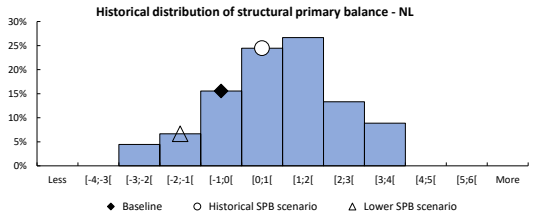
Netherlands - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**43.7**	**45.2**	**47.9**	**48.3**	**48.7**	**49.1**	**49.6**	**50.6**	**51.9**	**53.3**	**55.0**	**56.7**	**58.7**
Change in the ratio (-1+2+3)	*-2.1*	*1.4*	*2.7*	*0.4*	*0.4*	*0.4*	*0.5*	*1.0*	*1.3*	*1.5*	*1.6*	*1.8*	*2.0*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-0.2**	**-1.2**	**-1.9**	**-1.3**	**-1.2**	**-1.1**	**-1.1**	**-1.4**	**-1.6**	**-1.7**	**-1.8**	**-1.9**	**-2.2**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***0.4***	***-0.6***	***-0.6***	***-0.8***	***-0.9***	***-1.0***	***-1.1***	***-1.4***	***-1.6***	***-1.7***	***-1.8***	***-1.9***	***-2.2***
(1.1.1) Structural primary balance (before CoA)	*0.4*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.6*
(1.1.2) Cost of ageing (CoA)				*0.3*	*0.4*	*0.5*	*0.6*	*0.9*	*1.1*	*1.2*	*1.4*	*1.5*	*1.7*
Pensions				*0.1*	*0.2*	*0.3*	*0.4*	*0.5*	*0.6*	*0.7*	*0.8*	*0.8*	*0.9*
Health care				*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*
Long-term care				*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.5*	*0.5*	*0.6*	*0.6*	*0.7*
Education				*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.2*
(1.1.3) Others (taxes and property income)				*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.1*	*0.1*
(1.2) Cyclical component	***-0.6***	***-0.6***	***-0.7***	***-0.5***	***-0.3***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***-0.7***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-2.2**	**-1.3**	**-1.2**	**-0.9**	**-0.8**	**-0.7**	**-0.6**	**-0.4**	**-0.4**	**-0.3**	**-0.2**	**-0.2**	**-0.2**
(2.1) Interest expenditure	*0.7*	*0.7*	*0.7*	*0.8*	*0.9*	*1.0*	*1.1*	*1.2*	*1.2*	*1.4*	*1.5*	*1.6*	*1.7*
(2.2) Growth effect (real)	*-0.5*	*-0.7*	*-0.6*	*-0.7*	*-0.7*	*-0.7*	*-0.6*	*-0.5*	*-0.5*	*-0.5*	*-0.5*	*-0.6*	*-0.6*
(2.3) Inflation effect	*-2.5*	*-1.3*	*-1.4*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.1*	*-1.1*	*-1.1*	*-1.2*	*-1.2*	*-1.3*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**-0.1**	**1.6**	**2.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*-0.1*	*1.6*	*2.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-0.3	-1.3	-1.3	-1.6	-1.8	-2.0	-2.2	-2.6	-2.9	-3.1	-3.3	-3.5	-3.9
Gross financing needs	7.8	8.9	10.5	8.5	8.8	9.0	9.3	9.9	10.5	11.1	11.7	12.4	13.0

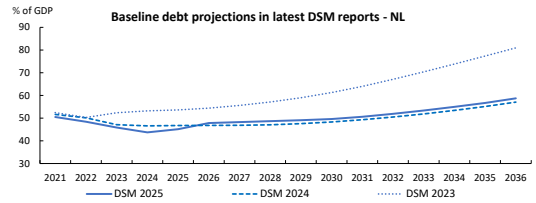


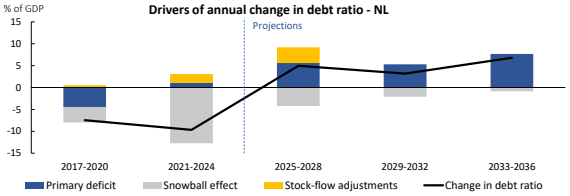












Netherlands - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.7	45.2	47.9	48.3	48.7	49.1	49.6	50.6	51.9	53.3	55.0	56.7	58.7
Primary balance	-0.2	-1.2	-1.9	-1.3	-1.2	-1.1	-1.1	-1.4	-1.6	-1.7	-1.8	-1.9	-2.2
Structural primary balance (before CoA)	0.4	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Real GDP growth	1.1	1.7	1.3	1.6	1.5	1.5	1.3	1.1	1.0	1.0	1.0	1.1	1.1
Potential GDP growth	1.8	1.7	1.4	1.3	1.2	1.1	1.1	1.1	1.0	1.0	1.0	1.1	1.1
Inflation rate	5.7	3.2	3.3	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.3	2.3	2.3
Implicit interest rate (nominal)	1.6	1.7	1.7	1.8	2.0	2.1	2.3	2.4	2.5	2.7	2.9	3.0	3.1
Gross financing needs	7.8	8.9	10.5	8.5	8.8	9.0	9.3	9.9	10.5	11.1	11.7	12.4	13.0
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.7	45.2	47.9	48.2	48.4	48.6	48.8	49.2	49.7	50.4	51.3	52.3	53.5
Primary balance	-0.2	-1.2	-1.9	-1.2	-1.0	-0.8	-0.7	-0.9	-1.0	-1.0	-1.1	-1.2	-1.4
Structural primary balance (before CoA)	0.4	-0.6	-0.6	-0.4	-0.2	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real GDP growth	1.1	1.7	1.3	1.5	1.4	1.3	1.2	1.2	1.2	1.2	1.0	1.1	1.1
Gross financing needs	7.8	8.9	10.5	8.4	8.5	8.6	8.8	9.2	9.6	10.0	10.4	10.9	11.4
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.7	45.2	47.9	48.4	48.9	49.3	49.9	50.9	52.2	53.7	55.3	57.1	59.1
Implicit interest rate (nominal)	1.6	1.7	1.9	1.9	2.1	2.2	2.3	2.5	2.6	2.8	2.9	3.1	3.2
Gross financing needs	7.8	8.9	10.6	8.6	8.8	9.0	9.3	10.0	10.6	11.2	11.8	12.5	13.1
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.7	45.2	48.0	48.6	49.4	50.4	51.4	52.9	54.7	56.7	58.8	61.1	63.6
Primary balance	-0.2	-1.2	-2.1	-1.6	-1.6	-1.6	-1.6	-1.9	-2.1	-2.2	-2.3	-2.4	-2.7
Structural primary balance (before CoA)	0.4	-0.6	-0.8	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Real GDP growth	1.1	1.7	1.4	1.8	1.4	1.3	1.3	1.1	1.0	1.0	1.0	1.1	1.1
Gross financing needs	7.8	8.9	10.7	8.8	9.2	9.6	10.0	10.7	11.5	12.2	12.9	13.7	14.4
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	43.7	45.2	48.1	48.8	49.6	50.3	51.2	52.6	54.3	56.2	58.2	60.5	63.0
Implicit interest rate (nominal)	1.6	1.7	1.8	2.0	2.2	2.3	2.5	2.7	2.9	3.0	3.2	3.4	3.5
Real GDP growth	1.1	1.7	0.8	1.1	1.0	1.0	0.8	0.6	0.5	0.5	0.5	0.6	0.6
Gross financing needs	7.8	8.9	10.6	8.7	9.0	9.3	9.6	10.4	11.1	11.8	12.5	13.3	14.0

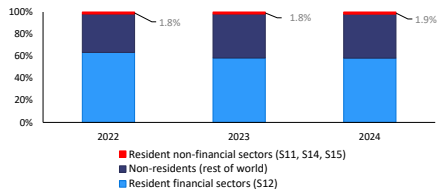
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**3.9**	**3.9**	**5.8**	**3.4**
of which					
Initial budgetary position		1.0	1.1	1.1	0.6
Ageing costs		2.8	2.8	4.7	2.8
of which	*Pensions*	1.0	1.1	1.0	1.2
	Health care	0.6	0.5	1.1	0.6
	Long-term care	1.6	1.6	3.1	1.6
	Education	-0.5	-0.4	-0.5	-0.5
Required structural primary balance related to S2		**3.3**	**3.3**	**5.2**	**3.2**

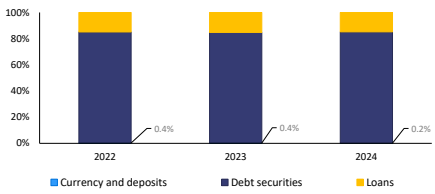
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**2.5**	**2.6**	**3.5**	**1.9**
of which					
Initial budgetary position		0.7	0.8	0.6	0.2
Debt requirement		-0.3	-0.2	-0.3	-0.3
Ageing costs		2.1	2.1	3.1	2.1
of which	*Pensions*	0.8	0.9	0.8	0.9
	Health care	0.4	0.4	0.7	0.4
	Long-term care	1.2	1.2	1.9	1.2
	Education	-0.4	-0.4	-0.4	-0.4
Required structural primary balance related to S1		**1.9**	**2.0**	**2.9**	**1.8**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

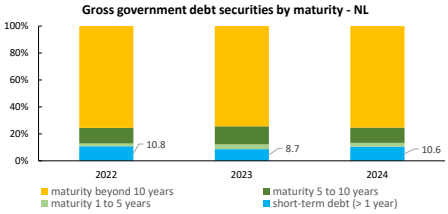
Debt by holder - NL



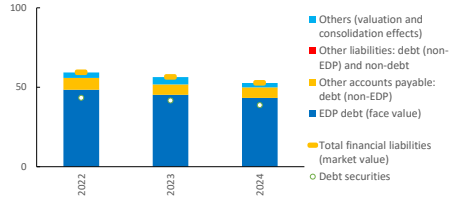
Debt by instrument - NL



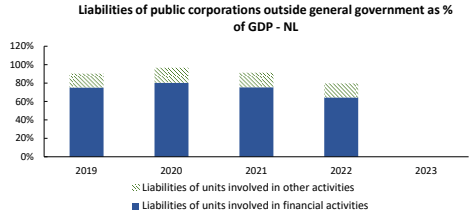
Gross government debt securities by maturity - NL



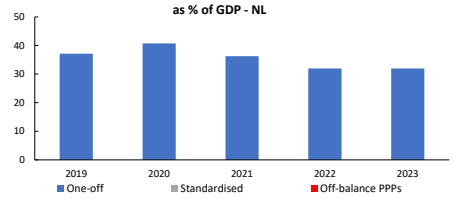
Debt and non-debt financial liabilities - NL



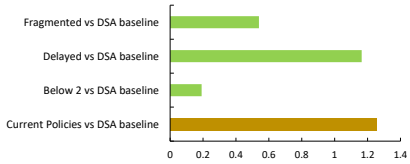
Liabilities of public corporations outside general government as % of GDP - NL



Government guarantees and off-balance PPPs as % of GDP - NL



Climate change scenarios
Debt-to-GDP, difference in 2050 - NL



20. AUSTRIA

This fiche assesses fiscal sustainability risks for Austria over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected at around 15.5% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are positive, as confirmed by the ratings of the main agencies.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase steadily over the medium term, reaching around 102% of GDP in 2036 ([197]). The increase in the government debt ratio is partially driven by the assumed structural primary deficit of 1.6% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([198]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([199]). Moreover, ageing-related expenditure is projected to increase, weighing on public finances. At the same time, the baseline projection benefits from a still favourable (although declining) snowball effect. Government gross financing needs are expected to remain large and to increase over the projection period, reaching around 21% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1.0 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.) and *the financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline) by 2036 the debt ratio would exceed the baseline level by around 8 pps., 5 pps. and 1 pp., respectively. By contrast, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -0.2% of GDP), the debt ratio would be around 10 pps. lower than the baseline by 2036.

The stochastic projections run around the baseline indicate high risk due to the high probability of debt increasing over the next five years ([200])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 81%, pointing to high risk given the initial debt level. Some uncertainty surrounds the baseline debt projection, as measured by the difference of around 20 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([197]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 1.6% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.2% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([198]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Austria commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Austria follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([199]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([200]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([201]). The medium risk stems from both the projected increase in ageing-related costs and the initial deficit and debt levels.

The S2 debt-stabilisation indicator points to medium risk. It signals that Austria would need to improve its structural primary balance in 2027 by 4.2 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the unfavourable initial budgetary position, contributing 2.3 pps, and to a slightly lesser extent by the projected increase in ageing costs (+1.8 pps., of which 2.2 pps. stem jointly from health care and long-term care expenditure, with small negative contributions from pensions and education).

The S1 debt-reduction indicator also points to medium risk. This indicator shows that a required fiscal effort of 3.7 pps. would be needed for Austria to reduce its debt to 60% of GDP by 2070. This result is also mainly driven by the projected increase in ageing costs (contributing 1.3 pps.) and the initial deficit and debt level contributing an additional 1.9 pps. and 0.5 pps., respectively.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors include (i) the fact a large share of the debt is held by non-residents (section 4.1.2), and (ii) some contingent liability risks stemming from the private sector, including via the possible materialisation of state guarantees (section 4.2.2). On the other hand, risk-mitigating factors include (i) the lengthening of debt maturity in recent years (section 4.1.1), and (ii) the large share of debt denominated in euro (section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([201]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

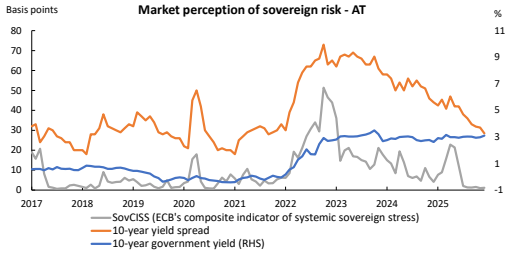
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	102.0	91.5	106.8	109.8	102.6				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	88%	79%	90%	88%	88%				
	Probability of debt ratio exceeding in 2030 its 2025 level						81%			
	Difference between 90th and 10th percentiles (% of GDP)						20.4			

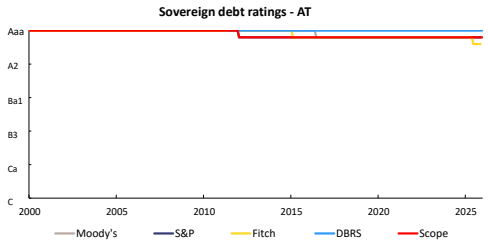
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	28

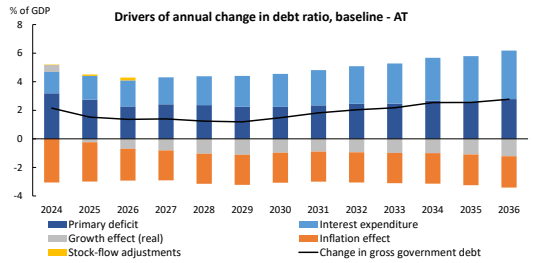
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

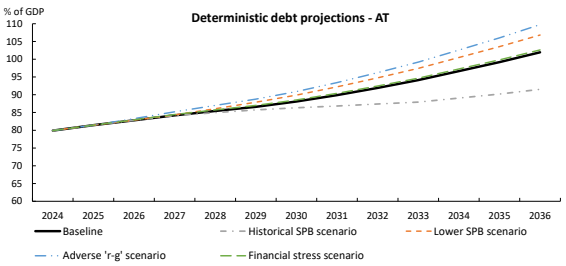


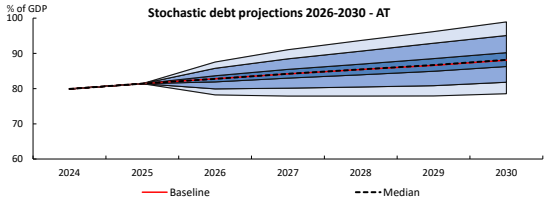


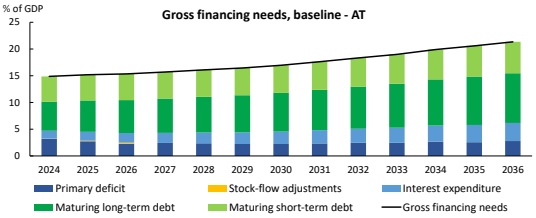
2. Medium-term fiscal sustainability risks

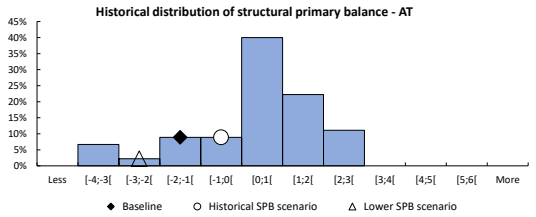
Austria - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**79.9**	**81.4**	**82.8**	**84.2**	**85.4**	**86.6**	**88.1**	**89.9**	**91.9**	**94.1**	**96.6**	**99.2**	**102.0**
Change in the ratio (-1+2+3)	*2.1*	*1.5*	*1.4*	*1.4*	*1.2*	*1.2*	*1.5*	*1.8*	*2.0*	*2.2*	*2.5*	*2.5*	*2.8*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-3.2**	**-2.7**	**-2.3**	**-2.4**	**-2.4**	**-2.2**	**-2.2**	**-2.3**	**-2.5**	**-2.5**	**-2.7**	**-2.6**	**-2.8**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-2.6***	***-2.0***	***-1.6***	***-1.9***	***-2.0***	***-2.1***	***-2.2***	***-2.3***	***-2.5***	***-2.5***	***-2.7***	***-2.6***	***-2.8***
(1.1.1) Structural primary balance (before CoA)	*-2.6*	*-2.0*	*-1.6*	*-1.6*	*-1.6*	*-1.6*	*-1.6*	*-1.6*	*-1.6*	*-1.6*	*-1.6*	*-1.6*	*-1.6*
(1.1.2) Cost of ageing (CoA)				*0.3*	*0.4*	*0.5*	*0.6*	*0.7*	*0.8*	*0.8*	*0.9*	*0.8*	*1.0*
Pensions				*0.2*	*0.3*	*0.4*	*0.4*	*0.5*	*0.5*	*0.5*	*0.5*	*0.4*	*0.4*
Health care				*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*	*0.5*
Long-term care				*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.3*
Education				*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.2*	*-0.2*	*-0.2*
(1.2) Cyclical component	***-0.6***	***-0.8***	***-0.7***	***-0.5***	***-0.3***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-1.1**	**-1.3**	**-1.1**	**-1.0**	**-1.1**	**-1.1**	**-0.8**	**-0.5**	**-0.4**	**-0.3**	**-0.1**	**0.0**	**0.0**
(2.1) Interest expenditure	*1.5*	*1.7*	*1.8*	*1.9*	*2.0*	*2.2*	*2.3*	*2.5*	*2.6*	*2.8*	*3.0*	*3.2*	*3.4*
(2.2) Growth effect (real)	*0.5*	*-0.2*	*-0.7*	*-0.8*	*-1.0*	*-1.1*	*-1.0*	*-0.9*	*-0.9*	*-1.0*	*-1.0*	*-1.1*	*-1.2*
(2.3) Inflation effect	*-3.1*	*-2.7*	*-2.2*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.1*	*-2.2*	*-2.2*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**0.0**	**0.1**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*0.0*	*0.1*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-4.0	-3.7	-3.4	-3.8	-4.0	-4.3	-4.5	-4.8	-5.1	-5.3	-5.7	-5.8	-6.2
Gross financing needs	14.9	15.2	15.3	15.7	16.1	16.5	17.0	17.6	18.3	19.0	19.9	20.6	21.3

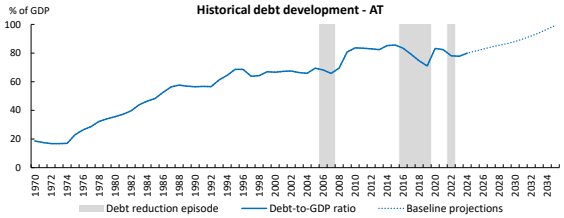


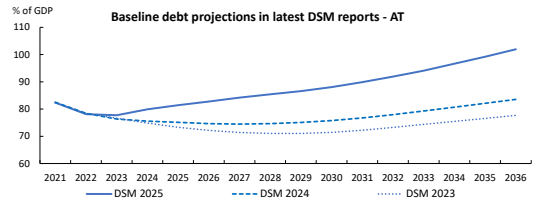


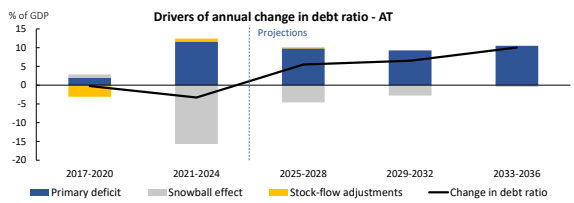












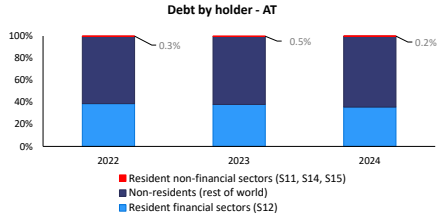
Austria - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	79.9	81.4	82.8	84.2	85.4	86.6	88.1	89.9	91.9	94.1	96.6	99.2	102.0
Primary balance	-3.2	-2.7	-2.3	-2.4	-2.4	-2.2	-2.2	-2.3	-2.5	-2.5	-2.7	-2.6	-2.8
Structural primary balance (before CoA)	-2.6	-2.0	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Real GDP growth	-0.7	0.3	0.9	1.0	1.3	1.4	1.2	1.1	1.1	1.1	1.1	1.2	1.3
Potential GDP growth	0.7	0.5	0.7	0.7	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.3
Inflation rate	4.1	3.6	2.8	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.3
Implicit interest rate (nominal)	2.0	2.2	2.3	2.4	2.5	2.6	2.8	2.9	3.0	3.2	3.3	3.4	3.5
Gross financing needs	14.9	15.2	15.3	15.7	16.1	16.5	17.0	17.6	18.3	19.0	19.9	20.6	21.3
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	79.9	81.4	82.8	84.1	85.0	85.7	86.3	86.8	87.4	87.9	89.1	90.2	91.5
Primary balance	-3.2	-2.7	-2.3	-2.2	-1.9	-1.6	-1.3	-1.2	-1.2	-1.1	-1.3	-1.2	-1.4
Structural primary balance (before CoA)	-2.6	-2.0	-1.6	-1.3	-0.9	-0.6	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Real GDP growth	-0.7	0.3	0.9	0.8	1.1	1.1	1.0	1.3	1.3	1.4	1.1	1.2	1.3
Gross financing needs	14.9	15.2	15.3	15.5	15.6	15.7	15.9	16.2	16.5	16.7	17.4	17.8	18.2
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	79.9	81.4	82.9	84.4	85.7	87.0	88.5	90.4	92.5	94.7	97.2	99.8	102.6
Implicit interest rate (nominal)	2.0	2.2	2.5	2.5	2.6	2.7	2.8	3.0	3.1	3.2	3.3	3.5	3.6
Gross financing needs	14.9	15.2	15.5	15.8	16.2	16.6	17.1	17.7	18.5	19.1	20.0	20.7	21.5
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	79.9	81.4	82.8	84.3	86.0	87.9	89.9	92.2	94.8	97.4	100.5	103.5	106.8
Primary balance	-3.2	-2.7	-2.4	-2.7	-2.7	-2.7	-2.7	-2.8	-3.0	-3.0	-3.2	-3.1	-3.3
Structural primary balance (before CoA)	-2.6	-2.0	-1.9	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1
Real GDP growth	-0.7	0.3	1.0	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.3
Gross financing needs	14.9	15.2	15.5	16.0	16.5	17.1	17.7	18.4	19.2	20.0	21.0	21.8	22.7
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	79.9	81.4	83.3	85.2	87.0	88.8	90.9	93.4	96.2	99.2	102.6	106.0	109.8
Implicit interest rate (nominal)	2.0	2.2	2.4	2.5	2.7	2.9	3.0	3.2	3.4	3.5	3.7	3.8	4.0
Real GDP growth	-0.7	0.3	0.4	0.5	0.8	0.9	0.7	0.6	0.6	0.6	0.6	0.7	0.8
Gross financing needs	14.9	15.2	15.5	16.0	16.5	17.0	17.6	18.5	19.3	20.2	21.3	22.2	23.2

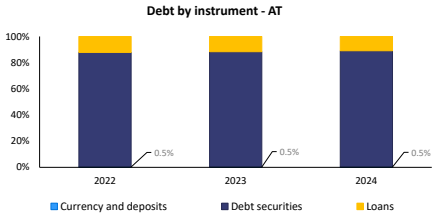
3. Long-term fiscal sustainability risks

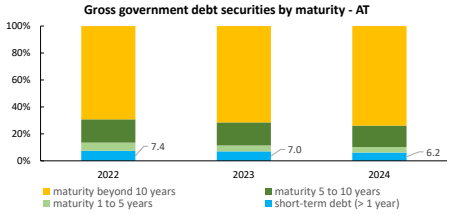
S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025 Baseline	DSM 2025 Lower productivity scenario	DSM 2025 Non-demographic risk scenario	DSM 2024
Overall value (% of GDP)		**4.2**	**4.2**	**6.2**	**4.2**
of which					
Initial budgetary position		2.3	2.5	2.4	2.2
Ageing costs		1.8	1.7	3.8	2.0
of which	*Pensions*	-0.2	-0.1	-0.2	-0.1
	Health care	1.0	1.0	1.8	1.1
	Long-term care	1.2	1.1	2.4	1.3
	Education	-0.2	-0.2	-0.2	-0.2
Required structural primary balance related to S2		**2.6**	**2.6**	**4.5**	**2.6**

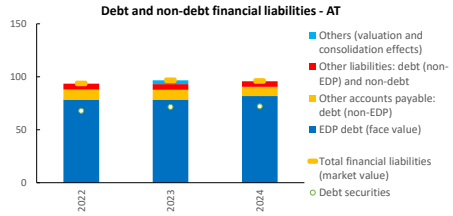
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025 Baseline	DSM 2025 Lower productivity scenario	DSM 2025 Non-demographic risk scenario	DSM 2024
Overall value (% of GDP)		**3.7**	**3.8**	**4.8**	**3.5**
of which					
Initial budgetary position		1.9	2.1	1.9	1.7
Debt requirement		0.5	0.4	0.5	0.4
Ageing costs		1.3	1.3	2.4	1.4
of which	*Pensions*	0.0	0.0	0.0	0.0
	Health care	0.8	0.7	1.3	0.8
	Long-term care	0.7	0.7	1.4	0.8
	Education	-0.2	-0.2	-0.2	-0.3
Required structural primary balance related to S1		**2.0**	**2.2**	**3.2**	**1.9**

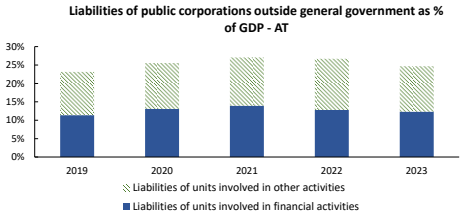
4. Additional aggravating and mitigating risk factors for fiscal sustainability

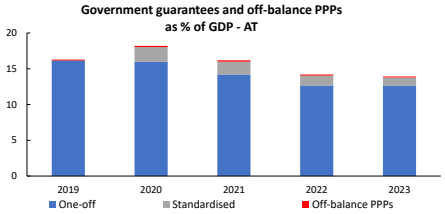


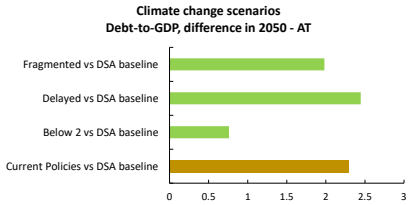












21. POLAND

This fiche assesses fiscal sustainability risks for Poland over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected at around 15% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase steadily over the medium term, reaching around 107% of GDP in 2036 ([202]). The increase in the government debt ratio is mainly driven by the assumed structural primary deficit of 3.6% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([203]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([204]). Moreover, ageing-related expenditure is projected to increase slightly, weighing on public finances. The baseline projection benefits, in the first years, from a favourable but declining snowball effect that turns debt-increasing from 2030 on. Government gross financing needs are expected to increase to large levels over the projection period, reaching around 20% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against alternative deterministic scenarios. Most scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1.0 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps and *the financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 8 pps., 5 pps. and 1 pp., respectively. By contrast, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -1.8% of GDP), the debt ratio would be lower than in the baseline by 2036, by around 15 pps.

The stochastic projections run around the baseline indicate low risk ([205])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 100%, pointing to medium risk given the low initial debt level. At the same time, only limited uncertainty surrounds the baseline debt projection, as measured by the difference of around 19 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt

([202]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 3.6% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (2.4% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([203]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Poland commits to in its medium-term plan beyond 2026 is not taken into account in the projection.

([204]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([205]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

(S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([206]). The medium risk mostly stems from the unfavourable initial deficit level and, to a smaller extent, from the projected increase in ageing-related costs.

The S2 debt-stabilisation indicator points to medium risk. It signals that Poland would need to improve its structural primary balance in 2027 by 5.6 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the unfavourable budgetary position, contributing 4.8 pps. The projected increase in ageing costs contributes a further 0.7 pps., with health care and long-term care expenditure contributing jointly 1.5 pps, partially offset by a decrease in pension expenditure.

