EUROPEAN
COMMISSION

Brussels, 19.6.2024
COM(2024) 598 final

REPORT FROM THE COMMISSION

Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia and Finland

Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

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1. INTRODUCTION

Article 126 of the Treaty on the Functioning of the European Union lays down the excessive deficit procedure. That procedure is further set out in Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[1], which is part of the Stability and Growth Pact.

In accordance with Article 126(3) TFEU, this report assesses the situation of several Member States *vis-à-vis* the deficit criterion. The format of this 'Omnibus' Report helps in the comparability of the several cases, while the case of each Member State is considered on its own merits.

Regulation (EU) 2024/1264 amending Regulation (EC) 1467/97 entered into force on 30 April 2024. This amending Regulation is part of a package together with Regulation (EU) 2024/1263[2] and Council Directive (EU) 2024/1265[3]. Together, these three acts reform the economic governance framework of the Union. The objectives of the reformed framework are public debt sustainability, and sustainable and inclusive growth through reforms and investments. The framework also promotes national ownership, and has a greater medium-term focus, combined with a more effective and coherent enforcement.

The legislative amendment to Regulation (EC) No 1467/97 has fundamentally kept unchanged the assessment of compliance with the deficit criterion. Differently, the assessment of compliance with the debt criterion has been substantially modified (see below).

This report, which is the first report under Article 126(3) TFEU after the deactivation of the general escape clause at the end of 2023, is in accordance with the rules of the reformed framework.[4]

The deficit and debt criteria

The **deficit criterion** is fulfilled if the general government deficit for the previous year (2023) and planned deficit for the current year (2024) do not exceed 3% of GDP. If either does, the

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[1] Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997) as last amended by Council Regulation (EU) 2024/1264 of 29 April 2024 (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

[2] Regulation (EU) 2024/1263 of the Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

[3] Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

[4] This is to the extent that the new rules are already put into practice. Some elements of the amended regulation are yet to be implemented e.g. the net expenditure path as set by the Council, which is referred to in the context of the relevant factors laid down in Article 2(3) of Regulation (EC) No 1467/97.

Commission examines whether the deficit ratio has declined substantially and continuously and comes close to the reference value. It also examines whether the deficit in excess over the reference value is exceptional and temporary, and remains close to the reference value (section 2). Relevant factors are to be considered by the Commission and the Council in the steps leading to the decision on the existence of an excessive deficit, if either i) the government debt does not exceed 60% of GDP, or ii) if the debt exceeds 60% of GDP, but the deficit is close to 3% of GDP and the excess over it is temporary (section 4).

According to the Treaty, the **debt criterion** is fulfilled if the general government gross debt does not exceed 60% of GDP, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace. According to Article 2(2) of Regulation (EC) No 1467/97 (as amended), the debt-to-GDP ratio shall be considered sufficiently diminishing and approaching the reference value at a satisfactory pace if the Member State concerned respects its net expenditure path as set by the Council under Regulation (EU) 2024/1263.[5] Since the Council has not yet set a net expenditure path for the Member States[6], the debt criterion cannot be fully assessed at this stage in accordance with the criteria of the new framework.[7]

Main data underlying and motivating this report

In the assessment of the **deficit criterion**, the Commission takes into account the actual 2023 deficit ratio based on notified outturn data by Eurostat. The planned deficit ratio in 2024 is based on government plans reported to Eurostat in the context of the Spring 2024 fiscal notification.[8] Moreover, the assessment of compliance with the deficit criterion also considers the Commission Spring 2024 Forecast. This report also compares the government deficit with government investment expenditure and takes into account all other relevant factors, in accordance with Article 2 of Regulation (EC) No 1467/97.

This report assesses compliance with the deficit criterion in twelve Member States: **Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia** and **Finland**. Specifically (see also Table 1):

- According to the data published by Eurostat on 22 April 2024[9], the 2023 general government deficit exceeded 3% of GDP in ten Member States: **Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland,** and **Slovakia**.[10] Actual deficits

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5 Relevant factors would be always taken into account when assessing compliance with the debt criterion.

6 In accordance with Article 17 of Regulation (EU) 2024/1264, the net expenditure path will be defined in the Council Recommendation endorsing the national medium-term fiscal-structural plan to be submitted by each Member State and assessed by the Commission. According to the transitional provisions under Article 36, Member States shall submit their first national medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period.

7 Figures on general government debt-to-GDP ratio are presented in section 3.

8 In the absence of data reported to Eurostat in the context of the fiscal notification, the source of planned deficits for 2024 is the Stability/Convergence Programme. In the present report, all the concerned Member States with the exception of France submitted their planned deficits for 2024 to Eurostat in the context of the spring 2024 fiscal notification.

9 Eurostat Euro Indicators of 22 April 2024.

10 Romania's government deficit also exceeded 3% of GDP in 2023 and it is planned to be above the reference value also in 2024. However, Romania is not covered in this report since the Council decided on the existence of an excessive deficit in Romania on 3 April 2020. The latest Council Recommendation with a view to bringing an end to the situation of an excessive government deficit in Romania is of 18 June 2021. The Commission has today recommended the Council to adopt a Decisions establishing that Romania has taken no effective action in response to the Council Recommendation of 18 June 2021 (COM(2024)597).

for 2023 above 3% of GDP provide *prima facie* evidence of the existence of excessive deficits in each of those Member States.

- In addition, according to the spring 2024 fiscal notification, **Finland** and **Slovenia** plan their government deficits to exceed 3% of GDP in 2024.[11] These planned deficits for 2024 are also *prima facie* evidence of the existence of excessive deficits in each of those two Member States. Planned deficits are not validated by Eurostat and are surrounded by uncertainty.

As indicated above, the **debt criterion** cannot be fully assessed at this stage in accordance with the criteria of the new framework. The general government gross debt ratio-to-GDP at the end of 2023 exceeded the 60% reference value in thirteen Member States: Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia and Finland (see Table 3).

Economic context of recent fiscal policy recommendations

During the most acute phase of the pandemic, economic activity in the EU contracted strongly in 2020 (by 5.6%) as day-to-day life was heavily affected by containment measures and business activity was additionally restrained by supply bottlenecks. The EU economy rebounded strongly amid the fast rollout of vaccines, a strong summer tourism season and a better adaptation to then less stringent health measures in 2021. However, the synchronous global pickup in economic activity increased material shortages and led to an increase in energy prices already in 2021. Headwinds to growth then mounted further with the start of Russia's war of aggression against Ukraine, leading to further energy price surges as well as a rise in uncertainty. The EU economy remained resilient with real GDP growth slowing down to 3.5% in 2022 from 6.0% in 2021.

Over the same period, fiscal policy recommendations as adopted by the Council have been evolving to respond to the changing economic context. Coordinated policy action at EU and national levels cushioned the impact of the COVID-19 pandemic on Member States' economies and opened the way to a vigorous post-pandemic rebound in 2021 and 2022. NextGenerationEU and its centerpiece, the Recovery and Resilience Facility played a decisive role in protecting and promoting the Union's economic, social and territorial cohesion, supporting economic sentiment and maintaining private and public investment. The European economy has managed to contain the adverse impact of Russia's war of aggression against Ukraine, weathering the energy crisis thanks to a rapid diversification of supply and a sizeable fall in gas consumption. Through the REPowerEU plan Member States have committed to critical reforms and investments to address the energy crisis by diversifying energy supplies and accelerate the production of renewable energy. In 2023, economic activity in the EU slowed down, with growth held back by a high cost of living, monetary tightening, the partial withdrawal of fiscal support and falling external demand. Better-than-expected growth at the start of 2024 and the ongoing reduction in inflation set the scene for a gradual expansion of activity over the forecast horizon. Based on Commission's Spring 2024 forecast, real GDP growth in the EU is projected at 1.0% in 2024 and to improve to 1.6% in 2025, largely driven private consumption growth on the back of real wage and employment gains.

In view of the deactivation of the general escape clause at the end of 2023, fiscal guidance for 2024 by the Council was characterized by a resumption of differentiated country-specific

[11] The complete set of tables reported to Eurostat by Member States is available at: https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables.

recommendations formulated in quantitative terms. On 14 July 2023, the Council recommended[12] to Member States, which were not projected to be at their medium-term budgetary objective (MTO), to limit net nationally financed primary expenditure in 2024 to differentiated growth rates that would ensure prudent fiscal policy. Member States projected at the MTO were recommended to maintain a sound fiscal position in 2024, although without such a quantitative limit. All Member States were recommended to wind down the energy support measures as soon as possible in 2023 and 2024 and, if not at the MTO, to use the related savings to reduce the government deficit. The Council also recommended that all Member States should preserve nationally financed investment and ensure the effective absorption of the Recovery and Resilience Facility (RRF) and other EU funds, in particular to foster the green and digital transitions. For the euro area Member States, the Commission assessed, and provided opinions on the Member States' draft budgetary plans in the light of those Council Recommendations.[13]

In 2023, the Commission announced on several occasions[14], that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, inviting Member States to take account of this when executing their 2023 budgets and when conducting their fiscal policies in 2024.

On 12 April 2024, the Council Recommendation on the economic policy of the euro area[15] insists that the euro area Member States adopt coordinated and prudent fiscal policies to keep debt at prudent levels or put debt ratios on a plausibly downward path – while remaining agile in view of the prevailing uncertainty – leading to an overall restrictive fiscal stance in the euro area. Member States are recommended as well to wind down energy-related emergency support measures as soon as possible in 2024 and use the related savings to reduce deficits.[16]

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12 Council Recommendations of 14 July 2023 (2023/C 312/01 to 2023/C 312/27, OJ C 312, 1.9.2023, p. 1).

13 Commission Opinions on the 2024 Draft Budgetary Plans of 21.11.2023 (C(2023) 9501 final to C(2023) 9520 final), Commission Opinion on the updated 2024 Draft Budgetary Plan of Slovakia of 16.01.2024 (C(2024) 343 final) and Commission Opinion on the updated 2024 Draft Budgetary Plan of Luxembourg of 18.04.2024 (C(2024) 2626 final).

14 Communication of 8 March 2023 on fiscal policy guidance for 2024 (COM(2023) 141 final). See also the Communication on the 2024 Draft Budgetary Plans: Overall Assessment (COM(2023) 900 final).

15 Council Recommendation of 12 April 2024 on the economic policy of the euro area (OJ C, C/2024/2807, 23.04.2024, ELI: http://data.europa.eu/eli/C/2024/2807/oj).

16 In the same context, the Council also recommended the euro area Member States to develop fiscal strategies to achieve a prudent medium-term fiscal position and strengthen debt sustainability where necessary, through determined, differentiated, gradual and realistic consolidation, combined with high-quality public investments and reforms, notably to deliver higher sustainable growth and boost the resilience of the euro area in the face of future challenges. Where needed, Member States should include in such strategies measures to further increase the efficiency and quality of public expenditure and to improve the sustainability and adequacy of the pension, healthcare and long-term care systems.

Table 1: Member States' position vis-à-vis the deficit and debt reference values

	Actual deficit not exceeding (✓) / exceeding (✗) 3% of GDP in 2023	Planned deficit not exceeding (✓) / exceeding (✗) 3% of GDP in 2024	Debt ratio not exceeding (✓) / exceeding (✗) 60% of GDP at end-2023
Belgium	✗	✗	✗
Czechia	✗	✓	✓
Estonia	✗	✓	✓
Spain	✗	✓	✗
France	✗	✗[17]	✗
Italy	✗	✗	✗
Hungary	✗	✗	✗
Malta	✗	✗	✓
Poland	✗	✗	✓
Slovenia	✓	✗	✗
Slovakia	✗	✗	✓
Finland	✓	✗	✗
Member States not considered in this report			
Bulgaria	✓	✓	✓
Denmark	✓	✓	✓
Germany	✓	✓	✗
Ireland	✓	✓	✓
Greece	✓	✓	✗
Croatia	✓	✓	✗
Cyprus	✓	✓	✗
Latvia	✓	✓	✓
Lithuania	✓	✓	✓
Luxembourg	✓	✓	✓
Netherlands	✓	✓	✓
Austria	✓	✓	✗
Portugal	✓	✓	✗
Romania (*)	✗	✗	✓
Sweden	✓	✓	✓

Source: Eurostat (press release 22 April 2024 and spring 2024 fiscal notification) (*) In excessive deficit procedure since 2020.

