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Global Economic Briefing

# Sovereign Debt Holding its G≥Round

DM debt metrics improved versus year ago as nominal growth outran the repricing of debt. The reprieve could be temporary given the higher volatility of growth relative to inflation in debt metrics; fiscal consolidation is still required to stabilize debt. See our new interactive tool to scenario test debt trajectories.

**This is the third annual debt sustainability note from MS Global Economics. One key new addition this year is an interactive tool to test debt trajectories as rates, growth, and fiscal outcomes diverge - important since the drivers of sovereign debt have fluctuated in recent years.** Debt levels rose dramatically during COVID because spending rose while growth fell; these trends inverted to re-stabilize debt in 2022 and 2023. By 2024, we began to have a clearer view on how debt metrics were settling; we described the status as "flashing yellow" because while debt levels remained elevated, fiscals were still consolidating. By 2025, it became clear that nominal growth was softening faster than fiscal positions were consolidating, hence the title DM Sovereign Debt, Losing G≤Rip. Put simply, the nominal growth rate was growing more slowly than the cost of debt was rising, from either higher yields or deviation in fiscal spending.

**Despite market focus on rising yields in 2026, debt sustainability has, on the whole, improved versus one year ago. The short term outlook is better while the medium term outlook is worse. This is not to say debt is on a "sustainable" footing but rather empirically, it is better situated than before because in the short run, nominal growth has an immediate effect while higher yields have a delayed impact. Fiscal consolidation is still required in the medium term. In the short term, specific to the current situation, nominal growth has surprised from a mix of AI investment as well as higher prices from tariffs and energy. To the extent the latter fades, some of the benefit to debt metrics will similarly fade. Meanwhile the back-up in yields will only realize in debt metrics as debt is refinanced, which usually takes over five years for most economies. Hence, G≤R has become G≥R in the very short run.**

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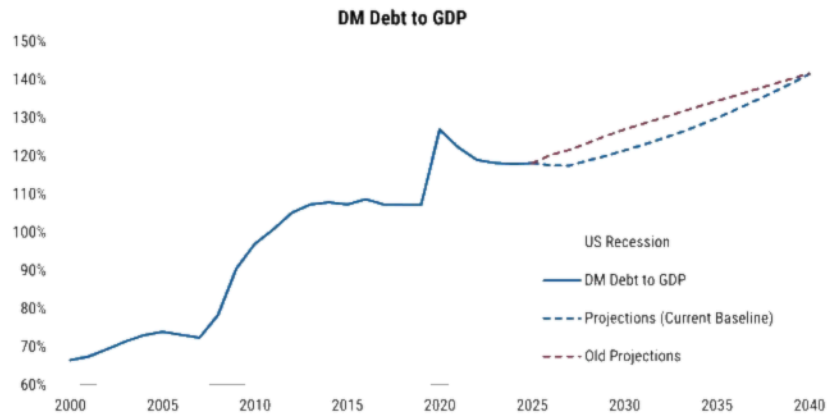
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**Exhibit 1:** Higher nominal growth has pulled the DM debt path below last year's projection for the rest of the decade, but the gap narrows as maturing debt is refinanced at higher yields




Source: National Statistical Agencies, Haver, Bloomberg, Refinitiv, Morgan Stanley Research. Note: Historical data of DM Debt to GDP and DM Projections (Current Baseline, Old Projections) from MS Sovereign Risk Tool, Q1'25 Update, Powered by Fiscal Strategy Team, Global Economics Group

**The new MS DSA Interactive Tool: Run the Scenarios Yourself allows users to toggle debt metrics based on growth, rates, and fiscal outcomes - the three key variables used in our DSA.** Debt metrics such as debt/gdp or deficit/gdp are market short-hand for identifying sustainability and, in and of themselves, are not always the clearest indicator of the debt load that an economy can absorb. Often, markets focus on key variables to assess sustainability, but it is the interaction of the range of variables that drive the empirical side.

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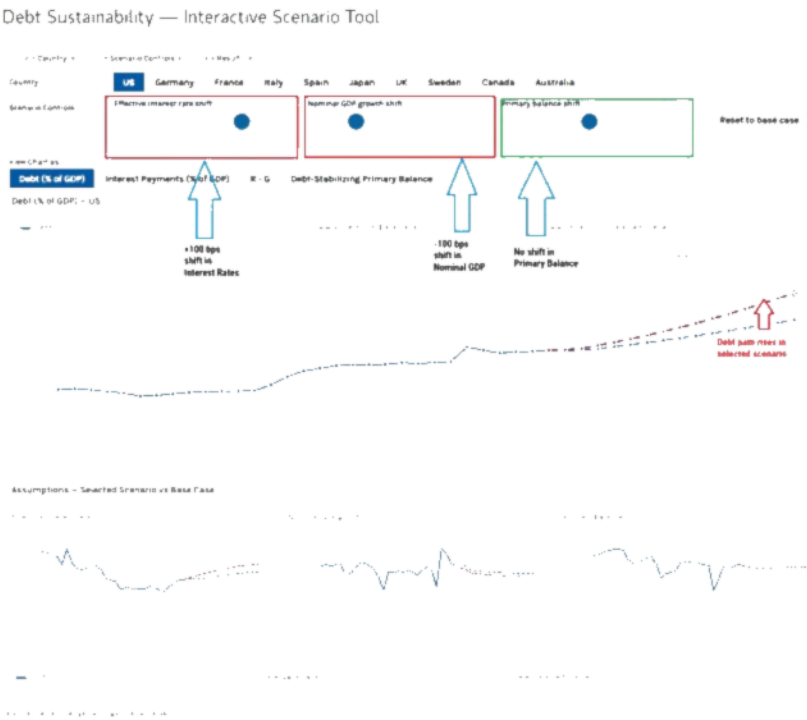
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**Exhibit 2:** *To let clients test these trade-offs themselves, we are launching a DSA interactive tool (see "MS DSA Interactive Tool: Run the Scenarios Yourself"). Users can shift interest rates, nominal growth and the primary balance by up to ±200bp, individually or together, across all ten economies, and see the resulting path for debt, interest costs and the debt-stabilizing primary balance through 2040.*




Source: National Statistical Agencies, National Debt Offices, Haver Analytics, Web Intelligence, Morgan Stanley Research

**Of the three avenues that can stabilize debt metrics — lower rates, higher growth, or smaller deficits — only one did the work this year: growth.** Last year we argued that reversing the trend of higher debt required at least one of the three. Rates moved the wrong way and deficits barely moved, but nominal growth surprised on the upside. As we highlighted in our recent DM Sovereign Debt FAQ, the short run impact of higher nominal growth has been notable: a simple mark-to-market of rates and realized growth produces swings of ±10pp in debt-to-GDP five years out. The US is the clearest example. One year ago, our base case put US debt at ~144% of GDP in 2030, and our full refresh now puts it at ~133%. Though the 2040 projection is ~3pp higher than a year ago, at ~170%.

**Primary balances have improved in the short run, but the medium-term fiscal path has not.** Across the sample, primary balances have improved, as the inflation and nominal growth surprise lifted revenues faster than spending. That improvement fades by the end of the decade: the weighted average primary deficit in 2030 is ~1.9%, versus the ~1.8% we projected last year. Fiscal outcomes are hard to predict and we have to recognize that in the medium term assumptions become

critical to understanding the path.[1]

**Exhibit 3:** With growth running ahead of interest costs, only Italy and Australia need primary surpluses to stabilize debt in 2027, but Germany, France and the US are running deficits well beyond what stability requires

| Debt Stabilizing Primary Balance Estimates for 2027 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Country | Nominal GDP Growth (2026e) | Nominal GDP Growth (2027e) | Debt Servicing Cost (2027e) | Debt/ GDP (2026e) | DSPB (2027e) | 2027 Primary Balance Forecast | Recent Primary Balance (2025) | Primary Balance (2010-2019 Avg) |
| US | 5.8% | 4.7% | 3.6% | 124.3% | **-1.3%** | 1.8% | -1.3% | 2.2% |
| Canada | 4.0% | 4.0% | 2.6% | 69.4% | **-0.9%** | 0.1% | -0.4% | 0.3% |
| Japan | 3.0% | 3.9% | 0.9% | 202.0% | **-5.9%** | -2.2% | 0.5% | -4.5% |
| Australia | 4.1% | 3.0% | 3.5% | 33.8% | **0.2%** | -0.2% | -0.4% | -1.1% |
| UK | 4.7% | 4.6% | 4.0% | 95.2% | **-0.5%** | 0.3% | 1.5% | 2.6% |
| Sweden | 3.8% | 3.1% | 2.1% | 36.0% | **-0.3%** | -0.9% | -0.7% | 0.5% |
| Germany | 3.8% | 3.2% | 2.0% | 64.5% | **-0.7%** | -3.1% | 1.5% | 1.8% |
| France | 2.6% | 3.3% | 2.4% | 117.9% | **-1.1%** | -2.1% | -2.9% | -2.1% |
| Italy | 3.8% | 2.9% | 3.1% | 134.8% | **0.3%** | 0.9% | 0.8% | 1.5% |
| Spain | 6.4% | 5.0% | 2.7% | 96.8% | **-2.1%** | 0.1% | 0.0% | -3.5% |

Source: National Statistical Agencies, Eurostat, OECD, IMF, Bloomberg, Morgan Stanley Research

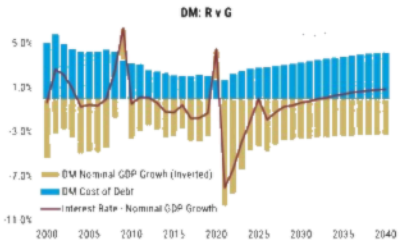
**Comparing the headline data from our previous DSA exercise (in October 2025) to the recent analysis, we find that across our sample:**

- 2030 Debt-to-GDP is projected 5pp lower at ~122%
- Primary balances improved because of higher nominal growth
- R v G balance is pushed out to 2032 as higher yields only reprice into debt over a similar time frame.

**Empirically, nominal growth has quick, short-term effects on the debt math, while rates have slower but more meaningful ones.** The shift from G≤R to G≥R in the short run is a function of nominal growth rates favorably impacting debt metrics while debt re-prices. DM debt tenors generally range from 5-9 years, meaning that the repricing of bonds takes a long time to drive higher funding costs to fiscals. Actually, the reason current interest costs are rising is not because of the recent back up in rates, rather it is because we have now cycled through repricing for the heightened level of debt after COVID. Structurally higher yields would drive a further increase in the level of interest costs. Fiscal deficits will still have to consolidate materially within the next few years, especially if interest rates remain elevated (or growth falters). But, for now, higher nominal growth has both helped the debt-to-GDP metrics and recent fiscal results.

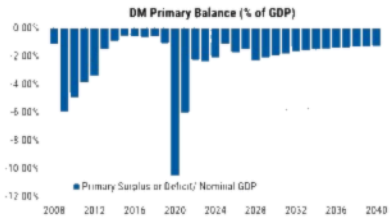
1 In the US beyond 2027, our projections assume a wider primary deficit than the CBO's baseline, as we do not assume discretionary spending falls as a share of GDP which widens the primary deficit from ~1.8% of GDP in 2027 to ~3.6% in 2028 as OBBBA provisions bed in. In Germany's fiscal expansion is being implemented more slowly than planned but is more back-loaded, our economists now see the general government deficit at 4.0% of GDP in 2026 and 4.5% in 2027. In Europe, structural spending pressures are building. Our European economists estimate that ageing, defence and interest costs would mechanically widen deficits by at least 3pp of GDP by 2040 in most euro area countries, and by more than 5pp in Spain. As before, the risks are skewed toward greater deterioration, because we use national budget projections that embed consolidation plans that can be politically difficult to deliver. France's 2027 budget, Spain's upcoming election, Japan's new fiscal framework and the UK's eroded headroom are all cases in point.

**Exhibit 4:** Strong nominal growth keeps R below G across DM for now, but as maturing debt is refinanced at higher yields, the R v G gap closes steadily and becomes positive from mid 2030s




Source: Various Statistical Agencies, Refinitiv Datastream, Haver, Morgan Stanley Research

**Exhibit 5:** Inflation boosted revenues have narrowed DM primary deficits for now, but without new consolidation, fiscal positions stop improving well before debt ratios stabilize



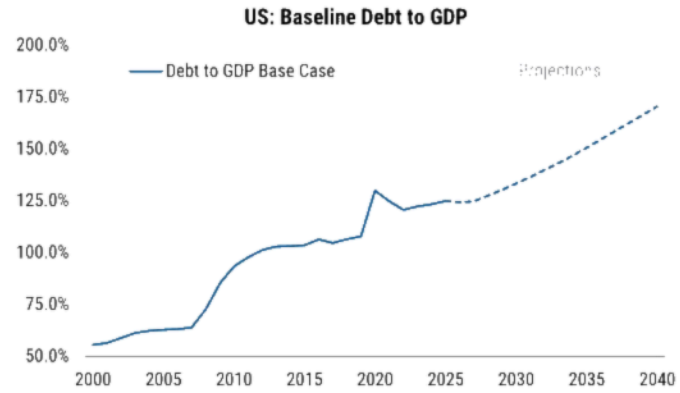

Source: Various Statistical Agencies, Refinitiv Datastream, Haver, Morgan Stanley Research

From a market standpoint, our US rates strategists show that, across the four G10 economies with the highest debt ratios, 30-year yields have fallen as debt-to-GDP has risen, and that the Fed, not the debt stock, plays the leading role in setting Treasury yields. Where fiscal risk premia have resurfaced, it is at the long end and in specific markets: Japan's super-long sector and France, where the 30-year OAT-Bund spread has moved beyond its euro area debt crisis peak.

# Key Conclusions by Country

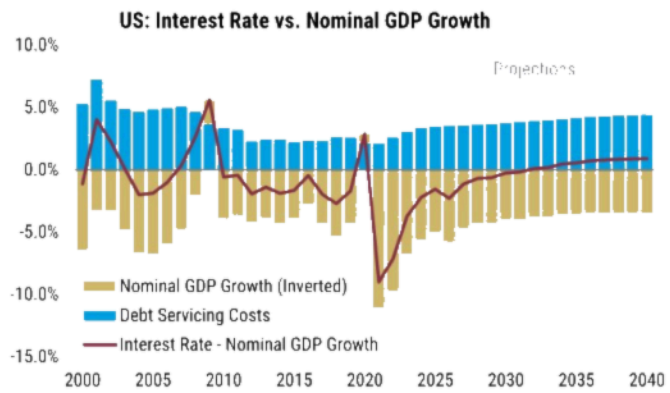
**In the US, debt-to-GDP peaked at ~130% in 2020 before falling back to ~120% by 2022; strong nominal growth holds it near ~125% in 2026-27, but it rises to ~133% by 2030 and ~170% by 2040.** As we noted in the FAQ note, US debt empirically looks more sustainable on a five-year horizon than it did a year ago, because of upside surprises in nominal growth. Nominal GDP growth of 5.8% in 2026 keeps R v G deeply negative near term, even as our economists see the federal deficit widening to 6.3% of GDP in 2026 and 6.1% in 2027. The long run, however, has worsened. On our projections, which build on the CBO baseline but assume spending keeps pace with the economy, the primary deficit widens to ~3.6% of GDP from 2028; as growth normalizes toward 3.5% and the cost of debt drifts up to ~4.4% by 2040 — ~85bps above last year's path — R v G turns positive in the early 2030s. The outlook would be worse still if the projected consolidation did not materialize, or if the US faced a recession before 2040.

**Exhibit 6:** Higher nominal growth makes US debt look empirically more sustainable in the short run .



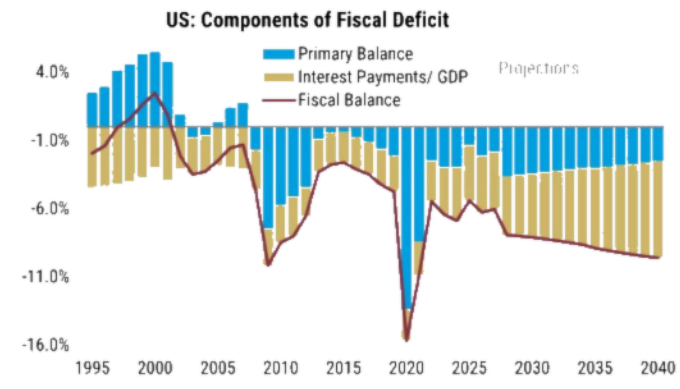

Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Exhibit 7:** ...and debt-to-GDP accelerates from the late 2020s as R v G turns positive due to higher debt service costs



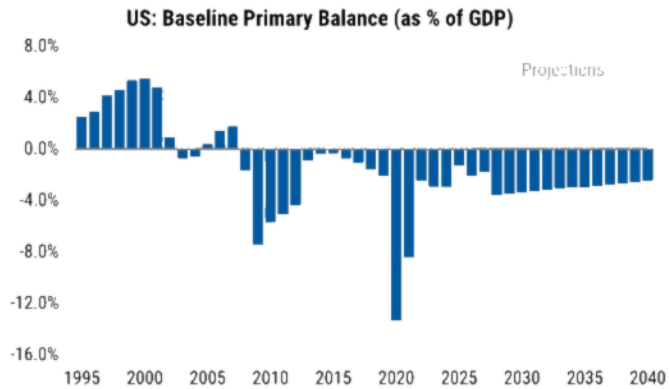

Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Exhibit 8:** In the US, the rising cost of debt servicing means primary deficits must consolidate to keep the fiscal burden constant




Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Exhibit 9:** US consistently ran a primary surplus until the early 2000s before a series of tax cuts and economic shocks

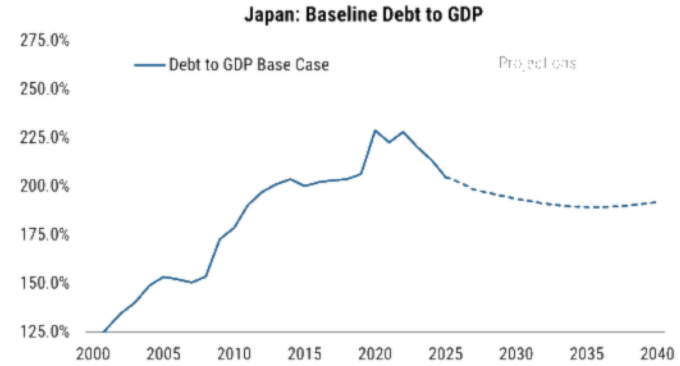



Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**In Japan, debt can be managed at these interest rates, but with less margin than a year**

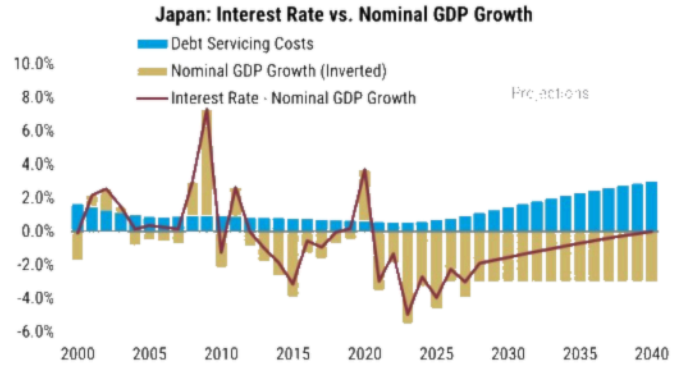
**ago.** Japanese yields are hitting new highs, and Japan's debt stock makes its DSA more sensitive to interest costs. Still, the strong nominal growth is doing a lot of the heavy lifting: the reflationary shift from near-zero nominal growth to ~3% keeps R well below G. Debt-to-GDP falls from ~205% in 2025 to ~196% by 2030 despite wider primary deficits under the "responsible and proactive fiscal policy". But the cost of debt now rises to ~1.6% by 2030 and ~3.0% by 2040 (vs. ~1.4% and ~2.2% last year). The ~9-year duration of JGBs is the buffer; the fiscal risk premium in the long end is the warning sign.

**Exhibit 10:** Japan's projected debt-to-GDP is set to fall as nominal growth normalizes...




Source: Ministry of Finance Japan, Haver, Morgan Stanley Research

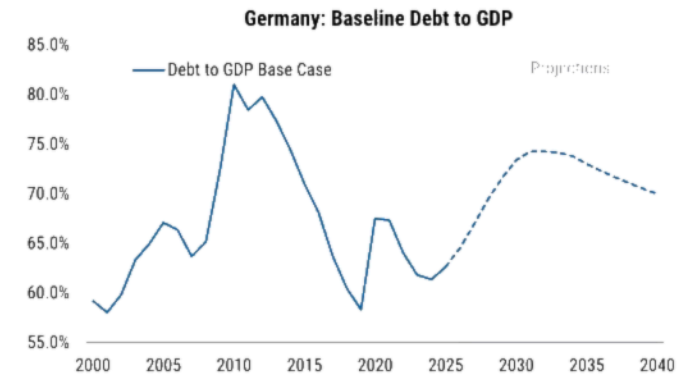
**Exhibit 11:** ...but the pace of the decline slows as the cost of debt increases




Source: Ministry of Finance Japan, Haver, Morgan Stanley Research

**Within the euro area, the fiscal tailwind from cheap debt and low defence spending has turned into a headwind, and the medium-term divergence is widening.** Our European economists describe a shift from an era of cheap debt to one of hard allocation choices, with Belgium, France and Italy the most fiscally constrained. Germany's expansion lifts debt to a peak of ~74% in the early 2030s, but entrenched fiscal prudence brings it back toward ~70% by 2040 ( Exhibit 12 , Exhibit 13 ). France's deficit is not consolidating, we see 5.4% of GDP in both 2026 and 2027. Debt rises from ~116% to ~123% by 2030 and ~145% by 2040 ( Exhibit 14 , Exhibit 15 ). Italy's primary surpluses and a strong 2026 nominal growth outturn hold debt near ~134-136% through 2030 — ~6pp better than last year — but R > G from 2027 still pushes the ratio toward ~150% by 2040 ( Exhibit 16 , Exhibit 17 ). Spain's strong nominal growth brings debt below 95% of GDP in 2027, though ageing costs dominate the long-run path ( Exhibit 18 , Exhibit 19 ).

**Exhibit 12:** Germany's recent fiscal expansion should increase its debt stock, but we expect it to slope down again in the early 2030...



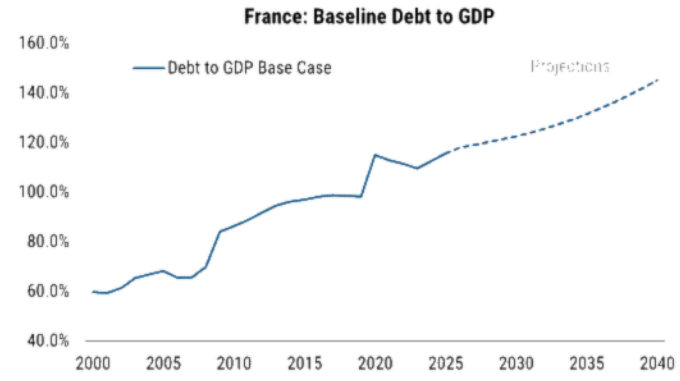

Source: Eurostat, Federal Statistical Office, Haver, Morgan Stanley Research

**Exhibit 13:** ...A negative R v G relationship buffers the initial debt increase but R is projected to exceed G later on



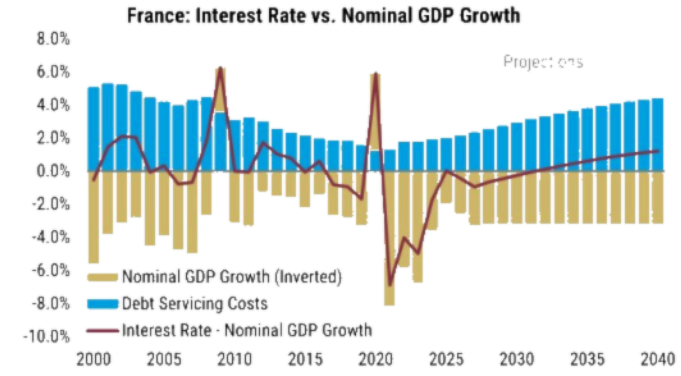

Source: Eurostat, Federal Statistical Office, Haver, Morgan Stanley Research

**Exhibit 14:** France has a rising debt profile based on projected fiscals, with acceleration visible when...



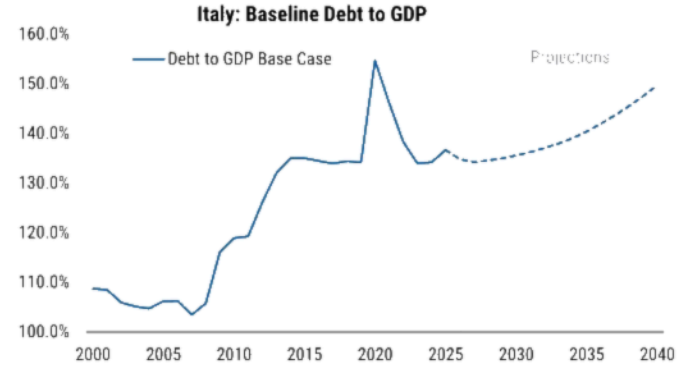

Source: Eurostat, Haver, Morgan Stanley Research

**Exhibit 15:** ... R v G turns positive later in the decade




Source: Eurostat, Haver, Morgan Stanley Research

**Exhibit 16:** Italy's debt, compared to 18 months ago, is no longer expected to be stable and is on an upward trajectory...



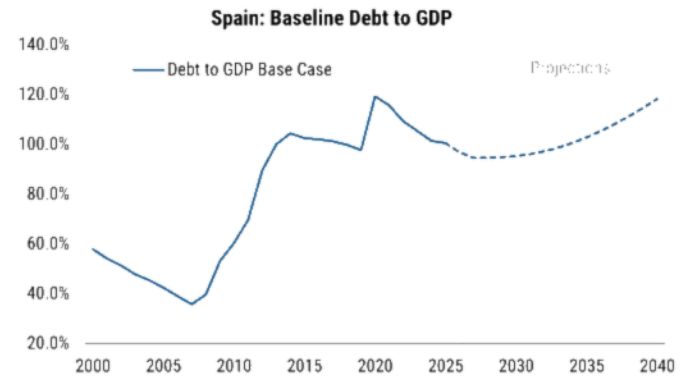

Source: Eurostat, Istat, Haver, Morgan Stanley Research

**Exhibit 17:** ...softer growth has inverted the R v G relationship



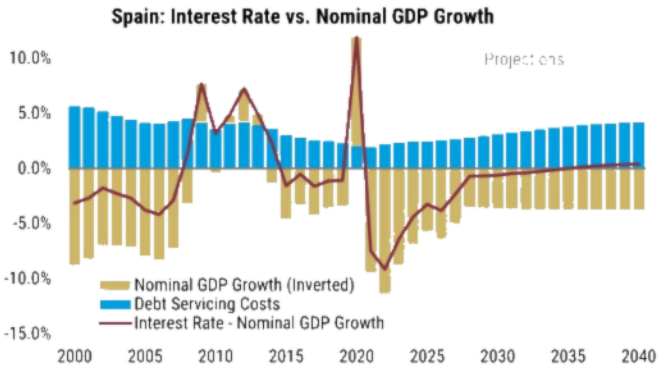

Source: Eurostat, Istat, Haver, Morgan Stanley Research

**Exhibit 18:** Spain's debt is projected to remain stable until 2030, at which point it starts to rise...




Source: Eurostat, INE, Haver, Morgan Stanley Research

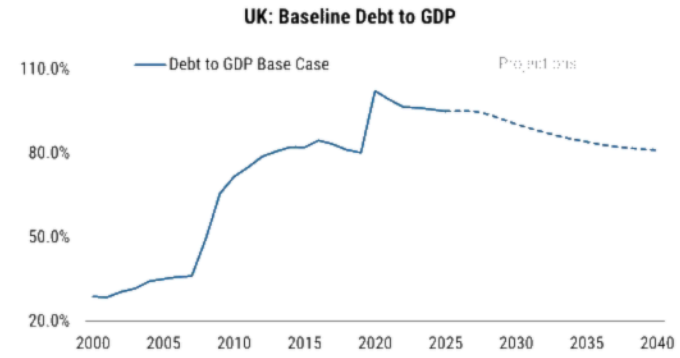
**Exhibit 19:** ...and the R v G relationship converges to 0




Source: Eurostat, INE, Haver, Morgan Stanley Research

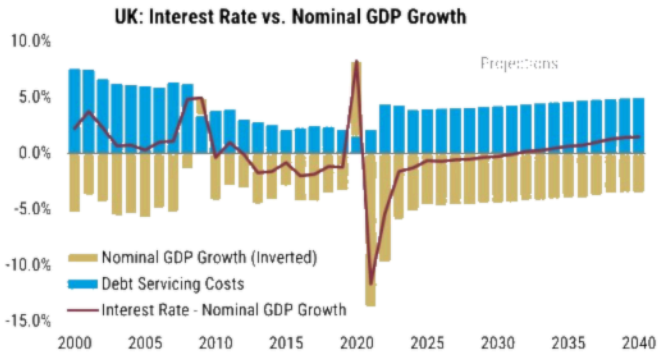
**The United Kingdom remains under heightened market scrutiny; nominal growth has stabilized the debt outlook, but higher gilt yields have eroded much of the fiscal headroom rebuilt over the past year.** The UK is undergoing one of the more serious fiscal consolidations in DM, and the October Budget kept it on track. The low-key Budget set headroom at £15bn and funded energy support with modest tax increases rather than additional borrowing. Our baseline now follows the government's plan to move the primary balance into a ~1.5% of GDP surplus by 2030. On that path, and with R v G slightly negative until the early 2030s, debt edges down from ~95% of GDP in 2025 to ~90% by 2030 and ~81% by 2040. The projected surplus is doing the work, though: with a primary balance 200bps weaker, debt would rise to ~113% by 2040, so the UK's debt outlook rests on delivering its fiscal plans.

**Exhibit 20:** The UK debt ratio can decline over the next decade, but only if the government delivers the planned shift to a primary surplus. .




Source: ONS, OBR, Haver, Morgan Stanley Research

**Exhibit 21:** ...because modest potential growth means the advantage of nominal growth over interest costs fades in the early 2030s




Source: ONS, OBR, Haver, Morgan Stanley Research

**Canada, Australia and Sweden remain the lowest-risk debt profiles in our sample, but even here the cushion from R < G is thinning**. All three borrow in their own currencies, which materially lowers the risk of a debt-sustainability backlash relative to hard-currency issuers. In **Canada**, debt edges down from ~70% of GDP in 2025 to ~60% by 2040 as primary balances return to surplus. **Sweden's** defence build-up lifts debt to ~40% by the mid-2030s, comfortably within its debt anchor, before the return to a balanced budget brings it down. **Australia's** debt stays near ~34% through 2030, but higher yields and a

lower long-run growth assumption turn R v G marginally positive from the mid-2030s: a reminder that no economy is immune to the global repricing of rates.

## MS DSA Interactive Tool: Run the Scenarios Yourself

In our DSA, debt sustainability comes down to three levers: the cost of debt (R), nominal growth (G) and the primary balance (PB). Our interactive tool lets clients shift each lever, individually or together, by up to ±200bp around our baseline, for each of the ten economies in our sample. The tool returns the path of debt-to-GDP, the cost of debt, interest payments, R v G and the debt-stabilizing primary balance through 2040.