The S1 debt-reduction indicator also points to medium risk. This indicator shows that a significant fiscal effort of 5.3 pps. would be needed for Poland to limit its debt to 60% of GDP by 2070. This result is also mainly driven by the unfavourable initial budgetary position (contributing 4.7 pps.). The projected increase in ageing costs contributes an additional 0.5 pps.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related (i) the potential costs associated with Swiss franc-denominated loans, while risk is lower than previously as banks have already made provisions (section 4.1.3), and (ii) some exposure to non-performing loans (Section 4.2.3). On the other hand, risk-mitigating factors are related to (i) relatively stable financing sources with a large domestic investor base (section 4.1.2), (ii) the currency denomination of debt, i.e. over three-quarters of outstanding debt is denominated in local currency (Section 4.1.3), and (iii) the gradually increasing average maturity of external debt. Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([206]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

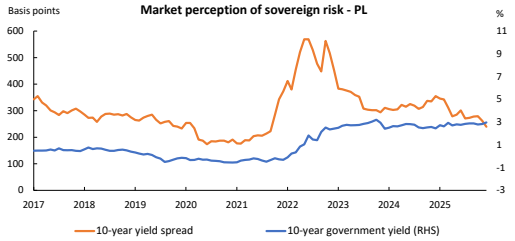
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	LOW	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	106.8	91.8	112.1	114.7	107.5				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	86%	73%	89%	86%	86%				
	Probability of debt ratio exceeding in 2030 its 2025 level						100%			
	Difference between 90th and 10th percentiles (% of GDP)						18.8			

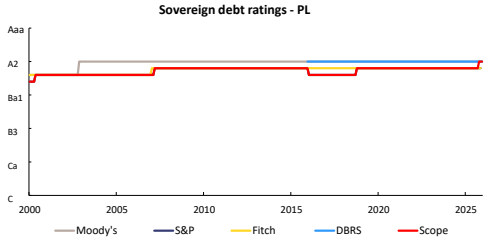
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	240

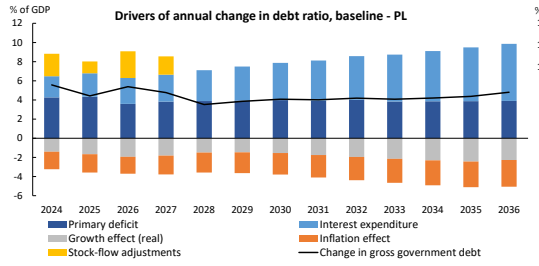
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

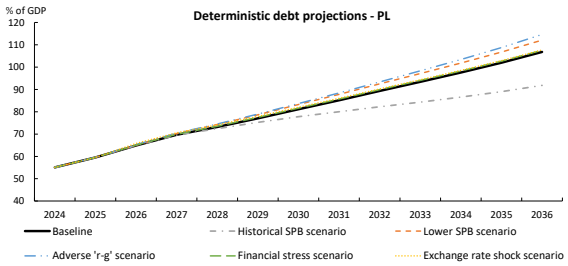


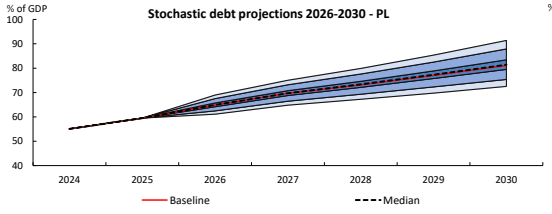


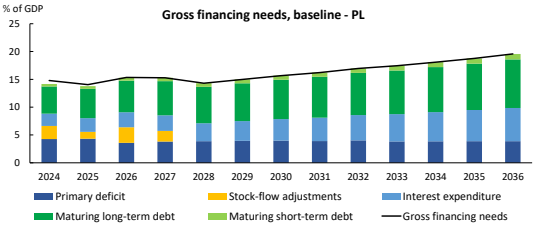
2. Medium-term fiscal sustainability risks

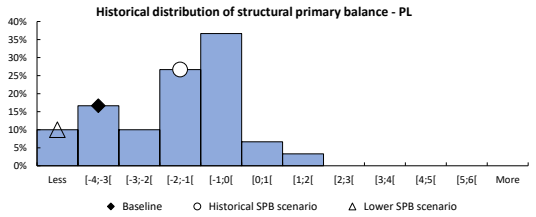
Poland - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**55.1**	**59.5**	**64.9**	**69.7**	**73.2**	**77.0**	**81.1**	**85.1**	**89.3**	**93.4**	**97.6**	**102.0**	**106.8**
Change in the ratio (-1+2+3)	*5.6*	*4.4*	*5.4*	*4.8*	*3.5*	*3.9*	*4.1*	*4.0*	*4.2*	*4.1*	*4.2*	*4.4*	*4.8*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-4.3**	**-4.3**	**-3.6**	**-3.8**	**-3.9**	**-3.9**	**-4.0**	**-3.9**	**-4.0**	**-3.8**	**-3.9**	**-3.9**	**-3.9**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-3.8***	***-4.0***	***-3.6***	***-3.9***	***-4.0***	***-4.0***	***-4.0***	***-3.9***	***-4.0***	***-3.8***	***-3.9***	***-3.9***	***-3.9***
(1.1.1) Structural primary balance (before CoA)	*-3.8*	*-4.0*	*-3.6*	*-3.6*	*-3.6*	*-3.6*	*-3.6*	*-3.6*	*-3.6*	*-3.6*	*-3.6*	*-3.6*	*-3.6*
(1.1.2) Cost of ageing (CoA)				*0.3*	*0.3*	*0.3*	*0.3*	*0.2*	*0.3*	*0.1*	*0.1*	*0.1*	*0.1*
Pensions				*0.2*	*0.2*	*0.1*	*0.1*	*0.0*	*-0.1*	*-0.2*	*-0.2*	*-0.3*	*-0.4*
Health care				*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*	*0.4*	*0.4*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*
Education				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*
(1.2) Cyclical component	***-0.4***	***-0.2***	***0.0***	***0.1***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***-0.1***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-1.1**	**-1.1**	**-1.0**	**-1.0**	**-0.4**	**-0.1**	**0.1**	**0.1**	**0.2**	**0.2**	**0.3**	**0.5**	**0.9**
(2.1) Interest expenditure	*2.2*	*2.5*	*2.7*	*2.8*	*3.2*	*3.5*	*3.9*	*4.2*	*4.5*	*4.9*	*5.2*	*5.6*	*6.0*
(2.2) Growth effect (real)	*-1.4*	*-1.7*	*-1.9*	*-1.8*	*-1.5*	*-1.5*	*-1.5*	*-1.8*	*-2.0*	*-2.1*	*-2.3*	*-2.4*	*-2.3*
(2.3) Inflation effect	*-1.8*	*-1.9*	*-1.8*	*-2.0*	*-2.1*	*-2.2*	*-2.3*	*-2.3*	*-2.4*	*-2.5*	*-2.6*	*-2.7*	*-2.8*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**2.4**	**1.2**	**2.8**	**1.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*3.0*	*1.5*	*2.8*	*1.9*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*-0.7*	*-0.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-6.0	-6.5	-6.3	-6.8	-7.2	-7.5	-7.9	-8.1	-8.6	-8.7	-9.1	-9.5	-9.9
Gross financing needs	14.8	14.0	15.3	15.3	14.3	15.0	15.7	16.2	17.0	17.4	18.1	18.8	19.6

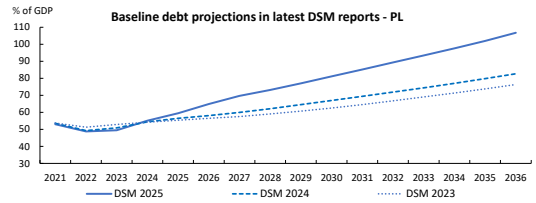


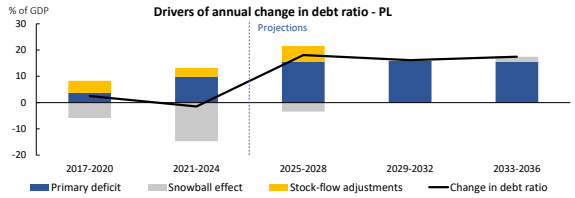












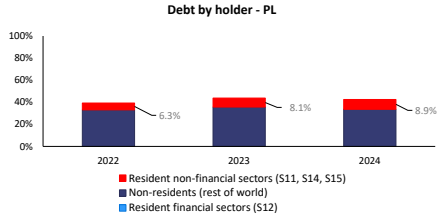
Poland - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	55.1	59.5	64.9	69.7	73.2	77.0	81.1	85.1	89.3	93.4	97.6	102.0	106.8
Primary balance	-4.3	-4.3	-3.6	-3.8	-3.9	-3.9	-4.0	-3.9	-4.0	-3.8	-3.9	-3.9	-3.9
Structural primary balance (before CoA)	-3.8	-4.0	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6
Real GDP growth	3.0	3.2	3.5	3.0	2.3	2.1	2.1	2.3	2.4	2.5	2.6	2.6	2.3
Potential GDP growth	2.8	2.9	2.9	2.8	2.3	2.2	2.2	2.3	2.4	2.5	2.6	2.6	2.3
Inflation rate	3.8	3.6	3.1	3.1	3.1	3.0	3.0	3.0	2.9	2.9	2.9	2.8	2.8
Implicit interest rate (nominal)	4.8	4.8	4.8	4.6	4.9	5.1	5.3	5.5	5.6	5.8	5.9	6.1	6.1
Gross financing needs	14.8	14.0	15.3	15.3	14.3	15.0	15.7	16.2	17.0	17.4	18.1	18.8	19.6
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	55.1	59.5	64.9	69.5	72.5	75.2	77.8	80.0	82.3	84.3	86.6	89.0	91.8
Primary balance	-4.3	-4.3	-3.6	-3.5	-3.2	-2.8	-2.4	-2.3	-2.3	-2.0	-2.0	-2.0	-2.1
Structural primary balance (before CoA)	-3.8	-4.0	-3.6	-3.2	-2.7	-2.2	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Real GDP growth	3.0	3.2	3.5	2.7	2.1	2.1	2.0	2.5	2.6	2.7	2.6	2.6	2.3
Gross financing needs	14.8	14.0	15.3	15.0	13.6	13.8	13.8	14.0	14.4	14.5	14.8	15.2	15.7
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	55.1	59.5	65.0	69.9	73.5	77.5	81.6	85.7	89.9	94.0	98.3	102.7	107.5
Implicit interest rate (nominal)	4.8	4.8	5.1	4.8	5.0	5.2	5.4	5.5	5.7	5.8	6.0	6.1	6.2
Gross financing needs	14.8	14.0	15.5	15.4	14.4	15.1	15.8	16.4	17.1	17.6	18.2	18.9	19.7
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	55.1	59.5	65.0	70.3	74.3	78.6	83.3	87.8	92.5	97.1	101.8	106.7	112.1
Primary balance	-4.3	-4.3	-3.8	-4.3	-4.4	-4.4	-4.5	-4.4	-4.5	-4.3	-4.4	-4.4	-4.4
Structural primary balance (before CoA)	-3.8	-4.0	-3.9	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
Real GDP growth	3.0	3.2	3.6	2.9	2.2	2.1	2.1	2.3	2.4	2.5	2.6	2.6	2.3
Gross financing needs	14.8	14.0	15.5	15.8	14.9	15.6	16.4	17.1	17.9	18.4	19.2	19.9	20.8
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	55.1	59.5	65.3	70.5	74.5	78.9	83.7	88.4	93.4	98.3	103.4	108.8	114.7
Implicit interest rate (nominal)	4.8	4.8	5.0	4.8	5.2	5.4	5.6	5.8	6.0	6.2	6.4	6.5	6.6
Real GDP growth	3.0	3.2	3.0	2.5	1.8	1.6	1.6	1.8	1.9	2.0	2.1	2.1	1.8
Gross financing needs	14.8	14.0	15.4	15.5	14.7	15.5	16.3	17.0	17.9	18.5	19.3	20.2	21.2
6. Exchange rate depreciation scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	55.1	59.5	65.8	70.6	74.1	78.0	82.0	86.1	90.3	94.3	98.5	102.9	107.7
Exchange rate depreciation	0.0	0.0	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	14.8	14.0	15.5	15.4	14.4	15.1	15.8	16.4	17.1	17.6	18.2	18.9	19.7

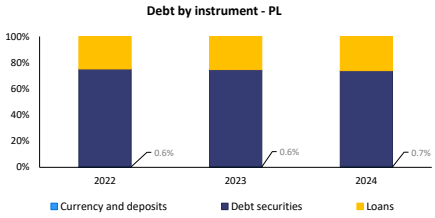
3. Long-term fiscal sustainability risks

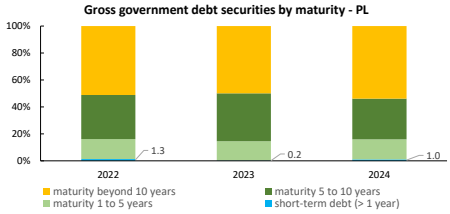
S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**5.6**	**5.9**	**8.7**	**4.8**
of which					
Initial budgetary position		4.8	4.9	4.7	3.9
Ageing costs		0.7	0.9	4.0	0.9
of which	*Pensions*	-0.8	-0.5	-0.8	-0.7
	Health care	0.8	0.8	1.6	0.8
	Long-term care	0.6	0.6	3.1	0.7
	Education	0.0	0.0	0.1	0.1
Required structural primary balance related to S2		**2.0**	**2.3**	**5.1**	**2.0**

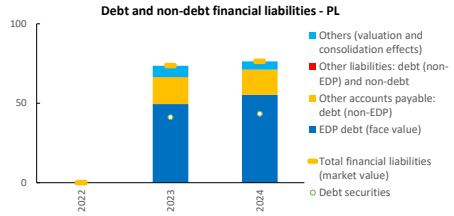
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**5.3**	**5.5**	**6.9**	**4.4**
of which					
Initial budgetary position		4.7	4.8	4.7	3.7
Debt requirement		0.1	0.1	0.1	0.0
Ageing costs		0.5	0.6	2.1	0.7
of which	*Pensions*	-0.4	-0.3	-0.4	-0.3
	Health care	0.6	0.6	1.2	0.6
	Long-term care	0.4	0.3	1.4	0.4
	Education	0.0	0.0	0.0	0.0
Required structural primary balance related to S1		**1.7**	**1.9**	**3.3**	**1.6**

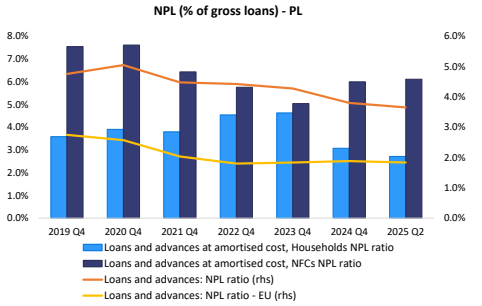
4. Additional aggravating and mitigating risk factors for fiscal sustainability

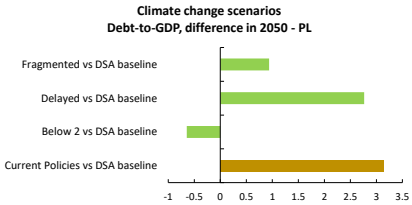












22. PORTUGAL

This fiche assesses fiscal sustainability risks for Portugal over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected at around 10% of GDP on average over 2026-2027. Financial markets' perceptions of sovereign risk are investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to decline but remain at a high level in the medium term, reaching around 83% of GDP in 2036 ([207]). The debt reduction is supported by the assumed structural primary surplus of 1.8% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([208]). This structural primary balance (SPB) level is rather ambitious compared with past fiscal performance ([209]). Moreover, ageing-related expenditure is projected to increase, and the snowball effect is expected to turn positive, i.e. unfavourable, as from 2032, weighing on public finances. Government gross financing needs are expected to increase over the projection period and reach 11% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. All four scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1 pp. compared with the baseline), the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of 1.1% of GDP), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.), and *the financial stress scenario* (in which market interest rates temporarily increase by 1.1 pps. compared with the baseline) the debt ratio would exceed the baseline level by 2036 by around 7 pps., 5 pps., 5 pps. and 0.6 pps., respectively

The stochastic projections run around the baseline indicate medium risk, due to medium probability of debt increasing over the next five years ([210])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 27%, pointing to medium risk given the current high debt level. At the same time, the uncertainty surrounding the baseline debt projection is high, as measured by the difference of 30 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are low. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (debt-stabilisation indicator S2) and to bring it to 60% of GDP (debt-reduction indicator S1) over the long

([207]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary surplus, before changes in ageing costs, of 1.8% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (average of 0.9%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([208]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Portugal commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Portugal follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([209]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past., as measured by-one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([210]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

term ([211]). The low risk stems from the favourable initial budgetary position which is partly offset by the projected increase in ageing costs.

The S2 debt-stabilisation indicator points to low risk. It signals that relative to the baseline, Portugal could relax its structural primary balance by 1.4 pps. and still ensure that debt stabilises over the long term. This result is mainly driven by the favourable initial budgetary position (contributing -1.3 pps.).

The S1 debt-reduction indicator also points to low risk. This indicator shows that Portugal could relax its fiscal position by 0.8 pps. and still ensure that its debt reaches 60% of GDP by 2070. This result is mainly driven by the favourable initial budgetary position (contributing -1.5 pps.), which is partly offset by the projected increase in ageing-related public spending and the debt requirement, contributing 1.7 pps. and 0.6 pps. respectively.

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to (i) the large short-term debt, although it mainly consists in saving certificates held by Portuguese households as long-term savings ([212]) (Section 4.1.1), (ii) country-specific factors as the ongoing requests for a financial rebalancing of PPPs (Section 4.2.2), (iii) vulnerabilities in some public corporations (Section 4.2.3), and (iv) Portugal's negative net international investment position (Section 4.2.4). On the other hand, risk-mitigating factors include (i) Portugal's comfortable cash buffer, (ii) the maturity structure of its debt, most of which with fixed rates (Section 4.1.1), (iii) relatively stable financing sources with a diversified and expanding investor base (Section 4.1.1), and (iv) the large share of debt denominated in euro (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([211]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

([212]) In Portugal, the high share of short-term debt is largely made up of non-marketable saving certificates linked to EURIBOR, that accounted for 11.4% of total government debt in 2024 and are offered only to Portuguese households. These certificates have a maturity of 15 years but can be bought and sold back to the DMO at any time. However, there are premiums available for holding the certificates for prolonged periods of time and retail investors usually keep them as long-term savings.

Overview of key fiscal sustainability risks

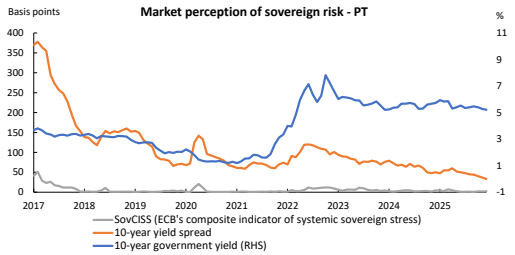
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM	LOW	LOW	LOW
	Debt level (2036), % of GDP	83.1	88.6	88.3	90.6	83.8				
	Debt peak year	2025	2025	2025	2025	2025				
	Fiscal consolidation space	29%	35%	34%	29%	29%				
	Probability of debt ratio exceeding in 2030 its 2025 level						27%			
	Difference between 90th and 10th percentiles (% of GDP)						30.0			

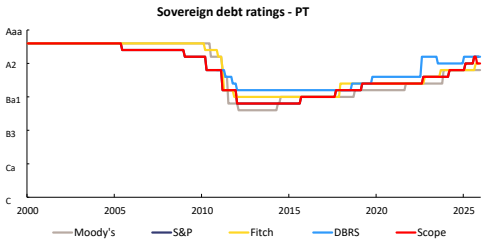
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	33

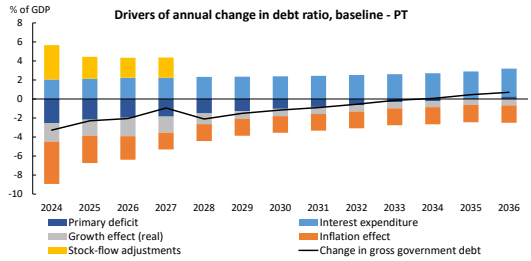
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

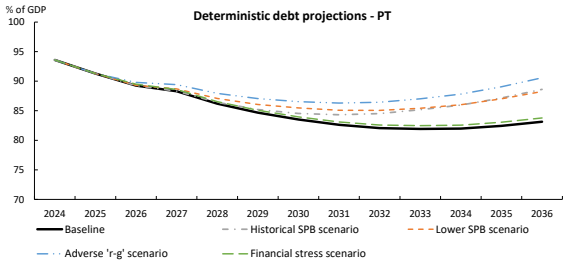


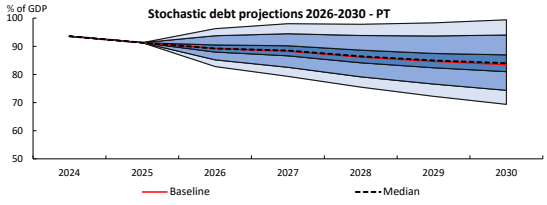


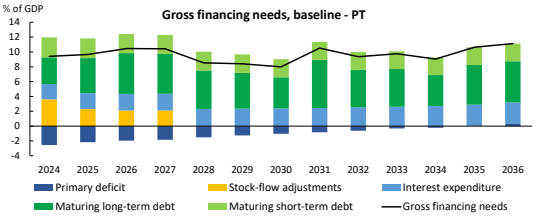
2. Medium-term fiscal sustainability risks

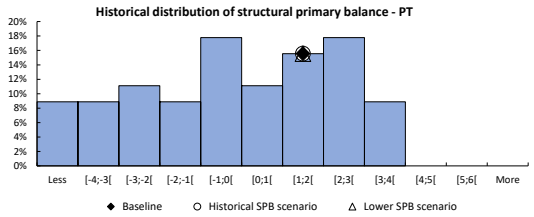
Portugal - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**93.6**	**91.3**	**89.2**	**88.3**	**86.2**	**84.7**	**83.5**	**82.6**	**82.1**	**81.9**	**82.0**	**82.4**	**83.1**
Change in the ratio (-1+2+3)	*-3.3*	*-2.3*	*-2.0*	*-1.0*	*-2.1*	*-1.5*	*-1.2*	*-0.9*	*-0.6*	*-0.1*	*0.1*	*0.5*	*0.7*
of which													
(1) Primary balance (1.1+1.2+1.3)	**2.6**	**2.2**	**2.0**	**1.9**	**1.5**	**1.3**	**1.0**	**0.8**	**0.6**	**0.3**	**0.2**	**-0.1**	**-0.3**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***2.2***	***2.2***	***1.8***	***1.7***	***1.4***	***1.2***	***1.0***	***0.8***	***0.6***	***0.3***	***0.2***	***-0.1***	***-0.3***
(1.1.1) Structural primary balance (before CoA)	*2.2*	*2.2*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*	*1.8*
(1.1.2) Cost of ageing (CoA)				*0.1*	*0.4*	*0.6*	*0.8*	*1.0*	*1.3*	*1.6*	*1.7*	*2.0*	*2.2*
Pensions				*0.2*	*0.3*	*0.5*	*0.6*	*0.8*	*1.0*	*1.2*	*1.3*	*1.4*	*1.5*
Health care				*0.0*	*0.1*	*0.1*	*0.2*	*0.2*	*0.3*	*0.4*	*0.4*	*0.5*	*0.5*
Long-term care				*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*
Education				*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*0.0*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
(1.2) Cyclical component	***0.4***	***0.1***	***0.1***	***0.1***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-4.3**	**-2.4**	**-2.2**	**-1.2**	**-0.6**	**-0.3**	**-0.1**	**-0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.4**
(2.1) Interest expenditure	*2.1*	*2.1*	*2.2*	*2.2*	*2.3*	*2.3*	*2.4*	*2.4*	*2.5*	*2.6*	*2.7*	*2.8*	*2.9*
(2.2) Growth effect (real)	*-1.9*	*-1.7*	*-1.9*	*-1.7*	*-1.1*	*-0.8*	*-0.8*	*-0.7*	*-0.7*	*-0.7*	*-0.6*	*-0.6*	*-0.7*
(2.3) Inflation effect	*-4.4*	*-2.9*	*-2.5*	*-1.8*	*-1.8*	*-1.8*	*-1.8*	*-1.8*	*-1.8*	*-1.8*	*-1.8*	*-1.8*	*-1.8*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**3.6**	**2.3**	**2.1**	**2.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*3.6*	*2.3*	*2.1*	*2.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	0.1	0.1	-0.4	-0.5	-0.9	-1.1	-1.4	-1.6	-1.9	-2.3	-2.5	-2.9	-3.2
Gross financing needs	9.4	9.7	10.5	10.4	8.5	8.4	8.0	10.5	9.4	9.8	9.0	10.6	11.1

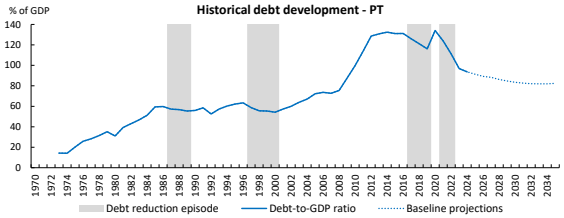


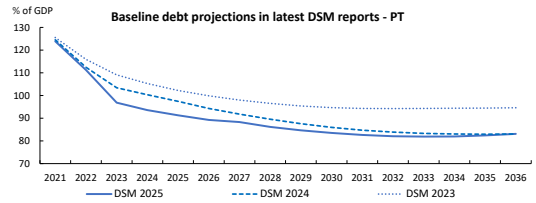


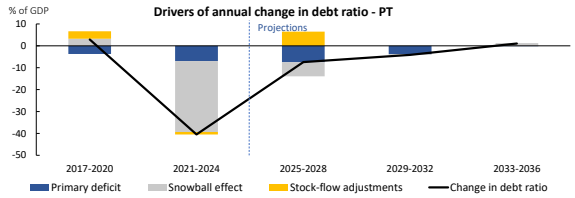












Portugal - Underlying assumptions of deterministic debt projections

1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	93.6	91.3	89.2	88.3	86.2	84.7	83.5	82.6	82.1	81.9	82.0	82.4	83.1
Primary balance	2.6	2.2	2.0	1.9	1.5	1.3	1.0	0.8	0.6	0.3	0.2	-0.1	-0.3
Structural primary balance (before CoA)	2.2	2.2	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Real GDP growth	2.1	1.9	2.2	2.0	1.3	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Potential GDP growth	2.6	2.5	2.2	2.0	1.4	1.1	1.0	0.9	0.9	0.8	0.8	0.8	0.8
Inflation rate	4.8	3.2	2.8	2.0	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.3	2.3
Implicit interest rate (nominal)	2.3	2.4	2.6	2.6	2.7	2.8	2.9	3.0	3.1	3.3	3.4	3.5	3.6
Gross financing needs	9.4	9.7	10.5	10.4	8.5	8.4	8.0	10.5	9.4	9.8	9.0	10.6	11.1
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	93.6	91.3	89.2	88.3	86.4	85.2	84.5	84.3	84.5	85.2	86.0	87.2	88.6
Primary balance	2.6	2.2	2.0	1.7	1.3	0.9	0.5	0.2	0.0	-0.4	-0.5	-0.8	-1.0
Structural primary balance (before CoA)	2.2	2.2	1.8	1.7	1.5	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Real GDP growth	2.1	1.9	2.2	2.1	1.4	1.1	1.0	0.8	0.8	0.7	0.8	0.8	0.8
Gross financing needs	9.4	9.7	10.5	10.5	8.8	8.8	8.6	11.3	10.2	10.8	10.1	11.9	12.5
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	93.6	91.3	89.5	88.6	86.5	85.1	84.0	83.1	82.6	82.5	82.6	83.0	83.8
Implicit interest rate (nominal)	2.3	2.4	2.9	2.7	2.8	2.9	3.0	3.1	3.2	3.3	3.5	3.6	3.7
Gross financing needs	9.4	9.7	10.7	10.5	8.6	8.5	8.1	10.6	9.5	9.8	9.1	10.7	11.2
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	93.6	91.3	89.3	88.7	87.1	86.1	85.5	85.1	85.0	85.4	86.0	87.0	88.3
Primary balance	2.6	2.2	1.8	1.5	1.1	0.8	0.5	0.3	0.1	-0.2	-0.3	-0.6	-0.8
Structural primary balance (before CoA)	2.2	2.2	1.6	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Real GDP growth	2.1	1.9	2.4	2.0	1.3	1.0	0.8	0.9	0.9	0.8	0.8	0.8	0.8
Gross financing needs	9.4	9.7	10.6	10.8	9.0	9.0	8.7	11.3	10.2	10.6	9.9	11.7	12.3
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	93.6	91.3	89.8	89.4	87.9	87.0	86.5	86.3	86.4	87.0	87.8	89.1	90.6
Implicit interest rate (nominal)	2.3	2.4	2.7	2.8	2.9	3.0	3.2	3.3	3.5	3.6	3.8	3.9	4.0
Real GDP growth	2.1	1.9	1.7	1.5	0.8	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Gross financing needs	9.4	9.7	10.6	10.7	8.9	8.8	8.5	11.2	10.1	10.6	10.0	11.8	12.4

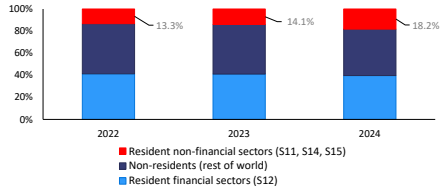
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**-1.4**	**-0.3**	**5.9**	**-2.0**
of which					
Initial budgetary position		-1.3	-1.0	-1.1	-2.0
Ageing costs		-0.1	0.8	7.0	0.0
of which	*Pensions*	-1.7	-0.8	-1.5	-1.7
	Health care	1.1	1.1	1.8	1.1
	Long-term care	0.4	0.4	6.5	0.4
	Education	0.1	0.1	0.1	0.1
Required structural primary balance related to S2		**0.5**	**1.6**	**7.7**	**0.6**

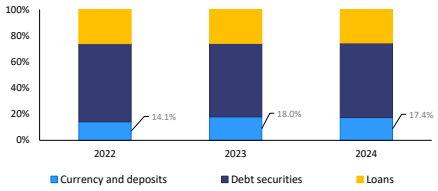
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**0.8**	**1.3**	**3.8**	**0.0**
of which					
Initial budgetary position		-1.5	-1.3	-1.5	-2.4
Debt requirement		0.6	0.6	0.6	0.7
Ageing costs		1.7	2.1	4.7	1.7
of which	*Pensions*	0.4	0.8	0.4	0.4
	Health care	0.9	0.9	1.4	0.9
	Long-term care	0.3	0.3	2.8	0.3
	Education	0.1	0.1	0.1	0.1
Required structural primary balance related to S1		**2.6**	**3.2**	**5.6**	**2.5**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

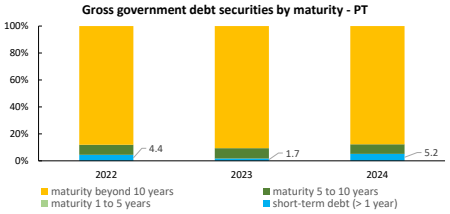
Debt by holder - PT



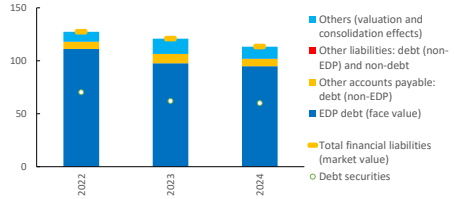
Debt by instrument - PT



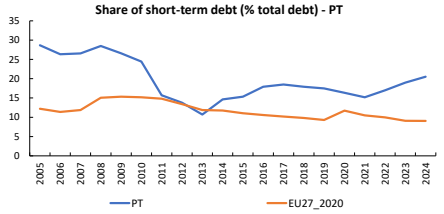
Gross government debt securities by maturity - PT



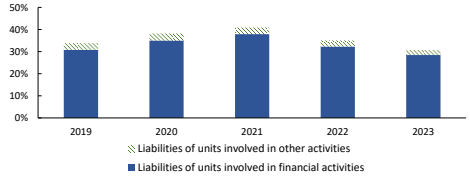
Debt and non-debt financial liabilities - PT



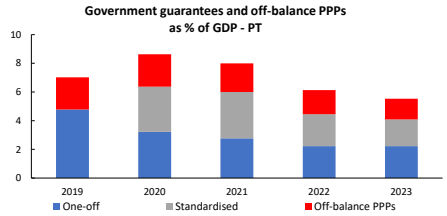
Share of short-term debt (% total debt) - PT



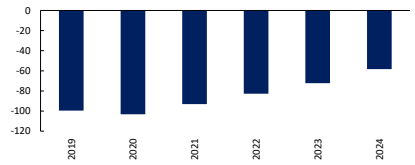
Liabilities of public corporations outside general government as % of GDP - PT



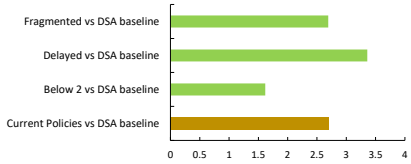
Government guarantees and off-balance PPPs as % of GDP - PT



NIIP (% of GDP) - PT



Climate change scenarios
Debt-to-GDP, difference in 2050 - PT



23. ROMANIA

This fiche assesses fiscal sustainability risks for Romania over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected at around 13% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk have remained stable at one notch above the investment grade threshold.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase rapidly, reaching nearly 90% of GDP in 2036 ([213]). The increase in the government debt ratio is largely driven by the assumed structural primary deficit of 2.3% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([214]). This structural primary balance (SPB) level is relatively low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([215]). Moreover, ageing-related expenditure is projected to increase slightly, weighing on public finances. At the same time, the baseline projection benefits, in the first years, from a still favourable but declining snowball effect up to 2030 that turns debt-increasing afterwards. Government gross financing needs are expected to increase markedly over the projection period, reaching 20% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against alternative deterministic scenarios. All scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1.0 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.), the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -2.6% of GDP) and *the financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 7 pps., 5 pps., 2 pps. and 1 pp., respectively.

The stochastic projections run around the baseline indicate medium risk ([216])**.** The stochastic simulations indicate that the debt ratio will exceed in 20230 its 2025 level with a probability of 81%, pointing to medium risk given the initial debt level. At the same time, high uncertainty surrounds the baseline debt projection, as measured by the difference of around 36 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt

([213]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 2.3% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.3% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([214]) The no-fiscal-policy-change assumption as from 2026 implies that the adjustment that Romania needs to implement beyond 2026 under the ongoing excessive deficit procedure is not taken into account in the projection.

([215]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([216]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

(S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([217]). The medium risk stems from the unfavourable initial deficit level.

The S2 debt-stabilisation indicator points to low risk. It signals that Romania would need to improve its structural primary balance in 2027 by 1.9 pps. to ensure that debt stabilises over the long term. This result is driven by the unfavourable budgetary position, contributing 3.1 pps., which is partly offset by the projected decline in ageing costs (-1.2 pps)., with the expected decline in pension spending more than offsetting the increase in health care and long-term care expenditure.

