

European Fiscal Board

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ABBREVIATIONS

Member States

BE	Belgium
BG	Bulgaria
CZ	Czechia
DK	Denmark
DE	Germany
EE	Estonia
IE	Ireland
EL	Greece
ES	Spain
FR	France
HR	Croatia
IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
HU	Hungary
MT	Malta
NL	Netherlands
AT	Austria
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
EA	Euro area
EU	European Union
EU-27	European Union, 27 Member States
EA-20	Euro area, 20 Member States

Other

CAPB	Cyclically-adjusted primary budget balance
C-SIFI	Country-specific scope index of independent fiscal institutions
CSR	Country-specific recommendation
DBP	Draft budgetary plan
DSA	Debt sustainability analysis
EB	Expenditure Benchmark
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EDP	Excessive deficit procedure
EFB	European Fiscal Board
EMU	Economic and monetary union
ERM II	European exchange rate mechanism
ESM	European Stability Mechanism
GDP	Gross domestic product
HICP	Harmonised Index of Consumer Prices

IFIs	Independent fiscal institutions
IMF	International Monetary Fund
MTFSP	Medium-term fiscal-structural plan
MTO	Medium-term budgetary objective
NGEU	Next Generation EU
OECD	Organisation for Economic Co-operation and Development
PFC	Polish Fiscal Council
RRF	Recovery and resilience facility
RT	Reference Trajectory
SB	Structural budget balance
SCPs	Stability and convergence programmes
SGP	Stability and Growth Pact
SPB	Structural primary budget balance
VAT	Value-added tax
TFEU	Treaty on the Functioning of the European Union

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FOREWORD



Pieter Hasekamp

Chair of the European Fiscal Board (EFB)

The EU fiscal framework is going through an important period of transition, with clear implications for the work of independent assessors including the EFB. Following long and difficult negotiations marked by divisions across Member States, at the end of 2023 the EU legislators finally converged on a major reform of the rules and procedures that govern national fiscal policy making in the Economic and Monetary Union (EMU). Crucially, the agreement included the determination to roll-out the new rules as quickly as possible in the course of 2024 so as to run and monitor national fiscal policies under the new framework from 2025 onwards.

Although revisions have become an integral part of the EU fiscal framework – since inception, the Stability and Growth Pact (SGP) has, on average, been amended every five years – the latest legislative reform is objectively different. The European Commission, which normally tends to avoid superlatives in its communication, described it as “*the most ambitious and comprehensive reform of the EU’s economic governance rules since the aftermath of the economic and financial crisis.*”⁽¹⁾

⁽¹⁾ Commission Communication (2024)705 of 26 November 2024: 2025 European Semester - bringing the new economic governance framework to life ([COM/2024/705 final](#))

And indeed, this characterisation does not overstate the scope and scale of the reform. The new rules amount to a fundamental revision of EU fiscal governance. While previous amendments largely aimed to clarify, tighten and complement existing provisions, the new rules clearly amount to a completely new start.

This year’s annual report of the EFB - the first under the new Board – accounts for the ongoing regime shift in EU fiscal surveillance. It offers a balanced combination of established and new, back and forward-looking elements of independent assessment. Like in the past, the report looks back to the last complete assessment cycle – the one for 2024 - which this time round also coincides with the year in which the EU launched the planning phase of the reformed framework. Unlike in the past, the annual report also offers an independent assessment of policy documents and decisions that will shape national fiscal policymaking in the EU Member States in the coming years, notably the first vintage of medium-term fiscal structural plans (MTFSPs) and the ensuing EU recommendations under the new set of rules.

Committed to the key objective of all independent assessors - to enhance accountability by fostering transparency - our annual report throws light on the vast and intricate space of EU fiscal policymaking and surveillance and systematically reviews the way commonly agreed rules are being applied or interpreted. This is particularly relevant at the current juncture where decisionmakers are confronted with the weighty challenge of making good on the promise to strengthen the effectiveness of the EU fiscal framework while facing growing pressures on the public purse in a radically different geopolitical context.

KEY MESSAGES

- The year 2024 marked a significant change in EU fiscal governance. After long and difficult negotiations, the latest reform of the EU fiscal framework entered into force in April.
- In 2024, the EU's and euro-area's budget balance improved by much less than the scheduled phase-out of remaining energy support measures. This took place against the backdrop of record low rates of unemployment and higher-than-planned revenues. Instead of consolidating, several Member States used revenue windfalls to expand current spending. Taking into account economic conditions in 2024, a tighter fiscal impulse for the euro area would have been appropriate, as recommended by the EFB back in June 2023.
- In 2024, national budgetary policies were formally still guided by the 'old' Stability and Growth Pact (SGP), but the EU stopped monitoring implementation in spring 2024, shifting attention to the roll-out of the new fiscal framework. This gave rise to a surveillance gap and deviations from Council recommendations carried no procedural consequences.
- The reformed fiscal framework was rolled out on a very compressed calendar. The European and the national semester, which normally follow in sequence, were effectively merged. Many countries delayed their submissions until late 2024 or even into 2025, disrupting the surveillance process and complicating cross-country comparability.
- The Commission did not publish separate country reports assessing the first vintage of the medium-term fiscal structural plans (MTFSPs) submitted by Member States. Returning to previous practice is advisable.
- Under the new framework, the Commission's prior guidance remains confidential until Member States present their plans. This approach leaves some stakeholders, including independent fiscal institutions, in the dark for months about the Commission's reference scenarios derived from the debt sustainability analysis.
- Preparations of the MTFSPs involved a series of bilateral interactions between national governments and the Commission. The EFB is concerned that the way this process is conducted undermines the multilateral nature of EU fiscal governance and weighs on the transparency and predictability of the revised framework.
- Several MTFSPs rely on medium-term macroeconomic and fiscal assumptions that are markedly more optimistic than the Commission's prior guidance. The Commission and the Council did not challenge these deviations. This approach diminishes the role of the Commission forecast as a benchmark in EU fiscal surveillance and comes with the risk of predicating medium-term fiscal plans on cyclical elements.
- Despite earlier calls/assurances to keep the excessive deficit procedure (EDP) unchanged, the Commission and the Council resorted to new forms of discretion in 2024/25 - splitting legal steps, modifying recommendations, and postponing or avoiding the opening of procedures. Also, the established hierarchy of the corrective and preventive arm was inverted weakening the credibility of the Treaty-based corrective mechanism of the SGP. A timely opening of EDPs regardless of the timing of Council recommendations on national MTFSPs is warranted.
- Few national governments involved the national independent fiscal institutions (IFIs) in preparing the first vintage of national MTFSPs. Nevertheless, many IFIs still published assessments, often highlighting risks, data gaps, or overly optimistic assumptions. Their limited official role weakened transparency and external checks in a critical transition period. A stronger and formal involvement of IFIs would enhance the credibility of the process.

EXECUTIVE SUMMARY

The 2024 surveillance cycle

Economic activity picked up in 2024 but fell short of initial expectations. The EU and euro area economy grew at 1.1% and 0.9%, respectively but heightened economic uncertainty over ongoing wars and the residual impact of past shocks limited growth. Public spending contributed very significantly to aggregate output, especially Germany, Spain and France, while total investment contracted slightly (see Section 1.1). Labour markets remained strong, with unemployment hitting a new record low. Looking at the real economy, the manufacturing sector struggled to gain momentum, which hampered growth in some of the euro area's large economies. Good progress was made in bringing down inflation with headline inflation falling by 3 percentage points to 2.4% in 2024 as energy prices stabilised.

Aggregate budget deficits fell only slightly in spite of revenue windfalls. Albeit positive at first sight, the improvement in headline numbers in 2024 masks a problematic pattern observed in the past. Governments did not use revenue windfalls and the phasing out of remaining energy support measures to reduce the imbalances built up during the Covid pandemic. Instead, they were used to further increase current discretionary spending. This is clearly confirmed by multiple results. First, the improvement in the primary budget balance is smaller than the energy measures Member States withdrew in 2024. Second, underlying net expenditure growth (net of discretionary revenue measures) accelerated again markedly on the previous year (see Section 1.2).

In early 2023, announcements that the EU would return to 'normal' fiscal surveillance coincided with efforts to reform the EU fiscal framework. After four years of effectively suspending the EU fiscal rules under the severe economic downturn clause, in spring 2023 the Commission and the Council aimed to return to quantitative fiscal guidance in 2024. However, some Member States were hesitant to apply the old rules due to concerns over strict fiscal adjustments, especially the requirement introduced in 2011 to bring down the debt ratio. When the Commission presented a fully-fledged legislative reform proposal in April 2023, it encouraged EU

legislators to reach an agreement by the end of the year to be able plan national fiscal policies for 2025 and beyond in the course of 2024. The double objective of returning to a rules-based system while pushing for a reform of the common fiscal rules weighed on an effective implementation of the Stability and Growth Pact (SGP) in 2024. Fiscal policies for 2024 were planned and implemented under the old framework, but deviations from recommendations were not documented and remained inconsequential (see Section 2.1).

The Council did not endorse the Commission's proposal to front-load aspects of the prospective reform. In May 2023, when presenting the annual European semester surveillance package, the Commission tabled draft fiscal recommendations that included parts of its DSA methodology – which was at the heart of its reform proposal of the EU fiscal framework. In particular, the Commission recommendations focused exclusively on net expenditure growth – the indicator meant to replace all other measures under the reform proposal. However, the Council did not endorse the Commission's strategy. It insisted on adding adjustment requirements based on the at the time still valid rules, i.e. expressed in terms of the structural budget balance whenever the country-specific medium-term budgetary objectives (MTO) had not been achieved yet complemented (see Section 2.1).

National fiscal plans conveyed new levels of ambition, but the Commission's assessment fell short of pre-pandemic practice. The stability and convergence programmes (SCPs) of April 2023, showed, on aggregate, a new level of ambition on the part of the EU Member States to edge fiscal positions towards the country-specific medium-term objectives and, where needed, to push government deficits below 3% of GDP. However, continuing the practice introduced in 2021, the Commission did not publish country-specific assessment notes of the SCPs. In addition, departing from established practice rooted in EU law, the Commission did not issue overall conclusions on potential compliance risks. It limited the analysis to a fairly short description of national plans (see Section 2.1).

The EU fiscal guidance for 2024 allowed Member States to consolidate by phasing out temporary measures.

The fiscal recommendations adopted by the Council in July 2023 asked Member States to improve the structural budget balances by on average 0.5% of GDP – the benchmark figure under current EU fiscal rules. Governments that had already achieved their medium-term budgetary objectives were advised to maintain a prudent fiscal stance. All Member States were encouraged to phase out energy support measures (at the time estimated at more than 1% of GDP) and to use the resulting savings to bring down the deficit. Initially, it was unclear how these recommendations would be monitored. In autumn 2023, the Commission clarified its assessment method in its opinions on the draft budgetary plans. It allowed countries to meet the recommended adjustment by reducing their energy support measures (see Section 2.1).

Once the new EU fiscal framework had been agreed, fiscal requirements for 2024 moved into the background.

By late 2023, EU lawmakers had finalised negotiations on a new fiscal framework and decided to implement the reform immediately. Member States were asked to prepare their medium-term fiscal structural plans (MTFSP) in 2024 for 2025 and beyond. This decision created additional ambiguity for stakeholders about how previous fiscal recommendations for 2024 would be applied. The Commission's spring surveillance package typically includes a final evaluation of national fiscal policies of the previous year against the Council recommendations issued earlier. However, the 2025 package did not provide any assessment of compliance. Although data for a comprehensive evaluation of 2024 were available and fiscal outturns diverged from Council recommendations, the Commission did not publicly acknowledge any deviations (see Section 2.1).⁽²⁾

Looking back, in 2024 underlying net expenditure accelerated beyond sustainable rates in many Member States.

A detailed analysis of expenditure trends in 2024 - abstracting from formal compliance with prevailing rules – suggests that, at first glance, net expenditure growth was slowing. Nevertheless, the growth rate of underlying net expenditure, i.e. excluding the

phasing-out of temporary energy measures, exceeded the available estimates of medium-term potential output growth. Countries with debt levels below 60% of GDP and between 60% and 90% of GDP significantly increased their underlying net expenditure compared to previous years. With the exception of Italy, even countries with debt above 90% of GDP kept underlying net expenditure growth above estimates of sustainable rates.⁽³⁾ Across all groups of countries, social payments were the main cause of higher net spending growth. Increases in public sector wages also drove spending in countries with low levels of debt (see Section 2.2).

A tighter fiscal impulse for the euro area would have been appropriate in 2024, as recommended by the EFB.

While the improvement in the structural primary balance of the euro area in 2024 exceeded the guidance issued by the Commission, it did not result from dedicated adjustment measures, on the contrary. The improvement of around 3/4% of GDP was roughly equal to the scheduled phasing out of remaining temporary energy support measures. (see Section 4.2). In substance, this means that Member States used higher-than-expected revenues to finance new current expenditure. As a result, the level of fiscal support in the euro area stayed unusually high by historical standards. The EFB's recommendation for 2024 advised against this course of action. Across Member States, very-high-debt countries – excluding Italy – could have pursued tighter fiscal policies, as they delivered a broadly neutral impulse.

The new fiscal framework and the first vintage of medium-term fiscal structural plans

The phasing-in of the new fiscal framework followed a very compressed calendar.

The political agreement on the reform of the EU fiscal framework was reached at the eleventh hour, right at the end of 2023. It included the understanding that the reform would be phased in as quickly as possible to make sure national fiscal policies would be implemented under the new rules as of 2025. As a result, the planning phase was launched right after the new framework entered into force in April

⁽²⁾ Following the submission deadline of end April, the old preventive arm Regulation 1466/97 gave the Commission 3 months to assess the Stability and Convergence Programmes.

⁽³⁾ Italy was an exception, due to an earlier re-classification of its superbonus scheme in national accounting. The re-classification shifted the bulk of the budgetary impact to past years correspondingly calming the effect on net expenditure in 2024, although the government continues to raise new debt to finance the impact of the scheme.

2024 and followed a very tight calendar. Under normal circumstances, coordinating, planning and implementing national fiscal policies follow a well-structured sequence that starts with the European Semester in the first half of each year, when the EU issues guidance for national authorities. This is followed by the ‘national semester’, when countries go through their national process of planning and adopting the budget, ideally within the perimeters set in the Council recommendations. In 2024, the European Semester and the national semester were effectively merged with all the obvious complications. The Commission guidance and Member State preparations for the new medium-term fiscal structural plans (MTFSPs) largely overlapped including preparations for the 2025 draft budgetary plans. The draft budgetary plans were assessed alongside, and in some cases even before countries had submitted the MTFSP. Of note, the previous SGP reforms in 2011-13 were seamlessly phased in without compressing the normal surveillance calendar (see Section 2.3).

The phasing-in of the new rules was complicated by delays in submitting the MTFSPs. Only two Member States had submitted their MTFSP by the formal deadline set in the transition provision of the new EU fiscal rules, i.e. 20 September 2024. The remaining countries asked for an extension mostly due to a scheduled benchmark revision of national accounts to be published in October 2024. Based on prevailing expectations, the revision entailed an upward revision of GDP for most EU Member States, i.e. a better starting position for medium term planning. As a result, the adoption of fiscal recommendations by the Council slipped to the end of January 2025, around half a year later than the normal calendar set in the new rules. Member States who had undergone, were undergoing or expected to undergo changes in government delayed the submission of their MTFSP well into 2025 (see Section 2.3).

Compared to the old rules, key parts of the planning phase under the new framework lack transparency and predictability. The new EU fiscal framework encompasses a multiple of significant changes compared to the old SGP. One particularly visible innovation concerns the moment the Commission recommendations are made public. Under the previous rules, the Commission would publish proposals of how much Member States were expected to adjust their public finances at the time of adoption. Under the

new rules, the Commission prior guidance is only shared with the national governments and the ECB and revealed when national authorities submit their plans. Since several months can and actually did intervene between the two events, stakeholders such as independent fiscal institutions are left in the dark for a considerable amount of time about the direction of national fiscal policies. Confidentiality around the Commission’s prior guidance was hard-wired into the new fiscal rules following firm pressure from some Member States who argued that early publication of the Commission proposal would undermine the ownership of MTFSPs (see Section 2.3).

The emphasis on national ownership can clash with the need for a swift and even-handed implementation of the new rules. One of the pillars of the new EU fiscal framework is national ownership. Stronger involvement of national authorities in all phases of the surveillance cycle, starting with the formulation of a sustainable path for public finances, is designed to strengthen the buy-in of Member States and ultimately to improve compliance with the new rules. Although sound as an ambition, this goal can clash with prompt and consistent implementation. The new rules explicitly allow countries to have the deadline to submit a MTFSP extended ‘by a reasonable period’. For Germany this period lasted almost over eight months. Setting a difficult precedent, the Commission chose not to make use of a provision whereby in the absence of a national plan or a plan that clashes with the legal requirements, it can recommend its prior guidance (see Section 2.3). An alternative course of action would have been to use the Commission’s reference trajectory and then to possibly update recommendations once a plan is available. Although in different circumstances, this is the action the Commission took for the Netherlands.

The Commission and the Council took a forbearing approach in assessing the MTFSPs. In many cases, the medium-term plans submitted by Member States are predicated on macroeconomic and fiscal assumptions that significantly depart from those put forward in the Commission's prior guidance. One, although not the only, recurring explanation given by the national authorities was the availability of more recent data, typically involving more favourable estimates of the starting position of both economic activity and the fiscal situation. Although the reformed SGP only allows for deviations based on

‘*sound and data-driven arguments*’, the Commission did not question the arguments put forward by the Member States to explain the differences even if the explanations were not particularly detailed or convincing (see Section 2.3). This approach comes with several potential downsides. First, predicating fiscal plans on more optimistic macroeconomic projections, such as using high frequency data involves the risk of building medium-term expenditure trajectories on assumptions that include pro-cyclical developments.⁽⁴⁾ Second, the Commission forecast underpinning its guidance loses its established status as the main benchmark in EU surveillance. This amounts to progressive decentralisation of the process through which fiscal requirements are set. Third, in combination with a staggered timeline for submitting plans, allowing Member States to build their medium-term plans on the latest data affects comparability and consistency across countries.

The new rules contain less operational detail, leave more space for discretion and foster bilateralism. Compared to the previous version, the EU regulation underpinning the preventive arm of the SGP contains much less operational detail. It does not specify many of the details needed for implementation. This reflects the preference of the Commission and some Member States who, during the reform debate, consistently lamented the ‘curse of the complete contract’, which, in their view, undermined the effectiveness of the old rules, i.e. the tedious but ultimately vain attempt to codify in advance all relevant contingencies and how to react to them under a rules-based system. The old rules were complemented by a detailed Code of Conduct between the Commission and the Council, agreed and made public swiftly following the adoption of the six- and thereafter the two-pack reforms. This agreement on how to interpret certain provisions of the SGP was designed to ensure predictability and an even-handed application of the rules. Attempts to draw-up a similar Code of Conduct for the new set of rules has turned out to be more difficult. The Commission has insisted that it was not possible to codify all relevant cases, and a group of Member States has emphasised the importance of predictability in applying the new rules (see Section 2.3).

⁽⁴⁾ For instance, if the expenditure trajectory is agreed when cyclical conditions are favourable, sticking to the expenditure path would mean that fiscal outturns in terms of deficit and debt may turn out worse than expected.

Contrary to previous declarations, phasing in the new rules affected the standing of the excessive deficit procedure. Well ahead of the formal agreement on the latest reform of the EU fiscal framework, and shortly before the Commission tabled a legislative proposal on how to overhaul the common fiscal rules in April 2023, there was broad agreement that the Treaty-based procedure to correct ‘gross policy errors’ – the excessive deficit procedure (EDP) – should remain unchanged. Both the Commission and the Council issued declarations to that effect at the end of 2022 and early 2023, respectively. A year later, when assessing EDPs based on 2023 outturns, the Commission took a number of unprecedented decisions, which effectively inverted the well-established and legally grounded hierarchy between the corrective and preventive arm of the SGP (see Section 2.4). It first decided to split the diagnosis of an excessive deficit and the recommendation on how to correct it, when EU law explicitly states that the two steps should be taken in lockstep. Secondly, once adopted, countries including Belgium, France, and Hungary had their EDP recommendations adjusted within a few months to align them with the recommendations made under the preventive arm.

New forms of discretion were used to delay or decide not to open EDPs. Although excessive deficit procedures were proposed again in 2024, after a four-year hiatus, in some cases the Commission and the Council decided to postpone the launch of the procedure even though the conditions were clearly met. The most remarkable case was Austria, where the Commission 2024 autumn forecast indicated a significant and lasting breach of the 3% of GDP reference value of the government deficit. Rather than following the script outlined in the Treaty, the Commission held bilateral discussions with successive combinations of political parties engaged in forming a government. The EDP was finally launched more than half a year later, in mid-2025 when the fiscal situation had significantly worsened. Of note is also the use of a new form of discretion when deciding not to open an EDP applied for the first time for Spain in 2024. Although, based on EU law and past practice, the fiscal situation and outlook would have been consistent with an EDP, the Commission concluded that an EDP *would not serve a useful purpose* (see Section 2.4). The decision not to open EDPs or delay EDP recommendations clearly clashes with the Commission’s stated intention and the

Council's earlier plea to keep the corrective arm unchanged in the reform of the economic governance framework.

Independent fiscal institutions (IFIs) and budgetary frameworks

Transparency during the roll-out of the reform could have been improved by a stronger formal involvement of IFIs. The new rules assign a limited role to IFIs in shaping MTFSPs: independent assessment of the underlying macroeconomic forecasts will not be mandatory until 2032. In the first vintage of plans, around half of the EU IFIs were not involved in drawing up MTFSPs; neither was the EFB. Thanks also to national practices linked to the two-pack regulation, euro area IFIs generally either independently prepared or endorsed the macroeconomic forecasts. As regards assessments released following the submission of the MTFSPs, several IFIs published specific opinions on their own initiative; most expressed their views as part of their regular reporting.

The assessment reports of national IFIs generally included caveats about the plausibility and completeness of MTFSPs. While all endorsements issued by IFIs were eventually positive, some of the accompanying reports raised major qualifications and reservations by emphasising specific downside risks to the macroeconomic scenario (see Section 3.1). Several IFIs also indicated a number of missing pieces of information and data that hindered a complete plausibility evaluation. The published *ex post* assessments had a broader coverage, typically including critical points, such as concerns about the substantiation of fiscal consolidation plans and of reforms and investments underpinning the requests to extend the adjustment period.

The grid of independent budgetary oversight bodies in the EU has recently been completed by the arrival of the Polish Fiscal Council. Until recently, Poland was the only EU country that lacked a fully-fledged IFI. Responding to the 2024 economic governance reforms extending the requirement to have an IFI in all EU countries, Poland adopted a law on its new fiscal council, which is set to begin operations in 2026. The grounding provisions governing the institutional set-up, leadership appointments, mandate, and resources seem to be broadly in line with international good practice and with EU requirements (see Section 3.2). Nevertheless, the management of the first Board will have a crucial role in building the reputation of the new body, both by instilling in the institution a high degree of independence and by issuing high-quality analysis.

Conclusions

The transition to the new surveillance framework supports a number of lessons. The rollout of the 2024 reform was rushed and fragmented, with delayed national submissions, persisting ambiguity about implementation details and departures from the comprehensive Commission assessments. Instead of the multilateral scrutiny as envisaged by the Treaty, the process was dominated by confidential bilateral exchanges, which paved the way to some leniency towards optimistic national medium-term assumptions compared to the Commission prior guidance. Furthermore, new types of discretion were applied in the excessive deficit procedure. The overall limited involvement of independent fiscal institutions eroded external checks. Together, these steps and actions reduced transparency and predictability. Going forward, these concerns and risks should be addressed to bring out the genuine improvements embedded in the new design of EU fiscal surveillance.

1. MAIN MACROECONOMIC AND FISCAL DEVELOPMENTS IN 2024

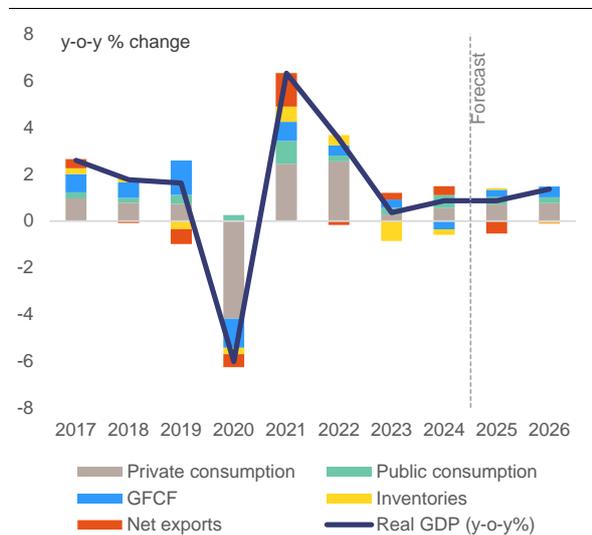
Highlights

- Economic activity accelerated in 2024 as macroeconomic conditions turned more favourable, but a volatile and uncertain international environment and lingering effects of past shocks weighed on stronger growth.
- In real terms, the EU grew at 1.1% and the euro area at 0.9%. Despite nearly doubling on the previous year, real GDP growth fell somewhat short of expectations.
- Consumption, both private and public, was the main growth driver. The private component was expected as receding inflation improved households purchasing power. The increase in public consumption was the second largest since 2000, with only pandemic-induced spending in 2021 contributing more to economic growth.
- The exceptional expansion of government expenditure, mainly driven by the non-cyclical component, took place in a moment when the EU decided to transition to a new fiscal framework and attention moved to fiscal plans for 2025 and beyond, away from current budgetary implementation.
- Economic activity across sectors was uneven in 2024. Manufacturing remained on a weak footing, showing no signs of recovery, and gross value added of agriculture declined. Overall economic growth was exclusively driven by an expansion of services including those of the public sector.
- The disinflationary process was well on track. Following years of high inflation, the annual increase of the headline HICP averaged 2.4% in the euro area in 2024, down from 5.4% one year earlier.
- Labour markets remained resilient but showed signs of possible easing. Unemployment reached a new historic low, while vacancy rates remained high yet at a declining pace.
- In 2024, governments slightly improved their overall fiscal balances thanks to improving economic conditions and the phasing out of temporary support measures. The budget deficit declined from 3.5% of GDP in 2023 to 3.2% and to 3.1% of GDP in the EU and the euro area respectively.
- While headline deficits decreased year-on-year, outturns fell short of forecasts. Deviations resulted from a significant acceleration of expenditure and somewhat lower-than-anticipated nominal GDP growth, despite strong revenue growth. Revenue windfalls and the phasing out of temporary support measures were not used to reduce fiscal imbalances.
- The aggregate government debt ratio in the EU crept up to 82.2% of GDP, while staying constant for the euro area. Although improving, significant primary deficits marginally outweighed the debt decreasing effect of economic growth exceeding interest rates.
- Short-term fiscal sustainability risks were classified as low across most Member States with the exception of Latvia, Romania and Slovakia. Over the medium and long term, the risks were assessed as high for several countries, with the number of countries with high-risk classifications increasing.

1.1. MAIN MACROECONOMIC DEVELOPMENTS IN 2024

Amid growing geopolitical tensions and uncertainty, the EU economy managed to stage a modest rebound in 2024. Starting from low levels, average annual real GDP growth nearly doubled in the EU and the euro area but fell slightly short of forecasts. The ongoing war in Ukraine and tensions in the Middle East fuelled uncertainty and threatened European energy security, weighing on the strength of the economic recovery. Overall, real GDP increased by 1.1% and 0.9% in the EU and the euro area respectively.

Graph 1.1: Real GDP growth and its components, euro area



Note: GFCF: gross fixed capital formation

Source: European Commission 2025 spring forecast

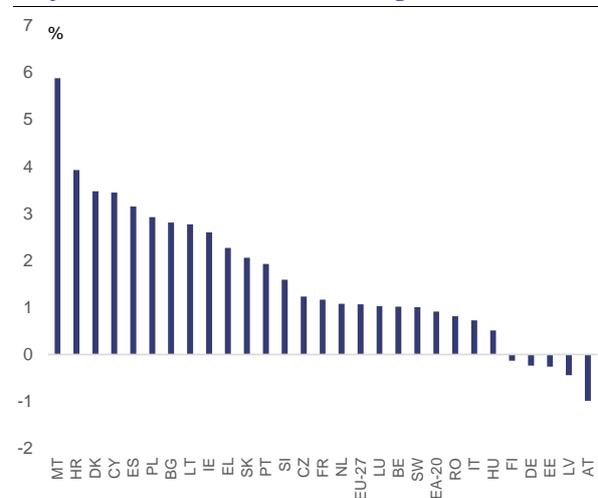
Private and public consumption were the main economic drivers in 2024 in the euro area, with the contribution of public consumption being particularly high (Graph 1.1). Strong nominal wage growth combined with declining inflation rates, improved real disposable incomes of households, which had suffered from a high inflationary environment in the previous years. Household savings, however, remained on the conservative side, increasing by one percentage point to 15% of household income.

The contribution of current government expenditure to real GDP growth in the euro area virtually doubled, from 0.3 percentage points in 2023 to 0.6 percentage points in 2024. Government expenditure accounted for nearly two-thirds of real GDP growth making 2024 one

of the strongest years of public support outside the pandemic. This development coincided with a series of elections across the EU, as well as a time in which the EU transitioned to new fiscal surveillance rules and attention moved to fiscal plans for 2025, away from current budgetary developments (see Chapter 2). Member States which recorded significant contributions of public consumption included Germany, Spain and France. Total investments contracted slightly in 2024 in view of past monetary tightening, muted confidence and delays in the implementation of the Recovery and Resilience Facility (RRF). Mild trade surpluses supported the economic recovery.

Despite some variation, most Member States reported positive real GDP growth (Graph 1.2). Among the four largest economies, Spain, France and Italy grew close to or above their long-term averages.⁽⁵⁾ Germany, by contrast, the union's largest economy, struggled to gain momentum, slightly contracting for a second year in a row, as the contribution of the country's trade balance turned negative and that of investment further contracted, outweighing the positive impact from consumption.

Graph 1.2: Member State's real GDP growth rate, 2024



Source: European Commission

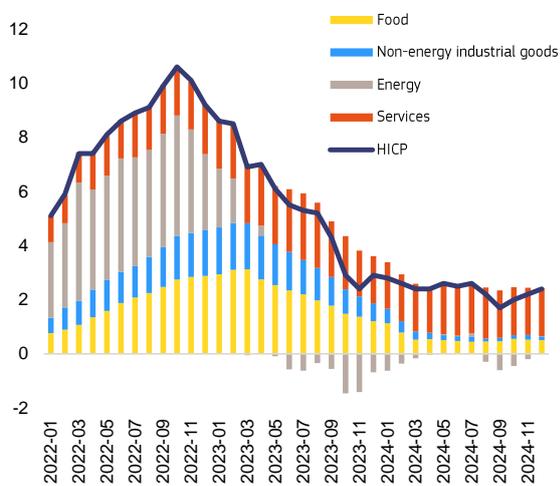
Economic activity varied substantially across sectors. In terms of the conventional subdivision, only services, especially public services, contributed to economic growth. Industry continued to weigh on the aggregate level of economic activity, albeit to a lesser degree than in 2023. The contribution of agriculture to overall economic growth turned

⁽⁵⁾ Average calculated from 2000-2024.

slightly negative. Germany was a particular case in point, as continued weakness of its manufacturing sector weighed on overall growth.

Inflation decelerated across the euro area edging closer the European Central Bank's (ECB) inflation target. ⁽⁶⁾ Headline inflation stood at 2.8% at the start of the year and inched down to 2.4% by end-2024, primarily due to negative energy inflation and disinflation in the food component (Graph 1.3). Core inflation, however, remained comparatively elevated at 2.9%, well above its long-term average, on account of persistent services inflation. After two years of monetary tightening, the ECB started to ease its main policy rates in June 2024.

Graph 1.3: Contributions to HICP inflation, euro area



Source: European Commission

Labour markets remained strong. Supported by the economic recovery, unemployment reached a new, historic low in the final quarter of 2024 at 6.2% (Graph 1.4). Productivity rates picked up marginally and vacancy rates remained high, above pre-pandemic levels, but started to decline. Employment growth rates also decelerated slightly while survey-based indicators of employment expectations continued to follow a downward trajectory, pointing towards possible easing of the labour market.

⁽⁶⁾ The ECB's Governing Council aims for 2% inflation over the medium term, referred to as the inflation target.

Graph 1.4: Beveridge Curve, euro area



Note: The Beveridge curve depicts the relationship between the vacancy rate and unemployment rate.

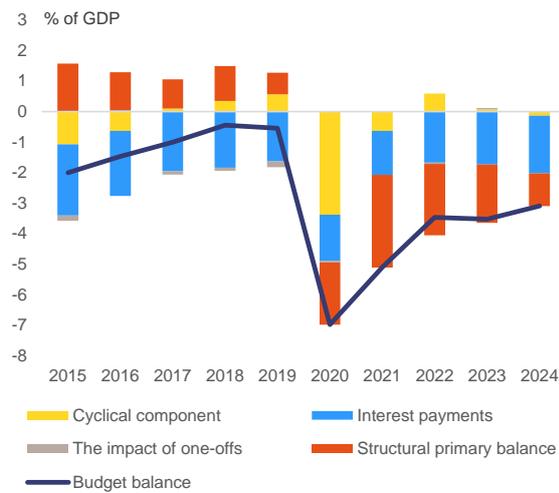
Source: European Commission

1.2 MAIN BUDGETARY DEVELOPMENTS IN 2024

Following no improvement in 2023, the aggregate budget deficit declined somewhat in 2024 in both the euro area and the EU. As governments completed the phasing out of temporary fiscal support measures and economic activity picked up, the euro area and the EU recorded a deficit of 3.1% and of 3.2% of GDP, respectively (Graph 1.5). However, the improvement of the headline balance on the previous year was small compared to the 0.8% of GDP estimate of energy support measures that Member States withdrew during the year. ⁽⁷⁾

⁽⁷⁾ The estimates of remaining energy support measures in the euro area have changed significantly over time. In the course of 2023, the Commission saw them at 1¼% of GDP, while the latest available assessment puts them at less than 1% of GDP. The estimates are produced by Commission services based on Member States data.

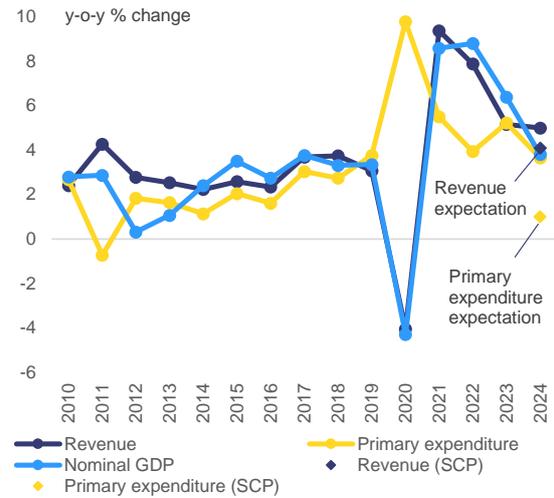
Graph 1.5: Government budget balance and its components, euro area



Source: European Commission

The breakdown of budgetary aggregates reveals an unfortunate pattern observed in the past. While government revenues grew at a fairly steady pace year-on-year, overshooting expectations by 0.9 percentage points, primary expenditure surpassed fiscal plans by a significant margin, growing above pre-pandemic averages (Graph 1.6). As a result, overall outturns surprised to the downside (see Table 1.2). Headline deficits in 2024 came in higher than anticipated in the 2023 stability and convergence programmes by around 0.5 and 0.7 percentage points for the euro area and the EU, when governments continued to phase out temporary support measures. In sum and substance, revenue windfalls and the phasing out of energy support measures were used to finance new non-cyclical expenditure.

Graph 1.6: Government revenue, primary expenditure and GDP, euro area



Sources: European Commission, 2023 stability and convergence programmes (SCPs)

More specifically, primary government expenditure surpassed predictions by 2.7 percentage points for the euro area, for two interlinked reasons: (i) new discretionary measures taken ahead of national elections or for other reasons; and (ii) not using the phasing out of temporary support measures for deficit reduction (see Section 2.2).

The government debt-to-GDP ratio remained essentially unchanged, with EU debt ratios increasing by 0.1 percentage points to 82.2% of GDP in 2024, while euro-area debt stood stable at 88.9% of GDP (Graph 1.7). The persistently high, although improving primary deficit, incrementally surpassed the debt-reducing effects of a still negative $r-g$ differential. ⁽⁸⁾

⁽⁸⁾ When nominal GDP growth exceeds the average interest on government debt, the debt ratio can still decline depending on the size of the primary deficit in % of GDP.

Based on established Commission methodology, the short- and the medium-term outlook for fiscal sustainability was less favourable compared with last year's Commission assessment. Comparing time horizons across this year's assessment, fiscal sustainability risks are higher in the medium and long term, with 40% of countries classified as having high fiscal sustainability risks in the medium term and more than half the countries either having elevated or high risk levels in the long term (Table 1.1). Long-term risks stem primarily from increased ageing costs and unfavourable initial budgetary positions, as measured by the structural primary budget balance.