The levers have different impacts on debt sustainability: growth or primary-balance shift moves the debt math straight away; a rate shift feeds through only gradually, because each year only 1/WAM of the debt stock reprices at the new yield. Hence, in the US, a +100bp rate shock moves debt-to-GDP by only ~2.5pp by 2030 but ~16pp by 2040 (to ~186% from ~170%), whereas 100bp slower nominal growth adds ~6pp by 2030 and ~23pp by 2040. The tool also makes the fiscal trade-offs explicit. A primary balance 200bps stronger than baseline would hold US debt near ~139% of GDP in 2040, while a UK primary balance 200bps weaker than its projected baseline surplus would push UK debt to ~113% instead of declining to ~81%. Clients can use the tool to stress-test our baseline against their own views on rates, growth and fiscal policy, and to see how much consolidation each economy needs to keep debt stable.

Exhibit 22




Source: Alphawise Web Intelligence, Morgan Stanley Research

# DSA Primer

*Rajeev Sibal, Arunima Sinha*

**We review the key drivers of the debt sustainability analysis (DSA) framework.** A DSA framework projects debt levels by calculating the interaction of nominal growth rates, cost of debt, debt composition, deficits, and stock/flow adjustments. The most widely used model is the IMF DSA framework, though the European Commission DSA frameworks gained prominence during the eurozone crisis (see here). We use a classic DSA to contextualize the recent rise in debt and test sensitivities, projecting where debt is likely to go under different scenarios. We use Morgan Stanley forecasts to 2026 and national budget office estimates/outlooks to make the projections thereafter. Specifically, the formula estimates the interaction of (1) the past level of debt-to-GDP, (2) current primary deficit, (3) nominal cumulative returns on outstanding government debt (R), and (4) nominal GDP (G, calculated as real GDP growth plus a GDP deflator, for which inflation can be a proxy). The box below shows the formulaic interpretation of the variables.[2]

**DSA Math (Box 1)**

*Arunima Sinha*

The change in the ratio of government debt-to-GDP at time t, $d_t$, is expressed as:

$$\Delta d_t = d_{t-1}\left[\frac{r_t - g_t}{1 + g_t}\right] - pb_t + sfa_t$$

Here, $r_t$ is the average nominal interest rate on government debt, $g_t$ is the nominal growth rate of GDP, $pb_t$ is the ratio of the primary balance of the government relative to the GDP, and $sfa_t$ denotes the ratio of the stock flow adjustments to GDP. Note, the primary budget excludes the interest expense on the debt, which is captured in the first term.

In our analysis, the growth rate g is the forecast for the nominal growth over the outlook horizon, and r is the nominal implicit interest rate, which is the ratio of government interest payments in the current year and the government debt stock in the previous year.

The stock flow adjustment ($sfa_t$) term arises because the government fiscal balance may not reconcile fully with the change of debt, which may be because of a lack of consolidated state-linked accounts (often the case in EM) or accounting cash vs. accrual issues (more often the case in DM, see discussion in Weber 2012). Specifically, in most accounting exercises, the data on debt levels and interest payments are obtained from changes in cash accounting, while tax revenue,

2 Stock-flow adjustments are also a critical variable which we exclude for simplicity. A stock-flow adjustment explains the difference between deficits and changes in the level of debt. Stock-flow adjustments played an important part in the EM debt crisis because of contingent liabilities of the state that are not always transparent in EMs. The stock-flow should theoretically be less relevant in a DM framework because fiscal transparency is better (see for example the discussion Weber 2012). This note will not specify stock flow adjustments errors within the calculations to simplify and focus on the core variables of the equation: nominal growth, cost of debt, and primary fiscal deficits. More technical DSA frameworks will differentiate between cash and accrual accounting, primary deficits (policy driven spending), and headline deficits. Furthermore, estimating debt servicing costs can be complicated because they depend on a range of factors, including the composition of debt instruments and government choices on the tenor of debt issuance. See Box 1 "DSA Math" for further information and a mathematical representation.

expenditure and primary deficits are computed from accrual-based accounts, reflecting the need to plan budgets in advance (Casalin, Cerniglia and Dia, 2022). A large empirical academic literature on stock-flow adjustments has found that these are of a relevant size for DM and EM, and influenced by macroeconomic factors output, inflation and debt dynamics.

**These variables are commonly condensed into "R v G," a simplification**[3] but one that captures the point that if nominal GDP growth exceeds the interest expense on the debt, the debt-to-GDP ratio will fall over time if the primary budget is in balance. Put differently, if R is less than G, then we can find the level of the primary deficit such that the debt-to-GDP ratio is stable. Conversely, if R is greater than G, there is a level of primary surplus that will stabilize the deficit.

**As debt levels increase and/or the cost of debt rises, the debt stabilizing primary fiscal balance (DSPB) takes on more importance because debt sustainability becomes more nuanced.** The DSPB is the size of the primary balance required to keep debt-to-GDP constant. If the primary deficit is larger than the DSPB, then debt-to-GDP will rise.[4]

### Estimating DSA Sensitivity (Box 2)

*Arunima Sinha*

In the discussion, we highlight the relative predictability of interest rate convergence to market rates over time. Similarly, projections are based on an estimation of potential nominal growth over the medium term. This means primary fiscal deficits have relatively high sensitivity in most DM scenarios. Therefore, we take the equation in Box 1, "DSA Math," a step further to theoretically frame steady state debt with primary balance as our leading dependent variable.

Taking the DSA standard equation from Box 1:

$$\Delta d_t = d_{t-1}\left[\frac{r_t - g_t}{1+g_t}\right] - pb_t + sfa_t$$

To ensure debt is stable, $d_t$=0 (and assuming $sfa_t$=0, which can also be generalized to a positive constant):

$$pb_t = \left[\frac{r_t - g_t}{1+g_t}\right] \times d_{t-1}$$

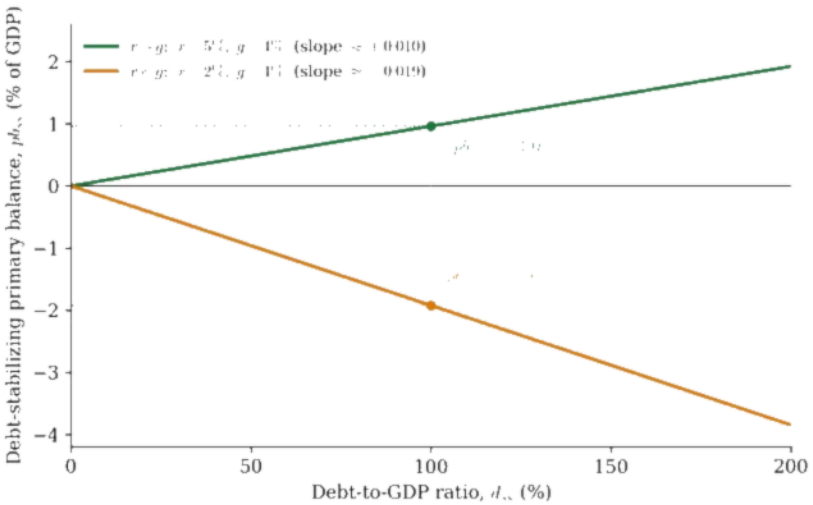
Becomes at "steady state," for comparative statics:

3 Note that while economic convention is to use lower case' R v G, we use the two interchangeably and learn into R v G for ease of reading

4 Even if R is less than G, the difference must also be less than the primary deficit for debt not to increase. If the primary deficit is too high, the extra spending offsets the benefit of higher nominal growth than interest costs. Similarly, if R is greater than G, the amount of the primary surplus needed to keep debt stable is even higher. The fiscal deficit is an important third leg of a debt sustainability tripod. See Box 2 - Estimating DSA Sensitivity, for further discussion

$$pb_{ss} = \left[\frac{r_{ss} - g_{ss}}{1 + g_{ss}}\right] \times d_{ss}$$

The term in brackets, (r − g)/(1 + g), is the slope of the line linking the debt-stabilizing primary balance to the debt ratio. With realistic interest and growth rates it is always small, well below one in absolute value, so what matters is its sign and how it scales with the stock of debt. When r < g, the slope is negative: a country can run a primary deficit and still keep its debt-to-GDP ratio stable. When r > g, the slope turns positive: a primary surplus is required, and the required surplus rises in proportion to the debt ratio (see exhibit below).




For example, with debt at 100% of GDP, an interest rate of 2% and nominal growth of 4% allow a primary deficit of ~1.9% of GDP:

$$r < g: \quad pb = \left[\frac{0.02 - 0.04}{1 + 0.04}\right] \times 1.00 \approx -0.019$$

If the interest rate rises to 5% with growth unchanged, the same debt ratio requires a primary surplus of ~1.0% of GDP, a swing of nearly 3pp of GDP in the fiscal effort needed:

$$r > g: \quad pb = \left[\frac{0.05 - 0.04}{1 + 0.04}\right] \times 1.00 \approx +0.010$$

At a debt ratio of 200%, the required surplus roughly doubles, to ~1.9% of GDP. This is why the debt-stabilizing primary balance becomes more demanding as debt levels and the cost of debt rise together.

**The operative question is, Where do primary deficits need to be to ensure that debt stays on a stable path?** Exhibit 23 takes the simple estimate of DSPB and compares it to the forecast primary balance.[5] The DSPB will move gradually through the years as debt rises and falls. **Because nominal growth has surprised to the upside while the cost of debt reprices only slowly, the DSPB has fallen in most economies compared with one year ago.** In 2027, only Italy and Australia need a primary surplus to stabilize debt, whereas last year the US, Canada, the UK, France and Italy all needed one. Italy's forecast surplus clears its DSPB. Germany, France and the US are running primary deficits wider than their DSPB, so their debt ratios rise even with G ≥ R. **The upside surprise in G in recent years, however, does not eliminate the need for primary balances to consolidate over time - as the below exhibit shows.**

**Exhibit 23:** With G ≥ R in the short run, DSPBs have fallen in most economies, only Italy and Australia need primary surpluses to stabilize debt in 2027

| Debt Stabilizing Primary Balance Estimates for 2027 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Country | Nominal GDP Growth (2026e) | Nominal GDP Growth (2027e) | Debt Servicing Cost (2027e) | Debt/ GDP (2026e) | DSPB (2027e) | 2027 Primary Balance Forecast | Recent Primary Balance (2025) | Primary Balance (2010-2019 Avg) |
| US | 5.8% | 4.7% | 3.6% | 124.3% | **-1.3%** | -1.8% | -1.3% | -2.2% |
| Canada | 4.0% | 4.0% | 2.6% | 69.4% | **-0.9%** | 0.1% | 0.4% | 0.3% |
| Japan | 3.0% | 3.9% | 0.9% | 202.0% | **-5.9%** | -2.2% | -0.5% | -4.5% |
| Australia | 4.1% | 3.0% | 3.5% | 33.8% | **0.2%** | -0.2% | -0.4% | -1.1% |
| UK | 4.7% | 4.6% | 4.0% | 95.2% | **-0.5%** | -0.3% | -1.5% | -2.8% |
| Sweden | 3.8% | 3.1% | 2.1% | 36.0% | **-0.3%** | -0.9% | -0.7% | 0.5% |
| Germany | 3.8% | 3.2% | 2.0% | 64.5% | **-0.7%** | -3.1% | -1.5% | 1.8% |
| France | 2.6% | 3.3% | 2.4% | 117.9% | **-1.1%** | -2.1% | -2.9% | -2.1% |
| Italy | 3.8% | 2.9% | 3.1% | 134.8% | **0.3%** | 0.9% | 0.8% | 1.5% |
| Spain | 6.4% | 5.0% | 2.7% | 96.8% | **-2.1%** | 0.1% | 0.0% | 3.5% |

Source: National Statistical Agencies, National Debt Offices, Haver, Morgan Stanley Research

5 Note that the table uses the R v G calculations explained in the 'DSA Math' box but ignores stock flow adjustments and therefore is a simplified approach to estimating DSPB. The data should be read as directional. Note also the debt-to-GDP estimates use a standard 4Q4 approach consistent with IMF data but using national sources. These may differ from local convention.

# United States

*Diego Anzoategui*

## What's Changed Since Last Year?

The near-term outlook has improved; the long run has not. Nominal GDP growth of 5.8% in 2026 and 4.7% in 2027 holds debt near ~125% of GDP, even as the One Big Beautiful Bill Act (OBBBA) and higher defense spending widen the deficit. From 2028, the primary deficit widens again to ~3.6% of GDP on our projections, and R v G turns positive in the early 2030s. Debt reaches ~133% by 2030 (~11pp below last year's ~144%) but ~170% by 2040 (~3pp above last year's ~167%).

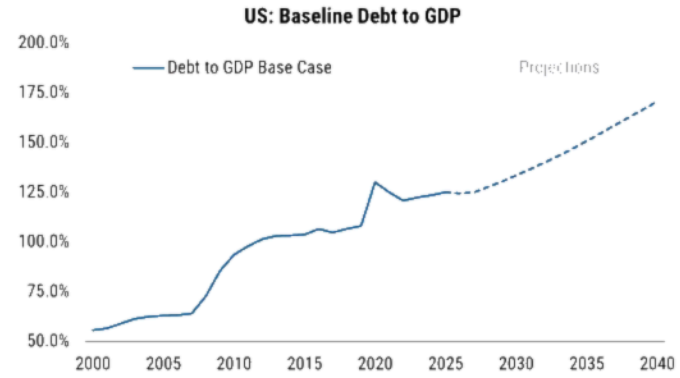
**Is US debt too high?** The level is high and rising, but the answer depends on the horizon. As we argued in our FAQ note, the nominal growth surprise improves the DSA math immediately, while higher rates take more than five years to feed fully into funding costs. If rates stay elevated that long, the benefit fades and the risk of a growth slowdown rises over the same horizon. Ever-larger debt loads are not sustainable absent policy change, but the case that debt is too high cannot be a static one. [6]

US public debt began trending higher just before the pandemic, as the 2017 Tax Cuts and Jobs Act (TCJA) widened deficits; pandemic stimulus and the Bipartisan Infrastructure Law then accelerated the move, with primary deficits averaging ~6% of GDP over 2020-24. The OBBBA, enacted in July 2025, made the TCJA cuts permanent and added new short-term tax exemptions. Our economists see the federal deficit widening from 5.4% of GDP in 2025 to 6.3% in 2026 and staying at 6.1% in 2027.

Tariffs have provided less of an offset than expected a year ago. The Supreme Court ruled in February that IEEPA does not authorize tariffs; of an estimated $287bn of tariff revenue in 2025, $140bn had been collected under IEEPA, and the Section 122 replacement lowers the headline rate from ~13% to ~11%. The CBO's February 2026 baseline sees debt held by the public rising from ~$31tn to $56tn by 2036, surpassing the 1946 record of 106% of GDP in 2030. Using Morgan Stanley forecasts for 2026-27 and CBO-based projections thereafter, we project debt at ~133% of GDP in 2030 and ~170% in 2040.

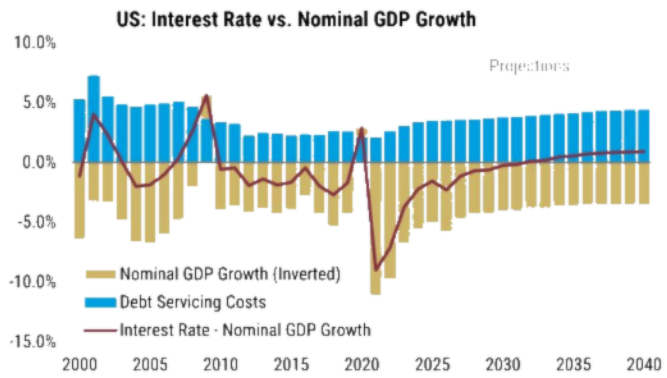
6. Our projections deviate from those of the CBO given certain definitional differences. Our DSA uses total gross federal debt rather than debt held by the public. In our analysis, longer-term primary deficits is wider than the CBO's because the CBO assumes discretionary spending grows only with inflation, so it falls as a share of GDP over time; we assume it broadly keeps pace with nominal GDP. Our projection for cost of debt is higher than the CBO's because we use market forward rates, which reflect the recent rise in yields, while the CBO assumes yields settle lower than current market pricing. Our interest payments are higher still because we apply those rates to total gross federal debt and include interest paid to federal trust funds, which the CBO nets out. Effective payments, after trust fund interest and Fed remittances, would be lower than our estimate.

**Exhibit 24:** Strong nominal growth has temporarily held the US debt ratio steady, but wide structural deficits...




Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Exhibit 25:** ...mean debt to GDP accelerates when R v G turns positive as growth normalizes and rates rise

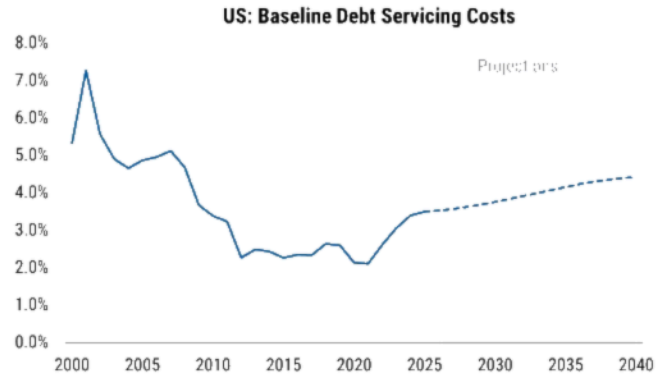



Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Rates:** With a weighted average maturity of ~6 years, roughly one-sixth of US debt reprices each year, which keeps the interest burden a slow-moving variable. That maturity is at risk of shortening: our strategists estimate that holding coupon sizes steady through 2028 would shrink it to ~5.7 years, the shortest since 2014. Market yields sit well above the ~3.5% average cost of the debt stock. The FOMC raised rates to 3.75-4.00% in September, our economists expect two further hikes to 4.25-4.50%, and 5y and 10y Treasuries yielded 4.99% and 5.11% on 23 September . We project the effective cost of debt at ~3.8% in 2030 and ~4.4% by 2040, lifting interest payments (gross-debt basis) from ~4.1% of GDP in 2025 to ~4.7% in 2030 and ~7.1% by 2040. The CBO projects net interest rising from 3.3% of GDP in FY2026 to 4.6% in 2036, but assumes a 10-year yield of only 4.1-4.4%.

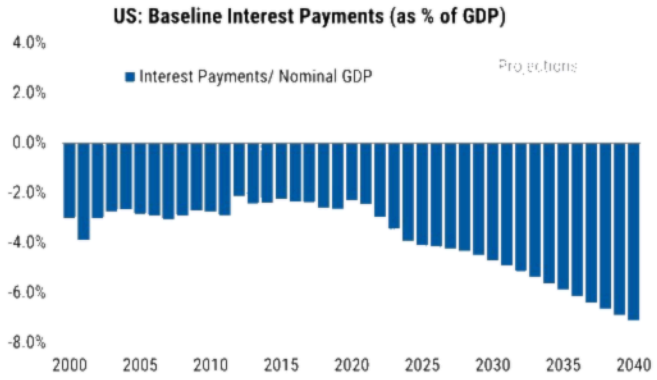
How much higher debt pushes up yields is uncertain: empirical estimates of the rate-to-indebtedness elasticity range from 2 to 5bps per 1pp increase in the debt ratio. Our baseline assumes a higher term premium keeps yields elevated, so a return to pre-Covid average rates of ~2% is unlikely. Still, we note that the 2026 back-up reflects Fed repricing and a hot economy rather than fiscal concerns, with the term premium contained. The size of the debt distracts from what matters most, namely the speed at which it accumulates, and that the link between long-term rates and fiscal variables has not been stable over time. In our scenarios, a ±100bp shift moves 2030 debt by only ~±2.5pp but widens the 2040 range to ~156-186% ( Exhibit 28 ).

**Exhibit 26:** US debt servicing costs are set to rise as it converges to market rates...




Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

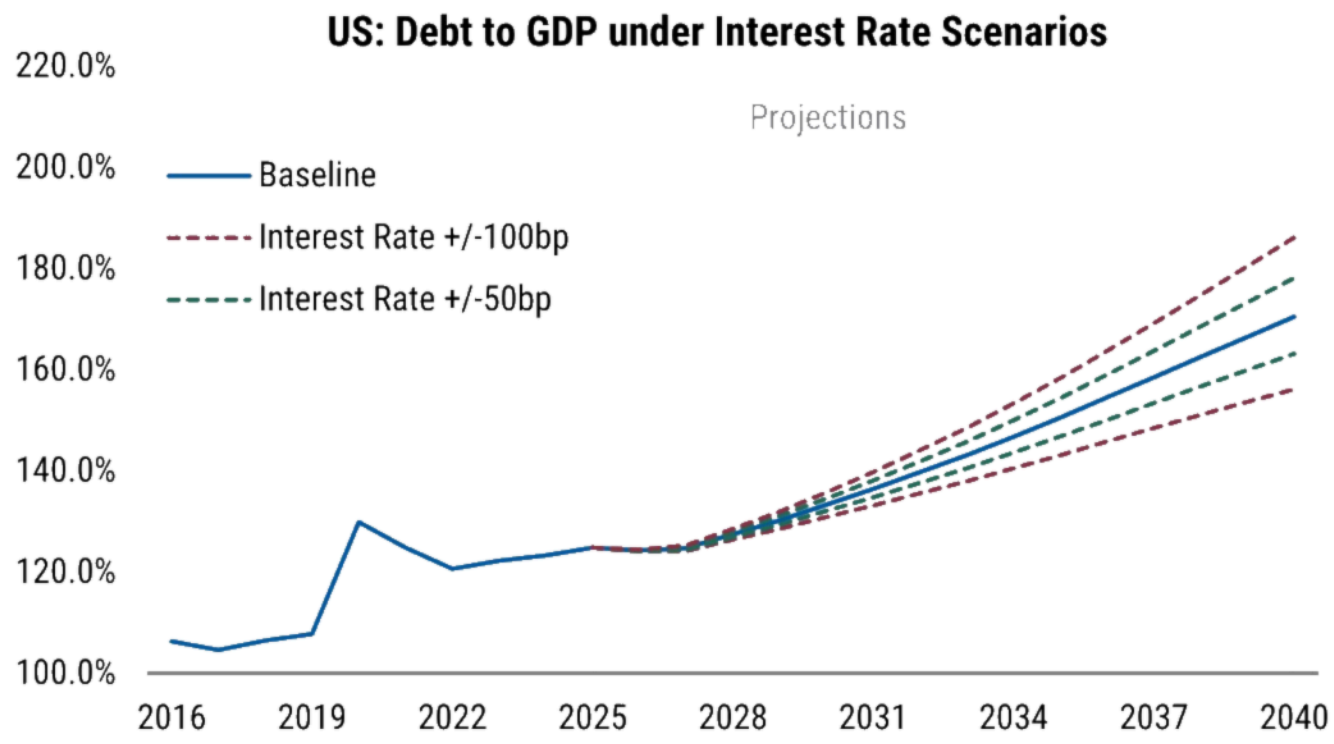
**Exhibit 27:** ...increasing the fiscal burden as the high stock of debt increases fiscal sensitivity to interest costs




Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Exhibit 28:**

Because only part of the debt reprices each year, higher rates do limited damage by 2030 but compound into a much higher debt path by 2040



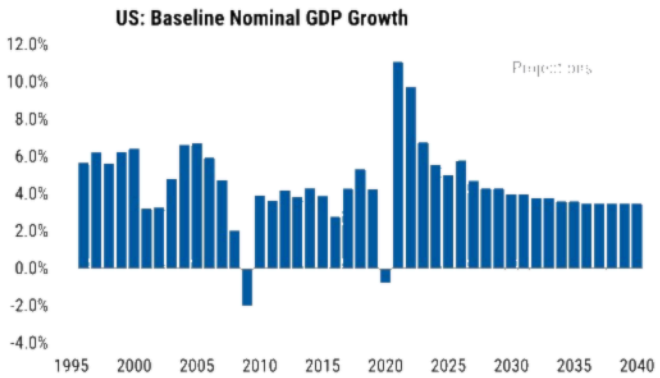

Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Growth:** The growth outlook is stronger than a year ago. Our economists expect real GDP growth of 2.3% in 2026 and 2.6% in 2027, up from 1.8% and 2.0% six months earlier, on AI-driven capex and wealth-driven consumption. Inflation is also higher, with core PCE at 3.2% in 2026 and 2.7% in 2027 as an oil risk premium persists, and fiscal support adds ~0.4pp to growth in 2026 and ~0.2pp in 2027.

We forecast nominal growth of 5.8% in 2026 and 4.7% in 2027, with projections slowing to ~4.0% in 2030, before converging to ~3.5% by the mid-2030s. R - G is about -2.3pp in

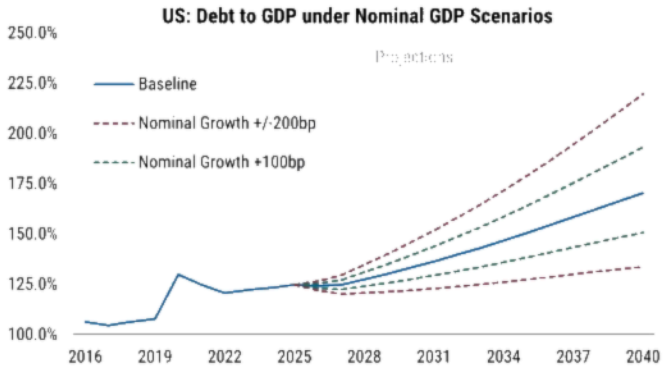
2026 and -1.1pp in 2027, narrows to ~-0.3pp by 2030 and turns positive from 2032, reaching ~+0.9pp by 2040. Higher potential growth would improve the trajectory (Exhibit 30), but higher long-run growth typically comes with higher rates, a dynamic visible this year as stronger growth has met a Fed hiking cycle.

**Exhibit 29:** The energy- and AI-driven boost to US nominal growth is temporary, with growth converging back toward its long-run trend in the 2030s




Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Exhibit 30:** The elevated sensitivity to debt-to-GDP to growth shows the risks that arise from sub trend growth

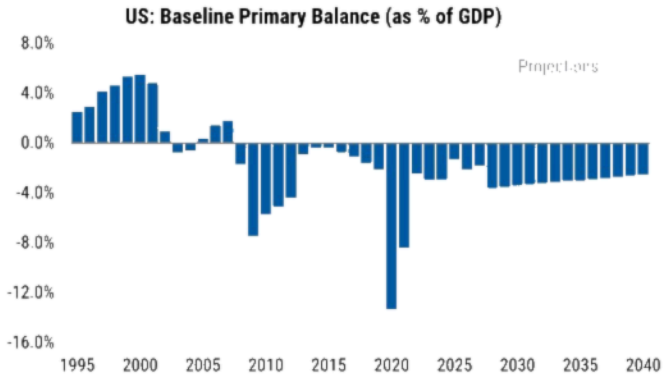



Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Fiscal:** The primary fiscal path remains wide. OBBBA's deficit impact is front-loaded: temporary tax cuts for tips, overtime, seniors and SALT phase out in 2028-29, while spending reductions ramp up only gradually. Our economists also assume ~$100bn of additional defense appropriations, with most of the residual rise in deficits explained by a higher debt stock and elevated rate. Potential IEEPA refunds (~$85bn at the midpoint of our range) are likely to be drawn out and bill-funded.

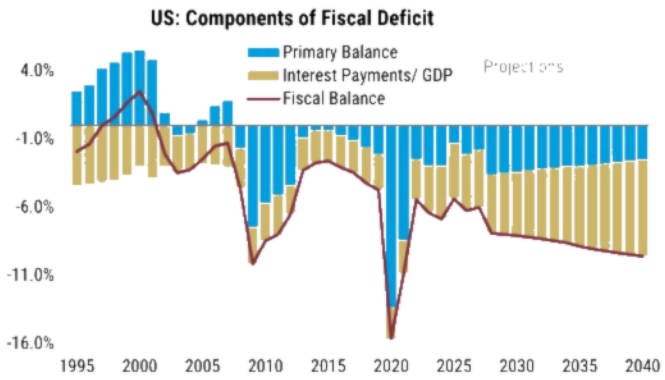
With the TCJA cuts permanent, we expect primary deficits to stay well wider than historical norms. We project primary deficits of ~2.1% of GDP in 2026 and ~1.8% in 2027, widening to an average of ~3.5% over 2028-30 on CBO-based projections and ~2.9% over 2031-40. Stabilizing debt would require the primary deficit to narrow to ~0.3% of GDP by 2030 and a surplus of ~1.5% by 2040; even primary balances ~200bps better than baseline only hold debt near today's level to 2030 (Exhibit 33). The November midterms add uncertainty, though our base case is policy status quo.

**Exhibit 31:** The narrowing of the US primary deficit in 2026 27 reflects cyclical strength and timing rather than structural consolidation...



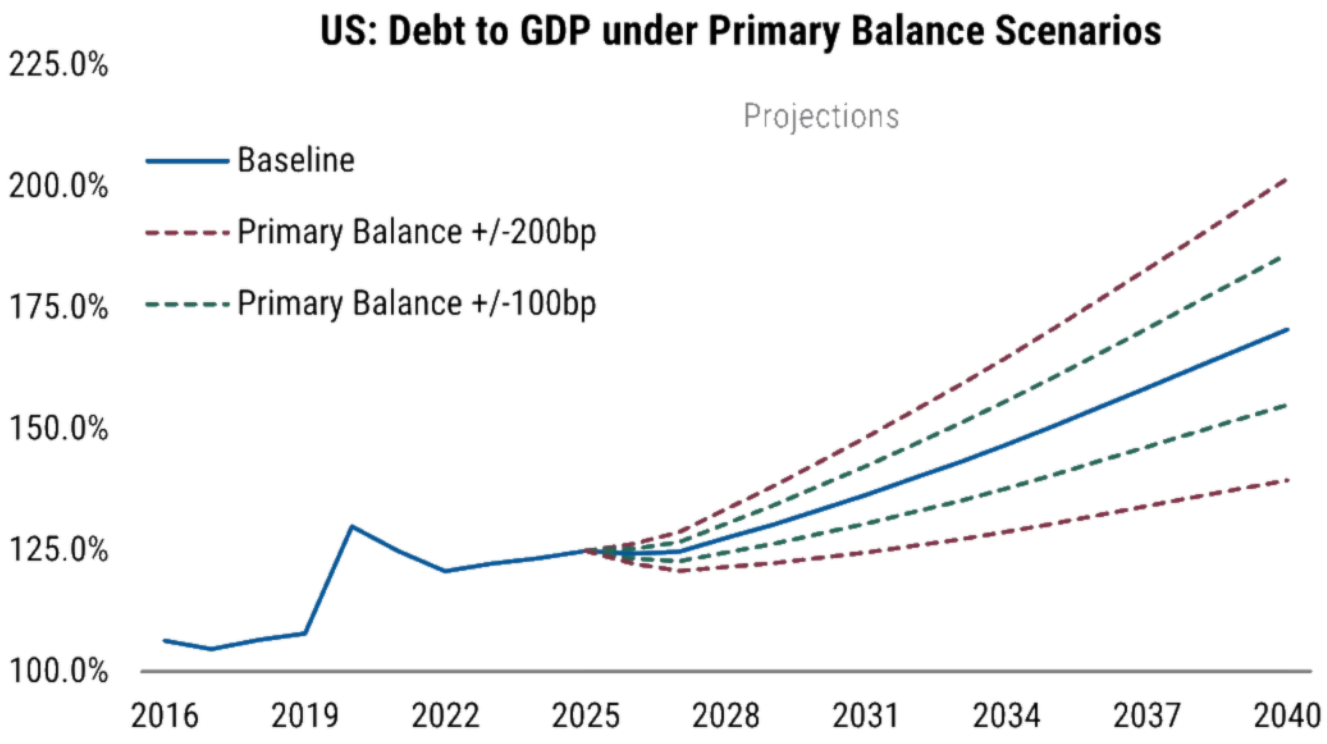

Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Exhibit 32:** ...and the fiscal deficit widens again on CBO based projections, burdened by rising interest costs even when primary deficits narrow




Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Exhibit 33:**
Even a substantial improvement in the primary balance only slows the rise in US debt, which shows how far current policy is from the level needed to stabilize it




Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

**Conclusion:** Strong nominal growth has delivered a reprieve, not a solution. With primary deficits widening from 2028 and R - G positive from the early 2030s, debt ratios keep rising absent structural reform: permanently higher taxes or lower spending.