[17] France did not submit a planned deficit for 2024 to Eurostat in the context of the spring 2024 fiscal notification. However, France published its stability programme for 2024-2027 in April 2024, according to which the deficit for 2024 is planned at 5.1% of GDP.

2. GENERAL GOVERNMENT BALANCE

Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland and **Slovakia** exceeded the deficit reference value in 2023. Among them, Belgium, France, Italy, Hungary, Malta, Poland and Slovakia also plan their deficits for 2024[18] to be above 3% of GDP.

Slovenia and **Finland** had government deficits below the reference value in 2023, but plan deficits for 2024[19] exceeding 3% of GDP.

In all the Member States whose deficits exceeded 3% of GDP in 2023 with the exception of Estonia, the government deficits were *above and not close* to the reference value (see Table 2). For Estonia, the deficit was *above but close* to the reference value.

For Finland, the planned deficit for 2024 is *above and close* to 3% of GDP[20]. For Slovenia, the planned deficit for 2024[21] is 3.6% of GDP, whereas the Commission Spring 2024 Forecast[22] projects the deficit at 2.8% of GDP and hence below the 3% reference value. Therefore, the planned breach of the reference value in 2024 in the sense of Article 126(3) TFEU is not confirmed for Slovenia.

According to the Commission Spring 2024 Forecast, the government deficits in Belgium, Estonia, France, Italy, Hungary, Malta, Poland, and Slovakia are projected to continue exceeding 3% of GDP both in 2024 and in 2025. Therefore, the deficits in excess of the reference value for those Member States are expected to be *not temporary*. Differently, the government deficits in Czechia, Spain and Slovenia are presently projected not to exceed the reference value in 2024 and 2025, and therefore the excess deficits are expected to be *temporary*. For Finland, the government deficit is projected to be above the reference value in 2024 but not in 2025; thus, the excess deficit is expected to be *temporary*.

The general escape clause of the Stability and Growth Pact was deactivated at the end of 2023, as announced by the Commission on various occasions.[23] The general escape clause remained activated throughout 2023, based on the Commission's ex ante assessment of the economic circumstances in Spring 2022.[24] Specifically, heightened uncertainty and strong downside risks to the economic outlook in the context of Russia's war of aggression against Ukraine, unprecedented energy price hikes and continued supply chain disturbances were found to warrant the activation in 2023. The EU economy weathered the successive shocks better than initially expected thanks to the strong coordinated policy reaction leading to a fast diversification of energy sources as well as on the back of a resilient labour market. In addition,

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18 As reported to Eurostat in the context of the spring 2024 fiscal notification with the only exception of France, for which the stability programme is the relevant source for planned data for 2024 (see footnote17).

19 As reported to Eurostat in the context of the spring 2024 fiscal notification.

20 The planned deficit for 2024 as reported to Eurostat in the context of the spring 2024 fiscal notification amounts to 3.5% of GDP. However, in its Stability Programme submitted on 25 April 2024, Finland revised its planned deficit for 2024 slightly downwards, to 3.4%, based on additional consolidation measures amounting to 1% of GDP that the government has committed to deliver in a supplementary budget in spring 2024.

21 As reported to Eurostat in the context of the spring 2024 fiscal notification.

22 Unless stated otherwise, the source for the figures for 2024 and 2025 provided in this report is the Commission's Spring 2024 Forecast (*European Economy Institutional Papers* 286).

23 See Commission Communication to the Council on Fiscal policy guidance for 2024, COM(2023) 141 final. See European Commission 'A Green Deal Industrial Plan for the Net-Zero Age', COM(2023) 62 final of 1 February 2023. See European Commission '2022 European Semester - Spring Package,' COM(2022) 600 final of 23 May 2022.

24 COM(2022) 600 final.

some of the downside risks have not materialised. As a result, in 2023, the measures taken to cushion the economic and social impact of energy prices were progressively phased out in most Member States, as recommended by the Council[25]. Furthermore, the costs of temporary measures related to the COVID-19 pandemic were no longer of macroeconomic relevance.[26] Based on these considerations[27], deficits in excess over the reference value in 2023 cannot in general be qualified as due to exceptional economic circumstances.

In the specific case of Estonia, the deficit in excess of the reference value in 2023 is directly due to exceptional economic circumstances and is thus considered to be *exceptional*.[28] The economy contracted by 0.5% in 2022 and by a further 3.0% 2023. Based on the Commission Spring 2024 Forecast, it is expected to contract by 0.5% in 2024, bringing the economy into a three-year recession.

In sum, this analysis suggests that the deficit criterion is not fulfilled by twelve Member States before the consideration of the relevant factors: **Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia** and **Finland**.

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25 Council Recommendations of 14 July 2023 (2023/C 312/01 to 312/27), OJ C 312, 1.9.2023, p.1.

26 In the EU, the budgetary cost of COVID-19 temporary emergency measures is estimated to have fallen from 3.3% of GDP in both 2020 and 2021 to 0.7% in 2022. Pandemic-related measures were phased out in 2023. The costs of humanitarian assistance to refugees fleeing the Russian war of aggression against Ukraine – which has been specifically mentioned in the fiscal recommendations adopted by the Council in 2022 – did not exceed 0.1% of GDP in 2023 in the EU. The cost of the measures to mitigate the economic and social impact of high energy prices amounted to 1.2% of GDP in 2022 and decreased to 0.9% of GDP in 2023. In 2024, the budgetary impact is expected to fall to 0.2% of GDP in the EU.

27 Further country-specific considerations are discussed in section 4.2.

28 According to Article 2(1) of Regulation 1467/97, the excess of the government deficit over the reference value shall be considered exceptional, in accordance with the second indent of point (a) of Article 126(2) of the Treaty on the Functioning of the European Union (TFEU), if it results from the existence of a severe economic downturn in the euro area or the Union as a whole established by the Council in accordance with Article 25 of Regulation (EU) 2024/1263 or from exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, in accordance with Article 26 of that Regulation. In 2022 and 2023, economic activity in Estonia contracted by 0.5% and 3.0%, which contributed to increase the government deficit in 2023. Regulation (EU) 2024/1263 entered into force on 30 April 2024 and no procedures under Articles 25 and 26 are launched to date. However, the Commission considers that exceptional circumstances outside the control of the government have a major impact on the public finances of Estonia which justify considering the excess of the government deficit over the reference value as exceptional. The Commission considers this approach warranted, taking into account the recent transition to the newly established framework. Nevertheless, this conclusion does not constitute a precedent.

Table 2: General government balance

Percentage of GDP

	2020	2021	2022	2023	2024 fiscal notification	2024	2025
Belgium	-9.0	-5.4	-3.6	-4.4	-4.4	-4.4	-4.7
Czechia	-5.8	-5.1	-3.2	-3.7	-2.3	-2.4	-1.9
Estonia	-5.4	-2.5	-1.0	-3.4	-2.9	-3.4	-4.3
Spain	-10.1	-6.7	-4.7	-3.6	-3.0	-3.0	-2.8
France	-8.9	-6.6	-4.8	-5.5	-	-5.3	-5.0
Italy	-9.4	-8.7	-8.6	-7.4	-4.3	-4.4	-4.7
Hungary	-7.6	-7.2	-6.2	-6.7	-4.5	-5.4	-4.5
Malta	-9.4	-7.6	-5.5	-4.9	-4.5	-4.3	-3.9
Poland	-6.9	-1.8	-3.4	-5.1	-5.1	-5.4	-4.6
Slovenia	-7.6	-4.6	-3.0	-2.5	-3.6	-2.8	-2.2
Slovakia	-5.3	-5.2	-1.7	-4.9	-6.0	-5.9	-5.4
Finland	-5.6	-2.8	-0.4	-2.7	-3.5	-3.4	-2.8
Member States not considered in this report							
Bulgaria	-3.8	-3.9	-2.9	-1.9	-3.0	-2.8	-2.9
Denmark	0.3	4.1	3.3	3.1	1.5	2.4	1.4
Germany	-4.3	-3.6	-2.5	-2.5	-1.8	-1.6	-1.2
Ireland	-5.0	-1.5	1.7	1.7	1.5	1.3	1.2
Greece	-9.8	-7.0	-2.5	-1.6	-1.1	-1.2	-0.8
Croatia	-7.2	-2.5	0.1	-0.7	-1.9	-2.6	-2.6
Cyprus	-5.7	-1.8	2.7	3.1	3.2	2.9	2.9
Latvia	-4.4	-7.2	-4.6	-2.2	-2.8	-2.8	-2.9
Lithuania	-6.5	-1.1	-0.6	-0.8	-2.9	-1.8	-2.2
Luxembourg	-3.4	0.5	-0.3	-1.3	-1.2	-1.7	-1.9
Netherlands	-3.7	-2.2	-0.1	-0.3	-2.1	-2.0	-2.1
Austria	-8.0	-5.8	-3.3	-2.7	-2.9	-3.1	-2.9
Portugal	-5.8	-2.9	-0.3	1.2	0.2	0.4	0.5
Romania (*)	-9.3	-7.2	-6.3	-6.6	-4.9	-6.9	-7.0
Sweden	-2.8	0.0	1.2	-0.6	-1.2	-1.4	-0.9

Source: Eurostat (data from 2020 to 2023 and 2024 fiscal notification) and Commission Spring 2024 Forecast (data for 2024 and 2025)[29]. (*) In excessive deficit procedure since 2020.

3. GENERAL GOVERNMENT DEBT

Among the Member States discussed in this Report, the general government gross debt at end-2023 exceeded 60% of GDP and hence the reference value in seven Member States: **Belgium**, **Spain**, **France**, **Italy**, **Hungary, Slovenia** and **Finland** (see Table 3).[30] Moreover, for Spain, France, Italy, Hungary and Slovenia, the government debt-to-GDP ratio decreased in

[29] COM(2024) 601 PO/2024/4130.

[30] As for the other Member States, government gross debt also exceeded the 60% reference value at end-2023 in **Germany**, **Greece**, **Croatia**, **Cyprus**, **Austria** and **Portugal**, and in each of them, the ratio declined from the end of the previous year.

2023 compared to the previous year; differently, the ratio in 2023 turned out to be higher than in 2022 for Belgium and Finland. Among the Member States concerned by this Report and based on the Commission Spring 2024 Forecast, the debt-to-GDP ratio is projected to increase both in 2024 and 2025 for Czechia, Estonia, France, Italy, Malta, Poland, Slovakia and Finland compared to 2023. Differently, for Spain and Slovenia, the ratio of general government debt to GDP is projected to decline in 2024 and even further in 2025 compared to 2023. In Belgium, the debt-to-GDP ratio in 2024 is projected to marginally decrease compared to 2023 and then to increase in 2025, whereas for Hungary it is expected first to increase (in 2024 compared to 2023) and then to decline in 2025, however remaining higher than in 2023.

Table 3: General government debt

Percentage of GDP

	2020	2021	2022	2023	**2024 fiscal notification**	2024	2025
Belgium	111.9	107.9	104.3	105.2	105.2	105.0	106.6
Czechia	37.7	42.0	44.2	44.0	45.5	45.2	45.5
Estonia	18.6	17.8	18.5	19.6	20.9	21.4	24.6
Spain	120.3	116.8	111.6	107.7	105.6	105.5	104.8
France	114.9	113.0	111.9	110.6	-	112.4	113.8
Italy	155.0	147.1	140.5	137.3	137.8	138.6	141.7
Hungary	79.3	76.7	74.1	73.5	73.2	74.3	73.8
Malta	52.2	53.9	51.6	50.4	54.2	52.0	52.6
Poland	57.2	53.6	49.2	49.6	53.6	53.7	57.7
Slovenia	79.6	74.4	72.5	69.2	68.6	68.1	66.4
Slovakia	58.8	61.1	57.7	56.0	58.3	58.5	59.9
Finland	74.7	72.6	73.5	75.8	79.1	80.5	82.4
Member States not considered in this report							
Bulgaria	24.6	23.9	22.6	23.1	25.0	24.8	24.6
Denmark	42.3	36.0	29.8	29.3	29.1	26.5	25.1
Germany	68.8	69.0	66.1	63.6	64.0	62.9	62.2
Ireland	58.1	54.4	44.4	43.7	41.4	42.5	41.3
Greece	207.0	195.0	172.7	161.9	154.2	153.9	149.3
Croatia	86.1	77.5	67.8	63.0	58.0	59.5	59.1
Cyprus	114.9	99.3	85.6	77.3	70.6	70.6	65.4
Latvia	42.7	44.4	41.8	43.6	41.0	44.5	46.3
Lithuania	46.2	43.4	38.1	38.3	39.8	38.9	41.6
Luxembourg	24.6	24.5	24.7	25.7	27.2	27.1	28.5
Netherlands	54.7	51.7	50.1	46.5	46.8	47.1	48.4
Austria	82.9	82.5	78.4	77.8	77.5	77.7	77.8
Portugal	134.9	124.5	112.4	99.1	95.1	95.6	91.5
Romania (*)	46.7	48.5	47.5	48.8	49.0	50.9	53.9
Sweden	40.2	36.7	33.2	31.2	31.8	32.0	31.3

Source: Eurostat (data from 2020 to 2023) and Commission Spring 2024 Forecast (data for 2024 and 2025)[31].
(*) In excessive deficit procedure since 2020.