Table 1.1: Fiscal sustainability risks by EU Member State

	short-term	medium-term	long-term
BE	LOW	HIGH	HIGH
BG	LOW	MEDIUM	LOW (MEDIUM)
CZ	LOW	MEDIUM	MEDIUM
DK	LOW	LOW	LOW
DE	LOW	MEDIUM	MEDIUM
EE	LOW	LOW	LOW
IE	LOW	LOW	MEDIUM
EL	LOW	HIGH	LOW
ES	LOW	HIGH	MEDIUM
FR	LOW	HIGH	MEDIUM
HR	LOW	MEDIUM	LOW
IT	LOW	HIGH	MEDIUM
CY	LOW	MEDIUM	LOW
LV	BORDERLINE (LOW)	MEDIUM (LOW)	LOW
LT	LOW	MEDIUM (LOW)	MEDIUM (LOW)
LU	LOW	LOW	HIGH
HU	LOW	HIGH	MEDIUM
MT	LOW	LOW (MEDIUM)	HIGH
NL	LOW	LOW (MEDIUM)	MEDIUM
AT	LOW	HIGH (LOW)	MEDIUM
PL	LOW	HIGH (MEDIUM)	MEDIUM
PT	LOW	MEDIUM (HIGH)	LOW
RO	HIGH (LOW)	HIGH (MEDIUM)	MEDIUM
SI	LOW	MEDIUM	MEDIUM (HIGH)
SK	HIGH (LOW)	HIGH	HIGH
FI	LOW	HIGH (MEDIUM)	MEDIUM
SE	LOW	LOW	LOW

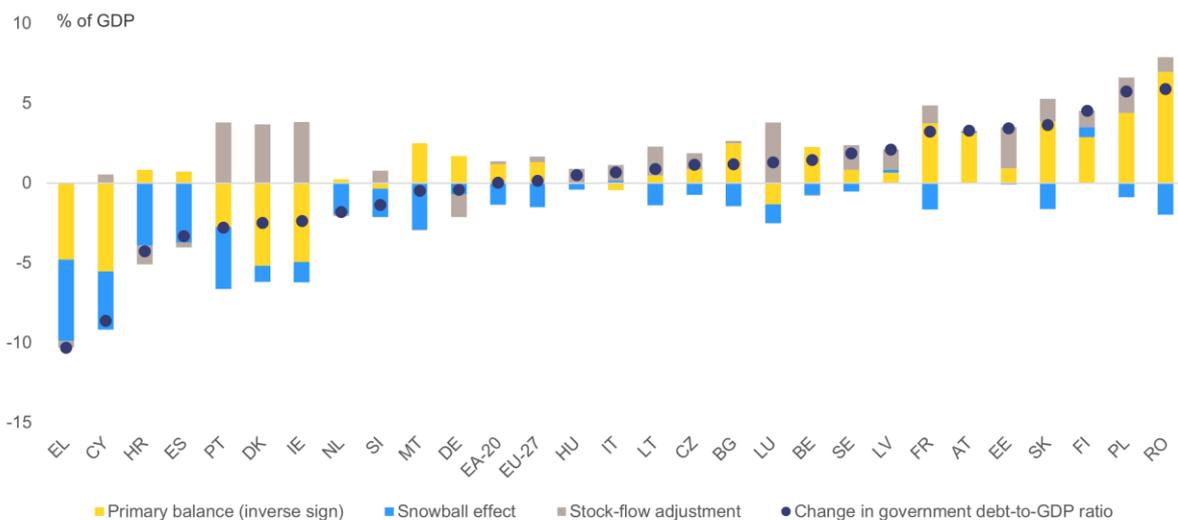
Notes: (1) The table compares sustainability risks as per the Commission's 2024 Debt Sustainability Monitor (DSM), which is based on the Commission 2024 autumn forecast data, with the risk classification in the 2023 European Semester country reports, based on the Commission's 2023 spring forecast data.

(2) While the short-term indicator of fiscal sustainability risk is binary, indicating high-risk above a given threshold, the Latvian classification, borrowed from the March 2025 publication of the 2024 DSM, uses the label "borderline" to highlight a narrow threshold breach.

(3) The Commission cautions against a standalone interpretation of short-term risks, without further country-specific analysis, given the indicator's methodological limitations. Thus, a high short-term risk signal does not necessarily imply inevitable short-term fiscal stress.

Source: European Commission

Graph 1.7: Drivers of government debt-to-GDP ratio in 2024, by country



Notes: The drivers of the debt-to-GDP ratio are calculated according to the following formula:

$$b_t - b_{t-1} = pb_t + \frac{i_t - \gamma_t}{1 + \gamma_t} * b_{t-1} + sfa_t$$
, where the change in the debt-to-GDP ratio ($b_t - b_{t-1}$) between 2 years equals the primary deficit (pb_t), plus the snowball effect calculated on the basis of the difference between the interest paid on the stock of debt (i_t) and the nominal GDP growth rate (γ_t), plus a stock-flow adjustment (sfa_t). Stock-flow adjustments are changes in gross debt that are unrelated to changes in the budget deficit.

Source: European Commission

Table 1.2: Overview of budgetary plans vs outturns for 2024, euro area and EU

	Spring 2023		Autumn 2023		Spring 2025	Outturn vs SCPs	Outturn vs DBPs
	Commission forecast (SF23)	Stability and convergence programmes (SCPs)	Commission forecast (AF23)	Draft budgetary plans (DBPs)	Outturn		
	year-on-year % change						
Real GDP	1.6	1.9	1.2	1.7	0.9	-1.0	-0.8
Nominal GDP	4.3	4.7	4.3	4.5	3.8	-0.9	-0.7
Potential GDP	1.4	1.7	1.4	1.5	1.2	-0.5	-0.3
Total revenue	4.2	4.1	4.2	4.3	5.0	0.9	0.7
Total expenditure	2.6	1.5	3.5	3.4	4.0	2.5	0.6
Primary expenditure	2.4	1.0	3.1	2.9	3.7	2.7	0.8
	billion euro						
Real GDP	12014	12079	11965	12259	12946	7.2	5.6
Nominal GDP	14931	14941	14981	15023	15157	1.4	0.9
Potential GDP	11934	-	11983	-	12984	-	-
Total revenue	6920	6869	6915	6906	7051	2.7	2.1
Total expenditure	7285	7256	7340	7341	7520	3.6	2.4
Primary expenditure	7013	6983	7062	7063	7233	3.6	2.4
<i>Effect of discretionary current revenue measures</i>	13.0	7.5	13.1	16.6	20.6	-	-
<i>one-off on the revenue side</i>	-0.7	6.7	-0.4	-9.7	22.4	-	-
<i>one-off on the expenditure side</i>	-1.3	-0.6	-2.4	6.7	-21.1	-	-
	% of GDP						
Output gap, % of potential GDP	0.2	0.1	-0.1	0.2	-0.3	-0.4	-0.5
Budget balance	-2.4	-2.6	-2.8	-3.2	-3.1	-0.5	0.1
Total revenue	46.3	46.0	46.2	46.0	46.5	0.5	0.5
Total expenditure	48.8	48.6	49.0	48.9	49.6	1.0	0.7
Primary balance	-0.6	-0.8	-1.0	-1.0	-1.2	-0.4	-0.2
Structural primary balance	-0.7	-0.9	-0.9	-1.1	-1.1	-0.2	0.0
<i>One-off and other temporary measures</i>	0.0	0.1	0.0	-0.1	0.0	-	-
	year-on-year % change						
Real GDP	1.7	2.0	1.3	-	1.0	-1.0	-
Nominal GDP	4.6	5.1	4.6	-	4.2	-0.9	-
Potential GDP	1.6	1.8	1.5	-	1.4	-0.4	-
Total revenue	4.2	5.1	4.6	-	5.5	0.4	-
Total expenditure	2.8	1.9	3.8	-	4.8	2.9	-
Primary expenditure	2.6	1.4	3.4	-	4.4	3.0	-
	billion euro						
Real GDP	14085	14468	14026	-	15162	4.8	-
Nominal GDP	17931	17971	17959	-	17985	0.1	-
Potential GDP	14093	-	14077	-	15225	-	-
Total revenue	8094	8142	8110	-	8265	1.5	-
Total expenditure	8528	8596	8609	-	8833	2.8	-
Primary expenditure	8213	8274	8286	-	8498	2.7	-
<i>Effect of discretionary current revenue measures</i>	3.9	-2.3	18.9	-	28.1	-	-
<i>one-off on the revenue side</i>	-0.7	3.8	-0.4	-	22.4	-	-
<i>one-off on the expenditure side</i>	-1.3	-1.7	-2.4	-	-24.1	-	-
	% of GDP						
Output gap, % of potential GDP	0.0	-0.1	-0.3	-	-0.4	-0.3	-
Budget balance	-2.4	-2.5	-2.8	-	-3.2	-0.7	-
Total revenue	45.7	45.3	45.7	-	46.0	0.7	-
Total expenditure	48.1	47.8	48.5	-	49.2	1.4	-
Primary balance	-0.7	-0.7	-1.0	-	-1.3	-0.6	-
Structural primary balance	-0.6	-0.7	-0.8	-	-1.1	-0.4	-
<i>One-off and other temporary measures</i>	0.0	0.0	0.0	-	0.0	-	-

Notes: Potential GDP, output gap and structural primary balance in the stability and convergence programmes column are as recalculated by the Commission on the basis of available information.

Sources: European Commission (spring 2023, autumn 2023 and spring 2025 forecast editions), 2023 stability and convergence programmes, 2023 draft budgetary plans

2. IMPLEMENTATION OF THE EU FISCAL FRAMEWORK

Highlights

- Each year, the spring package includes a final evaluation of national fiscal policies in the previous year against recommendations issued earlier. However, the 2025 spring package did not offer any assessment of compliance. For many Member States, the rates of net expenditure growth exceeded those of the Council recommendations for 2024, often by a significant margin.
- Continuing a practice launched in 2020, the Commission issued early fiscal guidance in March 2023 ahead of the usual spring surveillance exercise. The objective of the initiative was not entirely clear. It was too late for 2023 as Member States were implementing budgets agreed upon at the end of 2022, in some cases involving difficult political compromises. It was too early for 2024, as the entire EU surveillance cycle is built around the country-specific recommendations of the European Semester issued in June/July.
- In its May 2023 European Semester package, the Commission formulated recommendations exclusively in terms of net expenditure growth derived from country-specific DSA, anticipating an approach of the SGP reform proposal it had just tabled the month before and was still negotiating with the legislators. The Council reintroduced the structural primary balance, the established metric to define adjustment requirements under the then prevailing rules.
- Towards the end of 2023, when EU legislators were closing negotiations on a new EU fiscal framework, they converged towards the position to roll out the reform immediately during the course of 2024 to implement national fiscal policies under the reformed rules in 2025. This decision created ambiguity about the relevance of the fiscal recommendations issued for 2024 earlier.
- Looking back, many Member States recorded a substantial acceleration of underlying net expenditure growth in 2024. In contrast to previous years, when the excess over sustainable output growth was characteristic of very high debt countries, in 2024 it took place across the board. This occurred against a fairly stable macroeconomic environment with tight labour markets and declining rates of inflation.
- Overall, the transition to the new fiscal rules coincided with fairly loose fiscal policies with inconsequential deviations from earlier recommendations in many countries. Unless corrected in the coming years, this worsens the starting point for the implementation of the reformed EU fiscal rules and shifts adjustment needs into the future.
- Leaving aside many country-specific elements, the roll-out of the new framework was marked by several notable features: (i) the immediate transition to the new rules followed a very tight calendar combined with a very generous handling of deadlines for the submission of plans; (ii) compared to the ‘old’ SGP, the process lacked transparency, and comparability across countries was hampered by a staggered submission and assessment process. The case of Germany stands out: the Commission prior guidance could not serve as a reference in any meaningful sense of the word as the country’s MTFSP included major new policy initiatives; (iii) reliance on more optimistic medium-term forecasts (compared to Commission prior guidance) incorporating high-frequency data entails the risk of building medium-term plans on cyclical elements; (iv) the Commission assessment of national plans was lenient compared to legal provisions and standards the Commission had defined for itself; (v) contrary to earlier Council conclusions and Commission assurances to leave the excessive deficit procedure (EDP) unchanged, the hierarchy between the preventive and corrective arm was effectively inverted.
- Although conditions were met for several countries in the first half of 2024, the Commission and the Council postponed the adoption of EDP recommendations until January 2025. New obvious EDP cases that emerged later in 2024 and at the beginning of 2025 were unduly delayed.

This chapter combines the conventional EFB backward-looking assessment of 2024 with a review of the transition to the reformed EU fiscal framework in 2024 and 2025. For practical reasons, our analysis ends with the assessment of the medium-term fiscal structural plans. A post-implementation assessment of the framework for 2025 will feature in future reports.

2.1. 2024 FISCAL SURVEILLANCE CYCLE

This section reviews the implementation of the EU fiscal rules in 2024. It follows the chronological order of the EU fiscal surveillance cycle, which began in spring 2023. At that time, the severe economic downturn clause was planned for deactivation in 2024, and recommendations for 2024 set out country-specific quantitative requirements. The Stability and Growth Pact rules were reinterpreted to incorporate new elements from the fiscal governance reform proposal, which was still under discussion by the Commission and the Council. After the adoption of the revised rules, the Commission shifted its surveillance focus from 2024 to the new medium-term plans for 2025 and beyond (see Section 2.3). This section does not analyse fiscal developments in 2025. The EFB will evaluate the implementation of the EU fiscal framework in 2025 using outturn data.

Early policy guidance

In March 2023, the Commission adopted a communication containing early guidance for national fiscal policies in 2024.⁽⁹⁾ This practice began in 2020 with the activation of the severe economic downturn clause. It was meant to offer advice for policymaking in the current year, as opposed to the usual recommendations for the next year. Already in 2022, the EFB raised questions over the need to preserve it, as (i) it de facto replaced the SGP-based surveillance process and (ii) it was predicated on the rather unusual assumption that Member States would adjust at short notice national budgets they had just adopted and started implementing.⁽¹⁰⁾ As a reminder, in official documents, the Commission

⁽⁹⁾ [Communication on fiscal policy guidance for 2024](#), 8 March 2023.

⁽¹⁰⁾ Under the severe economic downturn clause, the Commission deviated from the established processes and application of rules. As discussed in last year's annual report (EFB, 2024), the practice of issuing early policy guidance is not anchored in the SGP's legislative framework, and there was no acute crisis requiring immediate policy coordination.

and the Council rightly continued to stress that the severe economic downturn clause did not suspend the SGP. At the same time, the institutions continued to recur to steps not foreseen by the legal provisions underpinning the EU fiscal framework. Since the March 2023 communication announced the deactivation of the severe economic downturn clause as of that year, the need for early guidance for 2024 seemed even less justified than in previous years.

The communication aimed to prepare the ground for the new fiscal framework, which was still being negotiated and eventually came into force in April 2024. It announced the discontinuation of the severe economic downturn clause and the return to country-specific recommendations (CSRs) formulated in quantitative terms.

While the new fiscal framework had yet to be agreed, the Commission's communication aimed to introduce some of its concepts. For instance, the fiscal CSRs for 2024 would be formulated '*on the basis of net primary expenditure*'. Further considerations in the Commission guidance included: i) protecting nationally financed investment, and ii) the gradual phase-out of energy measures. The communication also stressed that no EDPs would be opened that spring – although conditions were met for several countries – and that any decision would be postponed for another year.⁽¹¹⁾

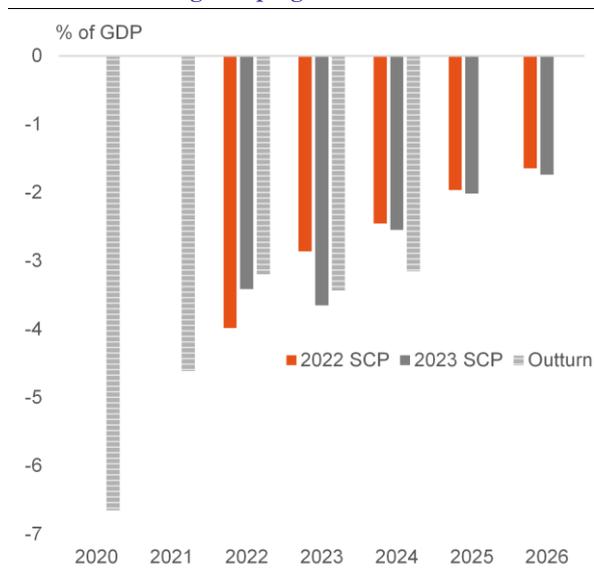
The communication was drafted against a backdrop of slow growth and high inflation. However, the outlook was starting to look brighter, and the economy was expected to rebound supported by decreasing energy prices and improving consumer and business sentiments. The communication advised against a broad-based fiscal stimulus and saw the need to shift to gradual fiscal consolidation. In case still needed, fiscal measures to support households and firms affected by high energy prices should target vulnerable households and viable companies.

⁽¹¹⁾ During the severe economic downturn clause in 2020-2023, when the Commission reports under Article 126(3) TFEU assessed non-compliance with the deficit and debt requirements, no EDPs were opened. Under established practice rooted in the SGP, in such cases the Commission would have opened EDPs (see EFB (2024), Box 2.1). EFB (2024) also highlighted that, since 2005, 'the EU's fiscal rules have included provisions on how to deal with uncertainty when assessing' compliance. However, bringing the argument of uncertainty to the ex ante assessment is problematic as every forecast is inherently uncertain.

Stability and convergence programmes

In April 2023, the stability and convergence programmes (SCPs) covered the period up to at least 2026. ⁽¹²⁾ Portraying a similar ambition to the preceding year's plans, the headline deficit for the EU was expected to decline to 2.5% of GDP in 2024, down from 3.7% in 2023 (Graph 2.1). The EU structural primary deficit was also projected to decrease from 1.8% to 0.7% of GDP. The EU debt ratio was projected to decrease by only one percentage point in aggregate, from 84.3% in 2023 to 83.3% in 2024.

Graph 2.1: Headline government balance for the EU-27, based on the 2022 and 2023 stability and convergence programmes



Sources: 2022 and 2023 stability and convergence programmes (SCPs)

As for every year since 2021, the Commission did not publish country-specific assessment notes on the SCPs but included some analytical recitals in the fiscal recommendations. These recitals compared national deficit and debt projections for 2024 against the Commission 2023 spring forecast and reported the extent to which each country envisaged phasing out energy support measures in 2024, if any. The recitals also stated the estimated annual improvement in the structural budget balance associated with the country's medium-term budgetary objective (MTO).

The recitals also assessed the SCPs in terms of the evolution of government investment in 2024, the

⁽¹²⁾ The Commission was not able to assess Denmark's 2023 Convergence Programme, since the Denmark did not submit it in a timely manner. Denmark then submitted its convergence programme in May.

national medium-term fiscal path – in terms of deficit and debt – until (at least) 2026, fiscal sustainability challenges, and fiscal structural issues. The Commission analysis provided no overall conclusions on compliance risks, a regular surveillance practice in the past.

Fiscal recommendations for 2024

In May 2023, the Commission adopted proposals for country-specific fiscal recommendations for 2024. The chapeau communication accompanying the commission proposals highlighted *'the need to ensure prudent fiscal policy in 2023-2024, in particular by phasing out the less targeted energy support measures currently in force and reducing debt in the medium term'*. ⁽¹³⁾

The fiscal CSRs contained similar elements to the previous year, notably:

- limit net expenditure growth or maintain a sound fiscal position. ⁽¹⁴⁾
- recommendation to wind down energy support measures.
- invitation to support nationally financed public investment.
- policy advice for the medium term.
- recommendation for fiscal structural reforms.

The Commission formulated the fiscal recommendations using principles of the DSA-based framework, which featured prominently in the Commission's reform proposal of April 2023 ⁽¹⁵⁾ and adapted the interpretation of the then existing rules accordingly. At first, the Commission established the necessary structural adjustment based on the initial fiscal position – relative to its medium-term budgetary objective (MTO) and the 3% of GDP reference value – and the effort necessary to achieve a plausible debt reduction based on its debt sustainability analysis (DSA). ⁽¹⁶⁾ Then, the structural adjustment was expressed in

⁽¹³⁾ [The Commission communication: Fiscal policy guidance for 2024](#).

⁽¹⁴⁾ For Members States that were estimated to meet their medium-term budgetary objectives, the Council recommended maintaining their estimated sound fiscal positions.

⁽¹⁵⁾ [New economic governance rules fit for the future](#), 26 April 2023

⁽¹⁶⁾ The Commission disclosed only the main results of its DSA simulations, as the method was still being discussed under the fiscal governance reform.

net expenditure limits using the medium-term potential growth and GDP deflator forecast for 2024 as a reference. ⁽¹⁷⁾

On average, the recommended adjustment of the structural primary budget balance amounted to 0.5% of GDP, the benchmark figure under the then still prevailing provisions of the ‘old’ preventive arm Regulation (EC) 1466/97 (Article 5).

Overall, the design of the fiscal requirements for 2024 broadly followed the principles of the structural budget balance and the expenditure benchmark requirements, except for replacing the matrix of requirements with the DSA-based approach. As a result, most Member States were recommended to pursue gradual fiscal consolidation by staying within specific limits of net expenditure growth in 2024, while those likely to continue to meet their minimum medium-term budgetary objective were recommended to preserve a prudent medium-term fiscal position without a quantitative target for 2024.

All Member States were recommended to wind down their emergency energy support measures and preserve nationally financed investment. The twenty-three Member States projected to book a general government deficit in 2023 were also asked to use the savings from discontinuing the energy measures to reduce their deficit, if not at MTO. However, the formulation ‘*as soon as possible in 2023 and 2024*’ allowed flexibility on the exact timeline for withdrawing the energy measures. Moreover, the recommendations still allowed for the continuation of support measures, conditionally on renewed price increases, in which case Member States were recommended to ensure targeting at vulnerable households and viable firms and preserve incentives for energy savings.

The Commission recommendations were amended by the Council in an important way. While the Commission proposals focused on net expenditure growth – the indicator meant to replace all other measures under the reform proposal – the Council

decided to give prominence to the structural balance, the main reference for adjustment requirements under the still prevailing EU fiscal rules. ⁽¹⁸⁾

Table 2.1: **Fiscal indicators informing the recommendations for 2024**

	Structural balance			Net expenditure growth			Energy measures phased out in 2024
	Structural balance in 2023	MTO	Distance to MTO	Recommendation	Forecast for 2024	Deviation in 2024	
	% of GDP	% of GDP	pps. of GDP	% change	% change	% of GDP	
BE	-4.9	0.8	-5.6	2.0	2.7	0.4	✓
BG	-5.0	-1.0	-4.0	4.6	5.4	0.8	✓
CZ	-2.7	-0.8	-2.0	6.0	3.0	-1.1	✓
DK	3.5	-0.5	4.0		4.6		✓
DE	-2.0	-0.5	-1.5	2.5	2.4	0.0	✗
EE	-1.2	-0.5	-0.7	4.9	4.5	-0.2	✓
IE	-0.1	-0.5	0.4		1.9		✓
EL	-1.5	0.5	-2.0	2.6	0.7	-0.8	✓
ES	-3.7	0.0	-3.7	2.6	1.4	-0.5	✓
FR	-4.4	-0.4	-4.0	2.3	3.1	0.4	✓
HR	-1.3	-1.0	-0.3	5.1	6.8	0.7	✓
IT	-5.3	0.3	-5.6	1.3	0.8	-0.2	✓
CY	0.9	0.0	0.9		3.6		✓
LV	-3.5	-1.0	-2.5	3.0	1.3	-0.6	✓
LT	-0.6	-1.0	0.4		2.7		✓
LU	-1.1	0.5	-1.6	4.8	2.9	-0.8	✗
HU	-3.2	-1.0	-2.2	4.4	7.0	1.0	✗
MT	-4.6	0.0	-4.6	5.9	3.6	-0.8	✗
NL	-2.7	-0.8	-2.0	3.5	1.7	-0.8	✓
AT	-2.5	-0.5	-2.0	4.6	4.0	-0.3	✓
PL	-4.5	-1.0	-3.5	7.8	5.6	-0.9	✗
PT	-0.8	-0.5	-0.3	1.8	2.8	0.4	✓
RO	-4.3	-1.0	-3.3	7.5	11.0	1.1	✓
SI	-4.9	0.8	-5.6	5.5	3.0	-1.0	✓
SK	-5.8	0.3	-6.1	5.7	3.6	-0.9	✓
FI	-1.8	-0.5	-1.3	2.2	2.8	0.3	✓
SE	0.1	-1.0	1.1		1.1		✓

Notes: The table shows fiscal indicators presented in the country-specific recommendations (CSRs) for 2024 and the Commission assessment of the indicators based on its 2023 spring forecast.

‘MTO’ is the medium-term budgetary objective. The green cells indicate countries that overachieved their MTOs in 2023.

‘Net expenditure growth’ stands for the change in primary government expenditure, excluding discretionary revenue measures, EU-funded expenditure, national co-financing of EU programmes, cyclical unemployment expenditure and one-off measures.

‘Deviation in 2024’ shows the difference between the Commission forecast of net expenditure growth in 2024 and the recommended rate of growth. Colour code: ‘red’ = the forecast exceeds the recommended rate by more than 0.25% of GDP; ‘green’ = the forecast is below the recommended rate.

‘Expenditure measures phased out in 2024’ indicates whether the budgetary cost of energy support measures is estimated to be below 0.25% of GDP in 2024.

Source: European Commission 2023 spring package

⁽¹⁷⁾ The net expenditure limits were calculated as the difference between the nominal medium-term potential growth rate and the convergence margin. The convergence margin reflects the structural balance adjustment requirement as a percentage of government primary expenditure, using the following formula: $C=(adj/P)*100$, where ‘adj’ represents the required improvement of the structural balance as a percentage of GDP, and ‘P’ is the share of government primary expenditure in GDP.

⁽¹⁸⁾ In the case of Portugal, there was the addition of a qualifier. The recommendation to limit net expenditure to a quantified maximum was relaxed to take into account the possibility that interest expenditure would be lower than projected by the Commission, allowing for higher expenditure while respecting the MTO.

Table 2.2: Fiscal indicators for 2024 used for assessment of draft budgetary plans

Structural balance				Net expenditure growth				Energy measures		Conclusion
Structural balance	MTO	Distance to MTO	Recommendation	Forecast for 2024	Deviation in 2024	Deviation in 2024 adjusted for base effect	Phased out in 2024	Saving used for deficit reduction		
% of GDP	% of GDP	pps. of GDP	% change	% change	% of GDP	% of GDP				
BE	-4.5	0.8	-5.2	2.0	3.8	0.9	1.1	✓	✗	risk being not in line
DE	-1.1	-0.5	-0.6	2.5	2.6	0.0	-0.1	✗	✗	not fully in line
EE	-0.6	-0.8	0.2	4.9	4.2	-0.3	-0.6	✓	✓	in line
IE	0.1	-0.5	0.6		6.3			✓	(✓)	in line
EL	-1.3	0.5	-1.8	2.6	-0.3	-1.2	-0.4	✓	✓	in line
ES	-3.5	0.0	-3.5	2.6	2.1	-0.2	0.2	✓	✓	in line
FR	-4.4	-0.4	-4.0	2.3	2.8	0.3	0.2	✗	✓	risk being not in line
HR	-2.3	-1.0	-1.3	5.1	10.4	2.1	2.8	✗	✗	risk being not in line
IT	-5.1	0.3	-5.3	1.3	0.9	-0.2	0.6	✓	✓	not fully in line
CY	2.0	0.0	2.0		4.3			✓	(✓)	in line
LV	-2.7	-1.0	-1.7	3.0	4.8	0.6	-0.1	✓	✗	not fully in line
LT	-1.2	-1.0	-0.2		7.2			✓	✗	in line
LU	-0.9	0.5	-1.4	4.8	5.0	0.1	-0.2	✗	✗	not fully in line
MT	-4.0	0.0	-4.0	5.9	5.5	-0.2	0.2	✗	✓	not fully in line
NL	-1.3	-0.8	-0.5	3.5	5.8	0.9	-0.8	✓	✗	not fully in line
AT	-2.1	-0.5	-1.6	4.6	4.6	0.0	-0.6	✓	✗	not fully in line
PT	-0.1	-0.5	0.4	1.8	5.7	1.5	1.7	✗	✗	not fully in line
SI	-2.4	0.8	-3.2	5.5	2.9	-1.1	-1.4	✓	✓	in line
SK	-6.3	0.3	-6.5	5.7	6.5	0.3	-0.3	✓	✗	not fully in line
FI	-2.2	-0.5	-1.7	2.2	4.4	1.1	0.9	✓	✗	risk being not in line

Notes: The table shows fiscal indicators presented in the Commission opinions on the draft budgetary plans for 2024, based on the Commission 2023 autumn forecast.

'MTO' is the medium-term budgetary objective. Colour code: 'green' = the structural balance in 2024 is more positive than MTO; 'yellow' = the structural balance is less than 0.25% of GDP lower than the MTO.

'Net expenditure growth' stands for the change in primary government expenditure, excluding discretionary revenue measures, EU-funded expenditure, national co-financing of EU programmes, cyclical unemployment expenditure and one-off measures.

'Deviation in 2024' shows the difference between the Commission forecast of net expenditure growth in 2024 and the recommended rate of growth. 'Deviation in 2024 adjusted for base effect' accounts for higher or lower net expenditure growth in 2023 than projected at the time of the recommendations. Colour code: 'red' = the forecast exceeds the recommended rate by more than 0.25% of GDP; 'green' = the forecast is below the recommended rate.

For energy measures, the title 'phased out in 2024' indicates whether the budgetary cost of energy support measures is estimated to be below 0.25% of GDP in 2024.

'Saving used for deficit reduction' represents Commission estimate of whether the change in energy support measures between 2023 and 2024 corresponds to an improvement in the fiscal position in 2024: tick = the fiscal impulse of net nationally financed primary expenditure is equal to or more positive (contractionary) than changes in energy support measures; cross = a negative gap between the fiscal impulse and changes in energy support measures, indicating fiscal expansion in net expenditure, excluding energy support measures. Icons in brackets indicate Member States that did not receive a specific recommendation.

'Conclusion' shows the Commission overall assessment based on its reading of indicators, categorised by compliance risk levels from 'risk being not in line' to 'not fully in line' and 'in line' with the recommendation.

Sources: European Commission 2024 autumn package, EFB calculations

Draft budgetary plans for 2024

In autumn 2023, euro-area Member States presented draft budgetary plans for 2024. ⁽¹⁹⁾ In aggregate, they planned to reduce the government deficit from just above 3% of GDP in 2023 to below 3% in 2024. More than half of the Member States planned to reduce their headline deficits or preserve a surplus.

⁽¹⁹⁾ Luxembourg, Spain and Slovakia submitted Draft Budgetary Plans based on unchanged policies – which were prepared by outgoing governments.

In its assessment of the 2024 draft budgetary plans ⁽²⁰⁾, the Commission explained its method for evaluating compliance with the Council recommendations of July 2023. Specifically, the Commission allowed countries to meet the net expenditure limits by reducing their energy support measures. However, evaluating the expenditure trends without the influence of energy support measures would have provided a clearer picture of the sustainability of government spending over time (see Section 2.2). In addition, the Commission did not follow the established assessment approach rooted in current legislation and revealed its

⁽²⁰⁾ [Commission communication on the 2024 draft budgetary plans: overall assessment](#), 21 November 2023.

method only in autumn 2023. ⁽²¹⁾ This was not the first time the Commission resorted to an ad-hoc assessment approach; it did so in 2020-2023.

Following a ‘two-step approach’ ⁽²²⁾, the Commission assessed seven DBPs to be ‘in line’ with the Council recommendations and four as risking not being in line. For the other euro-area countries, the conclusion was a vague ‘not fully in line’ (Table 2.2). A large majority planned to phase out energy support measures in 2024, though only about half of them also planned to use the savings to reduce the deficit.

In-year assessment

On 30 April 2024, the EU’s new economic governance framework came into force.

In spring 2024, the Commission assessed all Member States on their implementation of the fiscal guidance for 2024. Unlike the pre-pandemic practice of publishing country-specific staff working documents, the assessments were included in recitals introducing the country-specific recommendations for 2025. The Commission assessed risks around compliance with the Council recommendations based on the Commission 2024 spring forecast. The assessments covered: i) net nationally financed primary expenditure, ii) the net budgetary cost of emergency energy support measures; and iii) nationally financed public investment. While the Commission commented on individual elements of budgetary implementation, it did not offer overall conclusions on prospective compliance. This deviates from the pre-pandemic practice rooted in the old SGP preventive arm Regulation (EC) 1466/97.

The Commission identified risks of non-compliance with Council recommendations for eight Member States whose net nationally financed primary expenditure was projected to increase

⁽²¹⁾ Traditionally, under the preventive arm the Commission used to assess compliance with the structural balance requirement and the expenditure benchmark and to conclude with an overall assessment (SGP vade mecum, 2019). For 2024, the Commission assessed compliance with the recommended net expenditure limit and the wind-down of energy measures in a way that had not been communicated before. The Commission did not report on whether Member States had complied with the adjustment of the structural budget balance implied by the limit on net expenditure growth. Instead, the Commission measured the distance to the MTO.

⁽²²⁾ First step: distance to the MTO and, if not at the MTO, projected net expenditure growth; second step: the phasing out of energy support measures in 2024.

above the recommended maximum growth rate. ⁽²³⁾

While the Commission projected eighteen Member States to phase out energy support measures in 2024, it expected that only six would use the savings to reduce the deficit. Only two Member States were assessed as risking not being in line with the recommendation on nationally financed public investment.

Final assessment

The Commission spring surveillance packages usually include a retrospective and final assessment of whether Member States complied with the recommendations issued at the start of the surveillance cycle. The final assessment is crucial since it is the one based on outturn data – as opposed to forecasts – and can lead to procedural consequences in the case of significant deviations from the recommended requirements.

The Commission 2025 spring package did not examine if and to what extent fiscal outturns in 2024 were in line with the recommendations issued in the course of 2023, when the deactivation of the severe economic downturn clause was anticipated. The Commission only factually reported on the government budget balances, debt levels and net expenditure growth rates. Although data for a final assessment were available, the Commission did not publicly report any deviations from the 2023 recommendations.

Using publicly available data and EFB calculations of energy support measures ⁽²⁴⁾, Table 2.3 presents 2024 fiscal outturns and evaluates them with the methodology the Commission applied for its opinions on the draft budgetary plans in autumn 2023 (Table 2.2). The comparison shows that twelve Member States failed to adhere to the net expenditure limits for 2024, with an average deviation of 2.3% of GDP, considering the changes between the net expenditure estimates for 2023 at the time of the recommendations and the

⁽²³⁾ Small projected deviations, under ¼ percentage points of GDP were not raised as a risk.

⁽²⁴⁾ The estimates of remaining energy support measures in the euro area have changed significantly over time. In the course of 2023, the Commission saw them at 1¼% of GDP, while the latest available assessment puts them at less than 1% of GDP. The estimates are produced by Commission services based on Member States data.

Table 2.3: 2024 fiscal outturns vs 2023 recommendation for 2024

Structural balance			Net expenditure growth				Energy measures		Conclusion	
Structural balance	MTO	Distance to MTO	Recommendation	Outturn	Deviation in 2024	Deviation in 2024 adjusted for base effect	Phased out in 2024	Saving used for deficit reduction		
% of GDP	% of GDP	pps. of GDP	% change	% change	% of GDP	% of GDP				
BE	-4.2	0.8	-5.0	2.0	4.3	1.1	0.9	✓	✗	not in line
BG	-2.7	-1.0	-1.7	4.6	10.3	1.9	-2.0	✓	✗	not fully in line
CZ	-1.6	-0.8	-0.8	6.0	-0.1	-2.4	-2.2	✓	✓	in line
DK	5.6	-0.5	6.1		3.2			✓	(✓)	in line
DE	-2.1	-0.5	-1.6	2.5	4.0	0.7	0.7	✓	✗	not in line
EE	0.6	-0.8	1.3	4.9	1.9	-1.2	-1.2	✓	✓	in line
IE	2.3	-0.5	2.8		8.3			✓	(✓)	in line
EL	0.6	0.5	0.1	2.6	-0.4	-1.2	-0.8	✓	✓	in line
ES	-3.2	0.0	-3.2	2.6	3.7	0.4	1.0	✓	✗	not in line
FR	-5.7	-0.4	-5.3	2.3	3.1	0.4	0.3	✓	✗	not in line
HR	-3.3	-1.0	-2.3	5.1	16.6	4.4	7.3	✗	✗	not in line
IT	-4.1	0.3	-4.4	1.3	-2.2	-1.7	1.6	✓	✓	not fully in line
CY	2.9	0.0	2.9		3.1			✓	(✓)	in line
LV	-1.6	-1.0	-0.6	3.0	4.3	0.5	-0.1	✓	✗	not fully in line
LT	-0.6	-1.0	0.4		10.9			✓	✗	in line
LU	2.7	0.0	2.7	4.8	6.3	0.6	1.5	✗	✗	not fully in line
HU	-4.5	-1.0	-3.5	4.4	2.3	-0.9	1.8	✗	✓	not fully in line
MT	-3.6	0.0	-3.6	5.9	13.6	2.4	3.7	✗	✗	not in line
NL	-0.4	-0.8	0.3	3.5	6.7	1.3	0.3	✓	✗	not fully in line
AT	-4.0	-0.5	-3.5	4.6	8.7	2.1	2.7	✗	✗	not in line
PL	-6.1	-1.0	-5.1	7.8	12.3	1.8	1.6	✗	✗	not in line
PT	0.3	-0.5	0.8	1.8	11.8	3.6	2.8	✗	✗	not fully in line
RO	-8.8	-1.0	-7.8	7.5	19.7	3.9	4.7	✓	✗	not in line
SI	-1.2	0.8	-2.0	5.5	4.3	-0.5	-1.4	✓	✗	not fully in line
SK	-5.2	0.3	-5.4	5.7	5.0	-0.3	-0.8	✗	✓	not fully in line
FI	-2.7	-0.5	-2.2	2.2	3.1	0.5	0.9	✓	✗	not in line
SE	-0.5	-1.0	0.5		6.1			✓	(✗)	in line

Notes: The table shows fiscal indicators based on outturn data and the EFB final assessment of compliance with the country-specific recommendations (CSRs) issued in spring 2023. The assessment methodology follows the one set out by the Commission in autumn 2023 at the time of the draft budgetary plans for 2024.