# Japan

*Masayuki Inui, Takeshi Yamaguchi*

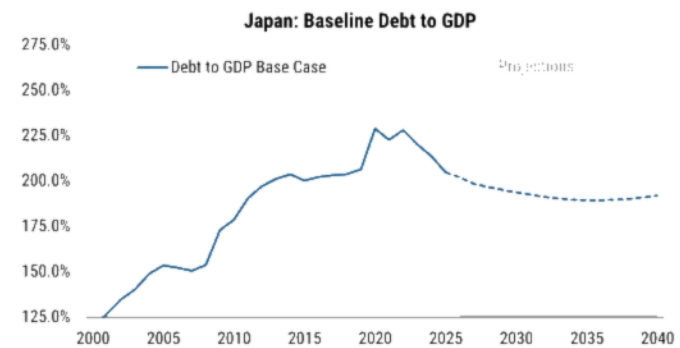
## What's Changed Since Last Year?

Fiscal sustainability continues to improve as nominal growth rises, but with less margin. The government is moving to a multi-year framework anchored on a steady decline in the debt ratio Nominal growth (4.6% in 2025) still outpaces interest costs, but with the BoJ at 1.25% and 10-year JGBs near 3%, the cost of debt now rises faster than in our previous exercise.

**Can Japanese debt be managed at these interest rates? Yes, but with less margin than a year ago**. Still-low borrowing costs and a structural lift to tax receipts from nominal growth mean debt can stabilize without a primary surplus. But the direction of travel is not free: debt costs are rising as the curve steepens amid BoJ normalization, and R v G, while still favorable, is deteriorating.

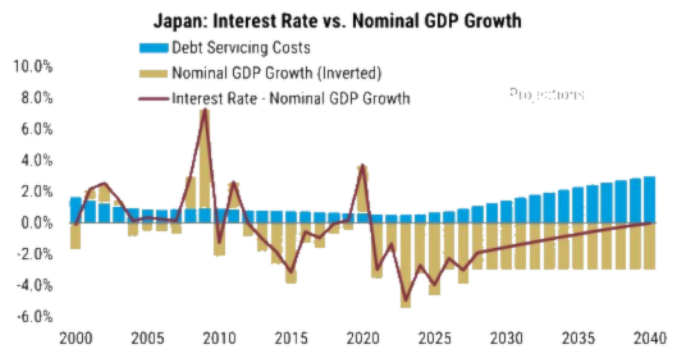
Japanese debt has been an outlier for many years, anchored by an R v G differential that allows the economy to stay on a sustainable path despite primary deficits. Japan is the mirror image of the US: its debt stack makes the DSA more sensitive to interest costs in the short term, while higher nominal growth supports it over the medium term. Debt falls from ~205% of GDP in 2025 to ~194% by 2030, then flattens at ~189% in the mid-2030s as R - G converges to zero, edging back to ~192% by 2040.

**Exhibit 34:** Japan's projected debt-to-GDP is set to fall as nominal growth normalizes...




Source Ministry of Finance, JSIF, Haver, Morgan Stanley Research

**Exhibit 35:** ...but the pace of the decline slows as the cost of debt increases




Source Ministry of Finance, JSIF, Haver, Morgan Stanley Research

**Rates:** The implicit cost of debt was ~0.7% in 2025, and the BoJ, which owns over half of outstanding JGBs, is now normalizing more quickly. It raised rates to 1.25% in September, and we expect 1.50% in December and 1.75% by March 2027, while arguing that market pricing of a terminal rate above 2% is too high. 10y and 30y JGBs yielded 3.04% and 4.12% on 25 September, and our rates strategists estimate a fiscal risk premium of ~30bp in both sectors.

With forwards ~140bps higher than a year ago, we project the cost of debt at ~1.5% by 2030 and ~3.0% by 2040 (vs ~1.4% and ~2.2% last year), lifting interest payments from ~1.4% of GDP to ~2.8% in 2030 and ~5.6% in 2040. The ~9-year duration of JGBs slows the pass-through, but demand is shifting: with the BoJ and life insurers retreating, the super-long end relies more on price-sensitive investors. Our rates strategists expect the fiscal risk premium to persist until an FY2027 issuance plan is presented, while the MoF is broadening the investor base, including through retail JGBs.

**Exhibit 36:** Japan's debt servicing cost is projected to rise as the BoJ normalizes monetary policy

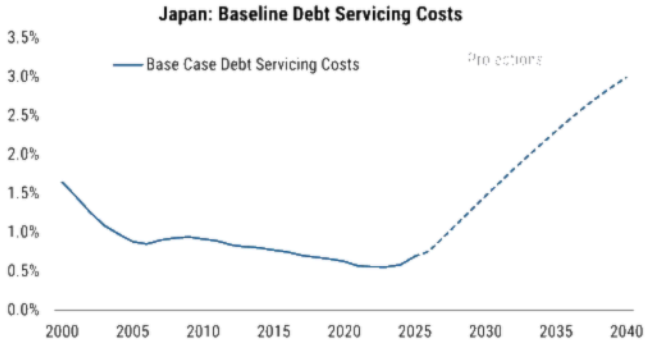



**Exhibit 37:** Even a modest rise in interest rates creates a fiscal drag because of the high stock of debt

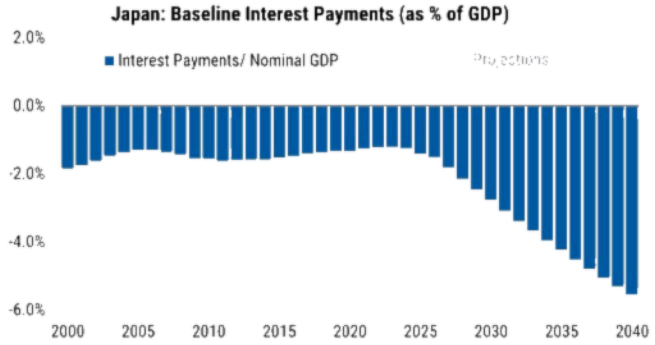
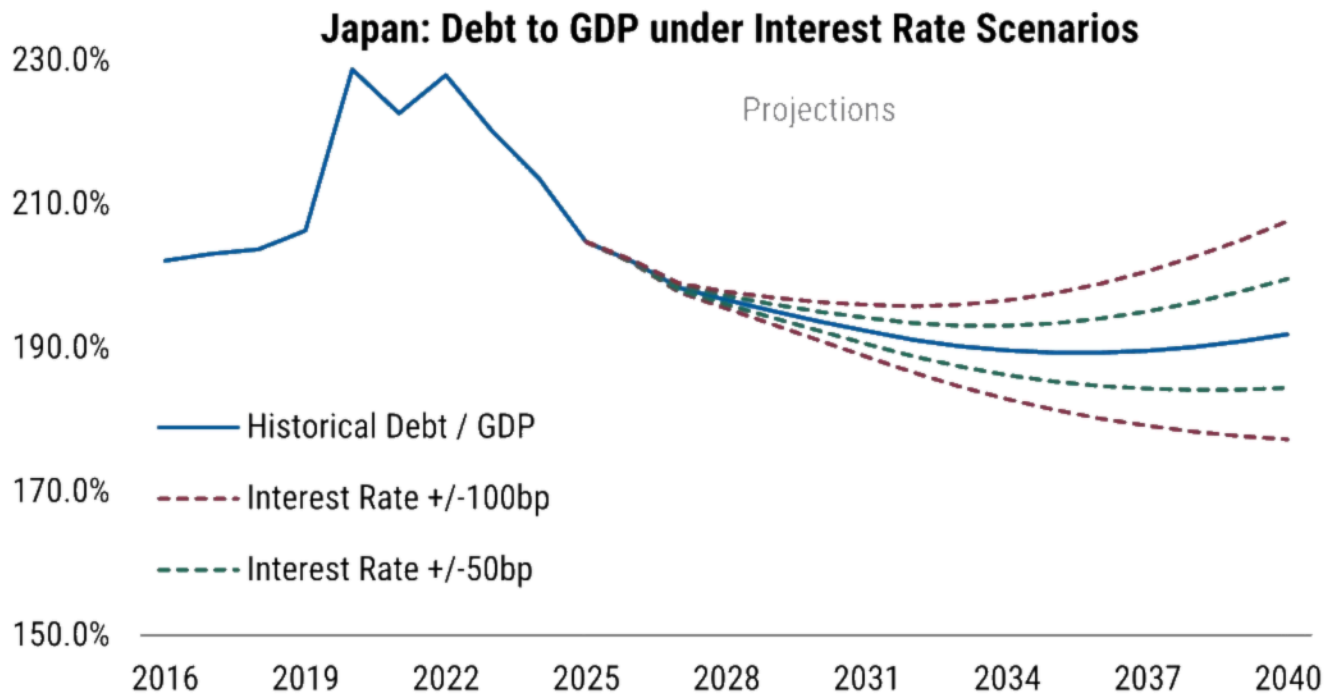


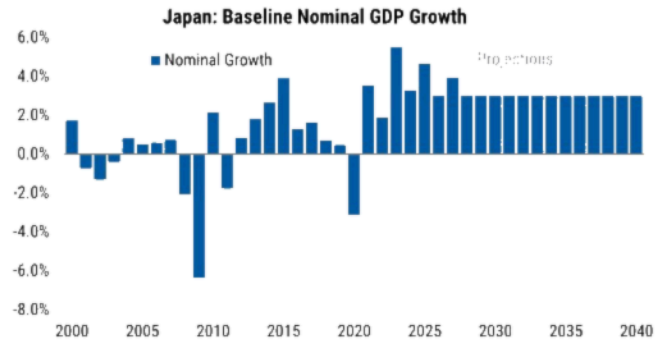

**Exhibit 38:**
Japan's long average debt maturity delays the impact of higher rates, but it does not prevent rate shocks from compounding into a materially higher debt path over times




**Growth:** Nominal growth has stayed strong. Nominal GDP rose ~4.6% in 2025, and we project ~3.0% in 2026 and ~3.9% in 2027, with the long-run assumption raised to ~3.0% (from 2.5%) as moderate inflation becomes more entrenched. Our economists expect

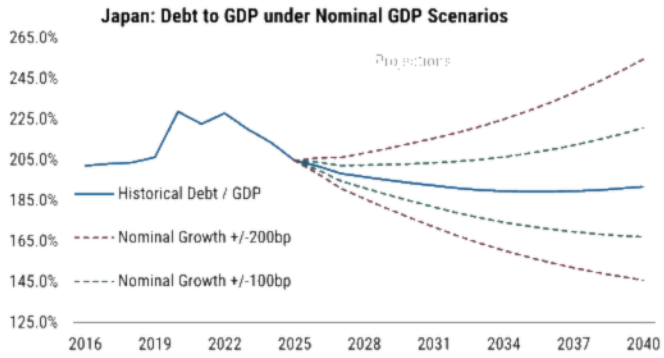
nominal growth to gain momentum by 2027 as the fiscal stance supports domestic demand. Wage dynamics and AI-related investment support productivity over the medium term, though consumption is likely to slow into 2027 as Middle East effects feed through to prices. Stagflation from a prolonged energy shock is the main risk, which we assess as small. The projections show falling debt-to-GDP in scenarios of positive nominal growth out to 2030 ( Exhibit 40 ).

**Exhibit 39:** Japan's nominal growth has shifted to a structurally higher regime as wages and prices reset




Source: Ministry of Finance, ESRI, Haver, Morgan Stanley Research

**Exhibit 40:** With the return of inflation, the debt-to-GDP scenarios show falling debt as long as nominal growth is sustained

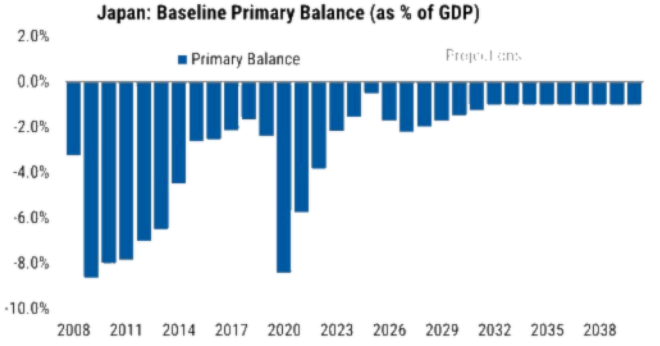



Source: Ministry of Finance, ESRI, Haver, Morgan Stanley Research

**Fiscal:** Policy has turned more proactive, but less so than markets feared. Our economists read the February 2026 snap election as an extension of the reflation initiative. The FY2025 supplementary budget totaled ¥18.3trn, yet planned new JGB issuance still fell year-on-year, and the Cabinet Office projects a broadly balanced central and local primary balance in FY2026. Pressures remain, including energy subsidies, a possible tax cut and defense spending beyond 2% of GDP.

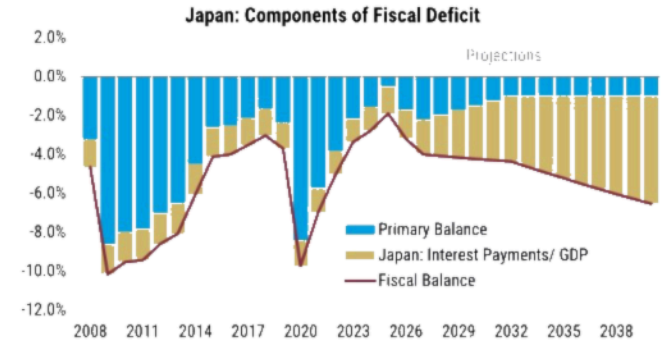
Our baseline is conservative relative to official projections, with primary deficits of ~1.7% of GDP in 2026 and ~2.2% in 2027, narrowing to ~1.0% from 2032. With a DSPB of -5.5% of GDP in 2027, the cushion is wide, and tax revenue elasticity well above spending elasticity supports the outlook: FY2025 tax revenue settled ¥5.8trn above the initial budget. Our economists estimate that tax revenue gains exceed rising interest costs even under conservative assumptions.

**Exhibit 41:** A more proactive fiscal stance widens Japan's primary deficit for a few years, but higher tax receipts help bring it back toward balance....




Source: Ministry of Finance, ESRI, Haver, Morgan Stanley Research

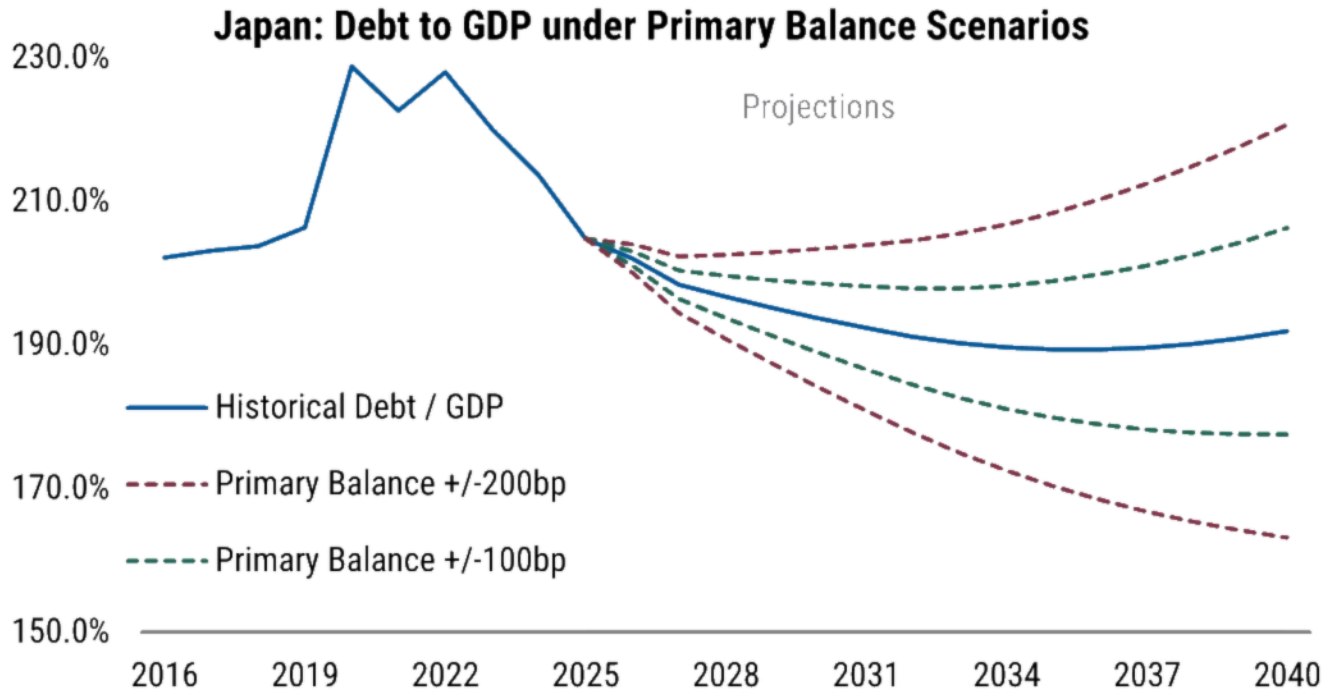
**Exhibit 42:** ...though interest payments take a gradually larger share of the overall deficit as the cost of debt normalizes




Source: Ministry of Finance, ESRI, Haver, Morgan Stanley Research

**Exhibit 43:**

The declining debt-to-GDP profile across a range of fiscal outcomes reflects the wide gap to the DSPB of Japan




Source: Ministry of Finance, BOJ, Haver, Morgan Stanley Research

**Conclusion:** Markets have broadly accepted Japan's framework, but the repricing of the super-long end shows that their tolerance is not unconditional. Reflation has created fiscal space; with R - G converging to zero by 2040, that space is finite.

# United Kingdom

*Bruna Skarica*

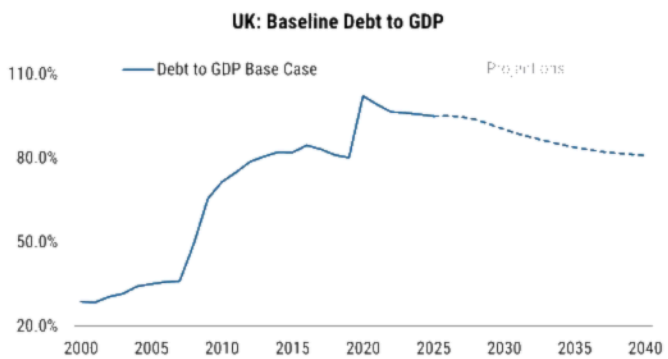
## What's Changed Since Last Year?

The October Budget was low-key, but it confirmed that the UK is undergoing a serious fiscal consolidation. Taxes on property, savings income and bank profits were raised to fund a broad-based energy support package, and headroom against the fiscal rules was set at £15bn, as expected. Stronger nominal growth has nonetheless improved the debt path. Our baseline now follows the government's plans, with the primary balance moving into surplus from 2028 and reaching ~1.5% of GDP by 2030. On that path, debt falls from ~95% of GDP to ~90% by 2030 and ~81% by 2040, well below last year's estimates.

**UK debt has stabilized after strong efforts by successive governments, partly driven by market reactions.** While debt looks contained relative to other DM economies, the medium-term fiscal calculus is challenging. A third of UK debt is in inflation-linked gilts, more than any other G7 peer, which limits the benefit from inflation and raises exposure to an energy-driven inflation shock.

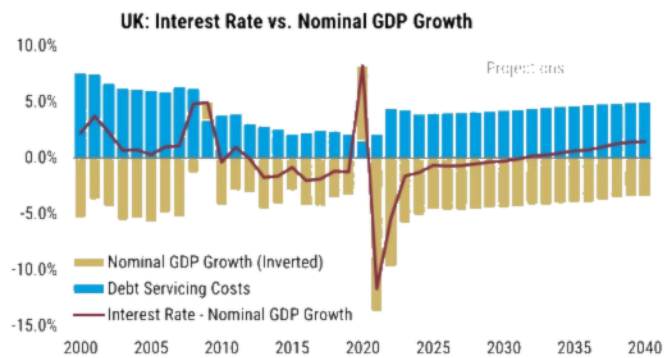
On the demand side, neither the BoE nor domestic pension funds are buying gilts as aggressively as they once did, leaving the UK heavily reliant on foreign investors and its fiscal position under close scrutiny. Stronger nominal growth keeps R v G slightly negative until the early 2030s, so a balanced primary budget holds debt broadly stable at ~95% of GDP through 2030. Beyond that, the UK needs a primary surplus to stabilize debt, rising to ~1.5% of GDP by 2040.

**Exhibit 44:** UK baseline projections see debt-to-GDP declining, but only if the government delivers the planned shift to primary surplus...




Source: ONS, OBR, Haver, Morgan Stanley Research

**Exhibit 45:** ...as potential growth is modest, the advantage of nominal growth over interest costs fades in the early 2030s



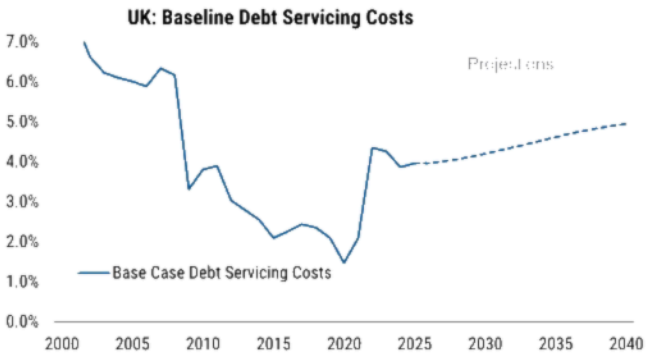

Source: ONS, OBR, Haver, Morgan Stanley Research

**Rates:** The median gilt maturity is ~9 years, but the consolidated public-sector maturity, including the BoE's reserves, is shorter; we use a weighted average maturity of 8 years in

our DSA. 10y and 30yr gilts yielded 5.34% and 5.84% on 25 September, and our economists expect Bank Rate to rise to 4.00% in 4Q26 and 4.25% in 1Q27. Higher oil and gas prices lift some tax receipts temporarily, but the impact of higher rates snowballs through the forecast horizon.

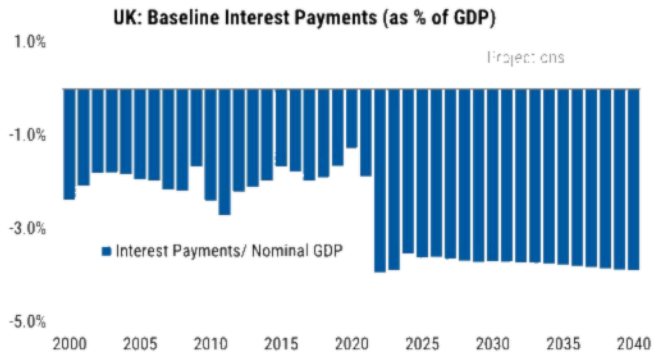
Market pricing of fiscal risk has proved changeable, from a healthy risk premium in March (see here) to little in June (see here). Our rates strategists see ~£15bn a year of additional net gilt supply over FY2027-28 to FY2029-30 as a downside risk. We project the cost of debt at ~4.0% in 2026, ~4.2% in 2030 and ~5.0% by 2040, with interest payments broadly stable at ~3.6-3.7% of GDP through 2030 and ~3.9% by 2040 as the debt ratio falls. A ±100bp shift moves 2040 debt within a ~74-89% range ( Exhibit 48 )

**Exhibit 46:** The UK cost of debt continues to reprice higher, gradually but persistently, as gilts issued at low yields are refinanced at today's elevated rates



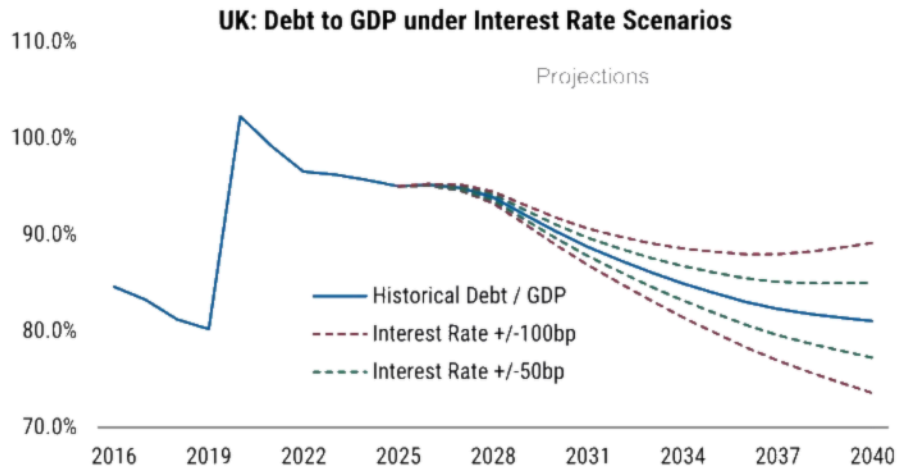

Source: ONS, OBR, Haver, Morgan Stanley Research

**Exhibit 47:** A falling debt ratio helps contain the UK's interest burden, though at a level that remains high by historical and international standards




Source: ONS, OBR, Haver, Morgan Stanley Research

**Exhibit 48:**
The low potential growth of the UK leaves it more susceptible to interest rates in most projection scenarios

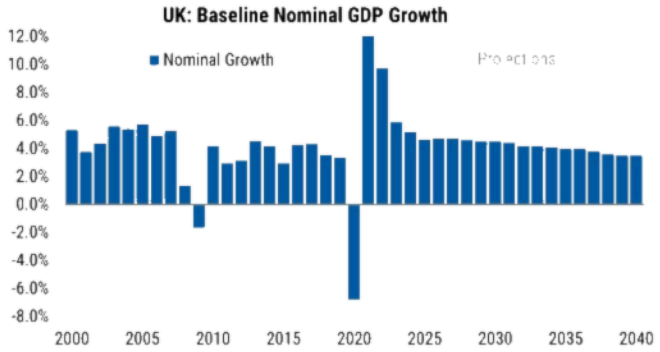



Source: ONS, OBR, Haver, Morgan Stanley Research

**Growth:** We forecast nominal growth of ~4.7% in 2026 and 2027, easing to ~4.5% by 2030 and converging to ~3.5% by the end of the horizon. The OBR cut its structural productivity assumption to ~1% in November 2025; the ONS has since revised post-GFC productivity growth to 1.3%Y from 0.7%Y, but our economists do not expect the OBR to

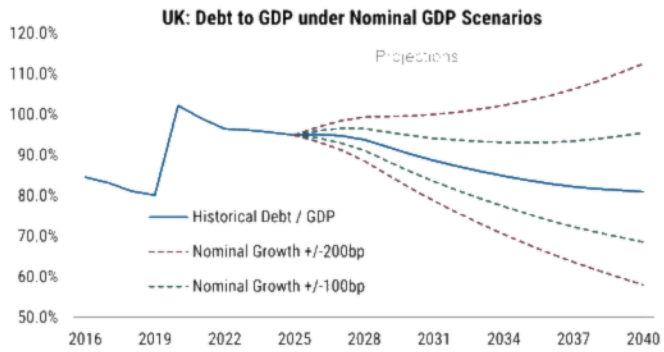
revise its assumption again so soon. Near-term nominal growth is stronger than the 3.5% we assumed a year ago, which keeps R v G negative until the early 2030s. As growth converges to trend and financing costs keep repricing higher, the differential turns positive and reaches ~+1.5pp by 2040, leaving the debt outlook very sensitive to growth ( Exhibit 50 ).

**Exhibit 49:** UK nominal growth runs above trend in the near term on higher inflation, before easing back toward the modest pace implied by OBR productivity assumptions




Source: ONS, OBR, Haver, Morgan Stanley Research

**Exhibit 50:** The debt-to-GDP outlook is very sensitive to growth: a growth disappointment would quickly unwind the projected decline in debt

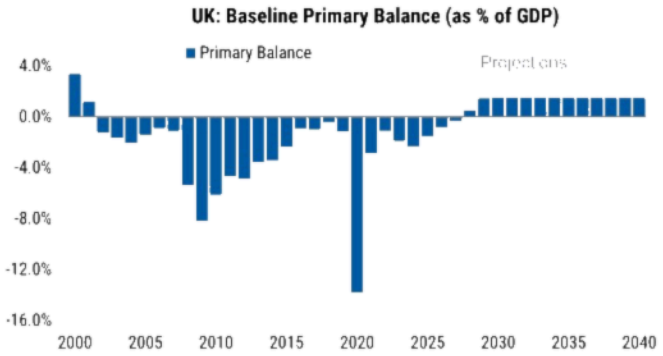



Source: ONS, OBR, Haver, Morgan Stanley Research

**Fiscal:** A primary surplus remains baked into medium-term plans: as of March 2026, the primary budget was due to move from a 1.4% of GDP deficit in FY2025/26 to balance in FY2027/28 and a 1.5% surplus, roughly its debt-stabilizing level, by FY2030/31. The October Budget addressed most of the near-term concerns we raised ahead of it. Headroom was set at £15bn, in line with expectations. The primary deficit is projected to shrink to just 0.2% of GDP next year, and the planned move into primary surplus by the end of the decade was kept intact. Rather than loosening policy to absorb higher energy prices, the government funded its support package with modest tax increases on property, savings income and bank profits. The higher-than-planned deficit this year and next reflects rising debt servicing costs rather than fiscal slippage.

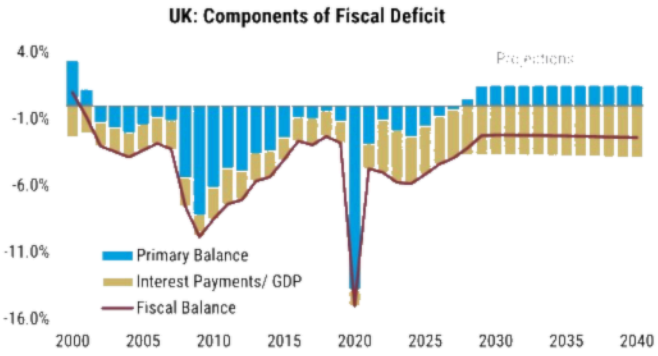
These plans rest on assumptions that will be difficult to deliver, including a sharp slowdown in day-to-day departmental spending and rising defense commitments, while health-related benefits keep rising. Our European economists estimate a combined pension and defense uplift of ~1.4% of GDP by 2040. Our baseline nonetheless follows the official plans, with a primary surplus of ~0.5% of GDP in 2028 and ~1.5% from 2030. Delivery is the key risk: a primary balance 100bps or 200bps weaker than planned would leave debt at ~97% or ~113% of GDP in 2040, rather than ~81% ( Exhibit 53 ).

**Exhibit 51:** The UK is planning a primary surplus it has rarely achieved in recent decades, which makes delivery the question for its fiscal outlook...