The S1 debt-reduction indicator points to medium risk. This indicator shows that a fiscal effort of 3.3 pps. would be needed for Romania to reduce its debt level to 60% of GDP by 2070. This result is also mainly driven by the unfavourable initial budgetary position (contributing 3.1 pps.).

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to (i) the share of debt held by non-residents (Section 4.1.2), (ii) the currency denomination of debt (Section 4.1.3), (iii) some exposure to non-performing loans (Section 4.2.3) and (iv) the country's negative net international investment position, even if the latter is low if non-defaultable instruments are excluded (Section 4.2.4). On the other hand, risk-mitigating factors include (i) the low share of short-term debt (Section 4.1.1) and (ii) low external and private debt (Section 4.2.4). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([217]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

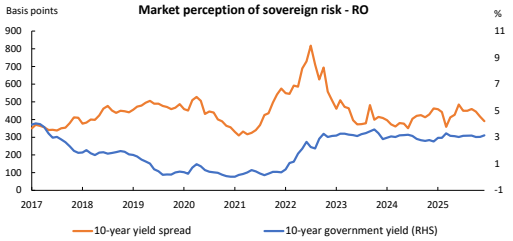
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	MEDIUM	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	89.8	92.1	95.3	96.7	90.5				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	60%	60%	61%	60%	60%				
	Probability of debt ratio exceeding in 2030 its 2025 level						81%			
	Difference between 90th and 10th percentiles (% of GDP)						35.9			

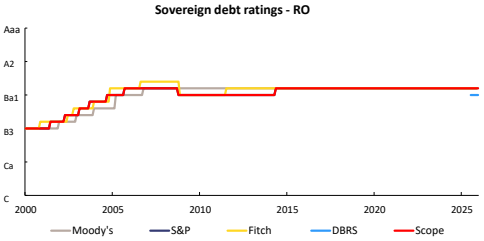
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	391

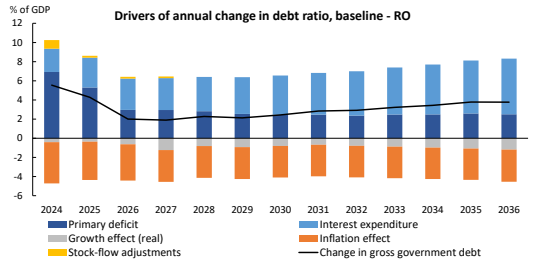
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

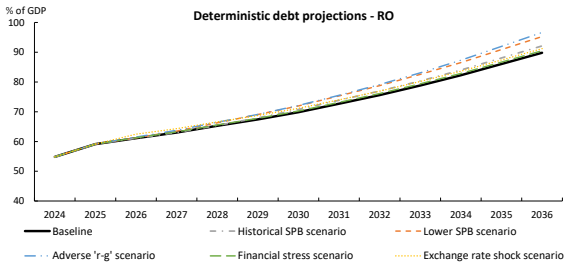


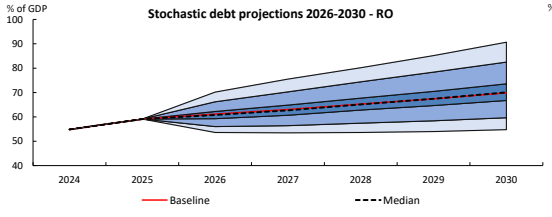


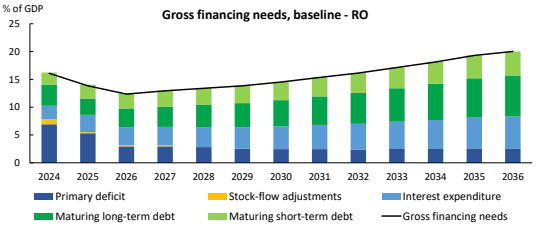
2. Medium-term fiscal sustainability risks

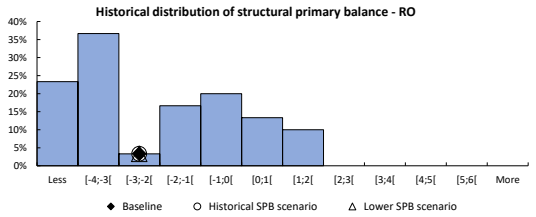
Romania - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**54.8**	**59.1**	**61.1**	**63.0**	**65.3**	**67.4**	**69.9**	**72.7**	**75.6**	**78.8**	**82.3**	**86.0**	**89.8**
Change in the ratio (-1+2+3)	*5.5*	*4.3*	*2.0*	*1.9*	*2.3*	*2.1*	*2.4*	*2.8*	*2.9*	*3.2*	*3.4*	*3.8*	*3.8*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-6.9**	**-5.3**	**-3.0**	**-3.0**	**-2.8**	**-2.5**	**-2.5**	**-2.5**	**-2.4**	**-2.5**	**-2.5**	**-2.6**	**-2.5**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-6.5***	***-4.7***	***-2.3***	***-2.5***	***-2.5***	***-2.5***	***-2.5***	***-2.5***	***-2.4***	***-2.5***	***-2.5***	***-2.6***	***-2.5***
(1.1.1) Structural primary balance (before CoA)	*-6.5*	*-4.7*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*	*-2.3*
(1.1.2) Cost of ageing (CoA)				*0.2*	*0.2*	*0.1*	*0.1*	*0.1*	*0.0*	*0.1*	*0.1*	*0.2*	*0.1*
Pensions				*0.1*	*0.1*	*0.0*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.3*
Health care				*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*	*0.3*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*
Education				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***-0.4***	***-0.6***	***-0.6***	***-0.4***	***-0.3***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-2.3**	**-1.2**	**-1.1**	**-1.2**	**-0.5**	**-0.4**	**0.0**	**0.4**	**0.5**	**0.7**	**0.9**	**1.2**	**1.3**
(2.1) Interest expenditure	*2.4*	*3.1*	*3.3*	*3.3*	*3.6*	*3.8*	*4.1*	*4.4*	*4.6*	*4.9*	*5.2*	*5.5*	*5.8*
(2.2) Growth effect (real)	*-0.4*	*-0.4*	*-0.6*	*-1.2*	*-0.8*	*-0.9*	*-0.8*	*-0.7*	*-0.8*	*-0.9*	*-1.0*	*-1.1*	*-1.2*
(2.3) Inflation effect	*-4.3*	*-4.0*	*-3.8*	*-3.3*	*-3.3*	*-3.3*	*-3.3*	*-3.3*	*-3.3*	*-3.3*	*-3.3*	*-3.3*	*-3.4*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**0.9**	**0.2**	**0.2**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*0.8*	*0.0*	*0.0*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.1*	*0.2*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-9.0	-7.9	-5.6	-5.9	-6.1	-6.3	-6.5	-6.8	-7.0	-7.4	-7.7	-8.1	-8.3
Gross financing needs	16.1	13.8	12.4	12.9	13.4	13.8	14.5	15.3	16.1	17.1	18.1	19.3	20.0

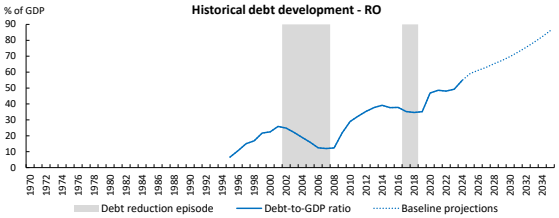


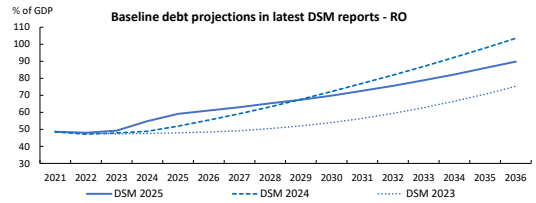


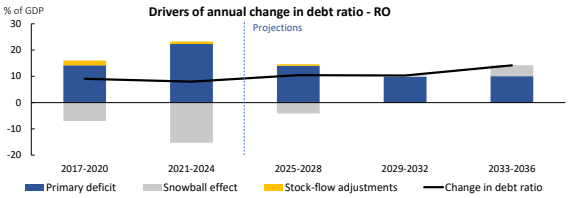












Romania - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	54.8	59.1	61.1	63.0	65.3	67.4	69.9	72.7	75.6	78.8	82.3	86.0	89.8
Primary balance	-6.9	-5.3	-3.0	-3.0	-2.8	-2.5	-2.5	-2.5	-2.4	-2.5	-2.5	-2.6	-2.5
Structural primary balance (before CoA)	-6.5	-4.7	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Real GDP growth	0.9	0.7	1.1	2.2	1.4	1.5	1.3	1.0	1.2	1.2	1.3	1.4	1.5
Potential GDP growth	1.4	1.3	1.4	1.5	0.9	0.9	1.0	1.0	1.2	1.2	1.3	1.4	1.5
Inflation rate	9.6	7.8	6.8	5.8	5.6	5.4	5.2	5.0	4.7	4.5	4.3	4.1	4.1
Implicit interest rate (nominal)	5.5	6.2	6.0	5.9	6.1	6.3	6.5	6.6	6.7	6.9	7.0	7.1	7.1
Gross financing needs	16.1	13.8	12.4	12.9	13.4	13.8	14.5	15.3	16.1	17.1	18.1	19.3	20.0
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	54.8	59.1	61.1	63.0	65.4	67.9	70.8	73.8	77.0	80.4	84.0	88.1	92.1
Primary balance	-6.9	-5.3	-3.0	-3.0	-2.9	-2.8	-2.8	-2.8	-2.6	-2.7	-2.7	-2.8	-2.7
Structural primary balance (before CoA)	-6.5	-4.7	-2.3	-2.4	-2.4	-2.5	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Real GDP growth	0.9	0.7	1.1	2.2	1.4	1.3	1.2	1.1	1.3	1.3	1.3	1.4	1.5
Gross financing needs	16.1	13.8	12.4	13.0	13.5	14.1	14.9	15.8	16.6	17.6	18.7	19.9	20.7
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	54.8	59.1	61.3	63.2	65.6	67.8	70.3	73.2	76.1	79.4	82.9	86.7	90.5
Implicit interest rate (nominal)	5.5	6.2	6.2	6.0	6.2	6.4	6.5	6.7	6.8	6.9	7.0	7.1	7.2
Gross financing needs	16.1	13.8	12.5	13.1	13.5	14.0	14.6	15.5	16.3	17.3	18.3	19.4	20.2
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	54.8	59.1	61.2	63.5	66.3	69.1	72.0	75.3	78.8	82.6	86.5	90.9	95.3
Primary balance	-6.9	-5.3	-3.2	-3.4	-3.3	-3.1	-3.0	-3.0	-2.9	-3.0	-3.0	-3.1	-3.0
Structural primary balance (before CoA)	-6.5	-4.7	-2.6	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Real GDP growth	0.9	0.7	1.3	2.3	1.3	1.3	1.3	1.0	1.2	1.2	1.3	1.4	1.5
Gross financing needs	16.1	13.8	12.5	13.4	13.9	14.6	15.3	16.2	17.1	18.3	19.4	20.7	21.5
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	54.8	59.1	61.5	63.8	66.5	69.1	72.1	75.6	79.1	83.1	87.3	92.0	96.7
Implicit interest rate (nominal)	5.5	6.2	6.1	6.1	6.3	6.6	6.8	7.0	7.1	7.3	7.4	7.5	7.6
Real GDP growth	0.9	0.7	0.6	1.7	0.9	1.0	0.8	0.5	0.7	0.7	0.8	0.9	1.0
Gross financing needs	16.1	13.8	12.5	13.2	13.7	14.3	15.1	16.1	17.0	18.2	19.4	20.8	21.7
6. Exchange rate depreciation scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	54.8	59.1	62.5	64.3	66.6	68.7	71.2	74.0	76.9	80.2	83.6	87.4	91.2
Exchange rate depreciation	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	16.1	13.8	12.6	13.2	13.6	14.1	14.7	15.6	16.4	17.4	18.4	19.6	20.3

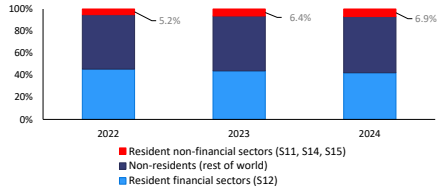
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**1.9**	**2.5**	**4.9**	**4.7**
of which					
Initial budgetary position		3.1	3.2	3.1	5.8
Ageing costs		-1.2	-0.7	1.8	-1.1
of which	*Pensions*	-2.1	-1.5	-2.1	-2.1
	Health care	0.6	0.5	1.5	0.6
	Long-term care	0.3	0.2	2.4	0.3
	Education	0.0	0.0	0.0	0.0
Required structural primary balance related to S2		**-0.4**	**0.2**	**2.6**	**-0.5**

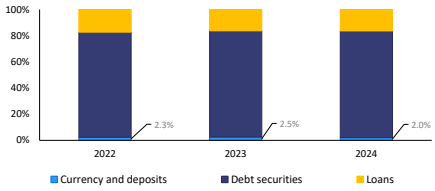
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**3.3**	**3.6**	**4.8**	**5.8**
of which					
Initial budgetary position		3.1	3.2	3.0	5.6
Debt requirement		0.0	0.0	0.0	-0.1
Ageing costs		0.2	0.4	1.7	0.2
of which	*Pensions*	-0.5	-0.2	-0.5	-0.5
	Health care	0.5	0.5	1.1	0.5
	Long-term care	0.2	0.2	1.0	0.2
	Education	0.0	0.0	0.0	0.1
Required structural primary balance related to S1		**1.0**	**1.3**	**2.4**	**0.5**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

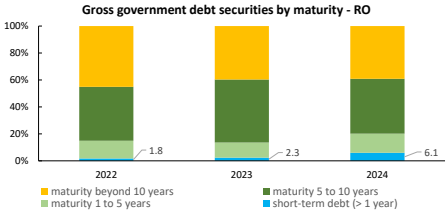
Debt by holder - RO



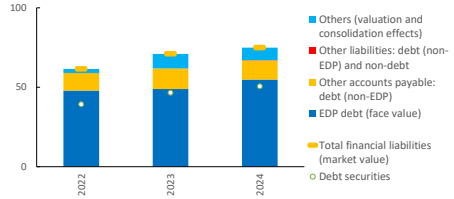
Debt by instrument - RO



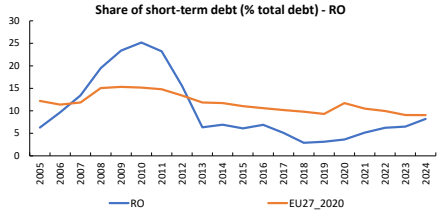
Gross government debt securities by maturity - RO



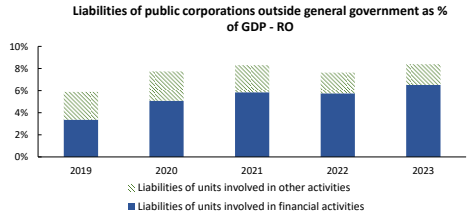
Debt and non-debt financial liabilities - RO



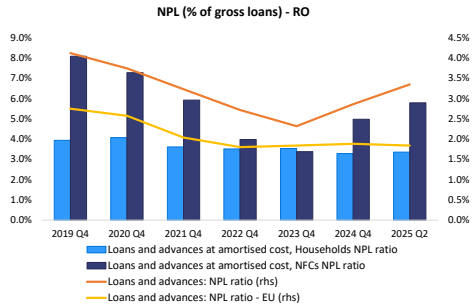
Share of short-term debt (% total debt) - RO



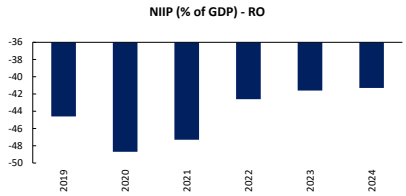
Liabilities of public corporations outside general government as % of GDP - RO



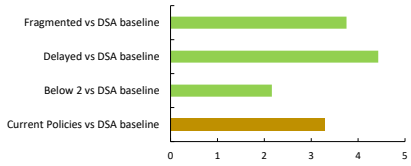
NPL (% of gross loans) - RO



NIIP (% of GDP) - RO



Climate change scenarios
Debt-to-GDP, difference in 2050 - RO



24. SLOVENIA

This fiche assesses fiscal sustainability risks for Slovenia over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain low, at around 8% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are investment grade, as confirmed by the main rating agencies.

2 – Medium-term fiscal sustainability risks are medium.

Under the DSA baseline, debt is projected to decline slightly until 2027 before increasing again over the medium term, reaching around 75% of GDP in 2036 ([218]). The increase in the government debt ratio is partially driven by the assumed structural primary deficit of 1.3% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([219]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([220]). Moreover, ageing-related expenditure is projected to increase, weighing on public finances. At the same time, the baseline projection benefits from a still favourable (although declining) snowball effect. Government gross financing needs are expected to increase over the projection period, reaching around 12% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three out of four scenarios lead to somewhat higher debt levels than the baseline. Under the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.) and under *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1.0 pp. compared with the baseline), the debt ratio would exceed the baseline level by around 5 pps. by 2036. Under the *financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline), the debt ratio would be around 0.5 pps higher than in the baseline in 2036. Finally, under the *historical structural primary balance (SPB) scenario* (in which the SPB returns to its historical 15-year average of -0.7% of GDP), the debt ratio would be 5 pps. lower than in the baseline by 2036

The stochastic projections run around the baseline indicate medium risk ([221])**.** These stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 48%, pointing to medium risk given the initial debt level. Medium uncertainty surrounds the baseline debt projection, as measured by the difference of around 20 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([218]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 1.3% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (average of 2.1%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([219]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Slovenia commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Slovenia follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([220]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past., as measured by-one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([221]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are high. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([222]). The medium risk stems mostly from the projected increase in ageing-related costs and the unfavourable initial deficit level.

The S2 debt-stabilisation indicator points to high risk. It signals that Slovenia would need to improve its structural primary balance by 6.5 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing costs, which contributes 4.4 pps., of which 3.1 pps. stems from pension expenditure and 1.5 pps. jointly from health care and long-term care expenditure, partially offset by a negative contribution from education. The remaining required effort is due to the unfavourable budgetary position, contributing 2.1 pps.

The S1 debt-reduction indicator points to medium risk. This indicator shows that a fiscal effort of 4.9 pps. would be needed for Slovenia to reduce its debt to 60% of GDP by 2070. This result is also mainly driven by the projected increase in ageing costs (contributing 3.4 pps.) and the initial deficit level (contributing 1.4 pps.).

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors relate to the large share of government debt held by non-residents (Section 4.1.2). On the other hand, risk-mitigating factors include (i) the stabilisation of debt maturity at high levels in recent years (Section 4.1.1), and (ii) high cash buffer. Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([222]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 needed to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

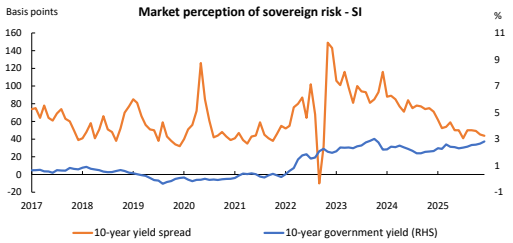
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
MEDIUM	Overall	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	HIGH	MEDIUM	HIGH
	Debt level (2036), % of GDP	75.1	69.8	80.3	80.2	75.5				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	54%	43%	57%	54%	54%				
	Probability of debt ratio exceeding in 2030 its 2025 level						48%			
	Difference between 90th and 10th percentiles (% of GDP)						19.5			

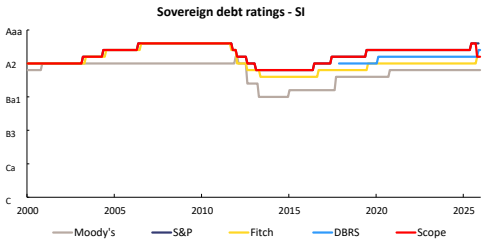
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	44

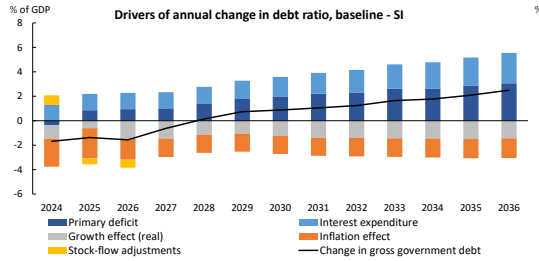
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

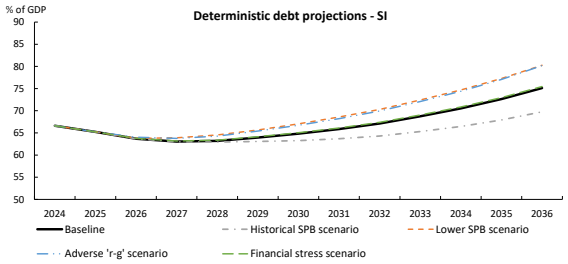


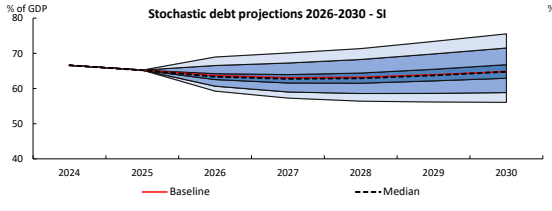


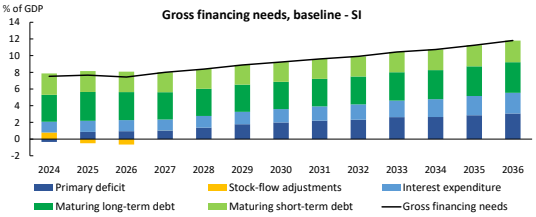
2. Medium-term fiscal sustainability risks

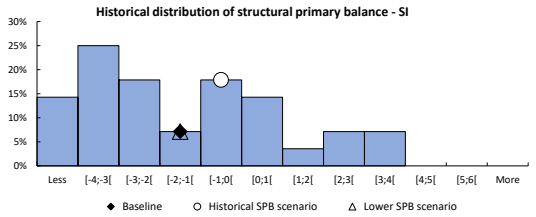
Slovenia - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**66.6**	**65.2**	**63.7**	**63.1**	**63.2**	**63.9**	**64.8**	**65.9**	**67.1**	**68.8**	**70.5**	**72.6**	**75.1**
Change in the ratio (-1+2+3)	*-1.7*	*-1.4*	*-1.6*	*-0.6*	*0.1*	*0.7*	*0.9*	*1.0*	*1.2*	*1.7*	*1.8*	*2.1*	*2.5*
of which													
(1) Primary balance (1.1+1.2+1.3)	**0.3**	**-0.9**	**-0.9**	**-1.0**	**-1.4**	**-1.8**	**-2.0**	**-2.2**	**-2.3**	**-2.6**	**-2.6**	**-2.9**	**-3.1**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-0.3***	***-0.7***	***-1.3***	***-1.5***	***-1.7***	***-1.9***	***-2.0***	***-2.2***	***-2.3***	***-2.6***	***-2.6***	***-2.9***	***-3.1***
(1.1.1) Structural primary balance (before CoA)	*-0.3*	*-0.7*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*	*-1.3*
(1.1.2) Cost of ageing (CoA)				*0.1*	*0.3*	*0.5*	*0.6*	*0.8*	*0.9*	*1.2*	*1.2*	*1.4*	*1.6*
Pensions				*0.1*	*0.2*	*0.4*	*0.5*	*0.6*	*0.7*	*0.9*	*1.0*	*1.1*	*1.3*
Health care				*0.0*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*
Long-term care				*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*
Education				*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.3*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***1.0***	***0.3***	***0.4***	***0.4***	***0.3***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***-0.3***	***-0.5***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-2.1**	**-1.7**	**-1.9**	**-1.6**	**-1.2**	**-1.0**	**-1.1**	**-1.2**	**-1.1**	**-1.0**	**-0.9**	**-0.8**	**-0.6**
(2.1) Interest expenditure	*1.3*	*1.3*	*1.3*	*1.3*	*1.4*	*1.5*	*1.6*	*1.7*	*1.8*	*2.0*	*2.1*	*2.3*	*2.5*
(2.2) Growth effect (real)	*-1.1*	*-0.6*	*-1.5*	*-1.5*	*-1.1*	*-1.1*	*-1.2*	*-1.4*	*-1.4*	*-1.4*	*-1.5*	*-1.5*	*-1.4*
(2.3) Inflation effect	*-2.3*	*-2.5*	*-1.7*	*-1.5*	*-1.5*	*-1.5*	*-1.5*	*-1.5*	*-1.5*	*-1.5*	*-1.5*	*-1.6*	*-1.6*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**0.8**	**-0.5**	**-0.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*0.8*	*-0.5*	*-0.7*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-1.6	-2.1	-2.7	-2.8	-3.1	-3.4	-3.6	-3.9	-4.2	-4.6	-4.8	-5.2	-5.5
Gross financing needs	7.5	7.7	7.4	8.0	8.4	8.9	9.2	9.6	9.9	10.4	10.7	11.2	11.8

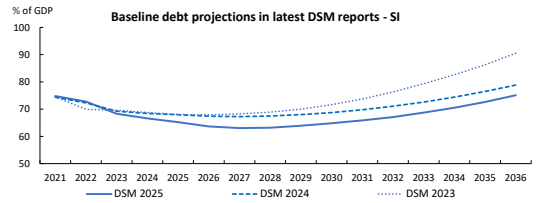


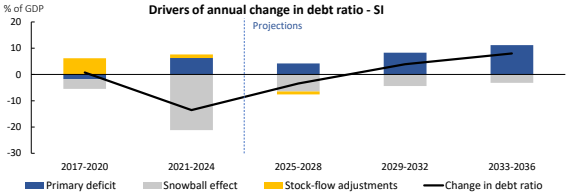












Slovenia - Underlying assumptions of deterministic debt projections

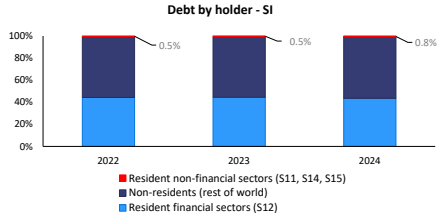
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	66.6	65.2	63.7	63.1	63.2	63.9	64.8	65.9	67.1	68.8	70.5	72.6	75.1
Primary balance	0.3	-0.9	-0.9	-1.0	-1.4	-1.8	-2.0	-2.2	-2.3	-2.6	-2.6	-2.9	-3.1
Structural primary balance (before CoA)	-0.3	-0.7	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Real GDP growth	1.7	1.0	2.4	2.4	1.9	1.7	2.0	2.2	2.2	2.2	2.2	2.2	2.1
Potential GDP growth	2.4	2.3	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1
Inflation rate	3.5	3.8	2.7	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Implicit interest rate (nominal)	2.0	2.1	2.1	2.2	2.3	2.5	2.6	2.8	2.9	3.1	3.3	3.4	3.6
Gross financing needs	7.5	7.7	7.4	8.0	8.4	8.9	9.2	9.6	9.9	10.4	10.7	11.2	11.8
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	66.6	65.2	63.7	63.0	62.9	63.1	63.3	63.7	64.3	65.3	66.5	67.9	69.8
Primary balance	0.3	-0.9	-0.9	-0.9	-1.1	-1.3	-1.3	-1.5	-1.7	-2.0	-2.0	-2.2	-2.4
Structural primary balance (before CoA)	-0.3	-0.7	-1.3	-1.2	-1.0	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Real GDP growth	1.7	1.0	2.4	2.3	1.8	1.9	2.1	2.2	2.2	2.2	2.2	2.2	2.1
Gross financing needs	7.5	7.7	7.4	7.9	8.1	8.4	8.5	8.7	9.0	9.5	9.7	10.1	10.6
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	66.6	65.2	63.8	63.2	63.4	64.1	65.0	66.1	67.4	69.1	70.8	73.0	75.5
Implicit interest rate (nominal)	2.0	2.1	2.3	2.3	2.4	2.5	2.7	2.8	3.0	3.1	3.3	3.5	3.6
Gross financing needs	7.5	7.7	7.5	8.1	8.4	8.9	9.3	9.7	10.0	10.5	10.8	11.3	11.9
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	66.6	65.2	63.8	63.9	64.5	65.6	67.0	68.6	70.3	72.4	74.7	77.3	80.3
Primary balance	0.3	-0.9	-1.1	-1.6	-1.9	-2.3	-2.5	-2.7	-2.8	-3.1	-3.1	-3.4	-3.6
Structural primary balance (before CoA)	-0.3	-0.7	-1.6	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Real GDP growth	1.7	1.0	2.6	2.1	1.9	1.9	1.9	2.2	2.2	2.2	2.2	2.2	2.1
Gross financing needs	7.5	7.7	7.6	8.6	9.0	9.5	9.9	10.4	10.7	11.3	11.7	12.3	12.9
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	66.6	65.2	64.0	63.8	64.3	65.4	66.7	68.2	69.9	72.1	74.4	77.1	80.2
Implicit interest rate (nominal)	2.0	2.1	2.2	2.3	2.5	2.6	2.8	3.0	3.2	3.4	3.6	3.8	3.9
Real GDP growth	1.7	1.0	1.9	1.9	1.4	1.2	1.5	1.7	1.7	1.7	1.7	1.7	1.6
Gross financing needs	7.5	7.7	7.5	8.1	8.6	9.2	9.6	10.0	10.4	11.0	11.4	12.0	12.7

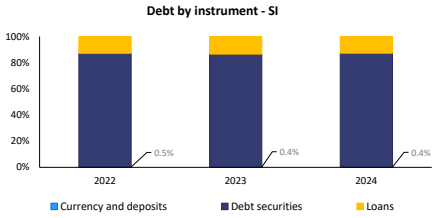
3. Long-term fiscal sustainability risks

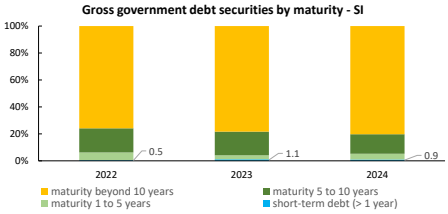
S2 indicator **(effort required in 2027** **to stabilise debt over an infinite horizon)**		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**6.5**	**6.6**	**9.4**	**6.0**
of which					
Initial budgetary position		2.1	2.2	2.1	1.4
Ageing costs		4.4	4.4	7.3	4.5
of which	*Pensions*	3.1	3.2	3.1	3.1
	Health care	0.8	0.7	1.9	0.9
	Long-term care	0.7	0.7	2.5	0.8
	Education	-0.2	-0.2	-0.2	-0.2
Required structural primary balance related to S2		**5.1**	**5.2**	**8.1**	**5.3**

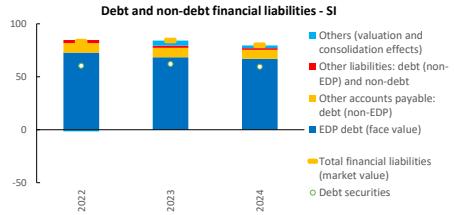
S1 indicator **(effort required in 2027** **to bring debt to 60% of GDP by 2070)**		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**4.9**	**5.0**	**6.7**	**4.4**
of which					
Initial budgetary position		1.4	1.5	1.3	0.7
Debt requirement		0.1	0.1	0.1	0.1
Ageing costs		3.4	3.5	5.4	3.6
of which	*Pensions*	2.5	2.6	2.5	2.5
	Health care	0.6	0.6	1.6	0.7
	Long-term care	0.4	0.4	1.4	0.6
	Education	-0.2	-0.2	-0.2	-0.2
Required structural primary balance related to S1		**3.5**	**3.7**	**5.4**	**3.6**

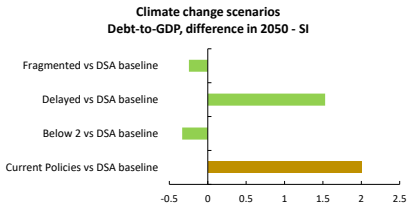
4. Additional aggravating and mitigating risk factors for fiscal sustainability











25. SLOVAKIA

This fiche assesses fiscal sustainability risks for Slovakia over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to remain around 10.5% of GDP over 2026-2027. Financial markets' perceptions of sovereign risk are investment grade. However, a recent downgrade reflects broad institutional challenges and political tensions.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase over the medium term, reaching around 101% of GDP in 2036 ([223]). The increase in the government debt ratio is partially driven by the assumed structural primary deficit of 2.6% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([224]). This structural primary balance (SPB) level is broadly in line with past fiscal performance ([225]). Moreover, ageing-related expenditure is projected to increase significantly, weighing on public finances. At the same time, the baseline projection benefits from a still favourable (although declining) snowball effect up to 2032 turning debt-increasing thereafter. Government gross financing needs are expected to increase over the projection period, reaching around 14% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three scenarios lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential deteriorates by 1 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB level is lowered by 0.5 pps.), *the financial stress scenario* (in which interest rates temporarily increase by 1 pp. compared with the baseline) the debt ratio would exceed the baseline level by 2036 than the baseline by around 7 pps., 5 pps, and 1 pp. Under the *historical structural primary balance (SPB) scenario* (in which the SPB returns to its historical 15-year average of -2% of GDP), the debt ratio would be lower than the baseline by 2036 by around 4 pps.