'MTO' is the medium-term budgetary objective. Colour code: 'green' = the structural balance in 2024 is more positive than MTO; 'yellow' = the structural balance is less than 0.25% of GDP lower than the MTO.

'Net expenditure growth' stands for the change in primary government expenditure, excluding discretionary revenue measures, EU-funded expenditure, national co-financing of EU programmes, cyclical unemployment expenditure and one-off measures.

'Deviation in 2024' shows the difference between the Commission forecast of net expenditure growth in 2024 and the recommended rate of growth. 'Deviation in 2024 adjusted for base effect' accounts for higher or lower net expenditure growth in 2023 than projected at the time of the recommendations. Colour code: 'red' = the outturn exceeds the recommended rate by more than 0.25% of GDP; 'green' = the outturn is below the recommended rate.

For energy measures, the title 'phased out in 2024' indicates whether the budgetary cost of energy support measures is estimated to be below 0.25% of GDP in 2024. 'Saving used for deficit reduction' represents EFB calculations of whether the change in energy support measures between 2023 and 2024 corresponds to an improvement in the fiscal position in 2024: tick = the fiscal impulse of net nationally financed primary expenditure is equal to or more positive (contractionary) than changes in energy support measures; cross = a negative gap between the fiscal impulse and changes in energy support measures, indicating fiscal expansion in net expenditure, excluding energy support measures. Icons in brackets indicate Member States that did not receive a specific recommendation.

'Conclusion' shows the overall assessment based on the reading of indicators, categorised into compliance levels, ranging from 'not in line' to 'not fully in line,' and 'in line' with the recommendations.

Sources: European Commission 2025 spring forecast, EFB calculations

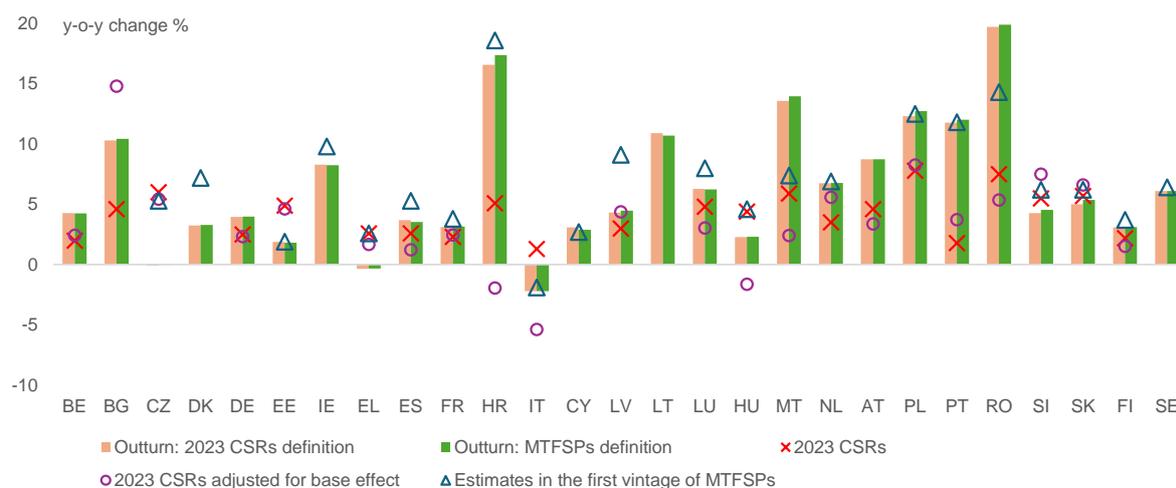
actual outcomes ('base effect').⁽²⁵⁾ Although most Member States phased out energy support measures, many redirected resources instead of using them to reduce deficits, contrary to recommendations. The Commission flagged

compliance risks earlier in the surveillance cycle, but few Member States reacted to the warning signals.

The recommendations for 2024 expressed the fiscal adjustment implied by net expenditure limits also in annual improvements in the structural budget balance. The average adjustment requirement in structural terms was 0.5% of GDP. For the 17 Member States who had not yet reached their MTO in 2024, the estimated improvement in the structural budget balance averaged 0.3% of

⁽²⁵⁾ Twenty-two Member States received quantitative fiscal requirements for 2024: (i) five exceeded their medium-term budgetary objectives (MTOs), negating the need to adhere to net expenditure growth requirements; (ii) five met their net expenditure growth requirements, accounting for base effects; and (iii) twelve did not meet their net expenditure requirements, after adjusting for base effects.

Graph 2.2: 2024 outturns of net expenditure growth rates and recommendations



Notes: '2023 CSRs' stands for the nominal increase in nationally financed net primary expenditure in 2024, as recommended in spring 2023. This element is absent in the graph for Member States that did not receive a quantitative guidance.

'2023 CSRs adjusted for base effect' stands for the recommended net expenditure increases corrected for the differences between 2023 expenditure outturn and the estimates used for the recommendations. This correction allows comparing the recommended increase and outturn on an equal footing.

'Estimates in the first vintage of MTFSPs' stands for net expenditure estimates for 2024, which served as starting point for the medium-term net expenditure paths starting in 2025. This element is absent in the graph for Member States, which submitted their medium-term fiscal-structural plans (MTFSPs) only in 2025.

Sources: Country-specific recommendations (CSRs) for 2024, European Commission, EFB calculations

GDP.⁽²⁶⁾ Their average deviation from the recommended net expenditure limit was estimated at 1.2% of GDP, when the base effect is considered (Table 2.3). Hence, both indicators pointed, on average, to shortfalls with respect to the Council recommendations. The estimated improvements in the structural balance benefited from positive revenue surprises, and the indicator is not reassessed for changes in the 2023 starting position ('base effect').

The Commission considered fiscal outturns in 2024 as part of measuring prospective compliance with the cumulative expenditure growth limits for 2025. Specifically, the Commission measured the deviations of Member States' estimates of net expenditure growth presented in their medium-term fiscal structural plans – most of which were submitted in autumn 2024 – and outturns as reported in spring 2025.⁽²⁷⁾ Unsurprisingly, the deviations were limited with few exceptions. For Malta and Romania, large deviations in 2024 informed their assessments of effective action taken under the EDP (Section 2.4). The Commission also considered to what extent cumulative deviations from the recommended net expenditure paths in 2024 and 2025 were explained

by increases in defence expenditure for countries that applied for the defence-related national escape clause. However, there was no separate assessment for 2024. It is worth recalling that medium-term fiscal structural plans in autumn 2024 were designed without considering an exceptional treatment of defence expenditure increases. Many plans already accounted for defence expenditure increases while staying within the overall budgetary constraints. The activation of the national escape clause allows Member States to further increase their defence spending or use the available flexibility for non-defence spending.⁽²⁸⁾

The definition of net expenditure aggregate used in the 2023 recommendations and that of the revised framework are the same, except for the latter excluding national expenditure on EU co-financed programmes. In 2024, in most cases there was no difference between the two definitions of net expenditure growth based on the Commission 2025 spring forecast (Graph 2.2).⁽²⁹⁾ Disregarding the slight difference in the expenditure aggregate, the 2023 recommendations (adjusted for base effect) set more demanding net expenditure growth

⁽²⁶⁾ For further details, see Section 3 of [the EFB report on the appropriate fiscal stance for the euro area in 2026](#).

⁽²⁶⁾ Out of the 17 Member States that had not yet reached their MTOs, 7 experienced a deterioration in their structural budget balance of on average 1.1% of GDP.

⁽²⁷⁾ For the plans that were submitted in 2025, the recommendations already included outturn data for 2024.

⁽²⁸⁾ The largest difference of 0.8 percentage points was Croatia. It was still far smaller than differences between some annual progress reports and the Commission estimates for the new definition of net expenditure growth (the largest difference of 2.8 percentage points for Czechia in 2024).

limits for 2024 than the estimates Member States presented in their MTFSPs for 2025 and beyond.⁽³⁰⁾

2.2. EXPENDITURE DEVELOPMENTS IN 2024 IN RETROSPECT

Since 2021, following the activation and subsequent extension of the severe economic downturn clause, the EFB's annual reports have consistently examined spending patterns in EU Member States and set them against estimates of medium-term economic growth (see methodology in EFB (2024), Annex C). This type of analysis offers analytical insights into the sustainability of underlying spending trends.

In spring 2023, anticipating the deactivation of the severe economic downturn clause at the end of that year, the Commission and the Council formally resumed the normal practice of issuing quantitative fiscal guidance for 2024 supplemented by the qualitative recommendation to Member States to reduce energy support measures (Section 2.1). In spring 2024, the agreement to overhaul the EU fiscal framework included the understanding that the reformed rules would be implemented immediately starting with the preparation and assessment of national medium-term fiscal structural plans for the coming years. This decision shifted policymakers' attention to fiscal plans for 2025 and beyond, at the expense of developments in 2024 (Section 2.1).

This section takes a close look at underlying expenditure trends across Member States in 2024, i.e. government expenditure net of energy support measures, and sets them against estimates of medium-term rates of potential output growth (Graph 2.3). The impact of the extraordinary fiscal support provided during the Covid pandemic ended in 2023. However, the measures introduced to counter the energy price shock following Russia's full-scale invasion of Ukraine continued to significantly influence expenditure developments in 2024. Specifically, the costs of energy support measures decreased from 0.9% of GDP in 2023 to 0.1% in 2024 in the EU on average. The size of energy support was similar among countries and groups of countries (Graph 2.3 panel (d)). Many

Member States phased out their energy support measures in 2024, while a few countries chose to maintain some support in 2024 and beyond.⁽³¹⁾

The benchmark rate of nominal medium-term potential growth combines a 10-year moving average of potential growth rates from the Commission 2025 spring forecast and GDP deflators fixed in the spring of the year preceding the assessment year (panel (c)).⁽³²⁾ For most countries the benchmark rates for 2024 were close to those based on actual GDP deflators. This was not the case in 2022 and 2023, when inflation exceeded initial projections by a considerable margin due to the higher-than-expected impact of the 2022 energy price shock. Using a fixed GDP deflator is a more prudent approach to fiscal planning, as fiscal policy can lean against demand pressures. Similarly, the benchmark with a GDP deflator of 2%, as proposed by the ECB back in 2021 (Lane, 2021), would further improve the counter-cyclical stabilisation properties of fiscal policy.

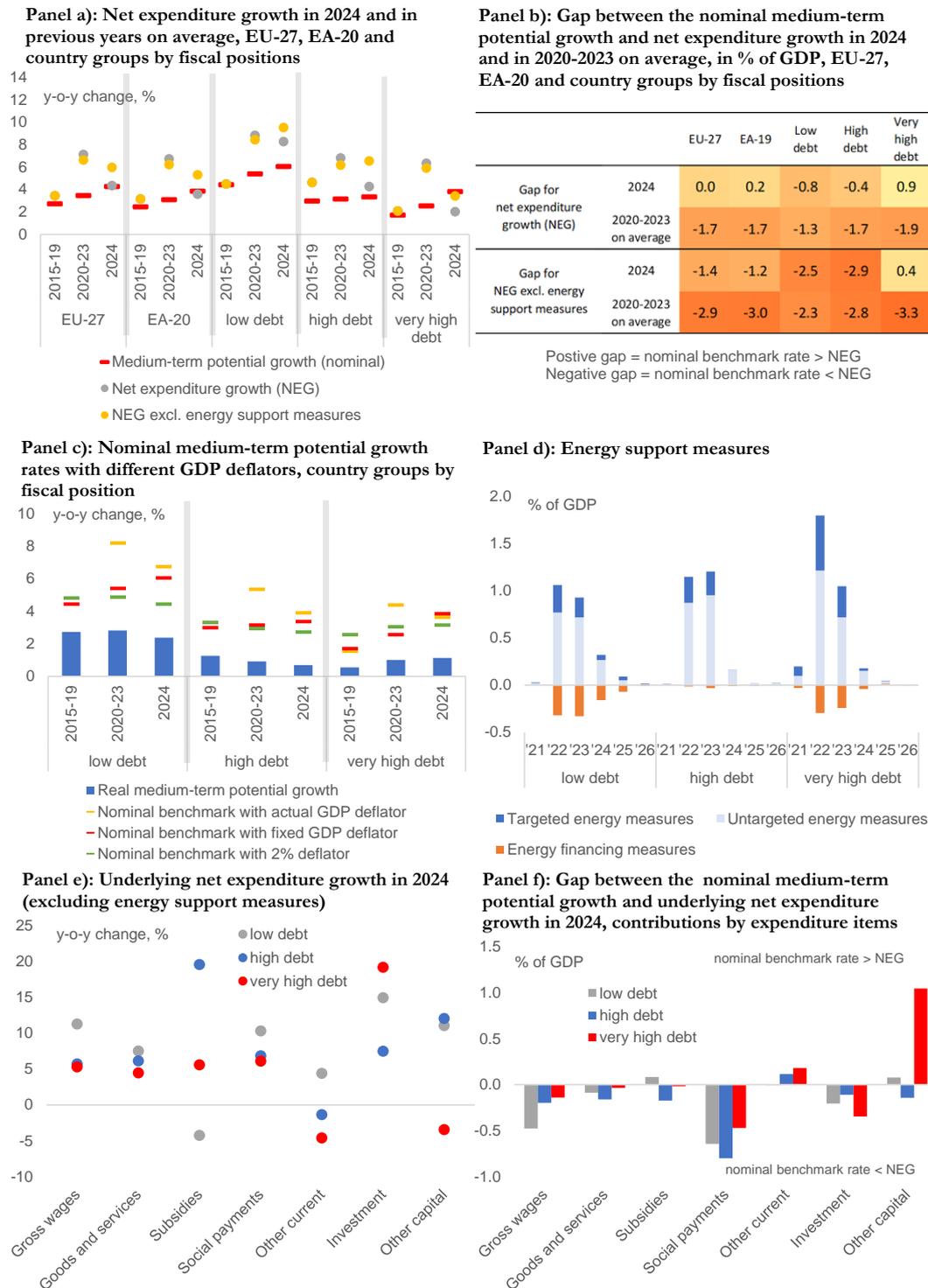
After annual average increases of 7.1% in 2020-2023, EU net expenditure growth decelerated to 4.4% in 2024 – to the level of the nominal benchmark rate. However, this slowdown was mostly due to the phasing out of energy support measures. Excluding that temporary effect, underlying net expenditure still grew by 6.0%, clearly above the benchmark rate (panel (a)). Of particular note, in countries with debt below 90% of GDP (low- and high-debt in Graph 2.3), underlying net expenditure accelerated markedly compared to the 2020-2023 average (panel (b)). By contrast, countries with debt above 90% of GDP reported a slowdown in underlying expenditure growth while their nominal benchmark rate increased. However, the result for that group masks important country-specific elements. In particular, Italy recorded negative net expenditure growth in 2024 following exceptionally high growth rates of 7% on average in 2020-2023,

⁽³⁰⁾ Outturn numbers in Graph 2.2 are not corrected for the impact of withdrawal of energy measures, which is a part of the analysis in Section 2.2.

⁽³¹⁾ Support for Ukrainian refugees began in 2022 and remained around 0.1% in 2023-2024, while costs were higher in some countries receiving more Ukrainian refugees. These costs are not excluded from underlying expenditure developments in this report.

⁽³²⁾ The Commission uses the 10-year average potential growth with real-time estimate of GDP deflator. In 2023, use of this approach for the EU fiscal guidance resulted in a moving target as GDP deflator was not fixed and increased with the inflation surprises (EFB, 2024).

Graph 2.3: Benchmarking expenditure growth in 2024



Notes: (1) The benchmark of the medium-term rate of potential GDP growth is in nominal terms. It is (i) the 10-year average of real potential output growth and (ii) the GDP deflator frozen at the start of the surveillance cycle, based on the Commission forecast of the preceding year.
 (2) 'Net expenditure growth' refers to the growth rate of government expenditure, excluding interest expenditure, expenditure on EU programmes fully matched by EU funds revenue, and the cyclical part of unemployment benefit expenditure and is net of discretionary revenue measures and one-offs.
 (3) 'Energy support measures' include government support to counter the economic and social impact of the increase in energy prices. 'Targeted energy measures' are specifically designed to support vulnerable households and companies, as opposed to wide and less effective support, i.e. 'untargeted energy measures'. 'Energy financing measures' include new revenue measures on windfall profits by energy producers, covering part of the costs of the energy support measures.
 (4) 'Underlying net expenditure growth' stands for net expenditure growth after excluding the effect of energy support measures.
 (5) Countries are grouped by their government debt level in 2024. Low debt countries (debt ratio < 60% of GDP) = BG, CZ, DK, EE, HR, LV, LT, LU, MT, NL, PL, RO, SK and SE; high debt countries (debt ratio between 60% and 90% of GDP) = DE, IE, CY, HU, AT, SI and FI; very high debt countries = BE, EL, ES, FR, IT, and PT. The values for country groups are GDP-weighted averages.
Sources: European Commission, EFB calculations

fuelled by the super-bonus scheme and its phase-out in 2024. ⁽³³⁾ Excluding Italy from the group of very high debt countries, underlying net expenditure growth exceeds the nominal benchmark rate by 0.3% of GDP in 2024 rather than being below it by 0.4% of GDP (panel (b)).

Social payments were the main drivers of underlying net expenditure growth across all groups of countries, due to their relatively high growth rates and weight in government spending (panel (f)). Increases in public sector wages were a major contributor to expenditure growth in low debt countries. In particular, Bulgaria, Croatia, Lithuania, Poland and Romania – countries with major elections in 2024 – recorded growth rates of public sector wage and social payments close to 20%. Most Member States increased their defence expenditure after 2022, and the growth rate reached 14.5% in 2024 in the EU on average. ⁽³⁴⁾ However, the low share of defence spending (3.3% of primary expenditure in the EU) limited its impact on underlying net expenditure developments.

2.3. TRANSITION TO THE NEW EU SURVEILLANCE FRAMEWORK

This section presents cross-cutting findings of an independent evaluation of how the reformed EU fiscal framework has been rolled out in 2024 and early 2025. It primarily draws on a careful and independent assessment by the EFB of the Member States' MTFSPs. The full set of these country-specific assessments is included in Annex A. Each assessment discusses and, when relevant, contrasts the key aspects of the Commission's and Council's views.

Timeline

In early 2024, when finalising the latest reform of the Stability and Growth Pact, the EU co-

legislators agreed to implement the new framework for the first time with the 2025 surveillance cycle. To that end, the co-legislators included specific transitional provisions into Article 36 of the new preventive arm Regulation (EU) 2024/1263 (see Box 2.1 for the legal background on the reform).

Compared to the normal process defined in the reformed legislation, the decision to implement the new rules immediately implied a fairly compressed timeline, especially for national authorities. In practice, both the European and national semester of EU fiscal surveillance were merged (see Table 2.4 for details). The planning phase for the first medium-term plans with a starting year of 2025 effectively kicked off at the end of June 2024 when the Commission circulated its prior guidance to the Member States. It was followed by the preparation and submission of the first vintage of MTFSPs in autumn (i.e. typically in parallel to the annual budgetary season), and the assessment by the Commission and the Council immediately after.

An additional complication, with repercussions for the assessment of the first round of MTFSPs, was that only two Member States (Malta and Denmark) submitted their plans by the official deadline of 20 September 2024. All others asked for and were granted an extension of the deadline which in most cases was within a range of two to four weeks; in some cases, the submission came months after the original deadline. The complete list of submission dates is presented in the overview table at the beginning of Annex A.

The deferred submission of most MTFSPs meant that timewise the Commission's assessment of the medium-term plans under the new rules de facto overlapped with the assessment of the established draft budgetary plans of euro-area countries for 2025. As a result, the Commission did not produce stand-alone country reports substantiating its own assessment of the MTFSPs; this particular point is further developed below.

The compressed transition to the new fiscal framework also meant that the Council recommendations setting the path for fiscal policy were adopted only in January 2025. In the steady state, where the surveillance cycle starts with Commission guidance in January, Council recommendations would be adopted well ahead of the beginning of the reference period, typically in July or September at the latest. In autumn 2024, Germany and Lithuania submitted their draft

⁽³³⁾ Italy's average net expenditure growth rates in 2020-2023 have been revised up by 1½ percentage point compared to the results in the EFB 2024 annual report. The significant statistical revision reflects the change in statistical treatment of the super-bonus tax credits being recorded as government expenditure at the time of their issuance and reassessment of already issued amount of tax credits. From the cash accounting perspective, Italy would still need to raise new debt to finance the tax credits when they are claimed to the government.

⁽³⁴⁾ Defence expenditure in 2024 is an estimate in the Commission 2025 spring forecast. Eurostat will publish outturn data for 2024 in early 2026 (COFOG data publication).

Table 2.4: The new SGP's transitional and standard implementation timeline

Timeline	Transitional surveillance timeline in 2024		Standard surveillance timeline	
	Medium-term plans	National budgets	Medium-term plans	National budgets
January			Technical exchange (on request) + confidential transmission of prior guidance by the Commission (15 January)	
February			Technical dialogue	
March			Technical dialogue	
April			Submission of medium-term fiscal-structural plans by Member States (deadline: 30 April)	
May			Commission assessment of national plans	
June	Technical exchange (on request) + confidential transmission of prior guidance by the Commission (21 June)		Commission assessment of national plans	
July	Technical dialogue		Council recommendations	
August	Technical dialogue			
September	Submission of medium-term fiscal-structural plans by Member States (20 September)			
October	Commission assessment of national plans	Submission of draft budgetary plans by euro-area Member States		Submission of draft budgetary plans by euro-area Member States
November	Commission assessment of national plans	Commission assessment of draft budgetary plans		Commission assessment of draft budgetary plans
December				
January (t+1)	Council recommendations			

Notes: Only two plans were submitted by the original deadline.

Source: EFB compilation based on Regulation (EU) 2024/1263

budgetary plans for 2025 well before they launched preparations for their MTFSPs.

Of particular note was the handling of the German MTFSP. Initially, the German authorities asked for an extension of the deadline from 20 September to 15 October 2024, broadly in line with the requests of most other EU Member States. However, the extended deadline was missed, most likely because the argumentative three-party coalition government could not reach an agreement on the content of the MTFSP. The government eventually collapsed in mid-November 2024 following a vote of no-confidence in national Parliament, paving the way for early elections on 23 February 2025, seven months ahead of the scheduled date. The new two-party government eventually took office on 6 May 2025. While the Commission may have been in regular contact with German authorities until early June, there has been no public communication by the Commission on when and how Germany would respond to the planning and reporting requirements under the reformed EU fiscal rules.

Only in June 2025 media did report on an agreement according to which the new German government would submit a MTFSP by the end of July, more than 10 months after the formal

deadline laid down in the new Regulation (EU) 2024/1263. The Commission shared a new reference trajectory with Germany on 17 June 2025, predicated on its 2025 spring forecast. The German plan was eventually submitted on 17 July 2025. It incorporated two major policy initiatives of the new government, following the reform of the national debt brake in March 2025: (i) the roll-out of a newly established EUR 500 billion infrastructure fund and (ii) a substantial increase in defence spending. Given that the Commission 2025 spring forecast – under the customary no-policy-change assumption – could not take these initiatives into account as they were not sufficiently detailed at the time, the updated reference trajectory of June 2025 did not serve as a useful benchmark for medium-term planning.

The very long gap between the original deadline of 20 September 2024 and the actual submission of the German MTFSPs – more than half a year later without any public communication – raises important questions. First and foremost, it highlights an important trade-off between the principle of ownership that has inspired the reformed fiscal rules and the obvious expectation that a country cannot delay indefinitely when it

Box 2.1: Legal and procedural background of the SGP reform implementation

Following a long review process and legislative deliberations, the EU's new economic governance framework entered into force on 30 April 2024. Although quite far-reaching on substance, the reform involves only three out of a much wider range of legal texts ⁽¹⁾: (i) a completely new Regulation of the preventive arm of the Stability and Growth Pact (SGP) ⁽²⁾; (ii) an amendment of the corrective arm Regulation ⁽³⁾; and (iii) an amendment of the Budgetary Frameworks Directive ⁽⁴⁾.

Under the new preventive arm rules, Member States are asked to prepare national medium-term fiscal structural plans against the backdrop of the Commission prior guidance anchored in a country-specific debt sustainability analysis. For countries with a headline deficit of more than 3% of GDP or a government debt ratio of more than 60% of GDP, the prior guidance takes the form of a reference trajectory which ensure that the general government debt ratio is put on a plausible downward trajectory or stays at prudent levels, even under adverse scenarios, and the general government deficit is brought and maintained below 3 % of GDP. ⁽⁵⁾ In addition, the reference trajectory must also meet quantitative safeguards, namely a debt sustainability and a deficit resilience safeguard. ⁽⁶⁾

The national plans must include a commitment to a multi-year net expenditure path. ⁽⁷⁾ This path can depart from the Commission prior guidance but needs to ensure all the conditions for the debt and the deficit ratio mentioned above. Once adopted by the Council, the net expenditure path serves as the single operational variable of EU fiscal surveillance to assess compliance. National ownership is meant to be enhanced through the national preparation and differentiation of the fiscal adjustment path.

Following the Council conclusions of 14 March 2023 ⁽⁸⁾ the reform aimed to leave the excessive deficit procedure (EDP) fundamentally unchanged with the adaptation that EDP recommendations will henceforth be set in terms of net expenditure growth rates. At the same time, the condition for opening debt-based EDPs was specified as a function of compliance with the multi-year net expenditure path.

After the reform entered into force, implementation revealed a number of inconsistencies, ambiguities and surprises: (i) financial sanctions for non-compliance under the EDP are no longer in line with the reduced size of sanctions for other surveillance steps; (ii) the involvement of independent fiscal institutions (IFIs) in medium-term fiscal planning is compulsory in the euro area as per one of the two-pack Regulations ⁽⁹⁾, while the new preventive arm Regulation makes the engagement with the IFIs on the medium-term fiscal-structural plans (MTFSPs) optional; and (iii) the application of the deficit-based EDP revealed significant changes to past practice. All these elements testify to the speed with which the reform has been pushed through and implemented.

When finalising the legislative reform in early 2024, the EU co-legislators agreed to launch the new framework immediately after adoption with the 2025 surveillance cycle. In practice this implied a significant compression of the surveillance calendar: Instead of starting in January, the Commission shared its prior guidance on 21 June 2024 ⁽¹⁰⁾ and the first national MTFSPs setting out fiscal adjustment plans from 2025 were published from end September, as

⁽¹⁾ The full collection of legal texts (as of 2018) is available at: [Economic and Monetary Union. Main Legal Texts and Policy Documents for Further Strengthening of the Economic and Monetary Union.](#)

⁽²⁾ [Regulation \(EU\) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation \(EC\) No 1466/97.](#)

⁽³⁾ [Council Regulation \(EU\) 2024/1264 of 29 April 2024 amending Regulation \(EC\) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.](#)

⁽⁴⁾ [Council Directive \(EU\) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.](#)

⁽⁵⁾ Article 6 of the new preventive arm Regulation (EU) 2024/1263.

⁽⁶⁾ Article 7 and 8 of the new preventive arm Regulation (EU) 2024/1263.

⁽⁷⁾ Net expenditure is defined as government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures (Article 2 of the new preventive arm Regulation).

⁽⁸⁾ [Orientations for a reform of the EU economic governance framework – ECOFIN Council Conclusions, 14 March 2023, Brussels.](#)

⁽⁹⁾ [Regulation \(EU\) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area.](#)

⁽¹⁰⁾ More specifically, 17 countries received a reference trajectory and 8 countries technical information. The remaining two Member states, Ireland and Luxembourg, did not request technical information, they have only received the underlying assumptions used in the Commission medium-term government debt projection framework (see Annex A for further details).

(Continued on the next page)

Box (continued)

opposed to April. On the day the Commission shared confidentially its prior guidance with Member States, it also published a guidance notice ⁽¹¹⁾ on the content and reporting obligations both for the forthcoming national MTFSPs and the subsequent annual progress reports. The notice did not prescribe a strict model structure for the national plans. It covered, among other things, (i) the specification of macroeconomic and fiscal data and projections needed for the Commission to assess whether the fiscal commitments respect the requirements of the Regulation and (ii) guidance on the set of information to be submitted on investment and reform commitments to underpin an extension of the fiscal adjustment paths.

Only two Member States (Denmark and Malta) submitted their MTFSP by the legal deadline of the transition arrangement, namely 20 September 2024. All other Member States were granted an extension via an exchange of non-public letters. The key motivation for requesting an extension were later on briefly described in the Commission assessments, without, however, unveiling the revised deadline to which the Commission had agreed. The submission of several plans in late October, early November 2024 further exacerbated the time pressure on the surveillance processes.

Upon reception of the national plans, the Commission published them on a [dedicated website](#) together with the prior guidance documents issued back in June 2024 (in total, there were 22 countries in this autumn 2024 batch). Short assessments of the MTFSPs were formally included in the Commission proposals for the Council recommendations, which were published as part of the autumn surveillance package on 26 November 2024. For most of countries in this first batch, the Council endorsed the national medium-term fiscal-structural plans on 21 January 2025. As regards the five Member States submitting their plans between February and July 2025 (in the order of submission: Bulgaria, Belgium, Lithuania, Austria and Germany), the Commission assessments and the Council recommendations were broadly staggered throughout the year. The October 2025 ECOFIN meeting concluded the pioneering MTFSP vintage with the endorsement of the German plan.

⁽¹¹⁾ [‘Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports’](#), C/2024/3975, 21 June 2024.

comes to submitting a medium-term plan. In fact, Article 19 of the new preventive arm Regulation (EU) 2024/1263 clearly states that, as a rule, the Council, on a proposal from the Commission, shall recommend the Commission’s reference trajectory as the adjustment path in case a Member State fails to submit a MTFSP. At the same time, anticipating a tight calendar for the rollout of the reformed EU fiscal rules, the transition provisions of the new preventive arm Regulation allow for an extension of the deadline to submit an MTFSP by, quote, a *reasonable period* (Article 36). While the Regulation does not specify what a reasonable period is, it stands to reason that 10 months are probably beyond most people’s prior of that qualitative indication of an extension. ⁽³⁵⁾ Second, on 15 October 2024 – the initial extension of the submission deadline – the previous government, while marred by internal political divisions, was still in office. Hence, it is not clear why the Commission did not insist on either receiving an MTFSP or recommending the reference trajectory issued earlier that year. At the

⁽³⁵⁾ For comparison, the default deadline for submitting a revised MTFSP, if the initial plan does not meet the requirements, is one month (Article 19, Regulation (EU) 2024/1263).

very least, the Commission could have been more transparent about further extensions of the deadline ⁽³⁶⁾, which were revealed only ex post after the final submission of Germany’s medium-term plan in mid-July 2025, motivated by the political transition at the federal level.

In the case of Belgium, where negotiations to form a new federal government took a long time and finally came to a conclusion at the end of January 2025, the EU followed a different approach. Following a proposal by the Commission, the Council first adopted an EDP recommendation under Article 126(7) TFEU on 21 January, just a few days before the new government took office. The recommendation outlined an adjustment path consistent with the reference trajectory issued by the Commission earlier and set a deadline of 3 months to take effective action. At the same time, the recommendation opened up the possibility of revising the very same adjustment path once the MTFSP would become available.

⁽³⁶⁾ The [Commission Communication](#) in the June 2025 surveillance package contained the first publicly traceable element about the delay, when the Commission stated that it expected ‘Germany to submit its plan by end-July 2025’.

The recommendation was effectively revised with the Commission spring package in June 2025.

By analogy, instead of creating a surveillance vacuum of around 10 months, the Commission and the Council could have recommended the reference trajectory to Germany at the end of 2024/beginning of 2025 and, if necessary, updated it later in 2025 in light of the MTFSP of the new government. ⁽³⁷⁾

Repercussions on fiscal policy in 2024

In addition to a squeezed timeline, the ‘flying transition’ to the new EU fiscal rules also had important implications for fiscal policy in 2024, a year during which the old rules were still meant to be applied. In this context, it is important to recall that in 2023 (i) the Commission and the Council agreed to deactivate the severe economic downturn clause by the end of that year; (ii) the Council, pursuant to a proposal from the Commission, adopted country-specific fiscal recommendations for 2024 stipulating maximum growth rates for net primary expenditure; and (iii) recommendations on the MTFSPs established net expenditure growth limits starting from 2025.

The Commission monitored the ongoing implementation of its fiscal guidance for 2024 in its spring 2024 European Semester documents, but did not carry out the established assessment of compliance with the recommendations for 2024 (Section 2.1). Our analysis of underlying expenditure trends in 2024, excluding temporary measures, shows that expenditure growth rates exceeded estimates of medium-term potential growth for countries with debt below 90% of GDP. In the group of more indebted Member States, expenditure slowed considerably, although still from very high rates in previous years (Section 2.2). Moreover, fiscal data revisions for the previous years show higher net expenditure growth than presented in last year’s EFB annual report (EFB, 2024). In particular, Italian net expenditure growth stood at 9% in 2023, markedly

⁽³⁷⁾ The reformed preventive arm Regulation (EU) 2024/1263 allows for an extension of the deadline by ‘a reasonable period’. While ‘reasonable’ is not specifically defined, Article 19 clarifies that if a Member States fails to submit its first MTFSP then the Commission’s reference trajectory will be recommended to the Council. Moreover, the same article indicates a deadline of 1 month for a revised MTFSP. Finally, the German MTFSP was submitted after the Commission had published its assessments on progress of implementation for most countries.

up from the earlier estimate of 4%, notably due to the reassessed impact of the *superbonus* scheme. ⁽³⁸⁾

As part of the 2024 autumn surveillance package, the Commission published its opinions on the draft budgetary plans for 2025 on 26 November. These opinions were released together with the Commission recommendations setting out the multi-year net expenditure path from 2025 for most of the euro-area Member States. The Commission claimed that the draft budgetary plans were assessed against the net expenditure ceilings established in the MTFSP (or the prior guidance in the absence of the MTFSP), based on its interpretation of the country-specific recommendations. ⁽³⁹⁾ However, given that these two documents were simultaneously published, one could not usefully serve as the basis for assessing the other. Moreover, in practice, the Commission compared net expenditure growth in the draft budgetary plans with its own 2024 autumn forecast. Intriguingly, this approach was not consistently applied to Lithuania, for which an unexplained benchmark was used. ⁽⁴⁰⁾

Another significant aspect influencing the transition process is the comparatively general nature of the new Regulation (EU) 2024/1263 (when compared to the old SGP) leaving many operational elements open for interpretation (see an example below). The Commission adopted a ‘learning-by-doing approach’, offering new interpretations during the roll-out of the new surveillance regime, citing the impossibility of agreeing on a complete contract. This contrasts with the predictability of previous practice, when a Code of Conduct – an agreement between the Commission and the Council – detailed the less specific provisions of EU laws (see also below). In fact, some Member States insisted on clarifications of at least the key features upfront to safeguard

⁽³⁸⁾ The Italian *superbonus* scheme grants tax credits for home renovation and energy efficiency improvements at 110% of the eligible expenses. The scheme was introduced in 2020 and has been amended several times over the last years. Tax credits issued by the national authorities in 2020-2023 were treated as ‘payable tax credits’ from a statistical aspect and were recorded as expenditures in the public accounts. Reassessment of the 2023 fiscal impact of the scheme seems to be linked to more recent estimate of recognised payable tax credits compared to the first EDP notification for 2023 in spring 2024.

⁽³⁹⁾ [2025 European Semester: bringing the new economic governance framework to life \(COM/2024/705 final\)](#).

⁽⁴⁰⁾ The [Commission opinion](#) refers to this undefined ceiling as a growth rate ‘the Commission would consider as an appropriate response to the Council Recommendation of 21 October 2024 and as an appropriate first step in the implementation of the new economic governance.’

predictability and ensure equal treatment in a rules-based system.

A prominent example of the uncertainty created by the learning-by-doing approach is the control account⁽⁴¹⁾: in parallel to the assessments of the first vintage of MTFSPs, discussions were ongoing on the precise arrangements for monitoring cumulative 2024 and 2025 net expenditure growth rates, i.e. when expenditure developments will be monitored in spring 2026 for the first time in the new framework based on outturn data, and how the 2024 figures (i.e. the base year of the MTFSPs) will be treated. The Council recommendations on the MTFSPs mention that these cumulative 2024-2025 growth rates will be *'used in the annual monitoring of ex post compliance in the control account'*. The Commission tabled a proposal to this end, but there are still divisions within the Council regarding the precise application modalities. In sum, it is far from clear how potential 2024 spending slippages will be treated in the transition phase, raising the risk that 2024 will turn out to be a lost year for fiscal surveillance.⁽⁴²⁾

The uncertainty over the treatment of 2024 fiscal data raises potentially two types of political economy issues: (i) Some countries could have been incentivised to strategically overestimate 2024 expenditure growth in the plan and attempt to gain a credit in their control account. (ii) Other countries who are likely to exceed their expenditure growth target in 2024 supported the exclusion of 2024 from the *ex-post* monitoring.