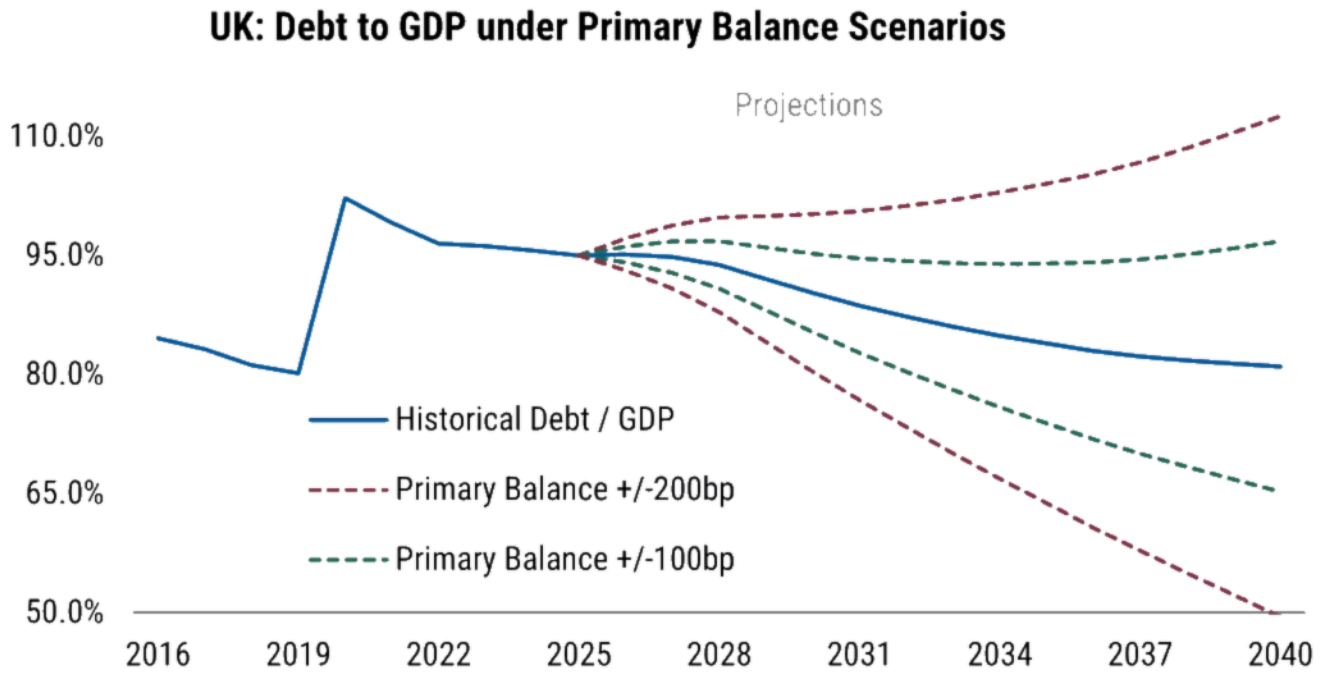

Source: ONS, OBR, Haver, Morgan Stanley Research

**Exhibit 52:** ..and delivering it would sharply narrow the overall deficit, even with interest costs absorbing a large share of revenues




Source: ONS, OBR, Haver, Morgan Stanley Research

**Exhibit 53:**
The DSPB is positive for the UK already by 2025 and the UK will need to consolidate finances rapidly to keep debt-to-GDP in check




Source: ONS, OBR, Haver, Morgan Stanley Research

**Conclusion:** On current plans and market-implied yields, debt is ~90% of GDP in 2030 and ~81% in 2040, versus much higher last year. With headroom eroded, the Budget will need to show how restraint is delivered, and we see risks to the upside.

# Germany

*Claire Thürwächter*

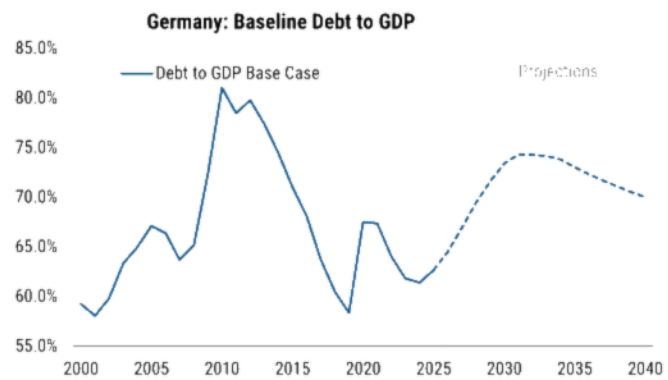
## What's Changed Since Last Year?

Germany's fiscal expansion is being implemented more gradually and more back-loaded than planned: we now see the general government deficit at 4.0% of GDP in 2026 and 4.5% in 2027 (see: Another Step Up). Stronger nominal growth (~3.8% in 2026, vs ~2.6% previously) lowers the path slightly. Debt rises to ~73% in 2030 (vs ~75%), peaks at ~74% in 2031-32, and falls to ~70% by 2040 as primary surpluses return. Low structural growth remains the main risk.

Germany pivoted its fiscal stance in March 2025 with the "€1 trillion fiscal package". It exempted defence spending above 1% of GDP from the debt brake, created a €500bn infrastructure fund with a 12-year allocation period, and loosened borrowing limits for the Länder to 0.35% of GDP. Together, these mark a clear departure from the era in which the debt brake delivered years of primary surpluses ( Exhibit 61 ).

Implementation has been uneven. The 2026 budget used the new space mainly for quick-to-implement measures, such as a higher pension subsidy and VAT cuts for restaurants, while defence spending rose to an expected €89bn (+15%Y versus a planned +25%Y) (see here). Infrastructure has lagged: regional draws from the fund totaled only €0.5bn through June 2026, against an €8.3bn annual envelope. The 2027 draft budget shifts the expansion toward defence, with core-budget defence borrowing rising by ~€28bn to €85bn (see here).

**Exhibit 54:** Germany's debt stock should trend up on the recent fiscal expansion but we expect it to slope down again in the early 2030s




Source: Eurostat, Federal Statistical Office Hesse, Morgan Stanley Research

**Exhibit 55:** A negative R v G relationship buffers the initial debt increase, but R is projected to exceed G later on



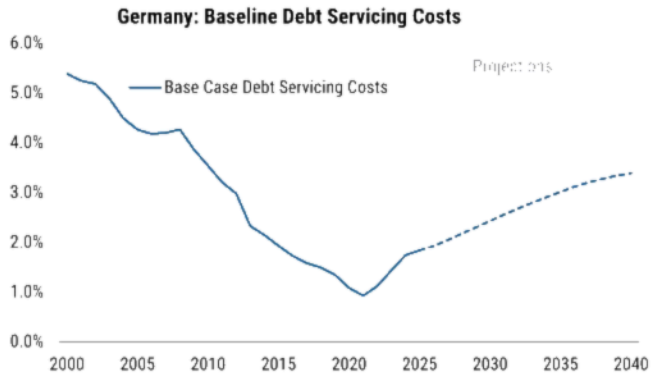

Source: Federal Statistical Office Hesse, Morgan Stanley Research

**Rates:** A decade of near-zero rates across much of the curve and a ~10-year average maturity insulate Germany's cost of debt (~1.8% in 2025) from today's higher rates. This will normalize as rates settle structurally higher, albeit from a low level: we project the

cost of debt rising to ~2.5% by 2030 and ~3.4% by 2040, with interest payments increasing from ~1.1% of GDP to ~1.7% and ~2.3%.

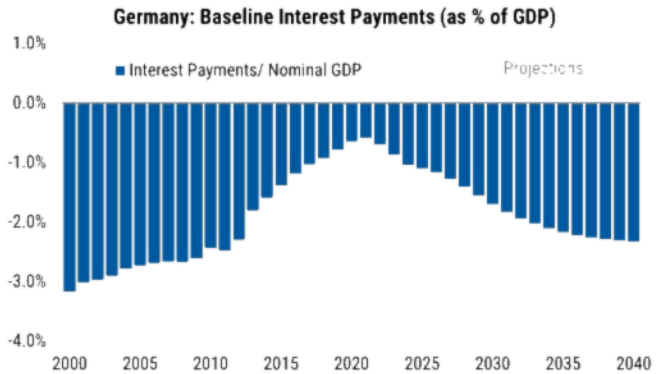
Supply is the more relevant pressure for Bunds. Our strategists expect €400bn of gross issuance in 2027, making Germany the largest euro area issuer they cover, and estimate that €1tn of extra issuance over 10 years adds ~38bp to the 10-year Bund yield (see here). Even with a notable rise in rates, debt plateaus or trends lower from the early 2030s ( Exhibit 58 ).

**Exhibit 56:** Cost of debt normalizes as maturing low yield Bunds are replaced at higher rates, but remains below historical levels



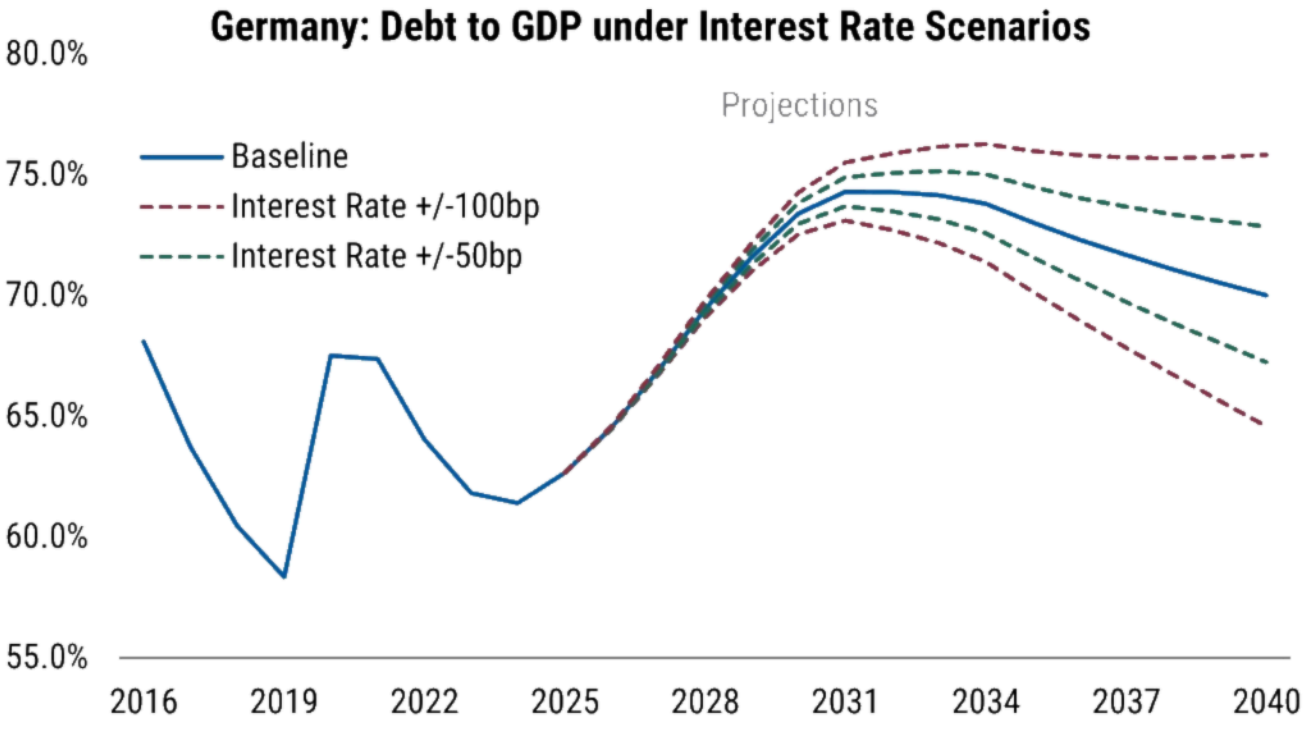

Source: Eurostat, Federal Statistical Office Germany, Morgan Stanley Research

**Exhibit 57:** Total interest payments expand over the projection horizon reflecting a sustained period of deficits and the projected rise in average debt costs




Source: Eurostat, Federal Statistical Office Germany, Morgan Stanley Research

**Exhibit 58:**
Even a notable rise in interest rates would only delay, not prevent, the eventual decline in German debt, given the long maturity of its debt stock




Source: Eurostat, Federal Statistical Office Germany, Morgan Stanley Research

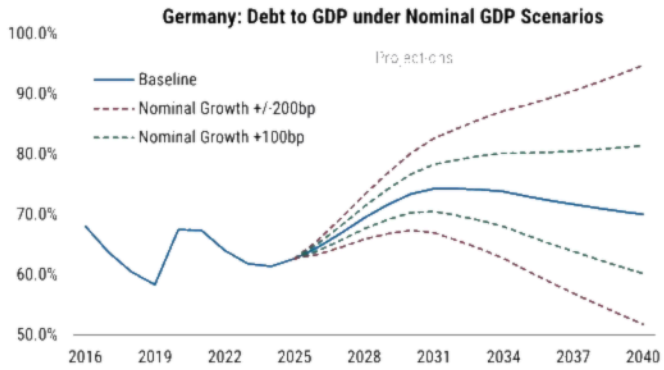
**Growth:** Fiscal support is now visible in activity (see here). We see GDP growth of 1.1% in 2026 and 1.2% in 2027, up from 0.9% previously, after 0.3% in 2025, with fiscal impulses of ~50bp and ~30bp. Higher energy prices lift the deflator, so nominal growth is ~3.8% in 2026 and ~3.2% in 2027. Beyond that, structural headwinds persist: stagnant world trade, competition in key export markets, adverse demographics and high energy costs cap nominal potential growth at ~2.7%. Supply-side reforms will lift growth only slowly, and pension and healthcare reforms are not yet formalized. R v G is negative until the early 2030s and rises to ~+0.7pp by 2040 ( Exhibit 55 ).

**Exhibit 59:** Germany's nominal growth stays modest beyond the near-term inflation boost, reflecting structural headwinds from demographics, energy costs and weaker export competitiveness...




Source: Eurostat, Federal Statistical Office, Haver, Morgan Stanley Research

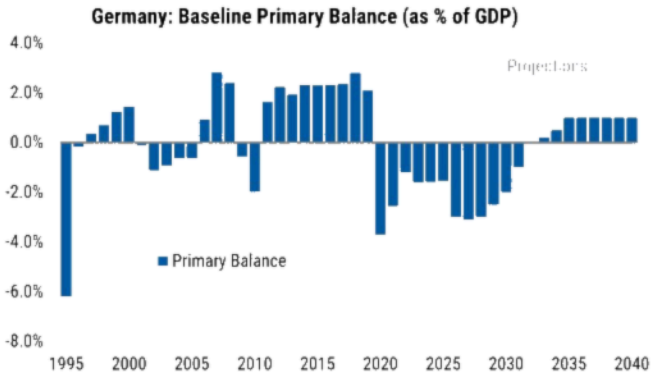
**Exhibit 60:** ...and a weaker growth path would prevent the debt ratio from trending back down, even with a return to primary surpluses




Source: Eurostat, Federal Statistical Office, Haver, Morgan Stanley Research

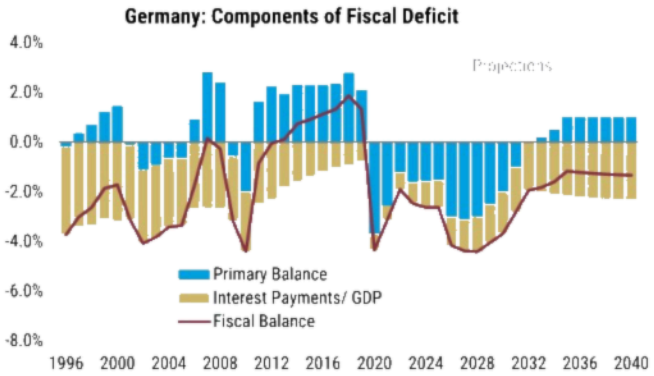
**Fiscal**: The package marks a departure from fiscal prudence, with primary surpluses averaging 2.2% of GDP over 2011-19 ( Exhibit 61 ). It reflects the need for fiscal support amid prolonged weakness and for a defence build-up. Data so far suggest a smaller expansion than we forecast in 2026, but closer-to-plan execution in 2027, especially in infrastructure, could widen the deficit by more than we expect (see here). Our baseline primary deficit is ~3.0-3.1% of GDP over 2026-28, narrowing to ~2.0% in 2030 and to balance by 2032, with surpluses of ~1% from the mid-2030s. Rising interest costs keep the headline deficit negative throughout ( Exhibit 62 ).

**Exhibit 61:** We expect several years of primary deficit before Germany returns to a surplus regime toward the end of the projection horizon...



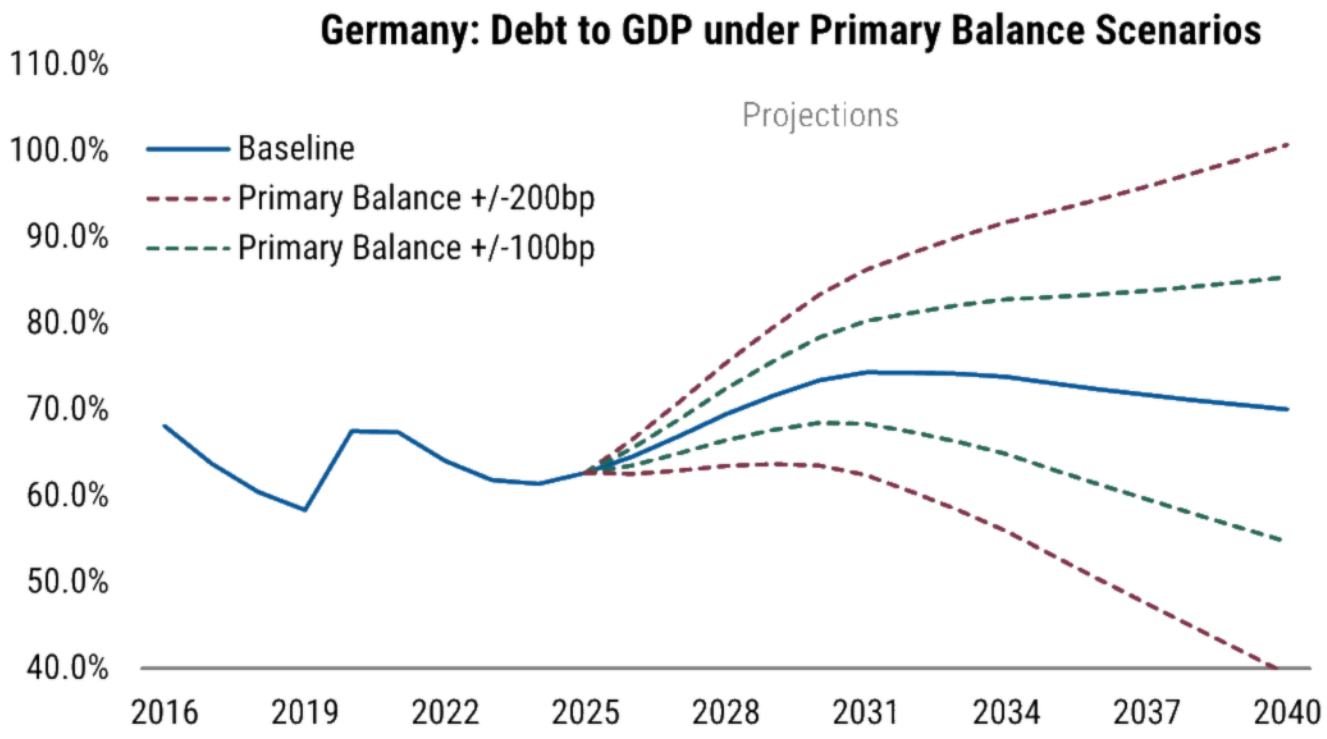

Source: Eurostat, Federal Statistical Office Germany, Morgan Stanley Research

**Exhibit 62:** ...which narrows the overall deficit, though rising interest costs keep it in negative territory




Source: Eurostat, Federal Statistical Office Germany, Morgan Stanley Research

**Exhibit 63:**
How quickly Germany returns to primary surpluses is the biggest determinant of whether its debt ratio stabilizes or keeps rising




Source: Eurostat, Federal Statistical Office Germany, Morgan Stanley Research

**Conclusion:** The pivot in fiscal stance has shifted the debt outlook structurally. But an entrenched preference for prudence supports a return to primary surplus, and Germany remains the only one of the big four euro area economies with debt trending down by 2040.

# France

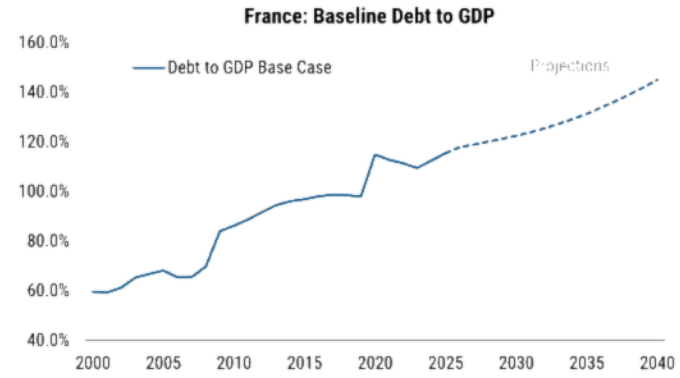
*Jean-Francois Ouvrard*

## What's Changed Since Last Year?

In our base case, we compute the cost of new French debt using OAT forward rates averaged over the past 12 months, rather than the latest market levels. On that basis, France's debt path looks similar to last year's, at ~122.5% of GDP in 2030 and ~145% in 2040. That similarity masks a deterioration. A lower starting cost of debt (~2.0% in 2025) and stronger nominal growth in 2025-26 offset a wider 2026 primary deficit, and because the 12-month average still includes the lower yields of late 2025 and early 2026, it captures only part of the recent rise in OAT yields. Using October 2026 forwards instead, the picture is materially worse: R overtakes G in 2030, interest payments climb toward ~7.5% of GDP, and debt rises to ~156% by 2040 (link box). France is the most rate-sensitive debt profile in the euro area, and the deficit is not consolidating: we see 5.4% of GDP in 2026, up from 5.1% in 2025, and 5.4% again in 2027. With political uncertainty ahead of the 2027 presidential election, the 30-year OAT-Bund spread has moved beyond its euro area debt crisis high.

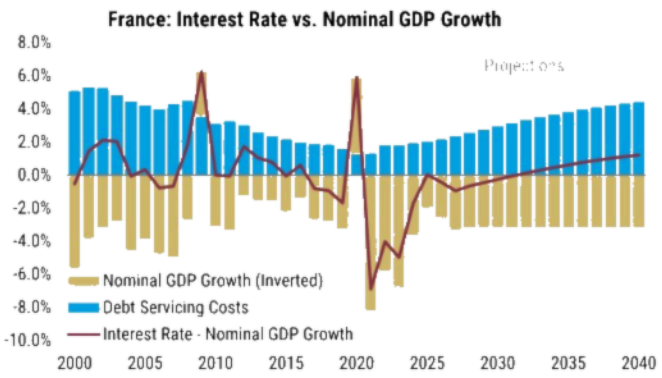
French debt has risen from ~113% of GDP in 2024 to ~116% in 2025, and with deficits above 5% in 2026 and 2027, we project ~118% in 2026 and a continued rise through 2040. France enjoys relatively robust potential growth, and its demographic challenge comes later than elsewhere in Europe. But it faces two interlinked challenges: a propensity to run primary deficits amid political difficulty in cutting spending, and rates that have risen materially in a context of high deficits and political uncertainty. The scale of the required adjustment is large. Our economists estimate that stabilizing the debt requires a primary surplus of ~2% of GDP, a turnaround of about 5pp vs today, and do not see strong arguments that France's public finances look more sustainable today than Italy's did in 2022.

**Exhibit 64:** France has a rising debt to GDP profile based on projected fiscals, with acceleration visible when...




Source: Eurostat, INSEE, Haver, Morgan Stanley Research

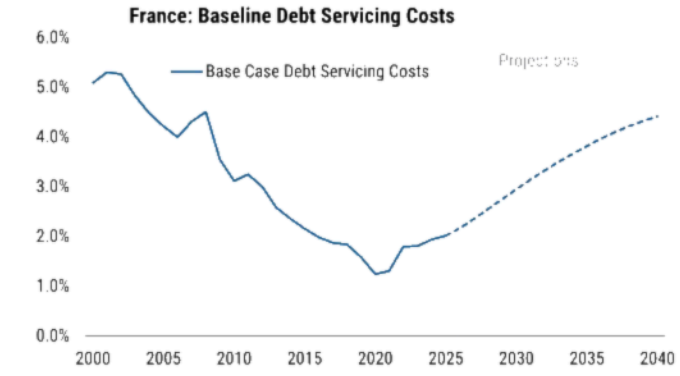
**Exhibit 65:** ...higher OAT yields work through the refinancing cycle and R moves above G in the early 2030s




Source: Eurostat, INSEE, Haver, Morgan Stanley Research

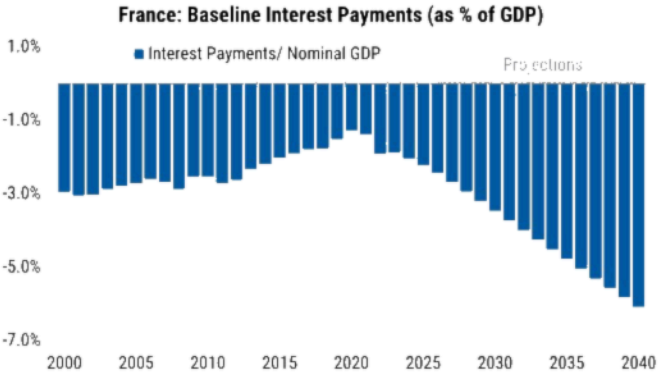
**Rates:** The implicit cost of debt is still low (~2.0% in 2025) and, with a ~9-year maturity, reprices slowly. But the elevated debt stock leaves France more sensitive to rising rates, and the gap to market levels has widened: the draft 2027 budget assumes a 10-year yield of 4.3%, below the 4¾% markets reached recently. Even on the government's numbers, interest payments rise to 2.9% of GDP in 2027 from 2.6% in 2026. Our rates and credit strategists expect pressure on French spreads to persist. We project the cost of debt at ~3.0% in 2030 and ~4.4% in 2040, with interest payments reaching ~3.5% of GDP in 2030 and ~6.1% in 2040, the steepest rise among the euro area countries in our sample.

**Exhibit 66:** France's debt servicing costs are steadily rising across the projection period...




Source: Eurostat, INSEE, Haver, Morgan Stanley Research

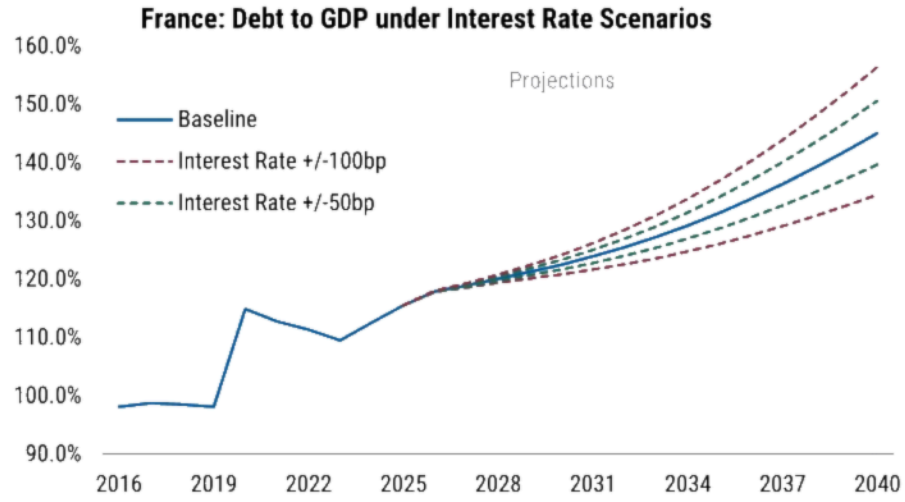
**Exhibit 67:** ...increasing the burden on fiscal balances given the high stock of debt




Source: Eurostat, INSEE, Haver, Morgan Stanley Research

**Exhibit 68:**

Because France's debt stock is large and rising, higher interest rates push the debt ratio higher in almost every scenario




Source: Eurostat, ESCB, Haver, Morgan Stanley Research

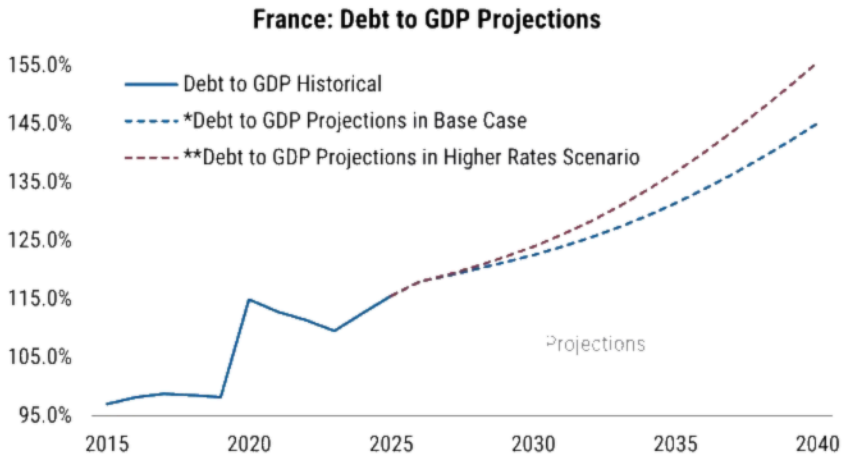
**France DSA at Current Yields: Higher OAT Rates Turn a Rising Debt Path into an Accelerating One**

**How we model the cost of debt:** Our DSA prices new French debt off the OAT forward curve at France's ~9-year weighted average maturity, averaged over the trailing 12 months. Each year, roughly one-ninth of the debt stock reprices at that issuance yield, while the rest keeps its existing cost. Smoothing avoids anchoring a 15-year projection on a single month of market moves. It also means our base case captures only part of the recent sell-off in OATs. On October month-to-date average forwards, new French debt would be issued at ~5.1% in 2027, rising toward ~6% in the mid-2030s. That is ~110-120bp above the curve in our base case over the rest of the decade, and ~50bp above it by 2040.

**On current yields, the DSA looks materially worse.** We re-ran France's DSA on October month-to-date average forwards, keeping growth and the primary balance unchanged. The results:

- The cost of debt rises to ~5.1% by 2040, against ~4.4% in our base case.
- R overtakes G in 2030, two years earlier, and R − G reaches ~1.9pp by 2040.
- Interest payments climb to ~7.5% of GDP, against ~6.1%.
- Debt rises to ~124% of GDP by 2030, ~156% by 2040. That is ~10.5pp above our base case and last year's projection.
- The debt-stabilizing primary balance rises to ~2.8% of GDP by 2040, against ~1.7%.

**Exhibit 69:** France's debt path is not sustainable if OAT yields stay near current levels, increasing debt servicing costs




Source: Eurostat, INSEE, Haver, Morgan Stanley Research. Note: *Base case: new debt is priced off OAT forwards at France's 9-year weighted average maturity, averaged over the trailing 12 months. **Higher rates scenario: the same approach, using the October 2026 month to date average of OAT forwards.