[31] COM(2024) 601 PO/2024/4130.

4. RELEVANT FACTORS WHEN ASSESSING COMPLIANCE WITH THE DEFICIT CRITERION

Article 126(3) of the Treaty provides that, for each Member State, this report shall "*take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State*".

Those factors are further clarified in Article 2(3) of Regulation (EC) No 1467/97 and refer to:

> a) the medium-term debt position, i.e., the degree of public debt challenges, the evolution of the government debt position and its financing, and the related risk factors, in particular the maturity structure, the currency denomination of the debt and contingent liabilities, including any implicit liabilities related to ageing and private debt;
>
> b) the medium-term budgetary position, including, in particular, the size of the actual deviation from the net expenditure path as set by the Council, in annual and cumulative terms as measured by the control account;
>
> c) the medium-term economic position, including potential growth, inflation developments and cyclical developments compared to the assumptions underlying the net expenditure path as set by the Council;
>
> d) the implementation of reforms and investments, including in particular policies to prevent and correct macroeconomic imbalances and policies to implement the common growth and employment strategy of the Union, including those supported by the Recovery and Resilience Facility, and the overall quality of public finances, in particular the effectiveness of national budgetary frameworks,
>
> e) the increase of government investment in defence, where applicable, considering also the time of recording of military equipment expenditure.

More specifically, the increase in government investment in defence has been included among the relevant factors, as a result of the reform of the economic governance framework.

Article 2(3) of Regulation (EC) No 1467/97 provides also that "*any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and the Commission*" need to be given due consideration in this report.

Furthermore, in accordance with Article 2(4), the presence of substantial public debt challenges shall be considered as a key aggravating factor.

As regards the assessment of compliance with the deficit criterion, Article 2(4) of Regulation (EC) No 1467/97 provides that the relevant factors can be taken into account by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit, but only when:

a) the government **debt-to-GDP ratio does not exceed the 60%** reference value, *or*
b) if the government **debt-to-GDP ratio exceeds the 60%** reference value, a **double condition** is met – *i.e.* that the **deficit remains close** to the reference value ***and*** that the excess over the reference value is **temporary**.

Among the Member States considered in this report, the debt-to-GDP ratio does not exceed the 60% of GDP reference value in **Czechia**, **Estonia**, **Malta**, **Poland** and **Slovakia**. Therefore, for these five Member States, relevant factors can be taken into account by the Council and the Commission in the subsequent steps leading to the decision on the existence of an excessive deficit (paragraphs 4, 5 and 6 of Article 126 TFEU).

As for the remaining Member States concerned by the report, in **Belgium**, **Spain**, **France**, **Italy and Hungary,** the debt-to-GDP ratio exceeds the 60% of GDP reference value and the double condition necessary for relevant factors to be taken into account (closeness and temporariness) is not met. Therefore, for these Member States relevant factors cannot be taken into account by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit (paragraphs 4, 5 and 6 of Article 126 TFEU). Differently, the double condition is met for **Slovenia** and **Finland**.

According to established practice and in line with Article 2(4) of Regulation (EC) No 1467/97, the relevant factors are discussed hereunder even for the Member States where they cannot be taken into account by the Council and the Commission in the subsequent steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion.

4.1. CROSS-COUNTRY RELEVANT FACTORS

The EU economy was faced with a series of formidable shocks in recent years. The COVID-19 crisis gave rise to global supply-side disruptions as demand increased vigorously during the strong post-pandemic rebound. Russia's war of aggression against Ukraine steepened the surge of energy prices, that had already started in 2021, and economic effects across Member States varied depending on the proximity to the region at war, the structure of energy markets and supply routes, as well as the structure of a Member State's trade relations. HICP inflation was pushed to two-digit rates in October 2022 in the EU, with inflation in central and eastern Europe being markedly higher. This led to a sharp erosion of household purchasing power and a shift in consumer sentiment. These factors, in addition to the COVID-19 support and emergency energy support measures played a role in budgetary developments of Member States, via e.g. automatic indexation mechanisms, increased expenditure for defensive and border safety.

Economic activity in the EU broadly stagnated in 2023, with GDP growth slowing down to 0.4% in 2023 amid weak domestic demand and little support from the external environment. More recently, the conflict in the Middle East added to downside risks for the EU and global economy, with potential ramifications for the EU and global economy. Meanwhile, inflation has continued declining, decreasing from 9.2% in 2022 to 6.4% in 2023. In the first quarter of 2024, economic activity picked up in the EU as inflation cooled further.

The fall in the EU government deficit came to a halt in 2023 as economic activity weakened. After a sizeable reduction in 2021 and 2022 from very high levels in 2020, the general government deficit of the EU aggregate increased marginally to 3.5% of GDP in 2023 and is projected to fall to 3.0% of GDP in 2024. For the Member States considered in this report, deficit developments in 2024 are projected to be more divergent, as the deficit ratio is forecast to increase compared to 2023 for Poland, Slovenia, Slovakia and Finland, stay stable for Belgium and Estonia, and decrease in Czechia, Spain, France, Italy, Hungary and Malta.

At the end of 2023, the EU public debt-to-GDP ratio stood at 82.9% (from 84.8% at the end of 2022), around 9 pps. lower than the 92% peak recorded at the end of 2020. However, it remains around 4 pps. above the pre-COVID-19 level. The debt ratio is projected to stabilise in 2024. Among the Member States considered in the report, the debt ratio did not decrease in 2023 for Belgium, Estonia, Poland and Finland.

After an overall expansion estimated at around 3½% of GDP for 2020-22, the EU fiscal stance[32] became neutral in 2023. This neutral stance was the result of some decline in the budgetary cost of the energy-related measures, implying a contractionary contribution from net primary current expenditure, which was offset by the expansionary contribution provided by nationally financed investment, expenditure financed by RRF grants and other EU funds, and other capital expenditure. A contractionary EU fiscal stance - slightly above ½% of GDP - is projected for 2024, mainly driven by the expected decline in governments' subsidies to private investment (other capital expenditure) and the almost complete phase-out of energy-related measures. For 2025, the no-policy-change forecast points to a neutral EU fiscal stance. However, the need to reduce budget deficits and put debt ratios back on a declining path could lead to a more restrictive fiscal stance in 2025 than currently projected.

4.2. COUNTRY-SPECIFIC RELEVANT FACTORS

This section provides an assessment of country-specific relevant factors for each Member State. These factors include the medium-term macroeconomic outlook, the medium-term budgetary position (including public investment; see Table 4), the medium-term debt position, the overall quality of public finances, the implementation of reforms and investments (including policies to prevent and correct macroeconomic imbalances and to implement the common growth and employment strategy of the Union, including those supported by the Recovery and Resilience Facility), the increase in government investment in defence, and any other relevant factors put forward by each Member State.

Concerning the increase in government investment in defence, this report considers the breakdown of government expenditure according to the Classification of the Functions of Government (COFOG), specifically gross fixed capital formation used for defence purposes. These are official data published by Eurostat and adhere to the usual recording conventions as also used for notified EDP data. However, COFOG data become available with a time lag[33] and they are currently only available until 2022. Additional information and preliminary estimates on expenditure and/or investment in defence for 2023 and 2024 as presented in the country-specific sections has been provided by Member States.

While the country-specific sections refer to key information on the medium-term macroeconomic position, including on the contributions to growth, and on the medium-term budgetary and debt positions, more detail on the macroeconomic and fiscal outlook can be found in the Commission Spring 2024 Forecast. Further information regarding the budgetary measures, the fiscal stance and the debt sustainability analysis discussed for each Member State hereunder is included in the Commission recommendation for Council Recommendation on

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32 The fiscal stance aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget.

33 The respective reporting deadline in the ESA Transmission Programme is t+12 months, to be advanced to t+11 months from September 2024. Taking into account the need for Eurostat to validate and process the data, this implies that the data become publicly available in January-February of year t+2.

the economic, social, employment, structural and budgetary policies, as well as in the 2024 Country Reports. [34]

[34] The debt sustainability analysis has been updated compared to the 2021 Fiscal Sustainability Report (European Economy-Institutional Papers 171) by reflecting the latest Commission's forecast. See the Communication on the main elements of the European Semester 2024 Spring package (COM (2024) 600 final), and the Commission Recommendations for Council Recommendations (COM(2024) 601 to 627). For the latest assessment by the Commission of Member States experiencing imbalances or excessive imbalances, see the respective in-depth reviews (SWD(2024) 80 to 85 and 100 to 105). For the assessment of debt sustainability risks in all the Member States discussed in this report, see the annexes on Debt Sustainability Analysis in the country reports (SWD(2024) 601 to 627).

Table 4: Public investment

Percentage of GDP

	2020	2021	2022	2023	2024	2025
Belgium	2.8	2.8	2.7	2.9	3.1	2.9
Czechia	4.8	4.7	4.7	5.0	4.9	4.9
Estonia	5.7	5.6	5.1	6.3	7.0	6.9
Spain	2.6	2.7	2.8	3.0	3.1	3.1
France	4.2	4.1	4.2	4.3	4.3	4.2
Italy	2.6	2.9	2.7	3.2	3.2	3.5
Hungary	6.5	6.3	5.4	5.1	4.6	4.7
Malta	3.9	3.9	3.4	3.5	3.7	3.9
Poland	4.5	4.1	3.8	5.0	5.1	5.4
Slovenia	4.1	4.7	5.4	5.3	5.8	5.4
Slovakia	3.4	3.1	3.1	4.7	4.1	4.5
Finland	4.8	4.2	4.2	4.0	4.2	4.7
Member States not considered in this report						
Bulgaria	3.3	2.7	2.3	3.5	2.5	3.5
Denmark	3.6	3.2	3.1	3.2	3.3	3.3
Germany	2.7	2.6	2.6	2.7	2.8	2.9
Ireland	2.4	2.1	2.1	2.3	2.6	2.7
Greece	3.1	3.6	3.7	3.9	4.4	4.3
Croatia	5.5	4.6	3.7	5.4	5.5	5.6
Cyprus	2.8	2.6	2.6	3.5	3.6	3.7
Latvia	5.7	5.4	3.9	4.2	5.5	6.1
Lithuania	4.5	3.2	3.2	4.2	4.4	4.0
Luxembourg	4.7	4.1	4.2	4.7	4.6	4.9
Netherlands	3.7	3.4	3.2	3.1	3.2	3.2
Austria	3.3	3.6	3.4	3.5	3.5	3.4
Portugal	2.3	2.6	2.4	2.5	3.1	3.4
Romania (*)	4.6	4.2	4.4	5.3	5.2	4.8
Sweden	5.0	4.7	4.8	5.0	5.2	5.3

Source: Eurostat (data from 2020 to 2023) and Commission Spring 2024 Forecast (for 2024 and 2025). (*) In excessive deficit procedure since 2020.

4.2.1. MEMBER STATES FOR WHICH RELEVANT FACTORS CAN BE TAKEN INTO ACCOUNT

CZECHIA

Medium-term macroeconomic position. Real GDP decreased by 5.5% in 2020. After an expansion of 3.6% in 2021, real GDP grew by 2.4% in 2022, before contracting by 0.3% in 2023. It is expected to grow by 1.2% in 2024 and 2.8% in 2025. Growth in 2024 is set to be mainly driven by private consumption and net exports.

