



Session II: Mapping risks to stochastic DSA fan charts

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Outline

1. Introduction
2. **Key features of the Commission's DSA methodology**
 - Deterministic debt projections
 - Stochastic debt projections
 - How to extract a risk signal from debt projections
3. **Use of the DSA for EU fiscal surveillance**
4. **Conclusions**

Introduction

The Commission's fiscal sustainability risk framework is a well-established approach ...

2000: Fiscal sustainability analysis introduced, focusing on long-term risks (ageing population / S1-S2 indicators)

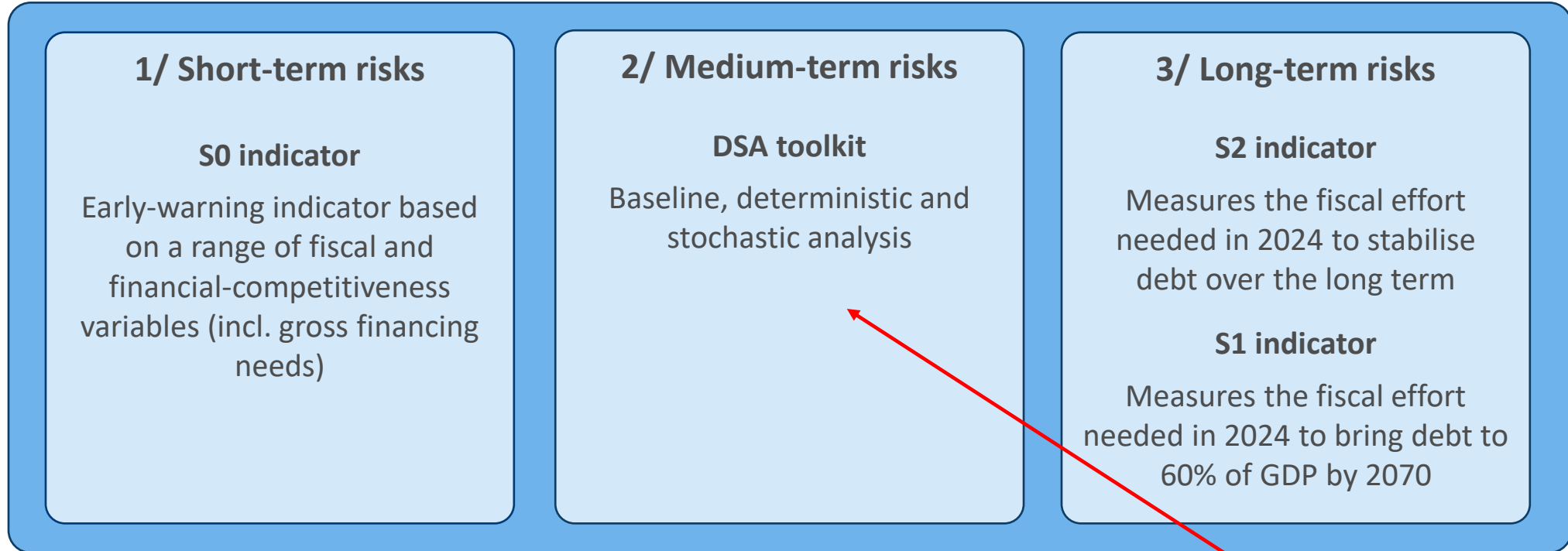
2006: First Fiscal Sustainability Report (FSR) published (ECOFIN mandate → EPC / AWG)

2010: Introduction of a multi-dimensional approach, focusing on short- and medium-term fiscal sustainability risks (EA sovereign debt crisis)

- Early-warning indicator (S0 indicator)
- Debt Sustainability Analysis (DSA)
- First Debt Sustainability Monitor circulated to the EFC

Since 2016: Annual updates of the Commission's fiscal sustainability risk assessment (FSR every 3 years post Ageing Report; Debt Sustainability Monitor (DSM) in each “non-FSR” year)

... based on several dimensions



Overall risk classification by time dimension

+ additional risk factors (incl. financial information, debt composition, contingent liabilities, government assets, net IIP)

focus today

Deterministic debt projections

Baseline debt projections

- Commission **short-term forecast** (T+2)
- **No fiscal policy change assumption** (structural primary balance remains constant beyond T+2)
- **Medium-term GDP growth projections**, based on the EU commonly agreed methodology with the EPC Output Gap Working Group (i.e. the standard 'T+10' projections)
- **Ageing cost** projections, based on the latest available Ageing Report (prepared jointly with the EPC Ageing Working Group)
- **Interest rates** and **inflation** reflecting financial market expectations and agreed convergence values (e.g. ECB target)

Deterministic debt projections

Main purpose: To stress test the baseline debt projections under adverse conditions

Time horizon: 10 years

Deterministic scenarios:

- **Historical structural primary balance (SPB):** SPB converges to historical country average
- **Lower SPB:** weaker SPB than in the baseline (projected cumulative improvement in the SPB over 2023-2024 is halved)
- **Adverse 'r-g' differential:** less favourable interest rate-growth differential compared with the baseline
- **Financial stress:** Adverse shock on market interest rates

Stochastic debt projections

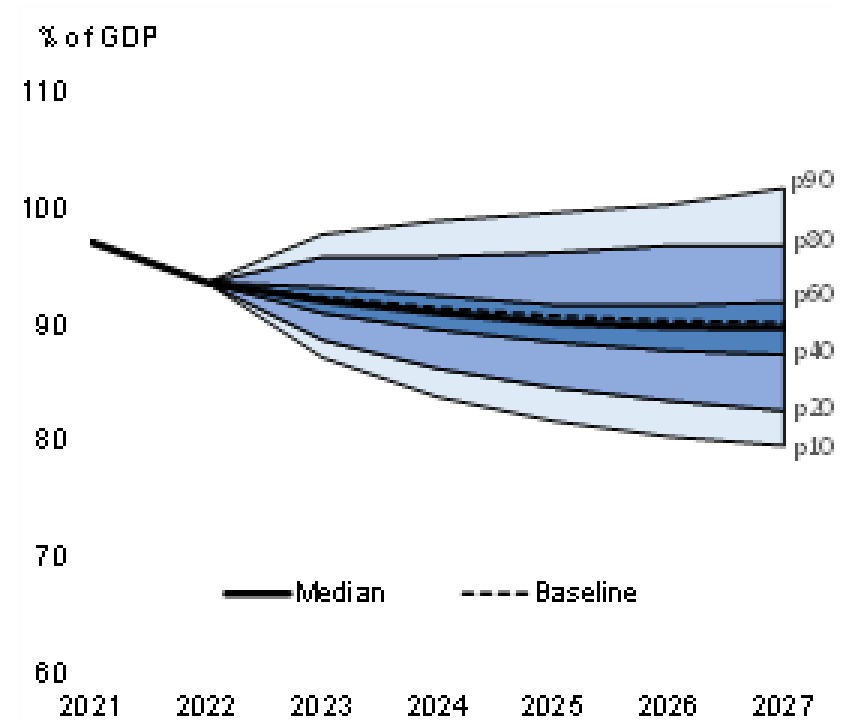
Stochastic projections – key features

- **Key rationale:** Help to better capture the inherent uncertainty
- **Approach:** Historical variance-covariance matrix approach (di Giovanni and Gardner, 2008; Beynet and Paviot, 2012; Berti, 2013)
- **Nature of shock:** 2000 simulated temporary shocks modelled around a no-fiscal-policy change baseline
- **Shocks on five key variables:** Primary balance, short- and long-term interest rates, economic growth rate and exchange rate (for non-EA countries only)
- **Time horizon:** Projection horizon of 5 years using quarterly data
- **Simplifying assumption:** Shocks are normally distributed around the mean; Monte-Carlo simulation