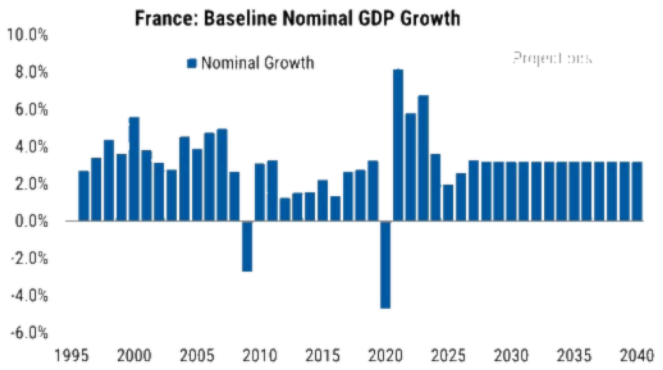
This is consistent with our European economists view (see: France Economics, ECB and Strategy: Tell me what's your stance? EA Sovereign Yields, France and the ECB), who use OAT yields observed over the past 20 days. On their simulations, r-g turns positive in 2029 and rises toward almost 2% by 2040. Even with the primary deficit consolidating to 1.4% of GDP by 2030, debt rises toward almost 160% of GDP in 2040, within a 150-170% range around that base case. They conclude that at current yields France would need a primary surplus of at least 2% of GDP, a ~5pp or ~€150bn adjustment from today. Even in their most favourable scenario, interest payments would exceed 6% of GDP.

The two approaches differ on timing, not direction. Our smoothed base case is a central path, and helpful to compare the debt metrics across other DM economies. **If OAT yields stay near current levels, the trailing average will catch up, and the base case will converge on the more adverse outcome. At these rates, France's debt path is not sustainable without policy action; the burden of adjustment falls on fiscal consolidation, unless yields fall or growth surprises to the upside.**

**Growth:** France's real growth outlook has weakened. GDP stalled in 2Q26 after contracting 0.2% in 1Q26, leaving France lagging other euro area economies. We see growth of 0.4% in 2026 and 0.8% in 2027, below the government's 1.0%. Energy-driven inflation supports nominal growth, at ~2.6% in 2026 and ~3.3% in 2027, and the medium-term projections trend toward ~3.2%, broadly in line with the Banque de France's estimate. R v G changes sign in the early 2030s, signaling a risk of a
out years.

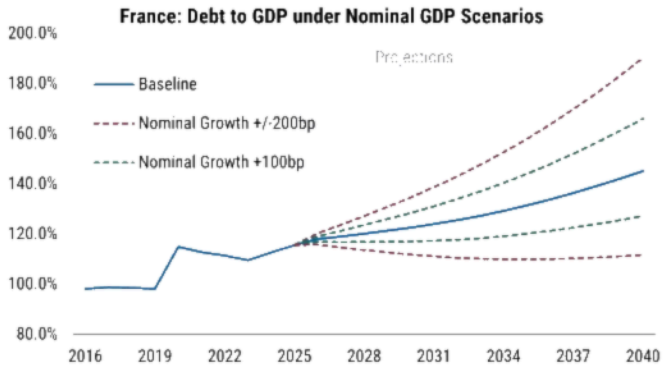
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**Exhibit 70:** France's nominal growth outlook is not enough to compensate for the rising interest costs by the end of the decade




Source: Eurostat, INSEE, Haver, Morgan Stanley Research

**Exhibit 71:** Which leads to higher growth sensitivity in the projection scenarios

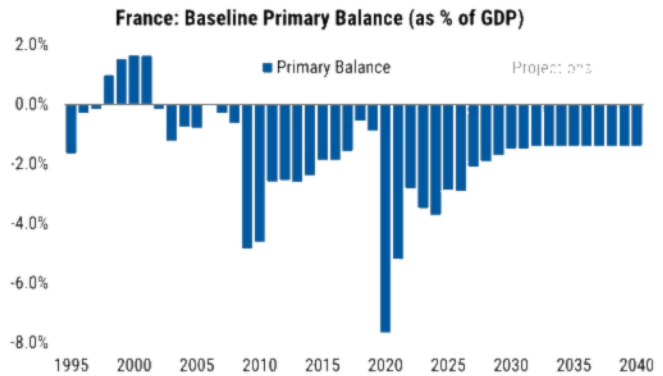



Source: Eurostat, INSEE, Haver, Morgan Stanley Research

**Fiscal:** This is France's major challenge. The 2025 deficit came in at 5.1% of GDP, but 2026 is moving the wrong way, and the government has revised its target to 5.4%. The draft 2027 budget targets 5.0%, but a planned reduction of only ~€13bn contrasts with €54bn of announced savings. We expect a deficit of 5.4% if the budget passes and ~6% without one and the government may need Article 49.3 to pass it.

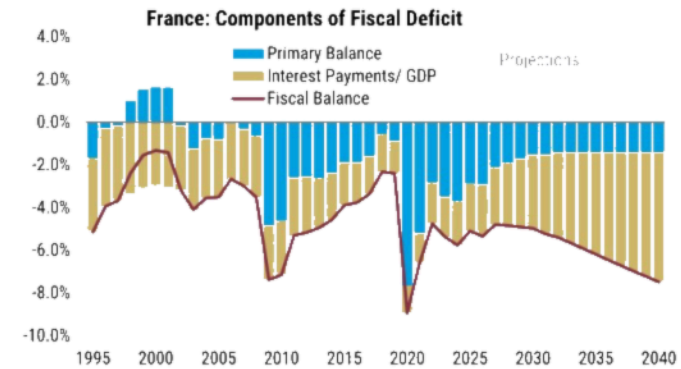
Under the EU fiscal rules, France faces an annual adjustment need of ~50-60bp of GDP, and, as our FAQ note pointed out, it is among the economies that run deficits even in 'good times'. France has run a primary deficit since 2008, and its headline deficit has been below 3% of GDP only three times in 20 years. Our baseline primary deficit narrows from ~2.9% of GDP in 2026 to ~1.5% in 2030 and ~1.4% thereafter. The risk is that consolidation is slower still.

**Exhibit 72:** France's poor track record at fiscal balance is a key driver




Source: Eurostat, INSEE, Haver, Morgan Stanley Research

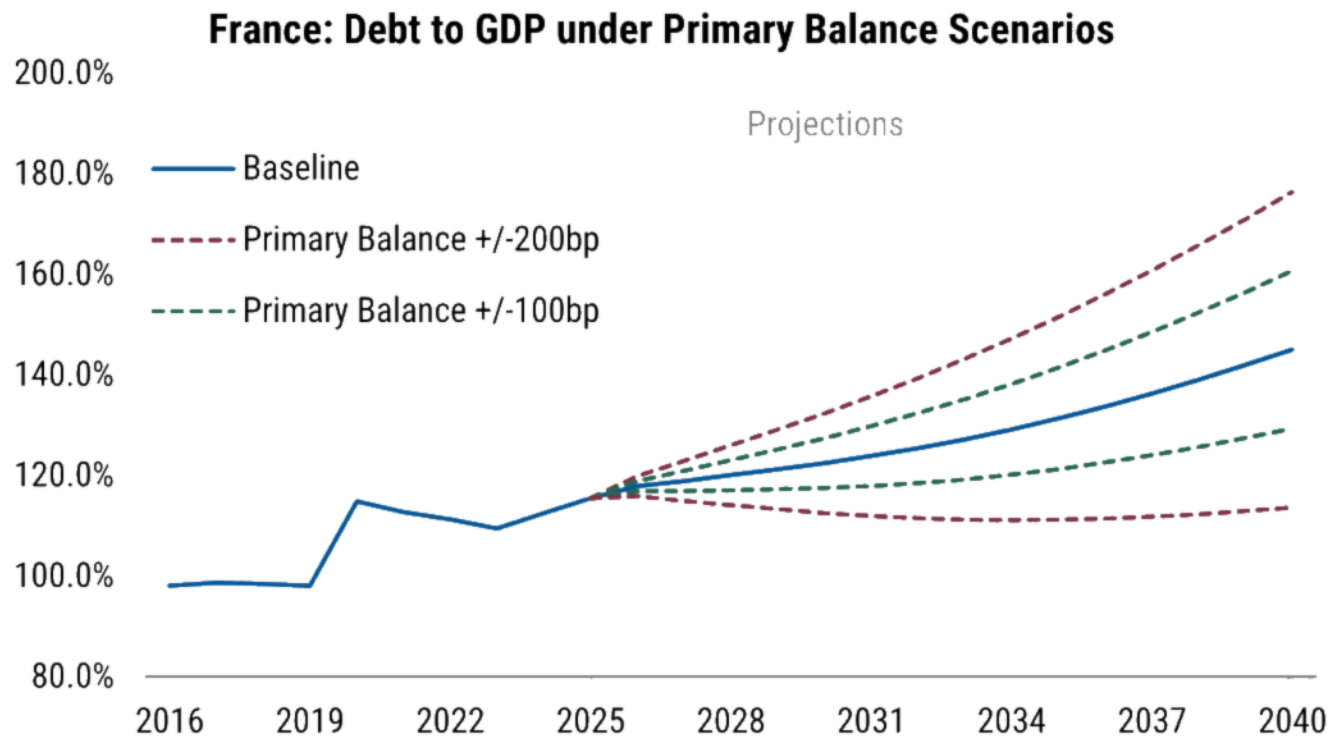
**Exhibit 73:** Even with improved primary fiscal deficits, the high cost of debt will weigh on headline deficits




Source: Eurostat, INSEE, Haver, Morgan Stanley Research

**Exhibit 74:**

Thus driving risk scenarios for debt-to-GDP if the primary deficit does not move to balance or to surplus




Source: Haver, INSEE, Morgan Stanley Research

**Conclusion:** With persistent primary deficits, a stalled deficit path and political uncertainty, France is at risk of accelerating debt-to-GDP. Policy action and a reset of the fiscal framework are needed.

# Italy

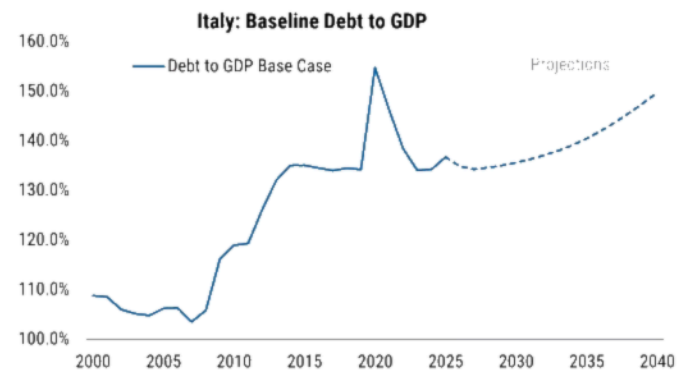
*Chiara Zangarelli*

## What's Changed Since Last Year?

Italy's outlook has improved modestly. Stronger nominal growth in 2026 (~3.8% vs ~2.2%) and a slightly lower cost-of-debt path lower our projections to ~135% of GDP in 2030 (from ~142% last year) and ~150% in 2040 (from ~158% last year). The 2025 deficit came in at 3.1% with a primary surplus of 0.8% (see: Italy: Reflections from Rome), putting an exit from the excessive deficit procedure within reach.

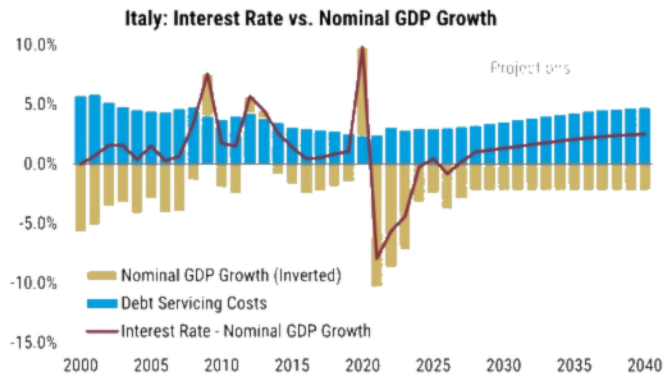
Italy's debt-to-GDP is one of the highest in the euro area, and this is not news. It peaked during Covid at 154.4% and fell rapidly to 134.6% by 2023, as high inflation boosted nominal growth and a strong labour market and better compliance lifted tax receipts. It has since edged back up to 137.1% in 2025, as the Superbonus stock-flow effect lingers on the borrowing requirement (see here). Our DSA, holds the ratio at ~134-136% through 2030, helped by primary surpluses and a strong 2026 nominal growth outturn. Including the lingering Superbonus effect, our economists see debt at ~138% in 2026. Beyond 2030, R > G pushes the ratio back onto an upward trajectory.

**Exhibit 75:** Italy's elevated debt ratio holds broadly stable through the end of the decade, supported by primary surpluses and an inflation-driven boost to nominal growth. .




Source: Eurostat, ISTAT, Haver, Morgan Stanley Research

**Exhibit 76:** ...before rising again as the implicit cost of debt overtakes Italy's weak potential growth

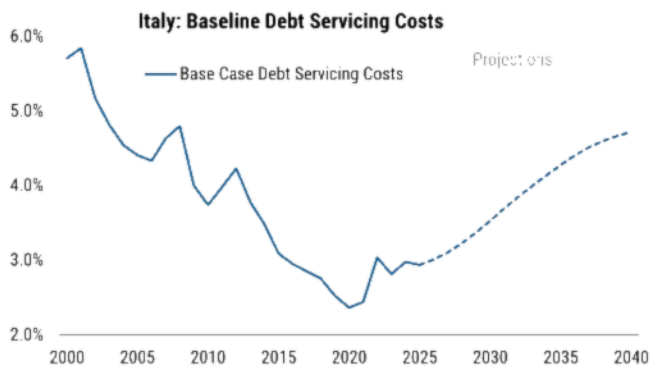



Source: Eurostat, ISTAT, Haver, Morgan Stanley Research

**Rates:** Thanks to a relatively long weighted average maturity (above 7 years), Italy's implicit yield has adjusted only slowly, from 2.4% in 2022 to ~2.9-3.0% in 2024-25. As long as 7-year yields stay above 3%, it will keep rising. BTP spreads remain historically tight, and our strategists expect fiscal dynamics to remain supportive. They have, however, been neutral on BTPs since early summer, given the uncertain outlook for an energy importer amid the Middle East conflict. Based on the current forward curve, we project the implicit cost of debt at ~3.5% by 2030 and ~4.7% by 2040. That lifts interest payments from ~3.9% of GDP in 2025 to ~4.7% in 2030 and ~6.9% in 2040. The longer

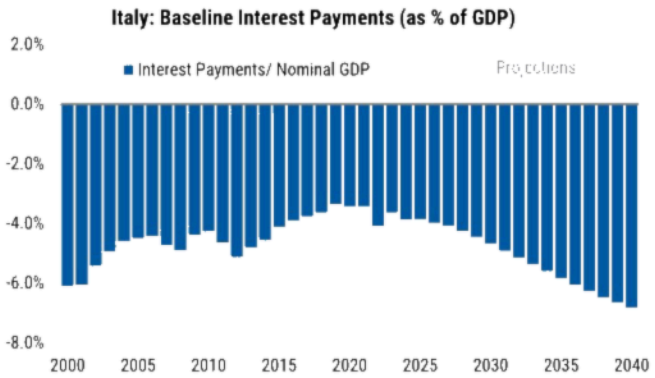
maturity has reduced the debt ratio's sensitivity to rates ( Exhibit 79 ), but it does not remove it.

**Exhibit 77:** Italy's debt servicing cost is set to rise...



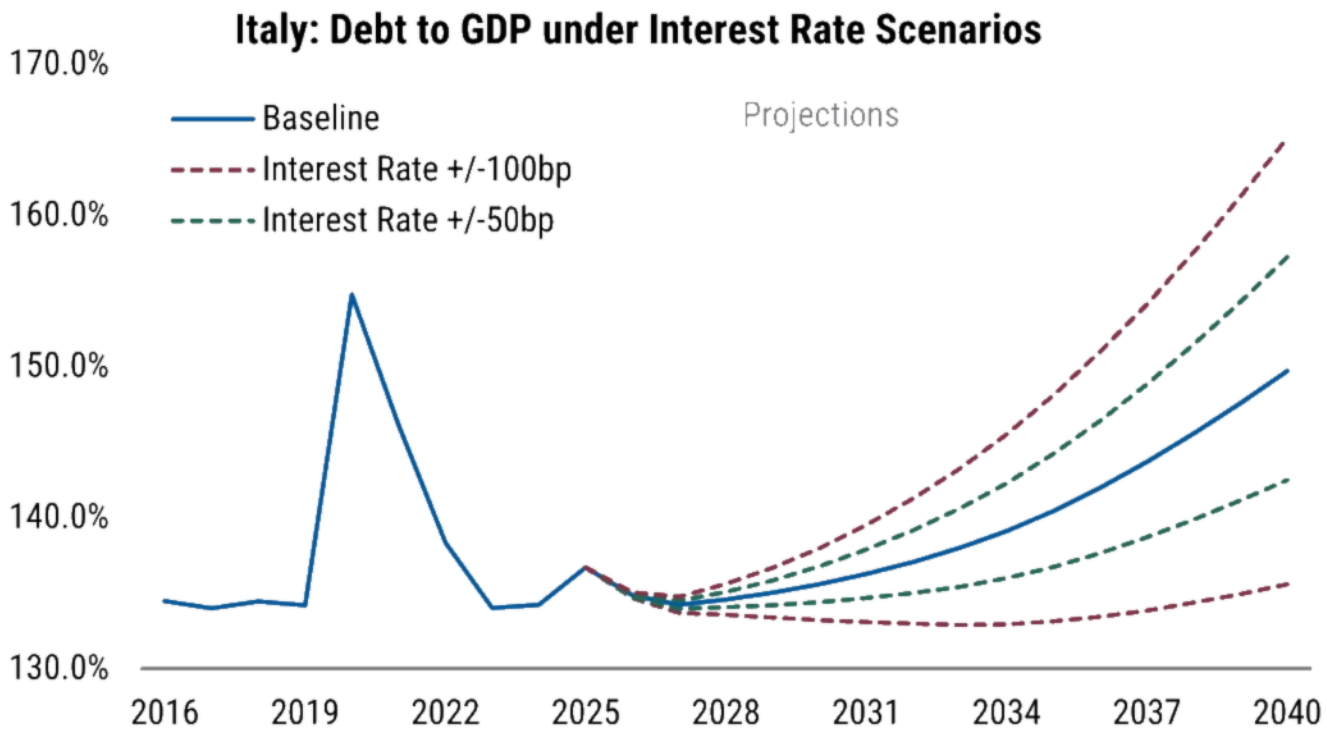

Source: Eurostat, BIS, Haver, Morgan Stanley Research

**Exhibit 78:** ...increasing the burden on public finances




Source: Eurostat, BIS, Haver, Morgan Stanley Research

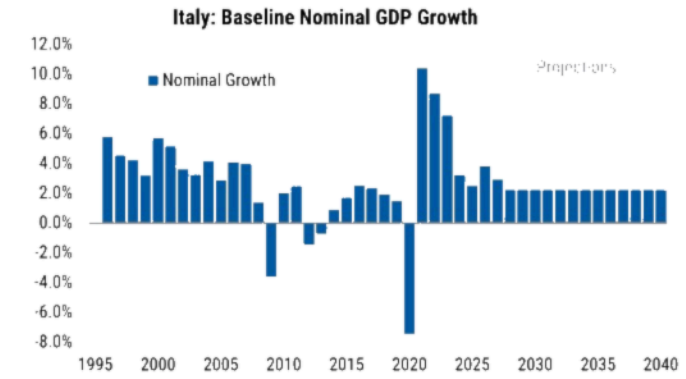
**Exhibit 79:**
Lengthening its debt maturity has made Italy's debt less sensitive to interest rate shocks than in past cycles, but not immune to them




Source: Eurostat, BIS, Haver, Morgan Stanley Research

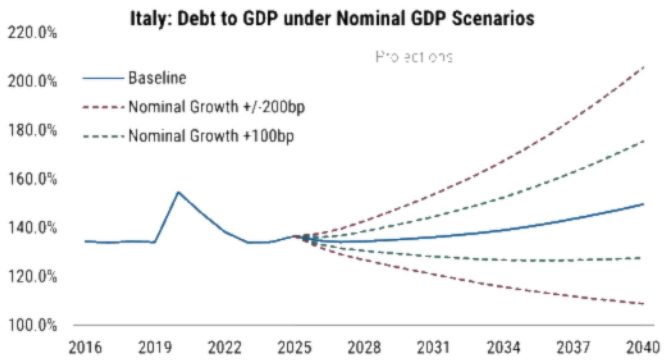
**Growth:** We remain cautious on Italian growth, though we revised up our forecasts (see here) after a stronger 1H26 and now see GDP growth of 0.7% in 2026 and 0.4% in 2027. The end of the RRF is a headwind, but the final €28.4bn installment should be disbursed by end-2026 and its spending should spill over into 2027, cushioning the correction in public investment. Higher energy prices have lifted the deflator, so nominal growth is ~3.8% in 2026 and ~2.9% in 2027 before settling at ~2.2%. Over the medium run, adverse demographics and low productivity keep nominal growth below the implicit cost of debt, so R v G turns positive from 2027 and reaches ~+2.5pp by 2040.

**Exhibit 80:** A weak potential GDP growth for Italy




Source: Eurostat, IMF, Haver, Morgan Stanley Research

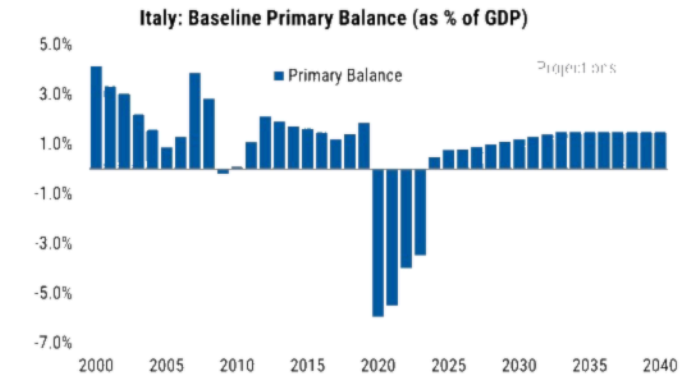
**Exhibit 81:** Debt ratios are highly sensitive to alternative paths for nominal growth




Source: Eurostat, IMF, Haver, Morgan Stanley Research

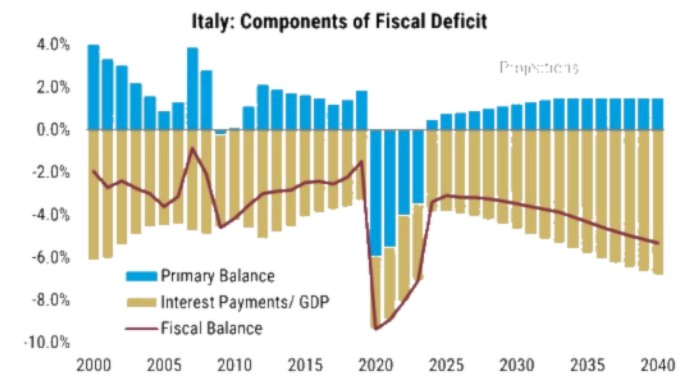
**Fiscal:** Italy's key advantage is its record of primary surpluses, broken only in 2009 and during the pandemic and energy crises. It is the clearest example of a country that can run persistent surpluses and close the gap to its DSPB. We see the deficit at 3.2% of GDP in 2026 and 3.1% in 2027 and the 2027 budget should be broadly deficit-neutral, keeping the deficit below 3% before escape-clause measures and allowing an EDP exit. The national escape clause, extended in 2026 to cover energy security, allows up to 1.5% of GDP of cumulative defence and energy spending to be excluded, with 0.3pp a year earmarked for energy There is caution across the political spectrum on raising defence spending, with priorities focused on healthcare, taxation and energy prices. In our baseline, the primary surplus rises from ~0.8% of GDP in 2026 to ~1.2% in 2030 and ~1.5% from 2033, with risks to the downside.

**Exhibit 82:** Consistent primary surpluses are Italy's key fiscal advantage, and the reason its debt has not accelerated...




Source: Eurostat, IMF, Haver, Morgan Stanley Research

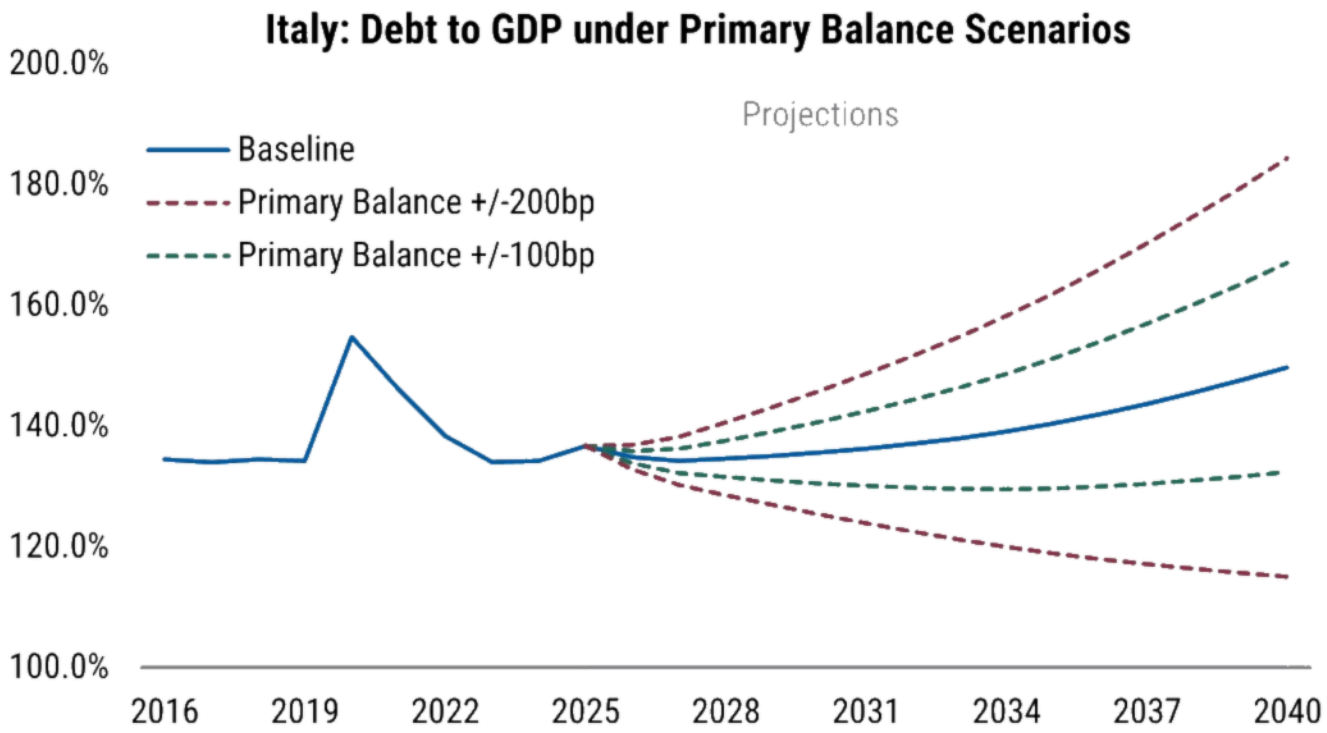
**Exhibit 83:** ...but those surpluses face an uphill battle as rising interest costs widen the overall deficit




Source: Eurostat, IMF, Haver, Morgan Stanley Research

**Exhibit 84:**

Only a fiscal effort beyond current plans would put Italy's debt ratio on a declining path, underscoring how little room there is for slippage




Source: Eurostat, Istat, Haver, Morgan Stanley Research

**Conclusion:** Italy is better placed than a year ago in the short run. But an implicit cost of debt above long-run nominal growth keeps debt on an upward path to 2040 through the snowball effect.

# Spain

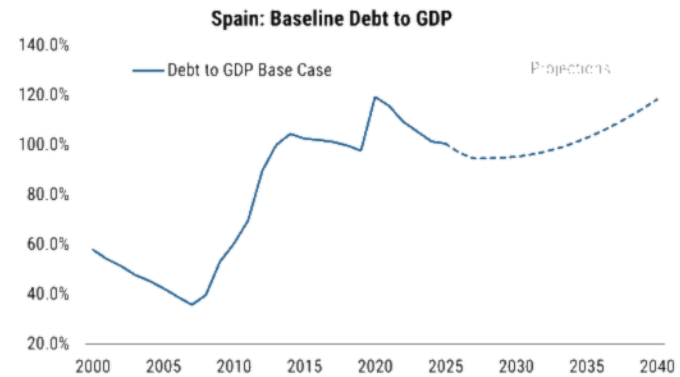
*Skander Garchi Casal*

## What's Changed Since Last Year?

Spain's near-term outlook has improved further. Nominal growth of ~5.7% in 2025 and ~6.4% in 2026, with a primary balance near zero, brings debt below 95% of GDP in 2027, and to ~95% in 2030 (vs ~102% last year). Ageing-related spending, ~3pp of GDP higher by 2040, still takes debt to ~118% by 2040 (vs ~127% last year). The upcoming general election adds uncertainty on immigration and fiscal policy.

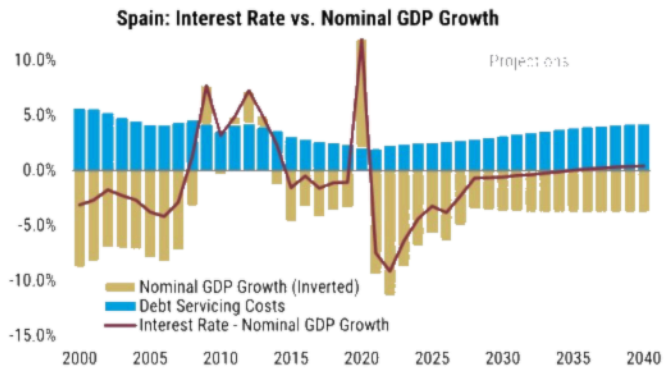
Unlike Italy, Spain kept debt low in the first part of the century. The GFC changed that, with debt rising from 40% of GDP in 2008 to 105% in 2015, and pandemic stimulus pushed it to 120% in 2020. Since then, Spain's economic outperformance has brought it back to ~100% in 2025 ( Exhibit 85 ). In our base case, debt falls further to ~95% by 2027 and stays below 100% until the mid-2030s. Thereafter, rising ageing-related spending and interest costs push primary balances and debt in the wrong direction ( Exhibit 86 ).

**Exhibit 85:** Spain's debt is projected to remain stable until 2030, when it starts to rise...




Sources: Eurostat, IMF, Haver, Morgan Stanley Research

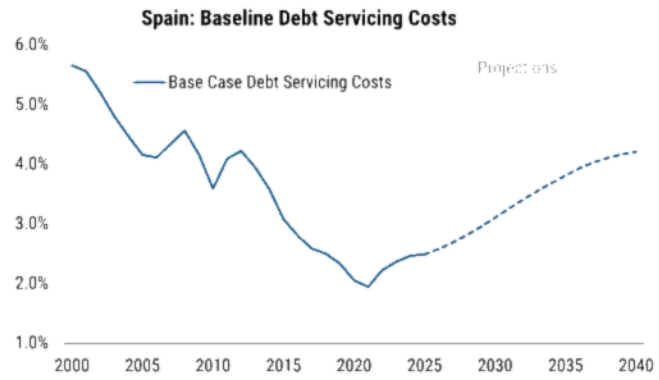
**Exhibit 86:** ...as nominal growth normalizes and the gap between growth and interest costs closes in the mid-2030s




Source: Eurostat, ML Haver, Morgan Stanley Research

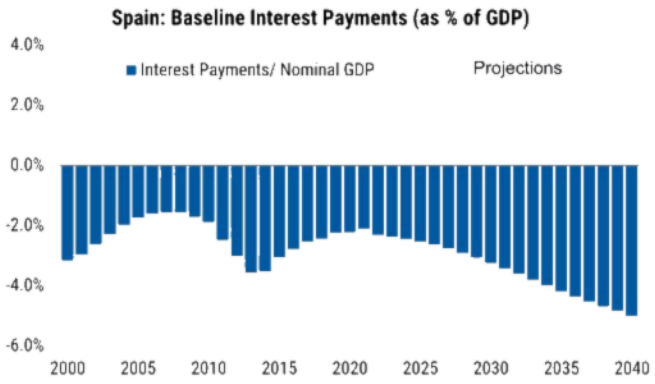
**Rates:** Low rates and an average debt maturity of ~8 years have kept Spain's debt servicing costs contained. Lower fiscal headline risk than in several peers supports at least a neutral allocation in our strategists' view. They forecast bond issuance of ~€193bn in 2027, up from ~€177bn this year, largely reflecting a heavier redemption profile. Forward pricing still points to a progressively higher cost of debt ( Exhibit 87 , Exhibit 88 ), rising from ~2.5% in 2025 to ~2.6% in 2026, ~3.1% in 2030 and ~4.2% by 2040. The long maturity means the fiscal burden rises only gradually.