The stochastic projections run around the baseline indicate high risk due to the high probability of debt increasing over the next five years ([226])**.** These stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 98%, pointing to high risk given the initial debt level. At the same time, the uncertainty surrounding the baseline debt projection is low, as measured by the difference of around 18 pps. between the 10th and 90th debt distribution percentiles in five years' time.

([223]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 2.6% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (average of 1.5%); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper, No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([224]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Slovakia commits to in its medium-term plan beyond 2026 is not taken into account in the projection. If Slovakia follows its adjustment path until the end, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([225]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by-one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([226]) The stochastic projections show the joint impact on debt of 10,000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

3 – Long-term fiscal sustainability risks are high. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([227]). The high risk stems from the projected increase in ageing-related costs and the unfavourable initial budgetary position.

The S2 debt-stabilisation indicator points to high risk. It signals that Slovakia would need to improve its structural primary balance by 7.2 pps. to ensure that debt stabilises over the long term. This result is mainly driven by the projected increase in ageing costs, which contributes 3.9 pps., of which 1.5 pps. stem from pension expenditure and 2.2 pps. jointly from health care and long-term care expenditure, further increased by a positive contribution from education. The remaining required effort is due to the unfavourable initial budgetary position, contributing 3.3 pps.

The S1 debt-reduction indicator also points to high risk. This indicator shows that a significant fiscal effort of 6.2 pps. would be needed for Slovakia to limit its debt to 60% of GDP by 2070. This result is also mainly driven by the projected increase in ageing costs (contributing 3.1 pps.) and the initial budgetary position (3 pps.).

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, the share of government debt held by non-residents (Section 4.1.2) can constitute a risk-increasing factor. On the other hand, risk-mitigating factors are related to (i) the structure of debt, i.e. the low share of short-term government debt (Section 4.1.1) and (ii) the fact that most of government debt is denominated in euro, thus excluding currency risks (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([227]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

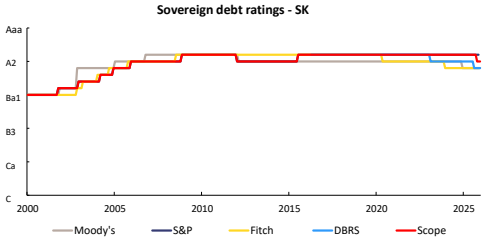
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH
	Debt level (2036), % of GDP	101.2	97.0	106.0	108.2	101.8				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	44%	41%	52%	44%	44%				
	Probability of debt ratio exceeding in 2030 its 2025 level						98%			
	Difference between 90th and 10th percentiles (% of GDP)						18.2			

(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

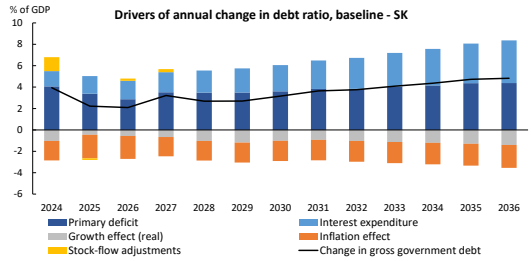
Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	65

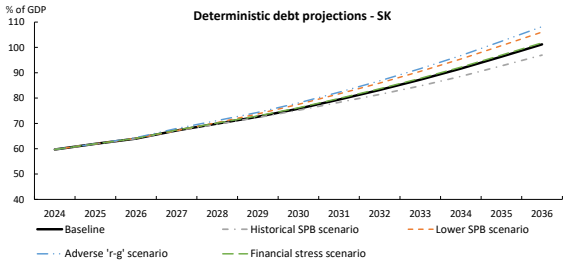
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

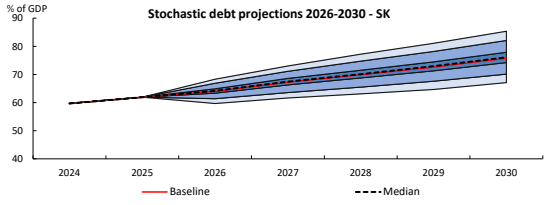


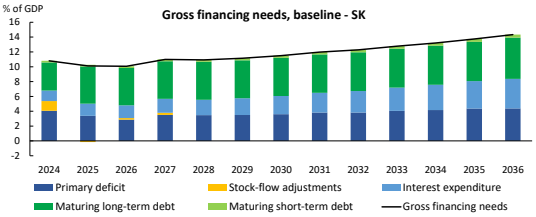
2. Medium-term fiscal sustainability risks

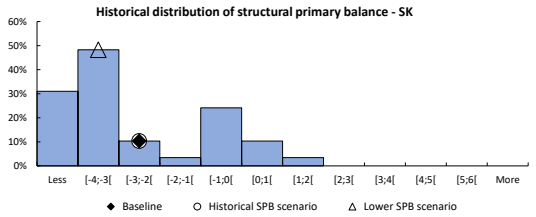
Slovakia - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**59.7**	**61.9**	**64.0**	**67.2**	**69.9**	**72.6**	**75.8**	**79.4**	**83.2**	**87.3**	**91.6**	**96.4**	**101.2**
Change in the ratio (-1+2+3)	*3.9*	*2.2*	*2.1*	*3.2*	*2.7*	*2.7*	*3.2*	*3.6*	*3.8*	*4.1*	*4.4*	*4.7*	*4.8*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-4.1**	**-3.4**	**-2.9**	**-3.5**	**-3.5**	**-3.5**	**-3.6**	**-3.8**	**-3.8**	**-4.0**	**-4.2**	**-4.4**	**-4.4**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-4.2***	***-3.2***	***-2.6***	***-3.1***	***-3.2***	***-3.4***	***-3.6***	***-3.8***	***-3.8***	***-4.0***	***-4.2***	***-4.4***	***-4.4***
(1.1.1) Structural primary balance (before CoA)	*-4.2*	*-3.2*	*-2.6*	*-2.6*	*-2.6*	*-2.6*	*-2.6*	*-2.6*	*-2.6*	*-2.6*	*-2.6*	*-2.6*	*-2.6*
(1.1.2) Cost of ageing (CoA)				*0.5*	*0.6*	*0.8*	*1.0*	*1.2*	*1.2*	*1.4*	*1.5*	*1.7*	*1.7*
Pensions				*0.2*	*0.3*	*0.4*	*0.4*	*0.5*	*0.5*	*0.6*	*0.6*	*0.7*	*0.7*
Health care				*0.1*	*0.1*	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*	*0.5*	*0.5*
Long-term care				*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.3*
Education				*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
(1.2) Cyclical component	***0.1***	***-0.2***	***-0.4***	***-0.4***	***-0.3***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-1.4**	**-1.0**	**-1.0**	**-0.6**	**-0.8**	**-0.8**	**-0.5**	**-0.2**	**-0.1**	**0.0**	**0.2**	**0.4**	**0.4**
(2.1) Interest expenditure	*1.4*	*1.6*	*1.7*	*1.9*	*2.1*	*2.3*	*2.4*	*2.7*	*2.9*	*3.1*	*3.4*	*3.7*	*4.0*
(2.2) Growth effect (real)	*-1.0*	*-0.5*	*-0.6*	*-0.7*	*-1.0*	*-1.2*	*-1.0*	*-0.9*	*-1.0*	*-1.1*	*-1.2*	*-1.3*	*-1.4*
(2.3) Inflation effect	*-1.8*	*-2.2*	*-2.1*	*-1.8*	*-1.8*	*-1.9*	*-1.9*	*-1.9*	*-1.9*	*-2.0*	*-2.0*	*-2.0*	*-2.1*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**1.3**	**-0.2**	**0.2**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*1.3*	*-0.2*	*0.2*	*0.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-5.6	-4.8	-4.3	-5.0	-5.3	-5.7	-6.1	-6.5	-6.7	-7.2	-7.6	-8.1	-8.4
Gross financing needs	10.8	10.1	10.1	11.0	10.9	11.2	11.5	12.0	12.3	12.8	13.2	13.7	14.3

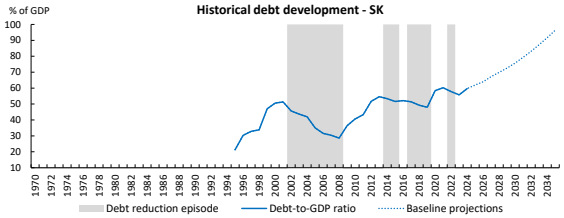


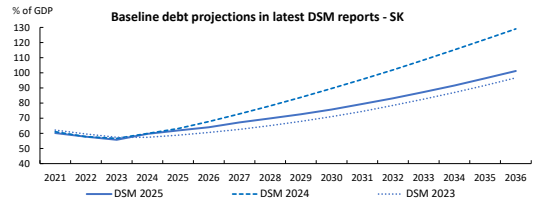


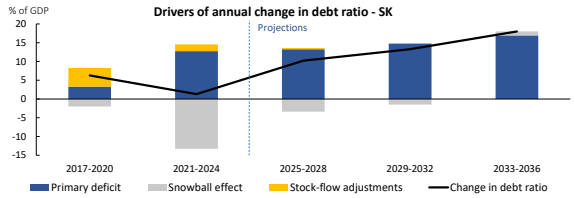












Slovakia - Underlying assumptions of deterministic debt projections

1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	59.7	61.9	64.0	67.2	69.9	72.6	75.8	79.4	83.2	87.3	91.6	96.4	101.2
Primary balance	-4.1	-3.4	-2.9	-3.5	-3.5	-3.5	-3.6	-3.8	-3.8	-4.0	-4.2	-4.4	-4.4
Structural primary balance (before CoA)	-4.2	-3.2	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Real GDP growth	1.9	0.8	1.0	1.1	1.6	1.8	1.5	1.3	1.3	1.4	1.4	1.5	1.5
Potential GDP growth	2.3	1.5	1.4	1.3	1.2	1.3	1.2	1.3	1.3	1.4	1.4	1.5	1.5
Inflation rate	3.4	3.8	3.6	2.9	2.8	2.7	2.7	2.6	2.5	2.4	2.4	2.3	2.3
Implicit interest rate (nominal)	2.7	2.9	2.9	3.1	3.2	3.4	3.5	3.7	3.8	3.9	4.1	4.2	4.3
Gross financing needs	10.8	10.1	10.1	11.0	10.9	11.2	11.5	12.0	12.3	12.8	13.2	13.7	14.3
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	59.7	61.9	64.0	67.2	69.7	72.3	75.2	78.3	81.4	84.8	88.6	92.7	97.0
Primary balance	-4.1	-3.4	-2.9	-3.4	-3.3	-3.2	-3.3	-3.4	-3.3	-3.5	-3.6	-3.8	-3.8
Structural primary balance (before CoA)	-4.2	-3.2	-2.6	-2.4	-2.3	-2.1	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Real GDP growth	1.9	0.8	1.0	1.0	1.5	1.5	1.4	1.5	1.5	1.6	1.4	1.5	1.5
Gross financing needs	10.8	10.1	10.1	10.9	10.7	10.9	11.1	11.5	11.6	12.0	12.4	12.9	13.4
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	59.7	61.9	64.1	67.4	70.2	72.9	76.1	79.8	83.7	87.8	92.2	97.0	101.8
Implicit interest rate (nominal)	2.7	2.9	3.1	3.2	3.3	3.5	3.6	3.7	3.9	4.0	4.1	4.2	4.3
Gross financing needs	10.8	10.1	10.2	11.1	11.0	11.2	11.6	12.1	12.4	12.9	13.3	13.8	14.4
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	59.7	61.9	64.1	67.1	70.3	73.7	77.5	81.6	85.9	90.5	95.4	100.7	106.0
Primary balance	-4.1	-3.4	-3.1	-3.7	-3.8	-3.9	-4.1	-4.3	-4.3	-4.5	-4.7	-4.9	-4.9
Structural primary balance (before CoA)	-4.2	-3.2	-2.8	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1
Real GDP growth	1.9	0.8	1.1	1.7	1.3	1.4	1.3	1.3	1.3	1.4	1.4	1.5	1.5
Gross financing needs	10.8	10.1	10.3	11.2	11.3	11.7	12.1	12.7	13.0	13.6	14.1	14.6	15.3
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	59.7	61.9	64.4	68.0	71.1	74.3	78.1	82.3	86.8	91.6	96.8	102.4	108.2
Implicit interest rate (nominal)	2.7	2.9	3.0	3.2	3.4	3.6	3.8	4.0	4.1	4.3	4.5	4.6	4.7
Real GDP growth	1.9	0.8	0.5	0.6	1.1	1.3	1.0	0.8	0.8	0.9	0.9	1.0	1.0
Gross financing needs	10.8	10.1	10.2	11.2	11.2	11.5	11.9	12.5	12.9	13.5	14.0	14.7	15.4

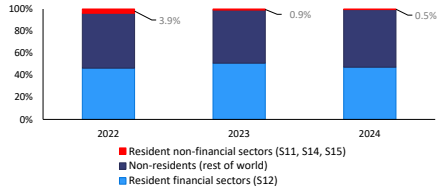
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**7.2**	**7.5**	**10.6**	**7.8**
of which					
Initial budgetary position		3.3	3.4	3.3	3.6
Ageing costs		3.9	4.1	7.3	4.1
of which	*Pensions*	1.5	1.8	1.5	1.7
	Health care	1.0	1.0	2.0	1.0
	Long-term care	1.2	1.1	3.6	1.2
	Education	0.2	0.2	0.2	0.2
Required structural primary balance related to S2		**4.6**	**5.0**	**8.1**	**4.8**

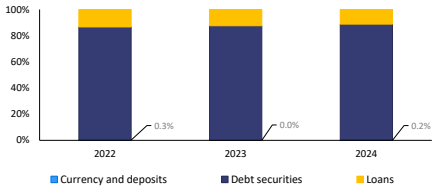
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**6.2**	**6.5**	**7.9**	**6.5**
of which					
Initial budgetary position		3.0	3.1	2.8	3.2
Debt requirement		0.1	0.1	0.1	0.0
Ageing costs		3.1	3.3	5.0	3.4
of which	*Pensions*	1.4	1.6	1.5	1.6
	Health care	0.8	0.8	1.6	0.8
	Long-term care	0.7	0.7	1.8	0.7
	Education	0.2	0.2	0.2	0.2
Required structural primary balance related to S1		**3.7**	**3.9**	**5.4**	**3.6**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

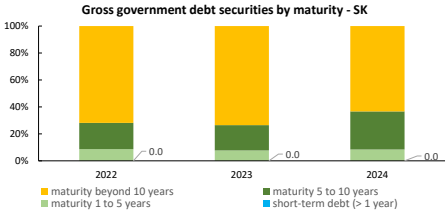
Debt by holder - SK



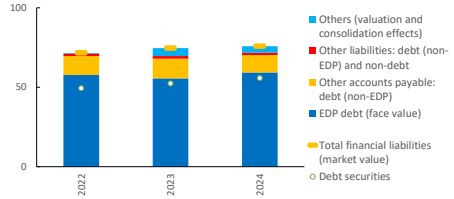
Debt by instrument - SK



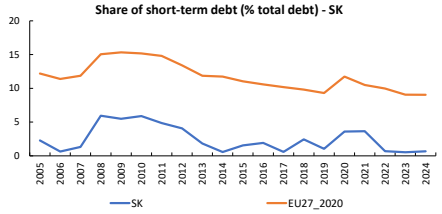
Gross government debt securities by maturity - SK



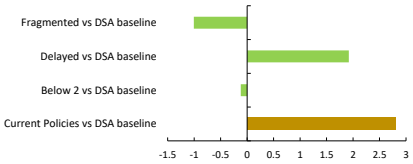
Debt and non-debt financial liabilities - SK



Share of short-term debt (% total debt) - SK



Climate change scenarios
Debt-to-GDP, difference in 2050 - SK



26. FINLAND

This fiche assesses fiscal sustainability risks for Finland over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to recede slightly to around 19% of GDP on average in 2026-2027. Financial markets' perceptions of sovereign risk have remained broadly stable, as confirmed by the rating agencies except for a downgrade by Fitch in July 2025 to the third highest rating, 'AA'.

2 – Medium-term fiscal sustainability risks are high.

Under the DSA baseline, debt is projected to increase steadily over the medium term, reaching around 114% of GDP in 2036 ([228]). The baseline rests on the assumption of a structural primary deficit of 0.9% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([229]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([230]). In addition to the structural primary deficit, the projected increase in debt is also explained by positive stock-flow adjustments (1.3% of GDP on average over 2027-2036), mostly due to the build-up of a public pension fund. Moreover, cost of ageing is projected to increase, weighing on public finances. On the other hand, the debt increase is mitigated by a still favourable snowball effect (-0.6% of GDP on average over the same period). Government gross financing needs are expected to increase over the projection period, approaching 23% of GDP in 2036.

The deterministic stress tests identify additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against four alternative deterministic scenarios. Three of them lead to higher debt levels than the baseline. Under the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1 pp. compared with the baseline), the *lower SPB scenario* (in which the SPB is lowered by 0.5 pps.), and *the financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 8 pps., 5 pps. and 1 pp., respectively. By contrast, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of -0.4% of GDP), debt would stand 3 pps. below the baseline level by 2036.

The stochastic projections run around the baseline indicate high risk due to the high probability of debt increasing over the next five years ([231])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 94%, pointing to high risk given the initial debt level above 60% of GDP. At the same time, the uncertainty surrounding the

([228]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 0.9% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.3% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([229]) The no-fiscal-policy-change assumption as from 2027 implies that the adjustment that Finland committed to in its medium-term plan beyond 2026 is not taken into account in the projection. Moreover, Finland is subject to an excessive deficit procedure, with a corrective path that supersedes the adjustment path of the plan. If Finland follows this corrective path, this will put debt on a lower path than under the DSA baseline (see the "MTP scenario" in Chapter 5).

([230]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([231]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

baseline debt projection is moderate, as measured by the difference of around 19 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([232]). The medium risk mainly stems from the projected increase in ageing-related expenditure, the positive stock-flow adjustments and the high initial levels of deficit and debt.

The S2 debt-stabilisation indicator points to medium risk. It signals that Finland would need to improve its structural primary balance by 4.1 pps. to ensure that debt stabilises over the long term. This result is underpinned by the unfavourable initial budgetary position (contributing 2.2 pps.) and the projected increase in ageing-related costs (1.9 pps.). The unfavourable initial budgetary position reflects not only the initial levels of structural primary deficit and debt, but also the impact of positive stock-flow adjustments over the long term. Ageing costs are primarily driven by a projected increase in long-term care (1.6 pps.), along with pensions and health care (0.6 pps. and 0.5 pps., respectively), only partly offset by a projected decrease in education spending (-0.8 pps.).

The S1 debt-reduction indicator also points to medium risk. This indicator shows that a significant fiscal effort of 3.1 pps. would be needed for Finland to reduce its debt to 60% of GDP by 2070. This result is mainly driven by the initial budgetary position (1.8 pps.), followed by the excess of debt over 60% of GDP (0.7 pps.) and ageing costs (0.6 pps.).

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to (i) government guarantees (Section 4.2.2), and (ii) the related implicit liabilities for the public sector, are amongst the largest in the EU (Section 4.2.2). On the other hand, risk-mitigating factors include (i) relatively stable financing sources with a diversified and large investor base (Section 4.1.2) and (ii) the currency denomination of debt exclusively in euros (Section 4.1.3). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([232]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

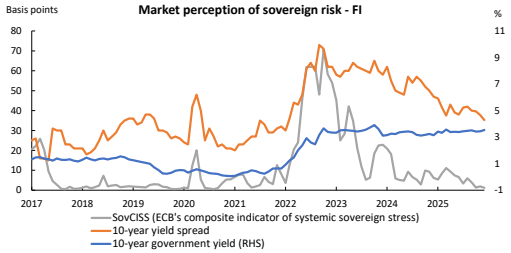
Overall	Medium term - Debt sustainability analysis (DSA)							Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
HIGH	Overall	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH	MEDIUM	MEDIUM	MEDIUM
	Debt level (2036), % of GDP	113.9	110.7	118.7	122.2	114.7				
	Debt peak year	2036	2036	2036	2036	2036				
	Fiscal consolidation space	92%	88%	100%	92%	92%				
	Probability of debt ratio exceeding in 2030 its 2025 level						94%			
	Difference between 90th and 10th percentiles (% of GDP)						19.3			

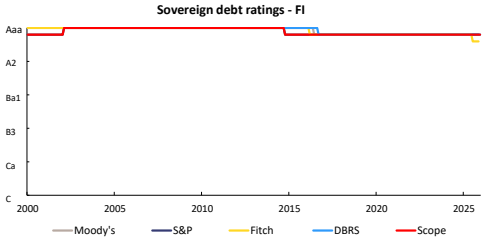
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	35

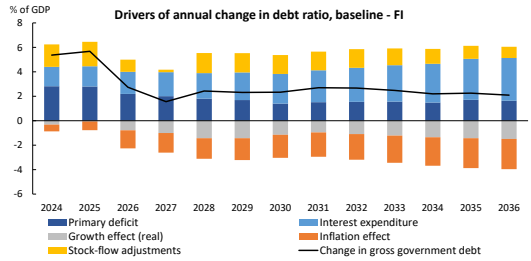
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

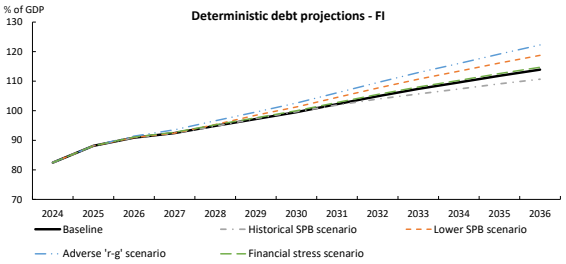


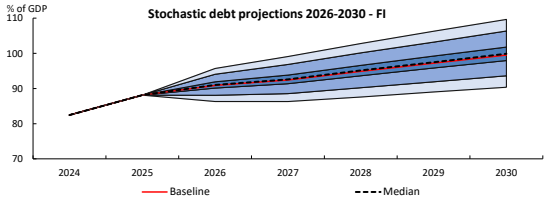


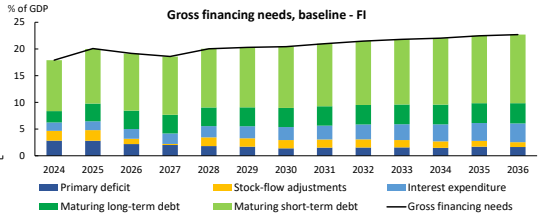
2. Medium-term fiscal sustainability risks

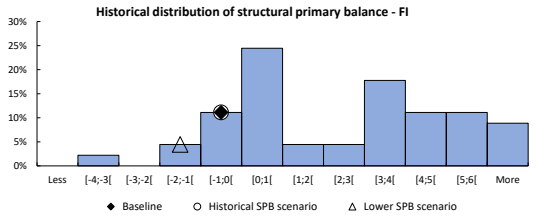
Finland - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**82.5**	**88.1**	**90.9**	**92.4**	**94.9**	**97.2**	**99.5**	**102.2**	**104.9**	**107.4**	**109.6**	**111.8**	**113.9**
Change in the ratio (-1+2+3)	*5.4*	*5.7*	*2.7*	*1.6*	*2.4*	*2.3*	*2.3*	*2.7*	*2.7*	*2.5*	*2.2*	*2.3*	*2.1*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-2.8**	**-2.8**	**-2.2**	**-2.0**	**-1.8**	**-1.7**	**-1.4**	**-1.5**	**-1.5**	**-1.6**	**-1.5**	**-1.7**	**-1.6**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-1.5***	***-1.3***	***-0.9***	***-1.0***	***-1.2***	***-1.5***	***-1.4***	***-1.5***	***-1.5***	***-1.6***	***-1.5***	***-1.7***	***-1.6***
(1.1.1) Structural primary balance (before CoA)	*-1.5*	*-1.3*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*
(1.1.2) Cost of ageing (CoA)				*0.1*	*0.2*	*0.5*	*0.4*	*0.5*	*0.5*	*0.5*	*0.4*	*0.6*	*0.5*
Pensions				*0.0*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.1*	*0.1*	*0.0*
Health care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*
Long-term care				*0.1*	*0.2*	*0.3*	*0.3*	*0.4*	*0.5*	*0.5*	*0.6*	*0.7*	*0.7*
Education				*0.0*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.3*	*-0.3*	*-0.4*	*-0.4*	*-0.4*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*
(1.2) Cyclical component	***-1.3***	***-1.5***	***-1.3***	***-1.0***	***-0.7***	***-0.2***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**0.7**	**0.9**	**-0.4**	**-0.6**	**-1.0**	**-1.0**	**-0.6**	**-0.3**	**-0.4**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
(2.1) Interest expenditure	*1.6*	*1.6*	*1.8*	*2.0*	*2.1*	*2.3*	*2.4*	*2.6*	*2.8*	*3.0*	*3.2*	*3.3*	*3.5*
(2.2) Growth effect (real)	*-0.3*	*-0.1*	*-0.8*	*-1.0*	*-1.4*	*-1.4*	*-1.2*	*-1.0*	*-1.1*	*-1.2*	*-1.3*	*-1.4*	*-1.5*
(2.3) Inflation effect	*-0.6*	*-0.7*	*-1.5*	*-1.6*	*-1.7*	*-1.8*	*-1.9*	*-2.0*	*-2.1*	*-2.2*	*-2.3*	*-2.4*	*-2.5*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**1.8**	**2.0**	**1.0**	**0.2**	**1.6**	**1.6**	**1.5**	**1.5**	**1.5**	**1.4**	**1.2**	**1.1**	**0.9**
(3.1) Base	*1.8*	*2.1*	*1.1*	*0.2*	*1.6*	*1.6*	*1.5*	*1.5*	*1.5*	*1.4*	*1.2*	*1.1*	*0.9*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-3.1	-2.9	-2.7	-3.0	-3.2	-3.7	-3.8	-4.1	-4.3	-4.5	-4.7	-5.1	-5.1
Gross financing needs	17.9	20.1	19.2	18.6	20.0	20.3	20.4	21.0	21.5	21.8	22.0	22.5	22.7

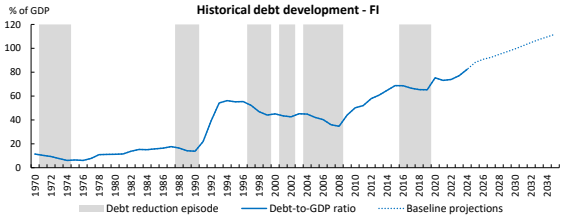


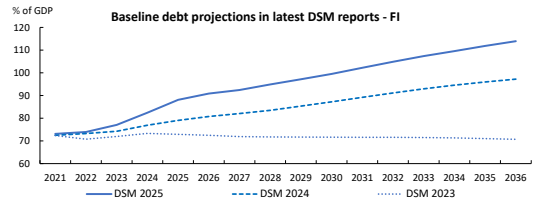


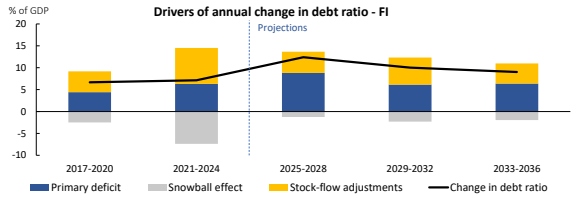












Finland - Underlying assumptions of deterministic debt projections

1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	82.5	88.1	90.9	92.4	94.9	97.2	99.5	102.2	104.9	107.4	109.6	111.8	113.9
Primary balance	-2.8	-2.8	-2.2	-2.0	-1.8	-1.7	-1.4	-1.5	-1.5	-1.6	-1.5	-1.7	-1.6
Structural primary balance (before CoA)	-1.5	-1.3	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Real GDP growth	0.4	0.1	0.9	1.1	1.6	1.6	1.2	1.0	1.1	1.2	1.3	1.4	1.4
Potential GDP growth	0.5	0.5	0.5	0.6	1.0	0.8	0.8	1.0	1.1	1.2	1.3	1.4	1.4
Inflation rate	0.7	0.9	1.7	1.8	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.3	2.3
Implicit interest rate (nominal)	2.1	2.0	2.1	2.2	2.3	2.5	2.6	2.7	2.8	2.9	3.1	3.2	3.2
Gross financing needs	17.9	20.1	19.2	18.6	20.0	20.3	20.4	21.0	21.5	21.8	22.0	22.5	22.7
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	82.5	88.1	90.9	92.4	94.7	97.3	99.7	101.9	104.0	105.7	107.4	109.1	110.7
Primary balance	-2.8	-2.8	-2.2	-1.9	-1.6	-1.6	-1.3	-1.3	-1.2	-1.0	-1.0	-1.2	-1.1
Structural primary balance (before CoA)	-1.5	-1.3	-0.9	-0.8	-0.7	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Real GDP growth	0.4	0.1	0.9	1.1	1.5	1.1	1.1	1.2	1.3	1.4	1.3	1.4	1.4
Gross financing needs	17.9	20.1	19.2	18.5	19.9	20.3	20.4	20.7	21.0	21.1	21.2	21.6	21.7
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	82.5	88.1	91.1	92.7	95.2	97.6	100.0	102.8	105.5	108.0	110.3	112.6	114.7
Implicit interest rate (nominal)	2.1	2.0	2.3	2.3	2.4	2.5	2.7	2.8	2.9	3.0	3.1	3.2	3.3
Gross financing needs	17.9	20.1	19.4	18.7	20.2	20.4	20.6	21.1	21.6	22.0	22.2	22.6	22.9
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	82.5	88.1	90.9	92.4	95.3	98.5	101.3	104.5	107.7	110.7	113.4	116.1	118.7
Primary balance	-2.8	-2.8	-2.4	-2.2	-2.1	-2.2	-1.9	-2.0	-2.0	-2.1	-2.0	-2.2	-2.1
Structural primary balance (before CoA)	-1.5	-1.3	-1.2	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Real GDP growth	0.4	0.1	1.1	1.5	1.4	1.2	1.3	1.0	1.1	1.2	1.3	1.4	1.4
Gross financing needs	17.9	20.1	19.3	18.8	20.4	20.9	21.1	21.8	22.4	22.8	23.1	23.7	24.0
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	82.5	88.1	91.4	93.6	96.6	99.6	102.6	106.1	109.6	112.9	116.0	119.2	122.2
Implicit interest rate (nominal)	2.1	2.0	2.2	2.4	2.5	2.7	2.8	3.0	3.1	3.3	3.4	3.5	3.6
Real GDP growth	0.4	0.1	0.4	0.6	1.1	1.1	0.7	0.5	0.6	0.7	0.8	0.9	0.9
Gross financing needs	17.9	20.1	19.4	18.9	20.5	20.9	21.2	21.9	22.6	23.1	23.5	24.1	24.5

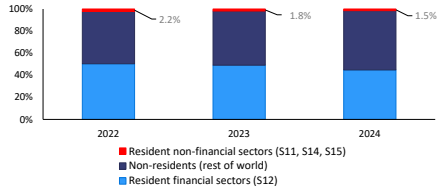
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**4.1**	**4.5**	**6.4**	**3.1**
of which					
Initial budgetary position		2.2	2.2	2.4	1.3
Ageing costs		1.9	2.3	3.9	1.7
of which	*Pensions*	0.6	1.0	0.5	0.5
	Health care	0.5	0.5	1.2	0.5
	Long-term care	1.6	1.5	2.9	1.5
	Education	-0.8	-0.8	-0.7	-0.8
Required structural primary balance related to S2		**3.2**	**3.6**	**5.5**	**2.9**

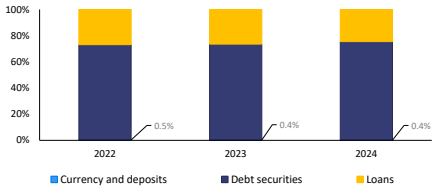
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		**DSM 2025**			**DSM 2024**
		Baseline	**Lower productivity scenario**	**Non-demographic risk scenario**	
Overall value (% of GDP)		**3.1**	**3.4**	**4.3**	**1.8**
of which					
Initial budgetary position		1.8	1.9	1.7	0.7
Debt requirement		0.7	0.6	0.7	0.5
Ageing costs		0.6	0.8	1.9	0.5
of which	*Pensions*	0.0	0.2	0.0	-0.1
	Health care	0.3	0.3	0.9	0.3
	Long-term care	1.0	1.0	1.6	1.0
	Education	-0.6	-0.6	-0.6	-0.7
Required structural primary balance related to S1		**2.2**	**2.5**	**3.4**	**1.7**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

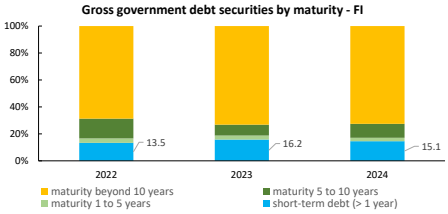
Debt by holder - FI



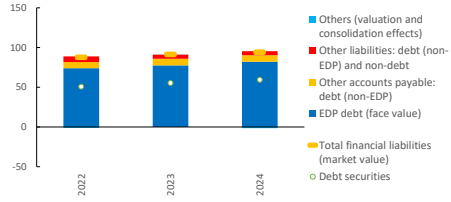
Debt by instrument - FI



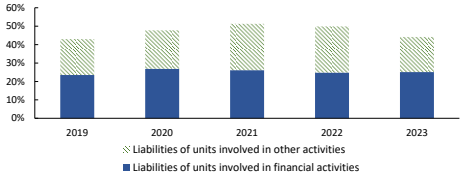
Gross government debt securities by maturity - FI



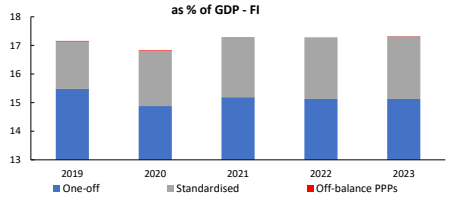
Debt and non-debt financial liabilities - FI



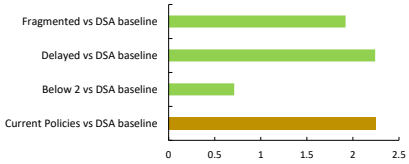
Liabilities of public corporations outside general government as % of GDP - FI



Government guarantees and off-balance PPPs as % of GDP - FI



Climate change scenarios
Debt-to-GDP, difference in 2050 - FI



27. SWEDEN

This fiche assesses fiscal sustainability risks for Sweden over the short, medium and long term, based on the Commission 2025 autumn forecast.