Medium-term budgetary position, including investment. The government deficit has been above 3% of GDP since 2020; it decreased from 5.1% of GDP in 2021 to 3.2% of GDP in 2022, before rising to 3.7% in 2023. It is projected to be at 2.4% and 1.9% of GDP in 2024 and 2025, respectively. Government investment stayed at 4.7% of GDP in 2021 and 2022, and increased to 5.0% in 2023, being larger than the government deficit in 2022 and 2023. In 2024 and 2025 government investment is projected to stay at 4.9% of GDP, still larger than the government deficit in the same years.

In 2023, according to the Commission estimates, the fiscal stance was contractionary, by 0.9% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.7% of GDP. This includes the reduced cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. This also includes lower costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). In sum, the projected growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.1% of GDP in 2023. Nationally financed investment amounted to 4.4% of GDP in 2023, representing an increase of 0.5 percentage points as compared to 2022. Czechia financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, such as energy efficiency renovations and installation of renewables, modernisation and increased safety of railways and project preparation for electrification, flood protection and water retention of lands and municipalities, projects of Czech companies aiming at reducing water consumption and applying circular solutions for businesses, public-private partnerships in research and innovation, or provision of digital devices for schools, which are partly funded by the Recovery and Resilience Facility and other EU funds.

Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 2.3% of GDP in 2024. According to the Commission Spring 2024 Forecast, Czechia's net nationally financed primary expenditure is projected to decrease by 1.1% in 2024, which is below the recommended maximum growth rate. This is in line with what was recommended by the Council. According to the Commission 2024 Spring Forecast, the net budgetary cost of energy support measures is estimated at 1.2% of GDP in 2023 and projected at -0.2% in 2024, and 0.0% in 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 1.4% of GDP in 2024, whereas net nationally financed primary expenditure provides a contractionary contribution to the fiscal stance of 2.2% of GDP in that year. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. Moreover, the related savings are projected to be fully used to reduce the government deficit. This is also in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to decrease to 4.2% of GDP in 2024 from 4.4% of GDP in 2023.

This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023. Taking into account this additional factor, public investment in 2024 is assessed as respecting the Council recommendation. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to decrease to 1.0% of GDP in 2024 from 1.1% of GDP in 2023. This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023.

Debt challenges and medium-term debt position. Government debt increased from 37.7% of GDP at the end of 2020 to 42% at the end of 2021. It further increased to 44.2% of GDP at the end of 2022 before marginally declining to 44.0% in 2023. It is projected at 45.2% and 45.5% at the end of 2024 and 2025, respectively.

Overall, the debt sustainability analysis indicates medium risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise slightly to 48% of GDP in 2034. The baseline debt trajectory is relatively sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a low likelihood that the debt ratio in 2028 will be higher than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to the recent increase in interest rates and the significant share of short-term debt. On the other hand, risk-mitigating factors include the stability of debt maturity in recent years, relatively stable financing sources (with a diversified and large investor base) and the currency denomination of debt.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Czechia is underway, however timely completion requires increased efforts.

National budgetary framework. The responsibilities of independent fiscal institutions are fulfilled by two legally established bodies, the Fiscal Council and the Committee on Budgetary Forecasts. At the same time, there remains room for the improving institution's access to information and evaluation tasks. Some budgetary practices in Czechia (e.g., changes to the parameters underpinning the fiscal rules and the use of State entities outside the regular budget) tend to weaken the fiscal framework.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.0% of GDP in 2022. Of this, government investment in defence represented 0.2% of GDP in 2022, which was 0.1 percentage points higher than in 2019. According to preliminary estimates provided by Czechia, expenditure on defence increased by 0.3 pp of GDP in 2023 (no specific figure on investment in defence is provided).

Other factors put forward by the Member State: Czechia brought forward that it took consolidation measures in 2024 with a total impact of around 1.5% of GDP. According to Czechia, these measures should translate into a year-on-year reduction in the deficit to 2.3% of GDP, i.e. well bellow 3% of GDP in 2024.

ESTONIA

Medium-term macroeconomic position. Real GDP decreased by 1.0% in 2020. After an expansion of 7.2% in 2021, real GDP contracted by 0.5% in 2022 and even further in 2023 (by 3.0%). It is expected to contract by 0.5% in 2024, bringing the economy into a recession of three years. Only as of 2025, positive growth of 3.1% is forecasted. The contraction in 2024 is set to be mainly driven by the reduction in both private and public consumption.

Medium-term budgetary position, including investment. The government deficit decreased from 5.4% in 2020 to 2.5% of GDP in 2021 and 1.0% in 2022, before increasing to 3.4% of GDP in 2023, where it is projected to stand also in 2024. In 2025, the deficit is expected to rise to 4.3% of GDP. After increasing to 5.7% of GDP in 2020, government investment decreased to 5.6% of GDP in 2021 and to 5.1% in 2022, before rising to 6.3% in 2023, always larger than the government deficit in the same years. It is projected to rise further to 7.0% of GDP in 2024 and to decrease marginally to 6.9% in 2025, remaining larger than the government deficit in both years.

In 2023, according to the Commission estimates, the fiscal stance was expansionary by 1.6% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 1.0% of GDP. This includes the reduced cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. This also includes higher costs to offer temporary protection to displaced persons from Ukraine (by 0.2% of GDP). The expansionary contribution of nationally financed net primary current expenditure in 2023 was therefore only partly due to the support to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was driven by higher public wage spending and pensions coupled with further new permanent spending programmes for defence, education and child benefits, not matched by proportional increases on the revenue side. In sum, the growth of nationally financed primary current expenditure in 2023 was not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.4% of GDP in 2023. Nationally financed investment amounted to 5.8% of GDP in 2023, with an annual increase of 1.4 percentage points from 2022. Estonia financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, such as the development of event services and digital gateway for entrepreneurs, capitalisation of the Green Fund (which makes investments in venture capital funds and equity investments in enterprises) and strengthening of the electricity grid to increase renewable energy production capacity and adapt to climate change, which are funded by the Recovery and Resilience Facility.

Based on the Commission's estimates, the fiscal stance is projected to be broadly neutral at 0.1% of GDP in 2024. According to the Commission Spring 2024 Forecast, Estonia's structural balance is projected at -0.7% of GDP in 2024 (from -1.3% in 2023), thereby at the country's medium-term budgetary objective (MTO) of a structural balance of -0.75% of GDP. Estonia is therefore assessed as being in line with what was recommended by the Council. According to the Commission Spring 2024 Forecast, the net budgetary cost of emergency energy support measures is estimated at 0.2% of GDP in 2023 and projected at 0.0% in 2024 and 2025. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 6.3%

of GDP in 2024 from 5.8% of GDP in 2023. This is in line with what was recommended by the Council.

Debt challenges and medium-term debt position. After a decline from 18.6% of GDP at the end of 2020 to 17.8% of GDP at the end of 2021, government debt increased to 18.5% of GDP at the end of 2022 and 19.6% at the end of 2023. The upward trend is projected to continue, with the debt-to-GDP ratio estimated at 21.4% at the end of 2024 and 24.6% at the end of 2025.

Overall, the debt sustainability analysis indicates medium risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise to around 27% of GDP in 2034. The baseline debt trajectory is not sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high likelihood that the debt ratio in 2028 will be higher than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the recent increase in interest rates, the share of short-term debt and the large share of government debt held by non-residents. On the other hand, risk-mitigating factors include the low gross financing needs and the fact that the overall still low government debt is fully denominated in euro.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Estonia is well underway.

National budgetary framework. The national fiscal framework underwent a comprehensive reform in 2014, when the Estonian Fiscal Council was established. The cornerstone of the national fiscal framework is the structural balance rule. It was amended in 2017 and 2024, with the latter amendment softening the rules and allowing structural deficits up to 1% of GDP, as long as the debt level does not exceed 30% of GDP. The Estonian Fiscal Council endorses the macroeconomic and fiscal forecasts and assesses compliance with the budget balance rule.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 2.2% of GDP in 2022. Of this, government investment in defence represented 0.7% of GDP in 2022, which was 0.2 percentage points higher than in 2019. According to preliminary estimates provided by Estonia, defence investment would increase by 0.45% of GDP in 2023 and 0.44% in 2024.

Other factors put forward by the Member State. On 17 May 2024, Estonia provided additional relevant factors not already mentioned above. These relate to a strong economic contraction in the order of 3% in 2023, and to plans to adopt additional budgetary measures in the form of expenditure cuts that should decrease the deficit to below 3% of GDP in 2024. In addition, following their letter, the Estonian authorities informed the Commission that the government agreed to, and sent to the Parliament on 5 June 2024, a supplementary budget for 2024 (State 2024 Additional Budget Act 456 SE[35]), which passed the first reading in Parliament on 10 June, the second on 14 June and is expected to pass the third reading on 19 June. This

[35] https://www.riigikogu.ee/tegevus/eelnoud/eelnou/a17529fc-9cd3-46a0-bc61-2f0ef5c7edb4/2024.-aasta-lisaeelarve-seadus/

supplementary budget is expected to reduce the nominal deficit by 0.4% of GDP (of which, most are permanent expenditure cuts, but also includes revenue-increasing measures).[36]

MALTA

Medium-term macroeconomic position. Real GDP decreased by 8.2% in 2020. After an expansion of 12.5% in 2021, real GDP grew by 5.6% in 2021 and 4.6% in 2023. It is expected to grow by 4.6% in 2024 and 4.3% in 2025. Growth in 2024 is set to be mainly driven by private consumption and net exports.

Medium-term budgetary position, including investment. The government deficit has been above 3% of GDP since 2020; it decreased from 7.6% in 2021 to 5.5% of GDP in 2022 and 4.9% in 2023. It is projected to further decrease to 4.3% and 3.9% of GDP in 2024 and 2025, respectively. After standing at 3.9% of GDP in 2021, government investment decreased to 3.4% of GDP in 2022, before marginally rising to 3.5% in 2023. It is projected to amount to 3.7% of GDP in 2024 and to 3.9% of GDP in 2025.

In 2023, according to the Commission estimates, the fiscal stance was contractionary, by 0.6% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 1.6% of GDP. This includes the increased cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by less than 0.1% of GDP. The growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.9% of GDP in 2023. Nationally financed investment amounted to 2.6% of GDP in 2023, representing an increase of 0.1 percentage points as compared to 2022. Malta financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, such as the renovation of private and public buildings including hospitals and schools, the electrification of the transport sector and projects related to the digitalisation of the public administration and the private sector, which are partly funded by the Recovery and Resilience Facility and other EU funds.

Based on the Commission's estimates, the fiscal stance is projected to be contractionary, by 1.3% of GDP, in 2024. According to the Commission Spring 2024 Forecast, Malta's net nationally financed primary expenditure is projected to increase by 5.5% in 2024, which is below the recommended maximum growth rate. However, net expenditure in 2023 was higher than expected at the time of the recommendation (by 0.8% of GDP). Therefore, as the recommendation for 2024 was formulated as a growth rate, the assessment of compliance also needs to take into account the base effect from 2023. Had net expenditure in 2023 been the same as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would have been above the recommended growth rate by 0.7% of GDP. Therefore, net nationally financed primary expenditure is assessed as at risk of not being fully in line with the recommendation. According to the Commission Spring 2024 Forecast, the net budgetary cost of emergency energy support measures is estimated at 1.7% of GDP in 2023 and projected at 2.0% in 2024, and 1.0% in 2025. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in

[36] At the moment this report is published, there are exchanges between the Estonian national statistical office and Eurostat regarding the time of recording of military spending. An independent decision by Eurostat on this matter is pending.

line with what was recommended by the Council. Consequently, there are no related savings to be used to reduce the government deficit as recommended by the Council. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 2.8% of GDP in 2024 from 2.6% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.9% of GDP in 2024.

Debt challenges and medium-term debt position. Government debt increased from 52.2% of GDP at the end of 2020 to 53.9% at the end of 2021, before declining to 51.6% of GDP and 50.4% of GDP at the end of 2022 and 2023 respectively. It is projected to increase to 52.0% of GDP at the end of 2024 and to 52.6% at the end of 2025.