**Exhibit 87:** Debt servicing costs are set to rise, but with a long average debt maturity...




Source: Eurostat, INE, Haver, Morgan Stanley Research

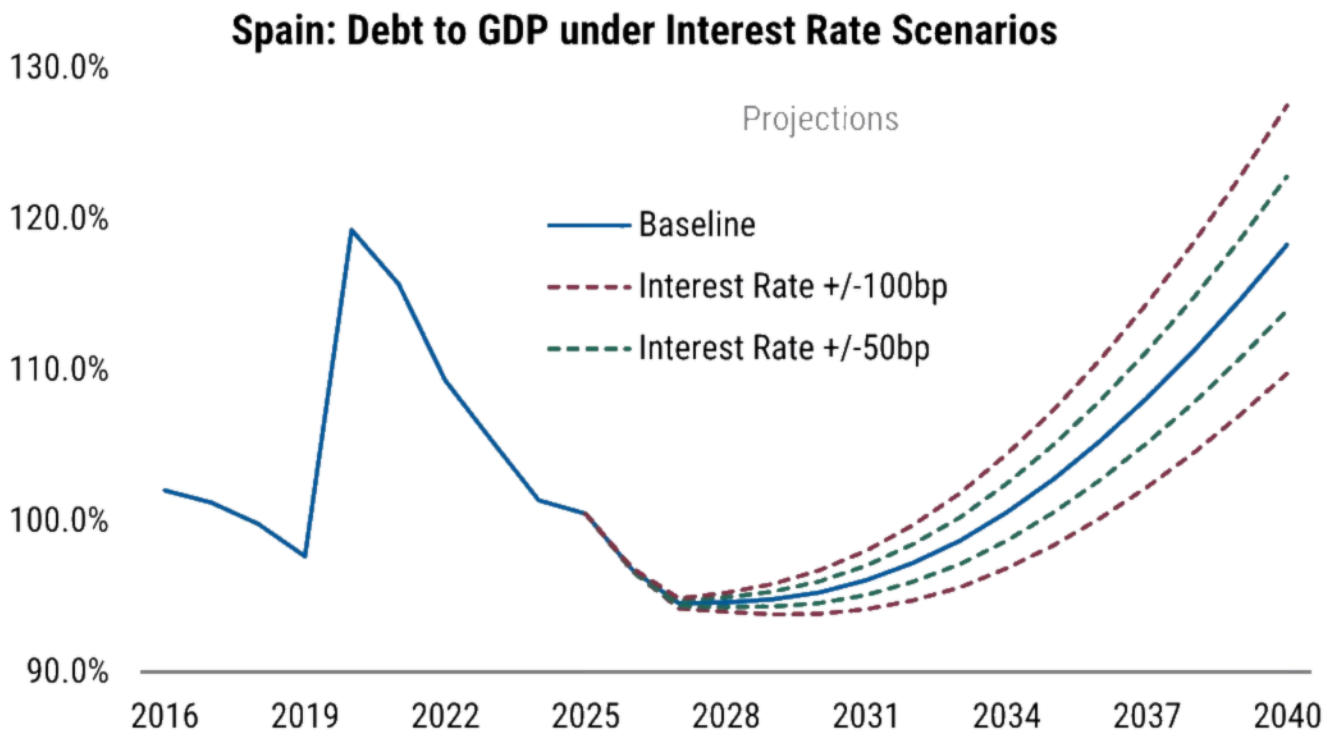
**Exhibit 88:** ...the fiscal burden should rise gradually over time




Source: Eurostat, INE, Haver, Morgan Stanley Research

**Exhibit 89:**

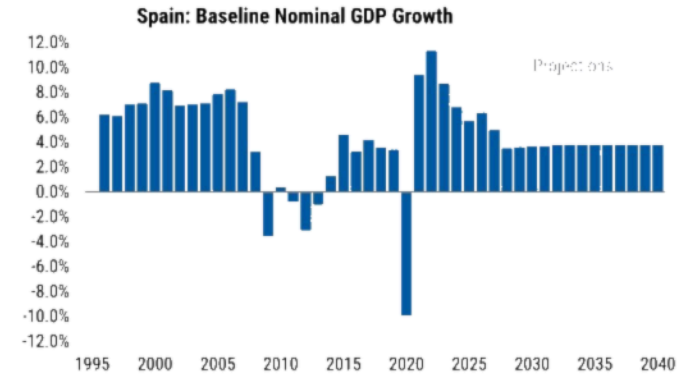
Debt ratio likely to remain above the 100% mark by 2040




Source: Eurostat, INE, Haver, Morgan Stanley Research

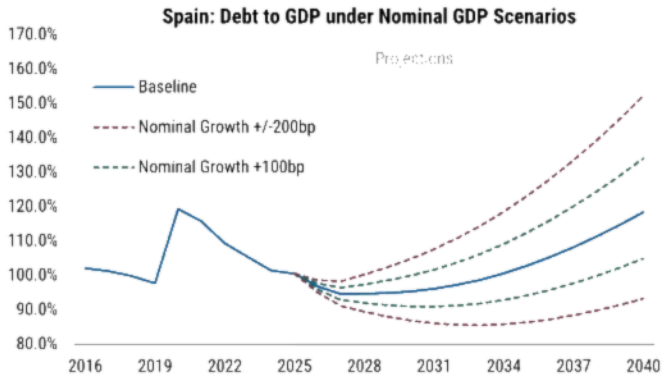
**Growth:** Spain remains one of the fastest-growing economies in the euro area. We forecast GDP growth of 2.7% in 2026, moderating toward potential of 2.1% in 2027, with CPI inflation of 3.7% in 2026. Nominal growth of ~6.4% in 2026 and ~5.0% in 2027 settles at ~3.5-3.8% over the long run. Immigration remains a structural driver. Inflows peaked at almost 2.5% of the working-age population in 2022 and have eased to ~1.7%, still well above pre-pandemic levels. Risks are skewed to the downside: a more restrictive stance under a PP-Vox coalition could cost ~60bp of growth, around a third of our forecast.

**Exhibit 90:** The nominal outlook for Spain is above the other euro area countries but lower than historically




Source: Eurostat, INE, Haver, Morgan Stanley Research

**Exhibit 91:** The importance of strong nominal growth means the risks are skewed to higher debt-to-GDP if growth slows

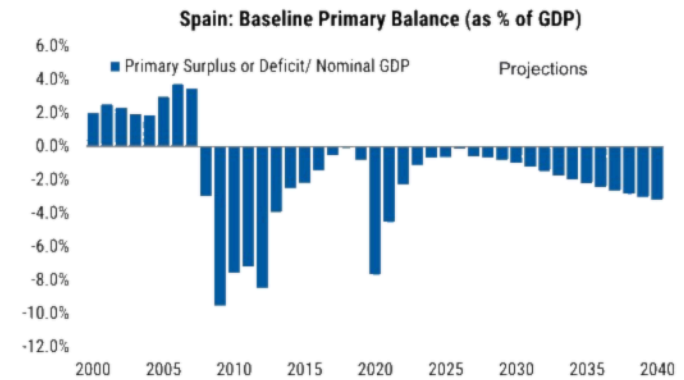



Source: Eurostat, INE, Haver, Morgan Stanley Research

**Fiscal**: We expect the deficit to remain at 2.4% of GDP in both 2026 and 2027, with a primary balance of ~+0.1% (see here) . The energy-support package costs ~€8bn (~0.5% of GDP), but inflation is flattering the ratios by eroding items such as public wages as a share of GDP. That effect is likely to reverse in 2027 as wages catch up, with delayed indexation adding ~40bp of GDP to spending

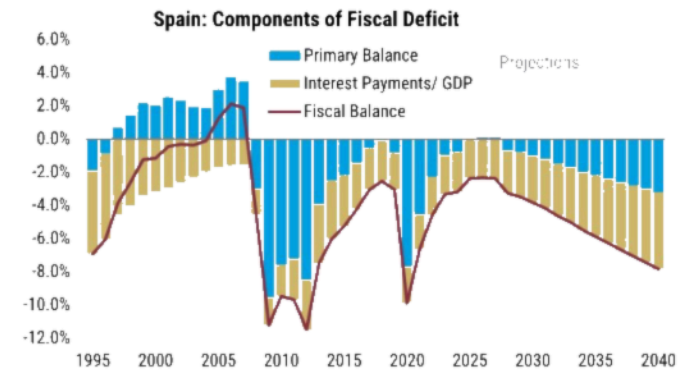
The government has not passed a budget since 2023, and the election could shift priorities: a PSOE-led coalition would likely keep defence spending at ~2.1% of GDP, while the PP has advocated 3%. Spain also faces among the largest long-term pressures in the euro area, with ageing, defence and interest costs potentially widening the deficit by just over 5pp of GDP absent offsets. In our baseline, the primary balance deteriorates from ~-0.7% of GDP in 2028 to ~-3.2% by 2040.

**Exhibit 92:** Spain's primary balance stays near zero in the near term, but rising pension and healthcare costs from an ageing population steadily erode it in the 2030s...




Source: Eurostat, INE, Haver, Morgan Stanley Research

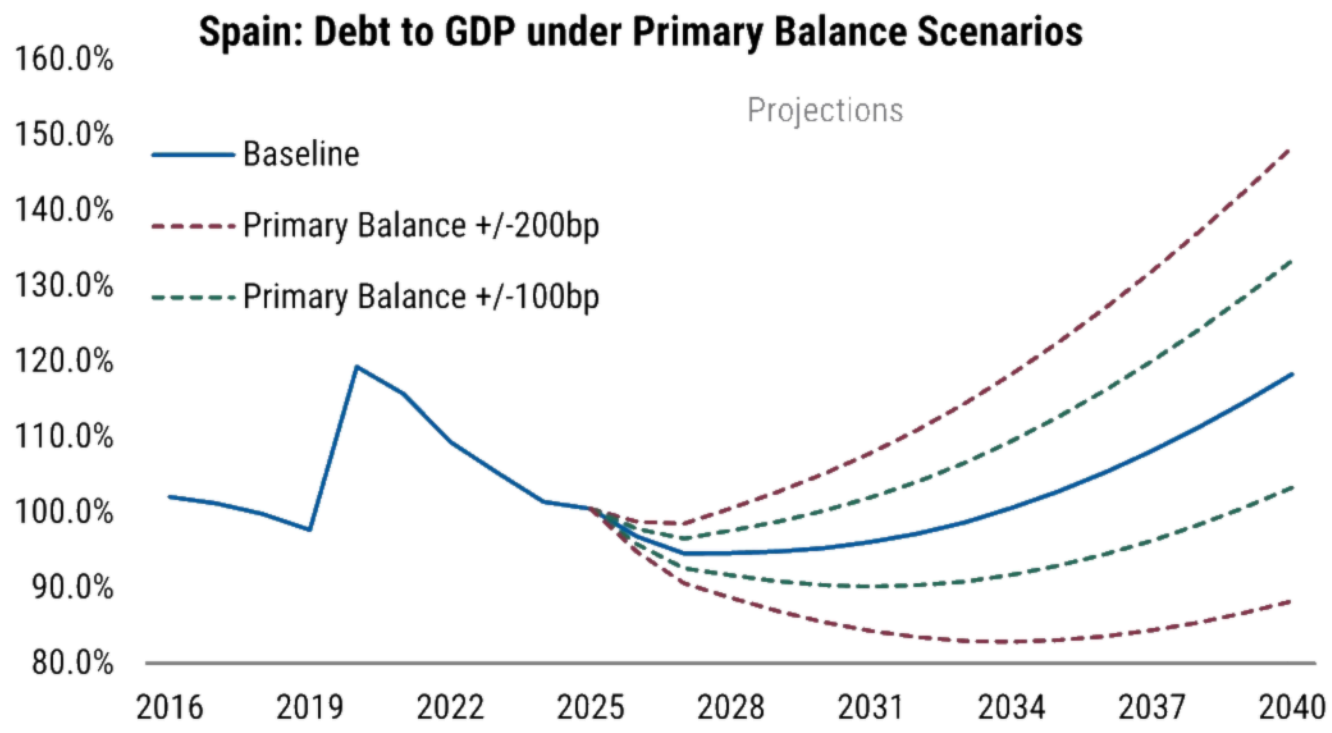
**Exhibit 93:** ...and higher interest expenditure compounds the deterioration in the overall fiscal deficit




Source: Eurostat, INE, Haver, Morgan Stanley Research

**Exhibit 94:**

Spain can still reduce its debt ratio, but only with substantial and sustained fiscal consolidation to offset ageing costs




Source: Eurostat, INE, and Morgan Stanley Research

**Conclusion:** Strong nominal growth keeps debt below 95% of GDP through 2029, but ageing costs drive an upward tilt thereafter. Slower growth from ageing or tighter immigration would raise the snowball effect.

# Sweden

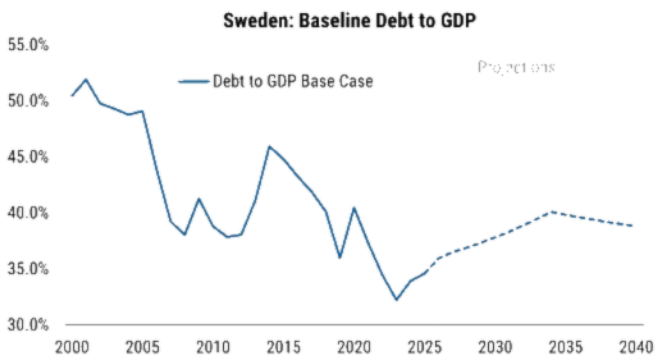
*Gabriela Silova*

## What's Changed Since Last Year?

Sweden's fiscal stance has turned expansionary, through the 2026 budget's SEK 80bn package, a shift to a balanced-budget target and up to SEK 300bn of defence borrowing over 2026-34. The debt outlook nonetheless remains comfortably sustainable. Debt peaks at ~40.5% of GDP in 2034, and the return to balance from 2035 brings it to ~39% by 2040, about 2pp above last year.

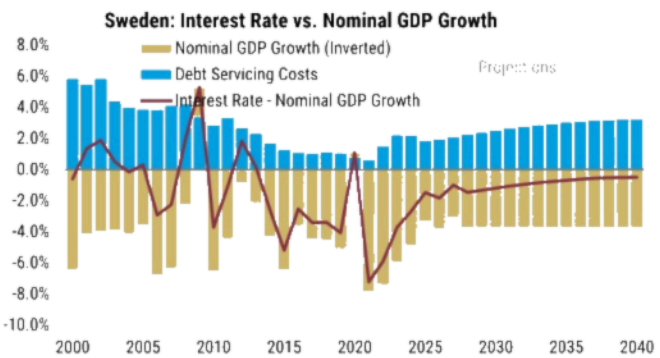
Sweden has a long record of prudent fiscal policy, and its debt remains among the lowest in DM, with an anchor of 35% of GDP ±5pp. The budget rule shifts from surplus to balance in 2027. The 2027 budget carries over the food VAT cut and higher defence and Ukraine spending, and we expect a deficit of 2.0% of GDP. We see debt rising from ~35% of GDP in 2025 to ~38% in 2030 and ~40.5% in 2034, driven by defence spending and the expansionary 2026 budget. With net lending required to return to balance by 2035, debt then resumes its decline. R v G stays negative throughout, which suggests the debt is comfortably sustainable.

**Exhibit 95:** Sweden will experience a temporary uptick in debt to-GDP, but in the long term the ratio will decline again...




Source: Haver, Statistics Sweden, Eurostat, Morgan Stanley Research

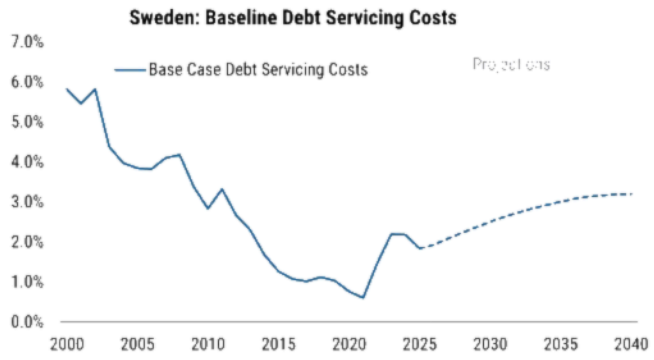
**Exhibit 96:** ...with nominal growth comfortably ahead of interest costs throughout the projection horizon




Source: Haver, Statistics Sweden, Eurostat, Morgan Stanley Research

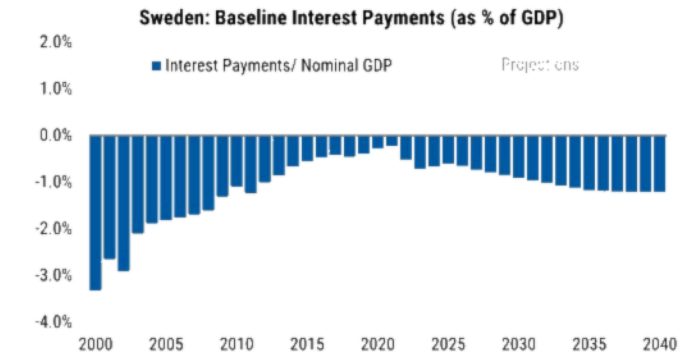
**Rates:** Low and even negative rates kept Swedish debt servicing costs low for years, but a weighted average maturity of ~5 years means higher rates pass through relatively quickly. We expect the Riksbank to hike in 4Q26, given currency weakness and higher energy prices (see here). We project the cost of debt rising from ~1.8% in 2025 to ~2.5% in 2030 and ~3.2% in 2040. The low level of debt offsets this, so interest payments stay manageable at ~1% of GDP in 2030 and ~1.2% in 2040, and debt falls after the mid-2030s in most rate scenarios ( Exhibit 99 ).

**Exhibit 97:** While Sweden's debt costs are rising, they remain far lower than historical levels...



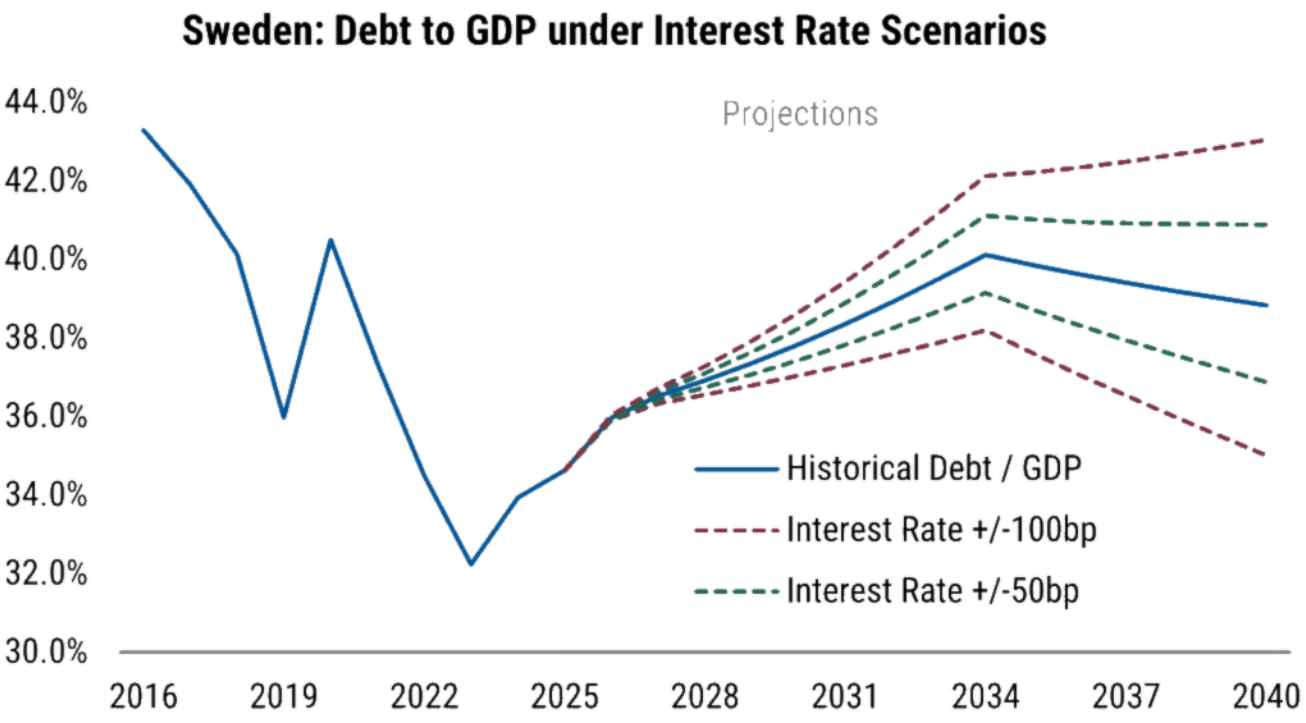

Source: Eurostat, Statistics Sweden, Haver, Morgan Stanley Research

**Exhibit 98:** ...and with a low debt stock, interest costs do not pose a meaningful fiscal burden




Source: Eurostat, Statistics Sweden, Haver, Morgan Stanley Research

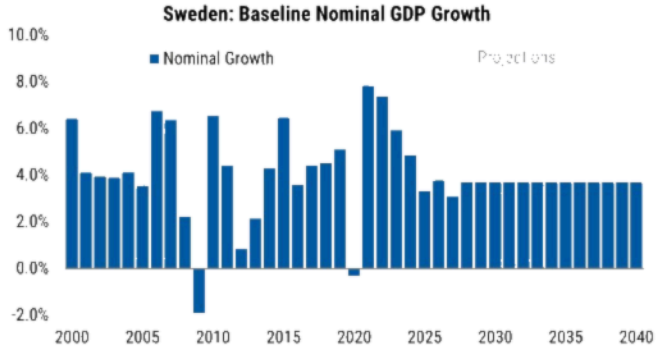
**Exhibit 99:**
In most interest rate scenarios debt falls given the strong fiscal framework




Source: Eurostat, Statistics Sweden, Haver, Morgan Stanley Research

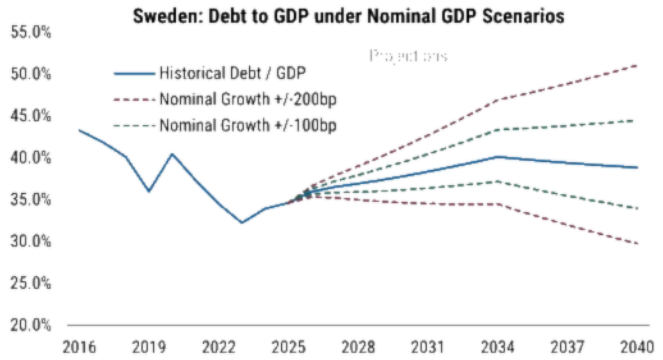
**Growth:** Growth is rebounding on the back of fiscal stimulus. We expect GDP growth of 2.4% in 2026 and 1.8% in 2027, with CPIF inflation, including temporary measures, at 1.4% in 2026 and 2.4% in 2027 as price pressures build (see here). Nominal growth is ~3.8% in 2026 and ~3.1% in 2027, and our projections assume ~3.7% thereafter, stronger than most euro area economies. R - G remains negative, leaving a buffer of nominal growth before debt trajectories turn.

**Exhibit 100:** Sweden's nominal GDP outlook is stronger than most Eurozone economies




Source: Eurostat, Statistika Centralbyran, Haver, Morgan Stanley Research

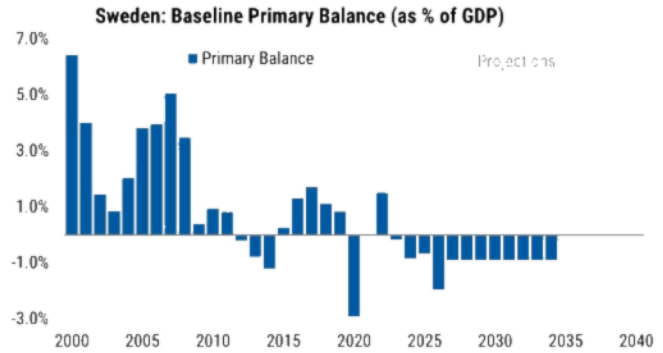
**Exhibit 101:** Which also supports declining debt to GDP given the low interest burden




Source: Eurostat, Statistika Centralbyran, Haver, Morgan Stanley Research

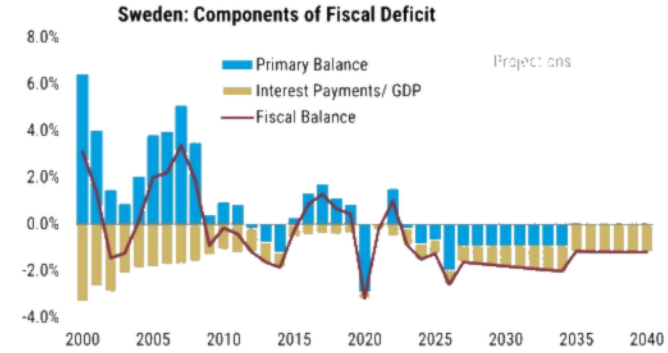
**Fiscal:** The political consensus is shifting from strict fiscal prudence toward more support for households and businesses and higher defence spending. Our equity strategists note that defence expenditure is expected to reach 2.8% of GDP in 2026 and 3.1% from 2028, with further steps toward 3.5% by 2030 (see here). The incoming government must put forward permanent defence financing and decide whether to extend the food VAT cut, which expires at end-2027, within fiscal space the National Institute of Economic Research (NIER) puts at ~SEK 95bn over the term (see here); the 2027 Budget Bill is due by 12 November. Our baseline has a primary deficit of ~2.0% of GDP in 2026 and ~0.9% over 2027-34, returning to balance from 2035.

**Exhibit 102:** Sweden has a long legacy of fiscal responsibility




Source: Eurostat, Statistika Centralbyran, Haver, Morgan Stanley Research

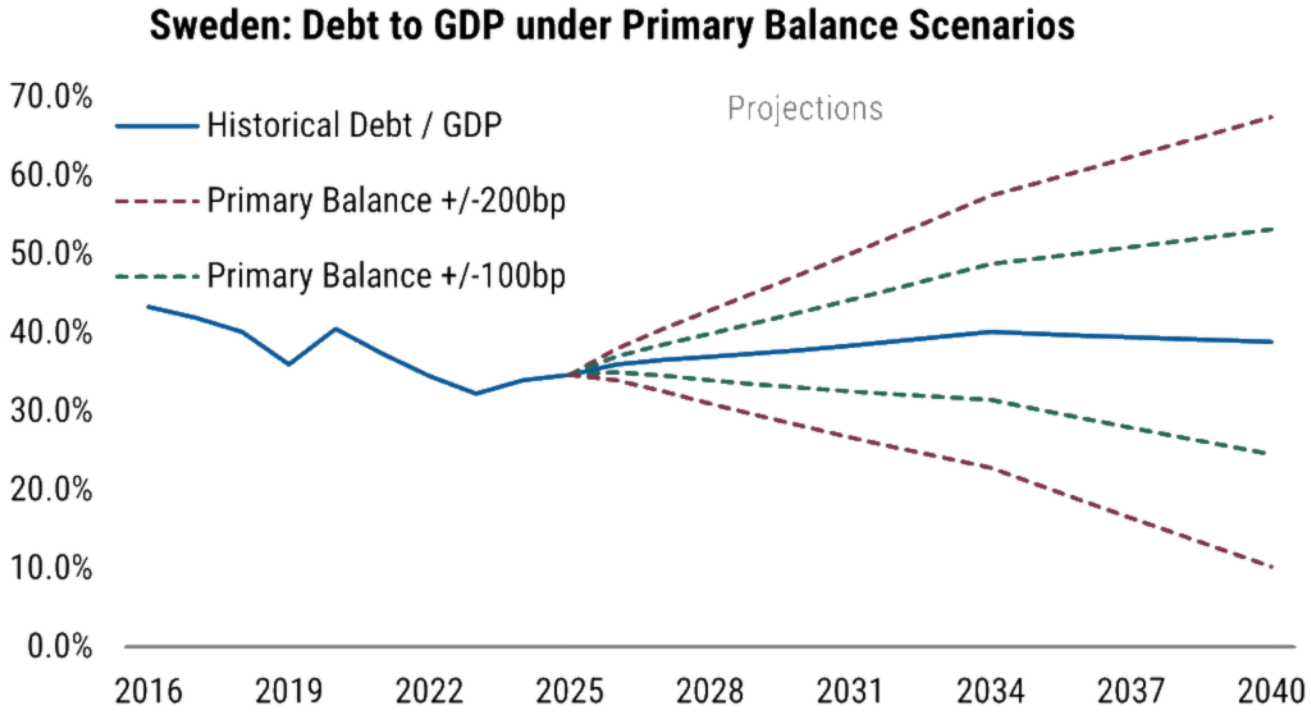
**Exhibit 103:** That more than compensate for interest costs




Source: Eurostat, Statistika Centralbyran, Haver, Morgan Stanley Research

**Exhibit 104:**

Sweden is using its fiscal space to fund defence and household support. The path of fiscal policy, rather than market conditions or growth, is what determines how high debt rises




Source: Haver Analytics, Bloomberg Finance L.P., Morgan Stanley Research

**Conclusion:** Sweden has room to expand spending within its debt anchor, and the projected return to balance from 2035 puts debt back on a downward trend.

# Canada

*Arunima Sinha, Mayank Phadke*

### What's Changed Since Last Year?

Budget 2025 pivoted fiscal policy toward investment and defence, with ~C$280bn of planned capital investment over five years. The Spring Economic Update then revised the 2025-26 deficit down to ~C$67bn. On our projections, federal debt edges down from ~70% of GDP in 2025 to ~65.5% in 2030 and ~60% by 2040, as the federal primary balance returns to surplus and nominal growth keeps pace with the cost of debt.

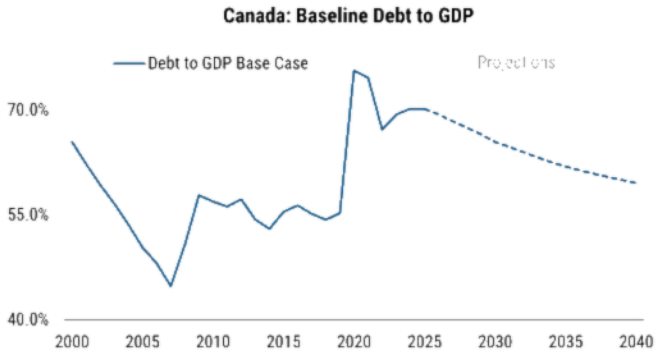
US tariffs have weighed on the Canadian outlook, but growth recovered after a weak start to 2026. GDP rebounded from 3.3% (q/q saar) in 2Q26 from a modest 0.3% in 1Q, with final domestic demand up 3.9%. The pivot toward investment comes with somewhat higher deficits and a modest near-term rise in debt, but Canada's broader fiscal position remains healthy, helped by energy revenues.