As recalled above, the old SGP had an implementation manual, officially labelled as a Code of Conduct (CoC)⁽⁴³⁾. This CoC was a single document, formally adopted by the Economic and Financial Committee as its opinion but also endorsed by the ECOFIN Council. Under the new

rules, and in agreement between the Commission and Member States, this exhaustive type of CoC is foreseen to be replaced by a collection of commonly agreed positions on specific topics, such as the control account, the assessment of effective action, and the assessment framework for reforms and investments. The preparation of this new CoC is envisaged to be a staggered process, transforming the CoC into a living document: when an agreement is reached on a new topic, the respective note is simply added to the existing collection. Compared to the old CoC, this new approach makes an assessment of consistency across time and countries less predictable. At the cut-off date of this report, no CoC position notes had been published, as discussions between Member States and the Commission were still in progress.

The phasing in of the 2024 reform could instructively be compared to the roll-out of the 2011-2013 six- and two-pack legislations (i.e. the previous comprehensive SGP reform). First, a single Code of Conduct encompassing the specifications on the implementation of the EU rules was agreed upon comparatively swiftly, within a couple of months, after the entry into force of the six- and two-pack legislations.⁽⁴⁴⁾ While the 2024 reform introduced far-reaching changes with major conceptual innovations, views remain divergent on many aspects crucial for even-handed implementation. More detailed transitional provisions would have been useful averting the emergence of uncertainties around various surveillance steps.

Second, in contrast to the 2024 reform, no bespoke calendar was designed for the first surveillance cycle under the new regime, as the timelines for the submission of national planning documents and their assessments respected the previously introduced European semester/national semester approach.

Third, an explicit transitional period was defined for those countries that were under EDP at the adoption of the reform⁽⁴⁵⁾ as per the respect of the newly introduced debt reduction benchmark (aka the famous one-twentieth rule, which was expected

⁽⁴¹⁾ The control account, as established by Article 22 of Regulation (EU) 2024/1263, is a Commission managed tool to keep track of annual and cumulated upward and downward deviations from the country-specific net expenditure path set by the Council. Specifically, a debit (credit) is recorded in the control account for a given year when the observed net expenditure is above (below) the recommended net expenditure trajectory.

⁽⁴²⁾ The exact methodology for assessment of compliance in particular mechanics of the control account, are still being discussed. Views still diverge among Member States about the treatment of 2024.

⁽⁴³⁾ The latest version was the following: [Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes \(Code of Conduct of the Stability and Growth Pact\)](#), 18 May 2017, Brussels.

⁽⁴⁴⁾ For instance, the six-pack regulations entered into force at mid-December 2011, and the respective CoC was made public already on [24 January 2012](#).

⁽⁴⁵⁾ The transitional period concerned almost all EU countries at the time, as in November 2011, 23 out of the then 27 Member States had been in an EDP.

to be the most demanding numerical constraint for high and very high debt countries). Specifically, for 3 years after an excessive deficit was corrected, the concerned Member State was only required to show that they had made ‘sufficient progress’ towards compliance, and thereafter would have to actually comply with the standard debt reduction formula. All in all, the previous transition seemed more gradual, and the operational details anchoring its implementation were agreed upon and made public more quickly.

Transparency of the MTFSP process

The Commission shared its prior guidance on 21 June 2024 only with the national governments concerned. For the 22 countries that submitted their plans between mid-September and early November, these guidance documents were eventually published together with the Commission MTFSP assessments in late November 2024 (see the respective dates in the overview table in Annex A). Pursuant to Article 9 of Regulation (EU) 2024/1263, the budgetary constraints communicated in the prior guidance are derived from a country-specific debt sustainability analysis (DSA) and are meant to frame the dialogue with Member States in designing the nationally differentiated adjustment paths. Therefore, this set of information is crucial for anyone wishing to follow and understand the preparation of medium-term plans.

While the publication of prior guidance together with national plans was in line with the legal provisions, it was still detrimental to the transparency of the process. In particular, it made the roll-out of the revised framework difficult to follow and interpret for a wide group of external stakeholders (e.g. national IFIs, market analysts, academics, research institutes, financial journalists). In the old SGP, the fiscal requirements were broadly predictable and well-known to stakeholders (such as the country-specific medium-term objectives) even before the submission of fiscal planning documents, such as the stability and convergence programmes.

In line with general EU provisions, the language of the national MTFSPs could have been any of the 24 official languages of the EU. Nevertheless, multilateral surveillance and peer review could have been facilitated by the parallel availability of the plans in the working languages of the EU: English, German or French. Around half of the Member

States chose to publish their plans only in the national language (and several of those who made available a translated version did so with a considerable delay). This issue was raised by stakeholders in several fora. Smaller bodies, such as the EFB Secretariat, had to rely on AI-assisted machine translations when carrying out its assessment of the plans, risking misinterpretation of the text in the original language.

Only two Member States (Denmark and Malta) submitted their MTFSPs by the legislated deadline of 20 September 2024. Many extensions of the deadline were motivated by the preparation and consistency with the draft budgetary plans for 2025, but some were also linked to upcoming statistical revisions. In particular, a benchmark revision of national accounts scheduled for autumn 2024 led to higher GDP levels in current prices for some countries and, as a consequence, lower deficit and debt ratios over the recent past, providing a more favourable starting point for fiscal planning.

As indicated above, and most likely due to the compressed timeline, the Commission decided not to prepare dedicated and comprehensive staff working documents to analytically underpin its assessment and recommendations. This constituted a clear break with past practice, when the Commission staff working documents offered to interested and directly involved parties a detailed assessment of the country’s fiscal plans. This approach reduces the information available to external assessors, in particular as it was combined with bilateral negotiations between the Commission and the Member States before the submission of plans, as well as with the confidential distribution of the prior guidance.

The lack of a detailed and comprehensive Commission assessment is problematic also for other reasons. The latest legislative reform of the Stability and Growth Pact marks a major change in EU fiscal surveillance with a wide range of innovations. Most importantly, since most national plans deviate from the Commission prior guidance (see also the next sub-section), a detailed and specific evaluation of how Member States’ macroeconomic and fiscal assumptions play out in terms of the Commission debt sustainability analysis and compliance with the various criteria enumerated in Article 13 of Regulation (EU) 2024/1263 would have been warranted. Specifically, the Commission assessments should have included a systematic breakdown of the

differences between the plans and the prior guidance, especially with regards to the medium-term net expenditure trajectory. ⁽⁴⁶⁾ Even after the release of the Commission reference trajectories (including relevant simulation files) it was not always possible to fully reconcile the differences between the Commission prior guidance and the national plan. According to the survey-based analysis of the Network of EU IFIs (2025), many national fiscal councils struggled with the lack of adequate information and missing data, and several reported that the information set related to the national plan had been insufficient to assess the realism of the macroeconomic scenario and the credibility of the envisaged public finance trajectory. See also Section 3.1.

More generally, the Commission seems to have followed a reject-or-accept approach. From the perspective of an independent assessor, it looks like the bilateral technical dialogues *de facto* pre-empted the final Commission assessment: if no issues were raised in the context of the dialogue or if an agreement had been reached as part of the dialogue, then the Commission was ready to endorse the plan submitted later on by the Member States.

The Commission also adopted a very generous approach in accepting modifications of original MTFSPs via letters by the authorities, which changed at least one of the fundamental aspects of the original plans without necessarily discussing or presenting the implications of the announced change more generally. The letters announcing the adaptations of the MTFSPs were published only by the Commission when it issued its assessment of the plan (in one instance, it implied a publication lag of close to a month). The concrete cases are the following: (i) Croatia and France changed their net expenditure trajectory via a letter to the Commission. This was done, however, without any further adjustment in the plans' macro-fiscal scenario, albeit it is inevitable that a different net expenditure path will lead to changes in both the macroeconomic and fiscal variables. Thereby the macro-fiscal projections that served as the basis for the Commission assessment and the authorities' key policy commitment seem to have become

⁽⁴⁶⁾ A systematic breakdown of the difference between the plans and the prior guidance would have shown that the Commission rigorously followed the requirement for sound and data-driven economic arguments explaining the difference (Article 13(b), Regulation (EU) 2024/1263).

inconsistent. It is also not clear why the Croatian letter was labelled as an 'addendum', and the similar French one was not; (ii) Hungary's submitted modification included an excel table which essentially replaced the original plan, so the explanations and argumentations contained in the original MTFSP document became fully obsolete. In the Croatian and even more in the Hungarian cases, the word 'addendum/addenda' is in any case a misnomer, as they did not complement the original MTFSPs, but changed at least one of their fundamental features.

The Commission's views on the national plans were condensed into a number of fairly short recitals in the Council recommendations. The assessment of macroeconomic and fiscal developments amounted to 4-5 pages in the legal document as opposed to the usual length of 20-30 pages of staff working documents prepared in the past to substantiate surveillance decisions. The lack of a dedicated Commission country report also gave rise to discussions during the endorsement process of the Council. Finally adopted by the ECOFIN Council on 21 January 2025, the recommendations on the national expenditure paths explicitly call on the Commission '*to present its assessment of future plans in a separate document from the Commission recommendations for Council recommendations*'. ⁽⁴⁷⁾

The Council recitals preceding its formal position on the Commission recommendation mostly took note of the Commission assessment in a highly standardised manner and added only a limited number of country-specific considerations (e.g. acknowledging the role of increased geopolitical risks in defence spending in particular for Member States in close proximity to Russia's war of aggression in Ukraine, or welcoming consultation with stakeholders).

The substance of the Commission and Council assessments

In the new surveillance regime, the Commission first issues prior guidance to Member States informed by the EU's common debt sustainability analysis (DSA) methodology. The prior guidance must satisfy a number of legislated conditions and safeguards laid down in Articles 6-8 of

⁽⁴⁷⁾ [Economic governance framework: Council sets fiscal expenditure paths for 21 member states. Council of the EU, Press release, 21 January 2025.](#)

Regulation (EU) 2024/1263. When drawing up their MTFSPs, Member States are allowed to some extent to deviate from the prior guidance and its underlying assumptions if they offer ‘*sound and data-driven economic arguments*’.

Many Member States submitted plans that deviated from the respective prior guidance, some even to a remarkable degree. The Commission seems to have accepted these differing projections and assumptions of the MTFSPs without major discussions, even when the plans do not offer convincing explanations. As a result of this forbearing approach, the Commission forecasts and assumptions lose their status as reference points in SGP procedures, which amounts to a certain nationalisation of the fiscal surveillance process. By way of concrete example, many plans are based on a higher or much higher trajectory of nominal GDP growth compared to the Commission prior guidance. With the Commission accepting these more optimistic growth scenarios alongside other differences, there is a clear risk that fiscal targets in terms of deficit and debt ratios will be missed even if the medium-term expenditure path is met.

The country fiches in Annex A document the issue. They include, among other things, a comparison of the cumulative nominal GDP growth rates underpinning the national plans and the prior guidance. Out of the submitted 27 MTFSPs, 12 are based on a significantly or very significantly more optimistic macroeconomic scenario.⁽⁴⁸⁾ Naturally, more optimistic growth assumptions combined with standard tax elasticities support higher expenditure commitments. Specifically, the end-of-programme difference in the cumulative net expenditure growth rates contained in the national plans and the respective prior guidance exceeds 2 percentage points or more for 8 Member States. Indeed, in this latter group, the majority of medium-term plans are predicated on a significantly more optimistic macroeconomic scenario compared to the Commission’s prior guidance.

⁽⁴⁸⁾ In the country fiches in Annex A, the plan’s macroeconomic scenario is labelled as ‘significantly’ more optimistic, if the gap between the cumulative nominal GDP growth rate of the national plan and the Commission prior guidance is between two and four percentage points by the end of the adjustment period. If said gap is above four percentage points, it is labelled as ‘very significantly’ more optimistic.

The Commission approach in accepting virtually all deviations from its prior guidance and underlying assumptions is to some extent in contrast to its own internal guidance. The Commission grouped the relevant macroeconomic and fiscal assumptions into two categories: elements where the ‘*Commission did not intend to accept deviations*’ and other elements where ‘*some limited deviations could be acceptable*’. However, later on, when assessing the MTFSPs, the Commission decided in some cases not to follow its own guidance. As a result, the assessment of numerous deviations from the Commission prior guidance was not very transparent and at times seemed to follow an ad hoc approach.

The only MTFSP for which the Commission and the Council came out with a negative assessment was the Dutch one. It appeared politically challenging to reach a consensus on fiscal commitments within the ruling coalition government, so the Dutch plan was based on the CPB’s no-policy-change projections which indeed deviated markedly from the Commission prior guidance and, *prima facie*, showed even a breach of the deficit criterion in 2026. As the Netherlands waived its right to submit a revised plan, the Council recommended the net expenditure path that was set out in the Commission prior guidance. However, from a broader perspective, the Netherlands is a country which is objectively not at risk of unsustainable fiscal trends in the short and medium term.

The Commission guidance notice⁽⁴⁹⁾ asked Member States to base their macroeconomic and budgetary projections underpinning the plan on the most recent published data available at the cut-off date of their MTFSP preparation. In many cases, the Commission 2024 autumn forecast and the projections underpinning the plans show significant (upward) revisions compared to spring 2024 when the Commission prior guidance was finalised. However, while using the latest available data may seem reasonable at first, it comes with an important downside and echoes a well-known issue encountered under the old fiscal rules.

Any macroeconomic and fiscal data includes cyclical and non-cyclical components. In practice, there are different methods to separate the two components in observed data. Reliance on more

⁽⁴⁹⁾ [Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports, 21 June 2024.](#)

optimistic medium-term forecasts motivated by, for instance more recent high frequency data, means that revisions are logged in for several years regardless of whether they reflect temporary or structural elements. For instance, an upward revision of nominal GDP can be used to motivate a higher trajectory for the net expenditure aggregate in the short and medium term. As a result, the incorporation of the latest forecasts in the underlying macro-fiscal scenario without further qualifications runs the risk of making the plans pro-cyclical. This issue mirrors the often-lamented uncertainty surrounding real-time estimates of potential output and structural budget balances under the old SGP.⁽⁵⁰⁾ Since the difficulty of separating signal from noise is fundamental, the issue has not been solved with the new rules it simply takes another form.

The Commission assessments of national plans, including departures from prior guidance uniformly conclude: *‘The Commission will take into account the above assessment of the plan’s assumptions in future assessments of compliance with the net expenditure path.’* It is not clear how these future assessments will be performed, also in view of the limited disclosure of assumption deviations and their impact on net expenditure growth.

The recent push towards higher defence spending will have a significant impact on Member States’ expenditure paths. In March 2025, as part of the ReArm Europe initiative, the Commission invited Member States to apply for the activation of the national escape clause, which allows for temporary deviations from the net expenditure trajectories set by the Council. Specifically, in the period 2025-2028, the countries concerned⁽⁵¹⁾ are allowed to exceed the recommended caps for net expenditure by 1.5 % of GDP to increase defence spending. Additional leeway was offered to Member States that increased defence spending in 2021-2024. According to the Commission interpretation of the clause, the amount corresponding to the already

implemented increase in defence spending can be used for other purposes (EFB, 2025).

In some cases, the Commission assessment highlights departures from the standard revenue elasticities. This applies to Cyprus, Greece, France and Italy. However, the Commission does not quantify the ensuing or likely impact of the diverging assumptions. Moreover, it is not clear whether this has been systematically checked for all countries or not.

For countries that asked for technical information, the Commission’s interpretation of the role of the deficit resilience safeguard, i.e. the rule that the structural deficit cannot exceed 1.5% of GDP, changed from the start of 2024 to the time when the Commission published its assessments in late autumn 2024. In early 2024, the Council tabled the proposal for the deficit resilience safeguard in the triilogue on the new preventive arm regulation⁽⁵²⁾ and the Commission presented examples of fiscal requirements, which treated the deficit resilience safeguard as a requirement for technical information countries. In June 2024, the Commission guidance notice specified that the Commission assessments of the plans *‘should examine for all Member States whether the net expenditure commitment complies with the requirements and safeguards included in the legislation.’*⁽⁵³⁾ When the Commission shared its prior guidance with Member States in June 2024, it presented two scenarios – one with and one without the deficit resilience safeguard – without any differentiation, while the accompanying simulation files for technical information countries focused more on the former.⁽⁵⁴⁾ However, the adopted Commission assessments (and subsequently, the Council recommendations) for technical information countries singled out the scenario without the deficit resilience safeguard as the main guidance. Legal provisions on the use of the safeguard are not straightforward – Article 8 of Regulation (EU) 2024/1263, which defines the deficit resilience safeguard, refers only to ‘reference trajectory’ countries, but Article 9(3) states: *‘Such technical information shall also be consistent with the deficit resilience safeguard referred to in Article 8.’*

⁽⁵⁰⁾ The estimation of output gaps requires, *inter alia*, an assessment of the degree of resource utilisation. The estimations have continuously been subject to significant *ex post* revisions, particularly for smaller open economies for which capacity limits and full employment are relatively hard to define. Consequently, major errors of judgement have been observed in fiscal policy recommendations in either direction (see e.g. Darvas, Z., Martin, P. and X. Ragot (2018): ‘European Fiscal Rules Require a Major Overhaul’, Policy Contribution No. 18, Bruegel).

⁽⁵¹⁾ In total 16 countries activated the clause: Belgium, Germany, Estonia, Greece, Croatia, Finland, Lithuania, Latvia, Portugal, Slovenia, and Slovakia from the euro area, and Bulgaria, Czechia, Denmark, Hungary, and Poland outside the euro area.

⁽⁵²⁾ [Procedure 2023/0138/COD.](#)

⁽⁵³⁾ [Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports, 21 June 2024.](#)

⁽⁵⁴⁾ The Commission prior guidance files were [released with publication of MTFSPs.](#)

2.4. EXCESSIVE DEFICIT PROCEDURE

This section reviews the implementation of the excessive deficit procedure (EDP) and highlights innovations compared to previous years, as well as interlinkages with other surveillance procedures. New EDPs were launched again after a four-year hiatus; yet, new elements of discretion were introduced. Some cases illustrate the concerns linked to the interaction between the preventive and the corrective arm of the SGP, and new examples emerged where EDPs were not opened, also due to bilateral contacts between the Commission and the national authorities.

Reopening of EDPs

The Commission resumed opening excessive deficit procedures (EDPs) in 2024, after a long hiatus between 2020 and 2023, albeit with some noteworthy innovations. The ground was prepared in spring 2023, when the Commission announced the deactivation of the severe economic downturn clause of the Stability and Growth Pact (SGP) at the end of that year, ⁽⁵⁵⁾ and informed the Council of its intention to open deficit-based EDPs in spring 2024 on the basis of outturn data for 2023. ⁽⁵⁶⁾

In this context, it is worth recalling that, formally speaking, the severe economic downturn clause did not suspend the SGP. This point was regularly emphasised in official surveillance documents of the Commission. ⁽⁵⁷⁾ In its past annual reports, the EFB clarified how, following an extensive interpretation of the clause, the Commission and the Council agreed to postpone EDPs that, based on past practice and prevailing law, could have been opened in 2023 or earlier. A timelier implementation of EDPs would have helped address sustainability risks in some Member States (Box 2.2).

This conclusion is vindicated by the reluctance of some Member States with very high government debt ratios to apply for the activation of the

national escape clause to increase defence spending in line with the Commission proposal of 19 March 2025. ⁽⁵⁸⁾ Their lack of fiscal space makes them potentially vulnerable in times of uncertainty, when markets may reassess sovereign risks. The sharp increase in government bond yields in spring 2025 (on the back of Germany's decision to amend its debt break and the volatility ensuing the US administration's announcements on tariff policy) confirms a recurring pattern in recent history.

Splitting EDP steps

In spring 2024, the Commission eventually followed up on its earlier announcement regarding EDPs, yet introduced a prominent and problematic innovation. Motivated by a declared intent to ensure consistency between MTFSPs and EDPs, the Commission supported by the Council separated the identification of an excessive deficit situation (Article 126(5-6) TFEU) and the recommendations to correct it (Article 126(7) TFEU). This sequencing is at odds with the legal provisions describing the respective steps in Article 126(5-6-7) TFEU as simultaneous. It added uncertainty around the precise adjustment requirements for the seven countries for which EDPs were announced in July 2024, as the Commission assessed their plans only at the end of the year, and the recommendations were formally adopted by the Council in the first months of 2025. Hence, the EDP recommendations did not serve their established purpose of providing a response to gross policy errors. As a reminder, in its 2024 annual report, the EFB questioned the option to split the two EDP steps, and concurred with the understanding that this instance should not create a precedent. Also, the Commission and Council stated: *'the splitting of the decisions under Article 126(6) and Article 126(7) is exceptional and linked to the transition to the new framework, therefore not setting a precedent'*. ⁽⁵⁹⁾ The EFB (2024) also expressed reservations as to the need for the corrective arm of the SGP to be consistent with the preventive arm.

In July 2024, pursuant to Commission proposals under Article 126(3), the Council adopted decisions on the existence of an excessive deficit for seven Member States: Belgium, France, Hungary, Italy,

⁽⁵⁵⁾ [European Commission Communication on fiscal policy guidance for 2023](#), 8 March 2023.

⁽⁵⁶⁾ Article 126(3) of TFEU: *'If a Member State does not fulfil the requirements under one or both of these criteria, the Commission shall prepare a report. The report of the Commission shall also 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.'*

⁽⁵⁷⁾ See for instance the Commission communications [on the 2021](#) and [the 2022 spring package](#).

⁽⁵⁸⁾ [Accommodating increased defence expenditure within the Stability and Growth Pact](#), 19 March 2025.

⁽⁵⁹⁾ Recitals of [Council recommendations](#) under Article 126(7) TFEU issued between November 2024 and January 2025.

Malta, Poland, and Slovakia. However, the Commission did not spell out the adjustment requirements in a proposal for a Council recommendation. The argument was that Member States should first present their MTFSPs under the preventive arm of the SGP, which owing to the compressed surveillance cycle of the first round of national plans were due only later in the year. A viable alternative would have been for the Commission to define the adjustment requirements of EDP countries upfront, in June 2024. The EDP is, after all, a distinct Treaty-based procedure aiming to correct ‘gross errors’. However, the Commission explicitly dismissed this possibility.

The EDP recommendations under Article 126(7) TFEU were eventually formalised in early 2025, i.e. around half a year after the ‘gross errors’ had been diagnosed. The recommendations essentially referred to the expenditure path required under the reformed preventive arm Regulation (EU) 2024/1263, thereby affecting the demarcation between the two parts of the SGP, where the corrective arm is clearly defined as an escalation in the event that public finances deviate from the reference values in the Treaty. Moreover, the time between the two steps – the identification of an excessive deficit and the Council recommendation to correct it – created a kind of extended vacuum when national fiscal policies were without a clear anchor. Going forward, there is scope for avoiding protracted periods without clear recommendations for countries in EDP.

For several countries, the uncertainty around the EDP was further aggravated by the changing requirements contained in the different surveillance steps (Table 2.5). Such an approach undermines the credibility and *raison d'être* of the initial recommendation, especially as the possibility of a revision had been communicated to national authorities in advance.⁽⁶⁰⁾ Belgium received a first EDP Council recommendations under Article 126(7) TFEU in January 2025 and an update in June 2025 after submitting its MTFSP in March. In the updated Council recommendation, the adjustment period was extended to 2029 (from 2027 initially) and reformulated against a base year of 2024 as opposed to 2023. France also received a

Council recommendation under Article 126(7) TFEU in January 2025, which was less frontloaded than the Commission recommendation of November 2024 to correct the excessive deficit, based on the original MTFSP of the country. The change was initiated by a letter from the French authorities to the Commission in mid-January 2025, which modified the net expenditure path after the government failed to gather enough support in the national Parliament. Hungary received an EDP Council recommendation under Article 126(7) TFEU in February 2025. It included a higher nominal growth rate of net expenditure than that of the Commission recommendation of November 2024 (13.5% up from 11.1% between 2023 and 2026), albeit the deadline to put an end to the excessive deficit situation was brought forward by one year. Despite proposing an EDP in November 2024, the Commission did not publish its assessment of the Hungarian MTFSP in the autumn surveillance package. In between the draft EDP recommendation proposed by the Commission and that adopted by the Council, the Hungarian authorities replaced the original plan following a series of additional bilateral technical meetings with the Commission in November and December 2024.

Table 2.5: **Revision of MTFSPs - annual growth rates of national net expenditure, in %**

	2025	2026	2027	2028	2029	Potential Growth ⁽¹⁾
BE Original	2.4	1.9	2.0	-	-	1.5
Revised	3.6	2.5	2.5	2.1	2.1	
FR Original	0.0	1.4	1.4	1.3	1.3	1.2
Revised	0.8	1.2	1.2	1.2	1.1	
HU Original	3.9	3.3	3.2	-	-	1.7
Revised	4.3	4.0	-	-	-	

Notes: Potential nominal GDP growth (%) assumed by the Member State in the MTFSP. Average over the years of the original corrective path.

Sources: European Commission and Council

⁽⁶⁰⁾ According to the [Council EDP Recommendation for Belgium](#): ‘Upon submission of the national medium-term fiscal-structural plan by Belgium, its assessment by the Commission and endorsement by the Council, a new corrective net expenditure path could be recommended by the Council under Article 126(7) TFEU, upon a recommendation from the Commission.’

Box 2.2: A drift towards bilateralism

The Treaty (TFEU) provides for multilateral rules-based surveillance of the consistency between national economic policies and broad guidelines validated by the Council. EDPs are a pillar of such multilateral surveillance as they guide fiscal policy over the medium-term when a correction is needed (Article 120-126 TFEU; Regulation (EU) 1467/97).

Normally, prior to the 2024 reform of the EU fiscal framework, events such as the emergence of a deficit above 3% of GDP and /or a debt that is not being reduced at a sufficient pace should lead to the opening of an EDP. However, as documented in previous reports of the EFB, the implementation of the SGP has been characterised by a growing trend of forbearance on the side of the Commission and the Council, often in response to political considerations. This development is a clear departure from the intended rules-based nature of the SGP and affects the main objective of the commonly agreed fiscal rules, namely to safeguard sustainable public finances as a pre-condition for a smooth functioning of the Economic and Monetary Union (EMU) (Article 121 TFEU). The opening of an EDP is meant to address “gross errors” by the Council recommending an adjustment path of typically more than one year. As part of the EDP process, Member States are then required to announce and enact fiscal measures. The EFB has documented many instances of forbearance in previous reports, for instance the recourse to new relevant factors to avoid opening debt based EDPs (see EFB (2024), Box 2.1). Amid various types of forbearance, this box focuses on the growing recourse to bilateral discussions and agreements as alternatives to the application of the commonly agreed rules. In its 2018 annual report, the EFB already observed how ‘new interpretations by the Commission of existing rules [...] fostered bilateral exchanges between the Commission and individual member states interested in a particular application of discretion’, and how that weakened multilateral surveillance. Despite the deactivation of the severe economic downturn clause of the Stability and Growth Pact, this trend appears to continue and intensify.

The recourse towards bilateralism has intensified in recent times. After the hiatus triggered by the severe economic downturn clause in 2024, there was a new case for Austria: an EDP was not opened thanks to an exchange of letters in January 2025 between the interim finance minister at the time and the Commission, based on commitments by parties that were negotiating for a coalition. These parties eventually did not form a government, as the coalition talks failed. The EDP was eventually, and belatedly, opened in June 2025, when the outcome for 2024 and high likelihood of a persistent excessive deficit in 2025, made it inevitable.

Bilateral solutions of SGP issues are not new; however, in the last ten years, there have been several examples worth of attention. In spring 2018, a letter sent by the Belgian authorities to the Commission, highlighting their commitment to continue pursuing structural reforms, contributed to the Commission’s decision not to react to Belgium’s non-compliance with the debt criterion in 2017 and to ‘reassess compliance on the basis of the ex-post data for 2018 to be notified in Spring 2019’ (Article 126(3) TFEU, May 2018). Already in 2015, 2016 and 2017, the reports prepared in accordance with Article 126(3) of the Treaty for Belgium mentioned letters sent by the Belgian authorities promising structural reforms, with a focus on the labour market in 2016 and pensions in 2017. In autumn 2018, the Italian authorities managed a clear case of serious noncompliance of their DBP for 2019 without taking significant fiscal actions, following a bilateral dialogue with the Commission. Another telling example is an exchange of letters between the Commission and the Italian authorities in 2019. Initially, Commission analysis (Article 126(3), 5 June 2019) concluded that ‘the debt criterion [...] should be considered as not complied with, and that a debt-based EDP [was] thus warranted.’ However, following bilateral interactions, the Commission, and subsequently the Council, accepted that the authority’s announcement was sufficient to consider an EDP was no longer warranted at that stage. ⁽⁶⁾ Similar exchanges of letters between the Commission and the Italian authorities had occurred already in 2016, 2017 and 2018.

This practice raises important questions: it replaces Council discussions and postpones the opening of EDPs as Treaty-based instrument to deal with fiscal developments with the potential to produce significant cross-country spill-overs which by their very nature warrant multilateral discussions. EDPs are eventually meant to correct gross errors. However, they were not meant to push Member States into immediate and possibly self-defeating adjustments. Since the global financial crisis, EDPs have been used as instruments of coordination and planning with an emphasis on the medium term. They tend to be issued for two or more years and since 2005 they can be extended if there is a change in the macroeconomic outlook. The recourse to bilateral solutions clearly runs counter the Treaty-based design of the instrument and amounts to discretion not foreseen in the agreed fiscal framework.

⁽⁶⁾ [Letter from the Commission to Italy](#), 04.07.2019

Reversal of the hierarchy between the preventive and corrective arms

The reformed Stability and Growth Pact continues to comprise two arms, i.e. preventive and corrective; the latter is embodied in the excessive deficit procedure (EDP). The Treaty on the Functioning of the EU (TFEU) defines the EDP as distinct from the preventive arm, as it should be applied in case of ‘gross policy errors’. The EDP recommendations adopted by the Council in early 2025 based on the deficit criterion, including the deadlines to correct the excessive deficit, mirror the MTFSPs’ net expenditure path as endorsed by the Council. This approach, together with the decision to delay the launch of EDPs, implies that the EDPs have at this stage been subsumed in the preventive arm, i.e. no separate or additional requirements were recommended to correct the excessive deficit. Moreover, this course of action clashes with (i) the November 2022 Communication on orientations for a reform of the EU economic governance framework, where the Commission stated that the ‘*excessive deficit procedure (EDP) would remain unchanged for breaches of the 3% of GDP deficit reference value (the so-called ‘deficit-based EDP’)*’ and (ii) the Council conclusions of March 2023, stressing that ‘*[t]he excessive deficit procedure on the basis of a breach of the 3% deficit criterion should remain unchanged, including the assessment of the relevant factors*’.

In the transition to the revised SGP, the decision of the Commission and the Council, to split the diagnosis of an excessive deficit and the recommendation on how to correct it, affected the hierarchy of surveillance procedures under the SGP, effectively inverting roles. This clashes with the original objective of the corrective arm to provide a credible and, equally important, timely response to ‘gross errors’. As highlighted by the EFB in previous reports, since the global financial and economic crisis of 2008-2009, EDPs have not been used to impose immediate and pro-cyclical adjustments, but rather as a reliable reference for national fiscal policymakers for a multi-annual adjustment towards the correction of an excessive deficit (see EFB (2024), Box 2.1). Nonetheless, during the severe economic downturn clause in 2020-2023, no EDPs were opened despite the Commission assessing non-compliance with the deficit and debt requirements, and the established

practice rooted in the SGP. ⁽⁶¹⁾ Finally, the changes to the EDPs of Belgium, France, and Hungary affected the predictability of EU fiscal surveillance and testify to the reversal of the established hierarchy of instruments, i.e. the corrective vis-à-vis the preventive arm of the SGP.

Non-opening of EDPs

In spring 2024, the Commission postponed the decision on the existence of an EDP for three countries. In Spain, the deficit in 2023 was at 3.6% of GDP but projected to return to 3% in 2024. In Finland, the deficit was projected to breach the threshold in 2024. In Slovenia, the authorities notified a planned excess over the 3% threshold in 2024, while the Commission projected a deficit smaller than the reference value. For Spain, since the Commission forecast showed a deficit going below 3% of GDP in 2025 without any additional fiscal adjustment, and although the excess in 2023 was significant, the Commission rather than following the usual course of action, which would have warranted the opening of an EDP, recurred to a new form of discretion. It concluded that ‘*initiating an excessive deficit procedure would not [...] serve a useful purpose*’, even though the double condition (close and temporary deviation from the 3% reference value) was not satisfied. In the case of Slovenia and Finland, the decision was postponed on account of a more sanguine Commission deficit forecast for 2024 and an expected drop below the reference value in 2025, respectively.

In autumn 2024, the Commission prepared an Article 126(3) TFEU report for Austria and Finland. ⁽⁶²⁾ In both cases the fiscal outlook for 2024 had visibly deteriorated with deficits well above what is generally considered to be close to the reference value. The case of Austria was particularly clear, as deficit projections remained above 3% of GDP over the whole forecast horizon.

⁽⁶¹⁾ In the past, the detection of gross errors would be normally followed by the opening of an excessive deficit procedure. As stated in EFB (2024): according to Article 3(5) of Regulation (EC) 1467/97 ‘*unexpected adverse economic events with major unfavourable consequences for government finances*’ can be taken into account when assessing effective action in response to the Council recommendation. This means adverse events are addressed ex post if and when they occur based on the understanding that any fiscal recommendation is conditional on a macroeconomic forecast.

⁽⁶²⁾ [Commission report](#), 26 November 2024.

In the footnotes of the same document, the Commission announced its intention not to open an EDP for Spain and Slovenia in light of the latest fiscal notifications and the Commission forecast, showing a deficit below 3% of GDP in 2024 in both cases. This conclusion was not based on an analysis of whether the decline in the deficit would result from favourable temporary conditions or structural trends.

For Finland, the Commission followed the formula introduced for Spain earlier in spring, namely that *‘initiating an excessive deficit procedure would not, [...], serve a useful purpose’* on account of the fact that Finland’s deficit was projected by the Commission to revert to the 3% reference value in 2025, and the impact on the economy, and public finances, of the *‘worsening security environment due to the Russia’s war of aggression against Ukraine’*.

For Austria, in spite of unequivocal evidence, the Commission rather than opening an EDP, decided to wait for the Austrian authorities to take action by January 2025. Following general elections, the two parties engaged in coalition talks signalled their intention to take corrective measures to bring the deficit below 3% in 2025. While the coalition talks to form a new government failed soon after, in January 2025 the Commission, further to new bilateral exchanges with a new combination of political parties engaged to form a government, again decided not to open an EDP and to wait for the submission of the Austrian draft budgetary plan (DBP) and MTFSP, expected for April 2025.⁽⁶³⁾ These developments testify to (i) a growing ‘bilateralism’ in the implementation of the EU fiscal framework; and (ii) increasing use of discretion in not opening EDPs when the conditions are actually met (Box 2.2).

In spring 2025, the Austrian statistical office reported a deficit in 2024 of more than 4½% of GDP, well above earlier Commission and national forecasts. The Austrian DBP and MTFSP were finally submitted in May, by which time the Austrian fiscal outlook had worsened further and the scope for opening an EDP became increasingly urgent – yet the Commission refrained again from taking any steps.

The Commission finally proposed an EDP for Austria under Article 126(7), as this step became

unavoidable.⁽⁶⁴⁾ The EDP was formally launched in early July 2025, when the Council adopted a recommendation with 2028 as the deadline for the correction of the excessive deficit.

In report under Article 126(3) of June 2025, the Commission revisited the case of Spain and Finland as their respective deficits in 2024 had turned out higher than expected and the outlook for 2025 had also deteriorated. In addition, the Commission analysed the situation in Latvia, which had reported a planned deficit in 2025 and 2026 of slightly above 3% of GDP.

For Spain, relevant factors, including the flood of October 2024, were *‘recognised and analysed’* in order to assess the deficit criterion as fulfilled. For Latvia and Finland, the excess over the reference value was considered ‘exceptional’, also due to increases in defence expenditure. While, taken in isolation, these conclusions are supported by past practice and EU law, they nevertheless raise some questions on the earlier decisions not to open an EDP for Spain and Finland.

An exception to the hesitations to open EDPs described above is the case of Romania, the only country to receive an EDP recommendation between 2020 and 2023. While resorting to an extensive interpretation of the severe economic downturn clause for all other countries with deficits above 3% of GDP, in spring 2020 the Council recommended that Romania put an end to its excessive deficit situation by 2022 and continued to apply the process through new recommendations and extended deadlines. In June 2024, the Council established that Romania had not taken effective action with respect to the 2021 recommendation. However, in line with the approach followed for other EDP countries described above, the Commission and the Council decided the next step in the Romanian EDP would only be taken after the MTFSP submission in autumn. The Council, acting upon a recommendation from the Commission, finally updated the EDP recommendation in January 2025.

In the beginning of summer 2025, the Council decided that Romania had taken no effective action in response to its recommendation of 21 January 2025, on the basis of excessive net expenditure

⁽⁶³⁾ [Letter from the Commission of 16 January 2025](#).

⁽⁶⁴⁾ [Commission Recommendation for a Council Recommendation to end the excessive deficit situation](#), 23 June 2025.

growth in 2024 and the missing entry into force of a recommended fiscal structural reform. As a consequence, it adopted a revised recommendation under Article 126(7) TFEU, with more stringent net expenditure limits and a more frontloaded adjustment compared to January.⁽⁶⁵⁾ The decision to overwrite the MTFSP's path in light of non-effective action on the EDP is consistent with the established hierarchy of the preventive and corrective arms but clashes with the approach followed for Belgium, France, and Hungary.