Overall, the debt sustainability analysis indicates medium risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise to 56% of GDP in 2034. The baseline debt trajectory is not sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is overall a medium sensitivity of the projections to plausible unforeseen events.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the high share of short-term debt. On the other hand, risk-mitigating factors include the high share of domestically-held debt as well as the sharp decrease in both gross and net debt ratios between 2010 and 2022.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Malta is well underway.

National budgetary framework. The Maltese Fiscal Advisory Council is a small independent fiscal institution. The Fiscal Responsibility Act of 2014 requires that the general government budget in structural terms be balanced or in surplus and that the government debt ratio be kept below 60%, or decreases if above. Malta's medium-term budgetary strategy sets forth the Government's fiscal objectives and strategic priorities and indicative fiscal targets, together with a description of underlying assumptions. Overall, Malta has a relatively robust fiscal framework.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 0.5% of GDP in 2022. Of this, government investment in defence represented 0.1% of GDP in 2022, which was 0.1 percentage points lower than in 2019.

Other factors put forward by the Member State. On 16 May 2024, Malta provided one additional relevant factor not already mentioned above, namely related to the costs of the national airline restructuring estimated at 0.7% of GDP in 2023.

POLAND

Medium-term macroeconomic position. Real GDP decreased by 2.0% in 2020. After an expansion of 6.9% in 2021, real GDP grew by 5.6% in 2022 and 0.2% in 2023. It is expected to grow by 2.8% in 2024 and 3.4% in 2025. Growth in 2024 is set to be mainly driven by both private and public consumption.

Medium-term budgetary position, including investment. The government deficit increased from 1.8% of GDP in 2021 to 3.4% of GDP in 2022 and 5.1% of GDP in 2023. It is projected to be at 5.4% and 4.6% of GDP in 2024 and 2025, respectively. Government investment declined to 3.8% of GDP in 2022 from 4.1% of GDP in 2021, before increasing to 5.0% in 2023. It is projected to increase to 5.1% of GDP in 2024 and to 5.4% of GDP in 2025, being larger than the government deficit in the latter year.

In 2023, according to Commission estimates, the fiscal stance was expansionary, by 0.8% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a broadly neutral contribution to the fiscal stance of 0.0% of GDP, which is in line with the Council recommendation. The broadly neutral contribution of nationally financed primary current expenditure was due to the reduced costs of the emergency support measures (targeted and untargeted) to households and firms in response to energy price hikes (by 1.2 percentage points of GDP). The main drivers of growth in nationally financed primary current expenditure (net of revenue measures) were increases in public sector wages and pensions. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.5% of GDP in 2023. Nationally financed investment amounted to 3.8% of GDP in 2023, with an annual increase of 0.8 percentage points from 2022. Poland financed additional investment through the Recovery and Resilience Facility and other EU funds, and it preserved nationally financed investment. Poland financed public investment for the green and digital transitions, and for energy security, such as support for the transmission and distribution grids and deployment of renewables, for offshore wind energy plants and for energy-efficient renovation of buildings and green and smart mobility, which are funded by the Recovery and Resilience Facility and other EU funds.

Based on the Commission's estimates, the fiscal stance is projected to be expansionary by 2.4% of GDP in 2024. According to the Commission Spring 2024 Forecast, Poland's net nationally financed primary expenditure is projected to increase by 12.8% in 2024, which is above the recommended maximum growth rate. This risk being not in line with what was recommended by the Council. According to the Commission Spring 2024 Forecast, the net budgetary cost of emergency energy support measures is estimated at 0.6% of GDP in 2023 and projected at 0.5% in 2024, and less than 0.1% in 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.2% of GDP in 2024, whereas net nationally financed primary expenditure provides an expansionary contribution to the fiscal stance of 2.0% of GDP in that year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in line with what was recommended by the Council. Moreover, the related savings are not projected to be used to reduce the government deficit. This also risks being not in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 4.0% of GDP in 2024 from 3.8% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 1.9% of GDP in 2024, from 1.5% of GDP in 2023

Debt challenges and medium-term debt position. Government debt decreased from 57.2% of GDP at the end of 2020 to 53.6% at the end of 2021 and to 49.2% at the end of 2022. It rose to 49.6% of GDP in 2023 and it is projected to increase further to 53.7% and 57.7% of GDP at the end of 2024 and 2025, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projections, the general government debt ratio would rise countinuously to about 85% of GDP in 2034. The debt trajectory is relatively sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a moderate probability that the debt ratio would be higher in 2028 than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to the recent increase in interest rates. On the other hand, risk-mitigating factors include relatively stable financing sources (with large domestic investor base) and the currency denomination of debt (about three-quarters of outstanding debt is denominated in local currency).

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Poland is underway, however timely completion requires increased efforts.

National budgetary framework. The fiscal framework in Poland has been strengthened in the last two years, including via measures included in the Recovery and Resilience Plan. The numerical fiscal rules remain at the centre of the framework. While the debt ceilings anchored in the Constitution cover the central government, a separate debt rule concerns local government units. The stabilising expenditure rule was recently strengthened by covering additional units and special purpose funds and the government has proposed adjustments to bring it in line with the reformed EU requirements. The government also plans to establish an independent Fiscal Council to bring together the monitoring of fiscal rules and other relevant responsibilities, which are currently scattered across several bodies.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.6% of GDP in 2022. Of this, government investment in defence represented 0.3% of GDP in 2022, remaining unchanged compared to 2019. According to preliminary estimates provided by Poland, total COFOG military expenditures in 2023 amounted to 2.1% of GDP, including deliveries of military equipment and other military investments estimated at 0.7% of GDP. According to Poland, as the accounting rules register military expenditure not at the moment of payment but upon delivery, the current high cash-based military expenditure will appear in accrual terms in the following years, when the military equipment is delivered. Concretely, Poland expects that defence expenditure will double in the next four years, as it is estimated to reach 2.8% of GDP in 2024, 3.2% of GDP in 2025, 3.7% of GDP in 2026, 4.3% of GDP in 2027 and 4.1% of GDP in 2028.

Other factors put forward by the Member State. On 17 May 2024, Poland provided additional relevant factors not already mentioned above, namely information on the budgetary impact of strengthening the EU external border with Russia, Belarus and Ukraine (0.3% of GDP) and extraordinary support for farmers (0.4% of GDP). In addition, Poland highlights that it spends the highest amount on defence among EU Member States, thus serving the broader objective of strengthening security of Europe and helping to deliver a common public good for

Europeans. Poland also confirmed its commitment to fiscal discipline and to keeping the debt ratio below 60%. On 30 April 2024, the government adopted the Multiannual Financial Plan of the State for 2024-2027, with a commitment to fiscal consolidation of at least 0.5% of GDP per year; the deficit would gradually decline from 5.1% of GDP in 2024 to 4.6% in 2025, 4.0% in 2026, 3.5% in 2027 and 2.9% in 2028.

SLOVENIA

Medium-term macroeconomic position. Real GDP decreased by 4.2% in 2020. After an expansion of 8.2% in 2021, real GDP grew by 2.5% in 2022 and 1.6% in 2023. It is expected to grow by 2.3% in 2024 and 2.6% in 2025. Growth in 2024 is set to be mainly driven by public consumption and inventories.

Medium-term budgetary position, including investment. The government deficit decreased from 4.6% in 2021 to 3.0% of GDP in 2022 and 2.5% in 2023. It is projected to amount to 2.8% and 2.2% of GDP in 2024 and 2025, respectively. After increasing to 4.7% of GDP in 2021 and to 5.4% in 2022, government investment marginally decreased to 5.3% of GDP in 2023. It is projected to rise to 5.8% of GDP in 2024, before slightly declining to 5.4% of GDP in 2025. From 2021, government investment has been larger than the government deficit.

In 2023, according to the Commission estimates, the fiscal stance was contractionary, by 0.5% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.4% of GDP. This includes the reduced cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.3% of GDP. The growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.3% of GDP in 2023. Nationally financed investment amounted to 4.6% of GDP in 2023, representing an annual decrease of 0.2 percentage points as compared to 2022. Slovenia financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, for example in railway infrastructure, renewable sources of energy and prevention of natural disasters, which are partly funded by the Recovery and Resilience Facility and other EU funds.

Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 0.2% of GDP in 2024. According to the Commission Spring 2024 Forecast, Slovenia's net nationally financed primary expenditure is projected to increase by 5.6% in 2024, which is above the recommended maximum growth rate. This risks being not fully in line with what was recommended by the Council. According to the Commission Spring 2024 Forecast, the net budgetary cost ([37]) of emergency energy support measures is estimated at 1.4% of GDP in 2023 and projected at 0.1% in 2024, and 0.0% in 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 1.3% of GDP in 2024, whereas net nationally financed primary expenditure provides a contractionary contribution to the fiscal stance of 0.1% of GDP in that year. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit.

([37]) The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

This risks being not in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 5.3% of GDP in 2024 (from 4.6% of GDP in 2023). This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 1.3% of GDP in 2024 from 1.3% of GDP in 2023.

Debt challenges and medium-term debt position. Government debt decreased from 79.6% of GDP at the end of 2020 to 74.4% at the end of 2021. It declined further to 72.5% and 69.2% of GDP at the end of 2022 and 2023 respectively. It is projected at 68.1% and 66.4% at the end of 2024 and 2025 respectively.

Overall, the debt sustainability analysis indicates medium risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise to about 74% of GDP in 2034. The baseline debt trajectory is relatively sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a moderate likelihood that the debt ratio in 2028 will be higher than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to the recent increase in interest rates and the large share of government debt held by non-residents. In addition, risks stem from the housing sector due to fast increasing house prices. On the other-hand, risk-mitigating factors include the stabilisation of debt maturity at high levels in recent years and relatively stable financing sources with a diversified and large investor base and a high share of debt held by the domestic central bank.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Slovenia is underway, however timely completion requires increased efforts.

National budgetary framework. The Slovenian Fiscal Council is one of Slovenia's two independent fiscal institutions and focuses on the monitoring of compliance with fiscal rules and assessing the fiscal forecast of the government. Slovenia has a fiscal rule targeting the structural balance in place, while there is no rule to constrain public debt at national level. The medium-term budgetary plan is detailed and covers a large share of the general government, but the plan’s binding nature and its link to the annual budget is not particularly strong: each year, new figures can be introduced for all years covered by the plan and annual budgets can deviate from previously adopted medium-term plans.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.2% of GDP in 2022. Of this, government investment in defence represented 0.1% of GDP in 2022, remaining unchanged compared to 2019. According to preliminary estimates provided by Slovenia, defence investment would increase by 0.1% of GDP in 2023 and a further 0.25% in 2024.

Other factors put forward by the Member State. On 16 May 2024, Slovenia provided an additional relevant factor not already mentioned above, namely the budgetary impact of the floods in 2023. This consisted of immediate assistance to those affected by the floods and comprehensive measures for reconstruction, development and protection against floods and landslides. Disaster-related expenditure was lower than expected in 2023 and is expected to account for 1.7% of GDP in 2024. According to Slovenia, disaster recovery measures

amounting in 2024 should be considered as one-off.[38] Slovenia also refers to the government's plans to reduce the general government deficit and debt in the coming years. The deficit is projected to fall below the 3% of GDP reference value in 2025 and decline further to 1.9% of GDP in 2027. Government debt is also projected to decline over this period, from 69.2% of GDP in 2023 to 64.3% of GDP in 2027.

SLOVAKIA

Medium-term macroeconomic position. Real GDP decreased by 3.3% in 2020. After an expansion of 4.8% in 2021, real GDP grew by 1.9% in 2022 and 1.6% in 2023. It is expected to grow by 2.2% in 2024 and 2.9% in 2025. Growth in 2024 is set to be mainly driven by inventories and public consumption.

Medium-term budgetary position, including investment. The government deficit decreased from 5.2% of GDP in 2021 to 1.7% in 2022, before rising to 4.9% of GDP in 2023. It is projected to further increase to 5.9% in 2024 and slighlty decline to 5.4% of GDP in 2025. After standing at 3.1% of GDP in both 2021 and 2022, government investment increased to 4.7% of GDP in 2023. It is projected to decrease to 4.1% of GDP in 2024, before increasing to 4.5% of GDP in 2025.