Stochastic projections – outcomes

- **Fan charts** present annual distributions of the debt ratio based on percentiles
- **Focus on two dimensions:**
 - Probability that debt will not stabilise within 5 years
 - Size of uncertainty surrounding baseline measured by the cone width (p90-p10) (depends on the shock and the debt level projected for the last year)

Example: Stochastic projections (EA, COM AF 2022, 2022-27)



Deterministic and stochastic debt projections complement each other

	Deterministic projections	Stochastic projections
Complexity	Lower complexity: Models are typically simpler, using fixed assumptions without considering random variations or uncertainties.	Higher complexity: Take into account the inherent uncertainty and allow for a more realistic assessment of the potential outcomes
Adaptability to shocks	Less adaptable: Often applies a uniform common shock with for all countries	Highly adaptable: Capable of modeling country-specific shocks with nuanced differentiation based on past observations
Communicability to broader public	Higher communicability: Easier to explain and understand to a broader public due to their straightforward nature.	Lower communicability: More challenging to explain to a broader public due to their complexity. Outputs are ranges or probabilities, which can be harder for non-technical stakeholders to interpret.
User expertise required	Lower expertise required: Requires basic economic and statistical knowledge	Higher expertise required: Requires advanced knowledge in statistics and econometrics

How to extract risk signals from debt projections (traffic light system)

First, determine the risk classification of the deterministic and stochastic projections in isolation

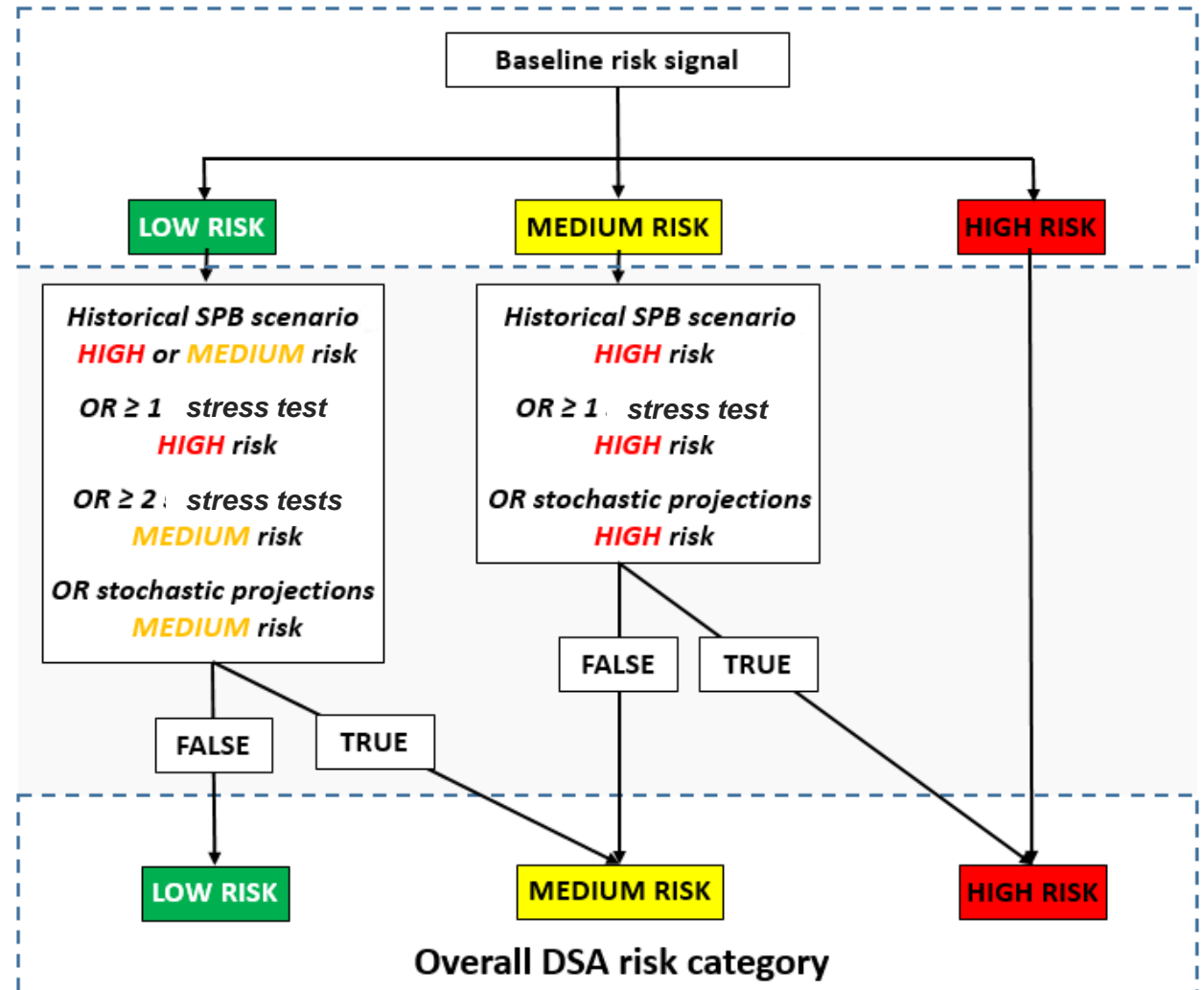
Criteria used to extract the risk signal

Deterministic projections	Stochastic projections
<ul style="list-style-type: none">• Debt level in 10 years' time (<i>thresholds: 60% and 90% of GDP</i>)• Debt trajectory over 10 years (peak year)• Fiscal consolidation space: plausibility of underlying fiscal assumptions and margin for tightening position if needed (based on each country's fiscal track record)	<ul style="list-style-type: none">• Probability of debt not to stabilise over 5 years• Size of uncertainty (measured by the difference between 90th and 10th percentile)



Second, determine the overall DSA risk classification

- **Step 1:** Extract the preliminary risk signal based on the baseline
- **Step 2 :** Take into account the risk signals of the deterministic and stochastic projections
- **Step 3:** Determine the overall risk category
- **Guiding principles:**
 - Determin. and stochastic projections either confirm the baseline risk signal or worsen it by one notch; they cannot improve it (prudent approach)
 - Stochastic projections alone can modify the classification



The role of the DSA in fiscal surveillance

The DSA already plays a role for EU fiscal surveillance and the European Semester

Preventive arm SGP

- Debt sustainability analysis plays an important role in several steps of the preventive arm, such as the assessment of the Stability and Convergence Programmes and Draft Budgetary Plans, setting up the adjustment path towards the MTO

Corrective arm SGP

- Debt sustainability is considered one of the relevant factors in the excessive deficit procedure (Art. 126(3) report)