⁽⁶⁵⁾ [Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Romania.](#)

3. INDEPENDENT FISCAL INSTITUTIONS

Highlights

- The 2024 economic governance reform fell short of the Commission's initial ambition to expand the mandate of independent fiscal institutions (IFIs). It still brought about some reinforcements for IFIs in terms of independence safeguards and their role in national fiscal policymaking laid down in a revised Budgetary Frameworks Directive. As its transposition deadline is end-2025, it is not evident yet how the IFIs' position will actually be strengthened.
- The reform defines a limited role for IFIs in relation to the medium-term fiscal-structural plans (MTFSPs) – the cornerstones of the new fiscal rules. An independent assessment of the macroeconomic forecasts underpinning the MTFSPs will become mandatory only in 2032. Until then, the budgetary authorities may or may not solicit the view of IFIs.
- Given the decade-old two-pack provisions for euro-area IFIs to either independently produce or endorse the macroeconomic forecasts underpinning fiscal plans, some ambiguity and uncertainty has emerged as regards the optional nature of the involvement of these IFIs in the MTFSP process.
- During the roll-out of the reform, about half of Member States' IFIs were formally involved in drawing up the MTFSPs. Part of the other half issued *ex post* opinions and analyses on the plans, typically well after the publication of the EU institutions' assessment. Czechia and Slovakia continued to rely on independent expert committees to undertake the assessment of the government's macroeconomic forecasts underpinning the MTFSPs.
- Most euro-area IFIs either produced or endorsed the macroeconomic forecasts underpinning the MTFSPs. These activities were carried out either as part of the established national procedures or at the governments' requests. While all IFIs concerned eventually endorsed the official macroeconomic scenario, many raised caveats and reservations and/or noted missing or delayed data, especially regarding the details of consolidation measures and reforms.
- In the Netherlands and Belgium, two countries where IFIs have a long history, independent bodies contributed more substantially to the MTFSPs by providing forecasts, impact assessments, and simulations, highlighting a potential model for more genuine IFI involvement in future rounds.
- In response to the 2024 economic governance reform, which extends the requirement to have an IFI to the entire Union, Poland is establishing its Fiscal Council (PFC), which is set to begin operations on 1 January 2026.
- The PFC is organised as a standalone entity with a seven-member, full-time Board. The relatively large size of the Board is meant to promote a balanced representation of key stakeholders. The institutional design includes staggered mandates and comparatively strong merit-based eligibility criteria.
- The PFC's core remit aligns with the mandatory mandate laid down in EU law, such as assessing the official macroeconomic scenario, and monitoring compliance with fiscal rules. However, additional functions are legislated to be subject to specific requests from the government. It remains to be seen how the PFC will interpret its role beyond the mandatory tasks, in particular, how proactively it will issue own-initiative reports and analytical papers on topical issues.
- The law provides the PFC with strong access to information rights, including setting deadlines for data-owners and a 'naming-and-shaming' procedure for non-compliant entities. The PFC's budget is nominally fixed until 2034, offering predictability but limited flexibility.
- Regular external evaluations and relatively robust independence safeguards are meant to secure the PFC's credibility.
- The PFC's key design features appear to be broadly in line with international good practices, but its reputation and effectiveness will need to be established in practice.

The EU's IFIs are currently undergoing a reform process. The 2024 revamp of the EU fiscal framework includes a revised Budgetary Framework Directive,⁽⁶⁶⁾ which aims to (i) reinforce the IFIs independence safeguards, and (ii) add new tasks strengthening the role of independent entities primarily in overseeing national rules and budgetary procedures.⁽⁶⁷⁾ However, since the deadline for Member States to transpose the new legal requirements is 31 December 2025, at this stage it is too early to draw any firm conclusions as regards the real impact on the ground.

The horizontal part of this chapter (Section 3.1) takes stock of the role of national IFIs in the first vintage of medium-term fiscal-structural plans (MTFSP), covering both assessments requested by governments and own-initiative reports. The analysis goes beyond the preparation of fiscal planning documents; it covers IFIs' activities and reports in the policy debate following their submission and publication. Section 3.2 focuses on the ongoing establishment of an IFI in Poland, the only EU country that did not have a national fiscal council until now.

3.1. INVOLVEMENT OF IFIS IN THE FIRST VINTAGE OF MEDIUM-TERM FISCAL-STRUCTURAL PLANS

The Commission's economic governance reform proposal of April 2023 targeted a major expansion of the mandate of EU IFIs. In the end, the Council rejected the idea of entrusting national IFIs with a series of new tasks, partly because of their heterogeneity in terms of size and capacity. The 2024 reform still contained some targeted reinforcements for IFIs' independence safeguards, and also through the requirements set for comply-or-explain arrangements, made their role more prominent in the national fiscal frameworks.⁽⁶⁸⁾

As part of the 2024 reform, a new type of fiscal planning document was introduced: medium-term fiscal-structural plans (MTFSP). The related content and procedural provisions are included in a

new Regulation (EU) 2024/1263⁽⁶⁹⁾, including the role of IFIs in drawing up the national plans. In terms of mandatory tasks, the Regulation refers only to the plausibility of the underlying macroeconomic scenario. Specifically, Article 11 stipulates that until 2032, the IFIs' *ex ante* opinions on the MTFSPs' macroeconomic forecasts and assumptions are optional and subject to the specific request of national governments.⁽⁷⁰⁾ These opinions will become compulsory from 2032.

Beyond the preparatory phase of the multi-year MTFSPs, the Regulation mentions a potential role for IFIs in relation to the annual monitoring of compliance with the recommended net expenditure path set by the Council. Concretely, Article 23 of the Regulation lays down the option for national authorities to request a compliance assessment from the relevant IFIs on the budgetary outturns reported in the annual progress reports due by end-April of each year. When, based on *ex post* data, a Member State departed from the recommended net expenditure path, the IFI assessment could analyse the factors underlying the fiscal deviation. In any case, the legal text clarifies that such an IFI report 'shall be non-binding and additional to that of the Commission'.

At the same time, the new rules do not alter the provisions of the two-pack Regulation of 2013⁽⁷¹⁾, which oblige euro-area Member States to use 'independent macroeconomic forecasts' (either independently produced or independently endorsed) for their 'national medium-term fiscal plans and draft budgets'.⁽⁷²⁾ Arguably, the legal provisions formulated in 2013 could not specifically refer to the MTFSPs introduced only with the 2024 reform. However, as these are likely to in effect replace medium-term fiscal plans in many Member States, some ambiguity and uncertainty has emerged as regards the optional

⁽⁶⁶⁾ Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

⁽⁶⁷⁾ See Jankovics-Larch (2024) for a detailed discussion.

⁽⁶⁸⁾ See EFB (2024) for details.

⁽⁶⁹⁾ [Regulation \(EU\) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation \(EC\) No 1466/97](#) – OJ L, 2024/1263, 30.4.2024.

⁽⁷⁰⁾ Article 15 establishes identical requirements as regards the revised national medium-term fiscal-structural plans.

⁽⁷¹⁾ [Regulation \(EU\) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area](#) – OJ L 140, 27.5.2013.

⁽⁷²⁾ It took several years, but by the late 2010s, there have been well-established practices and publication schedules for fulfilling this requirement in all euro-area countries. See EFB (2022) for a detailed account.

nature of the involvement of euro-area IFIs in the process.

Moreover, in most euro-area countries, the preparatory work of the first MTFSP was typically carried out in parallel or in conjunction with the draft annual budget for 2025, which itself remained subject to the independent endorsement/production requirement introduced back in 2013 (see also Section 2.3 on reform roll-out's calendar issues). Specifically, both documents were typically underpinned by the same official macroeconomic forecast. Thus, irrespective of the legal interpretation of the exact coverage of the two-pack provisions on independent endorsement, i.e. whether they concern the newly introduced MTFSP documents or not, involvement of the national IFI in the MTFSP process may have been the natural continuation of existing practices.

To gain a better understanding of this issue, the EFB Secretariat conducted a short survey with national IFIs in September-October 2024. ⁽⁷³⁾ The questionnaire asked about the degree and nature of the IFIs' involvement in drawing up the national plans under the reformed EU fiscal rules (see Table 3.1 for a summary of the results). For most countries that prepared their plans in autumn 2024, the replies reflected the national understanding. In contrast, in five Member States (Austria, Belgium, Bulgaria, Germany, and Lithuania) that submitted their plans only in the course of 2025, the findings only recorded the IFIs' own expectations and intentions.

In around half of the surveyed countries, IFIs had no role in the preparation of the plans (of note, all non euro-area institutions belong to this category). As regards *ex post* assessments (i.e. analysis following the MTFSP submission), several IFIs in this group reported that they would evaluate the content and plausibility of the plans as part of their regular reporting, i.e. they did not intend to issue a dedicated assessment. Linked to the standard publication schedule of the IFIs concerned, it implied that these independent opinions/reflections arrived typically (much) after the EU institutions had completed their official assessment under EU law and issued their formal

recommendations. ⁽⁷⁴⁾ In a similar vein, even some of the IFIs' dedicated *ex post* opinions arrived with a considerable time lag, e.g. the assessment note by the Romanian Fiscal Council. ⁽⁷⁵⁾

A distinct subgroup within the countries where the IFIs had no formal involvement in the MTFSP preparation process comprises Czechia and Slovakia. The fiscal councils in these two countries did not have a distinct role, but in autumn 2024, the official short-term macroeconomic forecasts were evaluated by independent expert committees, the Committee on Budgetary Forecasts and the Macroeconomic Forecasting Committee, respectively. This was a continuation of an established practice, as the macroeconomic scenario underlying annual fiscal planning documents has long been scrutinised by these dedicated entities. In fact, this is the institutional arrangement through which Slovakia fulfils the independent endorsement requirement since 2013. Members of these expert committees include representatives of investment and commercial banks, research institutes, and other public bodies. ⁽⁷⁶⁾

Table 3.1: **Groups of the 27 Member States as a function of their IFIs' role in the MTFSPs**

Type of involvement	Number of countries	(Sub)groups	Member States
No formal involvement of the official IFI (or no IFI yet)	13	No role for any independent entity	BG, DE, DK, EE, FI, HU, MT, PL, SE, SK, RO
		Assessment by an independent committee*	CZ, SK
Involvement only in relation to the macroeconomic scenario	12	Independently produced macroeconomic forecasts	AT, LU, SI
		Independently endorsed macroeconomic forecasts	CY, EL, ES, IE, IT, HR, FR, LT, LV, PT
Involvement beyond the macroeconomic scenario	2	Independent contributions to the macroeconomic forecasts + inputs to fiscal parts	BE, NL

Note: * These other independent entities are the Czech Committee on Budgetary Forecasts and the Slovak Macroeconomic Forecasting Committee.

Sources: IFI survey of the EFB Secretariat, MTFSPs, IFI webpages

In another group of countries, the national IFIs played an *ex ante* role in relation to the macroeconomic forecasts. This essentially mimicked the arrangement for euro-area countries

⁽⁷³⁾ The online survey was distributed to 31 institutions in 26 Member States (the exception was Poland) who carry out EU-law mandated IFI functions. To the extent possible, the answers were cross-checked with the actual role of IFIs as reported in the national plans.

⁽⁷⁴⁾ See for example the [Fiscal policy monitoring report](#) by the National Audit Office of Finland (released at mid-December 2024), or the [Annual report 2025](#) by the Swedish Fiscal Policy Council (released at mid-May 2025).

⁽⁷⁵⁾ [Note on the Medium-Term Fiscal-Structural Plan \(MTP\)](#), published in late March 2025.

⁽⁷⁶⁾ The Office of the Slovak fiscal council is a voting member of the Macroeconomic Forecasting Committee.

brought about by the two-pack of 2013. This category contains two sub-groups. First, in line with their traditional institutional arrangements, the macroeconomic forecast underpinning the MTFSPs was prepared by an independent body in Austria, Luxembourg, and Slovenia. ⁽⁷⁷⁾ Second, in most cases at the request of the government, IFIs issued independent endorsement reports on the government's macroeconomic trajectory. These opinions were usually annexed to the MTFSPs.

While all IFIs in this subgroup eventually reached a positive endorsement decision, a review of the published opinions along a few dimensions reveals some instructive patterns. First, the endorsement typically covered the entire multiannual programme horizon (2024-2028/29), however, in the case of Spain, it concerned a shorter period up to 2026. Second, several IFIs (in Greece, Italy, France, and Latvia) complemented their positive decision with important qualifications and reservations by emphasising specific downside risks. ⁽⁷⁸⁾ Third, in a number of countries (Cyprus, France ⁽⁷⁹⁾, Portugal, and Spain) the IFIs underlined in their reports that some key pieces of information were missing from the documentation submitted by governments to allow a complete evaluation. Further to the latter point, the analysis of the Network of EU IFIs (2025) highlighted similar problems with insufficient or delayed information hindering a thorough assessment. Issues that were recurrently mentioned by national IFIs concerned details on planned revenue and expenditure measures, contingent liabilities, and specifics on reforms and investments.

Beyond their analysis of the official macroeconomic scenario, a few IFIs, on their own initiative, published dedicated assessment reports on the fiscal aspects following the submission of

the MTFSPs. Specifically, the Portuguese Public Finance Council published a separate opinion on Portugal's fiscal strategy contained in the medium-term plan in late October. ⁽⁸⁰⁾ In a similar vein, the Spanish Independent Authority for Fiscal Responsibility issued its opinion on the Spanish plan in early November. ⁽⁸¹⁾ Both of these IFI opinions concluded that while the two plans were broadly aligned with the Commission's prior guidance, they generally lacked information on the fiscal strategy, in particular regarding the policy measures needed to meet the net expenditure path.

Finally, there were two countries where IFIs played a wider role in drawing up the national MTFSP. For the Dutch plan, the government used the CPB's medium-term projections for both the macroeconomic and fiscal paths. In Belgium, the Federal Planning Bureau provided quantitative simulations for estimating the impacts of the planned reforms and investments, helping to justify the extension of the adjustment path. Moreover, before drawing up the country's plan, the other Belgian IFI, the High Council of Finance, was requested by the government to prepare advice on the method for allocating the necessary fiscal adjustment effort set by the Commission's reference trajectory among the different levels of government. ⁽⁸²⁾

3.2. THE NEW POLISH FISCAL COUNCIL

Until recently, Poland was the only country in the EU without a dedicated IFI. Before the 2024 EU fiscal governance reform entered into force, as it was outside the euro-area, the Polish fiscal governance system was only bound by the Budgetary Frameworks Directive 2011/85. The Directive included a broad reference to the need for involving independent institutions or 'bodies endowed with functional autonomy' to provide inputs to 'the effective and timely monitoring of compliance with the rules'. Some of the countries outside the euro-area already had IFIs monitoring rule compliance by 2011 (e.g. Denmark and Sweden), while others started to establish one (e.g. Czechia) even without being legally compelled

⁽⁷⁷⁾ In Austria, the Institute of Economic Research supplied the basis for the macroeconomic scenario underpinning the MTFSP, which was adjusted by the government to filter out the impact of fiscal consolidation measures. In Slovenia, the official macroeconomic forecast was supplied by the Institute of Macroeconomic Analysis and Development, while the other IFI, the Fiscal Council released [an own-initiative report on the Sloven plan](#).

⁽⁷⁸⁾ The Slovak IFI turned directly to the Commission on the issue of the suitability of the common revenue elasticity assumption, see the Slovak country fiche in Annex A for details.

⁽⁷⁹⁾ The French government requested from the national IFI, the High Council of Public Finances to cover in [its opinion](#) the consistency of the draft MTFSP with the EU rules. Highlighting the incomplete nature of the information received, the High Council limited its assessment to the 2025 budgetary outlook, where it identified high risks. In particular, the French IFI warned that any deviation from the deficit target set in the 2025 budget law could likely delay the correction of the excessive deficit.

⁽⁸⁰⁾ [Analysis to the National Medium-Term Fiscal-Structural Plan \(2025-2028\)](#).

⁽⁸¹⁾ [AIReF | Report on the Medium-Term Structural-Fiscal Plan 2025-2028](#).

⁽⁸²⁾ [Advice on the allocation of the reference trajectory transmitted by the European Commission to Belgium for the period 2025-2028/2031](#).

to do so. In contrast, the Polish authorities claimed that compliance with said Directive provision was fulfilled by the reporting of the Supreme Audit Office. ⁽⁸³⁾

In the first half of the 2010s, building on the favourable experience of other EU Member States with IFIs, the Council's country-specific recommendations under the European Semester repeatedly invited Poland to establish an independent body. Romhanyi and Janikowski (2018) identified a clear rationale for establishing a standalone Polish IFI to alleviate the observable pro-cyclical bias in the conduct of fiscal policy and to increase the quality of public finances.

During this period, the Polish authorities argued that the tasks of an IFI were already fulfilled by other independent entities in a decentralised way. Specifically, (i) the National Bank of Poland assesses the draft annual budgets, including their underpinning macroeconomic scenarios; (ii) the Social Dialogue Council, the main tripartite Polish body, provides mandatory opinions at several stages in the budget preparation; (iii) the parliamentary Public Finance Committee regularly commissions budgetary analyses from independent experts; (iv) as mentioned earlier, *ex post* monitoring of compliance with the domestic rules is performed by the Supreme Audit Office. However, the scattering of IFI functions among several institutions potentially weakens their impact and this arrangement fails to exploit the natural analytical synergies linking these activities. ⁽⁸⁴⁾

This fragmentation of independent inputs and advice to Polish policy-making is illustrated by the recent readings of the Commission's country-specific Scope Index of Fiscal Institutions (C-SIFI ⁽⁸⁵⁾). For the sake of completeness, the Commission includes the relevant elements of the Supreme Audit Office to represent Poland in this metric. Graph 3.1 shows Poland's C-SIFI score in EU comparison, which is clearly the lowest, far below the median.

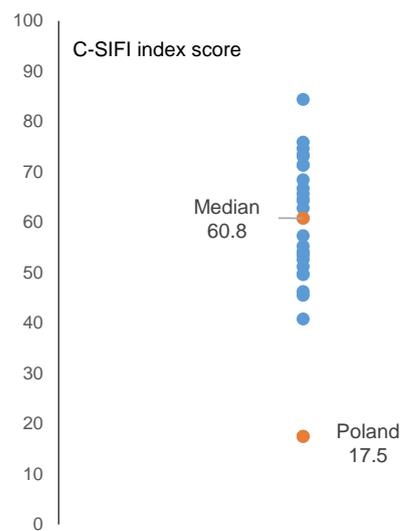
⁽⁸³⁾ Concretely, the Supreme Audit Office presents to the Parliament annual reports on the execution of the state budgets in which it pronounces itself on the respect of the fiscal rules in force (for most of the concerned period, Poland had an expenditure rule and a debt rule in force at the general government level).

⁽⁸⁴⁾ See Wiczewski, 2020 for a detailed discussion.

⁽⁸⁵⁾ The C-SIFI score simply measures the breadth of EU IFIs' mandates; therefore it should not be read as an indicator of institutional effectiveness.

The 2024 economic governance reform contains several important new IFI provisions ⁽⁸⁶⁾ as part of the amendment to the 2011/85 Budgetary Frameworks Directive. ⁽⁸⁷⁾ It, *inter alia*, extends the geographical coverage of the supranational requirement to have an official IFI from the euro-area to the entire EU. The revised Directive sets a deadline of 31 December 2025 for Member States to transpose the new and/or revised requirements into national law.

Graph 3.1: Country-specific Scope Index of Fiscal Institutions (C-SIFI): position of Poland



Notes: The country-specific Scope Index of Fiscal Institutions (C-SIFI) shows the coverage of tasks performed by national IFIs in a Member State. The relevant scores are adjusted with a 'legal force coefficient' in order to capture the elements of the official mandates. The score ranges from 0 to 100 (full coverage).

Source: European Commission's fiscal governance database, 2024 update

In view of the emerging EU legislation, the Polish coalition formed after the October 2023 national election included the initiative of a new IFI in the government programme. Following months of stakeholder consultation, the draft law establishing the Polish Fiscal Council (PFC) was submitted to the legislative chambers in October 2024. After Parliamentary adoption in December, the law entered into force in February 2025, with the specification that the new body is set to start its operation on 1 January 2026. ⁽⁸⁸⁾

The PFC is established as a standalone administrative entity. This follows the typical

⁽⁸⁶⁾ For a detailed discussion on the adopted changes with the IFI independence safeguards, see EFB, 2024.

⁽⁸⁷⁾ [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.

⁽⁸⁸⁾ Act on of 20 December 2024 on the Fiscal Council.

pattern, as two-thirds of EU IFIs are standalone institutions. The law provides for an important safeguard, stipulating that Council members must act independently when performing their duties. The PFC is led by a seven-person strong Board, one Chair and six members. All Board positions are full-time. Considering the size of the Board, this is a very generous allocation in an EU comparison. In fact, there are some EU IFIs with a relatively wide remit and rich analytical output, where even the Chair's employment status is part-time (e.g. the fiscal councils of Austria, Ireland, and Latvia). The explanatory document submitted with the draft law states that the salaries of the PFC members were drawn up to achieve a similar level of remuneration granted to the members of the Monetary Policy Council at the central bank.

To ensure merit-based appointments, the law defines two sets of eligibility criteria for the Chair: educational attainment and professional experience. Specifically, in case of a master's degree, a minimum period of relevant professional experience of 15 years is required; while in case of a PhD degree, the minimum professional experience is set at 10 years. For members, the requirement is set at a master's degree with 10 years of professional experience. The Polish rules are relatively stringent in an EU comparison: in many cases, there are only qualitative criteria defined for leadership positions.⁽⁸⁹⁾ When the eligibility criteria are quantified for EU IFIs, the most often applied combination is a master's degree in a relevant field coupled with 10 years of professional experience, though for the latter there are examples for shorter durations, too (e.g. 5 and 8 years for the Slovak and Croatian fiscal councils, respectively).

The Chair is nominated by the Minister of Finance. The other six Board members are designated by different entities: (i) the President of the Republic, (ii) the President of the Supreme Audit Office, (iii) the Conference of Rectors of Academic Schools, (iv) the employers' associations in the Social Dialogue Council, (v) the trade unions in Social Dialogue Council, (vi) Joint Commission of Government and Local Governments.⁽⁹⁰⁾ All

nominations should result from an open call for expressions of interest. The nominating institutions are asked to forward a shortlist of a minimum of two, and a maximum of three candidates from those who fulfil the above-mentioned minimum requirements to the lower house of Parliament (Sejm).⁽⁹¹⁾ The Sejm, following a public hearing of the candidates by the competent parliamentary committee, will select and appoint the Chair and the six members with the consent of the upper house of Parliament (Senate).

The Chair and the other six members are appointed for six years, renewable once. To preserve institutional memory and expertise, the term lengths are exceptionally staggered for the first appointments of the six Board members: two members are appointed for two years, another two for four years, and the remaining two for six years. If everyone completes their full term, this differentiated schedule implies that one-third of the members could potentially be replaced every two years. Staggered appointments have been successfully used in several EU IFIs with a collegial model, see e.g. the fiscal councils of Czechia, Greece, Ireland, Latvia, Portugal, and Slovakia.

The law defines the PFC's mandatory tasks broadly in line with Article 8a(5) of Directive (EU) 2024/1265, as revised in 2024. Overall, its remit is similar to that of other standalone EU fiscal councils equipped with comparable resources. In particular, the PFC must (i) prepare an opinion on the macroeconomic forecasts underpinning the annual budget and the medium-term fiscal-structural plan; (ii) monitor compliance with the domestic numerical rules; (iii) in its opinion on the draft budget, monitor *ex ante* compliance with the country's net expenditure path; and (iv) assess the consistency, coherence, and effectiveness of the national budgetary framework. In addition, the law lists additional functions, such as preparing an opinion on the budgetary impact of new policy initiatives, but these are subject to a request by the government. It remains to be seen how the PFC will interpret its remit beyond the mandatory tasks, in particular how often it will decide to issue own-initiative reports on topical issues and analytical or technical papers. The capability to issue non-

⁽⁸⁹⁾ For instance, in the case of the Austrian Fiscal Advisory Council, Board members must be 'recognised specialists in the fields of fiscal and budgetary matters', or the leadership of the Italian Parliamentary Budget Office must comprise 'widely-recognised experts in public finance and economics'.

⁽⁹⁰⁾ The relatively large size of the Board is meant to ensure a balanced representation of key institutions and interests involved

in the Polish budgetary process. At the same time, it may hinder the efficiency of internal decision-making. For a detailed discussion on the trade-offs involved, see Halesiak et al., 2024.

⁽⁹¹⁾ The law specifies that the call for applications must be launched before 31 August 2025, and nominations must be made before 30 September 2025.

mandatory publications in justified cases seems to be an important feature of well-respected and impactful IFIs.

In terms of financial resources, the PFC's allocation is on a separate budget line. Article 54 of the law on the Fiscal Council specifies the maximum limit in nominal terms for the 2025-2034 period. Starting from 2027, when both the Office and the Board are expected to be fully staffed, the indicated amounts are tantamount to an average annual indexation of 2.8%. While nominally fixing the annual budgetary envelopes in the domestic currency in the law for the next decade ensures multi-annual financing stability, it may create an overly rigid framework in case of inflationary episodes. In this context, a legally enshrined indexation mechanism could have provided a more robust financing arrangement. ⁽⁹²⁾

The work of the Board is supported by the Office of the Fiscal Council, established as a budgetary unit. There is no indication, either in the law or in the explanatory memorandum, about the scope of the technical staff. The total appropriation referred above is closest, among the EU IFIs, to the annual funding of the Portuguese Public Finance Council. The Public Finance Council is furnished with a 17-strong support staff, which could therefore be a first approximation of the possible size of the Office of the Fiscal Council. The office is managed by a director, who is appointed (and dismissed) by the PFC's Board following an open call for applications. No term limit is defined in the law for the director. In the absence of a functioning Board, the first director is to be appointed by the Minister of Finance to start operations on 1 January 2026. ⁽⁹³⁾

The Article 6 of the law on the Fiscal Council provides for the PFC's general access to information from all public entities necessary for the accomplishment of its mandate. As a particularly strong competence in international comparison, when the PFC launches a request for information, it is formally empowered to set a deadline for the concerned public entity. This access to information right is further reinforced by

stipulating a 'naming and shaming' procedure as the PFC is authorised by Article 6(3) to publish non-compliant cases on its website. ⁽⁹⁴⁾ As regards the details and modalities of information-sharing, Article 6(4) envisages the conclusion of written agreements or memorandum of understandings with the main data providers.

In line with the new requirements on external evaluations in the Directive, the PFC's performance will be subject to a regular evaluation at least once every three years. This assessment should be carried out by institutions with the necessary knowledge and experience in macroeconomics, public finances, and budgetary policies, in particular by other independent fiscal institutions or organisations with a specialised unit dedicated to independent fiscal institutions.

Overall, the adopted fundamental design features of the Polish Fiscal Council appear to be broadly in line with the independence safeguards laid down in EU legislation. ⁽⁹⁵⁾ In addition, the Act on the Fiscal Council also includes a number of international good practices, where the Polish provisions go beyond the minimum standards of the EU law, such as the full-time positions and staggered mandates for the leadership, or the comparatively strong competences in access to information. This being said, the stewardship of the first Board will have a crucial role in establishing the reputation of the new IFI, both through instilling in the institution a high degree of independence and releasing high-quality analysis. In this context, the interpretation of the remit to allow for producing one-off analyses on topical policy issues and to establish a publication schedule for analytical papers would be an important milestone.

⁽⁹²⁾ In the case of an indexation mechanism, instead of pure CPI-indexation, a formula linked to wage growth in the public sector would be more appropriate to protect the real value of the funding, as it would better reflect the dominant cost component of an IFI.

⁽⁹³⁾ To this end, an open call for application was launched by the Ministry of Finance already in March 2025.

⁽⁹⁴⁾ Establishing a public repository of rejected or partially fulfilled IFI information requests is a comparatively rare feature in the EU. A similar mechanism is stipulated in the statute of the Portuguese Public Finance Council, and it is considered to contribute to increasing the public pressure for fiscal transparency.

⁽⁹⁵⁾ This is not meant to pre-judge the formal conformity check of the Polish legislation with the revised Directive provisions, which will be carried out by the European Commission following the transposition deadline of 31 December 2025.

4. ASSESSMENT OF THE FISCAL IMPULSE AND STANCE IN 2024

Highlights

- The European Commission's early fiscal guidance for 2024 was fairly general. It called on Member States to strengthen fiscal sustainability and cautioned against a broad-based fiscal stimulus. At the same time, while asking for a further phase-out of the energy support measures introduced in 2022, it mentioned the need to remain flexible in case of renewed price pressures.
- At unchanged fiscal policies, the Commission's 2023 spring forecast projected a reduction in the structural primary deficit of $\frac{3}{4}\%$ of GDP in 2024.
- The recommendations issued as part of the Commission 2023 spring surveillance package in May of that year reiterated the need to phase out of energy support measures but lacked ambition.
- For the euro area as a whole, these recommendations implied a restrictive fiscal impulse of only 0.5% of GDP. This figure was about half of most recent estimates of the remaining energy support measures and broadly in line with the Commission's own no-policy-change forecast.
- The EFB, by contrast, recommended a restrictive fiscal impulse beyond the mere phasing out of energy support measures: an improvement of the structural primary budget balance beyond the one expected from leaving policies unchanged.
- In hindsight, a tighter fiscal impulse, as recommended by the EFB, would have been appropriate in light of the historically high level of fiscal support combined with tight labour markets.
- While the actual restrictive fiscal impulse of $\frac{3}{4}\%$ of GDP in 2024, effectively exceeded the Commission's original recommendations – thanks to revenue windfalls – it fell short of the EFB's advice of a more sizeable improvement in the euro area's structural primary balance.
- The size of fiscal impulses varied markedly across Member States. Italy emerged as an outlier, recording the largest restrictive impulse mostly due to accounting changes. Across country groups, very-high-debt countries excluding Italy recorded a broadly neutral change in structural primary budget balances.

This chapter provides a backward-looking assessment of the general orientation of fiscal policy in the euro area in 2024. In line with the relevant literature,⁽⁹⁶⁾ the EFB defines the discretionary fiscal stance as the structural primary balance in a given year,⁽⁹⁷⁾ which approximates the overall level of fiscal support provided by governments on top of automatic stabilisers. The annual change in fiscal stance is referred to as fiscal impulse.⁽⁹⁸⁾

The first section of this chapter contrasts policy guidance issued in 2023 by the European Commission, the Council and the EFB based on information available at the time. It then examines whether the fiscal stance observed in 2024 was in line with earlier guidance and whether this early guidance was appropriate in hindsight. The EFB's assessment considers the potential need for discretionary fiscal stabilisation subject to sustainability constraints on public finances.

4.1. GUIDANCE ISSUED IN 2023

In early 2023, the Commission offered early guidance for 2024.⁽⁹⁹⁾ It called on Member States to strengthen fiscal sustainability through gradual fiscal consolidation, defining a broad-based fiscal stimulus to aggregate demand as 'unwarranted' (see Box 4.1). It tried to frontload concepts of the future governance framework reform, notably formulating fiscal adjustment requirements on the basis of net primary expenditure. It also provided a return to the practice of quantitative country-specific guidance after several years of qualitative recommendations. However, it included some flexibility concerning the phasing out of energy-related fiscal measures despite warning that 'costly support measures cannot continue indefinitely'.

At that time, the latest reform of the European fiscal framework was still work in progress and the economy, although improving, was still grappling with the impact of the energy price hikes triggered

by Russia's full-scale invasion of Ukraine. Projections for 2024 pointed to an ongoing recovery of economic activity as energy prices subsided, consumer and business sentiment improved, and the labour market remained strong.

Two months later, the Commission's 2023 spring forecast revised euro-area growth for 2024 to 1.6%, marginally up compared to the outlook at the time of the Communication. Core inflation was assumed to peak in 2023, yet to remain above headline inflation also in 2024. The same forecast projected a reduction in the structural primary deficit by around $\frac{3}{4}$ percentage points of GDP in 2024, further to a similar improvement a year earlier. The Commission's preferred indicator of the fiscal impulse – based on net expenditure growth – anticipated a contractionary orientation of fiscal policy of roughly the same size, driven by the expected phasing out of energy support measures.

In its spring 2023 surveillance package, issued at the end of May 2023, the Commission reiterated the need to ensure prudent fiscal policy in 2024, against the backdrop of a marginally brighter growth outlook. It also insisted on phasing out energy support measures, allowing for targeted support to vulnerable households and companies in case of renewed energy price increases (see Box 4.1). Country-specific guidance was operationalised through specific limits on net expenditure growth in 2024 for most Member States, and all of them were recommended to preserve nationally-financed investment (see Chapter 2).

For the euro area as a whole, the Commission recommendations on net expenditure growth implied an improvement of the structural budget balance of merely 0.5% of GDP. This was about half of the most recent estimates of the remaining energy support measures, and, more importantly, broadly in line with the Commission's no-policy-change forecast of around $\frac{3}{4}$ % of GDP i.e. the Commission recommendations were less ambitious than the expected effect of sticking to prevailing policy plans.⁽¹⁰⁰⁾

⁽⁹⁶⁾ In line with the literature, the EFB differentiates between the fiscal stance and impulse (see Heller et al. (1986)). For a more detailed discussion, see the EFB's 2021 report (Box 1) on the [assessment of the euro area fiscal stance](#) in 2022.

⁽⁹⁷⁾ This chapter follows the EFB definition of the fiscal stance and fiscal impulse, unless other EU institutions are directly quoted.

⁽⁹⁸⁾ The fiscal impulse can also be derived from the net expenditure growth indicator (see also the Glossary).

⁽⁹⁹⁾ [European Commission Communication on fiscal policy guidance for 2024](#), 8 March 2023.

⁽¹⁰⁰⁾ The estimates of remaining energy support measures in the euro area have changed significantly over time. In the course of 2023, the Commission saw them at 1¼% of GDP, while the latest available assessment puts them at less than 1% of GDP. The estimates are produced by Commission services based on Member States data.

The recommendations came just a month after the Commission had tabled its legislative proposal for a major overhaul of the Stability and Growth Pact. Among other elements the prospective reform included a reduction of the adjustment requirements for countries committing to structural reforms and investment projects. ⁽¹⁰¹⁾

In June, the EFB published its assessment of the euro area fiscal stance appropriate in 2024. Amid a projected return to good macroeconomic performance, it strongly argued to go beyond the fiscal impulse implied by the Commission's recommendations. Specifically, the EFB advised improving the euro-area structural primary balance by more than 0.8% of GDP – the Commission estimate based on unchanged policies.

4.2. FINAL ASSESSMENT

Was the actual aggregate fiscal stance appropriate?

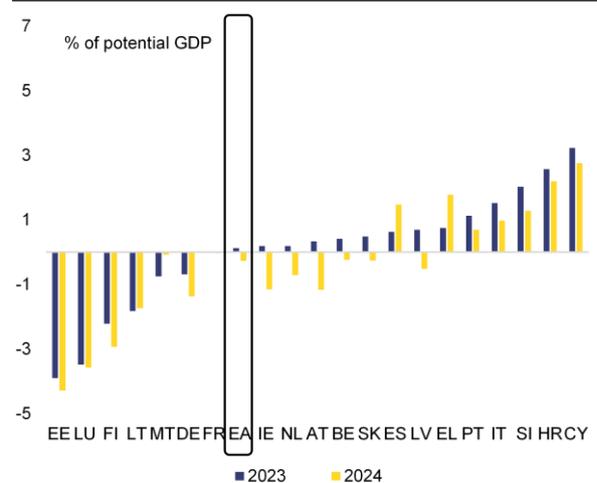
In 2024, the euro area real GDP increased by 0.9% on the previous year, below the Commission projection of 1.6% released in the spring 2023 forecast. The main reason for the disappointing outcome was a contraction of gross fixed capital formation, as heightened uncertainty weighed on investor sentiment. Nonetheless, the labour market showed once again resilience to weaker-than-expected economic activity, with employment growth of 1.0% and the unemployment rate decreasing to 6.4% from 6.6% in 2023. In aggregate, the euro area economy operated close to its potential (Graph 4.1).

In the second half of 2024, the ECB began to ease monetary policy. By the end of the year, it had reduced its main policy rate by 1 full percentage point ⁽¹⁰²⁾, following a path of progressive tightening throughout 2023. Inflation, measured as the change in the harmonised index of consumer prices (HICP), had decreased from 5.4% in 2023 to 2.4% in 2024.

⁽¹⁰¹⁾ Illustrative estimates by a Brussels-based think tank published in September 2023 – while legislators were still negotiating the reform – quantifying the impact of the Commission's proposal, showed a required improvement in the structural primary budget balance of around 0.3% of GDP or more over a 7-year period, as opposed to 0.5 over 4 years. (Darvas et al. (2023))

⁽¹⁰²⁾ The deposit facility rate decreased from 4% as of April 2024 to 3% in December 2024.