In considering the debt dynamics, we focus on the federal government debt: Canada saw an acceleration in its the federal debt-to-GDP ratio during the Covid crisis, during which time the government implemented a variety of key tax and spending measures to support the economy during the pandemic. Canada, as an outlier in the developed world, was quick to bring the deficit under control very quickly. Canada's general government gross debt structure aggregates federal, provincial, and local debt, while the net debt accounts for assets from the Canadian and Quebec Pension Plans. The projections below are based on gross federal debt.[7]

The PBO's narrower measure of federal debt, which deducts the government's assets, points in the same direction. It projects the ratio broadly flat at ~41-43% of GDP through 2030-31, with deficits averaging ~1.8% of GDP. Its stress testing nonetheless puts the likelihood of the deficit ratio declining in every year to 2030-31 at less than 1%.

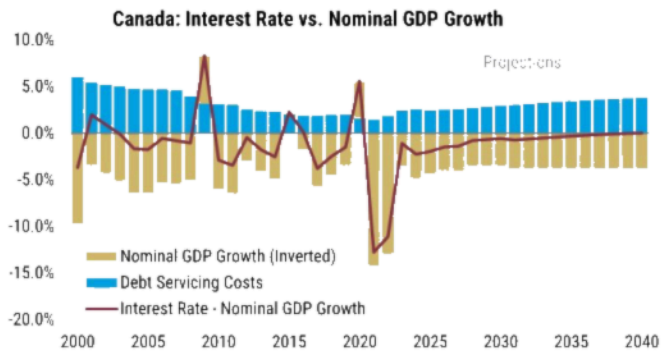
7 In Canada, gross debt includes all liabilities and interest bearing debt, including debts associated with public service pensions, loans from financing deficits, and other government (debt) obligations where the government must pay interest and/or principal. Net debt is gross debt minus financial assets, with the *implicit* assumption that these financial assets could be used to pay off the government's debt. Financial assets include receivable money such as taxes receivable, loans granted by the government, and cash held in government deposits. Along with public service pensions, investments, loans, taxes receivable, and advances all make up a major share of the government's financial assets.

**Exhibit 105:** Canada's larger near term deficits and weaker growth will keep debt elevated




Source: Statistics Canada, PBO, IMF, Haver, Morgan Stanley Research. Note: Base case projections, Debt to GDP.

**Exhibit 106:** R v G is projected to be near 0 thereafter, keeping debt ratios contained in the longer term

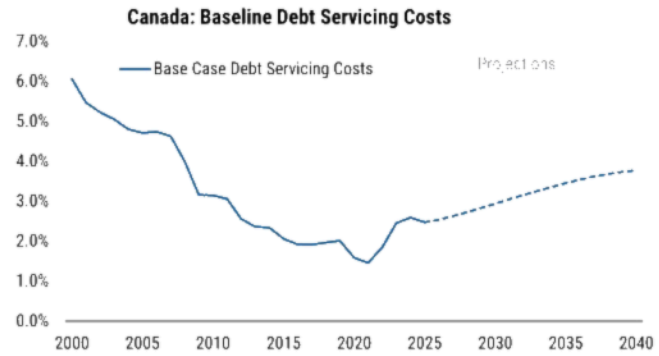



Source: Statistics Canada, PBO, IMF, Haver, Morgan Stanley Research.

**Rates:** The costs of funding Canadian debt remains low relative to historical standards. The Bank of Canada hiked in October by 25 bps and we expect another insurance hike in January, taking the policy rate to 2.75%. A higher and more persistent energy-price path, alongside accumulating upstream cost pressures, has materially changed the balance of inflation risks.

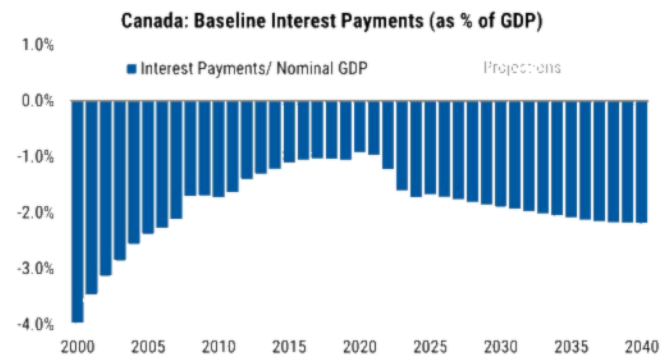
With a ~7-year average maturity, a significant share of federal debt reprices each year, but only gradually. We project the effective cost of debt rising from ~2.5% in 2025 and 2026 to ~2.9% in 2030 and ~3.8% by 2040. Interest payments edge up from ~1.7% of GDP to ~1.9% in 2030 and ~2.2% in 2040, still low relative to historical norms. A ±100bp shift in rates moves 2040 debt within a ~54-66% range, so the debt ratio declines in every rate scenario ( Exhibit 109 ).

**Exhibit 107:** Debt servicing costs largely stabilize at the federal level...



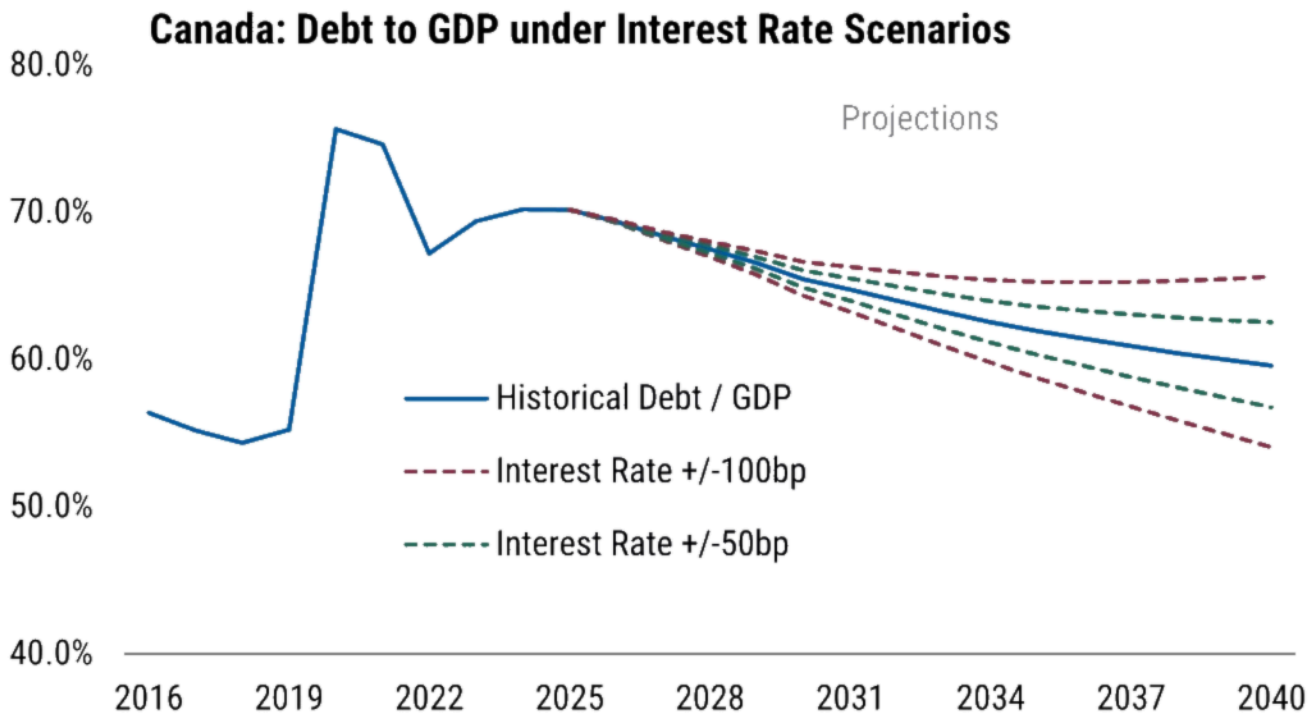

Source: Statistics Canada, PBO, IMF, Haver, Morgan Stanley Research. Note: Base case projections, Debt Servicing Costs.

**Exhibit 108:** ...keeping interest payments contained




Source: Statistics Canada, PBO, IMF, Haver, Morgan Stanley Research. Note: Base case projections, Interest Payments as % of GDP.

**Exhibit 109:**
Canadian debt remains on a declining trajectory over the longer term, when R vs G returns to being in balance

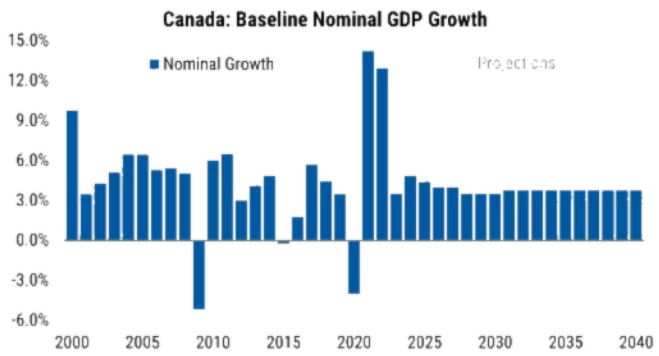



Source: Statistics Canada, PBO, MS Ideas, Morgan Stanley Research

**Growth:** The PBO projects real GDP growth of 1.1% in 2026 and 1.6% in 2027, treating current US tariffs as permanent. Higher oil prices lift nominal GDP more than real GDP: the Spring Economic Update estimates that a persistent 10% rise in WTI raises nominal GDP by ~0.5% in the first year.

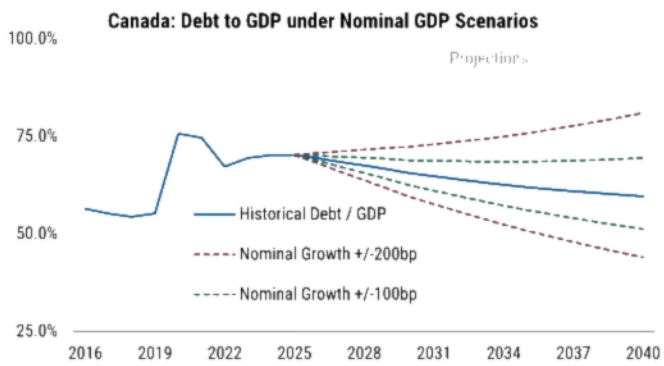
Over the longer run, our analysis suggests potential growth could rise from ~1.5% to ~2.0% if the capital-deepening agenda succeeds (see our **Bluepaper: Canada: The Next Acceleration**). We assume nominal growth of ~4.0% in 2026 and 2027, ~3.5% in 2028-30 and ~3.75% thereafter. R - G is about -1.5pp in 2026 and -0.6pp in 2030, and converges to zero only around 2040. In all growth scenarios ( Exhibit 111 ), the deviation in path does not change the downward slope of the debt projection over the medium term.

**Exhibit 110:** Canada's nominal GDP projection is projected at 3.7-3.8% based on the PBO's forecasts




Source: Statistics Canada, PBO, MS Ideas, Morgan Stanley Research

**Exhibit 111:** Stronger nominal growth than our projections would accelerate the decline in debt-to-GDP

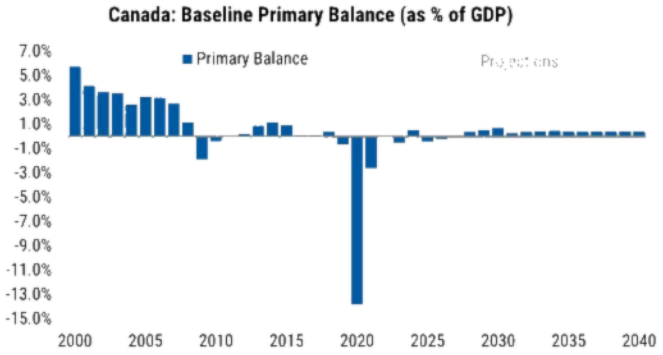



Source: Statistics Canada, PBO, MS Ideas, Morgan Stanley Research

**Fiscal:** The Canadian federal government ran primary deficits only during the Great Financial Crisis and Covid. Budget 2025 introduced a capital budgeting framework, under which the operating budget is to be balanced by 2028-29 and borrowing thereafter is permitted only for capital investment. Government investment has accelerated, but remains narrow and heavily tied to defence. NATO reports that European Allies and Canada raised core defence spending by ~20% in 2025.

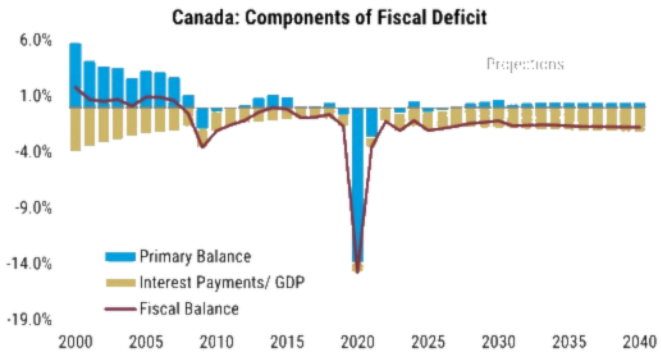
We forecast the federal primary balance moving from a deficit of ~0.4% of GDP in 2025 and ~0.2% in 2026 to a small surplus in 2027. Our projections reach ~0.7% by 2030 and settles at ~0.4% thereafter. That is comfortably above the debt-stabilizing primary balance (~-0.9% of GDP in 2027 and ~-0.4% in 2030), which is why debt declines. Only a sustained fiscal deterioration, with a primary balance ~100bps or more weaker than baseline ( Exhibit 114 ), would put the ratio back on a rising path (~74% by 2040).

**Exhibit 112:** Canada has a legacy of fiscal responsibility, and returns to running primary surpluses




Source: Statistics Canada, PBO, MF, Haver, Morgan Stanley Research. Note: Baseline projection is the Federal Primary Balance as % of GDP

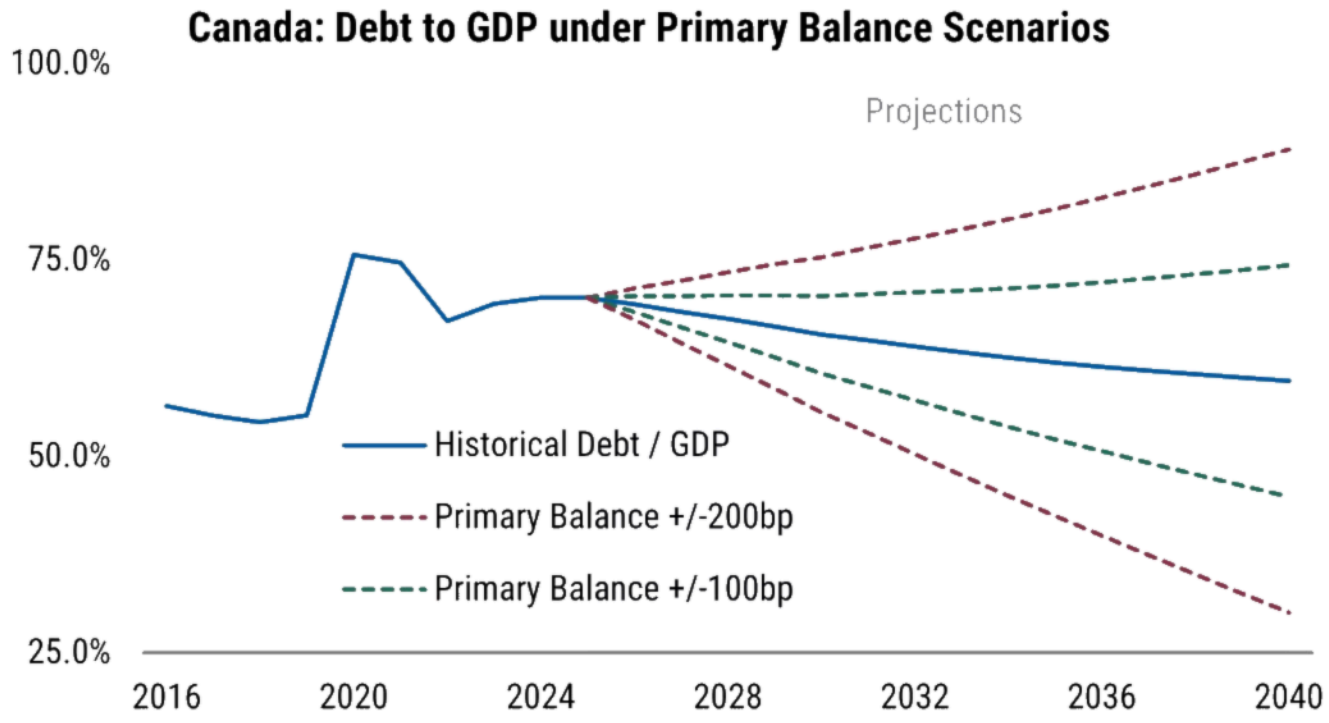
**Exhibit 113:** That more than offsets the rising cost of debt




Source: Statistics Canada, PBO, MF, Haver, Morgan Stanley Research

**Exhibit 114:**

Canadian debt remains on a downward longer-term trajectory in most scenarios where it returns to running a primary surplus

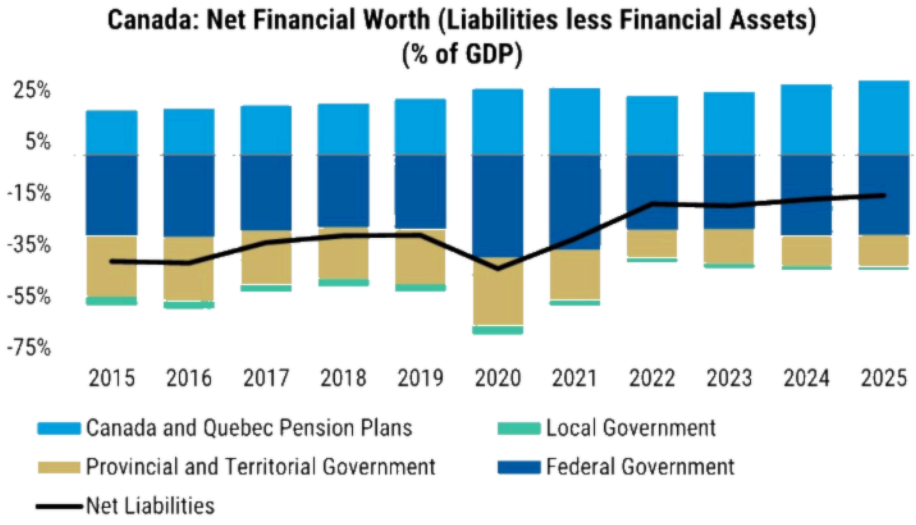



Source: Statistics Canada, PBO, MS Wavel, Morgan Stanley Research

**Conclusion:** Canada's federal debt should decline gradually, to ~60% of GDP by 2040. Should Canada enter a multiyear period of below-trend growth while interest rates stay elevated, or should its fiscal anchors slip, the long-term sustainability of its fiscal position could face headwinds. As a local-currency issuer, Canada is also less exposed to a debt-sustainability backlash.

One final aspect of Canada's debt situation sets it apart from its peers. The net debt position, which includes the net assets held in the Canada and Quebec Pension Plans, is very healthy, which gives Canada greater fiscal capacity than many DM peers (see here).

**Exhibit 115:** Net financial worth has been improving: the large net asset position of the Canadian and Quebec Pension Funds offsets a portion of net debt




Source: Statistics Canada, Morgan Stanley Research

# Australia

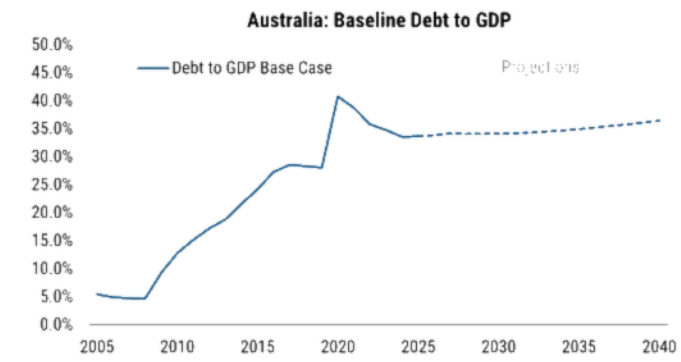
*Chris Read*

## What's Changed Since Last Year?

Debt remains low and stable, but the R v G cushion is thinner than a year ago. The RBA has hiked four times this year, to 4.6%, and our long-run nominal growth assumption is lower (4.5% vs 5%). Together they turn R v G marginally positive in the mid 2030s, so debt drifts up to ~36% of GDP by 2040 (vs ~33% last year). The FY27 Budget improved the fiscal position over the forward estimates for the first time in nearly a decade.

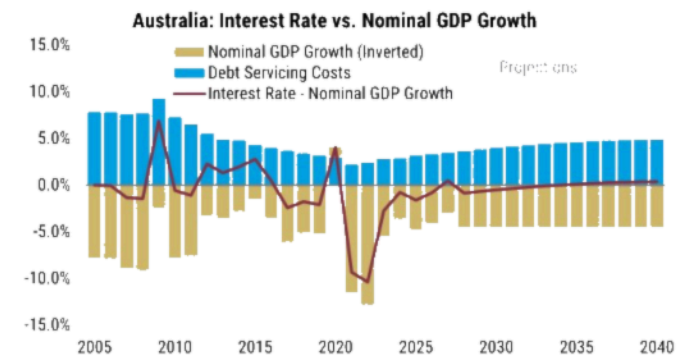
Australia has a very short legacy of government debt, holding it below 10% of GDP before the GFC and below 30% before Covid. Debt briefly touched 40% at the peak of the pandemic but has since stabilized at ~34%. The fiscal outlook is broadly neutral: public spending growth remains strong, but revenue tailwinds from commodity prices and inflation persist. With the primary balance lightly negative (~-0.4% of GDP in 2026 and ~-0.2% thereafter), debt stays near ~34% through 2030 before drifting up as R v G turns positive in the mid 2030s.

**Exhibit 116:** Australia debt to GDP is stable...




Source: ABS, Australia CFM, Morgan Stanley Research

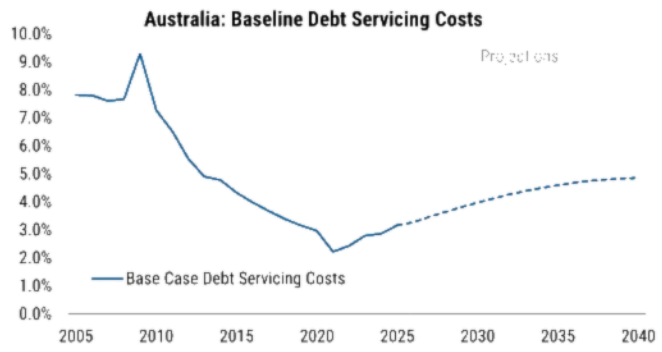
**Exhibit 117:** ...and the R v G relationship only turns marginally positive from the mid 2030s




Source: ABS, Australia CFM, Morgan Stanley Research

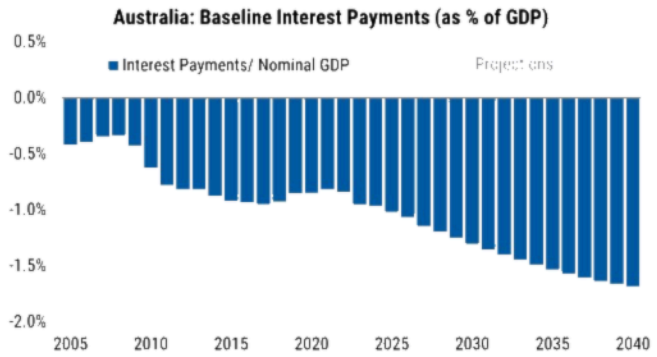
**Rates:** Australia's interest rate profile is surprisingly high given the credit profile of the country, and has risen further this year. The RBA raised the cash rate to 4.6% in September, its fourth hike of the year as inflation was revised higher on account of the energy shock. Our economists have pushed expected cuts out to August and November 2027. With forwards ~90bp higher than a year ago, we now project the cost of debt rising from ~3.2% in 2025 to ~4.0% in 2030 and ~4.9% in 2040 (vs ~3.7% and ~4.4% previously). The ~7-year maturity slows repricing, and with low debt, interest payments remain modest at ~1.3% of GDP in 2030 and ~1.7% in 2040.

**Exhibit 118:** While debt servicing costs are set to rise, they're far below historical levels



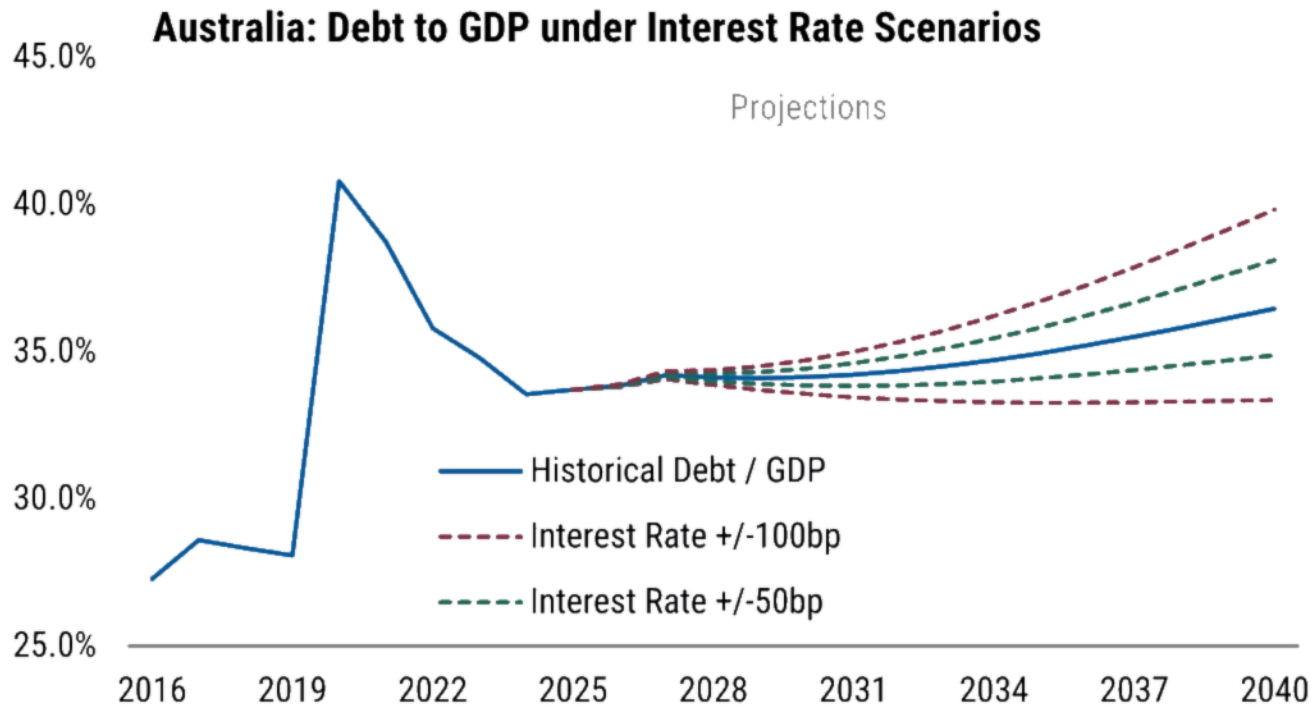

Source: ABS, Australia's TV, Haver, Morgan Stanley Research

**Exhibit 119:** The debt payments as a % of GDP are manageable




Source: ABS, Australia's TV, Haver, Morgan Stanley Research

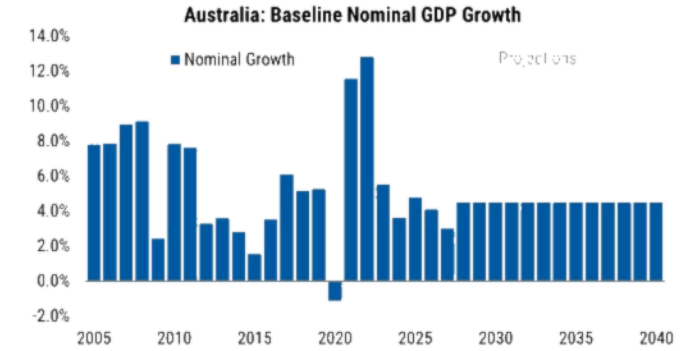
**Exhibit 120:**
The low debt and relatively low interest cost mean there is little sensitivity to rates compared to other DMs




Source: ABS, Australia's TV, Haver, Morgan Stanley Research

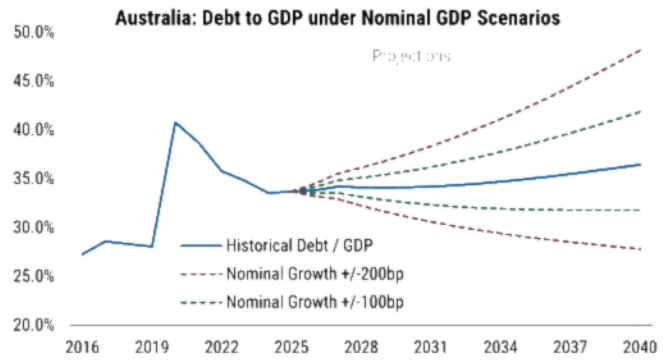
**Growth:** Nominal growth has been boosted by inflation and commodity prices. In the FY27 Budget, Treasury raised its nominal GDP growth forecasts to 6.75% for FY26 (from 5.25%) and 4.25% for FY27 (from 3.25%). We forecast ~4.1% in 2026 and ~3.0% in 2027 as real growth slows under tighter policy. Our medium-term assumption of ~4.5% combines the midpoint of the RBA's 2-3% inflation target with potential growth of ~2%. That is still high relative to other DM economies, but no longer enough to keep R v G firmly negative once the cost of debt converges toward market rates.

**Exhibit 121:** Australia benefits from a relatively higher nominal growth outlook with inflation target of 2-3%




Source: ABS, Australia CEV, Haver, Morgan Stanley Research

**Exhibit 122:** Similarly, Australia debt to GDP is well insulated for different growth scenarios

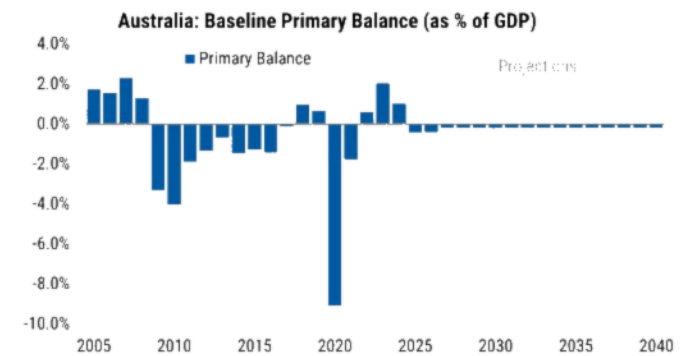



Source: ABS, Australia CEV, Haver, Morgan Stanley Research

**Fiscal:** Australia had only one year of excessive fiscal deficit, 2020, before consolidating the fiscal position. The projections are built on a fiscal balance, though Australia has room to manoeuvre given the strong R v G position. Much of Australia's recent strong fiscal performance has come via significant revenue upgrades — partly from the strong nominal domestic economy but particularly from elevated commodity prices over the past five years.