1 – Short-term risks to fiscal sustainability are captured by several indicators. Government gross financing needs are expected to be low, at around 10% of GDP on average in 2026-2027. Financial markets' perceptions of sovereign risk have remained stable, as confirmed by the rating agencies.

2 – Medium-term fiscal sustainability risks are low.

Under the DSA baseline, debt is projected to increase steadily but stay below 60% of GDP over the medium term, reaching around 44% of GDP in 2036 ([233]). The rise in debt is underpinned by the assumed structural primary deficit of 1.2% of GDP as of 2026, excluding changes in cost of ageing (in line with the assumption of unchanged fiscal policy as from 2027) ([234]). This structural primary balance (SPB) level is low compared with past fiscal performance, indicating that the country has already had tighter fiscal positions in the past ([235]). At the same time, Sweden is expected to benefit from a still favourable snowball effect (around -0.7% of GDP on average over 2027-2036). Ageing-related expenditure is projected to increase slightly over that period. Government gross financing needs are expected to increase somewhat over the projection period, reaching around 12% of GDP in 2036.

The deterministic stress tests do not identify any additional sources of vulnerability. To assess the impact of changes in key assumptions, the baseline projection is stress-tested against several alternative deterministic scenarios. Two of them also point to an upward trend in debt, which increases more than in the baseline while remaining below 60% of GDP. Under the *lower SPB scenario* (in which the SPB is lowered by 0.5 pps.) and the *adverse interest rate-growth differential scenario* (in which the interest rate-growth differential permanently deteriorates by 1 pp. compared with the baseline), by 2036 the debt ratio would exceed the baseline level by around 5 pps. and 3 pps., respectively. By contrast, under the *historical SPB scenario* (in which the SPB returns to its historical 15-year average of 0.6% of GDP), debt would decline over the medium term, standing 13 pps. below the baseline level by 2036. Finally, the *financial stress scenario* (in which market interest rates temporarily increase by 1 pp. compared with the baseline) does not affect the debt trajectory.

The stochastic projections run around the baseline indicate low risk due to the low initial debt level and the low uncertainty over the next five years ([236])**.** The stochastic simulations indicate that the debt ratio will exceed in 2030 its 2025 level with a probability of 81%, entailing

([233]) The assumptions underlying the Commission's no-fiscal-policy-change baseline include: (i) a structural primary deficit, before changes in ageing costs, of 1.2% of GDP from 2026 onwards; (ii) inflation converging linearly towards the inflation expectations 10 years ahead; (iii) the nominal short- and long-term interest rates on new and rolled-over debt converging linearly from current values to market-based forward nominal rates by 2035; (iv) real GDP growth rates from the Commission 2025 autumn forecast, followed by the EPC/POWG T+10 methodology projections between 2028 and 2036 (1.7% on average); (v) ageing costs in line with the 2024 Ageing Report (European Commission, Institutional Paper No. 279, April 2024). For further information on the methodology, see Chapter 2 of this report. Note that the anchoring of the structural primary balance on the first forecast year (2026) implies that several variables of the DSM projections, including debt, the budget balance and GDP, can differ from the Commission 2025 autumn forecast for 2027 (see Box I.2.1 in the 2023 DSM for further explanations).

([234]) Since the net expenditure path endorsed by the Council based on Sweden's medium-term plan does not reflect an actual target for the Swedish authorities but rather an upper limit, the baseline reflects measures underpinning the country's actual budgetary plans for 2026, followed by the standard no-fiscal-policy-change assumption as from 2027.

([235]) This assessment is based on the fiscal consolidation space indicator, which measures the frequency with which a tighter fiscal position than assumed in a given scenario has been observed in the past, as measured by one minus the percentile rank of the projected SPB within the distribution of SPBs observed in the country since 1980 (subject to data availability).

([236]) The stochastic projections show the joint impact on debt of 10 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. This covers 80% of all the simulated debt paths and therefore excludes tail events.

moderate risk given the low initial level of debt. The risk is overall low due to the low uncertainty surrounding the baseline debt projection, as measured by the difference of around 10 pps. between the 10th and 90th debt distribution percentiles in five years' time.

3 – Long-term fiscal sustainability risks are medium. This assessment is based on the combination of two fiscal gap indicators, capturing the required fiscal effort in 2027 to stabilise debt (S2 indicator) and to bring it to 60% of GDP (S1 indicator) over the long term ([237]). The low risk is explained by the level of debt and the limited increase in ageing-related expenditure.

The S2 debt-stabilisation indicator points to medium risk. It signals that Sweden would need to improve its structural primary balance by 2.6 pps. to ensure that debt stabilises over the long term. This result is mainly underpinned by the initial budgetary position (contributing 1.8 pps.) and, to a lesser extent, the projected increase in ageing costs (contributing 0.8 pps.) that is mainly driven by an increase in long-term care and health care costs.

The S1 debt-reduction indicator points to low risk. The indicator shows that Sweden would only need to make a fiscal effort of 0.9 pps. to maintain its debt below the 60% of GDP reference value by 2070. This effort would be needed given the unfavourable initial deficit (contribution of 1.1 pps.) and the projected increase in ageing costs by 2070 (contribution of 0.4 pps.) but would be reduced as debt starts from a level below 60% of GDP (contribution of -0.7 pps.).

4 – Finally, several additional risk factors need to be considered in the assessment. On the one hand, risk-increasing factors are related to (i) the relatively high share of short-term public debt (Section 4.1.1) and (ii) contingent liability risks stemming from elevated private debt (Section 4.2.4). On the other hand, risk-mitigating factors include (i) a relatively low share of public debt held by non-residents (Section 4.1.1), (ii) relatively stable financing sources with a diversified and large investor base (Section 4.1.2), and Sweden's positive net international investment position (Section 4.24). Climate scenario analysis highlights differences in long-term debt trajectories across alternative climate mitigation pathways, reflecting varying macroeconomic outcomes under orderly, delayed and fragmented scenarios (Section 4.4).

([237]) The S2 indicator measures the one-year change in SPB in 2027 that would be required to stabilise public debt over an infinite horizon. It is complemented by the S1 indicator, which measures the one-year change in SPB needed in 2027 to bring the debt ratio to 60% by 2070. The impact of the drivers of S1 and S2 may differ due to the infinite horizon component considered in the S2 indicator. For both S1 and S2, the risk assessment depends on the amount of fiscal consolidation needed: 'high risk' if the required effort exceeds 6% of GDP, 'medium risk' if it is between 2% and 6% of GDP, and 'low risk' if the effort is negative or below 2% of GDP. The overall long-term risk classification combines the risk categories derived from S1 and S2. S1 may notch up the risk category derived from S2 if it signals a higher risk than S2. See Annex A6 for further details.

Overview of key fiscal sustainability risks

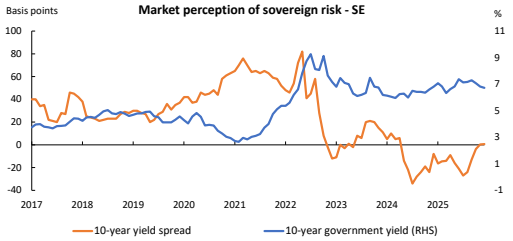
Overall		Medium term - Debt sustainability analysis (DSA)						Long term		
		Deterministic scenarios					Stochastic projections	S2	S1	Overall (S1 + S2)
		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress				
LOW	Overall	LOW	LOW	LOW	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM
	Debt level (2036), % of GDP	43.6	30.1	48.6	46.5	43.7				
	Debt peak year	2036	2027	2036	2036	2036				
	Fiscal consolidation space	100%	79%	100%	100%	100%				
	Probability of debt ratio exceeding in 2030 its 2025 level						81%			
	Difference between 90th and 10th percentiles (% of GDP)						10.4			

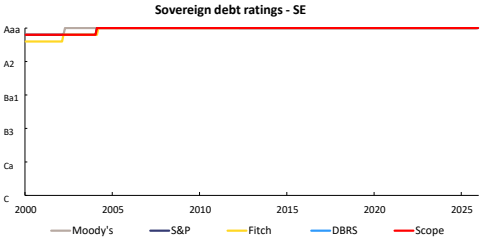
(1) Debt level in 2036. Green: below 60% of GDP. Yellow: between 60% and 90%. Red: above 90%. (2) The debt peak year indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early. Yellow: peak towards the middle of the projection period. Red: late peak. (3) Fiscal consolidation space measures the share of past fiscal positions in the country that were more stringent than the one assumed in the scenario. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed. Yellow: intermediate. Red: low. (4) Probability of debt ratio exceeding in 2030 its 2025 level. Green: low probability. Yellow: intermediate. Red: high (also reflecting the initial debt level). (5) The difference between the 90th and 10th percentiles measures uncertainty, based on the debt distribution under 10000 different shocks. Green, yellow and red cells indicate increasing uncertainty.

1. Short-term fiscal sustainability risks

Financial market information (31 December 2025)	
10-year sovereign yield spread vs. German Bund (bps.)	1

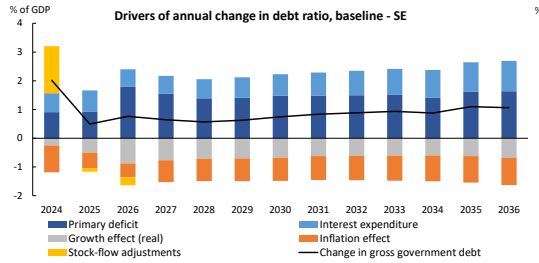
Green: low risk (spread below 100 bps.), Yellow: medium risk (spread between 100 and 300 bps.); Red: high risk (spread above 300 bps.)

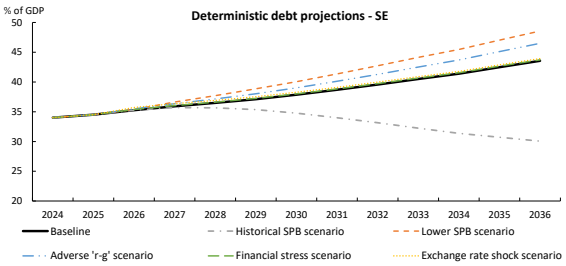


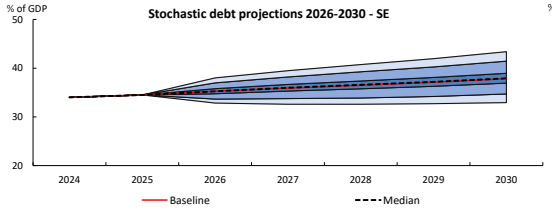


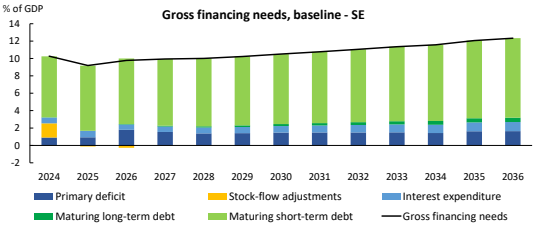
2. Medium-term fiscal sustainability risks

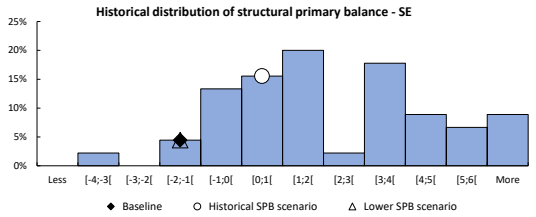
Sweden - baseline scenario (% of GDP)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**34.0**	**34.5**	**35.3**	**35.9**	**36.5**	**37.1**	**37.9**	**38.7**	**39.6**	**40.5**	**41.4**	**42.5**	**43.6**
Change in the ratio (-1+2+3)	*2.0*	*0.5*	*0.8*	*0.6*	*0.6*	*0.6*	*0.7*	*0.8*	*0.9*	*0.9*	*0.9*	*1.1*	*1.1*
of which													
(1) Primary balance (1.1+1.2+1.3)	**-0.9**	**-0.9**	**-1.8**	**-1.5**	**-1.4**	**-1.4**	**-1.5**	**-1.5**	**-1.5**	**-1.5**	**-1.4**	**-1.6**	**-1.6**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***0.3***	***0.3***	***-1.2***	***-1.3***	***-1.3***	***-1.4***	***-1.5***	***-1.5***	***-1.5***	***-1.5***	***-1.4***	***-1.6***	***-1.6***
(1.1.1) Structural primary balance (before CoA)	*0.3*	*0.3*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*	*-1.2*
(1.1.2) Cost of ageing (CoA)				*0.1*	*0.0*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.1*	*0.2*	*0.2*
Pensions				*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*
Health care				*0.0*	*0.0*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*
Long-term care				*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*0.4*	*0.5*
Education				*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*	*-0.2*	*-0.2*	*-0.3*
(1.1.3) Others (taxes and property income)				*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.2*	*-0.2*
(1.2) Cyclical component	***-1.2***	***-1.1***	***-0.6***	***-0.2***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3+2.4)	**-0.5**	**-0.3**	**-0.7**	**-0.9**	**-0.8**	**-0.8**	**-0.7**	**-0.7**	**-0.6**	**-0.6**	**-0.5**	**-0.5**	**-0.6**
(2.1) Interest expenditure	*0.7*	*0.7*	*0.6*	*0.6*	*0.7*	*0.7*	*0.8*	*0.8*	*0.9*	*0.9*	*1.0*	*1.0*	*1.1*
(2.2) Growth effect (real)	*-0.3*	*-0.5*	*-0.9*	*-0.8*	*-0.7*	*-0.7*	*-0.7*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	*-0.7*
(2.3) Inflation effect	*-0.9*	*-0.5*	*-0.5*	*-0.8*	*-0.8*	*-0.8*	*-0.8*	*-0.8*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-0.9*
(2.4) Exchange rate effect linked to the interest rate	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3) Stock-flow adjustments	**1.6**	**-0.1**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(3.1) Base	*1.6*	*0.0*	*-0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(3.2) Adjustment due to the exchange rate effect	*0.0*	*-0.2*	*-0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pro memoria													
Structural balance	-0.4	-0.5	-1.8	-2.0	-1.9	-2.1	-2.2	-2.3	-2.3	-2.4	-2.4	-2.6	-2.7
Gross financing needs	10.3	9.2	9.8	9.9	10.0	10.2	10.5	10.8	11.1	11.4	11.6	12.1	12.3

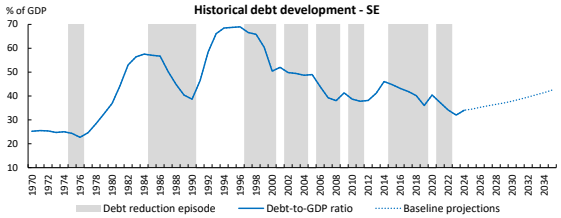


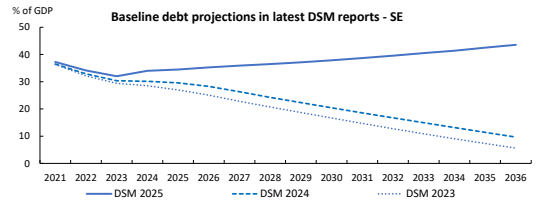


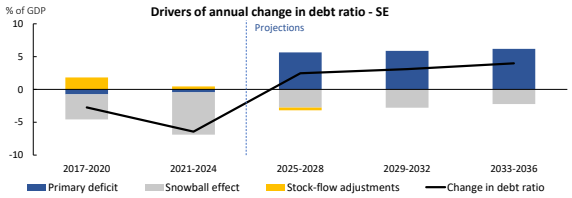












Sweden - Underlying assumptions of deterministic debt projections													
1. Baseline	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	34.0	34.5	35.3	35.9	36.5	37.1	37.9	38.7	39.6	40.5	41.4	42.5	43.6
Primary balance	-0.9	-0.9	-1.8	-1.5	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5	-1.4	-1.6	-1.6
Structural primary balance (before CoA)	0.3	0.3	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Real GDP growth	0.8	1.5	2.6	2.3	2.1	2.0	1.9	1.7	1.6	1.6	1.5	1.6	1.7
Potential GDP growth	1.4	1.5	1.5	1.6	1.9	1.8	1.8	1.7	1.6	1.6	1.5	1.6	1.7
Inflation rate	3.0	1.6	1.4	2.2	2.2	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3
Implicit interest rate (nominal)	2.1	2.2	1.9	1.9	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.5	2.6
Gross financing needs	10.3	9.2	9.8	9.9	10.0	10.2	10.5	10.8	11.1	11.4	11.6	12.1	12.3
2. Historical SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	34.0	34.5	35.3	35.7	35.7	35.4	34.8	34.0	33.2	32.2	31.4	30.7	30.1
Primary balance	-0.9	-0.9	-1.8	-1.2	-0.7	-0.4	-0.1	0.1	0.2	0.3	0.4	0.2	0.2
Structural primary balance (before CoA)	0.3	0.3	-1.2	-0.8	-0.3	0.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Real GDP growth	0.8	1.5	2.6	2.0	1.9	1.8	1.8	2.0	1.9	1.8	1.5	1.6	1.7
Gross financing needs	10.3	9.2	9.8	9.7	9.3	9.0	8.7	8.4	8.2	7.9	7.7	7.7	7.5
3. Financial stress scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	34.0	34.5	35.4	36.0	36.6	37.2	38.0	38.8	39.7	40.7	41.6	42.7	43.7
Implicit interest rate (nominal)	2.1	2.2	2.2	1.9	2.0	2.1	2.1	2.2	2.3	2.4	2.5	2.6	2.6
Gross financing needs	10.3	9.2	9.9	10.0	10.0	10.3	10.5	10.8	11.1	11.4	11.6	12.1	12.4
4. Lower SPB scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	34.0	34.5	35.4	36.6	37.7	38.9	40.1	41.4	42.7	44.1	45.5	47.0	48.6
Primary balance	-0.9	-0.9	-2.0	-2.1	-1.9	-1.9	-2.0	-2.0	-2.0	-2.0	-1.9	-2.1	-2.1
Structural primary balance (before CoA)	0.3	0.3	-1.5	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
Real GDP growth	0.8	1.5	2.8	2.1	2.1	2.0	2.0	1.7	1.6	1.6	1.5	1.6	1.7
Gross financing needs	10.3	9.2	9.9	10.5	10.7	11.1	11.4	11.8	12.2	12.6	13.0	13.6	14.0
5. Adverse 'r-g' scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	34.0	34.5	35.5	36.4	37.2	38.0	39.0	40.1	41.3	42.5	43.7	45.1	46.5
Implicit interest rate (nominal)	2.1	2.2	2.0	2.0	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.9	2.9
Real GDP growth	0.8	1.5	2.1	1.8	1.6	1.5	1.4	1.2	1.1	1.1	1.0	1.1	1.2
Gross financing needs	10.3	9.2	9.9	10.1	10.2	10.5	10.9	11.2	11.6	11.9	12.2	12.8	13.2
6. Exchange rate depreciation scenario	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
Gross public debt	34.0	34.5	35.7	36.4	36.9	37.5	38.3	39.1	40.0	40.9	41.8	42.9	43.9
Exchange rate depreciation	0.0	0.0	8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	10.3	9.2	9.9	10.0	10.1	10.3	10.6	10.9	11.2	11.5	11.7	12.2	12.4

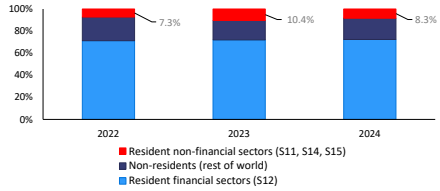
3. Long-term fiscal sustainability risks

S2 indicator (effort required in 2027 to stabilise debt over an infinite horizon)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**2.6**	**2.5**	**5.0**	**1.0**
of which					
Initial budgetary position		1.8	1.8	1.8	0.3
Ageing costs		0.8	0.7	3.3	0.8
of which	*Pensions*	-0.3	-0.4	-0.3	-0.4
	Health care	0.6	0.5	1.4	0.6
	Long-term care	1.1	1.1	2.7	1.1
	Education	-0.6	-0.6	-0.6	-0.6
Required structural primary balance related to S2		**1.3**	**1.2**	**3.8**	**1.2**

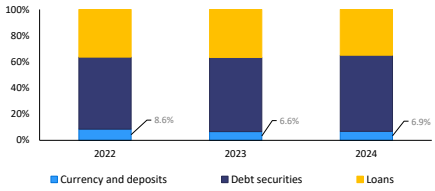
S1 indicator (effort required in 2027 to bring debt to 60% of GDP by 2070)		DSM 2025			DSM 2024
		Baseline	Lower productivity scenario	Non-demographic risk scenario	
Overall value (% of GDP)		**0.9**	**0.9**	**2.1**	**-0.8**
of which					
Initial budgetary position		1.1	1.2	1.1	-0.3
Debt requirement		-0.7	-0.6	-0.7	-0.7
Ageing costs		0.4	0.3	1.6	0.3
of which	*Pensions*	-0.2	-0.3	-0.2	-0.4
	Health care	0.3	0.3	1.0	0.4
	Long-term care	0.7	0.7	1.3	0.7
	Education	-0.4	-0.4	-0.4	-0.4
Required structural primary balance related to S1		**-0.3**	**-0.3**	**0.8**	**-0.6**

4. Additional aggravating and mitigating risk factors for fiscal sustainability

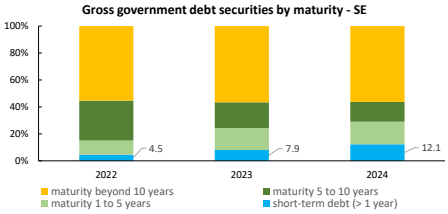
Debt by holder - SE



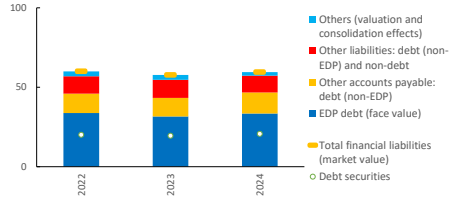
Debt by instrument - SE



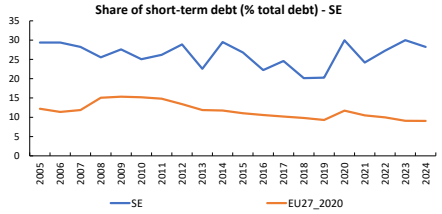
Gross government debt securities by maturity - SE



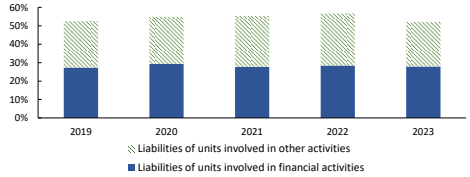
Debt and non-debt financial liabilities - SE



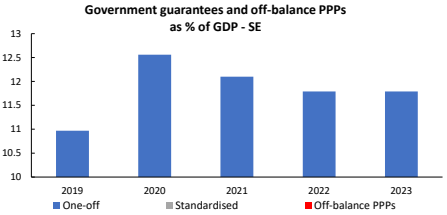
Share of short-term debt (% total debt) - SE



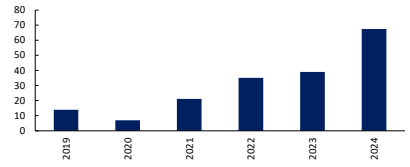
Liabilities of public corporations outside general government as % of GDP - SE



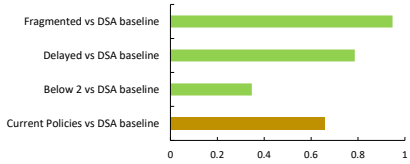
Government guarantees and off-balance PPPs as % of GDP - SE



NIIP (% of GDP) - SE



Climate change scenarios
Debt-to-GDP, difference in 2050 - SE



Part III

Methodological and statistical annexes

ANNEX A1

Annex to Chapter 1: Gross financing needs

Gross financing needs (GFN) are typically defined as the total payments or financing obligations a government must meet to service its debt and cover its budget deficit over a given period. GFN are primarily a flow concept focusing on the liquidity aspect of government finances (while government debt is a stock indicator assessing solvency risks). They provide insight into the funds required to finance government operations, factoring in borrowing terms, maturity structures, and amortisation schedules for both principal and interest payments.

By capturing immediate funding requirements, GFN play a crucial role in fiscal surveillance, particularly in monitoring potential market rollover risks in the short to medium term. International institutions and creditors pay close attention to GFN when assessing fiscal risks, though definitions may vary depending on specific analytical objectives. Different financial instruments may be included in GFN calculations based on the intended scope of the assessment. Experts generally agree that a broad definition of GFN – aligned with the components of the Maastricht debt stock – provides a more comprehensive picture. This expanded definition typically includes currency and deposits, debt securities, and loans, though the precise coverage may differ depending on the purpose of the analysis.

In the European Commission's framework, GFN consist of three main components:

- ***General government deficit*** – Represents the headline fiscal balance, which is the sum of the primary balance and interest payments of the general government.
- ***Debt redemptions –*** Refer to the repayment of the principal amount of loans or bonds upon maturity to lenders or bondholders.
- ***Stock-flow adjustments (SFA)*** – Capture changes in the government's balance sheet that affect gross government debt but not the budget balance. SFA include three key elements:

Other debt-creating/reducing flows – 'Below-the-line' transactions that do not impact the government balance but reflect the net acquisition of financial assets.

Cash-accrual differences – Capture disparities between the cash-based fiscal deficit and the accrual-based ESA deficit. ([238])

Other adjustments and discrepancies – Account for additional factors and statistical discrepancies affecting debt dynamics. ([239])

Table A1.1:**GFN definition - components and debt instruments**

	Balance sheet items (liabilities) under government debt	Components and debt instruments included in the GFN definition
Budget (headline) deficit		x
Maturing debt	Currency and deposits	
	Debt securities	x
	Commercial loans	x
	Official loans	x
Stock-flow adjustments		x

Source: Commission services.

([238]) The cash adjustment (or difference) to the ESA budget balance usually includes (i) the difference between interest paid (+) and interest accrued (-), e.g. deferred interest payments on certain (official) loans, (ii) changes in accounts payable (e.g. tax refunds not yet paid, trade credits granted by government suppliers, grants received from the EU but not yet paid to the final beneficiary, prepayments for mobile phone licences) or (iii) accounts receivable (e.g. tax receivables, military receivables, revenue from EU (structural) funds not yet received/disbursed, health care expenditure claw-back) or changes in arrears or clearance of called guarantees (applicable e.g. when called guarantees are not yet received/disbursed).

([239]) These include valuation effects, statistical discrepancies and other changes in volumes due to reclassification of units, all of which affect debt (and gross financing needs) ex-post.

ANNEX A2

Annex to Chapter 2: Understanding debt dynamics: a technical breakdown

A2.1. DECOMPOSING DEBT DYNAMICS

Deterministic government debt projections are based on a general identity characterizing the evolution of the stock of debt. In a simplified version, the evolution of the government debt to GDP ratio can be described in the following way:

$$d_t = \alpha^n . d_{t-1} . \frac{(1+iir_t)}{(1+g_t)} + \alpha^f . d_{t-1} . \frac{(1+iir_t)}{(1+g_t)} . \frac{e_t}{e_{t-1}} - pb_t + f_t \quad (1)$$

where

- d_t represents the total government debt to GDP ratio in year t
- α^n represents the share of total government debt denominated in national currency
- α^f represents the share of total government debt denominated in foreign currency
- iir_t represents the implicit interest rate on government debt ([240])
- g_t represents the *nominal* growth rate of GDP (in national currency)
- e_t represents the nominal exchange rate (expressed as national currency per unit of foreign currency)
- pb_t represents the primary balance over GDP
- f_t represents the stock-flow adjustments over GDP.

To obtain the debt dynamics, d_{t-1} is subtracted from both sides of equation (1). This gives the following expression:

$$\Delta d_t = \alpha^n . d_{t-1} . \frac{(iir_t - g_t)}{(1+g_t)} + \alpha^f . d_{t-1} . \frac{(i_t - g_t) + \varepsilon_t . (1+iir_t)}{(1+g_t)} - pb_t + f_t \quad (2)$$

Decomposing further the nominal GDP growth rate, and rearranging the different terms, we obtain:

$$\Delta d_t = d_{t-1} . \frac{iir_t}{(1+g_t)} - d_{t-1} . \frac{gr_t}{(1+g_t)} - d_{t-1} . \frac{\pi_t (1+gr_t)}{(1+g_t)} + \alpha^f . d_{t-1} . \varepsilon_t . \frac{(1+iir_t)}{(1+g_t)} - pb_t + f_t \quad (2)'$$

where

- $\varepsilon_t = \frac{e_t}{e_{t-1}} - 1$ represents the rate of depreciation of the national currency
- gr_t represents the *real* growth rate of GDP
- π_t represents the inflation rate (in terms of GDP deflator, in national currency)

This expression allows identifying the key drivers of the debt ratio dynamics, in particular the snow-ball effect, which can be further decomposed into four terms:

1. (+) the interest rate effect: $d_{t-1} . \frac{i_t}{(1+g_t)}$
2. (-) the real GDP growth effect: $-d_{t-1} . \frac{gr_t}{(1+g_t)}$
3. (-) the inflation effect: $-d_{t-1} . \frac{\pi_t (1+gr_t)}{(1+g_t)}$
4. (+) the exchange rate effect: $\alpha^f . d_{t-1} . \varepsilon_t . \frac{(1+i_t)}{(1+g_t)}$

([240]) By simplicity, it is assumed that this interest rate is the same for government debt denominated in national currency and in foreign currency.