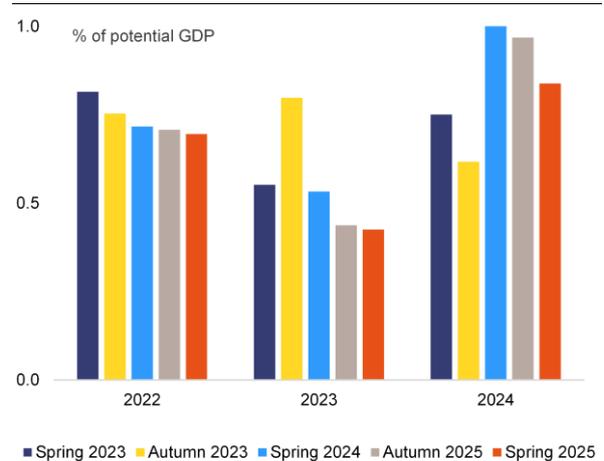
Graph 4.1: Output gap of the euro-area Member States in 2023 and 2024



Source: European Commission

The structural primary budget deficit in the euro area improved from 1.9% of GDP in 2023 to 1.1% in 2024. Aside from the phasing out of energy support measures, a significant part of the improvement also came from Italy, where accounting changes in the treatment of the *superbonus* tax relief led to a backloading of its fiscal impact (see Chapter 2). Furthermore, many Member States used the savings from phasing out energy measures to introduce new current expenditure. This stands in clear contrast with the EFB's guidance issued in 2023, which called for an adjustment over and above the phasing out of temporary measures, and a restrictive impulse in

Graph 4.2: Evolution of euro-area fiscal impulse estimates by vintage, 2022 to 2024



Note: A positive value indicates a restrictive fiscal impulse (i.e. change in structural primary balance).

Source: Different vintages of European Commission forecasts

Box 4.1: Guidance issued by the Council, the Commission and the EFB

- **8 March 2023: [European Commission Communication on fiscal policy guidance for 2024](#) (excerpts):**

In the context of the current geopolitical landscape, uncertainty remains high. [...] broad-based fiscal stimulus to aggregate demand is unwarranted and costly support measures cannot continue indefinitely: the focus must now be on strengthening fiscal sustainability through gradual fiscal consolidation and, where still needed, on targeted fiscal measures that support vulnerable households and firms affected by high energy price. [...] some elements of the Commission's reform orientations could be incorporated into the fiscal surveillance cycle that will start in spring 2023. [...] The general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. [...] Member States with substantial or moderate public debt challenges are invited to set fiscal targets that ensure plausible and continuous debt reduction or that debt is kept at prudent levels in the medium term. [...] The fiscal adjustment of Member States with substantial or moderate public debt challenges should not weigh on investment but rather be delivered through limiting the growth of nationally financed current expenditure relative to medium-term potential output growth. [...] resumption of differentiated CSRs formulated in quantitative terms as well as qualitative guidance on investment and energy measures will help to provide the necessary clarity for Member States. [...] The fiscal CSRs would be formulated on the basis of net primary expenditure as proposed in the Commission reform orientations. [...] In line with the medium-term approach and emphasis on national ownership, the Commission stands ready to base the fiscal CSRs on the fiscal targets set out in Member States' own Stability and Convergence Programmes. [...] Taking into consideration the persistently high uncertainty for the macroeconomic and budgetary outlook at this juncture, the Commission considers that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken this spring.

- **13 March 2023: [Eurogroup statement on the fiscal guidance for 2024](#) (excerpts):**

We agree that over 2023-24, prudent fiscal policies should aim at ensuring medium-term debt sustainability, while raising potential growth in a sustainable manner and addressing the green and digital transitions and resilience objectives through investment and reforms. Fiscal policy will help to ensure the stability of the euro area economy and facilitate the effective transmission of monetary policy in a high inflation environment. In light of economic prospects and in a context of high inflation and tighter financing conditions, we reiterate that broad-based fiscal stimulus to aggregate demand is not warranted.

- **24 May 2023: [European Commission's 2023 European Semester - Spring Package](#) (excerpts):**

In 2023 and 2024, fiscal policies should be prudent in order to ensure focus on medium-term debt sustainability while raising potential growth and ensuring the green and digital transition in a sustainable and resilient manner. Depending on their debt challenge, Member States should keep debt at prudent levels or ensure a plausible and continuous debt reduction in the medium term. [...] Fiscal measures taken to respond to the energy price shock should be wound down. The continued decline in energy commodity prices is curbing headline inflation from its peak in October 2022, although core inflation remains high and is on an upward trend. Against this protracted non targeted fiscal support to households and firms strengthens inflationary pressures. This raises the likelihood of central banks stepping up monetary policy tightening, and would put pressure on financial stability. [...] As uncertainty about the macroeconomic outlook remains high at present, the Commission considers that a decision on whether to place Member States under the excessive deficit procedure should not be taken this spring, as already indicated in its Communication of 8 March 2023 on fiscal policy guidance for 2024. At the same time, the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

- **28 June 2023: the [EFB's June 2023 report](#) (excerpts):**

The report recommends a restrictive fiscal impulse and considers that adjustment remains particularly important for high-debt countries. [...] The Commission guidance would imply that Member States use part of the roll-back of energy measures for new fiscal initiatives. The EFB considers that such developments would not amount to an appropriate fiscal stance for the euro area. [...] A sizeable restrictive fiscal impulse would help the ECB in the pursuit of its inflation target. A fiscal policy stance that is too expansionary would imply higher interest rates with a potential knock-on effect on output and other macroeconomic variables.

(Continued on the next page)

Box (continued)

- **13 July 2023:** [Eurogroup statement on the euro area fiscal stance for 2024](#) (excerpts):

Over the period 2020-2022 the fiscal stance in the euro area was expansionary to address the external shocks and to protect the vulnerable in our societies. At the same time, these policies have placed an additional burden on the public finances. While consolidation has already started, the effect of persistent inflation and higher borrowing costs will need to be addressed to reduce deficit and debt ratios over time. [...] a strategy of determined, gradual and realistic fiscal consolidation is warranted, to strengthen fiscal sustainability, to rebuild fiscal buffers, to deliver higher sustainable growth, to boost the euro area's resilience to future challenges including intergenerational equity. [...] We will achieve the necessary overall restrictive fiscal stance in the euro area for 2024, by the implementation of the fiscal recommendations by all euro area Member States.

- **6 July 2023:** Commission paper on [the 2023 Stability & Convergence Programmes – An Overview, with an Assessment of the Euro Area Fiscal Stance](#) (excerpts):

Member States are recommended to wind down their energy support measures, to preserve nationally financed public investment and to ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions. [...] The euro area fiscal stance is projected to be contractionary in 2024, by around ¾% of GDP, driven by the projected near full phasing out of energy support measures, based on unchanged policies [...] In 2023-24, fiscal policy in the euro area is not set to fuel inflationary pressures and thus appears broadly consistent with the ongoing normalisation of monetary policy. [...] the need for several Member States to implement gradual fiscal adjustment to achieve fiscal positions consistent with headline deficits below 3% of GDP and a steady decline in high public debt ratios would result in a euro area fiscal stance remaining overall contractionary in the medium term.

- **21 November 2023:** the [Commission's overall assessment of the 2024 DBPs](#) (excerpts):

The aggregate fiscal stance is projected to be contractionary in 2024 on the back of an almost complete phase out of the remaining energy-related measures. This fiscal stance is considered appropriate, while policies should remain agile in view of the high uncertainty. This contractionary stance comes after the fiscal stance moved into contractionary territory in 2023 following three years of substantial crisis-related expansion. [...] In spring 2024, the Commission will propose to the Council to open deficit-based Excessive Deficit Procedures on the basis of the outturn data for 2023, in line with existing legal provisions. Member States should take account of this when executing their 2023 budgets and when conducting their fiscal policies in 2024. [...] A contractionary fiscal stance is consistent with the need to improve the sustainability of public debt in some Member States and enhance the fiscal position over the medium term. This is especially true for large euro area economies with very high debt levels. Debt pressures will continue to increase due to inter alia ageing costs, the green and digital transition and defence, as well as the less favourable interest-growth differential and a still-high level of public deficits, which need to be reduced significantly. Therefore, temporary measures, such as those related to the energy crisis, need to be phased out, with the corresponding savings being used to reduce deficits, not to finance new current spending.

- **21 November 2023:** [Commission Recommendation for the Council Recommendation on the economic policy of the euro area](#) (excerpts):

Fiscal policy should contribute to disinflation, being differentiated according to country-specific levels of debt and inflation. [...] The contractionary fiscal stance expected in 2023 and 2024 will contribute to restoring fiscal buffers over time and thus to improving the sustainability of public debt in some Member States. While ensuring compliance with the limits to net expenditure growth recommended by the Council, it is also important that the fiscal stance is modulated so to avoid lasting divergences in inflation. [...] Achieve an overall restrictive fiscal stance in the euro area and thus facilitate the timely return of inflation to the 2% target, while remaining agile in view of the high uncertainty. Wind down crisis-related energy support measures as soon as possible and use the resulting savings to reduce deficits.

- **7 December 2023:** [Eurogroup statement on draft budgetary plans for 2024](#) (excerpts):

The euro area fiscal stance has moved into contractionary territory in 2023, after three years of crisis-related expansion, which helped address the external shocks and protect vulnerable households and viable firms. The change in the fiscal stance has been necessary to underpin sustainable public finances and has supported monetary policy in its efforts towards restoring price stability. A further tightening in the euro area fiscal stance is expected for 2024, on the back of the phase out of most of the remaining energy support measures. [...] While policies should remain agile in view of the prevailing uncertainty, an overall restrictive fiscal stance in the euro area for 2024 is appropriate, to

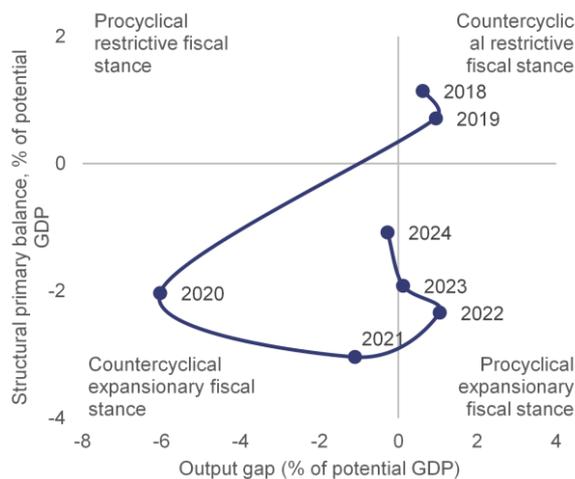
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Box (continued)

enhance public finance sustainability and in order to avoid fuelling inflationary pressures. [...] We welcome that most euro area member states plan to wind down their energy support measures, absent renewed energy price shocks, and call on those member states expected to have significant measures still in force to phase them out as soon as possible in 2024. Moreover, member states should use the related savings to reduce government deficits. We also note the Commission's intention to propose to the Council the opening of deficit-based Excessive Deficit Procedures in spring 2024 and we encourage member states with deficits above 3% of GDP to take the necessary measures.

excess of 0.8% of GDP, the improvement of the structural primary budget balance the Commission estimated from unchanged policies back in spring 2023 (Graph 4.2). As a result, the level of fiscal support remained high in 2024 with an estimated structural deficit of 3.0% of GDP, down from 3.6% of GDP in 2023. A more restrictive orientation of fiscal policy would have been appropriate when taking into account tight labour markets and estimates of potential output gap of close to zero (Graph 4.4). A more restrictive fiscal policies in euro area countries would also have ensured a better alignment with monetary policy; although declining, the ECB's main policy rate was still considered to be restrictive. ⁽¹⁰³⁾

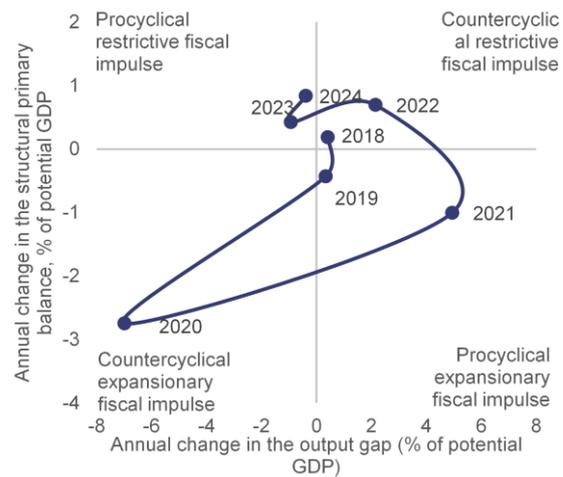
Graph 4.3: Euro area fiscal stance, 2016 to 2024



Source: European Commission

⁽¹⁰³⁾ The [Combined monetary policy decisions and statement of 12 December 2024](#) qualifies the ECB monetary policy as one that 'remains restrictive'. An [ECB staff post](#) from early 2025 also estimates the range of the real natural rate of interest for the euro area at levels below the policy rate.

Graph 4.4: Euro area fiscal impulse, 2016 to 2024



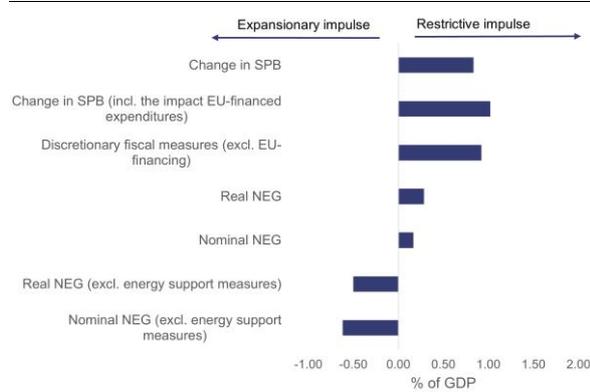
Source: European Commission

As shown in Chapter 2, underlying expenditure net of temporary measures increased by 6% y-o-y in the euro area, clearly above the benchmark rate of nominal medium-term potential growth of 3.9%. Looking at alternative estimates of the fiscal impulse (Graph 4.5) reveals that underlying expenditure developments, excluding energy support measures, went into expansionary territory, mostly due to higher current expenditure. This bodes ill for the coming years. EFB (2021) already highlighted how the 'lack of fiscal headroom in some countries resulted, to a great extent, from failure to address fiscal imbalances during the 2014-2019 economic recovery. In particular, high debt countries failed to keep their net expenditure growth in line with, let alone below, medium-term potential growth prospects'. Moreover, economic literature shows that overruns financed by windfall revenues tend to prove sticky. ⁽¹⁰⁴⁾ Of note, the sign difference between the change in the structural primary budget balance and the net expenditure growth indicator are largely due to revenue

⁽¹⁰⁴⁾ Barnes et al. (2023) show that governments tend to avoid "nominal cuts, especially in health and social expenditures". Velasco (1997) looks into the political economy of procyclical fiscal policy, for instance, the incentives to finance permanent spending with temporary revenues increases.

windfalls, i.e. revenues growing by more than the estimated yield of discretionary measures and potential output in 2024.

Graph 4.5: Euro area fiscal impulse in 2024, by different metrics



Notes: (1) SPB = structural primary balance; NEG = net expenditure growth based fiscal impulse indicator comparing changes in nationally net financed net expenditure against nominal medium-term potential growth. (2) Discretionary measures represent the incremental budgetary impact of adopted or credibly announced measures, as compared with a 'no-policy-change' forecast estimate based on judgement (bottom-up approach). (3) The fiscal impulse based on a 'real' NEG uses actual GDP deflator for nominal medium-term potential growth. 'Nominal' NEG used a GDP deflator fixed in the spring forecast of the preceding year (2023). (4) A negative value denotes an expansionary fiscal impulse, and a positive value denotes a restrictive fiscal impulse.

Sources: European Commission, EFB calculations

The orientation of fiscal policy in retrospect

The guidance for 2024 was issued amidst promising signs of a return to good economic performance, while the constraining effect of high core inflation and energy prices was projected to decline. In that context, the EFB recommended a restrictive fiscal impulse, going beyond the simple withdrawal of energy measures, to contain inflationary pressures and reduce fiscal imbalances accumulated in previous years.

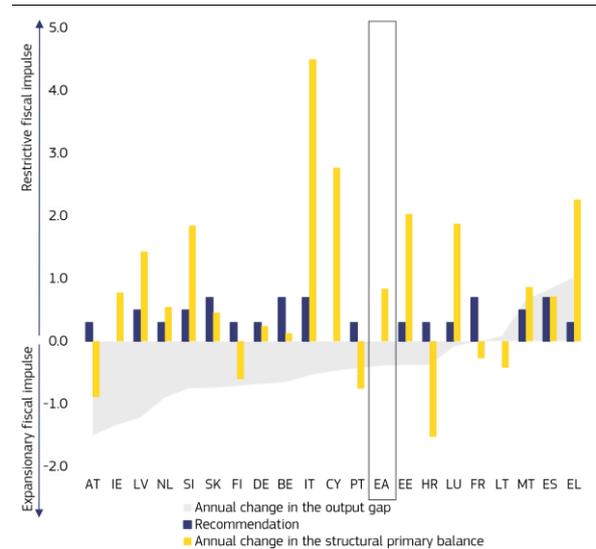
The Commission guidance issued in 2023 for fiscal consolidation lacked ambition in order of magnitude and was indecisive about the urgency of withdrawing energy support measures. Given the anticipated transition to a new economic governance framework the guidance might have lacked clarity and detail. Fiscal deficits remained elevated despite favourable macroeconomic conditions.

Was the contribution of the different countries appropriate?

In 2024, most euro area countries recorded a restrictive fiscal impulse. Italy stood out as a major outlier, mostly owing to accounting changes

pertaining to the *superbonus* mentioned above. Among the other very-high-debt countries, France and Portugal registered expansionary fiscal impulses, while Greece, Spain, and Belgium had a restrictive fiscal impulse (Graph 4.6). Among low-debt countries, there is a mixed picture of expansionary and restrictive fiscal impulses.

Graph 4.6: Fiscal impulse across euro-area Member States, 2024



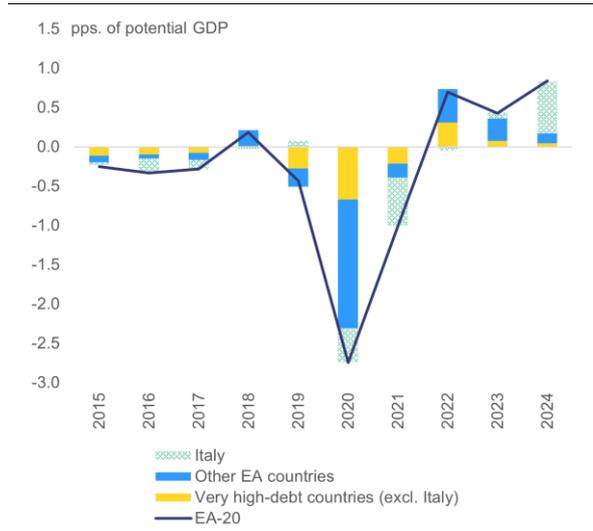
Note: The fiscal impulse is measured as the change in the structural primary balance.

Source: European Commission

While at face value very-high-debt countries drove the restrictive impulse observed for the euro area, excluding Italy from the analysis, the picture is more sobering, as the impulse from the remaining very high-debt countries is nearly neutral (Graph 4.7). The contribution of this group to the euro area's structural primary deficit was nearly three times as large as that of the rest of the euro area, highlighting room to contribute more to a restrictive impulse to the euro area.

In terms of fiscal sustainability, Graph 4.8 highlights the change in the structural primary balance needed, each year over 4 years, to reduce debt levels to 60% of GDP for each Member State. Among very-high-debt countries, only Greece delivered an impulse that was more restrictive than suggested, while Spain delivered an impulse which was fairly close, and Italy appeared to overperform but mainly because of the above-mentioned accounting one-off.

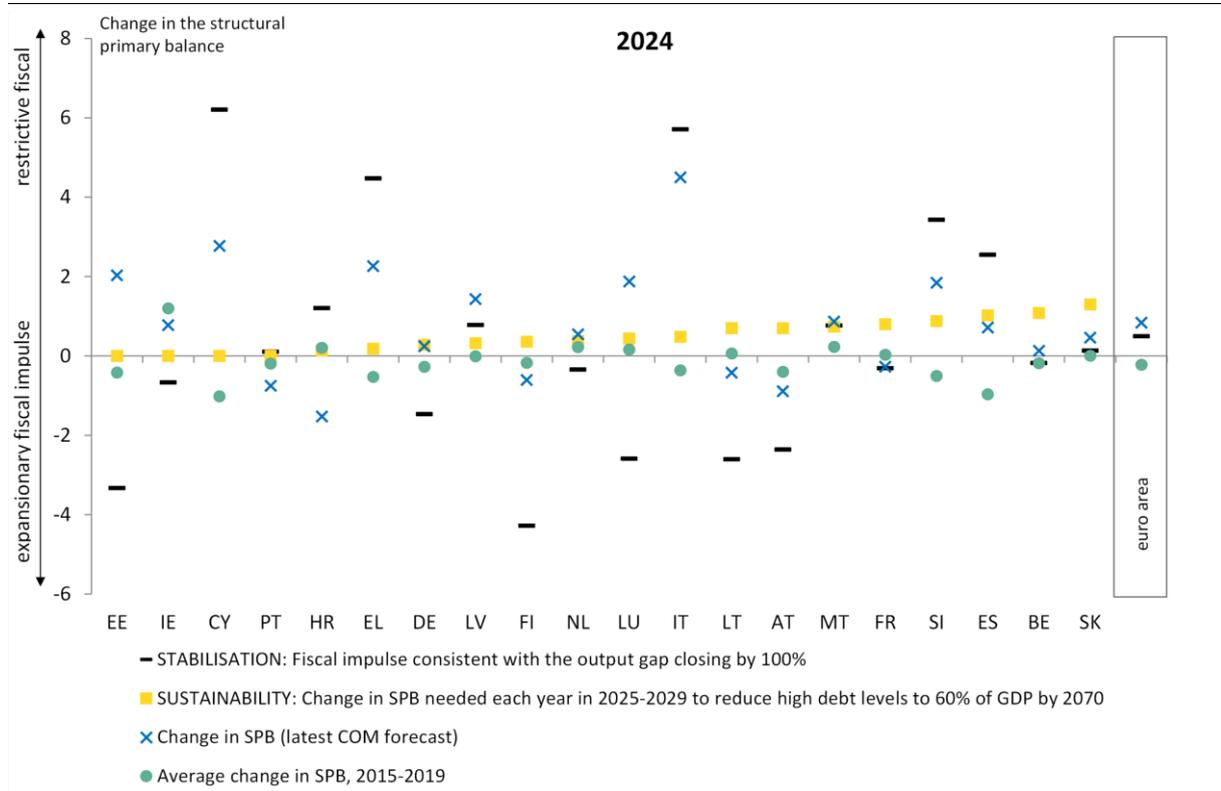
Graph 4.7: Change in the structural primary balance by debt level



Notes: Very high-debt countries denote countries with a debt-to-GDP ratio greater than 90% in 2024. In the graph the group includes Belgium, Greece, Spain, France and Portugal, with Italy treated as an outlier.

Source: European Commission

Graph 4.8: National and aggregate fiscal impulse



Notes: (1) Countries are ordered by increasing sustainability needs.

(2) Stabilisation: a neutral fiscal impulse (i.e. letting automatic fiscal stabilisers operate without any additional discretionary measures) is appropriate when the output gap recently changed signs or is expected to narrow at a sufficient pace. If not, the stabilisation point shows the fiscal impulse consistent with a reduction of the output gap by 50% compared with its 2022 level, using a uniform fiscal multiplier of 0.8.

(3) Data for the stabilisation and sustainability indicator is based on the Debt Sustainability Monitor 2023 and the Commission 2024 spring forecast.

Sources: European Commission, EFB calculations

5. CONCLUSIONS

This final chapter summarises the lessons to be drawn from the 2024 fiscal surveillance cycle and in particular from the transition to the revised fiscal framework and the latter's initial implementation.

Implementation of the EU fiscal framework in 2024

The year 2024 marked a transitional period between the previous EU fiscal framework and the new one, making it an unusual year from a fiscal surveillance perspective. This uniqueness spans from the spring of 2023, when recommendations were made, to the spring of 2025, when compliance with these recommendations was meant to be assessed.

The Commission and the Council actively monitored the implementation of these recommendations until spring 2024, when the revised SGP was finally adopted. After that they effectively stopped assessing compliance with the recommendations for national fiscal policies in 2024

In fact, while each spring, fiscal outturns in the previous year are normally evaluated against earlier recommendations, the 2025 spring package failed to provide such an assessment. This assessment is critical because it is based on actual data, not projections, and significant non-compliance could lead to procedural steps. The lack of a compliance assessment is a matter of concern, as it resulted in a surveillance gap and went along with accelerated underlying government expenditure.

In retrospect, many Member States did not follow the recommendations for 2024. In several cases, they took advantage of (often cyclically-driven) revenue windfalls and allowed primary expenditure growth to exceed sustainable levels as well as levels recommended by the Council. However, these deviations were neither documented in official Commission or Council documents, nor did they carry any procedural consequences. As a result, the fiscal situation at the start of the new medium-term fiscal-structural plans (MTFSP) was less favourable. To the extent that expenditure trends in 2024 have

an impact on government debt trajectories, they will need correction over the coming years.

Under the previous EU fiscal framework, the use of revenue windfalls for new spending did not necessarily weigh on rules compliance as the main focus was on the structural budget balance. In the future, relying on an agreed path for net primary expenditure as a single operational indicator should help in detecting unsustainable spending trends early on, regardless of potential revenue windfalls and their impact on government balances. Indeed, solely increases in revenue attributable to identified revenue measures should be incorporated in the calculation of net expenditure path. ***In this vein, the EFB emphasises the importance of implementing the new net expenditure indicator in a consistent and strict manner.***

The Commission resumed opening excessive deficit procedures (EDPs) in 2024, after a long hiatus between 2020 and 2023. A timelier implementation of EDPs would have helped address sustainability risks earlier in some Member States.

The EFB notes that since spring 2021, the Commission stopped producing detailed assessments of individual stability and convergence programmes and draft budgetary plans in the form of comprehensive country reports. Previously, these documents provided valuable insights into macroeconomic and fiscal developments, outlined in government plans, evaluated compliance with SGP rules, and examined the quality of public finances and national fiscal frameworks. Currently, the Commission only provides brief summaries of the main conclusions in the recitals (the introductory, non-binding part) of legal acts. In response to this change, the Council has invited the Commission to present its evaluation of upcoming MTFSPs in a separate document. ***The EFB seconds this invitation and urges the Commission to return to the previous practice of publishing country-specific fiscal monitoring reports.***

The new EU fiscal framework: transition and initial implementation

The new fiscal framework entered into force in April 2024. Its design and application can be assessed through a variety of approaches. One of the options are the criteria of good practice for numerical rules (Kopits and Symansky, 1998), widely accepted in the economic literature. The EFB intends to publish a more comprehensive assessment of the new framework under these criteria next year, when more information will be available, including on the first *ex post* monitoring round.

The EU co-legislators agreed on a rapid rollout of the new framework, so that it would already guide national policies from 2025. This decision triggered a planning phase under an exceptionally tight calendar. Unlike the usual sequence – European Semester guidance first, followed by national budget planning – the two cycles collapsed into one. Commission guidance, the drafting of MTFSPs, and the preparation of 2025 annual budgets all overlapped, with some draft budgets even assessed before MTFSPs were submitted. The packed calendar was further complicated by the (in several cases considerably) delayed submission of plans. As a result, the Council’s fiscal recommendations were issued only in January 2025, i.e. half a year later than in a standard surveillance calendar.

At the same time, essential elements of the reformed framework are yet to be defined as shown by the ongoing discussions on the new Code of Conduct, an agreement between the Commission and the Council on how to evaluate elements that are key for the concrete application of the rules. A more carefully planned transition would have been preferable. ***At this juncture, the EFB calls on the Commission and the Council to rapidly complete and publish the Code of Conduct to avoid ambiguity and opacity around the key elements of the reformed EU fiscal rules.***

In the transition to the reformed fiscal framework, the decision of the Commission and the Council, to split the diagnosis of an excessive deficit and the recommendation on how to correct it, affected the hierarchy of surveillance procedures under the SGP, effectively inverting their hierarchy. This result clashed with earlier Council conclusions and Commission assurance to the effect that the deficit-based EDP would remain unchanged under

the new rules. ***Going forward, the EFB is of the view that Commission and the Council should be more timely in implementing EDPs and avoid any deviation from the SGP, while preserving the hierarchy between corrective and preventive arms unchanged.***

Moreover, there is room for improvement in providing clear signals to markets and other relevant stakeholders, as highlighted by several cases of EDPs that were amended to accommodate the adjustment path of an MTFSP submitted by the Member State at a later stage. The effectiveness of EDP recommendations risks being diminished if the parameters of the recommendations are re-opened whenever a country eventually decides to submit an updated or delayed MTFSP.

The decision of July 2025 to overwrite the Romanian MTFSP’s path in light of non effective action is consistent with the established hierarchy of the preventive and corrective arm but raises issues of equal treatment. Specifically, a different course of action was followed for Belgium, France, and Hungary. ***Going forward, the EFB believes that a stricter and consistent application of the corrective over the preventive arm of the SGP should be followed.***

One of the major changes brought about by the 2024 reform concerns the timing of making public the Commission’s views of the required fiscal efforts. Under the new rules, the Commission’s prior guidance is first shared confidentially with national authorities and made public only when Member States present their plans. Because several months may pass between these two moments, stakeholders and observers, such as national IFIs, are struggling to understand the options and choices Member States are faced when drawing up their MTFSPs. Albeit the course of action followed in 2024-2025 was perfectly in line with EU law, this weighs on the transparency and predictability of the revised framework. ***In view of upcoming new or revised MTFSPs, the EFB calls on the EU and national authorities to make the planning phase less opaque for stakeholders. Inspired by some actual country cases, more transparency could be achieved by the publication of the prior guidance upon reception.***

Many of the medium-term plans submitted by Member States hinge on macroeconomic and fiscal

assumptions that diverge – at times markedly – from the Commission’s prior guidance. National authorities often justified these differences with more recent – and typically more favourable – data on economic activity or fiscal starting positions. While the reformed SGP permits deviations only when backed by ‘sound, data-driven arguments,’ the Commission did not really challenge Member States’ reasoning, even when explanations were vague or unconvincing. This leniency carries several risks, most notably that basing multi-year fiscal plans on overly optimistic projections may hardwire cyclical fluctuations into medium-term expenditure paths. ***The EFB calls on the Commission to make more rigorous assessments, allowing for deviations only in well-justified cases.***

Under the 2024 reform, the input of national IFIs to the MTFSPs only becomes mandatory in 2032, and even then, only in relation to the assessments of the macroeconomic forecasts underpinning the plans. In practice, during the first round of MTFSPs, roughly half of the Member States officially invited IFIs to play role in shaping the plans. In the euro area existing practices stemming from the Two-Pack Regulation meant that the majority of IFIs either produced or endorsed the macroeconomic forecasts. Very few had any role beyond gauging the plausibility of the underlying macroeconomic scenario. ***Going forward, the EFB stresses that a stronger involvement of IFIs in the future assessment and annual monitoring rounds could lend more credibility to the process, even beyond the issue of the plausibility of underlying macroeconomic scenarios.***

The EFB’s 2025 report on the appropriate fiscal stance for the euro area in 2026 assessed the potential for a significant positive fiscal impulse from the activation of national escape clauses for defence spending. This impulse would add to an already substantial level of fiscal support, as indicated by the structural budget deficit. ***The EFB reiterates its advice to use the flexibility solely for increasing defence spending. Moreover, to bolster the credibility of their public finances, Member States should already now start to outline robust medium-term strategies for financing permanently higher defence spending – compensated by commensurately phasing out some non-defence outlays or with revenue increases.***

Several MTFSPs included ambitious frontloaded adjustments (e.g. France), while barring last minute adjustments recent developments seem to markedly deviate from the Council-endorsed fiscal trajectory. Governments requesting the extension of the adjustment path promised to carry out a package of reforms and investment with a measurable positive impact on long-term sustainability.

The achievement of these improvements will require rigorous and timely implementation of all committed steps. Given the lengthy adjustment horizon, spanning a period of up to seven years, a change in government may involve modification, or even denial, of the scope of commitments by an earlier government. ***The EFB is concerned about potential delays in delivering the recommended fiscal adjustment – especially when backloaded – and urges close monitoring and a timely follow-up in the event of deviations, which is crucial for the effectiveness of the new framework.***

GLOSSARY

Automatic fiscal stabilisers. Features of the tax and spending regime of a government budget that react automatically to the economic cycle and moderate its fluctuations. As a result, the government budget balance as a percentage of GDP tends to improve in years of high economic growth and deteriorate during economic slowdowns.

Budget semi-elasticity. The change in the budget balance-to-GDP ratio in response to a cyclical change in GDP. Estimates of budget semi-elasticity used in EU fiscal surveillance are derived from a methodology developed by the OECD and agreed upon by the relevant Council committee. The average semi-elasticity for the EU as a whole is 0.5.

Commonly agreed method (for estimating potential output). Under the EU's fiscal surveillance framework, the Commission estimates potential output and the output gap using a commonly agreed methodology that was endorsed by the ECOFIN Council in 2002. This is based on a production function approach, which brings together the potential levels of labour, capital and total factor productivity. For more details, see Box 4.2 of the EFB's 2017 Annual Report.

Comply-or-explain principle. This establishes a requirement for national authorities to either follow the advice of independent fiscal institutions or explain why they departed from it. The comply-or-explain principle was first introduced by the intergovernmental *Fiscal Compact* in 2012 and became an element of EU law with the 2024 SGP reform.

Corrective arm of the Stability and Growth Pact. The part of the *Stability and Growth Pact (SGP)* that deals with preventing the risk of an excessive budgetary imbalance and/or correcting it. Under the SGP, an excessive budgetary imbalance is: (i) a government deficit exceeding 3% of GDP; and (ii) a level of government debt that is over 60% of GDP and is not approaching 60% at a satisfactory pace.

Country-specific recommendations (CSRs). Policy guidance tailored to each EU Member State based on Treaty provisions and secondary EU legislation aimed at coordinating national economic

policies. The Commission proposes CSRs in May each year. They are then discussed by the Member States in the Council, endorsed by the European Council at a summit in June, and formally adopted by finance ministers in July.

Debt sustainability analysis (DSA). An analytical tool to assess the sustainability risks of the public finances of each Member State over the medium term. The Commission's DSA uses a baseline (no policy change) projection for the following 10 years, applies deterministic scenarios and conducts stochastic projections covering a range of possible shocks.

Discretionary fiscal policy. A government decision that leads to a change in government spending or revenue above and beyond the effect of existing fiscal policies. Its effect is usually measured as the change in the budget balance – net of the effect of *automatic fiscal stabilisers*, one-off measures and interest payments (see also *structural balance* and *structural primary balance*).

Draft budgetary plans (DBPs). Governments submit DBPs to the Commission and the Council to support the coordination of the euro area Member States' fiscal policies. They submit their DBPs between 1 and 15 October for the following year. The requirement was introduced in 2013 with the *two-pack* reform of the *Stability and Growth Pact*.

European Semester. A framework for the coordination of economic policies across all EU Member States. It follows an annual timeline that allows the EU Member States to discuss their economic and budgetary plans and monitor progress at specific dates throughout the year.

Excessive deficit procedure (EDP). A procedure under the corrective arm of the SGP to correct an excessive deficit (i.e. a deficit that lastingly exceeds the Treaty threshold of 3% of GDP by a significant margin) or a debt ratio above 60% of GDP that is not falling at a satisfactory pace.

Expenditure benchmark. One of the two indicators that was used to assess compliance with the *Stability and Growth Pact* (the other is the change in the *structural balance*). It was in force until the

legislative change in 2024. It specified a maximum growth rate for public expenditure that: (i) was corrected for certain non-discretionary items, such as interest expenditure; (ii) included a smoothed measure of public investment; and (iii) was adjusted for discretionary revenue measures. The growth rate was not allowed to exceed *potential GDP* growth over the medium term and was further constrained for Member States that had not yet achieved their *medium-term budgetary objective*. Under the revised fiscal framework, Member States are bound by an agreed country-specific net expenditure path anchored in *debt sustainability analysis (DSA)*.

Fiscal Compact. The fiscal chapter of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), which is an intergovernmental treaty among EU Member States. The TSCG was signed in 2012 by 25 of the then 27 EU Member States (the exceptions were Czechia and the United Kingdom). Of the 25 initial contracting parties to the TSCG, 22 (the 19 euro area Member States plus, on a voluntary basis, Bulgaria, Denmark and Romania) are formally bound by the Fiscal Compact. The provisions also became automatically binding on Croatia when it adopted the euro in 2023. The Fiscal Compact commits these Member States to having binding domestic laws that require their national budgets to be in balance or in surplus. These laws must also provide for a correction mechanism, overseen by a national independent fiscal institution, to avoid lasting deviations from a balanced budget position. The other three initial contracting countries (Hungary, Poland and Sweden) opted out of the Fiscal Compact from the outset (Czechia followed this opt-out path, when it signed the TSCG in 2019).

Fiscal impulse. A measure of the impact of *discretionary fiscal policy* on aggregate demand. In practice, the impact cannot be precisely measured because it is influenced by the composition of fiscal measures, the fiscal multiplier and other factors. In this present EFB report the fiscal impulse is measured as the annual change in the structural primary budget balance (i.e. the change in the *fiscal stance*). When the change is positive, the fiscal impulse is restrictive; when the change is negative, it is expansionary.

Fiscal space. Leeway to run an expansionary fiscal policy. There is no generally accepted definition, but in this present EFB report, a Member State is

considered to have fiscal space in year t if its structural balance in year $t-1$ is estimated to be above its *medium-term budgetary objective (MTO)*.

Fiscal stance. A measure of how strongly fiscal policy supports aggregate demand. It is measured with the *structural primary budget balance*. When the balance is positive, the fiscal stance is considered not to be supportive; when the stance is negative, it is considered to be supportive.