In 2023, according to the Commission estimates, the fiscal stance was expansionary, by 6.1% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 3.8% of GDP. This includes the reduced cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.2% of GDP. This also includes lower costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). The expansionary contribution of nationally financed primary current expenditure in excess of medium-term potential output growth was therefore not due to the targeted emergency support to households and firms most vulnerable to energy price hikes, and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was driven by untargeted emergency energy measures, permanent increases in public sector wages and social benefits, higher spending on healthcare and the reduction in VAT rates on selected items. In sum, the growth of nationally financed primary current expenditure in 2023 was not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 3.2% of GDP in 2023. Nationally financed investment amounted to 3.2% of GDP in 2023, representing an annual increase of 0.8 percentage points as compared to 2022. Slovakia financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, such as investments in energy infrastructure and transport with zero emissions and energy efficiency of buildings, which are partly funded by the Recovery and Resilience Facility and other EU funds.

Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 1.4% of GDP in 2024. According to the Commission Spring 2024 Forecast, Slovakia's net nationally financed primary expenditure is projected to increase by 6.2% in 2024, which is above the recommended maximum growth rate. This risks being not fully in line with what was recommended by the Council. According to the Commission Spring 2024 Forecast, the

[38] According to the Commission 2024 Spring Forecast for Slovenia, nationally-financed expenditures for reconstruction after the floods in August 2023 amount to 0.7% of GDP.

net budgetary cost of emergency energy support measures is estimated at 2.1% of GDP in 2023 and projected at 0.4% in 2024, and 0.0% in 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 1.7% of GDP in 2024, whereas net nationally financed primary expenditure[39] provides a contractionary contribution to the fiscal stance of 0.2% of GDP in that year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in line with what was recommended by the Council. Moreover, the related savings are not projected to be fully used to reduce the government deficit. This also risks being not in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to decrease to 3.0% of GDP in 2024, from 3.2% of GDP in 2023. This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023. This is also due to the postponement of a delivery of military equipment until 2025. Taking into account these additional factors, public investment in 2024 is assessed as respecting the Council recommendation. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to decrease to 2.0% of GDP in 2024 from 3.2% of GDP in 2023. This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023.

Debt challenges and medium-term debt position. Government debt increased from 58.8% of GDP at the end of 2020 to 61.1% at the end of 2021, and then decreased to 57.7% of GDP at the end of 2022 and 56.0% at the end of 2023. It is projected to increase to 58.5% and 59.9% at the end of 2024 and 2025, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projections, the general government debt ratio would increase continuously over the next years, reaching about 106% of GDP in 2034. The baseline debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a moderate probability that the debt ratio would be higher in 2028 than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to Slovakia's negative net international investment position . On the other hand, risk-mitigating factors are related to the structure of debt. In particular, the low share of short-term government debt and the fact that the totality of government debt is denominated in euro (thus excluding currency risks) help to mitigate debt sustainability risks.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Slovakia is underway, however timely completion requires increased efforts.

Assessment under the macroeconomic imbalances procedure. Slovakia is experiencing macroeconomic imbalances. In particular, Slovakia faces vulnerabilities related to cost

[39] This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (i) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

competitiveness, external balance, housing market and household debt, and policy action has not been forthcoming.

National budgetary framework. The Slovak Council for Budget Responsibility (CBR) has a broad mandate and a wide media presence but its dialogue with the government and parliament is not particularly strong. The Slovak Constitution and accompanying laws introduced a balanced-budget rule in structural terms and a debt rule, both covering the general government, as well as a balanced-budget and a debt rule applying to local governments. Slovakia also has in place a medium-term budgetary strategy outlining the Government's fiscal objectives and medium-term priorities over three years and following an indicative rolling planning window. Overall, Slovakia has a fairly robust national fiscal framework.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.5% of GDP in 2022. Of this, government investment in defence represented 0.2% of GDP in 2022, remaining unchanged compared to 2019. According to preliminary information provided by Slovakia, defence investment would increase driven by deliveries of military equipment.

Other factors put forward by the Member State. On 16 May 2024, Slovakia provided one additional relevant factors not already mentioned above, namely the recent rise in interest expenditure. Slovakia further confirmed its commitment to reduce the headline deficit by 1 percentage point per year from 2025 onwards.

FINLAND

Medium-term macroeconomic position. Real GDP decreased by 2.4% in 2020. After an expansion of 2.8% in 2021, real GDP grew by 1.3% in 2022 and then contracted by 1.0% in 2023. Output is projected to stay almost unchanged in 2024 and to grow by 1.4% in 2025. Growth in 2024 is set to be mainly driven by private consumption and investment.

Medium-term budgetary position, including investment. The government deficit decreased from 2.8% in 2021 to 0.4% of GDP in 2022, before rising to 2.7% in 2023. It is projected to be at 3.4% in 2024 and at 2.8% in 2025. Government investment stood at 4.2% of GDP in 2021 and 2022, and slightly declined to 4.0% in 2023. It is projected to increase to 4.1% of GDP in 2024, and then increase to 4.5% in 2025, being larger than the government deficit for a fifth consecutive year counting from 2021.

In 2023, according to the Commission estimates, the fiscal stance was expansionary, by 0.9% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 0.8% of GDP. This includes higher costs to offer temporary protection to displaced persons from Ukraine (by 0.2% of GDP). The expansionary contribution of nationally financed net primary current expenditure in 2023 was therefore only partly due to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was also driven by the continued and rapid rise in prices and costs – especially those of purchased services and personnel expenses in local government, as well as the rise in preparedness-related expenses that were taken in response to Russia's war of aggression against Ukraine. In sum, the growth of nationally financed primary current expenditure in 2023 was not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.4% of GDP in 2023. Nationally financed investment amounted to 4.0% of GDP in 2023, representing a decrease of 0.2 percentage points as compared to 2022. Finland financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, such as renewable energy infrastructure and low-emission hydrogen, which are partly funded by the Recovery and Resilience Facility and other EU funds.

Based on the Commission's estimates, the fiscal stance is projected to be expansionary by 0.7% of GDP in 2024. According to the Commission Spring 2024 Forecast, Finland's net nationally financed primary expenditure is projected to increase by 4.0% in 2024, which is above the recommended maximum growth rate. This risks being not in line with what was recommended by the Council. According to the Commission Spring 2024 Forecast, the net budgetary cost of emergency energy support measures is estimated at 0.2% of GDP in 2023 and projected at 0.0% in 2024 and 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.2% of GDP in 2024, whereas net nationally financed primary expenditure provides an expansionary contribution to the fiscal stance of 0.7% of GDP in that year. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 4.1% of GDP in 2024 from 4.0% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.4% of GDP in 2024.

Debt challenges and medium-term debt position. Government debt decreased from 74.7% of GDP at the end of 2020 to 72.6% at the end of 2021, and then gradually increased, standing at 73.5% of GDP at the end of 2022 and at 75.8% of GDP at the end of 2023. It is projected to further increase to 80.5% at the end of 2024 and 82.4% of GDP at the end of 2025.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise continuously to about 96% of GDP in 2034. The baseline debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high likelihood that the debt ratio in 2028 will be higher than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to the recent increase in interest rates, the share of short-term government debt and risks from the real estate and the housing markets. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investor base) and the very large share of debt denominated in euro.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Finland is delayed.

National budgetary framework. Finland introduced a balanced-budget rule in structural terms covering the general government, while a debt rule is rather set by political agreement. Balanced-budget rules by political agreement also govern the local governments and the social security sector. A binding expenditure rule is also in place: at the beginning of the parliamentary term, the government decides on the spending limits and the rules governing the procedure for the entire 4-year term. Finland also has in place a medium-term budgetary strategy outlining the government's fiscal objectives and medium-term priorities, which follows a rolling planning window. Overall, Finland has a relatively robust fiscal framework.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.3% of GDP in 2022. Of this, government investment in defence represented 0.3% of GDP in 2022, which was 0.1 percentage point higher than in 2019. According to preliminary estimates provided by Finland, defence-related investment would increase by about 0.5% of GDP in 2024, reflecting substantial defence-related investment as well as replacement investment into defence materiel due to the assistane to Ukraine; however, according to Finland, part of these investments, while comparable to defence, is likely to be included in another COFOG division (notably "Public order and safety").

Other factors put forward by the Member State. The analysis presented in the previous sections already covers the relevant factors put forward by Finland on 17 May 2024.

4.2.2. MEMBER STATES FOR WHICH RELEVANT FACTORS CANNOT BE TAKEN INTO ACCOUNT

BELGIUM

Medium-term macroeconomic position. Real GDP decreased by 5.3% in 2020. After an expansion of 6.9% in 2021, real GDP grew by 3.0% in 2022 and 1.4% in 2023. The economy is expected to grow by 1.3% in 2024 and 1.4% in 2025. Growth in 2024 is set to be mainly driven by private consumption and investment.

Medium-term budgetary position, including investment. The government deficit has been above 3% of GDP since 2020; it decreased from 5.4% of GDP in 2021 to 3.6% of GDP in 2022, before rising again up to 4.4% of GDP in 2023. It is projected to remain at 4.4% of GDP in 2024 and to increase to 4.7% of GDP in 2025. Government investment amounted to 2.8% of GDP in 2021 before decreasing to 2.7% in 2022 and rising to 2.9% in 2023. It is projected to further increase to 3.1% of GDP in 2024 and then to marginally reduce to 2.9% in 2025.

In 2023, according to the Commission estimates, the fiscal stance was expansionary, by 0.7% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 0.4% of GDP. This includes the reduced cost of the targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. The growth of nationally financed primary current expenditure in excess of medium-term potential output growth was therefore not due to the targeted support to households and firms most vulnerable to energy price hikes. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was driven by permanent increases in public sector wages and social benefits resulting from the mechanism of automatic indexation, a temporary reduction in employers' social contributions in 2023, and rising budgetary costs related to demographic ageing. In sum, the growth of nationally financed primary current expenditure in 2023 was not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.3% of GDP in 2023. Nationally financed investment amounted to 2.8% of GDP in 2023, representing an increase of 0.1 percentage points as compared to 2022. Belgium financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, such as investment in rail and cycling infrastructures, renovation of public buildings, and hydrogen infrastructure, which are partly funded by the Recovery and Resilience Facility and other EU funds.

Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 0.1% of GDP in 2024. According to the Commission Spring 2024 Forecast, Belgium's net nationally financed primary expenditure is projected to increase by 4% in 2024, which is above the recommended maximum growth rate. This risks being not in line with what was recommended by the Council. According to the Commission Spring 2024 Forecast, the net budgetary cost[40] of emergency energy support measures is estimated at 0.4% of GDP in 2023 and projected at 0% of GDP in 2024 and 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.4% of GDP in 2024, whereas net nationally financed primary expenditure

[40] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

provides a contractionary contribution to the fiscal stance of 0.1% of GDP in that year. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 2.9% of GDP in 2024 from 2.8% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.3% of GDP in 2024.

Debt challenges and medium-term debt position. Government debt decreased from 111.9% of GDP at the end of 2020 to 107.9% at the end of 2021 and even further to 104.3% in 2022 before increasing to 105.2% at the end of 2023. It is projected at 105.0% and 106.6% at the end of 2024 and 2025, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise to around 119% of GDP in 2034. The baseline debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high likelihood that the debt ratio in 2028 will be higher than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the recent increase in interest rates, the share of short-term debt, high gross financing needs, the large share of government debt held by non-residents and the lack of fiscal coordination among the different government levels, with several of the federated entities displaying specific vulnerabilities. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, which allows for a more gradual transmission of rising interest rates to the debt burden, relatively stable financing sources, with a diversified and large investor base, and government debt being fully denominated in euro.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. However, the implementation of reforms and investments included in the Recovery and Resilience Plan of Belgium is significantly delayed.

National budgetary framework. The effectiveness of medium-term planning in Belgium remains weak and the coordination across government levels is limited. The High Council of Finance (HCF) is not yet fully operational. The effective implementation of the 2013 cooperation agreement between all government levels on the definition of multiannual fiscal paths and assigning the HCF the compliance monitoring task remains incomplete. This hampers the monitoring of compliance and increases the risk of deviating from the medium-term fiscal trajectory. Fiscal rules in Belgium include healthcare spending targets at federal level and strict rules set for local authorities. Despite the federal level and the regions accounting for a high share of general government spending, there are few formal rules governing these levels, with the main exception being Flanders' recent spendings target. At the same time, Belgium has committed in its Recovery and Resilience Plan to conduct spending reviews.