Activation of the General escape clause

European Semester

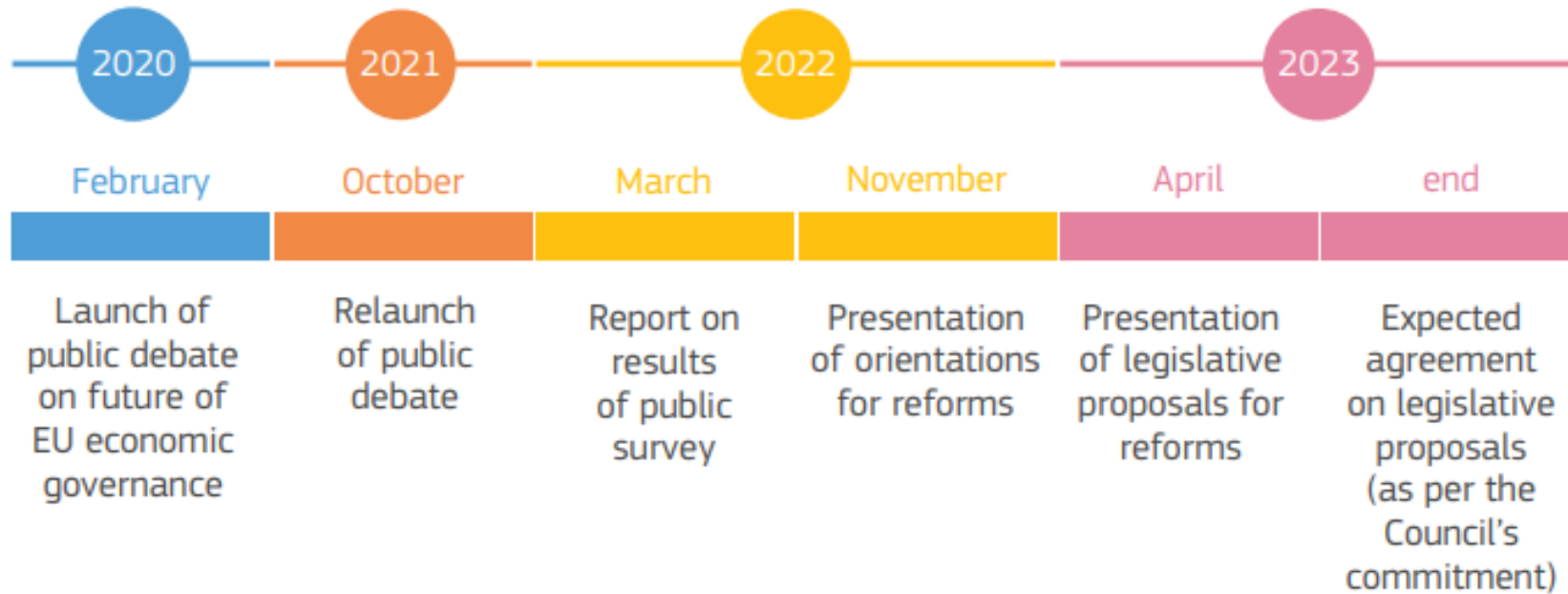
- Used in in the context of the European Semester (Country reports, Post Programme Surveillance reports, fiscal CSRs)

The role of the DSA will further increase according to the Commission's reform proposals tabled in April 2023

Extract from ANNEX V to the legislative proposals (26 April 2023)

- “Public debt ratio should be declining, or stay at prudent levels, **under the deterministic scenarios** of the Commission's medium-term public debt projection framework described in the Debt Sustainability Monitor 2022”:
 - Refers to the baseline and the three deterministic stress tests (adverse ‘r-g’, financial stress, lower structural primary balance)
- “The risk of the public debt ratio not decreasing in the 5 years following the adjustment period of the national medium-term fiscal-structural plan is **sufficiently low**. The risk is assessed with the help of the Commission's stochastic analysis”:
 - Refers to the stochastic debt projections; ‘sufficiently low’ means a probability of debt decline of at least 70%

Timeline for the adoption of the new set of EU fiscal rules



Conclusions

Main takeaways

- The Commission's fiscal sustainability risk framework is a well-established approach
- It is a transparent framework: all assumptions, scenarios and decision trees are published to allow for easy replication
- Stochastic debt projections are a valuable tool to complement deterministic projections, in order for incorporating a more realistic assessment of uncertainty into fiscal planning
- The DSA methodology is already used for EU fiscal surveillance and, according to the Commission's legislative proposals, to play an even greater role in the new fiscal governance framework

Thank you



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Thank you



[European Commission \(2023\), Debt Sustainability Monitor 2022, European Economy, Institutional paper 199, 13 April.](#)



Additional slides

Main assumptions

Baseline: inflation rate assumptions

- Inflation assumption is market based (consistent with the interest rate assumption), using inflation-linked swaps
- **Up to T+10:**
 - Euro area countries converge to swap-based euro area inflation expectation over 10-year window (the same forward window as for the interest rate assumption)
 - PL, RO and HU: half of the spread vis-à-vis euro area inflation observed in T+2 assumed to remain by T+10 → gradual compression of that spread
- **Between T+10 and T+30:**
 - Gradual convergence to 2% for all countries
 - Exceptions: PL (2.5%), RO (2.5%) and HU (3%), reflecting NCB targets

Baseline: interest rate assumptions

For **market rates**, assumptions are set in line with financial markets' expectations:

- **Up to T+10:** Short- and long-term rates on new debt issuance converge to forward rates by T+10, using quotes on future contracts:
 - Short-term: trading data on the 3-month interbank rate in 10 years
 - Long-term: trading data on the 10-yr IR on sovereign bonds in 10 years→ Differentiated by country
- **Between T+10 and T+30:** Long-term nominal rates converge to 4%, short-term nominal rates converge to 2%
 - 'r-g' equal to 0.5% on average in the long term

However, what matters for debt dynamics is the ***implicit interest rate***.

Single operational indicator - nationally financed net expenditure

- A single operational indicator anchored on debt sustainability:

Nationally-financed net primary expenditure

- Broadly similar definition as for the (current) expenditure benchmark. Corrected for:
 - interest payment
 - cyclical part of unemployment benefit expenditure
 - *net of discretionary revenue measures*

⇒ Simple and transparent (one indicator)

Compliance under government control

Allows for the operation of automatic stabilisers

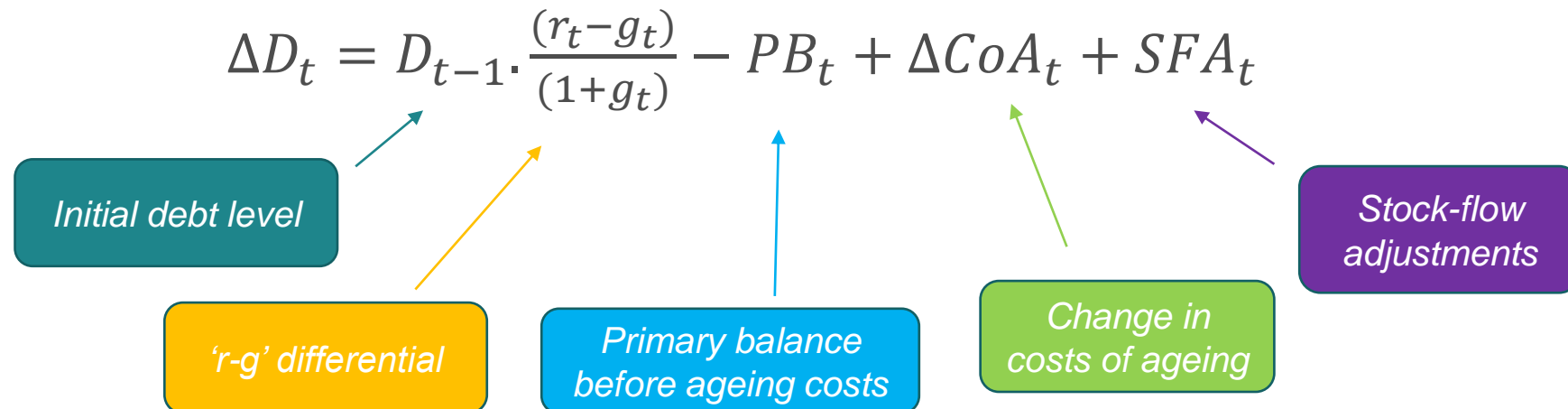
Ageing Report is published every three years