Medium-term budgetary objective (MTO). A country-specific target for the *structural balance* before the legislative change in 2024. It took account of the diversity of economic and budgetary developments and the diversity of fiscal risks to the sustainability of public finances.

Medium-term fiscal-structural plans (MTFSPs). National fiscal plans that establish the net expenditure path for the medium term as a single fiscal target. MTFSPs have to ensure that (i) government debt is on a plausibly downward trajectory or stays at prudent levels below 60% of GDP; and (ii) the government deficit is reduced to and kept below 3% of GDP over the medium term. If an MTFSP involves fiscal adjustment, the adjustment period can be extended from 4 to 7 years if a commitment is made to implement reforms and investment. MTFSPs replace *stability and convergence programmes (SCPs)*.

National escape clause. An exception in the SGP that allows a Member State to deviate from its medium-term net expenditure path as set by the Council, in case of exceptional circumstances outside the control of the government and which have a major impact on public finances. The deviation should not endanger fiscal sustainability over the medium term. The Council activates the clause with a recommendation, after a request from a Member State and a Commission assessment that the conditions for the clause are fulfilled.

Net expenditure. Primary government expenditure net of certain items not directly under the control of government (expenditure backed by EU funds, national co-financing of EU programmes and the cyclical component of unemployment benefit expenditure), discretionary revenue measures and the impact of one-off measures.

Net expenditure path. Multi-annual trajectory of net expenditure that the Council recommends to

Member States. It is the single operational indicator used in the EU fiscal surveillance from 2025.

Numerical compliance. An assessment of fiscal performance against the core elements of a numerical fiscal rule. It is typically measured as the pure *ex post* deviation of a fiscal outcome from the limit implied by the rule. Numerical compliance thus excludes any flexibility, allowances, waivers and escape clauses that would be considered in the legal compliance assessment. For more information, see the EFB secretariat's [compliance tracker](#).

Output gap. The difference between actual output and estimated potential output at a given point in time. A business cycle typically includes a period of positive output gaps and a period of negative output gaps. When the output gap is closed, the economy is in line with its potential level (see *potential GDP*). A standard business cycle usually lasts up to 8 years, so the output gap is typically expected to close roughly every 4 years.

Potential GDP (or potential output). The level of real GDP in a given year that is consistent with a stable rate of inflation. If actual output rises above its potential level, constraints on capacity begin to take effect and inflationary pressures build. If actual output falls below potential, resources are lying idle and inflationary pressures abate (see also *commonly agreed method, production function approach and output gap*).

Preventive arm of the Stability and Growth Pact. The part of the *Stability and Growth Pact* that aims to prevent gross policy errors and excessive deficits. Until the legislative change in 2024, Member States were required to make progress towards achieving their *medium-term budgetary objective* and maintain it once it had been achieved. Since 2024, Member States have been required to implement their *medium-term fiscal-structural plans (MTFSPs)* unless they have excessive budgetary imbalances (see *corrective arm of the Stability and Growth Pact* and *excessive deficit procedure*).

Prior guidance. Information transmitted by the Commission to Member States to help prepare their national medium-term fiscal-structural plans. It includes the reference trajectory or technical information, and DSA simulations with the underlying macroeconomic and fiscal assumptions.

Production function approach. A method of estimating an economy's sustainable level of output that is compatible with stable inflation. It is based on available labour inputs, the capital stock and their levels of efficiency. *Potential output* is used to estimate the *output gap*, which is a key input when estimating the *structural balance*.

Recital. A non-binding part of an EU legislative act that sets out reasons for the enacting terms.

Recovery and Resilience Facility (RRF). A temporary instrument, part of the NextGenerationEU initiative, adopted in the wake of the Covid-19 pandemic in 2021. It provides loans and grants to Member States to support their economic recovery as well as green and digital transitions. The facility allows the EU to borrow on the capital markets and will run until 31 December 2026.

Reference trajectory (RT). A *DSA*-based guidance issued by the Commission to Member States with government debt exceeding 60% of GDP or a government deficit exceeding 3% of GDP. It indicates the fiscal adjustment that would be needed over the next 4 to 7 years to ensure that government debt is on a plausibly downward trajectory or stays at prudent levels over the medium term, and to ensure adherence to the 3% of GDP deficit reference value. The reference trajectory is supposed to guide Member States in the preparation of their *medium-term fiscal-structural plans (MTFSPs)*.

Revenue windfalls and shortfalls. Changes in government revenue that are not explained by the standard elasticity of revenue in response to the economic cycle. Unusually buoyant revenue leads to revenue windfalls; unusually weak revenue leads to revenue shortfalls.

S0 indicator. A composite indicator published by the Commission. It measures the risk of short-term fiscal stress from the fiscal, macro-financial and competitiveness perspectives. The S0 indicator uses a set of 25 fiscal and financial-competitiveness variables that have been proven to perform well in detecting fiscal stress.

S1 indicator. A long-term sustainability indicator used by the Commission in its *debt sustainability analysis*. It measures the permanent adjustment in the structural primary balance relative to a set

baseline projection, which ensures that the debt-to-GDP ratio will fall below 60% by 2070.

S2 indicator. A Commission’s long-term sustainability indicator. It shows the upfront adjustment to the current *structural primary balance* required to stabilise the debt-to-GDP ratio over an infinite horizon, including financing of expenditure arising from an ageing population.

Severe economic downturn clause. A provision introduced in 2011 as part of the *six-pack* reform of the *Stability and Growth Pact (SGP)*. In the event of a severe economic downturn in the euro area or in the EU as a whole, it provides additional and temporary flexibility beyond what is normally allowed under the preventive and corrective arm of the SGP – provided this does not endanger fiscal sustainability in the medium term. The 2024 reform of the *SGP* refers to it as the ‘general escape clause’.

Six-pack. A set of EU legislative measures – five regulations and one directive – to reform the *Stability and Growth Pact*. The six-pack entered into force in December 2011. It is intended to strengthen the procedures for reducing public deficits and debts, and to address macroeconomic imbalances.

Snowball effect. This effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). When the difference between the interest rate on the stock of debt and nominal GDP growth is strictly positive, primary surpluses are required to stabilise or reduce the debt-to-GDP ratio. A negative differential implies a debt-reducing effect on the ratio.

Stabilisation. Economic policy intervention to bring actual output closer to *potential output*. In the euro area in normal economic times, this is expected to be achieved through the ECB’s monetary policy (for common shocks) and national *automatic fiscal stabilisers* (for country-specific shocks). When this is not sufficient, *discretionary fiscal policy* can also play a role.

Stability and convergence programmes (SCPs). Until 2024, Member States were required to present their fiscal plans for the next 3 years and to submit them for assessment to the Commission and the Council in April each year. The euro area

Member States submitted stability programmes; the other Member States submitted convergence programmes. Since 2024, the SCPs have been replaced by *medium-term fiscal-structural plans (MTFSPs)* and annual progress reports.

Stability and Growth Pact (SGP). A set of rules designed to ensure that the EU’s Member States pursue sound public finances and coordinate their fiscal policies. The SGP is based on an agreement reached by the Member States in 1997 to enforce the deficit and debt limits set by the Maastricht Treaty.

Structural (budget) balance. The headline budget balance net of the cyclical effect (calculated from the *output gap* and *budget semi-elasticity*), one-offs and other temporary measures. The structural balance is a measure of the underlying trend in the budget balance.

Structural primary (budget) balance. The *structural (budget) balance* net of interest payments (see also *fiscal stance*).

Sustainability of public finances. A government’s ability to service its debt. From a purely theoretical point of view, sustainability means that government debt does not grow faster than the interest rate. Sustainability is conceptually intuitive, but an agreed operational definition has proven difficult to achieve. The Commission uses three indicators of sustainability with different time frames (*S0*, *S1* and *S2*). These are complemented by a *debt sustainability analysis* that includes sensitivity tests on government debt projections and alternative scenarios.

Technical information. A DSA-based guidance transmitted upon request from the Commission to Member States with government debt below 60% of GDP and government deficit not exceeding 3% of GDP. It indicates the fiscal adjustment that would be needed over the next 4 to 7 years to ensure adherence to reference values for deficit and debt. This guidance helps Member States to prepare their national medium-term fiscal-structural plans.

Two-pack. Two EU regulations entered into force in 2013 to introduce stronger fiscal surveillance tools for euro area countries. These aim to make Member State’ budgetary decision-making more transparent, strengthen coordination in the euro

area, and recognise the special needs of euro area countries under severe financial pressure.

Underlying expenditure growth. Intertemporal government expenditure growth. It is estimated by excluding the effect of unusual and temporary government measures from the observed expenditure growth. In this present report, underlying net expenditure growth (see also *net expenditure*) is estimated by excluding the impact of energy support measures.

ANNEX A: ASSESSMENT OF NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLANS

This annex presents the EFB assessment of the first vintage of the medium-term fiscal-structural plans (MTFSPs, or ‘plans’) for each Member State. The country sections focus on the preparation of the plans against the backdrop of the Commission’s prior guidance, and their subsequent appraisals by the Commission and the Council. This is why the country sections refer to that particular Commission forecast vintage used for the concomitant Commission assessments and Council recommendations. The country sections were thereafter frozen and not updated with more recent forecasts or other political and economic developments.

Member States are grouped by type of Commission prior guidance; i.e. reference trajectory, technical information or no guidance except macroeconomic assumptions.

Table A.1: Overview of the medium-term fiscal-structural plans (MTFSPs)

Member States receiving reference trajectories							
	Commission guidance	Submission date of the plan	Addendum to the plan	Years of the plan	Years of adjustment	EDP	National escape clause
BE	5.2.2025	19.3.2025		2025-2029	7	Yes	Yes
DE	17.6.2025	17.7.2025		2025-2029	7		Yes
EE	21.6.2024	11.10.2024		2025-2028	4		Yes
EL	21.6.2024	7.10.2024		2025-2028	4		Yes
ES	21.6.2024	15.10.2024		2025-2028	7		
FR	21.6.2024	31.10.2024	16.1.2025	2025-2029	7	Yes	
IT	21.6.2024	15.10.2024		2025-2029	7	Yes	
CY	21.6.2024	15.10.2024	15.11.2024	2025-2028	4		
HU	21.6.2024	4.11.2024	20.12.2024	2025-2028	4	Yes	Yes
MT	21.6.2024	20.9.2024		2025-2028	4	Yes	
AT	18.12.2024	13.5.2025		2025-2029	7	Yes	
PL	21.6.2024	9.10.2024		2025-2028	4	Yes	Yes
PT	21.6.2024	11.10.2024		2025-2028	4		Yes
RO	21.6.2024	25.10.2024		2025-2031	7	Yes	
SI	21.6.2024	15.10.2024		2025-2028	4		Yes
SK	21.6.2024	15.10.2024		2025-2028	4	Yes	Yes
FI	21.6.2024	10.10.2024		2025-2028	7		Yes
Member States receiving technical information							
	Commission guidance	Submission date of the plan	Addendum to the plan	Years of the plan	Years of adjustment	EDP	National escape clause
BG	24.1.2025	27.2.2025		2025-2028	4		Yes
CZ	21.6.2024	16.10.2024		2025-2028	4		Yes
DK	21.6.2024	20.9.2024		2025-2028	4		Yes
HR	21.6.2024	14.11.2024	21.11.2024	2025-2028	4		Yes
LV	21.6.2024	15.10.2024		2025-2028	4		Yes
LT	31.1.2025	30.4.2025		2025-2029	4		Yes
NL	21.6.2024	15.10.2024		2025-2028	4		
SE	21.6.2024	11.10.2024		2025-2028	4		
Member States receiving only macroeconomic assumptions							
	Commission guidance	Submission date of the plan	Addendum to the plan	Years of the plan	Years of adjustment	EDP	National escape clause
IE	21.6.2024	15.10.2024		2025-2030			
LU	21.6.2024	15.10.2024		2025-2029			

Sources: Medium-term fiscal-structural plans, European Commission 2024 autumn package, European Commission 2025 spring package

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A.1. MEMBER STATES RECEIVING A REFERENCE TRAJECTORY

Under the reformed EU fiscal framework, the Commission transmits guidance in the form of a reference trajectory - a multi-annual net expenditure trajectory - to EU Member States with a budget balance of more than 3% of GDP or a government debt-to-GDP ratio of more than 60% of GDP (Article 5, Regulation (EU) 2024/1263). The reference trajectory is risk-based, differentiated for each country and ensures that (Article 6, 7 and 8, Regulation (EU) 2024/1263):

- By the end of the adjustment period the projected general government debt ratio is put on a plausible downward path, or stays at prudent levels below 60%. The minimum annual average decrease of the debt ratio is 1 percentage point of GDP as long as the ratio exceeds 90% of GDP and 0.5 percentage points of GDP as long as the ratio remains between 60% and 90% of GDP.
- The projected government deficit is brought below 3% of GDP over the adjustment period and maintained below the reference value over the medium-term. The fiscal adjustment continues, where needed, until the Member State concerned reaches a structural deficit of 1.5% of GDP. The annual improvement in the structural primary budget balance shall be 0.4 percentage point of GDP, reduced to 0.25 percentage points of GDP in the case of an extension of the adjustment period of up to seven years.
- The fiscal adjustment effort over the period of the plans is linear.

Belgium

Overall conclusions

Belgium's MTFSP targets a net expenditure path that is broadly consistent with the Commission prior guidance. The planned fiscal adjustment is backloaded from 2025 to the following years, due to the federal government taking office in 2025, which delayed implementation of the consolidation measures. The Commission accepts this reason. The planned fiscal adjustment relies heavily on the implementation of structural reforms and on the reforms achieving their estimated positive impact on the economy and the fiscal position. However, the national Court of Audit and the Commission consider the estimated impact of reforms optimistic, which weighs on the likelihood to achieve the planned fiscal correction.

Belgium submitted its MTFSP on 18 March 2025 (in Dutch and French). Belgium asked for an extension of the submission deadline from 20 September to 31 December 2024 (initially) to give the new government time to submit a plan based on a solid political commitment. The Commission accepted Belgium's reasoning with a standard text saying that '*such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline*'. The new federal government took office on 3 March 2025 and submitted the plan on 18 March 2025, after the Council had issued a EDP recommendation under Article 126(7) on 14 January 2025.

The plan mentions the technical dialogue between the Commission and the federal authorities. According to the Commission assessment, the dialogue took place in September and October 2024. ⁽¹⁰⁵⁾ It covered the net expenditure path and underlying assumptions (in particular the envisaged annual fiscal effort and the GDP deflator figure for 2025).

⁽¹⁰⁵⁾ [COM/2025/263](#).

The plan does not mention any involvement of the national Parliament. The plan reports consultations held with Belgium’s communities and regions on 12 March 2025 and that approval by the Conciliation Committee was given on 14 March 2025.

Submission date	18 March 2025
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 104.7% of GDP Government balance: - 4.5% of GDP
Commission prior guidance	Reference trajectory on 5 February 2025
EDP	Council recommendation to end an excessive deficit in January 2025 (Article 126(7)), Commission proposed revised recommendation to end an excessive deficit in May 2025 (Article 126(7))
Years of MTFSP	2025-2029
Adjustment period	2025-2031 (7 years)
Average adjustment (annual change in structural primary balance)	Prior guidance: 0.5 pp. of GDP MTFSP: 0.5 pp. of GDP
Stakeholder involvement	Yes
IFI involvement	Yes
Commission overall assessment	MTFSP fulfils the requirements

Macroeconomic projections ⁽¹⁰⁶⁾

The MTFSP is based on the macroeconomic assumptions in the Commission prior guidance, except for a few 2024 data points and forecast updates. In particular, the GDP deflator is projected to be slightly higher in 2025, but then to fall in 2026 and 2027. Of note, the GDP deflator in the Commission prior guidance for Belgium was higher in the Commission 2024 autumn forecast than in the previous spring forecast, on which the Commission guidance for Member States submitting their plans on time was based.

Overall, the macroeconomic assumptions underpinning the MTFSP are in line with the Commission prior guidance.

⁽¹⁰⁶⁾ In the country fiches, the plan’s macroeconomic scenario is labelled as ‘significantly’ more optimistic, if the gap between the cumulative nominal GDP growth rate of the national plan and the Commission prior guidance is between two and four percentage points by the end of the adjustment period. If said gap is above four percentage points, it is labelled as ‘very significantly’ more optimistic.

Table A.2: Belgium - Main macroeconomic and fiscal variables

BE	Commission prior guidance								MTFSP								Commission 2025 spring forecast			
	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	
	year-on-year % change																			
Potential GDP	1.7	1.6	1.4	1.4	1.2	1.2	1.1	1.1	1.7	1.6	1.4	1.4	1.2	1.2	1.1	1.1	1.7	1.4	1.3	
Real GDP	1.1	0.8	1.0	1.6	1.3	1.2	1.2	1.2	1.1	1.0	0.9	1.5	1.2	1.2	1.2	1.2	1.0	0.8	0.9	
GDP deflator	2.7	2.4	2.1	2.1	2.1	2.2	2.2	2.2	2.7	2.5	2.1	2.1	2.1	2.2	2.2	2.2	1.9	2.8	2.1	
Nominal GDP	3.8	3.2	3.1	3.8	3.5	3.4	3.5	3.4	3.8	3.5	3.0	3.7	3.4	3.4	3.5	3.5	3.0	3.6	3.0	
Net expenditure growth (annual)	3.7	3.0	2.6	2.6	2.2	2.2	2.4	2.4	4.3	3.6	2.5	2.5	2.1	2.1	2.3	2.4	4.2	5.0	3.0	
Net expenditure growth (cumulative)		3.0	5.6	8.4	10.8	13.3	16.0	18.8		3.6	6.1	8.8	11.1	13.4	16.0	18.8		4.2	9.5	12.8
	% of GDP																			
Government balance	-4.6	-4.6	-4.4	-3.9	-3.4	-2.9	-2.4	-1.9	-4.6	-4.7	-4.6	-4.1	-3.5	-3.0	-2.5	-2.0	-4.5	-5.4	-5.5	
Structural balance	-4.2	-3.8	-3.4	-3.0	-2.6	-2.1	-1.6	-1.2	-4.2	-4.0	-3.6	-3.2	-2.7	-2.1	-1.6	-1.2	-4.2	-4.8	-4.7	
Structural primary balance	-2.0	-1.5	-1.0	-0.5	0.1	0.6	1.1	1.6	-2.0	-1.8	-1.2	-0.7	0.0	0.6	1.1	1.6	-2.0	-2.4	-2.2	
Gross debt (target)	103.4	105.3	106.9	106.9	106.8	106.1	105.0	103.4	103.4	105.1	107.0	107.3	106.7	105.6	104.0					
Gross debt (no policy change)	103.4	105.1	107.2	108.4	109.7	111.2	113.0	115.0	103.4	105.0	107.1	108.3	109.7	111.1	112.9	115.0	104.7	107.1	109.8	

Notes: The MTFSP sets a net expenditure growth path for the period of the plan of 2025-2029. The authorities asked for an extended adjustment period until 2031 and presented the underlying assumptions for the period 2030-2031 (in italics in the table).

Sources: European Commission, MTFSP

Public finances and net expenditure path

Belgium has a very high level of government debt. It has an overall numerical score on compliance with the SGP rules in 1998-2024 of 37%, below the EU average of 55%.⁽¹⁰⁷⁾ Belgium had a higher rate of compliance with the fiscal rules in the period up to 2007 when the government debt ratio was falling, but since 2008, compliance has deteriorated and the debt ratio increased. Moreover, numerical compliance with the expenditure rule is one of the lowest in the EU.

The plan's estimate of net expenditure growth of 4.3% in 2024 is just above the outturn of 4.2%, as assessed by the Commission in spring 2025; and the draft recommendation for Belgium proposes to use outturn data as a starting point for the net expenditure path.⁽¹⁰⁸⁾ The MTFSP targets average annual net expenditure growth of 2.5% in 2025-2031. In 2025, the planned increase is higher than in the Commission prior guidance, but the difference is offset in the following years: cumulative net expenditure growth in 2025-2031 matches the rate in the Commission prior guidance.

The difference in net expenditure growth in 2025 results in a fiscal adjustment profile that is somewhat backloaded: the planned improvement of the structural primary budget balance is lower in the first year, offset by higher adjustments planned for the following years. The plan explains this backloading by the fact that the federal government only took office on 3 February 2025.

Following the planned net expenditure path, the MTFSP aims to stabilise the headline deficit at 4½% of GDP in 2024-2026 and to reduce it to 3% of GDP between 2027 and 2029. The reduction in the headline deficit takes place amidst increasing debt servicing costs. The government debt ratio in 2024 turned out 1.3 percentage points higher than estimated in the MTFSP, due to lower-than-estimated nominal GDP growth and less debt-reducing stock-flow adjustments. This implies an upward shift in the plan's debt trajectory, while the profile of the adjustment remains the same. The debt ratio is expected to peak in 2027-2028 and to fall afterwards as the differential between nominal interest rates and nominal GDP growth overtakes the debt-increasing effect of primary government borrowing. After the expected correction of the excessive deficit in 2029, the implied annual debt reduction in 2030-2031 is compatible with the debt sustainability safeguard of 1 percentage point of GDP for countries with a debt ratio above 90% of GDP.

⁽¹⁰⁷⁾ [Compliance tracker of the EFB Secretariat](#).

⁽¹⁰⁸⁾ Council recommendations issued in January 2025 relied on net expenditure growth estimates for 2024 and the base year was 2023.

The plan presents fiscal strategies at different tiers of government, being a federal state. For the federal government ⁽¹⁰⁹⁾, 2/3 of the consolidation effort is planned to be achieved by structural reforms, in line with the reform commitments underpinning the extension of the fiscal adjustment period. The remaining 1/3 of the adjustment effort will rely on expenditure saving measures and taxation of the highest income households and other revenue measures. The plan presents high-level estimates of the expected budgetary effect of the measures for the federal government but lacks the underlying assumptions. At the regional and language community government levels, the MTFSP provided a qualitative description of their fiscal positions and the planned fiscal strategies, which mostly rely on expenditure savings and efficiency measures. The diverging fiscal positions of the federal entities are reflected in the significantly different net expenditure growth rates in advice issues by the High Council of Finance to individual entities (ranging from -3.1% to +3.0% in 2025-2031 on average). ⁽¹¹⁰⁾ Nationally financed public investment is set to fall from 3.2% of GDP in 2025 to 3% by 2029, but to remain above 2019 level.

Overall, the MTFSP slightly backloads the fiscal adjustment from 2025 to the following years. This is explained by the new federal government taking office in early 2025 and not having a full year to implement the measures. Nevertheless, the plan's net expenditure path in cumulative terms corresponds to the path set out in the Commission prior guidance. The plan indicates the policy measures that underpin the fiscal adjustment commitments at different levels of government but lacks the underlying assumptions.

Reforms and investments underpinning the extension of the adjustment period

The MTFSP presents 25 reforms and investments in six thematic areas to extend the fiscal adjustment period from four to seven years.

- Pension reforms, notably to correct for retirement both before and after legal retirement age, and to harmonise different pension regimes.
- Labour market reforms, notably to transform unemployment benefits into a real short-term insurance, and more flexible work conditions for people on the margin of active participation in the job market.
- Tax reforms, notably increases in personal income-tax allowance and reducing tax advantages that are disincentives to work and increases in capital taxation.
- Business environment reforms, notably measures to reduce administrative burden for companies, to simplify public procurement procedures and to digitalise public services.
- Public spending reviews and making the federal government leaner.
- Improving budgetary coordination between different levels of government.

Several of the reform commitments are additions to ongoing reforms implemented under the national recovery and resilience plan. Specific reform implementation plans are expected to be adopted in 2025 and 2026 with implementation over the course of the MTFSP.

The reforms and investments are expected to directly and indirectly improve public finances, and they are a crucial element of the fiscal adjustment strategy. The plan indicates the expected budgetary effect of the reforms for the federal government but do not detail the underlying assumptions. No budgetary estimates are provided for the measures planned for other federal entities. The plan does not provide estimates on how the reforms and investments would affect potential economic growth.

⁽¹⁰⁹⁾ Belgium's federal government accounts for half of total government expenditure.

⁽¹¹⁰⁾ [Advice on the allocation of the Medium-Term Fiscal-Structural Plan submitted by Belgium to the European Commission on 18 March 2025.](#)

The plan sets out reform objectives and target indicators to enable implementation to be monitored, as per Article 14(3) of Regulation (EU) 2024/1263.

Overall, the MTFSP commits to reforms and investments that are crucial to implement the plan's fiscal adjustment strategy. However, the plan does not quantify the expected macroeconomic effects and the budgetary estimates are not sufficiently detailed to verify their plausibility.

IFI involvement

Belgium has two independent fiscal institutions. The Federal Planning Bureau participated in preparing the medium-term plan, primarily by estimating the economic and budgetary impacts for various planned reforms and investments. It also provided independent input to finalising the macroeconomic scenario of the MTFSP. Belgium's other IFI, the High Council of Finance, was not directly involved in preparing the plan. However, the High Council subsequently advised on how the net expenditure growth commitments should be allocated across different layers of government (i.e. federal and subnational entities). ⁽¹¹⁰⁾

The Court of Audit assessed the MTFSP, as part of its regular evaluation of the 2025 budget. ⁽¹¹¹⁾ It assessed individual consolidation measures of the MTFSP and concluded that the measures are based on optimistic assumptions, in particular the second-round effects of the planned structural reforms. As a result, the Court of Audit estimates a gap to the deficit target of 0.7% of GDP in 2029. Moreover, the Court of Audit noted insufficient reporting on the medium-term fiscal plans across different levels of federal entities, compared with past practice. The Court of Audit also found little information on how the planned increase in defence spending would be financed. More generally, the Court's assessment laments a decrease in transparency and repeats the critical remarks made in the previous years' budget reports.

Commission assessment and Council conclusions

The Commission assessment concludes that Belgium's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment finds few differences between the MTFSP and its prior guidance. It accepts the plan's updated macroeconomic and fiscal estimates based on more recent data. The Commission also accepts the plan's rationale for backloading the fiscal adjustment. In its assessment of the reforms and investments for extending the fiscal adjustment period, the Commission admonishes the lack of information on the expected potential growth impact and only partial reporting on the expected fiscal impact of the reforms and investments. In assessing the impact on potential output growth, the Commission refers to the macroeconomic simulation carried out by the Federal Planning Bureau. The Commission takes note of the estimated budgetary impact in the MTFSP but sees some optimism regarding the expected impact of the labour market reforms. Taken altogether, the Commission concludes that the reforms and investment of the MTFSP fulfil the requirements for extending the fiscal adjustment period.

The Council takes note of the Commission's assessment. The Council recommends to Belgium to ensure that it does not exceed the net expenditure path as set out in its plan and endorses the set of reforms and investments underpinning the extension of the adjustment period to seven years.

⁽¹¹¹⁾ [Comments and Remarks on the draft state budget for the budgetary year 2025](#) by the Court of Audit on 15 May 2025.

Germany

Overall conclusions

Germany's MTFSP targets a substantially higher medium-term net expenditure path than set out in the Commission's updated reference trajectory of June 2025. The authorities argue that the incorporation of the March 2025 amendments to the German Basic Law (i.e. reform of the debt brake) allowing for higher defence spending and the roll-out of the recently established special infrastructure fund moves the economy to a more dynamic growth trajectory. This is evidenced by a close to 4 percentage points difference in the nominal GDP path by 2029 compared with the prior guidance of June 2025. The plan repeatedly recalls these initiatives could not have been taken into account in the Commission 2025 spring forecast. While undoubtedly the overall impact of Germany's recent policy decisions is likely to be positive (see e.g. simulations presented in the Commission 2025 spring forecast), the plan does not substantiate the specific macroeconomic assumptions with detailed calculations and arguments.

The envisaged fiscal adjustment is clearly backloaded as the structural primary deficit is set to first worsen in 2025-2027, leading to persistent breaches of the 3% of GDP deficit reference value. Germany requested the activation of the national escape clause to allow for an increase in defence spending and a prospective approval by the EU institutions could help avoid the launch of an excessive deficit procedure in the coming years.

The German MTFSP asks for an extension of the fiscal adjustment period until 2031 by committing to a set of reforms and investments, chiefly aimed at facilitating public and private investments and improving macroeconomic resilience. The plan provides some quantitative estimates of the overall economic and budgetary impact of the reforms but does not specify further details of the applied models and simulations.

The German MTFSP was submitted on 17 July 2025 (in German), roughly 10 months after the original deadline of 20 September 2024. Germany initially asked for an extension of the submission deadline to 15 October 2024 to ensure consistency with its 2025 draft budgetary plan. Subsequently, it requested additional time on 27 November 2024 following the *de facto* break down of a three-party coalition and the decision to schedule new federal elections on 23 February 2025. The Commission MTFSP assessment reveals that it granted a further extension in view of the 'coalition negotiations, leading to a coalition agreement on 9 April and the formation of a new government on 6 May 2025'. The Commission shared with Germany a new reference trajectory on 17 June 2025, prepared on the basis of its 2025 spring forecast. ⁽¹¹²⁾

The MTFSP only lists the meeting dates of the technical dialogue held in June and July 2025 between the European Commission and the German government. According to the Commission assessment, the dialogue focused on the net expenditure path envisaged by Germany, the underlying assumptions and the planned set of reform and investment commitments to underpin the extension of the adjustment period.

The draft plan was discussed with the social partners on 10 July 2025 in the framework of the macroeconomic dialogue. As part of the national consultation process, the Stability Council (the host institution of Germany's IFI) adopted an opinion on the country's medium-term fiscal trajectory, which is annexed to the MTFSP. Following its submission, the plan was presented to the relevant Bundestag parliamentary committees of the on 20-21 July.

⁽¹¹²⁾ Compared to the initial prior guidance of 21 June 2024, the June 2025 reference trajectory presents substantially more restrictive requirements, reflecting the significant downward revision in Germany's economic outlook and the worse 2024 fiscal starting position in the Commission 2025 spring forecast compared to the spring 2024 one.

Submission date	17 July 2025
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 62.5% of GDP Government balance: -2.7% of GDP
Commission prior guidance	Reference trajectory
EDP	NA.
Years of MTFSP	2025-2029
Adjustment period	2025-2031 (7 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.44% of GDP MTFSP: 0.3% of GDP
Stakeholder involvement	Yes
IFI involvement	No
Commission overall assessment	The plan's net expenditure path is accepted

Macroeconomic projections

The plan's macroeconomic scenario is significantly more optimistic than the Commission prior guidance. This is clearly evidenced by a 3.7 percentage points cumulative difference in nominal GDP growth by 2029. Around two-fifth of this difference is explained by the plan's more favourable real GDP assumptions, while the remaining part is linked to higher prices.

The German authorities explain the MTFSP's higher economic and price dynamics by the fact that the new government's policy intentions to boost infrastructure and defence spending were not sufficiently detailed at the cut-off date for the Commission 2025 spring forecast (i.e. end of April), which underpins the prior guidance. Specifically, the Commission's updated reference trajectory could not factor in the newly created EUR 500 billion special infrastructure and climate neutrality fund (*Sondervermögen Infrastruktur und Klimaneutralität*), and the plan to ramp up defence spending was incorporated only marginally. However, these spending plans had firmed up by the time the MTFSP was drawn up. They were therefore incorporated by the German authorities in the economic and fiscal trajectories underpinning the MTFSP.

The plan argues that embarking on a major spending spree will considerably ramp up the public capital stock and increase total economic productivity via stimulating private investments. This is why the MTFSP builds on the possibility provided under Article 36(1)(f) of Regulation (EU) 2024/1263 to use smoothed estimates of potential output growth. It leads to a significantly higher potential growth trajectory (by around 3 percentage points) over the adjustment period, i.e. 2025-2031 compared to the prior guidance. This is subsequently fully counterbalanced by more cautious estimates until the end of the DSA projection horizon, in particular over the 2036-2041 period (while the plan uses a constant annual increase of 0.9%, potential growth in the prior guidance is estimated to gradually increase to 1.6% by 2041). The plan underlines that the legal requirement for applying the smoothing model, namely that cumulative growth over the entire DSA projection horizon (i.e. between 2025 and 2041) is overall in line with the Commission assumptions, is fulfilled.

The plan enumerates the main channels through nominal GDP is expected to move to a consistently high path, but does not appear to provide sound and data-driven arguments for the specific real economic growth and GDP deflator projections. It refers to more recent forecasts of German economic research

institutes (e.g. IFO, DIW) that already incorporated the decisions on higher public spending as well as model-based simulations of the European Commission⁽¹¹³⁾, which indicate that the government's programme will have broadly similar economic impacts. As regards price developments, the authorities further argue that thanks to the planned surge in investment, in certain key economic sectors capacity utilisation rates will increase in the short-term, and the resulting price increases in investment goods will drive a larger-than-usual wedge between the GDP deflator and the annual consumer price index, amounting to around 0.5%.

When explaining the upward revisions to the short-term growth outlook, the plan recalls that economic sentiment improved in Germany in response to the reform of the debt brake allowing for a substantial increase in public investment and defence spending. Indeed, the Economic Sentiment Indicator⁽¹¹⁴⁾ has been on an upward trajectory since the beginning of 2025. However, readings of other high-frequency indicators in the first half of the year, such the industrial production index⁽¹¹⁵⁾, still point to lacklustre economic dynamism.

Table A.3: Germany – Main macroeconomic and fiscal variables

DE	Commission prior guidance									MTFSP							Commission 2025 spring forecast		
	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026
	year-on-year % change																		
Potential GDP	0.5	0.3	0.3	0.5	0.6	0.7	0.6	0.6	0.5	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.5	0.3	0.3
Real GDP	-0.2	-0.2	0.4	0.7	0.7	0.8	0.7	0.7	-0.2	0.4	0.9	1.0	0.8	0.8	1.2	1.1	-0.2	0.0	1.1
GDP deflator	3.1	2.4	2.2	2.2	2.2	2.2	2.2	2.2	3.1	2.7	2.6	2.6	2.6	2.5	2.5	2.4	3.1	2.4	2.2
Nominal GDP	2.9	2.3	2.6	2.9	2.9	3.0	2.9	2.9	2.9	3.2	3.6	3.6	3.3	3.3	3.7	3.5	2.9	2.4	3.3
Net expenditure growth (annual)	n.a.	1.8	1.6	1.7	1.8	2.0	1.9	1.9	n.a.	4.4	4.5	2.3	1.7	1.6	2.7	2.7	4.0	2.1	3.2
Net expenditure growth (cumulative)	n.a.	1.8	3.4	5.2	7.1	9.2	11.4	13.5	n.a.	4.4	9.0	11.5	13.3	15.2	18.3	21.5	4.0	6.2	9.6
	% of GDP																		
Government balance	-2.8	-2.6	-2.1	-1.7	-1.2	-0.8	-0.3	0.1	-2.7	-3.3	-3.8	-3.2	-2.5	-1.8	-1.4	-1.1	-2.8	-2.7	-2.9
Structural balance	-2.1	-1.7	-1.3	-0.9	-0.5	-0.2	0.2	0.6	-2.0	-2.4	-2.9	-2.4	-1.7	-0.9	-0.7	-0.5	-2.1	-1.8	-2.4
Structural primary balance	-1.0	-0.6	-0.1	0.3	0.7	1.2	1.6	2.1	-0.9	-1.3	-1.8	-1.2	-0.3	0.5	0.8	1.1	-1.0	-0.7	-1.3
Gross debt (target)	62.5	63.7	64.3	64.2	63.5	62.5	61.0	59.2	62.5	63.9	65.5	66.5	66.9	66.5	65.5	64.4	62.5	63.8	64.7
Gross debt (no policy change)	62.5	63.9	65.1	66.1	67.1	67.9	69.2	70.7	62.5	63.9	65.3	65.8	66.2	66.5	67.4	68.6	62.5	63.8	64.7

Notes: The MTFSP sets a net expenditure growth path for the period of the plan of 2025-2029. The authorities asked for an extended adjustment period until 2031 and presented the underlying assumptions for 2030-2031 (in italics in the table).

Sources: European Commission, MTFSP

Public finances and net expenditure path

Germany's overall numerical score on compliance with respect to the SGP rules in 1998-2024 is 54%, around the EU average of 55%.⁽¹¹⁶⁾ While its rate of compliance with the 3% headline deficit rule was relatively good (67%), the country's track record with the other SGP rules (debt, structural balance, and expenditure growth) was slightly below average.

The MTFSP asks for an extension of the fiscal adjustment period from four to seven years to 2031. The period of the plan and of the effective policy commitments is shorter; they run until 2029.

Predicated on a much stronger macroeconomic scenario, the German plan outlines a significantly more expansionary net expenditure path compared to the Commission prior guidance, with an average annual net expenditure growth rate of 2.9% vs the 1.8% average growth rate in 2025-2029. Correspondingly, this translates into a lower annual average fiscal adjustment of 0.3% over the extended seven-year period of 2025-2031 as opposed to the 0.44% of GDP laid down in the reference trajectory. The plan's main scenario assumes the activation of the SGP's national escape clause, which was requested by Germany at

⁽¹¹³⁾ 'The potential economic impact of the reform of Germany's fiscal framework', box in the Commission 2025 spring forecast.

⁽¹¹⁴⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽¹¹⁵⁾ A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry.

⁽¹¹⁶⁾ [Compliance tracker of the EFB Secretariat](#).

the end of April 2025 (given that this request was not formally approved when the plan was submitted, the document presents an alternative macro-fiscal scenario without the activation of the clause).