Increase in government investment in defence. Based on COFOG[41] data published by Eurostat, total government spending in defence amounted to 1% of GDP in 2022. Of this, government investment in defence represented 0.1% of GDP in 2022, remaining unchanged compared to 2019.

Other factors put forward by the Member State. On 17 May 2024, Belgium provided additional relevant factors not already mentioned above, namely recent efforts to increase public investment to accelerate the green and digital transition (including through the implementation of the RRP) and to step up spending on defence; the impact of exceptionally high inflation on public finances, in particular given automatic indexation mechanisms; and steps aiming to improve the sustainability of the pension system and to reform the taxation system.

[41] The Classification of the Functions of Government (COFOG) classifies government expenditure data from ESA by the purpose for which the funds are used.

SPAIN

Medium-term macroeconomic position. Real GDP decreased by 11.2% in 2020. After an expansion of 6.4% in 2021, real GDP grew by 5.8% in 2022 and by 2.5% in 2023. It is expected to grow by 2.1% in 2024 and 1.9% in 2025. Growth in 2024 is mainly driven by private consumption and, to a lesser extent, investment.

Medium-term budgetary position, including investment. The government deficit has been above 3% of GDP since 2020; it decreased from 6.7% in 2021 to 4.7% of GDP in 2022 and 3.6% in 2023. It is projected to further reduce to 3.0% and 2.8% of GDP in 2024 and 2025, respectively. Government investment slightly increased from 2.7% of GDP in 2021 to 2.8% and 3.0% in 2022 and 2023 respectively. It is projected to stand at 3.1% in both 2024 and 2025, being larger than the government deficit in the same years.

In 2023, according to the Commission estimates, the fiscal stance was broadly neutral, at -0.2% of GDP. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.3% of GDP and was in line with the Council recommendation. The contractionary contribution of nationally financed primary current expenditure was due to the reduced costs of the emergency support measures (targeted and untargeted) to households and firms in response to energy price hikes (by 0.6 percentage points of GDP). The main drivers of growth in nationally financed primary current expenditure (net of revenue measures) were social benefits other than in kind, driven by the revaluation of pensions, and intermediate consumption, driven by spending in defence. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.3% of GDP in 2023. Nationally financed investment amounted to 2.3% of GDP in 2023, with an annual increase of 0.1 percentage points. Spain financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, such as the digital toolkit, the PERTE for electric and connected vehicles, new vocation education and training places and investments in the area of green hydrogen, which are funded by the Recovery and Resilience Facility and other EU funds.

Based on the Commission's estimates, the fiscal stance is projected to be neutral at 0.0% of GDP in 2024. According to the Commission Spring 2024 Forecast, Spain's net nationally financed primary expenditure is projected to increase by 3.8% in 2024 , which is above the recommended maximum growth rate. This risks being not in line with what was recommended by the Council. According to the Commission Spring 2024 Forecast, the net budgetary cost of emergency energy support measures is estimated at 0.9% of GDP in 2023 and projected at 0.2% in 2024, and -0.1% in 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.7% of GDP in 2024, whereas net nationally financed primary expenditure provides a contractionary contribution to the fiscal stance of 0.3% of GDP in that year. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 2.4% of GDP in 2024 from 2.3% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 1.6% of GDP in 2024 (from 1.3% of GDP in 2023).

Debt challenges and medium-term debt position. Government debt decreased from 120.3% of GDP at the end of 2020 to 116.8% at the end of 2021 and to 111.6% in 2022. It further

decreased at the end of 2023 to 107.7% and it is projected to decline even more at the end of 2024 and 2025 (amounting to 105.5% and 104.8% of GDP respectively).

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would slightly decline before increasing again to 113% of GDP in 2034. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high likelihood that the debt ratio in 2028 will be higher than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the context of higher interest rates given the elevated level of public debt. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources featuring a well-diversified and large investor base and the very large share of debt denominated in euro. In addition, the 'closure clause' introduced by the 2023 pension reform, if fully implemented, would contribute to addressing emerging fiscal sustainability gaps related to public pension expenditure.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Spain is underway, however timely completion requires increased efforts.

Assessment under the macroeconomic imbalances procedure. Spain is no longer experiencing macroeconomic imbalances.

National budgetary framework. The Spanish Fiscal Council (AIReF) has a broad mandate and has quickly established itself as a trusted independent institution. National fiscal rules in Spain include the budget balance rule, the debt rule and the national expenditure rule. With the deactivation of the General Escape Clause at the end of 2023 and the recent adoption of new rules at EU level, Spain is currently in a transition phase with its national fiscal rules again being applied. In its national Recovery and Resilience Plan, Spain has committed to carry out spending reviews prepared by AIReF and to integrate them into the annual budgetary process.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.1% of GDP in 2022. Of this, government investment in defence represented 0.4% of GDP in 2022, which was 0.2 percentage points higher than in 2019.

Other factors put forward by the Member State. The analysis presented in the previous sections already covers the relevant factors put forward by Spain on 20 May 2024.

FRANCE

Medium-term macroeconomic position. Real GDP decreased by 7.5% in 2020. After an expansion of 6.4% in 2021, real GDP grew by 2.5% in 2022 and by 0.7% in 2023. It is expected to grow by 0.7% in 2024 and 1.3% in 2025. Growth in 2024 is set to be mainly driven by both private and public consumption.

Medium-term budgetary position, including investment. The government deficit has been above 3% of GDP since 2020; it decreased from 6.6% of GDP in 2021 to 4.8% of GDP in 2022, before increasing to 5.5% in 2023. It is projected to decline to 5.3% in 2024 and 5.0% of GDP in 2025. Government investment remained quite stable (slightly above 4% of GDP)

between 2020 to 2023. It is projected to amount to 4.3% of GDP in 2024 and to decline to 4.2% in 2025.

In 2023, according to the Commission estimates, the fiscal stance was contractionary, by 0.5% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.3% of GDP and was in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.4% of GDP in 2023. Nationally financed investment amounted to 4.1% of GDP in 2023, representing an increase of 0.1 percentage points as compared to 2022. France financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, such as for the development and industrial deployment of renewable and low-carbon hydrogen solutions, innovation projects in sustainable agricultural systems, recycled materials, innovative buildings, digitalisation and decarbonisation of mobility as well as investments for the thermal renovation of buildings, which are partly funded by the Recovery and Resilience Facility and other EU funds.

Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 1.1% of GDP in 2024. According to the Commission Spring 2024 Forecast, France's net nationally financed primary expenditure is projected to increase by 1.8% in 2024, which is below the recommended maximum growth rate. This is in line with what was recommended by the Council. According to the Commission Spring 2024 Forecast, the net budgetary cost of emergency energy support measures is estimated at 0.9% of GDP in 2023 and projected at 0.2% in 2024, and 0.0% in 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.6% of GDP in 2024, whereas net nationally financed primary expenditure provides a contractionary contribution to the fiscal stance of 1.0% of GDP in that year. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. Moreover, the related savings are projected to be fully used to reduce the government deficit. This is also in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to remain stable at 4.1% of GDP in 2024. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.4% of GDP in 2024.

Debt challenges and medium-term debt position. Government debt decreased from 113.0% of GDP at the end of 2021 to 111.9% at the end of 2022 and further to 110.6% at the end of 2023. It is projected to increase to 112.4% and to 113.8% at the end of 2024 and 2025, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise continuously to about 139% of GDP in 2034. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high likelihood that the debt ratio in 2028 will be higher than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the recent increase in interest rates, the share of short-term government debt, the expected increase in gross financing needs over the medium term and the contingent liability risks stemming from the private sector, including via the

possible materialisation of state guarantees granted to firms and self-employed during the COVID-19 crisis. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years and relatively stable financing sources (with a diversified and large investor base).

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of France is well underway.

Assessment under the macroeconomic imbalances procedure. France is no longer experiencing macroeconomic imbalances. In particular, policy action has helped in reducing vulnerabilities, which had cross-border relevance, related to competitiveness in a context of low productivity growth, but efforts need to continue, while vulnerabilities related to high public debt remain.

National budgetary framework. The High Council for Public Finance (HCPF) has a relatively narrow mandate, limited to issuing opinions on the plausibility of the macroeconomic and budget forecasts underlying the annual and multiannual budgetary documents and their consistency with the structural balance objectives. The French Constitution and accompanying laws introduced a balanced budget-rule in structural terms covering the general government and the balanced-budget rule for local governments. A medium-term budgetary strategy outlining the government's fiscal objectives and medium-term priorities over three to five years is also in place. In the past, the national budgetary objectives set over the medium-term have been revised or not met and the fiscal adjustment backloaded, weakening the link with annual budgets. At the same time, in its Recovery and Resilience Plan, France has committed to conduct spending reviews in connection to the annual budget.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.8% of GDP in 2022. Of this, government investment in defence represented 0.3% of GDP in 2022, remaining unchanged compared to 2019.

Other factors put forward by the Member State. On 22 May 2024, France provided additional relevant factors not already mentioned above, namely the low GDP elasticity of tax revenue and, to a lesser extent, the impact of the revision of the statistical base made by the French statistical institute.

ITALY

Medium-term macroeconomic position. After a contraction of 9.0% in 2020, real GDP grew by 8.3% in 2021, 4.0% in 2022 and 0.9% in 2023. Growth is expected to stand at 0.9% also in 2024 and to slightly increase to 1.1% in 2025. Growth in 2024 is set to be mainly driven by net exports and investment.

Medium-term budgetary position, including investment. The government deficit has been above 3% of GDP since 2020; it decreased from 8.7% in 2021 to 8.6% of GDP in 2022 and 7.4% in 2023. The 2020-2023 deficit figures include the deficit-increasing impact of housing renovation tax credits.[42] The government deficit is projected to decline to 4.4% of GDP in 2024 before slightly increasing to 4.7% of GDP in 2025. After increasing to 2.9% of GDP in 2021,

[42] See Eurostat (2023), *Advice on recording of 2023 Superbonus* IT+Advice+on+recording+of+2023+Superbonus.pdf (europa.eu).

government investment marginally decreased to 2.7% of GDP in 2022, before increasing to 3.2% in 2023, where it is projected to stay also in 2024. In 2025, it is expected to amount to 3.5% of GDP.

In 2023, according to the Commission estimates, the fiscal stance was slightly expansionary, by 0.3% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 1.0% of GDP and was in line with the Council recommendation. The contractionary contribution of nationally financed primary current expenditure was due to the reduced costs of the emergency support measures (targeted and untargeted) to households and firms in response to energy price hikes (by 1.4 percentage points of GDP). Pensions and cuts to the labour tax wedge were the main drivers of growth in nationally financed primary current expenditure (net of discretionary revenue measures). Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.8% of GDP in 2023. Nationally financed investment amounted to 2.9% of GDP in 2023, representing an increase of 0.3 percentage points as compared to 2022. Italy financed additional investment through the Recovery and Resilience Facility and other EU funds, including public investment for the green and digital transitions, and for energy security, such as the strengthening of smart grids, the construction of the "Tyrrhenian link", the development of rapid mass transport systems, the production of hydrogen in brownfield sites, fast internet connections and the digitisation of the public administration, which are partly funded by the Recovery and Resilience Facility and other EU funds

Based on the Commission's estimates, the fiscal stance is projected to be contractionary at 3.1% of GDP in 2024. According to the Commission Spring 2024 Forecast, Italy's net nationally financed primary expenditure is projected to decrease by 2.8% in 2024, which is below the recommended maximum growth rate. However, net expenditure in 2023 was higher than expected at the time of the recommendation (by 2.9% of GDP). Therefore, as the recommendation for 2024 was formulated as a growth rate, the assessment of compliance also needs to take into account the base effect from 2023. Had net expenditure in 2023 been the same as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would have been above the recommended growth rate by 0.9% of GDP. Therefore, net nationally financed primary expenditure is assessed as at risk of being not fully in line with the recommendation. According to the Commission Spring 2024 Forecast, the net budgetary cost of energy support measures is estimated at 1.0% of GDP in 2023 and projected at 0.0% in 2024. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 1.0% of GDP in 2024, whereas net nationally financed primary expenditure provides a contractionary contribution to the fiscal stance of 2.7% of GDP in that year. However, the latter is driven by the contractionary contribution of other capital expenditure of 3.2% of GDP, which is mainly related to the above-mentioned sharp reduction of subsidies related to tax credits for housing renovation in 2024. At the same time, the contribution of net nationally financed current primary expenditure to the fiscal stance, which is affected by the phase-out of current energy support measures, is projected to be expansionary by 0.4% of GDP, pointing to the full use of the 0.8% of GDP savings from those current energy support measures for expansionary policies increasing net current spending in 2024, including labour tax wedge cuts. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with what was recommended by the Council. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected at 2.8% of GDP in 2024 from 2.9% of GDP

in 2023[43] . This is in line with the Council recommendation. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to decrease to 0.8% of GDP in 2024 (from 1.2% of GDP in 2023), mainly in relation to ReactEU.