As can be seen from expression (2), both the interest rate and the foreign exchange depreciation rate contribute to the increase of the debt ratio. On the other hand, higher real GDP growth and higher inflation erode the debt to GDP ratio. ([241])

Other key contributors to the debt motion are the primary balance (pb_t) (that is further decomposed in our tables between the structural primary balance before cost of ageing, the cost of ageing, the cyclical component and one-offs and other temporary measures) and stock and flow adjustments (f_t).

As can be seen from the exchange rate effect expression, both valuation effects affecting the *stock* of foreign currency denominated debt and *interest rate* payments (on this share of government debt) contribute to the debt dynamic. ([242]) Eurostat includes the exchange rate effect on the *stock* of foreign currency denominated debt in stock and flow adjustments, and the impact due to the cost of servicing debt in foreign currency in interest payments, respectively. In all the tables and graphs of this report we follow the same convention.

In practice, the equation used in the Commission DSA model is more granular than equation (1), as we consider three currencies: the national currency, the EUR (foreign currency for non-euro area countries) and the USD (foreign currency for all countries). Hence, equation (1) becomes:

$$d_t = \alpha^n . d_{t-1} . \frac{(1+iir_t)}{(1+g_t)} + \alpha^{eur} . d_{t-1} . \frac{(1+iir_t)}{(1+g_t)} . \frac{e_t}{e_{t-1}} + \alpha^{usd} . d_{t-1} . \frac{(1+iir_t)}{(1+g_t)} . \frac{\tilde{e}_{t-1}}{\tilde{e}_t} . \frac{e_t}{e_{t-1}} - pb_t + f_t \qquad (1)'$$

where

- α^{eur} represents the share of total government debt denominated in euros

α^{usd} represents the share of total government debt denominated in USD

e_t represents the nominal exchange rate between the national currency and the euro (expressed as national currency per EUR)

- $\tilde{e}_t$ represents the nominal exchange rate between the USD and the euro (expressed as USD per EUR).

Such a specification allows considering the effect of exchange rate movements on government debt not only in non-euro area countries, but also in euro area countries (among which government debt issued in USD can be significant).

A2.2. PROJECTING THE IMPLICIT INTEREST RATE ON GOVERNMENT DEBT

As seen from equation (1), a key driver of the debt motion is the implicit interest rate on government debt. Projecting the implicit interest rate on government debt requires not only assumptions on *market* interest rates (for newly issued debt) but also taking into account explicitly the current and future maturity structure of government debt (between short-term and long-term government debt, and between maturing, rolled-over or not, and non-maturing government debt). This allows a differential treatment in terms of interest rates applied to successive "debt vintages" and interestingly captures different levels of exposure of sovereigns to immediate financial markets' pressures.

([241]) This presentation, based on the government debt ratio identity equation, allows grasping the impact of real GDP growth and inflation on the debt motion coming from direct valuation effects (as government debt is expressed as a share of GDP). However, the primary balance is also influenced by economic activity and inflation. Such behavioural effects are explicitly considered in the fiscal reaction function scenario presented in Chapter 2 of the report.

([242]) An indirect effect, since exchange rate movements affect the value of GDP in domestic currency through changes in prices in the tradable sector, could also be shown. However, in practice, in line with other institutions practices (e.g. IMF), these effects are not isolated (data limitation would require imposing further assumptions; effect likely to be of second order).

The Commission DSA model considers two types of government debt in terms of maturity: short-term debt (debt issued with an *original* maturity of less than one year) and long-term debt (debt issued with an *original* maturity of more than one year). Therefore, in the Commission DSA model, the implicit interest rate is expressed in the following way:

$$iir_t = \alpha_{t-1}.\, i_t^{ST} + (1 - \alpha_{t-1}).\, iir_t^{LT} \qquad (3)$$

where

iir_t is the implicit interest rate in year t

i_t^{ST} is the *market* short-term interest rate in year t

iir_t^{LT} is the implicit long-term interest rate in year t

- α_{t-1} is the share of short-term debt in total government debt (and $(1 - \alpha_{t-1})$ is the share of long-term debt in total government debt). ([243])

Moreover, the implicit long-term interest rate used in (3) can be further decomposed:

$$iir_t^{LT} = \beta_{t-1}.\, i_t^{LT} + (1 - \beta_{t-1}).\, iir_{t-1}^{LT} \qquad (4)$$

where

β_{t-1} is the share of newly issued long-term debt (corresponding to both new debt and maturing and rolled-over debt) in total long-term government debt in year $t-1$ (and $(1 - \beta_{t-1})$ is the share of outstanding long-term debt in total long-term government debt)

- i_t^{LT} is the *market* long-term interest rate in year t.

Hence, replacing iir_t^{LT} in (3) gives:

$$iir_t = \alpha_{t-1}.\, i_t^{ST} + (1 - \alpha_{t-1}).\beta_{t-1}.\, i_t^{LT} + (1 - \alpha_{t-1}).(1 - \beta_{t-1}).\, iir_{t-1}^{LT} \qquad (3)'$$

From equation (3)', we can see that the implicit interest rate on government debt at year t is a weighted average of market short-term and long-term interest rates and of the implicit interest rate on outstanding (i.e. non-maturing) long-term debt in year $t-1$. Hence, depending on the weight of outstanding debt in total government debt, an increase of market interest rates will transmit more or less quickly to the implicit interest rate on government debt.

Furthermore, government debt can be decomposed between new debt (debt issued to cover new financing requirements), ([244]) maturing debt (i.e. existing debt that is maturing within the year ([245]) and that needs to be repaid), rolled-over (i.e. whose repayment is covered by newly issued debt) or not, and outstanding debt (i.e. existing debt that has not reached maturity). Combining these different aspects, the share of short-term debt in total government debt, and the share of newly issued long-term debt (respectively outstanding debt) in total long-term government debt used in (3)' can be described as follows:

$$\alpha_{t-1} = \frac{D_{t-1}^{STN} + D_{t-1}^{STR}}{D_{t-1}} \qquad (5)$$

$$(1 - \alpha_{t-1}) = \frac{D_{t-1}^{o} + D_{t-1}^{LTN} + D_{t-1}^{LTR}}{D_{t-1}} \qquad (6)$$

$$\beta_{t-1} = \frac{D_{t-1}^{LTN} + D_{t-1}^{LTR}}{D_{t-1}^{o} + D_{t-1}^{LTN} + D_{t-1}^{LTR}} \qquad (7)$$

$$(1 - \beta_{t-1}) = \frac{D_{t-1}^{o}}{D_{t-1}^{o} + D_{t-1}^{LTN} + D_{t-1}^{LTR}} \qquad (8)$$

([243]) Hence, as indicated by the *t* index, these shares may vary through time depending on the debt dynamic.

([244]) This amount also corresponds to the yearly budgetary deficit.

([245]) Another way to describe it is that this existing debt has a *residual* maturity of less than one year.

where

- D_{t-1}^{STN} is the new short-term government debt in year $t-1$

D_{t-1}^{STR} is the maturing and rolled-over short-term government debt (i.e. the existing short-term debt that has reached maturity, and whose repayment is covered by newly issued short-term debt)

D_{t-1}^{LTN} is the new long-term government debt

D_{t-1}^{LTR} is the maturing and rolled-over long-term government debt (i.e. the existing long-term debt that has reached maturity, and whose repayment is covered by newly issued long-term debt)

- D_{t-1}^{o} is the outstanding (non-maturing) long-term government debt.

In the projections, the following assumptions are made:

- i_t^{LT} and i_t^{ST} are supposed to converge linearly by T+10 to the short term and 10 year long term forward rates.

- After T+10, i_t^{LT} is supposed to converge linearly to 4% in nominal terms ([246]) (2% in real terms) for all countries by the T+30 horizon;

- i_t^{ST} is supposed to converge linearly to i_t^{LT} time a coefficient corresponding to the historical (pre-crisis) EA yield curve (currently 0.5) for all countries by the T+30 horizon;

- new debt (D_{t-1}^{STN} and D_{t-1}^{LTN}) is assumed to be issued in the projections, as a proportion of the variation of government debt, based on the shares given by Estat (of short-term and long-term government debt), ([247]) whenever government debt is projected to increase; ([248])

- short-term debt issued in year $t-1$ is assumed to entirely mature within the year, and to be rolled-over (D_{t-1}^{STR}) as a proportion of past government debt, based on the share of short-term government debt given by Estat, whenever government debt is projected to increase; ([249])

- a fraction of long-term debt issued in the past is assumed to mature every year, and to be rolled-over (D_{t-1}^{LTR}), whenever government debt is projected to increase. ([250]) This fraction is estimated based on Eurostat data on the share of long-term government debt and on ECB data on the share of existing long-term debt maturing within the year. ([251])

Finally, the values of the different variables *over the forecast horizon* (especially i_t^{LT}, i_t^{ST} and iir_{t-1}^{LT}) are set consistently with the available forecast values of the implicit interest rate (iir_t) and information on the maturity structure of debt.

([246]) For some non-euro countries, the convergence value is higher: PL, RO: 4.5%; HU: 5%, reflecting higher inflation targets by the national central banks.

([247]) More precisely, we use the average shares over the last 3 years available.

([248]) Otherwise, in the cases where government debt is projected to decrease, for instance, in case of a budgetary surplus, no new debt needs to be issued.

([249]) Otherwise, in the cases where government debt is projected to decrease, for instance, in case of a budgetary surplus, only part of this maturing debt needs to be rolled-over (none when government debt is assumed to strongly decrease, for example, when a large budgetary surplus allows repaying past maturing debt).

([250]) See previous footnote.

([251]) More precisely, the starting point (currently 2024) is calculated based on the 2023 ECB data on the share of long-term debt that is maturing within the year. Beyond this year, it is assumed that the share of maturing long-term debt linearly converges from the value taken in the last available year (2024) to the country-specific historical average by the end of the T+10 projection horizon. Additionally, for post-program countries, IE, CY and PT, the redemption profile of official loans has been considered for the calculation of the long-term debt maturing within the year.

A2.3. PROJECTING POTENTIAL GROWTH

The following model is solved from T+3 up to T+10 (note that as of T+6, for the EU-15 without Germany, the model for the capital and investment module deviates from the general framework below and is governed by the rules described further down in the text) ([252]):

$$YPOT_{it} = LS_{it}^{\alpha} K_{it}^{(1-\alpha)} TFPS_{it}$$

$$TFP_{it} = \frac{Y_{it}}{H_{it}^{\alpha} K_{it}^{(1-\alpha)}}$$

$$K_{it} = I_{it} + (1-\delta) K_{it-1}$$

$$I_{it} = \frac{I_{it}}{YPOT_{it}} YPOT_{it}$$

$$Y_{it} = YPOT_{it}(1 + YGAP_{it}) * 100$$

1. TFP trend: Kalman-filter extension. T+10 TFP is capped (i.e. a ceiling is imposed) for old member states (EU15) based on US TFP growth.

2. Capital:

a) Investment to potential GDP ratio: ARIMA process to produce extended series (extension to avoid end-point bias for HP filter)

b) Depreciation rate: fixed T+2 rate which is calculated based on the capital law of motion

c) Investment rule: (K_{it} and I_{it} as defined in the equation system above) up to T+5; after T+5: a mix between a capital rule (K_{it} defined as $K_{it-1}\frac{YPOT_{it}}{YPOT_{it-1}}$) and I_{it} defined by capital law of motion) and the investment rule for old EU-15 Member States (except DE); investment rule for all other member states. The weight of the capital-rule based investment is gradually increasing.

3. Trend labour: $LS_{it} = \left(POPW_{it} PARTS_{it}(1 - NAWRU_{it})\right) HPERES_{it}$

a) Working age population: use Eurostat projections on population growth ("proj_np")

b) Participation rate: up to T+5: HP-smoothed ARIMA process to produce extended series (extension beyond T+5 to avoid end-point bias for HP filter); for projection up to T+10 we use Ageing Working Group (AWG's) Cohort Simulation Model with a technical transition rule smoothing the break in T+6.

c) Average hours worked: ARIMA process to produce extended series up to T+5 (extension to avoid end-point bias for HP filter) and HP smoothed. From t+6 to t+10 we forecast hours using a stabilisation rule: hours(t) = hours(t-1)*1.5 – hours(t-2)*.5. Results are comparable with those from the AWG.

d) NAWRU (T+2 = last year of the ECFIN forecast):

Between T+2 and T+5:

$$NAWRU_{iT+1} = NAWRU_{iT} + \frac{NAWRU_{iT} - NAWRU_{iT-1}}{2}$$

$$NAWRU_{iT+2} = NAWRU_{iT+1}$$

$$NAWRU_{iT+3} = NAWRU_{iT+2}$$

Between T+6 and T+10: convergence rule and prudent rule

([252]) See Blondeau F., Planas C. and Rossi A. (2021), Output gap estimation using the European Union's commonly agreed methodology, *European Economy Discussion Paper*, No. 148. and Havik K., McMorrow K., Orlandi F., Planas C., Raciborski R., Roeger W., Rossi A., Thum-Thyssen A., Vandermeulen V. (2014), The Production Function Methodology for Calculating Potential Growth Rates and Output Gaps, *European Economy Economic Paper*, No. 535.

T+10 anchor based on panel regression (union density, tax wedge, unemployment benefits replacement rate, demographics/education and a set of macro control variables i.e. TFP, real interest rate, construction)

4. Output gap: closure of the output gap by T+5; each year as of T+3, YGAP decreases by 1/3 of the T+2 YGAP. The gap closure rule states that the gap should be mechanically closed by year T+5.

A2.4. PROPERTY INCOME

The evolution of property income over time has been considered in the assessment of the medium and long-term sustainability of public finances since the 2007/08 round of assessments.

In the context of this report, property income received by Member States is considered to be the sum of returns from three categories of general government financial and non-financial assets: i) interest from debt securities – bonds, ii) dividends from equity securities – shares and iii) rents from tangible non-produced non-financial assets such as land and subsoil assets (i.e. natural resources water, mineral and fossil fuels). ([253])

Property income is projected up to 2070, affecting both the medium- and long-term fiscal sustainability assessment. ([254]) Property income projections are separate from and additional to property income reflected in the forecast horizon.

In calculating the sustainability gaps, property income received by governments is explicitly modelled in a way that is different from government revenues in general. Government revenues in general are a function of the tax bases and the rates chosen by the government. Property income differs from this generalised assumption in that it is determined by market conditions rather than policy settings.

However, since the future stocks of assets and the expected rate of return on these assets that generate income for Member States' governments in the future are not always known, to render projections manageable, several simplifying assumptions are made.

To model the evolution of property income, the key assumption is that, except in the case of the building-up of pension funds, ([255]) there is no net sale or purchase of assets in the future. As such, projections for the three categories of property income rely on the general assumption that the stock of financial and non-financial assets generating this income remains constant over time ([256]) at the level of latest available data, i.e. at the values posted in T-1. This assumption implies that there is no future sale or redemption of government assets, that when short-term assets (such as bonds) mature, they are implicitly assumed to be replaced with other bonds of the same nominal value, and that property income flows received by a government from the current stock of assets are used to reimburse debt through its contribution to the general government balance, rather than to purchase other assets.

Consequently, future property income is assumed to be generated only from the upcoming returns on the assets stock and property income projections are modelled by just using further assumptions on the future evolution of the rate of return on assets.

([253]) This definition is somewhat narrower than the one used in national accounts, where property income (D.4) is as well the income from financial assets and non-produced non-financial assets, but sub-categories considered for these assets are more comprehensive. In national accounts the financial instruments giving rise to interest are, in addition to debt securities, monetary gold / SDRs, deposits, loans and other accounts. The use of produced non-financial assets such as buildings is a fee (P.11 / P.131).

([254]) In the calculation of long-term sustainability indicators (S1 and S2), the projected path of property income is conventionally included in the sub-indicator "initial budgetary position" (IBP).

([255]) In Finland and Luxembourg, the public pension system currently registers surpluses, recorded as part of the general government headline balance. These surpluses are then used for the building-up of pension funds – and not to reduce debt -, materialising through the acquisition of financial assets (See Part II.2). In this section, we focus on the projections of government financial assets position, *abstracting from* the change in the pension fund position.

([256]) Exception are natural resources for Denmark and the Netherlands, see below.

In this sense, returns for equity and non-financial assets (rents) are generally considered to occur in line with GDP projections, whereas returns on bonds are underpinned by the additional assumptions described below.

All data for property income projections comes from Eurostat (general government property income subcategories bonds D41, equity D42 and rents D45).

Bond returns projection

These projections are based on an agreement reached in 2009 by the Economic Policy Committee's Working Group on Ageing Populations and Sustainability (AWG) and later supported in the context of the preparation of subsequent Ageing Reports, as well as on some additional assumptions.

Returns on bonds (D.41) are as follows:

In the medium run (between T and T+30): country-specific yields on 10y government bonds apply as starting point in present year T to gradually converge to a 4% yield applied in T+30.

In the medium to long run (as of T+30): a constant 4% yield applies; this horizon and value are in line with the horizon used for government debt projections.

Equity returns projection

Using income from equity - D.42 which reports distributed returns - country-specific shares of paid dividends in GDP are calculated for the last year of available data, T-1; for each country it is considered this share remains constant over the projection horizon, thereby implicitly assuming continuing valuation effects in line with nominal GDP growth.

Rents projection

The share of rents (D45) to GDP is calculated for the last year of available data for each country, T-1. ([257]) This share is assumed to remain constant over the projection horizon for all countries except Denmark and the Netherlands. For these two countries rich in fossil fuels the stock of subsoil assets is assumed to deplete by 2050, so that the share of rents to GDP in these countries would decline linearly to reach the EU average ([258]) by 2050.

Returns on real estate (rentals on buildings etc.) are not included in property income in the National Accounts since they are produced and often consumed by the general government.

In sum, considering these hypotheses, the projected path of property income ultimately depends on the stock of bonds held at the start of the projection period (the higher the bonds stock, the steeper the decline in property income over time) given that the return on these bonds is assumed to converge to a 4% yield in the medium-long term.

Since both elements can affect property income projections markedly, mitigating assumptions on the starting point and length of bond returns convergence aim to avoid unrealistic boosts to property income projections (and thereby too large of a required SPB adjustment), in particular in countries with significant property income shares.

([257]) This is a simplification. Rents projections should combine the size of reserves, the timing of exploitation and the euro value of the commodity (assumption).

([258]) This average excludes excluding Denmark and the Netherlands.

ANNEX A3

Annex to Chapter 2: The DSA decision trees

This annex presents the approach to assess fiscal sustainability risks over the medium term, following the decision trees of the Commission's debt sustainability analysis (DSA).

The assessment of medium-term risks is based on the DSA risk classification, which is established in two steps (Graph A3.1)**.** The first step assigns a risk category to the country under consideration for each of the deterministic projections (including the baseline) and for the stochastic projections. The second step combines the risk categories derived from the various deterministic scenarios and from the stochastic projections to conclude on the overall DSA risk classification. Further details on the DSA can be found in Chapter 2.

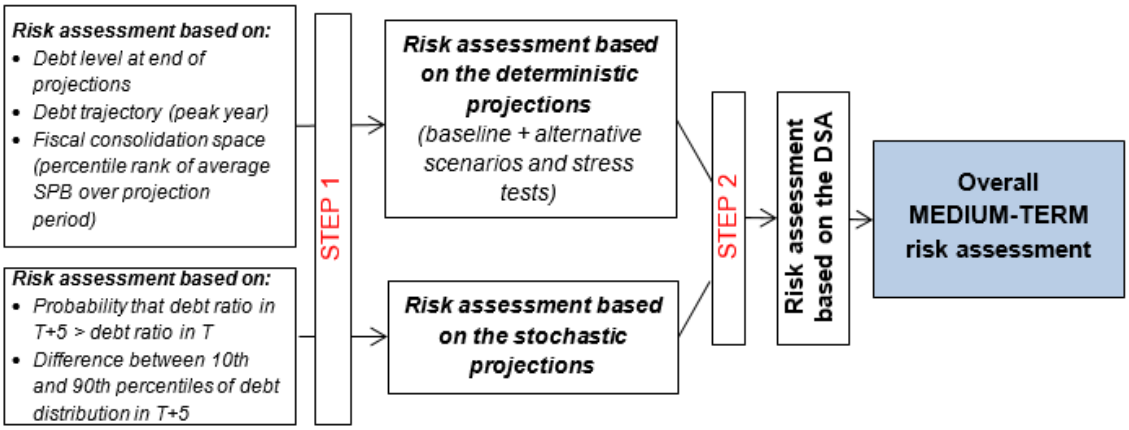
In the first step, *the risk assessment based on the deterministic scenarios* depends on three criteria. These are (1) the projected debt level in 10 years' time, (2) the projected debt trajectory (as summarised by the year in which debt is projected to peak), and (3) the 'fiscal consolidation space', as measured by the percentile rank of the projected structural primary balance (SPB) in the past distribution of SPBs. The fiscal consolidation space gives an indication of whether the projected SPB is plausible in view of the country's track record, and whether the country has fiscal room for manoeuvre to take corrective measures if necessary.

The decision tree for deterministic projections describes how the three criteria interplay. First, the value of each criterion is associated with a risk category (low, medium or high, according to the thresholds reported in Table A3.1 below), then the risk categories derived from the three criteria are combined along the decision tree presented in Graph A3.2. While the risk classification starts from the risk signal associated with the projected debt level, this signal may be notched up or down by one category depending on the projected debt trajectory and the available 'fiscal consolidation space'. Fiscal consolidation space is measured by one minus the percentile rank of the SPB within the country-specific historical distribution of the SPB. The historical distributions start at the earliest in 1980, depending on data availability. The calculations notably exclude major crisis years, such as the Global Financial Crisis (2008-09) and the COVID-19 pandemic (2020-21).

***The risk category based on the stochastic projections* depends on two criteria.** The first one is the probability that the debt level in 5 years' time will not exceed its current level. The second one is the amount of uncertainty, as measured by the difference between the 10th and 90th percentiles of the distribution of debt paths resulting from the stochastic projections (i.e. the difference between the worst and the best possible outcomes, leaving aside tail events). The thresholds associated with these criteria are reported in Table A3.1, and the decision tree combining the two criteria is presented in Graph A3.3.

The second step combines the signals from the deterministic and stochastic projections. Each country is first attributed a preliminary risk classification based on the baseline. This preliminary category may then be notched up, but not down. It may be adjusted from low to medium or from medium to high based on the outcome of other scenarios and stochastic projections, as described in Graph A3.4. On the other hand, if a country is considered at high risk under the baseline, the overall DSA risk category is automatically high.

Graph A3.1: **The two steps approach of DSA risk classification**



Source: Commission services.

Table A3.1:**DSA: thresholds for the deterministic and stochastic projections**

	Criterion	Threshold	
Deterministic projections	Debt level in 2035	**High:** above 90% of GDP **Medium:** between 60% and 90% of GDP **Low:** below 60% of GDP	
	Debt trajectory (debt peak year)	**High:** peak year between T+7 (2031) and end of projections (2035), or still increasing by end of projections **Medium:** peak year between T+3 (2027) and T+6 (2030) **Low:** peak year within the T+2 forecast horizon (2024-2026)	
	Fiscal consolidation space (1 - percentile rank of average SPB in 2025-2035)	**High:** up to 25% **Medium:** between 25% and 50% **Low:** above 50%	
Stochastic projections	Probability of debt not stabilising over the next 5 years, i.e. of debt ratio in 2029 exceeding the initial debt ratio	Initial debt ratio ≥ 90%	**High:** if probability > 30% **Medium:** if 0 < probability ≤ 30% **Low:** if probability = 0
		60 % ≤ initial debt ratio < 90%	**High:** if probability > 60% **Medium:** if 30% < probability ≤ 60% **Low:** if probability ≤ 30%
		Initial debt ratio < 60%	**Medium:** if probability > 70% **Low:** if probability ≤ 70%
	Size of macroeconomic uncertainty (diff. btw 10th and 90th percentiles of the distribution of debt paths)	**High:** the third of the countries with highest dispersion **Medium:** the third of the countries with intermediate dispersion **Low:** the third of the countries with lowest dispersion	

Source: Commission services.

Graph A3.2: **DSA, step 1: decision tree for the deterministic projections (including the baseline)**

all deterministic DSA scenarios				
Case	Debt level	Debt path	Consolidation space	Overall
1	HIGH	HIGH/MEDIUM	ANY	HIGH
2	HIGH	LOW	HIGH	HIGH
3	HIGH	LOW	MEDIUM/LOW	MEDIUM
4	MEDIUM	HIGH	HIGH	HIGH
5	MEDIUM	HIGH	MEDIUM/LOW	MEDIUM
6	MEDIUM	MEDIUM	ANY	MEDIUM
7	MEDIUM	LOW	HIGH	MEDIUM
8	MEDIUM	LOW	MEDIUM/LOW	LOW
9	LOW	HIGH	HIGH	MEDIUM
10	LOW	HIGH	MEDIUM/LOW	LOW
11	LOW	MEDIUM/LOW	ANY	LOW

Note: the table is to be read as a decision tree, starting from the debt level then moving on to the debt path and the fiscal consolidation space. The risk category derived from the debt level in T+10 is notched up if the debt path points to high risk and the consolidation space points to high risk (cases 4 and 9). Indeed, in these cases, countries have an increasing debt and limited consolidation space, meaning that there is a chance that there is no feasible adjustment path to curb the debt path. Conversely, the risk is notched down if both the debt path and the consolidation space indicator point to low or medium risk (cases 3 and 8). In these cases, even if the projected debt level is high/medium, the debt path is decreasing, and the country has enough space to take measures in case of adverse shocks.

Source: Commission services.

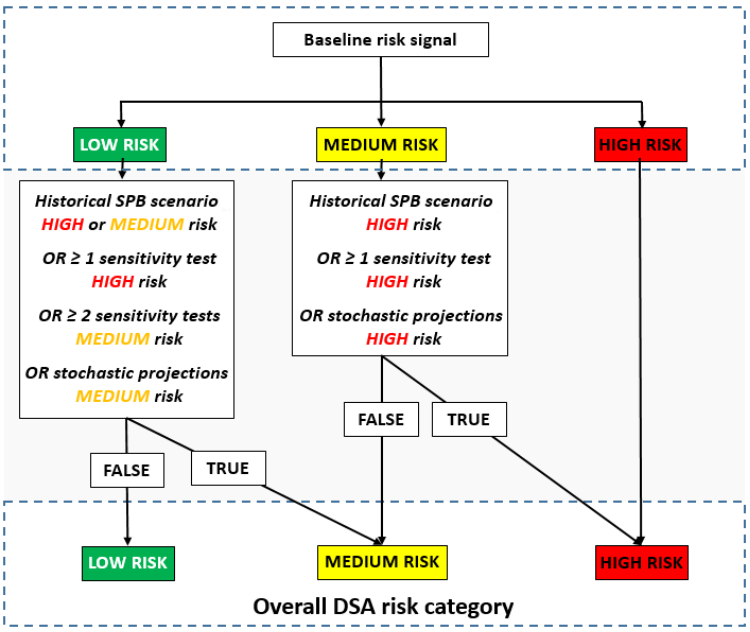
Graph A3.3: **DSA, step 1: decision tree for the stochastic projections**

Probability of debt not stabilising	Size of uncertainty	Overall
HIGH	ANY	HIGH
MEDIUM	HIGH	MEDIUM
MEDIUM	MEDIUM	MEDIUM
MEDIUM	LOW	LOW
LOW	HIGH	MEDIUM
LOW	MEDIUM	LOW
LOW	LOW	LOW

Note: The table is to be read from left to right as a decision tree, starting from the probability of debt not stabilising then moving on to the size of uncertainty. It gives a strong weight to the probability of debt not stabilising over the next 5 years. Only in cases where the signal associated to this probability is medium and uncertainty is low, is the overall risk category notched down to low risk. Conversely, in cases where this probability is deemed low, but uncertainty is high, the overall risk category is notched up to medium risk.

Source: Commission services.

Graph A3.4: **DSA, step 2: decision tree for the overall DSA risk classification**



Note: it is not possible for a country to be classified at low risk under the baseline and at high risk under the stochastic projections.

Source: Commission services.

ANNEX A4

Annex to Chapter 2: Stochastic debt projections: data and methodology

Stochastic debt projections are essential for understanding uncertainties in debt dynamics and ensuring robust debt sustainability analyses. Unlike deterministic projections, which provide a single outcome based on a specific scenario, stochastic projections simulate a range of possible debt trajectories, capturing risks that deterministic projections cannot. By modelling shocks to key variables such as government budgetary positions, economic growth, interest rates, and exchange rates (for non-EA countries), stochastic projections provide a comprehensive view of how uncertainties can influence debt outcomes.

The Commission's methodology for stochastic debt projections is based on a bootstrap approach that reflects country-specific conditions. ([259]) Stochastic debt projections have been a key part of the Debt Sustainability Analysis (DSA) framework since 2016. The Commission's methodology was adjusted in 2025 to account for the persistence of shocks and to adopt a bootstrap approach, thereby relaxing the reliance on the assumption that shocks are normally distributed (see Box 2.3) ([260]).

This annex describes the methodology and data used for the Commission's stochastic debt projections. It is divided into four sections. Section A4.1 lists the variables subject to the stochastic shocks. Section A4.2 presents the quarterly data used to generate the stochastic shocks. Section A4.3 explains the methodology for deriving the annual stochastic shocks and for obtaining stochastic debt projections.

A4.1. SELECTING VARIABLES FOR STOCHASTIC SHOCKS

The key drivers of debt dynamics can be captured by the debt accumulation equation:

$$d_t = \alpha^n d_{t-1} \frac{1+i_t}{1+g_t} + \alpha^f d_{t-1} \frac{1+i_t}{1+g_t} \frac{e_t}{e_{t-1}} - b_t + c_t + f_t$$

where d_t is the total government debt-to-GDP ratio in year t, α^n and α^f represent the shares of total debt denominated in national currency and foreign currency, i_t stands for the implicit interest rate, g_t for the nominal GDP growth rate, e_t is the nominal exchange rate expressed in national currency per unit of foreign currency, b_t represents the primary balance over GDP (before ageing costs) (b_t), c_t is the change in age-related costs over GDP in year t relative to the starting year ([261]) and f_t stands for the stock-flow-adjustments (SFA) over GDP.

Stochastic shocks are simulated around the baseline for five variables of the debt accumulation equation, namely: the primary balance, the nominal short- and long-term interest rates, the nominal GDP growth rate and the exchange rate (for non-EA countries). ([262])

A4.2. DATA

To ensure sufficiently long time series for the stochastic projections, quarterly data are used. Eurostat is the source for the quarterly data (see Table A4.1 for an overview). As a rule, these align with the definitions used for the Commission's deterministic annual projections. The (quarterly)

([259]) The approach is based on Bec at al. (2025), *The stochastic simulations of the Commission's debt sustainability analysis: a refined approach*, European Economy Discussion Paper 226, Directorate-General Economic and Financial Affairs (DG ECFIN), European Commission.

([260]) Two other minor technical improvements were made in 2016 and in 2024. Direct shocks to the primary balance were added in Fiscal Sustainability Report 2015 (see European Commission (2016), Fiscal Sustainability Report 2015, *European Commission Institutional Paper*, No. 18). Improvements in the data collection and the data treatment were implemented in the Debt Sustainability Monitor 2023 (see European Commission (2024), Debt Sustainability Monitor 2023, *European Commission Institutional Paper*, No. 271, March, Annex A4.5).

([261]) The latter are net of taxes on pension. Property income is also included in this variable.

([262]) In the simulations, cost of ageing and SFA are not subject to stochastic shocks.

primary balance series is calculated as the sum of headline balance and interest payments, and it is seasonally adjusted using the Census X-12-ARIMA approach. Small difference in the definition of the long-term interest rate series exist for Estonia due to data availability issues ([263]).

The sample period starts in Q1 2000 for most countries. By starting the sample in Q1 2000, the analysis excludes structural adjustments from the 1990s leading up to the EMU. The uniform starting point in Q1 2000 ensures consistency across countries and is based on two key considerations: (i) it maintains a sufficiently long time series for countries that joined the EU after 2000 and (ii) it ensures an almost balanced panel. Table A4.1 provides details on missing observations.

Outliers are identified and addressed using a winsorising approach. For each variable and country within the sample period, the 5th and 95th percentiles are determined based on the sample period. Observations falling outside these thresholds are considered outliers and replaced by the closest percentile value. The winsorising approach ensures the consistent treatment of outliers across countries, using a state-of-the-art methodology.

