European Fiscal Board

OECD Sovereign Borrowing Outlook 2022

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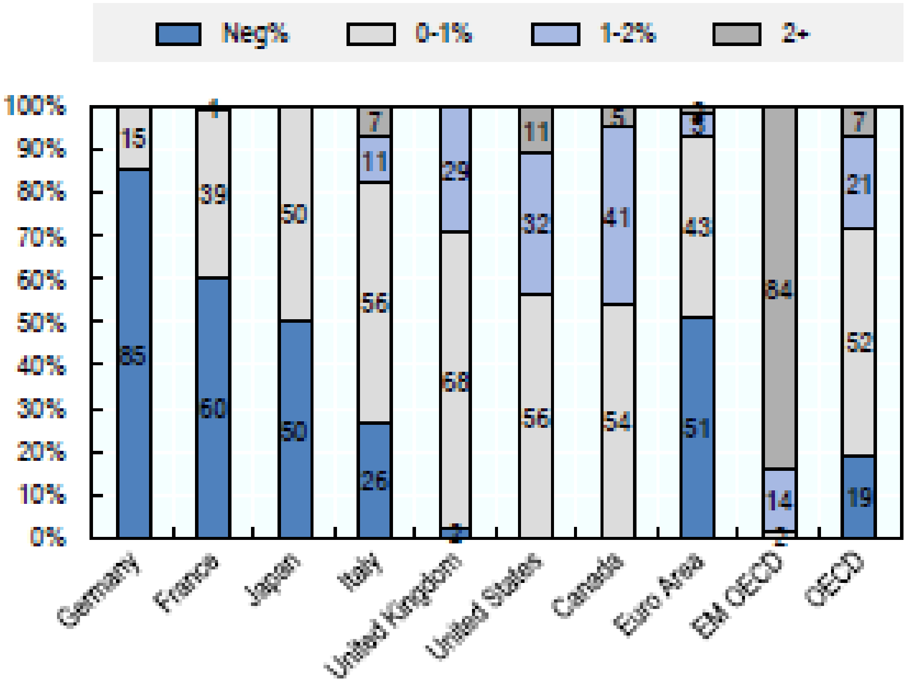
A report at a crucial point in time

- SBO draws attention to less discussed aspects of sustainable public finances, beyond policy-makers' focus on headline figures.
- Underscores underlying debt dynamics, risk factors and borrowing characteristics (maturities, inflation-indexation, roll-over profile…).
- Particularly important for EU at current juncture given
  - high debt levels and still sizable deficits,
  - fiscal policy aimed at mitigating impact of war in Ukraine,
  - supporting green and digital transition, and
  - monetary policy normalisation
- Underlying SBO survey pre-dates war in Ukraine, but its warnings have in the meantime become more pertinent.

Benign interest rate environment has ended

- Extraordinary conditions over past decade:
  - Low inflation,
  - Long recovery phase from global financial crisis,
  - Highly accommodative monetary policy (QE and ZLB)
- Yields on sovereign bonds historically low, supporting fiscal sustainability.
- This is starting to change…