Debt challenges and medium-term debt position. Government debt decreased from 155.0% of GDP at the end of 2020 to 147.1% at the end of 2021, 140.5% in 2022 and 137.3% in 2023. It is then projected to increase to 138.6% and 141.7% of GDP at the end of 2024 and 2025 respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projections, the general government debt ratio increases continuously to about 168% of GDP in 2034. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high likelihood that the debt ratio would be higher in 2028 than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to the share of short-term government debt. On the other hand, risk-mitigating factors include the structure of the debt. In particular, the major share of government debt is still held by domestic lenders. Moreover, the fact that public debt is completely denominated in euro excludes currency risks. Italy's positive net international investment position further mitigates fiscal risks.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Italy is underway, however timely completion requires increased efforts.

Assessment under the macroeconomic imbalances procedure. Italy is experiencing macroeconomic imbalances, after being identified with excessive imbalances in 2023. In particular, Italy faces vulnerabilities related to high government debt and weak productivity growth in a context of labour market fragilities and some residual weaknesses in the financial sector, which have cross-border relevance.

National budgetary framework. The Italian Parliamentary Budget Office (PBO) has a broad mandate and represents an example of good practice among European independent fiscal institutions. The PBO stands in a continuous dialogue with the government. The Italian Constitution and accompanying laws introduced a balanced budget-rule in structural terms and a debt rule for the general government, an expenditure rule that applies to the general government and a regional balanced-budget rule. A medium-term budgetary strategy outlining the government's fiscal objectives and medium-term priorities over three years is also in place. At the same time, the annual budget is weakly anchored on the medium-term plan. In its national Recovery and Resilience Plan, Italy has committed to conduct yearly spending reviews over 2023-2025.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.3% of GDP in 2022.

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[43] When rounding at the first decimal, the difference of nationally financed public investment between 2024 and 2023 is 0.0.

Of this, government investment in defence represented 0.3% of GDP in 2022, remaining unchanged compared to 2019.

Other factors put forward by the Member State. The analysis presented in the previous sections already covers the relevant factors put forward by Italy on 17 May 2024.

HUNGARY

Medium-term macroeconomic position. Real GDP decreased by 4.5% in 2020. After an expansion of 7.1% in 2021, real GDP grew by 4.6% in 2022 and then contracted by 0.9% in 2023. It is expected to grow by 2.4% in 2024 and 3.5% in 2025. Growth in 2024 is set to be mainly driven by private consumption and investment.

Medium-term budgetary position, including investment. The government deficit has been above 3% of GDP since 2020; it decreased from 7.2% in 2021 to 6.2% of GDP in 2022, before rising again, to 6.7% of GDP, in 2023. It is projected to amount to 5.4% and 4.5% of GDP in 2024 and 2025, respectively. After increasing to 6.3% of GDP in 2021, government investment decreased to 5.4% of GDP in 2022 and 5.1% in 2023. It is projected to be at 4.6% of GDP in 2024 and 4.7% in 2025, thus being larger than the general government deficit in the latter year.

In 2023, according to the Commission estimates, the fiscal stance was contractionary, at 4.7% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 1.7% of GDP. The growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. However, it is important to note that this was largely driven by the very high level of net expenditure in 2022 compared to 2023, including untargeted expenditure in several areas, which contributed to macroeconomic imbalances, financed by windfall profit and sectoral taxes levied on companies mainly in the energy, financial and retail sectors. Nationally financed investment amounted to 4.6% of GDP in 2023, representing an increase of 0.2 percentage points as compared to 2022. Hungary financed public investment for the green and digital transitions, and for energy security, such as energy efficiency enhancements and digitalisation in healthcare and education. Hungary has not yet submitted a payment request under the Recovery and Resilience Facility.

Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 1.0% of GDP in 2024. According to the Commission Spring 2024 Forecast, Hungary's net nationally financed primary expenditure is projected to increase by 3.6% in 2024, which is below the recommended maximum growth rate. However, net expenditure in 2023 was higher than expected at the time of the recommendation (by 1.8% of GDP). Therefore, as the recommendation for 2024 was formulated as a growth rate, the assessment of compliance also needs to take into account the base effect from 2023. Had net expenditure in 2023 been the same as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would have been above the recommended growth rate by 1.5% of GDP. Therefore, net nationally financed primary expenditure is assessed as at risk of being not fully in line with the recommendation. According to the Commission Spring 2024 Forecast, the net budgetary cost of energy support measures is estimated at 1.6% of GDP in 2023 and projected at 0.9% in 2024 and 0.4% in 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.6% of GDP in 2024, whereas net nationally financed primary expenditure provides a contractionary contribution to the fiscal stance of 1.9% of GDP in that year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and

2024. This risks being not in line with what was recommended by the Council. However, the related savings are projected to be fully used to reduce the government deficit. This is in line with the Council recommendation. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to decrease to 4.0% of GDP in 2024 (from 4.6% of GDP in 2023). This is largely due to the cuts and postponements in nationally financed investment projects announced by the authorities in light of the high projected deficits. This risks being not in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 1.7% of GDP in 2024 from 0.8% of GDP in 2023. This increase is due to a projected pickup in the absorption of the EU cohesion policy funding from the 2020-2027 programming period and higher expenditure on investments supported by the Recovery and Resilience Facility.

Debt challenges and medium-term debt position. Government debt decreased from 79.3% of GDP at the end of 2020 to 76.7% at the end of 2021 and 74.1% at the end of 2022, further reducing to 73.5% in 2023. It is then projected to rise to 74.3% in 2024, before decreasing to 73.8% at the end of 2025.

Overall, the debt sustainability analysis indicates medium risks over the medium term. According to the baseline 10-year projections, the general government debt ratio would increase to around 78% of GDP in 2034. The debt trajectory is relatively sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a moderate probability that the debt ratio would be higher in 2028 than in 2023.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to the structure of public debt, particularly the major shares of both short-term government debt and government debt held in foreign currency. Contingent liability risks stemming from the banking sector, as well as Hungary's negative net international investment position, pose additional fiscal risks. On the other hand, risk-mitigating factors include the high share of domestically held government debt.

In addition, structural reforms and investments under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Hungary is significantly delayed, due to substantial challenges.

Assessment under the macroeconomic imbalances procedure. Hungary is experiencing macroeconomic imbalances. In particular, Hungary faces vulnerabilities related to price pressures and external and government financing needs, although an improving external environment has mitigated some short-term risks.

National budgetary framework. Hungary's independent fiscal institution (the Fiscal Council) is a relatively small organisation with a rather narrow mandate. It is currently not involved in the production of budgetary forecasts, costings of planned policy measures or ex-post evaluations of the macroeconomic forecasts. Hungary has several national fiscal rules, one rule limiting public debt and two balanced budget rules. The debt reduction rule puts an effective constraint on annual budgets but has certain procyclical features, as it restricts spending and allows for tax increases when growth and inflation are lower and vice versa. The multiannual balanced budget rule restricts the annual national budgets to a lesser extent, as the targets for the medium-term plans can be changed twice a year for all years covered under the plans. In its national Recovery and Resilience Plan, Hungary has committed itself to conduct spending

reviews as a way to increase the efficiency of public expenditure and find additional fiscal space to meet new spending pressures.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.4% of GDP in 2022. Of this, government investment in defence represented 0.3% of GDP in 2022, which was 0.1 percentage points higher than in 2019. According to preliminary estimates provided by Hungary, expenditure on defence is expected to have approached 2% of GDP in 2023.

Other factors put forward by the Member State. On 17 May 2024, Hungary provided an additional relevant factor not already mentioned above, namely that the primary balance improved significantly in 2023, including in structural terms.

5. CONCLUSIONS

The government deficit exceeded the reference value of 3% of GDP in 2023 in ten EU Member States: **Belgium**, **Czechia**, **Estonia**, **Spain**, **France**, **Italy**, **Hungary**, **Malta**, **Poland** and **Slovakia**. In all those Member States with the exception of Estonia, the government deficits were *above and not close* to the reference value in 2023.

For **Estonia**, the deficit was *above but close* to the reference value in 2023.

Finland had a government deficit *not exceeding* the reference value in 2023, but reported a planned deficit *above but close* to 3% of GDP in 2024; the Commission's forecast likewise projects a deficit above but close to 3% of GDP for 2024.

Slovenia had a government deficit *not exceeding* the Treaty reference value in 2023, but reported a planned deficit *above and not close* to 3% of GDP in 2024; as the Commission Spring 2024 Forecast projects the 2024 deficit below 3% of GDP, the planned breach of the reference value in 2024 in the sense of Article 126(3) TFEU is not confirmed for Slovenia.

According to the Commission's forecast, the government deficits in Belgium, Estonia, France, Italy, Hungary, Malta, Poland, and Slovakia are projected to exceed 3% of GDP in 2025. Therefore, the deficits in excess of the reference value are assessed to be *not temporary* for **Belgium**, **Estonia**, **France**, **Italy**, **Hungary**, **Malta**, **Poland**, and **Slovakia**. Differently, the government deficits in **Czechia**, **Spain**, **Slovenia** and **Finland** are presently projected not to exceed the reference value in 2025, and therefore the excess deficits are assessed as *temporary*.

The excess over the reference value is assessed as *exceptional* for **Estonia** and *not exceptional* **Czechia, Malta, Poland, Slovakia, Belgium, France, Italy, Hungary, Spain, Slovenia and Finland**.

In sum, this analysis suggests that the deficit criterion is not fulfilled by twelve Member States before the consideration of the relevant factors: **Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia** and **Finland**.

Relevant factors can be taken into account in the steps leading to the decision on the existence of an excessive deficit for Member States with government debt below 60% of GDP (**Czechia**, **Estonia**, **Malta**, **Poland** and **Slovakia**) and for Member States with government debt above 60% of GDP if the deficit remains close to the reference value and the excess over the reference value is temporary (**Slovenia** and **Finland**). They can affect the assessment of compliance with the deficit criterion as aggravating or mitigating factors, whereby substantial debt challenges are regarded as a key aggravating factor.

Overall, the relevant factors examined in this report are assessed as presenting a mixed picture for Malta, Poland and Finland. They are assessed as, on balance, mitigating for Czechia, Estonia and Slovenia, and aggravating for Slovakia.

For **Slovenia** and **Finland**, given the uncertainty attached to planned data as well as the fact that, according to the Commission's Spring 2024 Forecast, the planned breach of the reference value in 2024 is not confirmed for Slovenia, and the deficit is projected to remain close to the reference value in 2024 and fall below it in 2025 for Finland, the Commission will monitor budgetary developments carefully and re-assess the situation in autumn.

For **Czechia and Estonia**, taking into account the relevant factors brought forward by the Member State, the deficit criterion is assessed as being fulfilled.

For **Spain**, the budgetary deficit in excess of the reference value is temporary. Based on the Commission 2024 Spring Forecast, the deficit is projected to be below the reference value of in 2024 and 2025, without additional measures. As no additional fiscal adjustment will be required for Spain to bring its deficit below the reference value, initiating an excessive deficit procedure would not, at this stage, serve a useful purpose. The Commission will, in any case, continue monitoring budgetary developments in Spain and re-assess the situation in autumn.

In the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission intends to propose in July to open excessive deficit procedures, by proposing to the Council to adopt a Decision under Article 126(6) **establishing the existence of an excessive deficit, for Belgium, France, Italy, Hungary, Malta, Poland and Slovakia.**