- Joint report (Commission & EPC), prepared within the Ageing Working Group
- Long-term projections (2019-2070) for EU Member States + Norway
- 7th edition published in May 2021
- ECOFIN council conclusions (inviting EC to update sustainability assessment)
- Baseline projections + several alternative scenarios
- Results feed into **European Semester and fiscal sustainability analysis**

Deterministic debt projections

The DSA is based on a fundamental economic concept relevant for fiscal rules: debt dynamics and its drivers

Basic debt accumulation equation



- Debt dynamics are driven by a few key variables: the *initial debt level*, the current/projected *'r-g' differential*, the current/projected *primary balance* (including costs of ageing) and *stock-flow adjustments*

A. Historical structural primary balance (SPB) scenario

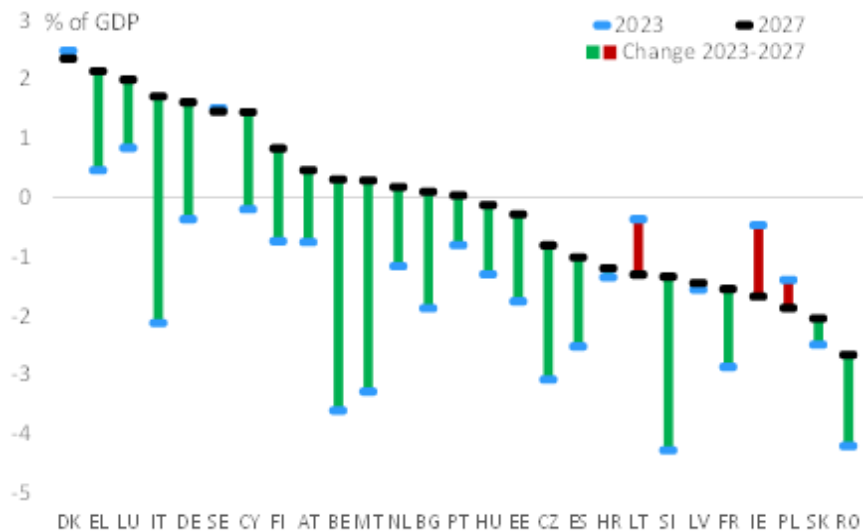
Key features

SPB gradually converges, from 2024 to 2027, to level observed on average in the country in 2006-2020

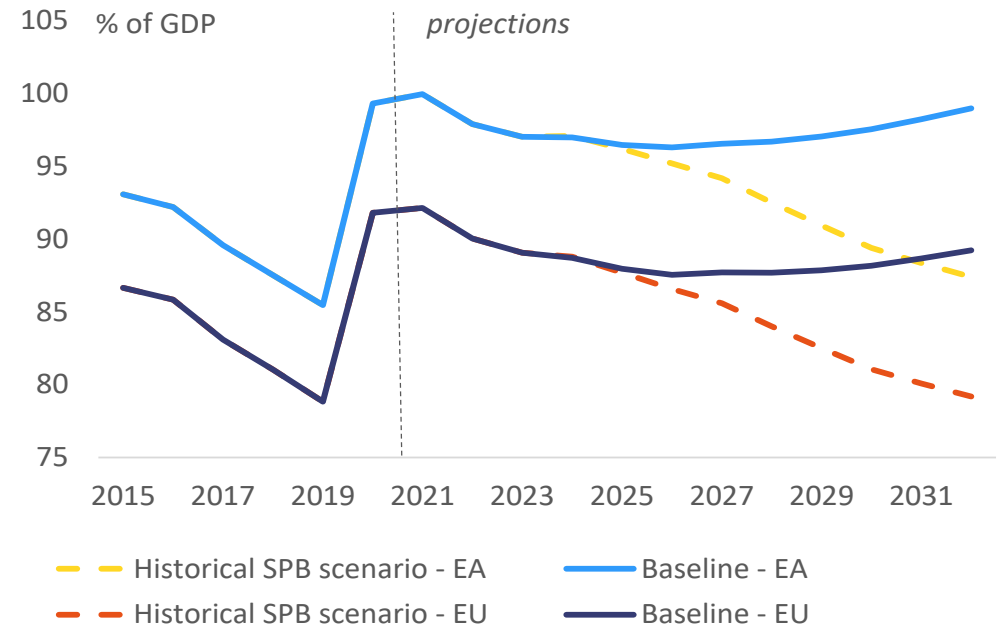
Impact on debt projections

Currently implies, for most Member States, a tightening compared with the baseline and therefore a lower debt ratio by 2032

Historical SPB scenario: SPB (2023, 2027)



Debt projections

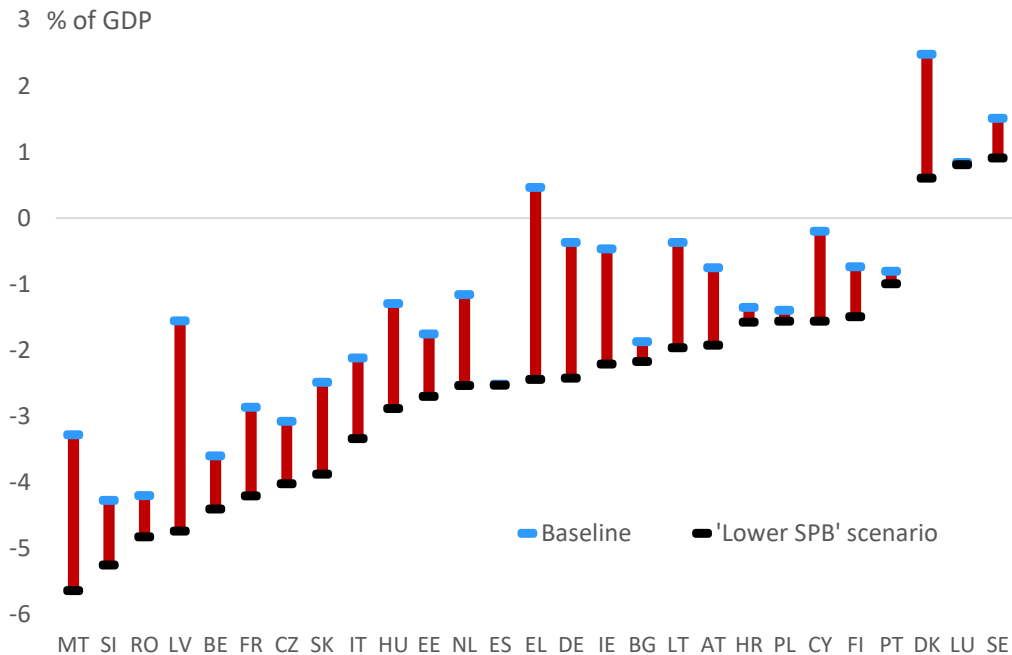


B. Lower SPB scenario

Key features

Assumes 50% less consolidation (or more expansion) in 2022-2023 than in the baseline
 SPB remains at that lower 2023 level
 (+ costs of ageing) afterwards