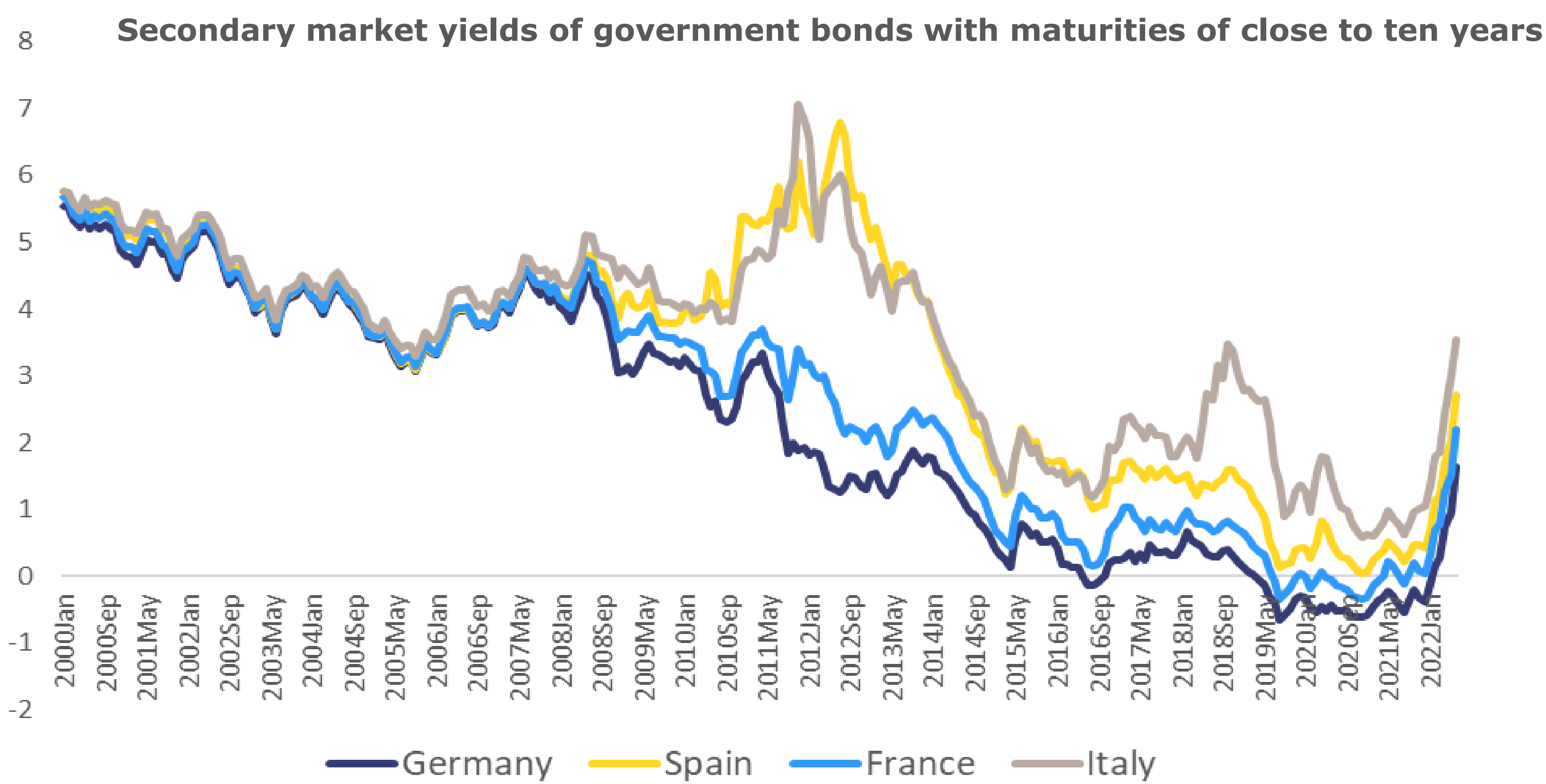
Volume share of fixed-rate bond issuance by yield category



Source: SBO 2022

Pre-existing supply-chain constraints intensified by war

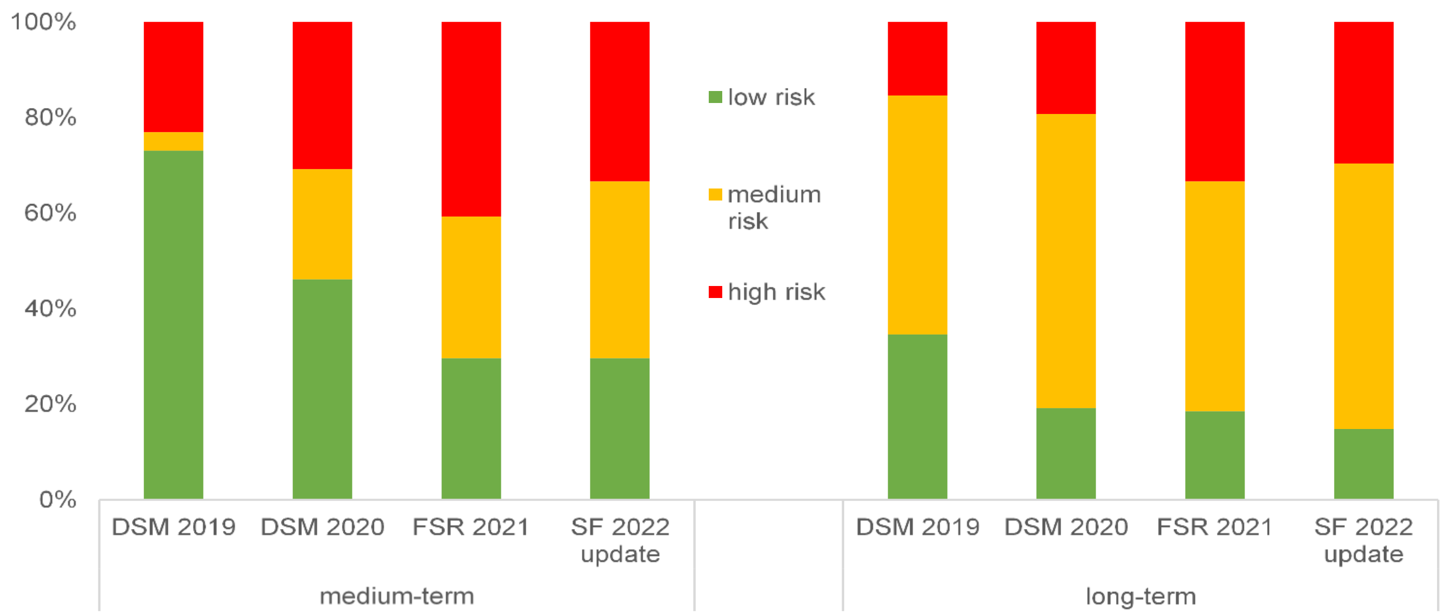
- ECB exits PEPP and announced interest rate hike in response to soaring prices.
- Government borrowing costs increased across the board while spreads to German Bunds also began to widen.
- ECB announced anti-fragmentation tool but uncertainty remains.
- What will be the strength of economic growth after the rebound?