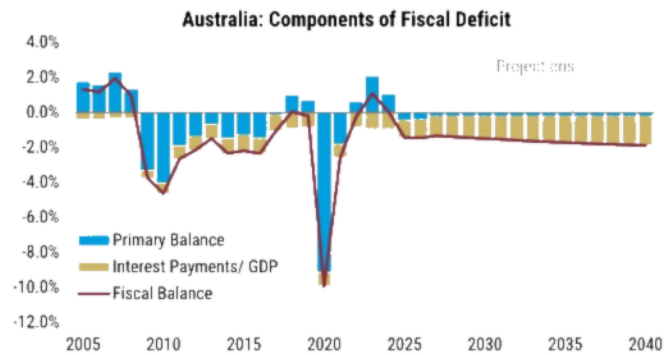
While government spending is at its highest share of the economy (ex-Covid) since the early 1980s, this has been more than matched by revenues, allowing for the balanced budget position. The FY27 Budget delivered a contractionary package that, with continued revenue upgrades, narrows the underlying deficit to ~1% of GDP, stable over the horizon. Notwithstanding the strong near-term position, a longer-term fiscal risk for Australia is the contrast between the cyclical revenue increases and structural spending increases of the past few years.

**Exhibit 123:** Australia has a legacy of fiscal responsibility




Source: ABS, Australia CEV, Haver, Morgan Stanley Research

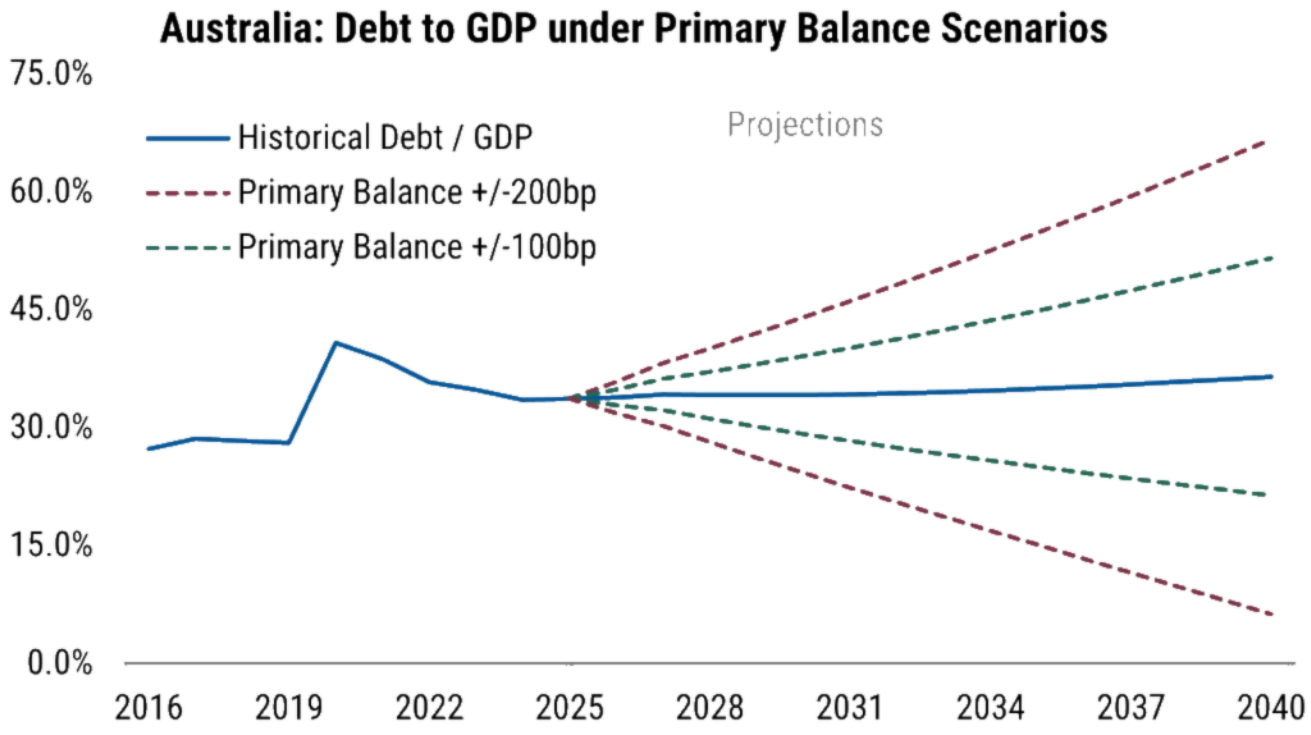
**Exhibit 124:** That will help to keep deficits in check




Source: ABS, Australia CEV, Haver, Morgan Stanley Research

**Exhibit 125:**

Significantly wider fiscal deficits over the projection period would see Australia's debt-to-GDP rise toward levels in other DMs, but that is not the baseline scenario




Source: ABS, Australia CEV, Haver, Morgan Stanley Research

**Conclusion:** Australia remains one of the lowest-risk debt profiles in our sample, but even a low-debt economy is not immune to the global repricing of rates.

# Appendix

## US

**Exhibit 126:** US debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**United States: Debt to GDP Scenarios by 2030**

**BASE CASE ASSUMPTIONS**

| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
|---|---|---|---|---|
| 2022A | 2.6% | -2.5% | 9.7% | 120.6% |
| 2023A | 3.1% | -3.0% | 6.8% | 122.3% |
| 2024A | 3.4% | -2.9% | 5.6% | 123.3% |
| 2025A | 3.5% | -1.3% | 5.0% | 124.9% |
| 2026E | 3.5% | -2.1% | 5.8% | 124.3% |
| 2027E | 3.6% | -1.8% | 4.7% | 124.7% |
| 2028P | 3.6% | -3.6% | 4.3% | 127.5% |
| 2029P | 3.7% | -3.5% | 4.3% | 130.3% |
| 2030P | 3.8% | -3.4% | 4.0% | 133.4% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

**Debt to GDP in 2030 under R v G scenarios**

| Debt Servicing Cost | Nominal GDP: Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
|---|---|---|---|---|---|
| Base - 100bp | 112.3% | 118.2% | 124.6% | 131.3% | 138.6% |
| Base - 50bp | 115.3% | 121.4% | 127.9% | 134.9% | 142.4% |
| Base Case | 118.4% | 124.7% | **131.4%** | 138.6% | 146.2% |
| Base + 50bp | 121.6% | 128.0% | 134.9% | 142.3% | 150.2% |
| Base + 100bp | 124.8% | 131.5% | 138.6% | 146.2% | 154.3% |

**Debt to GDP in 2030 under R v PB scenarios**

| Debt Servicing Cost | Primary Balance: Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
|---|---|---|---|---|---|
| Base - 100bp | 113.0% | 118.8% | 124.6% | 130.3% | 136.1% |
| Base - 50bp | 116.3% | 122.1% | 127.9% | 133.8% | 139.6% |
| Base Case | 119.6% | 125.5% | **131.4%** | 137.3% | 143.2% |
| Base + 50bp | 123.0% | 129.0% | 134.9% | 140.9% | 146.9% |
| Base + 100bp | 126.5% | 132.5% | 138.6% | 144.6% | 150.7% |

**Debt to GDP in 2030 under PB v G scenarios**

| Primary Balance | Nominal GDP: Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
|---|---|---|---|---|---|
| Base - 100bp | 107.1% | 113.2% | 119.6% | 126.5% | 133.8% |
| Base - 50bp | 112.8% | 118.9% | 125.5% | 132.5% | 140.0% |
| Base Case | 118.4% | 124.7% | **131.4%** | 138.6% | 146.2% |
| Base + 50bp | 124.0% | 130.5% | 137.3% | 144.6% | 152.4% |
| Base + 100bp | 129.7% | 136.2% | 143.2% | 150.7% | 158.6% |

Source: CBO, US Treasury, BEA, Haver, Morgan Stanley Research

## Canada

**Exhibit 127:** Canada debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**Canada: Debt to GDP Scenarios by 2030**

**BASE CASE ASSUMPTIONS**

| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
|---|---|---|---|---|
| 2022A | 1.8% | 0.0% | 12.9% | 67.2% |
| 2023A | 2.5% | -0.5% | 3.5% | 69.4% |
| 2024A | 2.6% | 0.5% | 4.8% | 70.2% |
| 2025A | 2.5% | -0.4% | 4.4% | 70.2% |
| 2026E | 2.5% | -0.2% | 4.0% | 69.4% |
| 2027E | 2.6% | 0.1% | 4.0% | 68.4% |
| 2028P | 2.7% | 0.4% | 3.5% | 67.5% |
| 2029P | 2.8% | 0.5% | 3.5% | 66.5% |
| 2030P | 2.9% | 0.7% | 3.5% | 65.5% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

**Debt to GDP in 2030 under R v G scenarios**

| Debt Servicing Cost | Nominal GDP: Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
|---|---|---|---|---|---|
| Base - 100bp | 54.2% | 57.4% | 60.9% | 64.6% | 68.6% |
| Base - 50bp | 55.8% | 59.2% | 62.7% | 66.6% | 70.7% |
| Base Case | 57.5% | 61.0% | **64.6%** | 68.6% | 72.8% |
| Base + 50bp | 59.3% | 62.8% | 66.6% | 70.7% | 75.0% |
| Base + 100bp | 61.0% | 64.7% | 68.6% | 72.8% | 77.2% |

**Debt to GDP in 2030 under R v PB scenarios**

| Debt Servicing Cost | Primary Balance: Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
|---|---|---|---|---|---|
| Base - 100bp | 49.4% | 55.1% | 60.9% | 66.6% | 72.4% |
| Base - 50bp | 51.1% | 56.9% | 62.7% | 68.6% | 74.4% |
| Base Case | 52.9% | 58.8% | **64.6%** | 70.5% | 76.4% |
| Base + 50bp | 54.7% | 60.6% | 66.6% | 72.6% | 78.5% |
| Base + 100bp | 56.5% | 62.6% | 68.6% | 74.6% | 80.7% |

**Debt to GDP in 2030 under PB v G scenarios**

| Primary Balance | Nominal GDP: Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
|---|---|---|---|---|---|
| Base - 100bp | 46.3% | 49.5% | 52.9% | 56.5% | 60.5% |
| Base - 50bp | 51.9% | 55.2% | 58.8% | 62.6% | 66.6% |
| Base Case | 57.5% | 61.0% | **64.6%** | 68.6% | 72.8% |
| Base + 50bp | 63.1% | 66.7% | 70.5% | 74.6% | 79.0% |
| Base + 100bp | 68.7% | 72.5% | 76.4% | 80.6% | 85.2% |

Source: Statistics Canada, FSC, MF, Haver, Morgan Stanley Research

# Japan

**Exhibit 128:** Japan debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**Japan: Debt to GDP Scenarios by 2030**

| BASE CASE ASSUMPTIONS | | | | |
|---|---|---|---|---|
| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
| 2022A | 0.6% | -3.8% | 1.9% | 228.0% |
| 2023A | 0.6% | -2.2% | 5.5% | 220.1% |
| 2024A | 0.6% | -1.5% | 3.3% | 213.6% |
| 2025A | 0.7% | -0.5% | 4.6% | 204.8% |
| 2026E | 0.8% | -1.7% | 3.0% | 202.0% |
| 2027E | 0.9% | -2.2% | 3.9% | 198.4% |
| 2028P | 1.1% | -2.0% | 3.0% | 196.7% |
| 2029P | 1.3% | -1.7% | 3.0% | 195.1% |
| 2030P | 1.5% | -1.5% | 3.0% | 193.7% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

| Debt to GDP in 2030 under R v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 164.5% | 173.9% | 183.9% | 194.6% | 206.0% |
| | Base - 50bp | 169.3% | 179.0% | 189.3% | 200.3% | 212.1% |
| | Base Case | 174.3% | 184.2% | **194.8%** | 206.2% | 218.3% |
| | Base + 50bp | 179.4% | 189.6% | 200.5% | 212.2% | 224.7% |
| | Base + 100bp | 184.6% | 195.1% | 206.3% | 218.4% | 231.2% |

| Debt to GDP in 2030 under R v PB scenarios | | Primary Balance | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 172.7% | 178.3% | 183.9% | 189.5% | 195.1% |
| | Base - 50bp | 178.0% | 183.6% | 189.3% | 194.9% | 200.6% |
| | Base Case | 183.4% | 189.1% | **194.8%** | 200.6% | 206.3% |
| | Base + 50bp | 188.9% | 194.7% | 200.5% | 206.3% | 212.1% |
| | Base + 100bp | 194.6% | 200.5% | 206.3% | 212.2% | 218.1% |

| Debt to GDP in 2030 under PB v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Primary Balance | Base - 100bp | 163.3% | 173.0% | 183.4% | 194.4% | 206.3% |
| | Base - 50bp | 168.8% | 178.6% | 189.1% | 200.3% | 212.3% |
| | Base Case | 174.3% | 184.2% | **194.8%** | 206.2% | 218.3% |
| | Base + 50bp | 179.8% | 189.8% | 200.6% | 212.0% | 224.3% |
| | Base + 100bp | 185.2% | 195.4% | 206.3% | 217.9% | 230.3% |

Source: Morgan Stanley Research, Haver, Morgan Stanley Research

# Australia

**Exhibit 129:** Australia debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**Australia: Debt to GDP Scenarios by 2030**

| BASE CASE ASSUMPTIONS | | | | |
|---|---|---|---|---|
| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
| 2022A | 2.4% | 0.6% | 12.8% | 35.8% |
| 2023A | 2.8% | 2.0% | 5.5% | 34.8% |
| 2024A | 2.9% | 1.0% | 3.7% | 33.6% |
| 2025A | 3.2% | -0.4% | 4.8% | 33.7% |
| 2026E | 3.3% | -0.4% | 4.1% | 33.8% |
| 2027E | 3.5% | -0.2% | 3.0% | 34.2% |
| 2028P | 3.7% | -0.2% | 4.5% | 34.1% |
| 2029P | 3.8% | -0.2% | 4.5% | 34.1% |
| 2030P | 4.0% | -0.2% | 4.5% | 34.1% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

| Debt to GDP in 2030 under R v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 28.6% | 30.3% | 32.0% | 33.9% | 35.9% |
| | Base - 50bp | 29.5% | 31.1% | 32.9% | 34.8% | 36.9% |
| | Base Case | 30.3% | 32.0% | **33.9%** | 35.9% | 38.0% |
| | Base + 50bp | 31.2% | 33.0% | 34.9% | 36.9% | 39.0% |
| | Base + 100bp | 32.1% | 33.9% | 35.8% | 37.9% | 40.2% |

| Debt to GDP in 2030 under R v PB scenarios | | Primary Balance | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 20.4% | 26.2% | 32.0% | 37.8% | 43.6% |
| | Base - 50bp | 21.2% | 27.1% | 32.9% | 38.8% | 44.6% |
| | Base Case | 22.0% | 28.0% | **33.9%** | 39.8% | 45.7% |
| | Base + 50bp | 22.9% | 28.9% | 34.9% | 40.9% | 46.8% |
| | Base + 100bp | 23.7% | 29.8% | 35.8% | 41.9% | 48.0% |

| Debt to GDP in 2030 under PB v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Primary Balance | Base - 100bp | 19.0% | 20.5% | 22.0% | 23.7% | 25.5% |
| | Base - 50bp | 24.7% | 26.3% | 28.0% | 29.8% | 31.7% |
| | Base Case | 30.3% | 32.0% | **33.9%** | 35.9% | 38.0% |
| | Base + 50bp | 36.0% | 37.8% | 39.8% | 41.9% | 44.2% |
| | Base + 100bp | 41.6% | 43.6% | 45.7% | 48.0% | 50.4% |

Source: ABS, Australia, RBA, Haver, Morgan Stanley Research

# United Kingdom

**Exhibit 130:** UK debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**United Kingdom: Debt to GDP Scenarios by 2030**

| BASE CASE ASSUMPTIONS | | | | |
|---|---|---|---|---|
| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
| 2022A | 4.4% | -1.1% | 9.7% | 96.5% |
| 2023A | 4.3% | -1.9% | 5.9% | 96.2% |
| 2024A | 3.9% | -2.3% | 5.2% | 95.7% |
| 2025A | 4.0% | -1.5% | 4.6% | 95.0% |
| 2026E | 4.0% | -0.8% | 4.7% | 95.2% |
| 2027E | 4.0% | -0.3% | 4.7% | 94.8% |
| 2028P | 4.1% | 0.5% | 4.6% | 93.8% |
| 2029P | 4.1% | 1.5% | 4.5% | 92.1% |
| 2030P | 4.2% | 1.5% | 4.5% | 90.3% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

| Debt to GDP in 2030 under R v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 77.0% | 81.6% | 86.5% | 91.8% | 97.4% |
| | Base - 50bp | 79.3% | 84.1% | 89.2% | 94.6% | 100.4% |
| | Base Case | 81.7% | 86.6% | **91.8%** | 97.4% | 103.4% |
| | Base + 50bp | 84.2% | 89.2% | 94.6% | 100.3% | 106.5% |
| | Base + 100bp | 86.7% | 91.9% | 97.4% | 103.3% | 109.6% |

| Debt to GDP in 2030 under R v PB scenarios | | Primary Balance | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 74.9% | 80.7% | 86.5% | 92.3% | 98.1% |
| | Base - 50bp | 77.4% | 83.3% | 89.2% | 95.0% | 100.9% |
| | Base Case | 80.0% | 85.9% | **91.8%** | 97.8% | 103.7% |
| | Base + 50bp | 82.6% | 88.6% | 94.6% | 100.6% | 106.6% |
| | Base + 100bp | 85.2% | 91.3% | 97.4% | 103.5% | 109.6% |

| Debt to GDP in 2030 under PB v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Primary Balance | Base - 100bp | 70.4% | 75.0% | 80.0% | 85.3% | 90.9% |
| | Base - 50bp | 76.0% | 80.8% | 85.9% | 91.3% | 97.2% |
| | Base Case | 81.7% | 86.6% | **91.8%** | 97.4% | 103.4% |
| | Base + 50bp | 87.4% | 92.4% | 97.8% | 103.5% | 109.6% |
| | Base + 100bp | 93.0% | 98.2% | 103.7% | 109.6% | 115.9% |

Source: CNS, 2Q Report, Morgan Stanley Research

# Sweden

**Exhibit 131:** Sweden debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**Sweden: Debt to GDP Scenarios by 2030**

| BASE CASE ASSUMPTIONS | | | | |
|---|---|---|---|---|
| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
| 2022A | 1.5% | 1.5% | 7.4% | 34.5% |
| 2023A | 2.2% | -0.2% | 5.9% | 32.2% |
| 2024A | 2.2% | -0.8% | 4.9% | 33.9% |
| 2025A | 1.8% | -0.7% | 3.3% | 34.6% |
| 2026E | 1.9% | -1.9% | 3.8% | 36.0% |
| 2027E | 2.1% | -0.9% | 3.1% | 36.5% |
| 2028P | 2.2% | -0.9% | 3.7% | 36.9% |
| 2029P | 2.4% | -0.9% | 3.7% | 37.4% |
| 2030P | 2.5% | -0.9% | 3.7% | 37.8% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

| Debt to GDP in 2030 under R v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 31.9% | 33.6% | 35.4% | 37.3% | 39.4% |
| | Base - 50bp | 32.8% | 34.5% | 36.4% | 38.4% | 40.5% |
| | Base Case | 33.7% | 35.5% | **37.4%** | 39.4% | 41.6% |
| | Base + 50bp | 34.6% | 36.4% | 38.4% | 40.5% | 42.7% |
| | Base + 100bp | 35.5% | 37.4% | 39.4% | 41.6% | 43.9% |

| Debt to GDP in 2030 under R v PB scenarios | | Primary Balance | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 24.1% | 29.7% | 35.4% | 41.1% | 46.8% |
| | Base - 50bp | 24.9% | 30.6% | 36.4% | 42.1% | 47.9% |
| | Base Case | 25.7% | 31.5% | **37.4%** | 43.2% | 49.0% |
| | Base + 50bp | 26.6% | 32.5% | 38.4% | 44.3% | 50.1% |
| | Base + 100bp | 27.5% | 33.4% | 39.4% | 45.4% | 51.3% |

| Debt to GDP in 2030 under PB v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Primary Balance | Base - 100bp | 22.6% | 24.1% | 25.7% | 27.5% | 29.4% |
| | Base - 50bp | 28.1% | 29.8% | 31.5% | 33.4% | 35.5% |
| | Base Case | 33.7% | 35.5% | **37.4%** | 39.4% | 41.6% |
| | Base + 50bp | 39.2% | 41.1% | 43.2% | 45.4% | 47.7% |
| | Base + 100bp | 44.8% | 46.8% | 49.0% | 51.3% | 53.8% |

Source: Eurostat, Statistics Sweden, Haver, Morgan Stanley Research

## Germany

**Exhibit 132:** Germany debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**Germany: Debt to GDP Scenarios by 2030**

| BASE CASE ASSUMPTIONS | | | | |
|---|---|---|---|---|
| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
| 2022A | 1.1% | -1.2% | 8.0% | 64.1% |
| 2023A | 1.4% | -1.6% | 6.1% | 61.8% |
| 2024A | 1.7% | -1.6% | 3.1% | 61.4% |
| 2025A | 1.8% | -1.5% | 3.3% | 62.7% |
| 2026E | 1.9% | -3.0% | 3.8% | 64.5% |
| 2027E | 2.0% | -3.1% | 3.2% | 66.9% |
| 2028P | 2.2% | -3.0% | 2.9% | 69.4% |
| 2029P | 2.3% | -2.5% | 2.8% | 71.6% |
| 2030P | 2.4% | -2.0% | 2.7% | 73.4% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

| Debt to GDP in 2030 under R v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 62.6% | 65.8% | 69.2% | 72.8% | 76.7% |
| | Base - 50bp | 64.2% | 67.5% | 71.0% | 74.8% | 78.8% |
| | Base Case | 65.9% | 69.3% | **72.9%** | 76.7% | 80.8% |
| | Base + 50bp | 67.6% | 71.1% | 74.8% | 78.7% | 83.0% |
| | Base + 100bp | 69.3% | 72.9% | 76.7% | 80.8% | 85.2% |

| Debt to GDP in 2030 under R v PB scenarios | | Primary Balance | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 57.7% | 63.4% | 69.2% | 75.0% | 80.7% |
| | Base - 50bp | 59.3% | 65.2% | 71.0% | 76.8% | 82.7% |
| | Base Case | 61.1% | 67.0% | **72.9%** | 78.8% | 84.7% |
| | Base + 50bp | 62.8% | 68.8% | 74.8% | 80.8% | 86.7% |
| | Base + 100bp | 64.6% | 70.7% | 76.7% | 82.8% | 88.8% |

| Debt to GDP in 2030 under PB v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Primary Balance | Base - 100bp | 54.6% | 57.7% | 61.1% | 64.6% | 68.4% |
| | Base - 50bp | 60.2% | 63.5% | 67.0% | 70.7% | 74.6% |
| | Base Case | 65.9% | 69.3% | **72.9%** | 76.7% | 80.8% |
| | Base + 50bp | 71.5% | 75.0% | 78.8% | 82.8% | 87.0% |
| | Base + 100bp | 77.1% | 80.8% | 84.7% | 88.8% | 93.3% |

Source: Eurostat, INSEE, Haver, Morgan Stanley Research

## France

**Exhibit 133:** France debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**France: Debt to GDP Scenarios by 2030**

| BASE CASE ASSUMPTIONS | | | | |
|---|---|---|---|---|
| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
| 2022A | 1.8% | -2.8% | 5.8% | 111.4% |
| 2023A | 1.8% | -3.5% | 6.8% | 109.5% |
| 2024A | 1.9% | -3.7% | 3.6% | 112.6% |
| 2025A | 2.0% | -2.9% | 2.0% | 115.5% |
| 2026E | 2.2% | -2.9% | 2.6% | 117.9% |
| 2027E | 2.4% | -2.1% | 3.3% | 119.0% |
| 2028P | 2.6% | -1.9% | 3.2% | 120.1% |
| 2029P | 2.8% | -1.7% | 3.2% | 121.3% |
| 2030P | 2.9% | -1.5% | 3.2% | 122.5% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

| Debt to GDP in 2030 under R v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 103.9% | 109.7% | 115.8% | 122.4% | 129.5% |
| | Base - 50bp | 106.8% | 112.7% | 119.1% | 125.9% | 133.1% |
| | Base Case | 109.8% | 115.9% | **122.4%** | 129.4% | 136.9% |
| | Base + 50bp | 112.9% | 119.2% | 125.9% | 133.1% | 140.8% |
| | Base + 100bp | 116.0% | 122.5% | 129.4% | 136.8% | 144.7% |

| Debt to GDP in 2030 under R v PB scenarios | | Primary Balance | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 104.2% | 110.0% | 115.8% | 121.6% | 127.4% |
| | Base - 50bp | 107.4% | 113.2% | 119.1% | 125.0% | 130.8% |
| | Base Case | 110.6% | 116.5% | **122.4%** | 128.4% | 134.3% |
| | Base + 50bp | 113.9% | 119.9% | 125.9% | 131.9% | 137.9% |
| | Base + 100bp | 117.2% | 123.3% | 129.4% | 135.5% | 141.5% |

| Debt to GDP in 2030 under PB v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Primary Balance | Base - 100bp | 98.5% | 104.3% | 110.6% | 117.3% | 124.4% |
| | Base - 50bp | 104.1% | 110.1% | 116.5% | 123.4% | 130.7% |
| | Base Case | 109.8% | 115.9% | **122.4%** | 129.4% | 136.9% |
| | Base + 50bp | 115.5% | 121.7% | 128.4% | 135.5% | 143.1% |
| | Base + 100bp | 121.1% | 127.5% | 134.3% | 141.6% | 149.4% |

Source: Eurostat, INSEE, Haver, Morgan Stanley Research

# Italy

**Exhibit 134:** Italy debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**Italy: Debt to GDP Scenarios by 2030**

| BASE CASE ASSUMPTIONS | | | | |
|---|---|---|---|---|
| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
| 2022A | 3.0% | -4.0% | 8.7% | 138.3% |
| 2023A | 2.8% | -3.5% | 7.2% | 134.0% |
| 2024A | 3.0% | 0.5% | 3.2% | 134.2% |
| 2025A | 2.9% | 0.8% | 2.5% | 136.7% |
| 2026E | 3.0% | 0.8% | 3.8% | 134.8% |
| 2027E | 3.1% | 0.9% | 2.9% | 134.2% |
| 2028P | 3.2% | 1.0% | 2.2% | 134.6% |
| 2029P | 3.4% | 1.1% | 2.2% | 135.0% |
| 2030P | 3.5% | 1.2% | 2.2% | 135.6% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

| Debt to GDP in 2030 under R v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 111.1% | 117.9% | 125.1% | 132.9% | 141.3% |
| | Base - 50bp | 114.5% | 121.5% | 129.0% | 137.0% | 145.6% |
| | Base Case | 118.0% | 125.2% | **132.9%** | 141.1% | 150.0% |
| | Base + 50bp | 121.5% | 129.0% | 136.9% | 145.4% | 154.5% |
| | Base + 100bp | 125.2% | 132.8% | 141.0% | 149.8% | 159.2% |

| Debt to GDP in 2030 under R v PB scenarios | | Primary Balance | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 113.2% | 119.1% | 125.1% | 131.1% | 137.1% |
| | Base - 50bp | 116.8% | 122.9% | 129.0% | 135.0% | 141.1% |
| | Base Case | 120.6% | 126.7% | **132.9%** | 139.0% | 145.2% |
| | Base + 50bp | 124.5% | 130.7% | 136.9% | 143.1% | 149.3% |
| | Base + 100bp | 128.4% | 134.7% | 141.0% | 147.3% | 153.6% |

| Debt to GDP in 2030 under PB v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Primary Balance | Base - 100bp | 106.3% | 113.2% | 120.6% | 128.6% | 137.1% |
| | Base - 50bp | 112.1% | 119.2% | 126.7% | 134.9% | 143.6% |
| | Base Case | 118.0% | 125.2% | **132.9%** | 141.1% | 150.0% |
| | Base + 50bp | 123.8% | 131.2% | 139.0% | 147.4% | 156.5% |
| | Base + 100bp | 129.7% | 137.1% | 145.2% | 153.7% | 162.9% |

Source: Eurostat, ISTAT, Haver, Morgan Stanley Research

# Spain

**Exhibit 135:** Spain debt-to-GDP Baselines and Sensitivities for R, G, and Fiscal Outcomes

**Spain: Debt to GDP Scenarios by 2030**

| BASE CASE ASSUMPTIONS | | | | |
|---|---|---|---|---|
| | Debt Servicing Cost | Primary Balance | Nominal GDP Growth | Debt to GDP |
| 2022A | 2.2% | -2.3% | 11.4% | 109.3% |
| 2023A | 2.4% | -1.0% | 8.8% | 105.3% |
| 2024A | 2.5% | -0.8% | 6.8% | 101.4% |
| 2025A | 2.5% | 0.0% | 5.7% | 100.5% |
| 2026E | 2.6% | 0.1% | 6.4% | 96.8% |
| 2027E | 2.7% | 0.1% | 5.0% | 94.5% |
| 2028P | 2.8% | -0.7% | 3.5% | 94.6% |
| 2029P | 3.0% | -0.8% | 3.6% | 94.8% |
| 2030P | 3.1% | -1.0% | 3.7% | 95.3% |

| | |
|---|---|
| A | Actual |
| E | Morgan Stanley Estimates |
| P | Projections |

| Debt to GDP in 2030 under R v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 78.8% | 83.3% | 88.0% | 93.1% | 98.6% |
| | Base - 50bp | 81.1% | 85.7% | 90.6% | 95.9% | 101.5% |
| | Base Case | 83.4% | 88.2% | **93.2%** | 98.6% | 104.4% |
| | Base + 50bp | 85.8% | 90.7% | 95.9% | 101.5% | 107.5% |
| | Base + 100bp | 88.3% | 93.3% | 98.7% | 104.4% | 110.5% |

| Debt to GDP in 2030 under R v PB scenarios | | Primary Balance | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Debt Servicing Cost | Base - 100bp | 76.6% | 82.3% | 88.0% | 93.7% | 99.5% |
| | Base - 50bp | 79.0% | 84.8% | 90.6% | 96.4% | 102.2% |
| | Base Case | 81.5% | 87.4% | **93.2%** | 99.1% | 104.9% |
| | Base + 50bp | 84.1% | 90.0% | 95.9% | 101.8% | 107.8% |
| | Base + 100bp | 86.7% | 92.7% | 98.7% | 104.7% | 110.7% |

| Debt to GDP in 2030 under PB v G scenarios | | Nominal GDP | | | | |
|---|---|---|---|---|---|---|
| | | Base + 200bp | Base + 100bp | Base Case | Base - 100bp | Base - 200bp |
| Primary Balance | Base - 100bp | 72.3% | 76.7% | 81.5% | 86.7% | 92.2% |
| | Base - 50bp | 77.9% | 82.5% | 87.4% | 92.7% | 98.3% |
| | Base Case | 83.4% | 88.2% | **93.2%** | 98.6% | 104.4% |
| | Base + 50bp | 89.0% | 93.9% | 99.1% | 104.6% | 110.6% |
| | Base + 100bp | 94.6% | 99.6% | 104.9% | 110.6% | 116.7% |

Source: Eurostat, INE, Haver, Morgan Stanley Research

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|---|---|---|---|---|---|---|---|
| Stock Rating Category | Count | % of Total | Count | % of Total IBC | % of Rating Category | Count | % of Total Other MISC |
| Overweight/Buy | 1575 | 43% | 460 | 49% | 29% | 742 | 44% |
| Equal weight/Hold | 1537 | 42% | 393 | 42% | 26% | 720 | 43% |
| Not-Rated/Hold | 2 | 0% | 1 | 0% | 50% | 1 | 0% |
| Underweight/Sell | 570 | 15% | 92 | 10% | 16% | 218 | 13% |
| Total | 3,684 | | 946 | | | 1681 | |

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