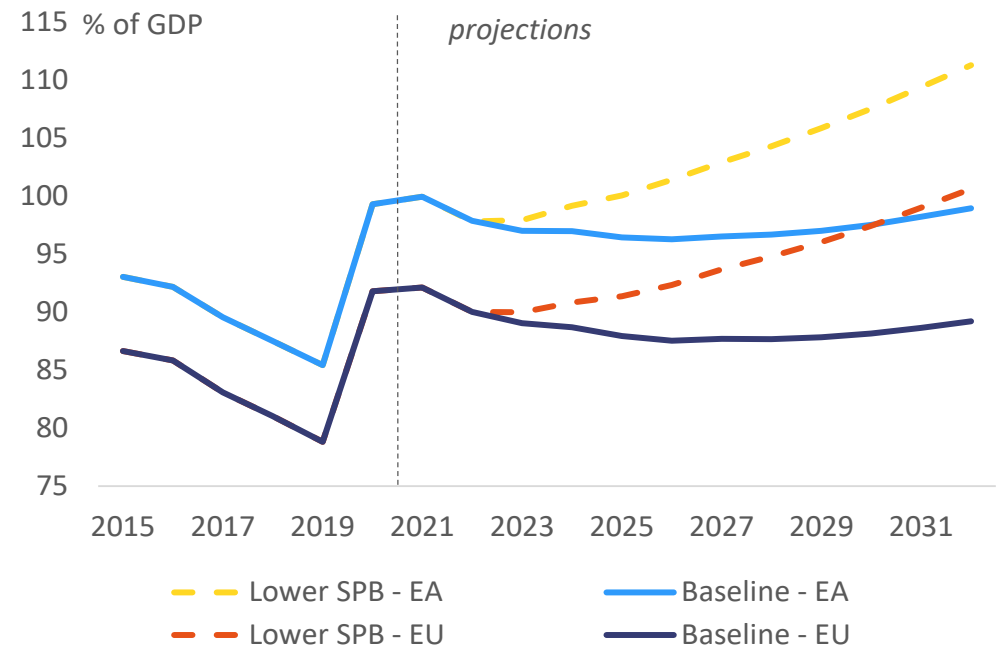
Lower SPB scenario: SPB (2023-2032)



Impact on debt projections

Implies a loosening compared with the baseline and therefore a higher debt ratio by 2032

Debt projections



C. Adverse 'r-g' differential scenario (new)

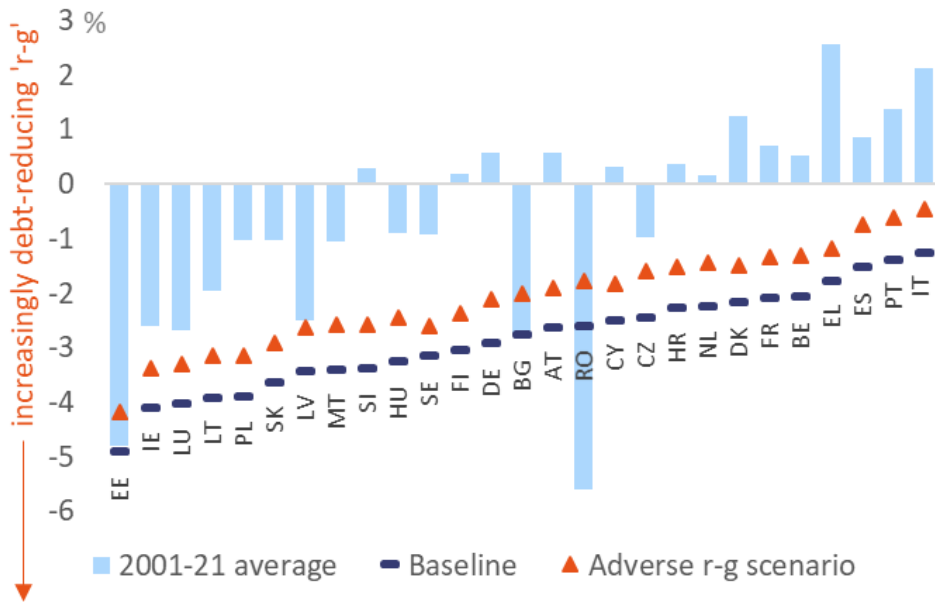
Key features

Differential between the *market* interest rate and nominal GDP growth permanently 1 pp. higher than in the baseline from 2022 to 2032

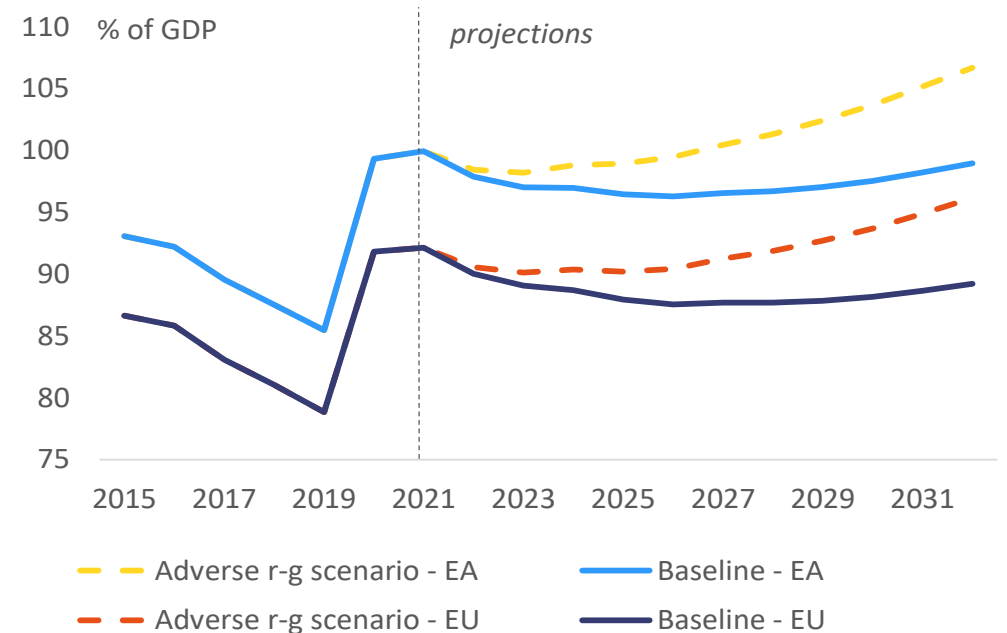
Impact on debt projections

Implies a less negative snowball effect and therefore a higher debt ratio by 2032

r-g developments and assumptions



Debt projections



D. Financial stress scenario (revised)

Key features

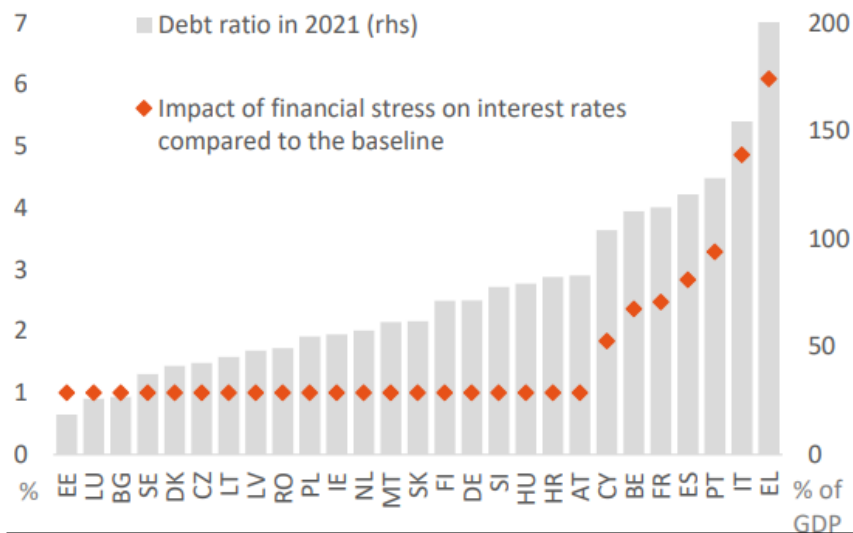
One-year shock on market interest rates in 2022 = 1 pp. hike for all countries