A4.3. METHODOLOGY FOR DETERMINING STOCHASTIC SHOCKS

The annual stochastic shocks are determined in four steps:

1. *Transform (quarterly) variables into historical shocks*: The first difference ($\Delta x_{q,c}$) of the quarterly time series of the five macroeconomic variables are taken for each country:

$$\Delta x_{q,c} = x_{q,c} - x_{q-1,c}$$

with $x_{q,c}$ equal to $pb_{q,c}$, $ir^{ST}_{q,c}$, $ir^{LT}_{q,c}$, $g_{q,c}$, and, for non-EA countries, $e_{q,c}$ at quarter q and for country c.

Then, all series are filtered by using autoregressive models of order p (AR(p)), to eliminate the autocorrelation in the data. More precisely, the first differences are regressed on p of their own lags so that the fitted OLS residuals exhibit no serial correlation:

$$\Delta x_{q,c} = \hat{c} + \hat{\rho}_1 \Delta x_{q-1,c} + \hat{\rho}_2 \Delta x_{q-2,c} + \cdots + \hat{\rho}_p \Delta x_{q-p,c} + \hat{\varepsilon}^x_{q,c}$$

The lag order p is chosen as the smallest one for which the estimated residuals do not exhibit autocorrelation. We assume for simplicity that the lag order is variable-specific but identical across all countries. We assume a lag order of one (p = 1) for all variables (Δpb, Δir^{st}, Δir^{lt}, and Δe) except for the change in the nominal GDP growth rate (Δg), which lag order is set to four (p = 4).

Once, the fitted residuals, $\hat{\varepsilon}^x_{q,c}$, are computed, the next step is to generate the simulated shocks.

2. *Generate simulated shocks*: Shocks are randomly drawn from the empirical distribution of the fitted residuals through a simple bootstrap procedure. To keep the contemporaneous correlation between the series of residuals, they are bootstrapped concurrently. In other words, the fitted residuals are shuffled (with replacement) while preserving their temporal simultaneity, so that, for example, the residuals from 2020Q2 remain together, although moved to a different date.

In the residuals matrix below, we bootstrap row-wise, for instance the second row, hence preserving the cross-variable shocks correlation, rather than resampling individual elements:

$$\begin{pmatrix} \hat{\varepsilon}^{ir\_st}_1 & \hat{\varepsilon}^{ir\_lt}_1 & \hat{\varepsilon}^{g}_1 & \hat{\varepsilon}^{pb}_1 & \hat{\varepsilon}^{e}_1 \\ \hat{\varepsilon}^{ir\_st}_2 & \hat{\varepsilon}^{ir\_lt}_2 & \hat{\varepsilon}^{g}_2 & \hat{\varepsilon}^{pb}_2 & \hat{\varepsilon}^{e}_2 \\ \vdots & \vdots & \vdots & \vdots & \vdots \\ \hat{\varepsilon}^{ir\_st}_T & \hat{\varepsilon}^{ir\_lt}_T & \hat{\varepsilon}^{g}_T & \hat{\varepsilon}^{pb}_T & \hat{\varepsilon}^{e}_T \end{pmatrix}$$

([263]) Nominal long-term interest rates, as measured by the long-term government interest rates (EMU convergence criterion), are not available for Estonia between January 2000 and May 2020 and are replaced by the averages of the values for Latvia and Lithuania.

In order to get five years of simulated residuals, 20 rows (i.e., 20 quarters) from this matrix are randomly sampled. This process is repeated many times, S. In the Commission's methodology, S = 10,000.

Plugging the S simulated $\tilde{\varepsilon}^{x}_{q,c}$ into the estimated AR(p) model gives simulated trajectories of the $\Delta\tilde{x}_{q,c}$.

3. *Aggregation into annual shocks*: The simulated trajectories of quarterly series ($\Delta\tilde{x}_{q,c}$) are then transformed into annual 'shocks' ($\Delta\tilde{x}^{a}_{t,c}$) of the five variables as described below ([264]).

3.1. It is assumed that the shocks to the GDP growth rate, the primary balance, the exchange rate and the short-term interest rate only affect the year *t* in which they occur. The annual shock to these variables (*x*) in year *a* ($\Delta\tilde{x}^{a}_{t,c}$) is then determined by the sum of the simulated quarterly first differences, i.e.:

$$\Delta\tilde{x}^{a}_{t,c} = \sum_{q=1}^{4} \Delta\tilde{x}_{q,c}$$

3.2. It is assumed that the shock on the long-term interest rate (i^{LT}) is persistent. The reason is that the long-term debt issued/rolled over at the time of the shock remains in the debt stock at the market rate prevailing at the time of issue for all years until maturity. ([265]) A shock to the long-term interest rate in year *t* is therefore carried over to subsequent projection years based on the proportion of maturing debt roll over. ([266]) The definition of the annual shock to the long-term interest rate depends on the average weighted maturity of debt ([267]).

3.2.1. For countries where the *average weighted maturity of debt* is equal to or greater than the number of projection years (*T = 5* years), the annual shock ($\Delta\widetilde{\iota^{LT}}^{a}_{t,c}$) in the first projection year (*t = 1*) is calculated by the sum of the quarterly shocks, i.e.:

$$\Delta\widetilde{\iota^{LT}}^{a}_{t,c} = \frac{1}{T}\sum_{q=1}^{4} \Delta\widetilde{\iota^{LT}}_{q,c}$$

In the following four projection years (*t = 2, …, 5*), the annual shocks are calculated by averaging the effect of the current year and those of the previous year(s), i.e.:

$$\Delta\widetilde{\iota^{LT}}^{a}_{t,c} = \frac{\mathrm{t}}{T}\sum_{q=-(\mathrm{n}-1)*4}^{4} \Delta\widetilde{\iota^{LT}}_{q,c}$$

where in each year q *= -4, -8, -12, -16* points to the first quarter of the previous one to four years, respectively, indicating that the calculation considers the impact of interest rate changes from those quarters on the current year's long-term interest rate shock.

3.2.2. For countries where the *average weighted maturity of debt is less than the number of projection years (T < 5)*, the above equations are adjusted accordingly to reflect a shorter carry-over of past shocks. For example, for countries with an average weighted maturity of three years (*T = 3*), the annual shock to the long-term interest rate is defined in the first and second projection year (*t = 1*) as:

$$\Delta\widetilde{\iota^{LT}}^{a}_{t,c} = \frac{t}{3}\sum_{q=1}^{4} \Delta\widetilde{\iota^{LT}}_{q,c}$$

In the second projection year (*t = 2*) the shock is:

([264]) This definition of "shocks" dates to the School of St. Louis, with the seminal contributions of Andersen and Jordan (1968) and Andersen and Carlson (1970) at the Federal Reserve Bank of St. Louis.

([265]) The implicit assumption made here is that long-term government bonds are issued at fixed interest rates only.

([266]) Country-specific data on the share of short- and long-term debt are provided by Eurostat and are updated each autumn.

([267]) Data for the average weighted maturity of debt by country come from the ECB and national sources if needed and are updated each autumn.

$$\Delta\widetilde{\iota^{LT}}^{a}_{t,c} = \frac{t}{3}\sum_{q=-4}^{4}\Delta\widetilde{\iota^{LT}}_{q,c}$$

In the third, fourth and fifth projection year (*t = 3, …, 5*), the shock is calculated as follows:

$$\Delta\widetilde{\iota^{LT}}^{a}_{t,c} = \sum_{q=-8}^{4}\Delta\widetilde{\iota^{LT}}_{q,c}$$

Finally, the shock to the implicit interest rate *i* $\left(\Delta\tilde{\imath}^{a}_{t,c}\right)$ is calculated as the weighted average of the annual shocks to the short- and long-term interest rates, i.e.:

$$\Delta\tilde{\imath}^{a}_{t,c} = \alpha^{ST}\Delta\widetilde{i^{ST}}^{a}_{t,c} + \alpha^{LT}\Delta\widetilde{i^{LT}}^{a}_{t,c}$$

where α^{ST} is the share of short-term debt in total government debt and $\alpha^{LT} = (1 - \alpha^{ST})$ reflect the share of long-term debt in total government debt. These shares are taken from Eurostat. ([268])

4. Simulate the future paths for each variables: For every year of the projection horizon (i.e., for all t = T+h where h is the h[th] projection year after the last observation T), the annual stochastic shocks are applied to the value of the annual variables in the baseline scenario, $\bar{x}^{a}_{T+h,c}$.

$$\tilde{x}^{a}_{T+h,c} = \bar{x}^{a}_{T+h,c} + \Delta\tilde{x}^{a}_{T+h,c} \qquad \forall\, x \in \{pb, i, g, e\}\ and\ h = 1, \dots, 5$$

Then, debt ratios are recalculated using the debt accumulation equation. These last two steps are repeated for the S random draws as to obtain the full distribution of the debt ratio over the 5-year horizon of the projection. This provides annual distributions of the debt ratio over the five projection years, from which we extract the percentiles to construct the fan charts.

([268]) More precisely, we use the average shares over the last three years available.

Table A4.1:**Data sources for the stochastic debt projections**

Variable	Frequency	Definition	Source
Exchange rate	Quarterly	Nominal exchange rate, average in national currency (= national currency for 1 euro). *Note:* Exchange rate shocks are only considered for the following six countries: CZ, DK, HU, PL, RO and SE.	Eurostat (AVG-NAC in database ERT BIL-EUR-Q)
Nominal GDP growth	Quarterly	Gross domestic product at current prices, million units of national currency, percentage change compared to corresponding period of previous year, seasonally and calendar adjusted data *Note:* Missing values for MT (Q1 2000 to Q4 2000)	Eurostat (national account indicato B1GQ, unit of measure: CP_MNAC, dataset: NAMQ_10_GDP)
Short-term interest rate	Quarterly (derived from monthly averages)	Three-month money market rates, in percent per annum *Note:* The short-term interest rate for euro area countries is identical and measured by the Euribor. For countries that joined the euro area during the sample period (EE in 2011, LV in 2014, LT in 2015, HR in 2023, and BG in 2026), the Euribor is also used throughout.	Eurostat (interest rate: IRT_M3, tim frequency: M, dataset: IRT_H_MR3_M)
Long-term interest rate	Quarterly (derived from monthly averages)	Government long-term interest rates (EMU convergence criterion), in percent per annum *Note*: Missing values: • CZ (Q1 2000) • CY, HU, LT, LV, MT, PL, SK (Q1 2000 to Q4 2000) • SI (Q1 2000 to Q4 2001) • BG (Q1 2000 to Q4 2002) • RO (Q1 2000 to Q1 2005) • HR (Q1 2000 to Q3 2005) • EE (Jan 2000 - May 2020) missing values are replaced by the average of LV and LT	Eurostat (interest rate: MCBY, time frequency: M, dataset: IRT_LT_MCBY_M)
Primary balance			
- Net lending/ borrowing	Quarterly	Net lending/borrowing as percentage of GDP	Eurostat (national account indicato B9, sector: S13, seasonal adjustment: NSA, unit of measure: PC_GDP, time frequency: Q, dataset: GOV_10Q_GGNFA)
- Interest payable	Quarterly	Interest expenditure as a percentage of GDP, unadjusted data *Note:* Missing values: • AT (Q1 2000 to Q4 2000) • DE, EE, IE, LU (Q1 2000 to Q4 2001)	Eurostat (national account indicato D41PAY, sector: S13, seasonal adjustment: NSA unit of measure: PC_GDP, time frequency: Q, datase GOV_10Q_GGNFA)

Source: Commission services.

ANNEX A5

Annex to Chapter 2: Statistical annex

Table A5.1: **Gross government debt projections (% of GDP and underlying macro-financial assumptions (European Union, baseline)**

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**82.8**	**83.8**	**84.7**	**85.5**	**86.5**	**87.7**	**89.2**	**90.9**	**92.9**	**95.1**	**97.5**	**100.0**
of which *Oustanding (non maturing) debt*	*65.6*	*66.3*	*67.3*	*68.0*	*68.7*	*69.5*	*70.5*	*71.7*	*73.0*	*74.6*	*76.3*	*78.1*
Rolled-over short-term debt	*7.0*	*7.1*	*7.1*	*7.2*	*7.2*	*7.3*	*7.4*	*7.5*	*7.6*	*7.7*	*7.9*	*8.0*
Rolled-over long-term debt	*6.0*	*6.2*	*6.3*	*6.5*	*6.6*	*6.7*	*6.9*	*7.1*	*7.3*	*7.5*	*7.8*	*8.0*
New short-term debt	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*0.4*	*0.4*	*0.5*
New long-term debt	*3.8*	*3.8*	*3.6*	*3.5*	*3.6*	*3.8*	*4.0*	*4.3*	*4.6*	*4.9*	*5.1*	*5.4*
Change in the debt ratio (-1+2+3)	**0.8**	**1.0**	**0.9**	**0.8**	**1.0**	**1.2**	**1.5**	**1.8**	**2.0**	**2.2**	**2.4**	**2.5**
of which (1) Overall primary balance (1.1+1.2+1.3)	**-1.3**	**-1.4**	**-1.4**	**-1.4**	**-1.5**	**-1.5**	**-1.6**	**-1.7**	**-1.8**	**-1.9**	**-2.0**	**-2.1**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-1.0***	***-1.1***	***-1.3***	***-1.3***	***-1.4***	***-1.5***	***-1.6***	***-1.7***	***-1.8***	***-1.9***	***-2.0***	***-2.1***
(1.1.1) Structural primary balance (before CoA)	*-1.0*	*-1.1*	*-1.1*	*-1.1*	*-1.1*	*-1.1*	*-1.1*	*-1.1*	*-1.1*	*-1.1*	*-1.1*	*-1.1*
(1.1.2) Cost of ageing			*0.2*	*0.2*	*0.4*	*0.4*	*0.5*	*0.6*	*0.7*	*0.8*	*0.9*	*1.0*
(1.1.3) Others (taxes and property incomes)			*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(1.2) Cyclical component	***-0.3***	***-0.2***	***-0.1***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (interest-growth rate differential) (2.1+2.2+2.3)	**-1.3**	**-1.0**	**-0.9**	**-0.7**	**-0.5**	**-0.3**	**-0.2**	**-0.1**	**0.1**	**0.2**	**0.3**	**0.3**
(2.1) Interest expenditure	*2.0*	*2.0*	*2.1*	*2.3*	*2.4*	*2.6*	*2.7*	*2.9*	*3.1*	*3.3*	*3.5*	*3.6*
(2.2) Growth effect (real)	*-1.1*	*-1.1*	*-1.2*	*-1.1*	*-1.1*	*-1.0*	*-0.9*	*-0.9*	*-0.9*	*-0.9*	*-1.0*	*-1.1*
(2.3) Inflation effect	*-2.1*	*-1.9*	*-1.8*	*-1.8*	*-1.9*	*-1.9*	*-1.9*	*-2.0*	*-2.0*	*-2.1*	*-2.2*	*-2.2*
(3) Stock-flow adjustment	**0.7**	**0.7**	**0.4**	**0.0**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
PM : Structural balance	**-3.0**	**-3.1**	**-3.4**	**-3.6**	**-3.8**	**-4.0**	**-4.3**	**-4.6**	**-4.9**	**-5.2**	**-5.5**	**-5.7**
Key macroeconomic assumptions												
Actual GDP growth (real)	1.4	1.4	1.5	1.3	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.2
Potential GDP growth (real)	1.4	1.4	1.3	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.2
Inflation (GDP deflator)	2.7	2.4	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.4	2.4
Implicit interest rate (nominal)	2.5	2.6	2.6	2.8	2.9	3.1	3.2	3.3	3.5	3.6	3.8	3.9

Note: *Given that the drivers of the change in the government debt ratio for the EU as a whole are calculated as GDP-weighted averages of country-specific debt projections, small differences may exist between the total change in the government debt ratio and the sum of its drivers.*

Source: Commission services.

Table A5.2: **Gross government debt projections (% of GDP) and underlying macro-fiscal assumptions (euro area, baseline)**

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Gross debt ratio	**88.8**	**89.8**	**90.5**	**91.3**	**92.2**	**93.3**	**94.7**	**96.4**	**98.4**	**100.6**	**102.9**	**105.4**
of which *Oustanding (non maturing) debt*	*70.6*	*71.3*	*72.1*	*72.7*	*73.3*	*74.1*	*74.9*	*76.0*	*77.3*	*78.8*	*80.5*	*82.3*
Rolled-over short-term debt	*7.6*	*7.7*	*7.8*	*7.9*	*7.9*	*8.0*	*8.1*	*8.2*	*8.3*	*8.5*	*8.6*	*8.8*
Rolled-over long-term debt	*6.5*	*6.7*	*6.8*	*7.0*	*7.1*	*7.2*	*7.5*	*7.6*	*7.9*	*8.1*	*8.4*	*8.6*
New short-term debt	*0.4*	*0.4*	*0.3*	*0.3*	*0.3*	*0.3*	*0.4*	*0.4*	*0.4*	*0.4*	*0.5*	*0.5*
New long-term debt	*3.7*	*3.7*	*3.4*	*3.4*	*3.5*	*3.7*	*3.9*	*4.2*	*4.5*	*4.8*	*5.0*	*5.3*
Change in the debt ratio (-1+2+3)	**0.7**	**1.0**	**0.8**	**0.8**	**0.9**	**1.1**	**1.4**	**1.7**	**2.0**	**2.2**	**2.4**	**2.5**
of which (1) Overall primary balance (1.1+1.2+1.3)	**-1.2**	**-1.3**	**-1.3**	**-1.4**	**-1.4**	**-1.4**	**-1.5**	**-1.7**	**-1.8**	**-1.9**	**-2.0**	**-2.1**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***-1.0***	***-1.0***	***-1.2***	***-1.3***	***-1.3***	***-1.4***	***-1.5***	***-1.7***	***-1.8***	***-1.9***	***-2.0***	***-2.1***
(1.1.1) Structural primary balance (before CoA)	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*	*-1.0*
(1.1.2) Cost of ageing			*0.2*	*0.3*	*0.4*	*0.4*	*0.5*	*0.7*	*0.8*	*0.9*	*1.0*	*1.1*
(1.1.3) Others (taxes and property incomes)			*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*
(1.2) Cyclical component	***-0.2***	***-0.2***	***-0.1***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***0.0***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (interest-growth rate differential) (2.1+2.2+2.3)	**-1.4**	**-1.1**	**-0.9**	**-0.7**	**-0.6**	**-0.4**	**-0.2**	**-0.1**	**0.1**	**0.2**	**0.3**	**0.3**
(2.1) Interest expenditure	*1.9*	*2.0*	*2.1*	*2.2*	*2.3*	*2.5*	*2.7*	*2.8*	*3.0*	*3.2*	*3.4*	*3.6*
(2.2) Growth effect (real)	*-1.1*	*-1.1*	*-1.2*	*-1.1*	*-1.1*	*-1.0*	*-0.9*	*-0.9*	*-0.9*	*-0.8*	*-0.9*	*-1.0*
(2.3) Inflation effect	*-2.1*	*-2.0*	*-1.8*	*-1.8*	*-1.9*	*-1.9*	*-2.0*	*-2.0*	*-2.1*	*-2.1*	*-2.2*	*-2.3*
(3) Stock-flow adjustment	**0.9**	**0.8**	**0.3**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
PM : Structural balance	**-2.9**	**-3.0**	**-3.2**	**-3.5**	**-3.7**	**-3.9**	**-4.2**	**-4.5**	**-4.8**	**-5.1**	**-5.4**	**-5.6**
Key macroeconomic assumptions												
Actual GDP growth (real)	1.3	1.2	1.4	1.3	1.2	1.1	1.0	1.0	0.9	0.9	0.9	1.0
Potential GDP growth (real)	1.3	1.3	1.2	1.2	1.1	1.1	1.0	1.0	0.9	0.9	0.9	1.0
Inflation (GDP deflator)	2.5	2.3	2.0	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.3
Implicit interest rate (nominal)	2.2	2.3	2.4	2.5	2.7	2.8	2.9	3.1	3.2	3.4	3.5	3.6

Note: *Given that the drivers of the change in the government debt ratio for the euro area as a whole are calculated as GDP-weighted averages of country-specific debt projections, small differences may exist between the total change in the government debt ratio and the sum of its drivers.*

Source: Commission services.

Table A5.3:**Gross government debt projections and underlying fiscal assumptions (% of GDP) under the baseline**

	Baseline				
	Debt			SPB	
	2026	2036	Peak year	Avg. 2026-36	Fiscal consolition space
BE	109.9	137.4	2036	-2.3	88%
BG	30.6	40.4	2036	-1.7	76%
CZ	44.1	56.0	2036	-0.5	32%
DK	27.7	13.8	2025	2.3	69%
DE	65.2	91.0	2036	-2.1	90%
EE	25.9	56.2	2036	-3.1	89%
IE	32.5	20.3	2025	1.4	50%
EL	142.1	123.5	2025	1.8	33%
ES	98.2	107.7	2036	-0.3	47%
FR	118.1	144.0	2036	-2.1	81%
HR	56.1	68.4	2036	-1.7	55%
IT	137.9	149.1	2036	1.1	43%
CY	51.0	20.1	2025	3.3	26%
LV	49.9	74.2	2036	-2.1	75%
LT	44.7	65.7	2036	-1.3	68%
LU	27.1	20.1	2026	1.4	70%
HU	73.9	102.5	2036	-0.9	57%
MT	47.2	40.8	2027	-1.0	50%
NL	47.9	58.7	2036	-0.6	82%
AT	82.8	102.0	2036	-1.6	88%
PL	64.9	106.8	2036	-3.6	86%
PT	89.2	83.1	2025	1.8	29%
RO	61.1	89.8	2036	-2.3	60%
SI	63.7	75.1	2036	-1.3	54%
SK	64.0	101.2	2036	-2.6	44%
FI	90.9	113.9	2036	-0.9	92%
SE	35.3	43.6	2036	-1.2	100%
EU	83.8	100.0	2036	-1.1	89%
EA	89.8	105.4	2036	-1.0	86%

Source: Commission services.

Table A5.4:**Gross government debt projections and underlying fiscal assumptions (% of GDP) under the 'historical SPB' scenario**

	Historical SPB scenario						
	Debt			SPB			
	2026	2036	Peak year	Avg. 2026-36	Fiscal consolition space	Diff. with baseline	Avg. 2010-24
BE	109.9	125.8	2036	-1.1	83%	1.2	-0.8
BG	30.6	32.1	2030	-0.9	72%	0.8	-0.6
CZ	44.1	56.6	2036	-0.6	32%	-0.1	-0.6
DK	27.7	9.5	2025	2.8	60%	0.5	3.0
DE	65.2	68.7	2036	0.1	64%	2.2	0.7
EE	25.9	37.1	2036	-1.3	75%	1.9	-0.7
IE	32.5	35.0	2036	-0.2	62%	-1.5	-0.6
EL	142.1	97.5	2025	4.2	20%	2.4	4.9
ES	98.2	113.3	2036	-0.9	61%	-0.6	-1.0
FR	118.1	146.1	2036	-2.2	82%	-0.2	-2.3
HR	56.1	55.4	2025	-0.4	35%	1.2	-0.1
IT	137.9	151.5	2036	0.8	45%	-0.2	0.7
CY	51.0	32.5	2025	2.0	33%	-1.3	1.6
LV	49.9	66.0	2036	-1.3	63%	0.8	-1.1
LT	44.7	58.2	2036	-0.5	55%	0.7	-0.3
LU	27.1	18.6	2026	1.7	64%	0.3	1.7
HU	73.9	97.8	2036	-0.5	56%	0.4	-0.4
MT	47.2	37.9	2027	-0.7	49%	0.4	-0.6
NL	47.9	53.5	2036	0.0	74%	0.6	0.1
AT	82.8	91.5	2036	-0.5	79%	1.1	-0.2
PL	64.9	91.8	2036	-2.2	73%	1.4	-1.8
PT	89.2	88.6	2025	1.3	35%	-0.5	1.1
RO	61.1	92.1	2036	-2.5	60%	-0.2	-2.6
SI	63.7	69.8	2036	-0.8	43%	0.5	-0.7
SK	64.0	97.0	2036	-2.1	41%	0.4	-2.0
FI	90.9	110.7	2036	-0.5	88%	0.4	-0.4
SE	35.3	30.1	2027	0.2	79%	1.4	0.6
EU	83.8	93.5	2036	-0.5	83%	0.6	-0.2
EA	89.8	99.3	2036	-0.4	79%	0.6	-0.3

Source: Commission services.

Table A5.5: **Gross government debt projections and underlying fiscal assumptions (% of GDP) under the 'lower SPB' scenario**

	Lower SPB scenario				
	Debt			SPB	
	2026	2036	Peak year	Avg. 2026-36	Fiscal consolition space
BE	109.9	142.0	2036	-2.8	92%
BG	30.6	44.8	2036	-2.2	81%
CZ	44.1	61.7	2036	-1.0	34%
DK	27.7	18.3	2025	1.9	77%
DE	65.2	96.2	2036	-2.6	100%
EE	25.9	61.9	2036	-3.6	100%
IE	32.5	24.6	2025	0.9	55%
EL	142.1	129.5	2025	1.3	36%
ES	98.2	112.9	2036	-0.7	59%
FR	118.1	148.9	2036	-2.5	84%
HR	56.1	73.3	2036	-2.2	62%
IT	137.9	154.6	2036	0.6	49%
CY	51.0	25.2	2025	2.8	29%
LV	49.9	79.2	2036	-2.6	77%
LT	44.7	70.7	2036	-1.8	76%
LU	27.1	24.6	2026	0.9	77%
HU	73.9	108.6	2036	-1.4	61%
MT	47.2	44.7	2026	-1.5	55%
NL	47.9	63.6	2036	-1.1	88%
AT	82.8	106.8	2036	-2.1	90%
PL	64.9	112.1	2036	-4.1	89%
PT	89.2	88.3	2025	1.4	34%
RO	61.1	95.3	2036	-2.8	61%
SI	63.7	80.3	2036	-1.8	57%
SK	64.0	106.0	2036	-3.0	52%
FI	90.9	118.7	2036	-1.4	100%
SE	35.3	48.6	2036	-1.7	100%
EU	83.8	105.1	2036	-1.6	93%
EA	89.8	110.4	2036	-1.5	93%

Source: Commission services.

Table A5.6: **Gross government debt projections (% of GDP) and underlying macro-financial assumptions under the 'adverse interest-growth rate differential (r-g)' scenario**

	Adverse 'r-g' scenario				
	Debt			r-g in 2036	
	2026	2036	Peak year	Baseline	Adverse 'r-g' scenario
BE	109.9	147.6	2036	0.3	1.1
BG	30.6	43.6	2036	0.2	1.1
CZ	44.1	60.3	2036	0.9	1.8
DK	27.7	15.5	2025	-0.9	0.0
DE	65.2	97.9	2036	0.0	0.9
EE	25.9	59.4	2036	-0.1	0.7
IE	32.5	22.2	2025	-1.5	-0.7
EL	142.1	133.3	2025	0.8	1.6
ES	98.2	116.3	2036	0.4	1.3
FR	118.1	155.6	2036	0.7	1.6
HR	56.1	74.0	2036	0.4	1.4
IT	137.9	162.5	2036	1.4	2.3
CY	51.0	22.8	2025	-0.9	-0.1
LV	49.9	79.8	2036	0.4	1.3
LT	44.7	70.4	2036	0.0	0.9
LU	27.1	21.9	2026	-1.1	-0.3
HU	73.9	110.8	2036	2.5	3.4
MT	47.2	43.9	2027	-1.9	-1.1
NL	47.9	63.0	2036	-0.3	0.6
AT	82.8	109.8	2036	0.0	0.9
PL	64.9	114.7	2036	0.9	1.8
PT	89.2	90.6	2025	0.5	1.4
RO	61.1	96.7	2036	1.5	2.4
SI	63.7	80.2	2036	-0.8	0.1
SK	64.0	108.2	2036	0.5	1.4
FI	90.9	122.2	2036	-0.4	0.4
SE	35.3	46.5	2036	-1.4	-0.5
EU	83.8	108.0	2036	0.3	1.2
EA	89.8	113.8	2036	0.3	1.2

Source: Commission services.

Table A5.7: **Gross government debt projections (% of GDP) and underlying financial assumptions under the 'financial stress' scenario**

	Financial stress scenario			
	Debt			Market interest rates: diff. with baseline in 2026
	2026	2036	Peak year	
BE	109.9	139.2	2036	2.0
BG	30.6	40.9	2036	1.0
CZ	44.1	56.4	2036	1.0
DK	27.7	14.0	2025	1.0
DE	65.2	91.5	2036	1.0
EE	25.9	56.3	2036	1.0
IE	32.5	20.5	2025	1.0
EL	142.1	125.4	2025	4.5
ES	98.2	108.9	2036	1.6
FR	118.1	146.7	2036	2.6
HR	56.1	68.9	2036	1.0
IT	137.9	153.6	2036	3.8
CY	51.0	20.2	2025	1.0
LV	49.9	74.7	2036	1.0
LT	44.7	66.1	2036	1.0
LU	27.1	20.3	2026	1.0
HU	73.9	103.2	2036	1.0
MT	47.2	41.1	2027	1.0
NL	47.9	59.1	2036	1.0
AT	82.8	102.6	2036	1.0
PL	64.9	107.5	2036	1.0
PT	89.2	83.8	2025	1.1
RO	61.1	90.5	2036	1.0
SI	63.7	75.5	2036	1.0
SK	64.0	101.8	2036	1.0
FI	90.9	114.7	2036	1.0
SE	35.3	43.7	2036	1.0
EU	83.8	101.4	2036	1.7
EA	89.8	107.0	2036	1.8

Source: Commission services.

ANNEX A6

Annex to Chapter 3: The long-term fiscal sustainability indicators S1 and S2

This annex explains the methodology behind the Commission's long-term fiscal sustainability analysis. Long-term fiscal sustainability relates to the achievement of governments' intertemporal budget constraints. This constraint, also known as the solvency condition, refers to a country's capacity to meet its net debt obligations through future primary surpluses. Other things being equal, the higher the projected cost of ageing, the more difficult it is to fulfil the intertemporal budget constraint as higher revenues – in present terms – are required to cover these costs, in addition to the other non-interest expenditure and debt service.

A6.1. METHODOLOGY OF THE DEBT-REDUCTION INDICATOR S1 AND DEBT-STABILISATION INDICATOR S2

Notations

t: time index. Each period is one year.

t_0: last year before the fiscal adjustment (2026 in this report).

$t_0 + 1$: first year of the long-term projection period (i.e. year of the fiscal adjustment).

t_1: final year of the long-term projection period (2070), which also corresponds to the target year for the debt ratio (relevant for S1).

Notice that $t_0 < t_1$.

D_t: debt-to-GDP ratio (at the end of year t).

PB_t: ratio of primary balance to GDP.

$\Delta PB_t \equiv PB_t - PB_{t_0}$: change in the primary balance relative to the base year t_0. In the absence of fiscal adjustment, it equals the change in age-related expenditure (and property income).

$\Delta A_t \equiv A_t - A_{t_0}$: change in age-related costs relative to the base year t_0.

$\Delta PI_t \equiv PI_t - PI_{t_0}$: change in property income relative to the base year t_0.

CC_t: cyclical component of the general government balance (only relevant in the first years, by definition, it is zero over the long term as it vanishes with the closure of the output gap).

$SPB_t = PB_t - CC_t + one\text{-}offs_t$: ratio of structural primary balance to GDP, i.e. cyclically adjusted primary balance net of one-off and other temporary measures.

r: differential between the nominal interest rate and the nominal GDP growth rate i.e. $1 + r \equiv \frac{1+R}{1+G}$, where R and G are, respectively, the nominal interest rate and the nominal growth rate.

If the interest-growth rate differential is time-varying, we define:

$$\alpha_{s;v} \equiv (1 + r_{s+1})(1 + r_{s+2}) \dots (1 + r_v)$$

$$\alpha_{v;v} \equiv 1$$

as the accumulation factor that transforms 1 nominal unit in period s to its period v value.

Debt dynamics

By definition, the debt-to-GDP ratio evolves according to:

$$D_t = (1 + r_t)D_{t-1} - \mathrm{PB}_t + SFA_t. \quad (1)$$

That is, the debt ratio at the end of year t, D_t, is the sum of the following components: the debt ratio at the end of the previous year (D_{t-1}), interest accrued on existing debt during year t (adjusted for the impact of GDP growth on the debt-to-GDP ratio) ($r \times D_{t-1}$), the negative of the primary balance ($-\mathrm{PB}_t$) and, finally, other items excluded from the budget balance with an impact on debt, i.e. stock-flow adjustment (SFA_t) that is, by definition, assumed to be 0 in most cases over the long-term.