Source: ECB & Bloomberg

Official risk assessments are being updated

Graph: **Share of Member States by their fiscal sustainability risk assessments over time**

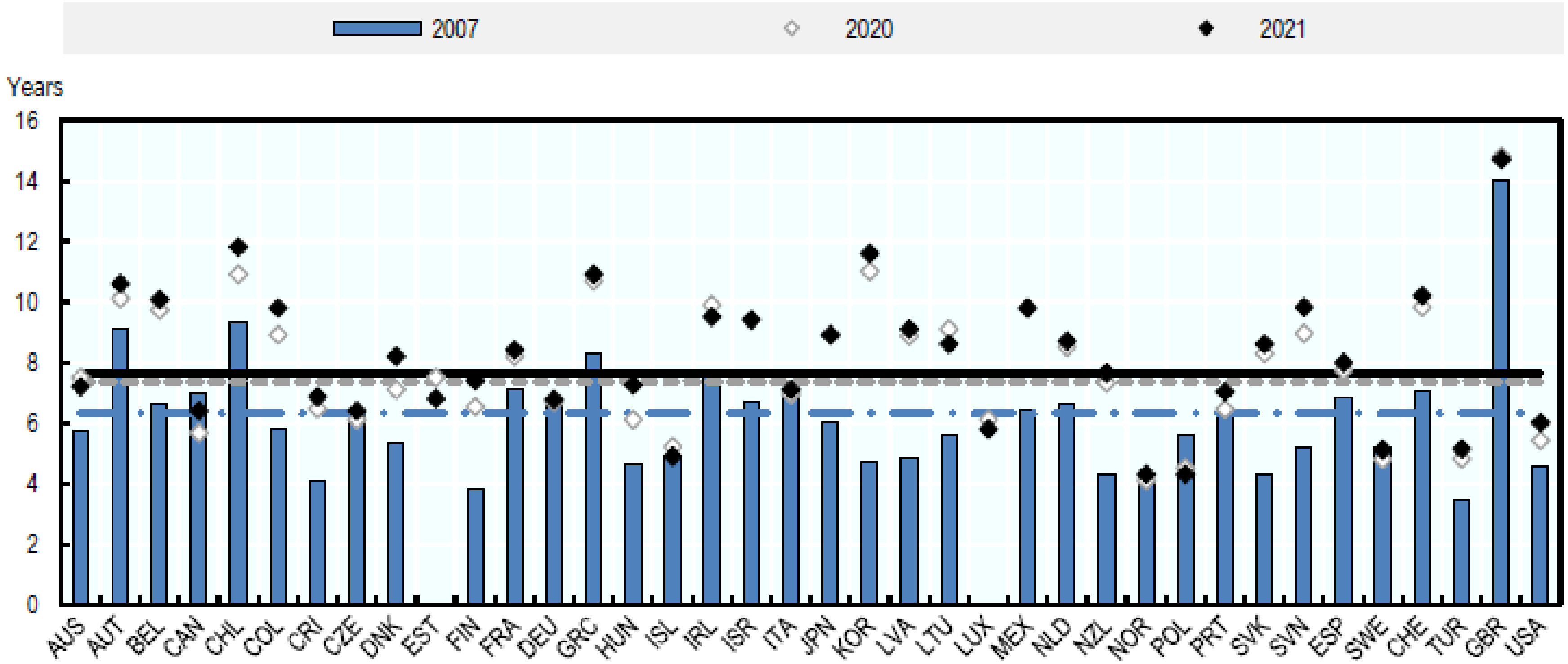


Notes:
DSM 2019 stands for the Debt Sustainability Monitor 2019, which was published in January 2020.
DSM 2020 stands for the Debt Sustainability Monitor 2020, which was published in February 2021.
FSR 2021 stands for the Fiscal Sustainability Report 2021, which was published in April 2022.
SF 2022 stands for the debt sustainability analysis based on the spring 2022 forecast, which was published in the European Semester country reports in May 2022.
Greece was included in the standard Commission sustainability risk assessment from the Fiscal Sustainability Report 2021 in April 2022. Greece was assessed with overall 'high' fiscal sustainability risk in the medium term and 'medium' risk in the long term, both in FSR 2021 and SF2022 update.

Source: European Commission

Average term-to-maturity favourable

- Fortunately, governments over the past years seized opportunity of low interest rates and issued debt at longer maturities. Average maturities to term reached record high in most indebted EU countries.
- Higher yields only gradually affect government interest expenditure as debt is rolled-over.
- But the report illustrates the challenge: 40% of OECD marketable debt in next 3 years and the ECB is no longer the player of the last years.



Source: SBO 2022

Fiscal sustainability back in the limelight (with a vengeance)

Interest rates increase/QT

Government deficits still high

Significant roll-over needs

EU fiscal rules suspended

Markets start reassessing sovereign risks

Thank you for your time!