Shock augmented by a 'risk premium' for highly-indebted countries, equal to 0.06 times the excess of debt over 90% of GDP based on Pamies et al. (2021)

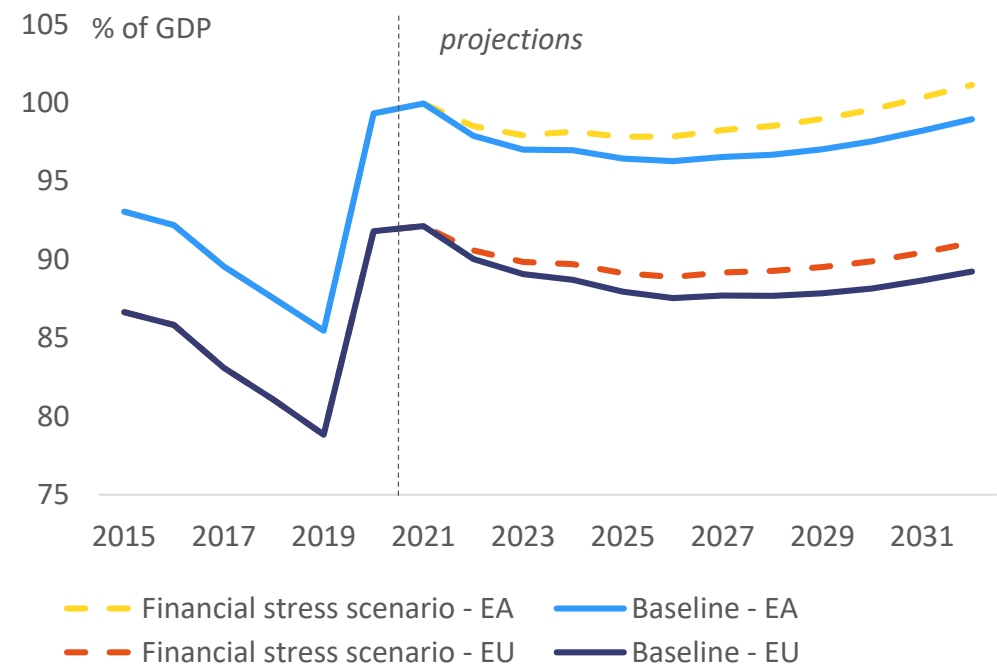
Impact on debt projections

Implies higher interest rates and higher debt ratios by 2032

Debt ratios and interest rates



Debt projections



Consolidation space indicator

Key features

- Plausibility of assumption against historical track record to indicate the available space for consolidation
- Measured as the percentile rank of assumed SPB within past **country-specific** distribution

SPB in the baseline and past observations



Stochastic projections – assessment

Strengths

- Stochastic projections **take into account the inherent uncertainty and allow for** a more realistic assessment of the potential outcomes
- **They facilitate the examination of a wide range of possible future scenarios**, providing a more comprehensive view of the potential trajectory of debt dynamics.
- They **can assess the probability of adverse scenarios**, enabling policymakers to better understand the potential range of outcomes and the associated risks.
- They allow for a **flexible approach** in adapting to evolving economic circumstances.

Challenges

- Stochastic models **introduce another layer of uncertainty** related to the choice of the stochastic process and distribution assumptions
- They **rely on historical data and assumptions** about the distribution of key economic variables.
- The output of stochastic models often consists of probability distributions, which make the **interpretation more complex and abstract**
- **Communicating** the implications of the results to policymakers and stakeholders may require a higher level of statistical literacy.

Deterministic debt projections – assessment

Strengths

- Deterministic projections are often **simple**, making it easier for policymakers and stakeholders to understand and interpret the results.
- They can be **tailored to specific policy scenarios**, allowing policymakers to evaluate the impact of specific policy measures in a more targeted manner.
- The singular nature of the projections can make it **easier to communicate the expected economic outcomes to a broader audience**, including policymakers
- Generally **easier to implement**, making them more accessible for countries or institutions with limited technical capabilities.

Challenges

- Deterministic projections **may not adequately capture the range of potential risks** that could impact debt dynamics.
- They are **highly sensitive to the accuracy of the underlying assumptions..**
- They **largely ignore correlations between macroeconomic shocks**
- They provide a **single point estimate** for future debt levels, lacking probabilistic information about the likelihood of different outcomes.

Deterministic and stochastic projections complement each other well

Deterministic projections

- Deterministic projections are often **simple**, making it easier for policymakers and stakeholders to understand and interpret the results.
- The singular nature of the projections can make it **easier to communicate the expected economic outcomes to a broader audience**, including policymakers
- The same **common shock is applied to all Member States**. The shocks can be **tailored to specific policy scenarios**,
- They are generally **easier to implement**, making them more accessible for countries or institutions with limited technical capabilities.

Stochastic projections

- Stochastic projections **take into account the inherent uncertainty and allow for** a more realistic assessment of the potential outcomes
- **They facilitate the examination of a wide range of possible future scenarios**, providing a more comprehensive view of the potential trajectory of debt dynamics.
- Allow for **country-specific shocks** depending on the past developments
- They **can assess the probability of adverse scenarios**, enabling policymakers to better understand the potential range of outcomes and the associated risks.

Decision trees

Definition of debt sustainability

IMF definition also used by EC and ECB:

“In general terms, public debt can be regarded as sustainable when the primary balance needed to at least stabilise debt under both the baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk and with preserving potential growth at a satisfactory level.”

Source: IMF (2021), Review of the debt sustainability framework for market access countries; IMF (2013), Staff Guidance Note for Public Debt Sustainability Analysis in Market Access Countries.

Thresholds for the deterministic and stochastic projections

	Criterion	Threshold	
Deterministic projections	Debt level in 2033	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 (2029) and end of projections (2033), or still increasing by end of projections Medium: peak year between T+3 (2025) and T+6 (2028) Low: peak year within the T+2 forecast horizon (2022-2024)	
	Fiscal consolidation space (percentile rank of average SPB in 2024-2033)	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 2027 exceeding the initial debt ratio	Initial debt ratio $\geq 90\%$	High: if probability $> 30\%$ Medium: if $0 < \text{probability} \leq 30\%$ Low: if probability = 0
		$60\% \leq \text{initial debt ratio} < 90\%$	High: if probability $> 60\%$ Medium: if $30\% < \text{probability} \leq 60\%$ Low: if probability $\leq 30\%$
		Initial debt ratio $< 60\%$	Medium: if probability $> 70\%$ Low: if probability $\leq 70\%$
	Size of macroeconomic uncertainty (diff. btw 10 th and 90 th 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	



How to determine the risk signal from deterministic projections?