Repeatedly substituting for D_t, the debt ratio at the end of some future year $T > t$ can be expressed similarly, as:

$$D_T = D_{t-1}\alpha_{t-1;T} - \sum_{i=t}^{T}(\mathrm{PB}_i\alpha_{i;T}) + \sum_{i=t}^{T}(\mathrm{SFA}_i\alpha_{i;T}). \quad (2)$$

The path of the debt ratio is thus determined by the initial debt ratio, accrued interest (net of growth) and the path of primary balances from t through T as well as by SFAs where relevant.

Derivation of the debt-reduction indicator S1

The S1 indicator is defined as the immediate and permanent one-off change in the structural primary balance that would bring the debt ratio to 60% of GDP by year t_1 (2070).

In addition to accounting for the need to adjust the initial intertemporal budgetary position and the debt level, it incorporates financing for any additional expenditure arising from an ageing population (as well as from change in property income and SFAs) until the target date.

The assumed immediate and permanent one-off change in the primary balance is thus given by

$$\mathrm{PB}_i = \mathrm{SPB}_{t_0} + S_1 - \Delta A_i + \Delta PI_i + CC_i \quad (3)([269])$$

$$\text{for } i > t_0$$

Using (2), the debt ratio target D_{t_1} can then be written as:

$$D_{t_1} = D_{t_0}\alpha_{t_0;t_1} - \sum_{i=t_0+1}^{t_1}(\mathrm{PB}_i\alpha_{i;t_1}) + \sum_{i=t_0+1}^{t_1}(\mathrm{SFA}_i\alpha_{i;t_1}) \quad (4)$$

Replacing (3) into (4) yields:

$$D_{t_1} = D_{t_0}\alpha_{t_0;t_1} - \sum_{i=t_0+1}^{t_1}(\mathrm{SPB}_{t_0} + S_1)\,\alpha_{i;t_1} + \sum_{i=t_0+1}^{t_1}((\Delta A_i - \Delta PI_i - CC_i)\,\alpha_{i;t_1}) + \sum_{i=t_0+1}^{t_1}(\mathrm{SFA}_i\alpha_{i;t_1}) \quad (5)$$

After some straightforward manipulations ([270]), we can decompose the S1 into the following main components:

$$S_1 = \underbrace{\frac{D_{t_0}(\alpha_{t_0;t_1} - 1)}{\sum_{i=t_0+1}^{t_1}(\alpha_{i;t_1})} - \mathrm{SPB}_{t_0} - \frac{\sum_{i=t_0+1}^{t_1}(\Delta PI_i\alpha_{i;t_1})}{\sum_{i=t_0+1}^{t_1}(\alpha_{i;t_1})} - \frac{\sum_{i=t_0+1}^{t_1}(CC_i\alpha_{i;t_1})}{\sum_{i=t_0+1}^{t_1}(\alpha_{i;t_1})} + \frac{\sum_{i=t_0+1}^{t_1}(SFA_i\alpha_{i;t_1})}{\sum_{i=t_0+1}^{t_1}(\alpha_{i;t_1})}}_{A} + \underbrace{\frac{D_{t_0} - D_{t_1}}{\sum_{i=t_0+1}^{t_1}(\alpha_{i;t_1})}}_{B} + \underbrace{\frac{\sum_{i=t_0+1}^{t_1}(\Delta A_i\alpha_{i;t_1})}{\sum_{i=t_0+1}^{t_1}(\alpha_{i;t_1})}}_{C} \quad (6)$$

where (A) is the initial budgetary position (IBP, i.e. the gap to the debt-stabilising primary balance); (B) the required additional adjustment due to the debt target; and (C) the additional required adjustment due to the cost of ageing.

([269]) In addition, one-off and other temporary measures can have an impact on the primary balance. However, such items are, by definition, assumed to be zero over the long term and even rare in the only year ($t_0 + 1$) that matters for the long-term sustainability indicators.

([270]) Add and subtract D_{t_0} on the LHS of (5), divide on both sides by $\sum_{i=t_0+1}^{t_1}(\alpha_{i;t_1})$ and group the terms as in (6).

Derivation of the debt-stabilisation indicator S2

The intertemporal budget constraint and the S2 indicator

According to a generally invoked definition, fiscal policy is sustainable in the long term if the present value of future primary balances is equal to the current level of debt, that is, if the intertemporal government budget constraint (IBC) is met. Let us define the S2 as the immediate and permanent one-off fiscal adjustment that would ensure that the IBC is met. This indicator is appropriate for assessing long-term fiscal sustainability in the face of ageing costs ([271]).

Since the S2 indicator is defined with reference to the intertemporal government budget constraint (IBC), we first discuss which conditions are required for the IBC to hold in a standard model of debt dynamics. From (2), the debt-to-GDP ratio at the end of any year $t > t_0$ is given by:

$$D_t = D_{t_0}\alpha_{t_0;t} - \sum_{i=t_0+1}^{t}\left(PB_i\alpha_{i;t}\right) + \sum_{i=t_0+1}^{t}\left(SFA\alpha_{i;t}\right). \tag{7}$$

Rearranging the above and discounting both sides to their time t_0 values, we obtain the debt ratio on the initial period:

$$D_{t_0} = \left(\frac{D_t}{\alpha_{t_0;t}}\right) + \sum_{i=t_0+1}^{t}\left(\frac{PB_i}{\alpha_{t_0;i}}\right) - \sum_{i=t_0+1}^{t}\left(\frac{SFA_i}{\alpha_{t_0;i}}\right). \tag{8i}$$

Assuming an infinite time horizon ($t \to \infty$) we get:

$$D_{t_0} = \lim_{t\to\infty}\left(\frac{D_t}{\alpha_{t_0;t}}\right) + \lim_{t\to\infty}\sum_{i=t_0+1}^{t}\left(\frac{PB_i}{\alpha_{t_0;i}}\right) - \lim_{t\to\infty}\sum_{i=t_0+1}^{t}\left(\frac{SFA_i}{\alpha_{t_0;i}}\right) = \lim_{t\to\infty}\left(\frac{D_t}{\alpha_{t_0;t}}\right) + \sum_{i=t_0+1}^{\infty}\left(\frac{PB_i}{\alpha_{t_0;i}}\right) - \sum_{i=t_0+1}^{\infty}\left(\frac{SFA_i}{\alpha_{t_0;i}}\right) \tag{8ii}$$

Either all limits on the right-hand side of equation (8ii) fail to exist or, if one of them exists, so do the others.

Let us define the *no-Ponzi game condition* (also called the *transversality condition*) for debt sustainability, namely that the discounted present value of debt (in the very long term or at the infinite horizon) will tend to zero:

$$\lim_{t\to\infty}\left(\frac{D_t}{\alpha_{t_0;t}}\right) = 0 \tag{9i}$$

Condition (9i) means that asymptotically, the debt ratio cannot grow at a rate equal or higher than the (growth-adjusted) interest rate, which is what would happen if debt and interest were systematically paid by issuing new debt (i.e. a Ponzi game).

Combining the no-Ponzi game condition (9i) with (8ii), one obtains the intertemporal budget constraint, stating that a fiscal policy is sustainable if the present discounted value of future primary balances (corrected by the present value of future SFAs) is equal to the initial value of the debt ratio.

$$D_{t_0} = \sum_{i=t_0+1}^{\infty}\left(\frac{PB_i}{\alpha_{t_0;i}}\right) - \sum_{i=t_0+1}^{\infty}\left(\frac{SFA_i}{\alpha_{t_0;i}}\right) \tag{9ii}$$

On the other hand, substituting the intertemporal budget constraint (9ii) into (8ii) implies the no-Ponzi game condition. This shows that the no-Ponzi game condition (9i) and the IBC (9ii) are, in fact, equivalent.

([271]) Note that the derivation of S2 does not assume that either the initial sequence of primary balances or the fixed annual adjustment (S2) are optimal according to some criterion. S2 should be considered as a benchmark and not as a policy recommendation or as a measure of the actual adjustment needed in any particular year.

Assuming that the intertemporal budget constraint is satisfied through a permanent, one-off fiscal adjustment whose size is given by the S2, from $t_0 + 1$ onwards we can write:

$$PB_i = SPB_{t_0} + S_2 - \Delta A_i + \Delta PI_i + CC_i \quad \text{for} \quad i > t_0. \tag{10}$$

Then the intertemporal budget constraint (9ii) becomes

$$D_{t_0} = \sum_{i=t_0+1}^{\infty} \left(\frac{SPB_{t_0} + S_2 - \Delta A_i + \Delta PI_i + CC_i - SFA_i}{\alpha_{t_0;i}} \right). \tag{9iii}$$

Here the ratio of primary balance to GDP, PB_t, is re-expressed in terms of the required annual additional effort, S2, and the change in age-related costs relative to the base year t_0 (as well as the change in property income, the cyclical component and SFA), combining equation (10) with equation (9ii).

According to the theory on the convergence of series, necessary conditions for the series in equation (9ii)-(9iii) to converge are for the initial path of primary balances to be bounded and the interest rate differential at the infinite horizon to be positive ([272]). The latter is equivalent to the modified golden rule, stating that the nominal interest rate exceeds the real growth rate (i.e. $\lim_{t\to\infty} r_t > 0$) ([273]).

After some rearranging ([274]), we can disaggregate the S2 into the following two components:

$$S_2 = \underbrace{\frac{D_{t_0}}{\sum_{i=t_0+1}^{\infty}\left(\frac{1}{\alpha_{t_0;i}}\right)} - \mathrm{SPB}_{t_0} - \frac{\sum_{i=t_0+1}^{\infty}\left(\frac{\Delta PI_i + CC_i - SFA_i}{\alpha_{t_0;i}}\right)}{\sum_{i=t_0+1}^{\infty}\left(\frac{1}{\alpha_{t_0;i}}\right)}}_{A} + \underbrace{\frac{\sum_{i=t_0+1}^{\infty}\left(\frac{\Delta A_i}{\alpha_{t_0;i}}\right)}{\sum_{i=t_0+1}^{\infty}\left(\frac{1}{\alpha_{t_0;i}}\right)}}_{B} \tag{11}$$

where (A) is the initial budgetary position, i.e. the gap to the debt-stabilising primary balance; and (B) the additional required adjustment due to the cost of ageing.

If the interest-growth rate differential r is constant, the accumulation factor simplifies to $\alpha_{s;v} = (1 + r_{s+1})(1 + r_{s+2}) \dots (1 + r_v) = (1 + r)^{v-s}$. Then equation (10) can be simplified further by noting that:

$$\sum_{i=t_0+1}^{\infty}\left(\frac{1}{\alpha_{t_0;i}}\right) = \sum_{i=t_0+1}^{\infty}\left(\frac{1}{(1+r)^{i-t_0}}\right) = \frac{1}{r} \tag{12}$$

Thus, for a constant discounting factor, (11) can be rewritten as:

$$S_2 = \underbrace{rD_{t_0} - \mathrm{SPB}_{t_0} - r\sum_{i=t_0+1}^{\infty}\left(\frac{\Delta PI_i + CC_i - SFA_i}{\alpha_{t_0;i}}\right)}_{A} + \underbrace{r\sum_{i=t_0+1}^{\infty}\left(\frac{\Delta A_i}{\alpha_{t_0;i}}\right)}_{B} \tag{13i}$$

([272]) The latter is an application of the ratio test for convergence.

([273]) See Escolano (2010) for further details on the relationships among the stability of the debt ratio, the IBC and the no-Ponzi game condition.

([274]) In addition, constant multiplicative terms are systematically taken out of summation signs.

If the interest-growth rate differential and the structural primary balance are constant after a certain date (here $t_1 = 2070$), equation (11) can be rewritten as:

$$S_2 = \frac{D_{t_0}}{\sum_{i=t_0+1}^{2069}\left(\frac{1}{\alpha_{t_0;i}}\right)+\frac{1}{r\alpha_{t_0;2069}}} - \mathrm{SPB}_{t_0} - \frac{\sum_{i=t_0+1}^{2069}\left(\frac{\Delta PI_i + CC_i - SFA_i}{\alpha_{t_0;i}}\right)+\frac{\Delta PI_{2070}+CC_{2070}-SFA_{2070}}{r\,\alpha_{t_0;2069}}}{\sum_{i=t_0+1}^{2069}\left(\frac{1}{\alpha_{t_0;i}}\right)+\frac{1}{r\,\alpha_{t_0;2069}}} + \frac{\sum_{i=t_0+1}^{2069}\left(\frac{\Delta A_i}{\alpha_{t_0;i}}\right)+\frac{\Delta A_{2070}}{r\,\alpha_{t_0;2069}}}{\sum_{i=t_0+1}^{2069}\left(\frac{1}{\alpha_{t_0;i}}\right)+\frac{1}{r\,\alpha_{t_0;2069}}} \quad (13ii)$$

where $r_t = r$ and $\Delta A_t = \Delta A_{2070}$ for $t \geq t_1 = 2070$.

Derivation of the steady state debt level (at the end of the projection period) corresponding to S2

Assuming that the intertemporal budget constraint is satisfied and that the primary balance and the interest-growth rate differential are constant at their long-run levels after the end of the projection period, the debt ratio remains constant at the value attained at the end point of the projection period (i.e. at $t_1 = 2070$). To see this, rewrite (9ii) as:

$$D_{t_0} = \sum_{i=t_0+1}^{\infty}\left(\frac{PB_i}{\alpha_{t_0;i}}\right)+\sum_{i=t_0+1}^{\infty}\left(\frac{SFA_i}{\alpha_{t_0;i}}\right) = \sum_{i=t_0+1}^{t_1}\left(\frac{PB_i}{\alpha_{t_0;i}}\right)+\sum_{i=t_1+1}^{\infty}\left(\frac{PB_i}{\alpha_{t_0;i}}\right)+\sum_{i=t_0+1}^{t_1}\left(\frac{SFA_i}{\alpha_{t_0;i}}\right)+\sum_{i=t_1+1}^{\infty}\left(\frac{SFA_i}{\alpha_{t_0;i}}\right) \quad (14i)$$

Using (7) and the fact that for $t \geq t_1$ the primary balance and interest-growth rate differential stay constant at $\mathrm{PB}_t = \mathrm{PB}_{t_1}$, while SFA is 0([275]) (14i) can be rearranged to obtain the debt ratio at t_1:

$$D_{t_1} = D_{t_0}\alpha_{t_0;t_1} - \sum_{i=t_0+1}^{t_1}\left(PB_i\alpha_{i;t_1}\right)+\sum_{i=t_0+1}^{t_1}\left(SFA_i\alpha_{i;t_1}\right) = \sum_{i=t_1+1}^{\infty}\left(\frac{PB_i}{\alpha_{t_1;i}}\right) = \sum_{i=1}^{\infty}\left(\frac{PB_{t_1}}{(1+r_{t_1})^i}\right) = \frac{PB_{t_1}}{r_{t_1}} \quad (14ii)$$

Generalising the above to each $t \geq t_1$ by using (7) with the initial year changed to t_1 instead of t_0, (15) shows that for each year after t_1, the debt ratio remains unchanged at this value:

$$D_t = D_{t_1}\alpha_{t_1;t} - \sum_{i=t_1+1}^{t}\left(PB_i\alpha_{i;t}\right) = \frac{PB_{t_1}}{r_{t_1}}\left(1+r_{t_1}\right)^{t-t_1} - PB_{t_1}\sum_{i=t_1+1}^{t}\left(1+r_{t_1}\right)^{t-i} =$$
$$= \underbrace{\left[\left(1+r_{t_1}\right)^{t-t_1} - r_{t_1}\left(\frac{1-\left(1+r_{t_1}\right)^{t-t_1}}{1-\left(1+r_{t_1}\right)}\right)\right]}_{=1}\frac{PB_{t_1}}{r_{t_1}} = \frac{PB_{t_1}}{r_{t_1}} \equiv \overline{\overline{D}} \quad \text{for} \quad t \geq t_1 \quad (15)$$

where $\overline{\overline{D}}$ is the constant debt ratio reached after the end of the projection period.

Using (4), the primary balance at the end of the projection period can be calculated as:

$$PB_{t_1} = SPB_{t_0} + \Delta PI_{t_1} + CC_{t_1} + S_2 - \Delta A_{t_1} \quad (16)$$

([275]) In some specific cases, non-zero stock-flow adjustments can be assumed for a longer time period based on existing contracts, laws, e.g. in the case of the build-up of public pension funds (see Debt Sustainability Monitor 2023, Chapter II.2). However, over the very long-run, SFA is assumed to be zero in all cases.

Replacing (16) into (15), and the fact that the cyclical component (and SFA) are zero in the very long-run, the constant (steady-state) debt ratio ($\overline{\overline{D}}$) is given by:

$$\overline{\overline{D}} = \frac{PB_{t_1}}{r_{t_1}} = \frac{SPB_{t_0} + \Delta PI_{t_1} + S_2 - \Delta A_{t_1}}{r_{t_1}} \quad \text{for} \quad t \geq t_1 \tag{17}$$

The S2 adjustment implies that the sum of debt and the discounted present value of future changes in age-related expenditure is (approximately) constant over time.

Replacing equations (16) and (13i) into (15), and assuming a constant interest rate differential, the following equation is obtained:

$$D_t + \sum_{i=t+1}^{\infty}\left(\frac{\Delta A_i}{(1+r)^{i-t}}\right) - \sum_{i=t+1}^{\infty}\left(\frac{\Delta PI_i + CC_i - SFA_i}{(1+r)^{i-t}}\right) = D_{t_0} + \sum_{i=t_0+1}^{\infty}\left(\frac{\Delta A_i}{(1+r)^{i-t_0}}\right) - \sum_{i=t_0+1}^{\infty}\left(\frac{\Delta PI_i + CC_i - SFA_i}{(1+r)^{i-t_0}}\right) \tag{18}$$

Equation (18) can be interpreted as follows. Implementing a permanent annual improvement in the structural primary balance amounting to S2, which is both necessary and sufficient to secure intertemporal solvency, implies that the sum of explicit debt (the first term on both sides) and the variation in age-related expenditure or implicit debt (the second terms on both sides) is (approximately) constant over time. Equation (17) is exact in the steady state (e.g. after 2070), holding only as an approximation during transitory phases (i.e. for time-varying interest rate differentials) ([276]).

A6.2. INTERPRETATION OF THE DEBT-REDUCTION (S1) AND DEBT-STABILISATION (S2) INDICATORS

Debt-stabilisation indicator S2

The S2 indicator is the central element of the long-term sustainability analysis. It is based on the infinite version of the government budget constraint. More specifically,

- this fiscal sustainability gap indicator shows the permanent adjustment in the structural primary balance in 2027 that is required to stabilise the debt-to-GDP ratio over the infinite horizon;
- the upfront adjustment is assumed to take place in 2027, with the structural primary balance kept constant at the adjusted value beyond 2027;
- the 2026 structural primary balance – the primary balance adjusted for the cycle and one-off fiscal measures – as provided by the Commission 2025 autumn forecast serves as the starting point, providing a proxy for the 'no-fiscal policy change' assumption;
- over the T+10 horizon, GDP projections are based on the EU Commonly Agreed Methodology (EUCAM) updated with the Commission 2025 autumn forecast;

ageing costs as projected in the 2024 Ageing Report are accounted for as from 2027 onwards, as this change in expenditure affects the structural primary balance ([277]);

- beyond the T+10 horizon, long-term interest rate assumptions and GDP projections are from the 2024 Ageing Report. Over the long term, a progressive normalisation of financing conditions is assumed, with the 'r-g' differential stabilising at around 1 pp. for the EU;

([276]) Moreover, equations (17) and (18) imply that both the debt and the variation in age-related expenditure are constant over time in the steady state.

([277]) The S indicators include pension expenditure net of taxes on pensions and compulsory social security contributions paid by pensioners, as well as healthcare, long-term care and education expenditure.

the following thresholds are used to assess the scale of the sustainability challenge: if the S2 value is lower than 2 pps. of GDP, the country is assigned 'low risk'; if the S2 is between 2 and 6 pps. of GDP, the country is assigned 'medium risk'; and if the S2 is above 6 pps. of GDP, the country is assigned 'high risk'. These threshold values are identical to those applied in earlier reports.

S2's focus on the intertemporal budget constraint is relevant. It is a well-established element of long-term fiscal sustainability assessments relevant to cater for numerous factors, such as changes in the interest rate-growth differential that have been putting upward pressure on public finances in recent years; or ageing costs that are projected to increase in many countries, putting permanent pressure on the primary balance. Historically high debt levels in several Member States, a succession of crises and rising structural headwinds underscore the relevance of assessing fiscal sustainability challenges also over the long term.

S2 measures the size of long-term fiscal imbalances without relying on a specific debt target. The intertemporal budget constraint implies that public debt stabilises in the long term, in the sense that future structural primary balances cover future debt servicing and ageing costs. It does not consider the level at which debt stabilises and thus it does not reflect risks linked to high debt levels. The adjustment implied by the S2 indicator might in fact lead to debt stabilising at (very) high levels. As a result, based solely on S2, some countries might be deemed on a sustainable fiscal path despite the fact that their debt ratios stabilise at high levels ([278]).

To address this shortcoming, the S1 indicator is used to complement the S2 indicator for the long-term fiscal risk assessment ([279]). As described above, the S2 indicator provides an important but incomplete signal for the assessment of long-term fiscal risks. The S1 indicator is thus used as a complementary indicator that imposes a restriction on the level at which debt stabilises.

Debt-reduction indicator S1

S1 is a fiscal gap indicator that relies on a finite version of the budget constraint, imposing convergence to a debt target of 60% of GDP. More specifically,

- S1 measures the upfront fiscal adjustment in the structural primary balance required to reach a government debt-to-GDP ratio of 60% in 2070, the endpoint of the 2024 Ageing Report projections;
- this upfront adjustment is assumed to take place in 2027, i.e. the first projection year;
- as done for the S2 indicator, the 2026 structural primary balance as provided by the Commission 2025 autumn forecast provides the starting point;
- as done for the S2 indicator, ageing costs are explicitly accounted for as of 2027;

in terms of risk signal, the S1 thresholds are aligned with the S2 thresholds, i.e. if the S1 value is lower than 2 pps. of GDP, the country is assigned 'low risk'; if S1 is between 2 and 6 pps. of GDP, the country is assigned 'medium risk'; and if S1 is above 6 pps. of GDP, the country is assigned 'high risk'.

While S1 and S2 are both fiscal gap indicators that measure the required fiscal effort to fulfil long-term fiscal conditions, two differences exist. *First*, the components of S1 and S2 differ. They have two components in common, namely the initial budgetary position – the required adjustment to stabilise government debt – and the future cost of ageing. However, in the case of S1, there is also the 'debt requirement' component: the required adjustment to arrive at a debt-to-GDP ratio of 60% in 2070. For a high-debt country, everything else unchanged, this third component will be

([278]) For a detailed discussion of the strengths and shortcomings of the S2 indicator, see Box 3.2 in the Debt Sustainability Monitor 2017.

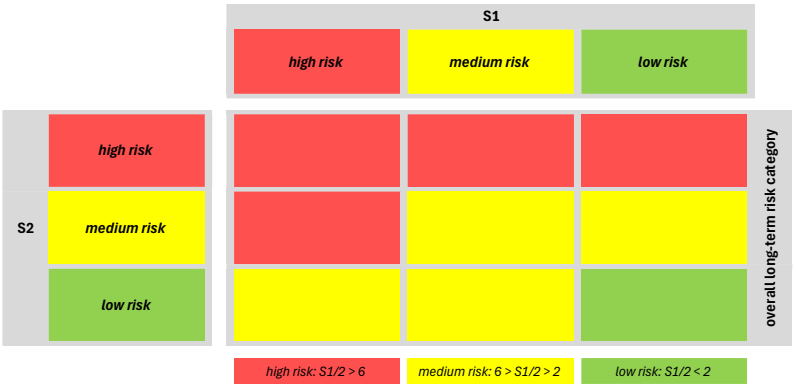
([279]) Until the Debt Sustainability Monitor 2022, the long-term fiscal risk assessment was based on the S2 indicator and the DSA. For a detailed description of the change from the DSA to a revised S1 indicator as a complement to the S2 indicator, see Box 3.1 of the Debt Sustainability Monitor 2022.

positive and implies that S1 > S2. *Second*, S1 and S2 depend on present values that are calculated over different periods. Anything that weighs on public finances over an infinite horizon, rather than only until 2070, will imply a larger present value.

A6.3. AGGREGATING S1 AND S2 INTO THE OVERALL LONG-TERM RISK CLASSIFICATION

The overall long-term sustainability risk classification is based on the debt-stabilisation indicator S2, complemented by the debt-reduction indicator S1. Table A6.1 shows how the risks derived from the two indicators combine into the overall long-term fiscal sustainability risk classification. The signal coming from the S1 indicator can downgrade the risk category derived from the S2 indicator when S1 signals higher risks than S2. The overall outcome can thus be a higher risk category by one notch, but the S1 can never upgrade the S2 signal. As a result, a country is assessed to be at high risk if (i) the S2 indicator flags high risks, irrespective of the risk category derived from S1, or (ii) S2 signals medium risks but S1 points to high risk. Similarly, a country is assessed at medium risk if S2 points to low risks but S1 flags medium or high risks. The aim of these adjustments is to capture risks linked to higher debt levels, as explained above.

Table A6.1:**Determination of overall long-term risk classification**



Source: Commission services.

ANNEX A7

Data sources

The country fiches provide, for each Member State, an assessment of fiscal sustainability risks. They cover the short, medium and long term, and highlight key aggravating and mitigating risk factors. They also include a set of tables and charts with further details.

The projections are based on the Commission 2024 autumn forecast. They are based on the commonly agreed methodology of the Economic Policy Committee (EPC) for projecting medium-term GDP growth. They also reflect the agreed long-term economic and budgetary projections of the Ageing Report 2024, jointly prepared by the European Commission and the EPC. The cut-off date for the preparation of the report was 31 December 2024 unless specified otherwise. More details on the Commission's multi-dimensional approach, indicators, decision trees and thresholds underpinning the risk classification can be found in the methodological annex.

More specific data sources and information are presented below.

1. Overview of key fiscal sustainability risks

Summary of the results.

2. Short-term fiscal sustainability risks

10-year bond yield spreads to the German Bund – ECB, interest rate statistics database, long-term interest rate for convergence purposes, 10 years maturity, denominated in Euro, basis points, monthly average, cut-off date: 31 December 2024.

SovCISS – Composite indicator of sovereign stress – ECB, pure number, monthly, available for 11 euro area countries (AT, BE, DE, ES, FI, FR, EL, IE, IT, NL and PT), , cut-off date: 31 December 2024.

Long-term sovereign credit rating – Local currency long-term sovereign credit rating by S&P, Moody's and Fitch; cut-off date: 31 December 2024.

3. Medium-term fiscal sustainability risks

Debt sustainability analysis (DSA) – A set of *deterministic projections* including a baseline and alternative scenarios and stress tests (see Section 2.1 and Box 2.1) along with *stochastic projections* (see Section 2.2 and Annex A4), which all together lead to the medium-term risk classification (see Annex A1).

4. Long-term fiscal sustainability risks

S2 indicator – Long-term sustainability gap indicator measuring the permanent adjustment in the structural primary balance, compared to the baseline, required to stabilise public debt over the long term (see Section 3.1 and Annex A5).

S1 indicator – Long-term sustainability gap indicator measuring the permanent adjustment in the structural primary balance, compared to the baseline, required to reach a debt-to-GDP ratio of 60% by 2070 (see Section 3.2 and Annex A5).

5. Additional aggravating and mitigating risk factors for fiscal sustainability

Structure of government debt, and external and private sectors

Short-term government debt – Eurostat, general government consolidated gross debt, original maturity of less than 1 year, as % of total, downloaded in January 2026.

Government debt held by non-residents – ECB, Eurostat and IMF, general government consolidated gross debt, rest of the world, all maturities, as % of total, downloaded in December 2025.

Average residual maturity (debt securities and all debt) - Eurostat, general government consolidated gross debt, original maturity of less than 1 year, as % of total, downloaded in January 2026.

Government debt securities by initial maturities – ECB, general government debt securities, by maturities (short-, medium- and long-term), as % of total, downloaded in September 2025.

Government debt by instrument - Eurostat, general government consolidated gross debt, original maturity, by instrument (debt securities, loans, and currency and deposits), as % of total, downloaded in September 2025.

Public debt in foreign currency - Eurostat, general government consolidated gross debt in foreign currency, as % of total, downloaded in December 2025.

Government debt securities-based interest rates - ECB, general government debt securities-based interest rates (fixed and variable), as % of total, downloaded in September 2025.

Net external debt - Eurostat, as % of GDP, in December 2025.

Net International Investment Position (IIP) – Eurostat, as % of GDP, downloaded in December 2025.

Private sectors' debt - Eurostat, as % of GDP, downloaded in December 2025.

Other direct and government's contingent liabilities

Total financial liabilities of general government – Eurostat, as % of GDP, downloaded in December 2025.

Trade credits and advances – Eurostat, as % of GDP, downloaded in December 2025.

Guarantees (State guarantees, one-off guarantees, and standardised guarantees) – Eurostat, as % of GDP, downloaded in December 2025.

Public-private partnerships (PPPs) – Eurostat, as % of GDP, downloaded in December 2025.

Contingent liabilities of general government related to support to financial **institutions** – Eurostat, as % of GDP, downloaded in December 2025.

Gross liabilities of public corporations outside general government - Eurostat, as % of GDP, available for all countries in 2023 except for France and the Netherlands, the data refers to 2022, downloaded in December 2025.

Governance of government-controlled entities – OECD, Quality and Scope of Public Ownership index (2023-24 PMR indicator), downloaded in December 2025.

Risk-weighted assets – ECB, as share of bank' total assets, consolidated Banking data - Domestic banking groups and stand-alone banks, downloaded September 2025.

Non-performing loans – ECB, share of gross non-performing loans and advances for domestic banking groups and stand-alone banks under FINREP (IFRS and GAAP), as % of total gross loans and advances, consolidated Banking data - Domestic banking groups and stand-alone banks, September 2025 data.

CET1 – ECB, Common Equity / Core Tier 1 ratio, consolidated Banking data - Domestic banking groups and stand-alone banks, downloaded September 2025.

TIER1 – ECB, a percentage of risk-weighted assets, Domestic banking groups and stand-alone banks, downloaded September 2025.

Solvency ratio – ECB, Total capital adequacy ratio, i.e. total Regulatory Capital as a percentage of RWA, consolidated Banking data - Domestic banking groups and stand-alone banks, downloaded September 2025.

Liquid assets - ECB, Liquid assets, as % of Total assets, consolidated Banking data - Domestic banking groups and stand-alone banks, downloaded September 2025.

Bank loan-to-deposit ratio – ECB, loan-to-deposit ratio for domestic banking groups and stand-alone banks, foreign (EU and non-EU) controlled subsidiaries and foreign (EU and non-EU) controlled branches, consolidated Banking data - Domestic banking groups and stand-alone banks, downloaded September 2025.

RoA – ECB, Return on average assets, consolidated Banking data - Domestic banking groups and stand-alone banks, downloaded September 2025.

RoE – ECB, Return on average equity, consolidated Banking data - Domestic banking groups and stand-alone banks, downloaded September 2025.

Government assets, net bet and net financial worth

Financial assets - Eurostat, general government financial assets (loans, debt securities and currency and deposits), in % of GDP, downloaded in December 2025.

Net financial worth – Eurostat, in % of GDP, downloaded in December 2025.

Climate change

Climate change scenarios – From Section 4.4 in Chapter 4.

6. Historical background

Historical data – European Commission.

Fiscal consolidation space – Position of the average structural primary balance assumed in the projections within the country's past distribution of structural primary balances. The historical distributions start at the earliest in 1980, depending on data availability, and notably exclude major crisis years, such as the Global Financial Crisis (2008-09) and the COVID-19 pandemic (2020-21).

7. Underlying assumptions of the deterministic debt projections

See Box 2.1. in Chapter 2.

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Box 2.5

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Chapter 4

Section 4.1

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Box 4.2

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Box 4.3

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Section 4.4

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