- Projected debt level still provides the starting point, but can be notched up or down by signals from the debt trajectory and the available ‘fiscal consolidation space’
- Risk classification may be more favourable than suggested by the debt level alone (cases 3 and 8)
- High risk category in three cases:
 - Debt projected to exceed 90% of GDP and not to stabilise – or only late (case 1)
 - Debt, although declining, projected to remain above 90% of GDP, and decline rests on high primary balance by historical standards – indicating limited ‘fiscal consolidation space’ (case 2)
 - Debt projected to increase, reaching a level between 60 and 90% of GDP, and limited ‘fiscal consolidation space’ (case 4)

Case	Debt level in 2032	Debt trajectory	Fiscal consolidation space	Overall
1	HIGH	HIGH/MEDIUM	ANY	HIGH
2	HIGH	LOW	HIGH/MEDIUM	HIGH
3	HIGH	LOW	LOW	MEDIUM
4	MEDIUM	HIGH	HIGH/MEDIUM	HIGH
5	MEDIUM	HIGH	LOW	MEDIUM
6	MEDIUM	MEDIUM	ANY	MEDIUM
7	MEDIUM	LOW	HIGH/MEDIUM	MEDIUM
8	MEDIUM	LOW	LOW	LOW
9	LOW	HIGH	HIGH/MEDIUM	MEDIUM
10	LOW	HIGH	LOW	LOW
11	LOW	MEDIUM/LOW	ANY	LOW



How to determine the risk signal from 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



EGR

The DSA already plays a role for EU fiscal surveillance and the European Semester

Corrective arm SGP

- One of the relevant factors considered in the excessive deficit procedure (Art. 126(3) report)

Preventive arm SGP

- In principle, also informs the adjustment path towards the MTO

European Semester

- Also used in the context of the European Semester (Country Reports, PPS/ES, fiscal CSRs)

EU surveillance process	Legal provisions	Details
Corrective arm		
Assessment of debt developments following a breach of the debt criterion	Council Regulation (EC) No. 1467/97	The Commission, when preparing a report under Art. 126(3) of the TFEU, assesses the case for launching an EDP by taking into account all relevant factors, including (...) the development in the medium-term government debt position, its dynamic and sustainability .
Preventive arm		
Assessment of Stability and Convergence Programmes	Art. 3 Council Regulation (EC) No. 1466/97	Includes an assessment of debt sustainability implying a fully-fledged DSA according to the methodology presented in the FSR / DSM .
Setting-up the (minimum) MTOs	Art. 2a Council Regulation (EC) No. 1466/97	The MTO are set so as to ensure sustainability or rapid progress towards sustainability . To that purpose, the Commission's estimates country-specific lower bounds of the MTOs, also based on the jointly prepared Commission / Council long-term budgetary projections.
Required fiscal adjustment of the MTO	Council Regulation (EC) No. 1466/97 and 2015 Council Commonly agreed position on flexibility within the SGP (No. 14345/15)	The 2015 Council Commonly agreed position on flexibility within the SGP includes a 'matrix' of requirements for adjustment towards the MTO with a specific reference to risks to debt sustainability as a relevant criterion for differentiating fiscal requirement across countries. Moreover, the quantitative assessment of the long-term budgetary effects and the impact on the long-term sustainability of public finances is assessed by the Commission in case Member States apply for the "structural reform clause" or the "investment clause".
Degree of discretion	Art. 6(3) and Art. 10(3) Council Regulation (EC) No. 1466/97	The analysis of sustainability challenges is used for the exercise of a degree of discretion when considering departures from the fiscal requirements to achieve a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring sustainability of Member States' public finance.
Assessing of Draft Budgetary Plans	Regulation (EU) No. 473/2013 of the European Parliament and of the Council	Includes sensitivity analysis that provide an indication of the risks to public finance sustainability in the event of adverse economic, financial or budgetary developments.
General escape clause		
Activation of the general escape clause	Council Regulation (EC) No. 1466/97 (Art. 5(1), 9(1))	For the preventive arm, "in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term ".
	Council Regulation (EC) No. 1467/97 (Art. 3(5), 5(2))	For the corrective arm, in the case of a severe economic downturn in the euro area or in the Union as a whole, the Council may also decide on a recommendation from the Commission, to adopt a revised fiscal trajectory.

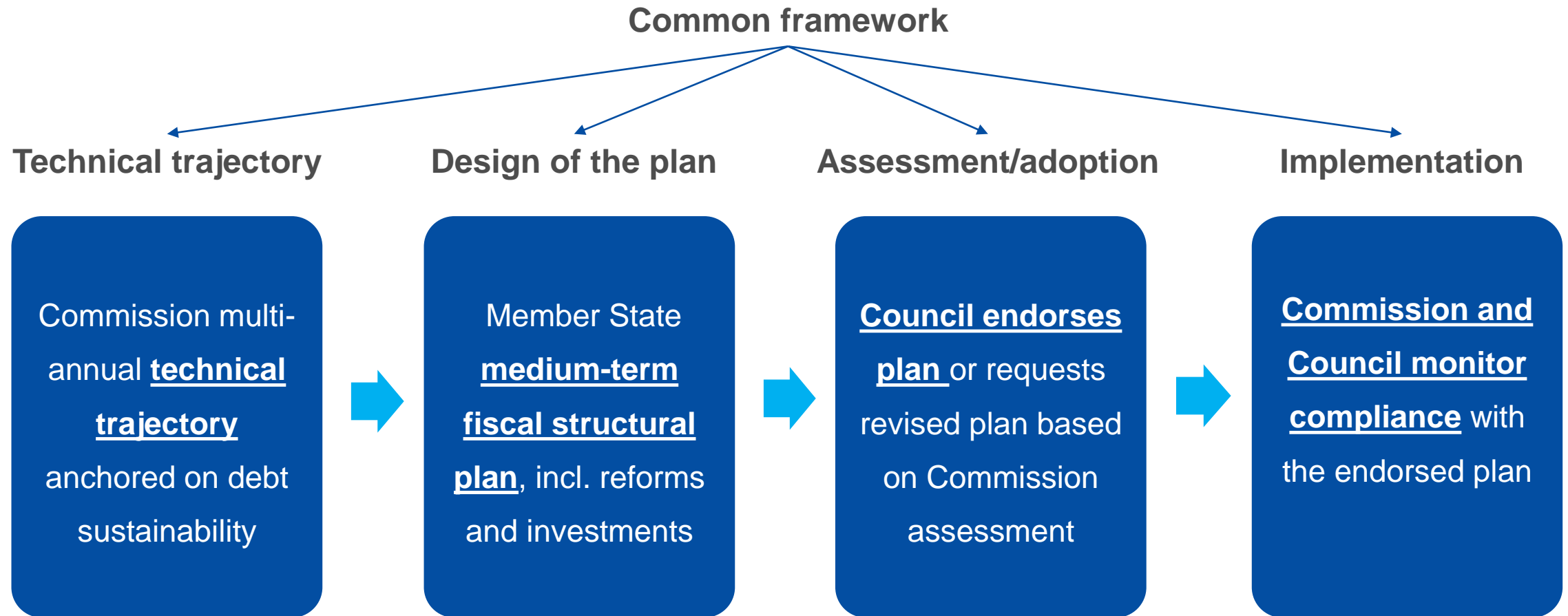
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Main features of the EGR orientations

- **National medium-term fiscal structural plans**, integrating fiscal, reform and investment objectives. They are binding on annual budgets.
- A country specific **medium-term net expenditure path** will be the single operational fiscal indicator.
- **Debt sustainability risk** as the main anchor for the adjustment path. The net expenditure path should ensure that debt will converge to prudent levels (and budget deficits remain below 3% of GDP over the medium term).
- **Reforms and investments** promoting sustainable growth and other EU priorities (4/7 y).
- **Enhanced enforcement** based on excessive deficit procedure and underlying thresholds.

Revised process for coordination of economic and multilateral surveillance



Benefits of using the DSA toolkit for setting / assessing the plans

- Strengthening debt sustainability is the key objective of the fiscal rules
→ the **DSA as the state-of-the-art tool** to contribute to this objective (e.g. Blanchard et al., 2021; IMF, 2022)
- **Fiscal policy needs to be anchored in a credible medium-term perspective** given current high debt levels and future fiscal headwinds: high debt will not be reduced to a 'safe level' in one or two years
- **The DSA, as a framework for medium-term public debt projections, offers several advantages** for this purpose:
 - Fundamental / economic concept at its core
 - The Commission's DSA is well-established, based on common assumptions and methodologies, and is already used in the EU fiscal framework

Criteria to design the technical trajectories

Fiscal path (with respect to the 'no-fiscal-policy-change' baseline) should ensure:

Key criteria

- By the end of the adjustment period, at the latest, the 10-year debt trajectory in the absence of further budgetary measures is on a *plausible* downward path, or stays at prudent levels
- The government deficit is brought and maintained below the 3% of GDP reference value in the absence of further budgetary measures over the same 10-year period

Safeguard measures

- 0.5% of GDP minimum adjustment for as long as the deficit is above the 3% reference value
- Debt at the end of the planning horizon (4 years) lower than at the beginning
- No-backloading provision and no-expansion safeguard

Technical trajectories or information, and planned fiscal path

- **Fiscal path**, over at least 4 years: to be put forward by **Member States** in their plans and endorsed by the **Council**. Should ensure that:
 - **Debt** is put on a downward path or kept at a prudent level with sufficient certainty (“plausibly”)
 - **The deficit** is (brought and) kept below 3% of GDP in the medium term
- To guide the preparation of the plans, maintain a multilateral approach and ensure equal treatment, the **Commission** provides the following guidance:
 - For Member States with debt > 60% of GDP or deficit > 3% of GDP: **Technical trajectories** based on a common methodology i.e. the **Debt Sustainability Analysis (DSA)**
 - For others: **Technical information** related to the deficit criterion

2) Is it too complex?

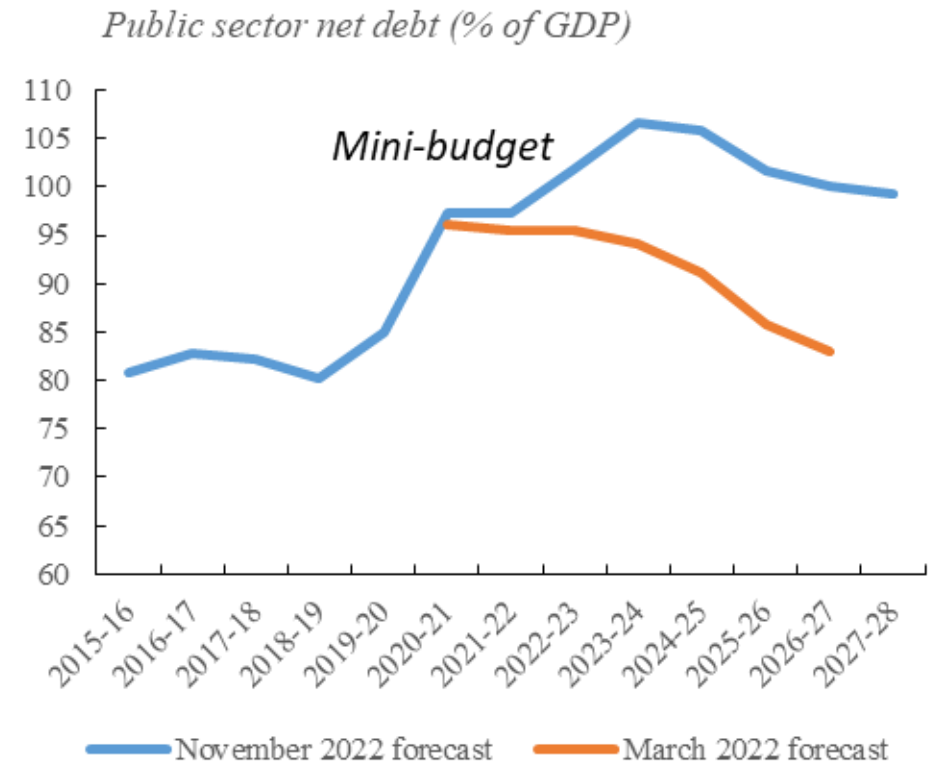
- Some degree of complexity is needed to **properly capture risks**: e.g. snapshot debt levels alone are a poor predictor of debt sustainability risks (IMF, 2021; ECB, 2017)
- However, **high degree of transparency**:
 - Regular publications with detailed explanations of assumptions and methodologies, for instance
 - [Debt Sustainability Monitor 2022](#)
 - [Fiscal Sustainability Report 2021](#)
 - [2021 Ageing Report: Economic Budgetary projections for the EU Member States](#)
 - Most of the analysis can be **reproduced** in Excel spreadsheets

Demystifying the DSA:

1) Does it rely too much on the assumptions?

- The DSA reflects *fundamentals* such as current level of debt, the capacity to repay debt (particularly in relation to economic growth), risk premium, contingent liabilities, and policy orientations
- Results may change depending on the (evolving) macro-financial environment and policy orientations
- Is this bad?

Public debt projections in the UK: before and after the 'mini-budget' announcement



Source: OBR (Economic and fiscal forecast, November 2022)

Stronger enforcement

Enforcement tools

- Deficit-based EDP (3% of GDP threshold) maintained
- Debt-based EDP will be operationalised and strengthened, as a tool to ensure compliance with the agreed net expenditure path
- Financial sanctions toolbox will be enriched with smarter sanctions
- Macroeconomic conditionality will be maintained
- Notional control account keeps track of cumulative (small) slippages

Framework characteristics supporting strict enforcement

- Greater simplicity, with net expenditure as single indicator
 - No confusing signals of multiple indicators
 - More direct government control on the indicator used for compliance
- Medium-term focus
- National ownership (alignment with country needs)

Ways to reduce the 'pressure' on the DSA in the EU reformed fiscal framework

- Following the ECOFIN, DSA-based categorisation (proposed in the November Communication) replaced with Treaty-based categorisation
- The DSA will play a role only at the inception of the process:
 - Technical trajectories
 - Assessment of the plans
- During the monitoring phase, compliance with the EU fiscal rules will be solely assessed based on the expenditure path (adherence or not to the endorsed path)
- Full transparency and increased dialogue on the DSA methodology
- Introduction of safeguards to avoid potential back-loading of fiscal effort (though to be balanced with the need to retain risk-based approach, counter-cyclicality and incentives for reforms and investments)