The time profile of the consolidation is clearly backloaded as the structural primary balance is set to deteriorate by around 0.4% in both 2025 and 2026. It will then start to improve as of 2027. This is to accommodate the planned large-scale expansion of public investments and the planned surge in defence expenditure (according to the NATO classification, defence spending is projected to increase from 2.1% of GDP in 2024 to around 3.5% of GDP in 2029).

The headline deficit is envisaged to increase from 2.7% of GDP in 2024 to 3.3% of GDP in 2025 and then again to 3.8% of GDP in 2026. It is projected to fall sharply thereafter to 1.8% of GDP in 2029. Given the relatively high government deficits in the forthcoming years, the public debt ratio is forecast to peak in 2028 at close to 67.0% before declining gradually thereafter.

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. The first two years of the adjustment period will be dominated by expansionary policies through the roll-out of the infrastructure fund targeting mainly energy and transport infrastructure, climate protection and public education and the continuation of defence upgrades through new military procurements. On the revenue side, the measures include additional incentives for people to keep working after retirement, tax cuts to attract skilled foreign workers, and adjustments to the tax brackets. In the medium-term, strict expenditure restraint for most of the line ministries' budgetary allocations (in some cases, nominal cuts) should generate major savings in operational costs and the public wage bill (e.g. at least 8% reduction in the headcount of the central administration). This should be facilitated by a more systematic use of spending and budget subsidy reviews.

On account of the recently established infrastructure fund, nationally financed public investment is projected to continuously increase during the entire MTFSP horizon from 2.9% in 2024 to 3.8% of GDP in 2029. The average of 3.5% of GDP therefore safely ensures that the average during the period covered by the RRP (2.9% of GDP from 2021 to 2026) is at least maintained, in line with Regulation 2024/1263 (Article 36(1)(d)).

Reforms and investments underpinning the extension of the adjustment period

The MTFSP includes a set of reforms and investments to motivate the request for extending the adjustment period from four to seven years. Specifically, Germany commits to 17 reform and investment projects as part of a broader reform strategy to improve potential growth and economic resilience. The 17 projects can be grouped into four broad policy areas: (i) boosting private investment; (ii) facilitating public investment; (iii) strengthening labour supply; and (iv) increasing the efficiency of public spending. It is worth clarifying that the planned large infrastructure modernisation projects and the defence build-up have not been included in this particular set of reforms and investment. Their growth-stimulating impact was explicitly incorporated in the baseline macro-fiscal trajectory of the German plan.

The MTFSP contains a comprehensive table about the package with all content requirements as defined in Regulation 2024/1263 and further specified in the related Commission Notice.⁽¹¹⁷⁾ Most notably, the plan includes detailed descriptions of key steps, timeline and performance indicators. It also contains the relevant references to the country-specific recommendations, current RRP commitments and common European priorities.

The MTFSP presents the authorities' quantitative estimates of the overall economic and budgetary impacts of the set of reforms and investments based on model simulations. As to growth, the measures taken together are anticipated to increase the level of real GDP by around 1% by 2029, chiefly as a result of the increased capital stock and more efficient resource allocation. The fiscal effects are estimated to

⁽¹¹⁷⁾ 'Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports', C/2024/3975, 21 June 2024.

improve the deficit by around 0.2% of GDP each year, leading to a cumulative one percentage point of GDP fiscal gain over the entire programme period (2025-2029). However, the plan does not specify the specific modelling tools applied or how each of the selected reform steps contribute to the estimated overall growth and budgetary impacts (e.g. it is not clear which step(s) are driving the overall results).

IFI involvement

Germany's main IFI, the Independent Advisory Board to the Stability Council, was not involved in the preparation of the plan. The Stability Council itself (comprised of two ministers of the federal government and the 16 state (*Länder*) finance ministers) was consulted on the draft plan, and its opinion is attached to the document.⁽¹¹⁸⁾ The Stability Council assessed the macroeconomic assumptions as 'ambitious' and underlined that fulfilment of the envisaged fiscal trajectory hinge on the rigorous implementation of all the planned fiscal consolidation and structural reform measures.

Commission assessment and Council conclusions

The Commission assessment concludes that Germany's plan fulfils the requirements of Regulation (EU) 2024/1263. Moreover, the Commission recommends the endorsement of reforms and investments underpinning the extension of the adjustment period to seven years.

The Commission accepts the German plan's considerable deviations from its prior guidance even though the MTFSP's nominal GDP and cumulative net expenditure paths are significantly higher than the prior guidance. Specifically, the Commission argues that the plan's recourse to smoothed estimates of potential output growth resulting in a higher average potential output over the adjustment period compared to the Commission's assumptions is granted by the Regulation, as explained above. The Commission accepts that the German fiscal strategy, chiefly driven by the new Special Fund for Infrastructure and Climate Neutrality, is likely to boost economic activity through the expected additional public and private investment. Moreover, the Commission accepts the higher GDP deflators for 2025 and 2026 (by around 0.3-0.4%) on account of more recent data, the expected price effects of global trade tensions, and the planned increase in public spending.

The Commission acknowledges that the time profile of the consolidation is backloaded, with expansionary policies in 2025-2026 to support public investments, followed by a significant consolidation effort in the second half of horizon of the plan. The assessment recalls that Article 6(c) of Regulation (EU) 2024/1263 stipulates the 'no-backloading safeguard', declaring that the fiscal adjustment effort over the period of the national medium-term fiscal-structural plan should be linear as a rule and 'at least proportional to the total effort over the entire adjustment period'. The fiscal adjustment effort over the period of the plan (2025–2029) as measured by the improvement in the primary structural balance is 1.4 percentage points of GDP, while the total effort over the entire adjustment period (2025–2031) is 2 percentage points of GDP (i.e. around five seventh of the fiscal consolidation is envisaged to be delivered over five seventh of the time horizon). In view of this, the Commission finds that the planned consolidation effort over the period of the plan is proportional to the total effort, and therefore the time profile put forward by the plan is acceptable.

The Commission finds that the plan's estimates for the positive growth impact of the set of reforms and investment is in line with either with its own previously published simulations or the quantitative analyses produced by research institutes (e.g. Kiel Institute for the World Economy).

The overall conclusions of the Council take note of the Commission assessment and endorse the set of reform and investment commitments underpinning the extension of the adjustment period.

⁽¹¹⁸⁾ Available also at the [Stability Council's webpage](#).

Estonia

Overall conclusions

Estonia's MTFSP targets a net expenditure path that is significantly higher than the path set out in the Commission prior guidance. It is underpinned by a higher GDP deflator – which appears plausible in the short run but excessive in later years – and lays down a fiscal loosening up to the limits of the revised SGP. However, the government's national operational budgetary plans target lower net expenditure growth rates, as they incorporate specific deficit-reducing policy measures.

Estonia submitted its MTFSP on 11 October 2024 (in Estonian). Estonia asked for an extension of the submission deadline from 20 September to 15 October 2024 to ensure consistency with the 2025 draft budgetary plan. The Commission accepted Estonia's reasoning with a standard text saying that '*such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline*'.

The plan does not mention the technical exchange and dialogue process. However, according to the Commission assessment the dialogue took place in September and October 2024 ⁽¹⁹⁾ and covered the net expenditure path (including the availability of fiscal space) and underlying assumptions (in particular, a different fiscal starting point, GDP projections and the GDP deflator).

The MTFSP is based on the government strategy 'Estonia 2035', which was prepared in summer 2024 and involved extensive stakeholder consultation.

Submission date	11 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 21.4% of GDP Government balance: -3.4% of GDP
Commission prior guidance	Reference trajectory on 21 June 2024
EDP	No excessive deficit identified in spring 2024 (Commission Article 126(3) report)
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Prior guidance: 0.0 pp. of GDP MTFSP: -0.3 pp. of GDP
Stakeholder involvement	Yes
IFI involvement	Yes (endorsed macroeconomic forecasts)
Commission overall assessment	MTFSP fulfils the requirements

⁽¹⁹⁾ [COM/2024/713](#).

Macroeconomic projections

The MTFSP assumes significantly more optimistic nominal GDP growth than the assumption made in the Commission prior guidance: the cumulative difference is 2.8 percentage points over the programme period. The MTFSP is cautious on real GDP growth but assumes a significantly higher GDP deflator.

The MTFSP explains the more dynamic assumptions about price developments by observed inflation in the summer of 2024 and planned indirect tax increases in 2025 (taxes on cars, VAT and excises). Starting from a higher GDP deflator in 2025, the MTFSP assumes there will be gradual convergence to the Commission's assumption over the medium term.⁽¹²⁰⁾ While a higher GDP deflator in the short run can be attributed to planned policy measures, it may be imprudent to assume a higher GDP deflator over the medium run as small open economies such as Estonia are price-takers in external trade.

The MTFSP assumes the same rates of potential growth as the rate given in the Commission prior guidance, but a more gradual closure of the negative output gap beyond the timeframe of the plan.

The Commission 2024 autumn forecast is for a slower recovery in real GDP growth rates than assumed in the MTFSP. The Estonian central bank⁽¹²¹⁾ is slightly more optimistic than the Commission on real GDP growth, but expects inflation to fall below 3% in 2027, amidst signs of increasing price competition from international retailers. Estonia's high-frequency indicators show signs of improvement in the second half of 2024.⁽¹²²⁾ Real GDP declined in 2024 by 0.8% but started to recover in the second half of 2024 after a period of negative growth since 2022.

Overall, the macroeconomic assumptions in the MTFSP deviate from the assumptions made in the Commission prior guidance due to the significantly higher GDP deflator. In the short run, the deviation is linked to specific policy measures, which are confirmed by recent forecasts. However, in the later years the GDP deflator appears to be on the high side compared with other euro-area countries.

Table A.4: Estonia – Main macroeconomic and fiscal variables

EE	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	0.7	1.0	0.9	0.5	0.5	0.7	1.0	0.9	0.5	0.5	0.1	0.2	0.3
Real GDP	-0.5	1.8	2.6	2.7	1.5	-1.0	2.8	2.4	1.3	1.0	-1.0	1.1	2.6
GDP deflator	3.8	2.3	2.4	2.4	2.4	3.7	4.0	3.6	3.2	2.8	5.1	4.0	3.3
Nominal GDP	3.3	4.2	5.0	5.1	4.0	2.7	6.9	6.1	4.5	3.8	4.1	5.2	6.0
Net expenditure growth (annual)	5.4	3.3	3.3	2.9	2.9	1.9	7.1	5.1	3.6	3.2	5.1	5.1	5.6
Net expenditure growth (cumulative)	5.4	8.8	12.4	15.6	19.0	1.9	9.2	14.8	18.9	22.6	5.1	10.5	16.6
	% of GDP												
Government balance	-3.4	-3.2	-2.5	-1.5	-1.0	-2.7	-3.0	-2.7	-2.3	-2.1	-3.0	-3.0	-3.0
Structural balance	-0.7	-0.9	-0.9	-1.0	-1.0	-0.1	-1.2	-1.5	-1.5	-1.5	-0.8	-1.2	-2.2
Structural primary balance	-0.3	-0.3	-0.3	-0.3	-0.3	0.4	-0.6	-0.8	-0.8	-0.8	-0.1	-0.5	-1.5
Gross debt (target)	21.4	23.7	25.0	25.3	25.3	23.7	25.2	26.4	27.6	28.6			
Gross debt (no policy change)	21.4	23.7	25.1	25.5	25.6	23.7	24.7	25.1	24.9	24.2	23.2	24.2	25.5

Sources: European Commission, MTFSP

⁽¹²⁰⁾ In line with the Commission's debt sustainability methodology, the GDP deflator is assumed to follow a linear trend between the Commission 2024 spring forecast for 2025 and a common assumption for 2033, which is 2.6% for euro-area countries.

⁽¹²¹⁾ [Economic forecast of the Bank of Estonia](#), published on 13 December 2024.

⁽¹²²⁾ Manufacturing and retail trade volume increased in October to December 2024 on monthly basis after a downward trend since early 2022 (based on seasonally and working-day adjusted data).

Public finances and net expenditure path

In general, Estonia has a strong fiscal position. It has the lowest government debt in the EU and a track record of prudent fiscal policy making. Its overall numerical score on compliance with the SGP rules in 1998-2023 was 71%, against an EU average of 55%.⁽¹²³⁾ As a small open economy, Estonia is prone to wide economic fluctuations in the face of external shocks, with a knock-on effect on public finances. For instance, Estonia's real GDP declined from the second quarter of 2022 until the first quarter of 2024 due to the war in Ukraine and related price increases, with significant effects on its fiscal position.

The MTFSP targets a headline deficit of 3% of GDP in 2025 and a structural deficit of 1.5% of GDP from 2026 onward. These targets are within the limits of the SGP's 3% of GDP deficit reference value and the new deficit resilience safeguard. While the debt ratio is expected to increase over the period of the plan and beyond, it would remain well below 60% of GDP, compatible with the revised EU fiscal rules.

The rate of net expenditure growth projected in the plan exceeds the rate set out in the Commission prior guidance. The cumulative difference amounts to 3.6 percentage points in 2024-2028, and it is linked to the significantly more optimistic GDP deflator and a planned deterioration in the structural primary balance (although from a better starting position).⁽¹²⁴⁾

The MTFSP states that the additional leeway given in the revised EU fiscal framework and the more favourable GDP deflator will be used to increase defence spending.

The plan sets the net expenditure path as a budgetary constraint for national budgetary planning. The path is higher than the net expenditure growth planned in the draft budget plan for 2025 and the national budgetary strategy for 2025-2028.⁽¹²⁵⁾ The strategy targets a reduction in the cumulative net expenditure growth rate in 2025-2028 of 2.4 percentage points from the rate set out in the MTFSP.

The plan's fiscal strategy spells out structural balance targets up to 2028 and mentions the main tax policy measures as well as plans for expenditure reviews. It refers to the national budgetary strategy for 2025-2028 for details. The latter presents tax measures yielding 2% of GDP by 2028, in particular the temporary increase in VAT rate from 22% to 24% from July 2025 until 2028, and operational expenditure cuts by 10% across all government departments, except for defence (yielding 1% of GDP by 2028). Nationally financed public investment is set to reach one of the highest levels in the EU (almost 7% of GDP in 2025) before declining by 2028 but remaining above the level in 2019.

Overall, the MTFSP deviates from the Commission prior guidance by using significantly more optimistic assumptions about future price developments and by planning the structural primary balance at the limits allowed by the revised EU fiscal rules. However, national operational budgetary plans include specific policy measures designed to produce lower net expenditure growth.

IFI involvement

The MTFSP does not mention the involvement of the national fiscal council. However, Estonia's draft budgetary plan for 2025 and the national budgetary strategy for 2025-2028 refer to the IFI opinion on the macroeconomic forecast prepared by the Ministry of Finance.

In September, the IFI endorsed the macroeconomic forecast used for the national budget planning,⁽¹²⁶⁾ but assessed the government's output gap estimates as too negative, implying a lower structural deficit. The IFI thought the recent economic shocks experienced by Estonia produced lasting rather than cyclical effects on output. The IFI advised the Estonian government to stick to the national structural deficit limit of 1% of GDP, but the MTFSP targets a structural deficit of 1.5% of GDP in the medium term.

⁽¹²³⁾ The [EFB Compliance tracker](#).

⁽¹²⁴⁾ The Commission prior guidance assumes the structural primary balance to remain unchanged throughout the period of the plan.

⁽¹²⁵⁾ [State Budget Strategy 2025-2028](#).

⁽¹²⁶⁾ IFI's press release.

Commission assessment and Council conclusions

The Commission assessment concludes that Estonia's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment explains the difference between the MTFSP and its prior guidance by a better starting position (in terms of the structural primary balance in 2024) and different real GDP growth and the GDP deflator in 2024 and 2025. The Commission finds those assumptions to be in line with its 2024 autumn forecast and with the latest national projections. However, the Commission does not comment on the significantly more optimistic GDP deflator from 2026 onward and the planned deterioration in the structural primary balance. The Commission acknowledges that the net expenditure path exceeds the reference trajectory, but it does not elaborate on how that would be consistent with the revised EU fiscal rules.

The Council takes note of the Commission's assessment and recommends to Estonia to ensure that it does not exceed the net expenditure path as set out in its plan.

Greece

Overall conclusions

Compared with the Commission prior guidance, the plan targets a lower level of fiscal ambition predicated on a significantly more optimistic medium-term growth outlook combined with a lower elasticity of government revenues with respect to GDP. ⁽¹²⁷⁾ This configuration entails the risk of missing fiscal targets even when sticking to the proposed expenditure path. Using more sanguine macroeconomic projections in the plan based on more recent forecasts or high-frequency data is reminiscent of the uncertainty surrounding estimates of real-time potential output and the output gap that was criticised in the past. A more prudent approach would seem appropriate especially as short-term errors will be locked in over the medium term. Nonetheless, the Commission is of the view that Greece's plan fulfils the requirements of Regulation (EU) 2024/1263. Moreover, the discretionary measures specified in the draft budgetary plan for 2025 appear to worsen the deficit and pose a risk to the achievement of the targets of the plan in that year.

Greece submitted its medium-term fiscal-structural plan (the MTFSP) on 7 October 2024 (in English). In September, the government requested an extension of the deadline from 20 September to 10 October, citing a delay in the timing of the parliamentary committee's discussion on the plan. The Commission accepted the request with its standard argumentation ('... *such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline*').

The plan does not mention the technical exchange and dialogue process. However, according to the Commission's assessment the process covered the net expenditure path and its underlying assumptions, and reforms and investments to address the issues identified in the context of the European Semester and the common priorities of the Union.

A draft of the plan was presented to the national Parliament in October 2024. The plan does not mention any involvement of national stakeholders.

Submission date	7 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 153.9% of GDP Government balance: -1.2% of GDP
Commission prior guidance	Reference trajectory
EDP	NA.
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.22% of GDP MTFSP: 0.1% of GDP
Stakeholder involvement	No information
IFI involvement	Yes (requested by government)
Commission overall assessment	Plan fulfils requirement of regulation

⁽¹²⁷⁾ If revenues come in higher than planned, they could be used to increase expenditure while anchoring debt and deficit targets. Hence, a strict implementation of the expenditure path is necessary.

Macroeconomic projections

The plan's estimates of nominal GDP growth are significantly more optimistic than the estimates underpinning the Commission prior guidance. The Greek authorities explain the projection of stronger growth with a different assessment of the business cycle. ⁽¹²⁸⁾ The Greek authorities highlight that their macroeconomic outlook is more up-to-date, and consistent with the projections of the OECD and the Bank of Greece. Total factor productivity is expected to rebound after a prolonged economic crisis that stretched from the great recession of 2008-09 to the pandemic.

It is not entirely clear whether the expected impact of reforms presented in the plan is included in the macroeconomic scenario. ⁽¹²⁹⁾ The plan details gains in total-factor productivity between 2026 to 2028 and refers to 'upside risks' linked to the completion of policy reforms and investments, including the measures set out in the national recovery and resilience plan.

In December 2024, the Economic Sentiment Indicator ⁽¹³⁰⁾ (ESI) was on a downward path, on a seasonally-adjusted basis, and substantially lower than in May when the Commission finalised its spring forecast and prepared the reference trajectory for Greece. As of November 2024, the index of industrial production ⁽¹³¹⁾ has not changed significantly from the May figures, despite some volatility. This raises some concerns about the short-term outlook for 2024 and 2025 in the plan. More generally, building a medium-term fiscal plan around improvements in contiguous forecasts or high-frequency data is reminiscent of the uncertainty surrounding estimates of real-time potential output and the output gap that has clouded fiscal surveillance in the past.

Table A.5: Greece – Main macroeconomic and fiscal variables

EL	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	1.2	1.6	1.3	1.1	1.0	1.2	2.5	2.4	1.7	1.5	1.2	1.8	2.0
Real GDP	2.2	1.8	0.7	0.7	0.8	2.2	2.3	2.0	1.5	1.3	2.1	2.3	2.2
GDP deflator	3.0	2.2	2.3	2.3	2.4	3.0	2.2	2.3	2.3	2.4	3.5	2.4	2.2
Nominal GDP	5.3	4.0	3.0	3.1	3.1	5.3	4.5	4.3	3.8	3.7	5.7	4.8	4.5
Net expenditure growth (annual)	1.8	3.0	3.2	3.1	3.0	2.6	3.7	3.6	3.1	3.0	1.8	3.1	2.8
Net expenditure growth (cumulative)	1.8	4.8	8.2	11.6	15.0	2.6	6.5	10.3	13.7	17.1	1.8	4.9	7.9
	% of GDP												
Government balance	-1.2	-0.3	-0.6	-0.9	-1.0	-1.0	-0.6	-0.8	-1.1	-1.2	-0.6	-0.1	0.2
Structural balance	-1.7	-1.1	-1.0	-1.1	-1.1	-1.5	-1.1	-1.1	-1.2	-1.3	-1.3	-1.2	-1.1
Structural primary balance	1.7	2.1	2.3	2.4	2.6	1.9	2.0	2.1	2.2	2.3	2.2	1.7	1.9
Gross debt (target)	153.9	149.7	145.1	140.8	136.6	153.7	149.1	143.1	138.0	133.4			
Gross debt (no policy change)	153.9	149.3	144.6	141.0	137.1	153.7	148.8	142.4	137.2	132.5	153.1	146.8	142.7

Sources: European Commission, MTFSP

Public finances and net expenditure path

Greece's debt-to-GDP ratio is the highest in the EU. However, since the peak of 209.4% in 2020 it has fallen to 161.9% in 2023. The benchmark revision of national accounts between the April 2024 and the October 2024 notification increased the debt ratio by 2 percentage points as it included deferred interest on EFSF loans, partially moderated by an upward revision in nominal GDP.

⁽¹²⁸⁾ According to the Greek authorities, the estimated of potential growth is consistent with the commonly agreed methodology (EUCAM), in that output gap closes by 2028, whereas average estimated potential GDP for the following years (i.e. 2029-2038) has been adjusted so as to maintain the same long-term average growth (i.e. equal to 1.0% under the reference trajectory).

⁽¹²⁹⁾ Article 13 and Recital 34 of Regulation(EU) 2024/1263 provide that the impact of investments and reforms, once implemented within the medium-term plans, will be duly taken into account in the future, including in the design of subsequent plans. The impact of not-yet-implemented reforms and investments should not be taken into account in the potential GDP estimates.

⁽¹³⁰⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission

⁽¹³¹⁾ A business cycle indicator which measures monthly changes in the price-adjusted output of industry.

At 34%, Greece's average numerical score on compliance with the SGP rules in 1998-2023 is the fourth lowest in the EU. ⁽¹³²⁾ However, compliance improved from 2011-2023 after Greece exited its financial assistance programme in June 2018.

Underpinned by more sanguine macroeconomic projections, the plan targets a less demanding expenditure path than the Commission reference trajectory: an average annual growth rate of 3.3% vs 3.1% in 2025-2028. The corresponding annual average fiscal adjustment – as measured by the change in the structural primary budget balance – is lower in the plan. The plan's adjustment path is linear.

It is worth noting that the annual fiscal adjustment of the structural primary budget balance implied by the Commission reference trajectory is on average 0.22 percentage points of GDP: 0.4 percentage points in 2025 and 0.16 percentage points annually between 2026 and 2028. The 0.4 percentage-point correction for 2025 was triggered by an expected headline structural deficit of 1.7% of GDP in 2024, which activates the deficit resilience safeguard. ⁽¹³³⁾ Thanks to the higher growth outlook, the plan estimates that the headline structural deficit will be 1.48% of GDP, just below the resilience margin of 1.5%. The Commission autumn 2024 forecast projects a structural deficit of 1.3% of GDP, which is within the resilience margin. ⁽¹³⁴⁾

The plan assumes a lower elasticity of revenues to potential GDP (equal to 0.825) than the unitary assumption recommended by the Commission, based on empirical literature and recent years outturn of revenues. While at first this may seem like a more prudent assumption it entails less ambitious deficit targets and creates possible leeway for new revenue measures.

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. It expresses an ambition to base its fiscal strategy on both the revenue and expenditure side. However, the exact measures underpinning the adjustment path are neither detailed nor quantified. The Greek draft budgetary plan for 2025 includes both discretionary measures that are revenue decreasing and expenditure cuts in some categories and increases in others. Overall, these measures are estimated to reduce revenue by 0.3% of GDP and increase expenditure by 0.1% of GDP. The plan justifies the lack of details about fiscal measures with a focus on structural reforms. As a result, additional fiscal measures are likely to be needed in order to achieve an adjustment in 2025.

In the plan, the debt-to-GDP ratio stays on a downward path. This is similar to the Commission prior guidance but based on a lower fiscal adjustment combined with higher potential nominal growth.

Under the plan, annual nationally financed public investment is expected to reach an average of 3.6% of GDP over the period 2025-2028.

IFI involvement

In September 2024, the Greek government opened a technical dialogue on the plan with the national IFI, the Hellenic Fiscal Council (HIFSC).

The HIFSC endorsed the macroeconomic forecast and the macroeconomic assumptions underpinning the multi-annual net expenditure path. However, the HIFSC's opinion also mentions that vigilance is needed regarding external shocks and macroeconomic uncertainties. The HIFSC recommends a faster implementation of structural reforms in the goods, services and labour markets. It also recommends taking action to tackle the negative demographic trends.

⁽¹³²⁾ [Compliance tracker of the EFB Secretariat](#).

⁽¹³³⁾ Article 8 of Regulation (EU) 2024/1263 specifies the activation of the deficit resilience safeguard. The safeguard ensures a minimum annual improvement in the structural primary balance of 0.4 percentage points of GDP until a Member State reaches a deficit level that provides a common resilience margin in structural terms of 1.5% of GDP relative to the deficit reference value of 3% of GDP. The minimum SPB is reduced to 0.25 percentage points of GDP if the adjustment period is extended.

⁽¹³⁴⁾ This revision shows that the uncertainty surrounding real-time estimates of potential output and structural budgetary variables has not been overcome with the reformed framework.

Commission assessment and Council conclusions

The Commission concludes that the Greek plan fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment explains the difference between the plan and its prior guidance by a better starting position in terms of the structural primary balance in 2024. The Commission accepts the plans' rationale that a lower revenue elasticity – a deviation which according to its own guidance it did not intend to accept – balances out higher potential GDP growth assumptions. The Commission concludes that the differences in assumptions taken together lead to an average net expenditure growth in the plan that is higher than the reference trajectory.

The Council's overall conclusions take note of the Commission assessment. In particular, the Council *'acknowledges that, according to the Commission assessment, the difference between the net expenditure path in the plan and the reference trajectory is exclusively due to the update of the initial fiscal position'*. Hence, the Council appear to discount the role of optimistic potential growth projections in enabling a more relaxed expenditure path in 2025 and 2026.

Spain

Overall conclusions

The Spanish plan shows ambition to some extent, though the level of commitment might prove insufficient to constitute a decisive step towards lasting fiscal sustainability. The macroeconomic assumptions, for both the short and medium term, underpinning the plan are significantly more optimistic than those in the Commission prior guidance. The more sanguine macro projections and the effects of the latest benchmark revision of national accounts on the debt ratio are used to plan for a very strong increase in net expenditure in 2024 followed by sustained growth rates up until 2031, while still achieving the main fiscal requirements under the revised fiscal rules. Although Regulation (EU) 2024/1263 allows for deviations in the methodological assumptions, a significant part of the higher assumptions on potential output growth stem from higher population projections, which are notoriously volatile. Moreover, using the latest short-term macroeconomic projections to plan for higher net expenditure levels carries the risk of building cyclical developments into the medium-term plan.

This configuration entails the risk of missing fiscal targets even when sticking to the proposed expenditure path. Using more sanguine macroeconomic projections in the plan based on high-frequency data is reminiscent of the uncertainty surrounding estimates of real-time potential output and the output gap that has been criticised in the past. A more prudent approach would seem appropriate especially as short-term errors will be locked in over the medium term. Delays over the delivery of a draft budgetary plan add uncertainty regarding the effective implementation of the adjustment in the plan. Finally, a comparison with the Spanish fiscal council's independent forecast raises doubts about the plausibility of the revenue expectations supporting the adjustment in the plan.

Spain submitted its MTFSP on 15 October 2024 (in Spanish). In September, the government requested an extension of the submission deadline from 20 September to 15 October, citing the need to incorporate the most up-to-date information in the plan, including statistical revisions. The Commission accepted the request with its standard argumentation (*'... such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline'*).

The plan does not mention the technical dialogue process. However, according to the Commission's assessment, the process covered the net expenditure path and its underlying assumptions, reforms and investments to underpin an extension of the adjustment period from four to seven years, and those that address issues identified in the context of the European Semester and the common priorities of the Union.

The plan does not mention any involvement of the national Parliament or national stakeholders.

Submission date	15 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 105.5% of GDP Government balance: -3.0% of GDP
Commission prior guidance	Reference trajectory
EDP	No excessive deficit identified in spring 2024 (Commission Article 126(3) report), as ‘initiating an excessive deficit procedure would not [...] serve a useful purpose’
Years of MTFSP	2025-2028
Adjustment period	2025-2031 (7 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.5% of GDP MTFSP: 0.4% of GDP
Stakeholder involvement	No
IFI involvement	Yes (requested by government) ⁽¹³⁵⁾
Commission overall assessment	Plan fulfils requirement of regulation

Macroeconomic projections

The plan’s estimates of nominal GDP growth are significantly more optimistic than those underpinning the Commission’s reference trajectory. The difference is mainly due to more sanguine assumptions about the real GDP growth outlook, which the Spanish authorities back up by more recent information about the short-term outlook and higher potential GDP growth estimates.

The Spanish MTFSP differs from other plans as it is based on an updated forecast until 2026. Other plans are based on the Commission forecast to 2025. Spain replicated the DSA calculation, using the Commission methodology, as if those were made at the time of the 2024 autumn forecast.

Real GDP growth projections in the plan exceed those of the Commission 2024 spring forecast, in cumulative terms by 2.4 percentage points in 2024–2031. The authorities present two main arguments to substantiate the more optimistic assumptions. First, updated demographic projections include higher immigration flows, which would support higher activity rates. Second, labour market reforms entering into force in 2025 are expected to drive a sustained reduction in unemployment rates. The impact of population projections on potential real GDP growth should be viewed with caution, given the significant volatility in population projections in the past. ⁽¹³⁶⁾

The expected impact of reforms presented in the plan as a rationale for extending the adjustment period is not included in the macroeconomic projections. ⁽¹³⁷⁾ They are estimated to increase potential GDP by 3.3 percentage points as of 2031, compared with the projections contained in the plan.

After peaking in September 2024, in December 2024 the Economic Sentiment Indicator ⁽¹³⁸⁾ (ESI) for Spain fell to the level observed at the beginning of the year, on a seasonally adjusted basis, and close to the

⁽¹³⁵⁾ [AIReF | Aval previsiones macroeconómicas del Gobierno 2025-2026](#).

⁽¹³⁶⁾ According to the [EFB's 2024 annual report](#) (Box 5.1), an analysis of Eurostat's demographic projections (2004–2013) revealed significant volatility in the migration component.

⁽¹³⁷⁾ Article 13 and Recital 34 of Regulation (EU) 2024/1263 provide that the impact of investments and reforms, once implemented under the medium-term plans, will be duly taken into account in the future, including in the design of subsequent plans. The impact of not-yet-implemented reforms and investments should not be taken into account in the potential GDP estimates.

⁽¹³⁸⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

level of May when the Commission finalised its spring forecast and prepared the reference trajectory for Spain. As of December 2024, the index of industrial production ⁽¹³⁹⁾ was consistent with an improving outlook, amid some volatility. According to a preliminary flash estimate published by Eurostat at the end of January 2025, Spanish GDP in the fourth quarter of 2024 was higher than the Commission forecast. Overall, these developments indicate some downside risks to the growth outlook underpinning the plan. More generally, building a medium-term fiscal plan on improvements in contiguous forecasts or high-frequency data is reminiscent of the issues around the uncertainty surrounding estimates of real-time potential output and the output gap that has clouded fiscal surveillance in the past.

Table A.6: Spain – Main macroeconomic and fiscal variables

ES	Commission prior guidance								MTFSP								Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026
	year-on-year % change																		
Potential GDP	1.9	2.0	1.6	1.4	1.4	1.3	1.3	1.2	1.9	2.0	2.1	1.8	1.6	1.6	1.2	1.1	2.4	2.4	2.3
Real GDP	2.1	1.7	1.0	1.0	1.1	1.2	1.2	1.1	2.7	2.0	2.0	1.2	1.2	1.2	1.2	1.1	3.0	2.3	2.1
GDP deflator	3.3	2.3	2.4	2.4	2.4	2.4	2.5	2.5	3.1	2.7	2.4	2.4	2.4	2.3	2.3	2.3	3.1	2.4	2.0
Nominal GDP	5.5	4.0	3.4	3.5	3.6	3.6	3.7	3.6	5.9	4.8	4.5	3.7	3.6	3.5	3.5	3.4	6.1	4.8	4.1
Net expenditure growth (annual)	3.8	3.2	2.8	2.7	2.7	2.7	2.6	2.5	5.3	3.7	3.5	3.2	3.0	3.0	2.5	2.4	4.4	3.8	4.2
Net expenditure growth (cumulative)	3.8	7.2	10.3	13.2	16.3	19.3	22.5	25.6	5.3	9.2	13.0	16.6	20.1	23.7	26.8	29.9	4.4	8.4	12.9
	% of GDP																		
Government balance	-3.0	-2.5	-2.5	-2.3	-2.0	-1.7	-1.3	-0.9	-3.0	-2.5	-2.1	-1.8	-1.6	-1.5	-1.2	-0.8	-3.0	-2.6	-2.7
Structural balance	-3.4	-2.9	-2.5	-2.1	-1.7	-1.2	-0.8	-0.3	-3.1	-2.9	-2.5	-2.0	-1.5	-1.2	-0.8	-0.5	-3.6	-3.2	-3.1
Structural primary balance	-0.8	-0.3	0.2	0.7	1.2	1.7	2.2	2.7	-0.6	-0.2	0.2	0.7	1.1	1.5	1.9	2.3	-1.1	-0.6	-0.5
Gross debt (target)	105.5	104.9	103.9	102.8	101.2	99.3	97.1	94.6	102.5	101.4	100.1	98.4	96.6	94.8	92.8	90.6			
Gross debt (no policy change)	105.5	104.8	104.4	104.7	105.1	105.5	106.2	107.4	102.5	101.3	100.3	99.4	98.9	98.9	99.2	99.9	102.3	101.3	101.1

Notes: The MTFSP sets a net expenditure growth path for the period of the plan of 2025-2028. The authorities asked for an extended adjustment period until 2031 and presented the underlying assumptions for the period 2029-2031 (in italics in the table).

Sources: European Commission, MTFSP

Public finances and net expenditure path

Spain's historical track record of fiscal policy is fragile. This is exemplified by (i) a government debt of over 100% of GDP; and (ii) a comparatively low numerical score on compliance with the SGP rules in 1998-2023: 38% against the EU average of 55%. ⁽¹⁴⁰⁾

The MTFSP asks for an extension of the fiscal adjustment period from four to seven years until 2031. The plan and the effective policy commitments have a shorter timeframe, running to 2028.

Compared with the Commission reference trajectory, the plan targets a less demanding net expenditure path with an average annual rate of net expenditure growth of 3.3% over the period 2025-2028 (2.9% in the reference trajectory). The plan's annual net expenditure growth in 2024 is also considerably higher. The expenditure path translates into a linear yet lower adjustment in the structural primary balance, with an annual average change of 0.4 percentage points of GDP in 2024-2028, compared to an annual average change of 0.5 percentage points of GDP in the Commission prior guidance.

The plan projects a lower government debt ratio than the Commission prior guidance at the end of the adjustment period (2031). Although it is based on a lower fiscal adjustment, the results are mostly due to (i) the effect of the statistical benchmark revision of nominal GDP published after the Commission guidance was issued, bringing down the 2024 starting point by 3 percentage points, and (ii) the impact of higher nominal growth assumptions.

The authorities argue that their more optimistic macroeconomic outlook (including the effect of the latest population projections) accounts for half of the 0.2 percentage points increase in the average annual rate

⁽¹³⁹⁾ A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry.

⁽¹⁴⁰⁾ [Compliance tracker of the EFB Secretariat](#).

of net expenditure growth compared with the Commission reference trajectory, in the period 2025-2031. The other half is attributed to the recent pension reform.

The most recent (June 2024) Commission report examining the excessive deficit situation of Spain assessed the country's deficit to be in excess of the reference value only temporarily and that *'initiating an excessive deficit procedure would not [...] serve a useful purpose'*. At that stage, the 2023 deficit was estimated at 3.6% of GDP and forecast to decline to 3.0% of GDP in 2024. According to the EFB, by not opening an EDP for Spain, the Commission *'departed from this established practice'* and used *'an element of judgement [which] adds a new element of discretion that does not feature in the relevant legal provisions'*.⁽¹⁴¹⁾ According to the plan, the Spanish deficit is expected to decrease to 3% of GDP in 2024 from 3.5% in 2023.

The plan lacks a clear fiscal strategy substantiating how it expects to achieve the net expenditure path. As of February 2025, Spain had not submitted a draft budgetary plan for 2025 yet.

The plan modifies net ageing costs by taking into account an expected increase in social contributions as a percentage of GDP after the adjustment period, as a result of a 2023 pension reform. This is not in line with the DSA framework since it deviates from the 'no-fiscal-policy-change' assumption applied beyond the adjustment period and it lowers the required effort during the adjustment period.

As required by Regulation (EU) 2024/1263⁽¹⁴²⁾, the plan targets an average annual level of nationally financed public investment of 2.6% of GDP between 2025 and 2028, slightly above the one of the RRP period, i.e. 2.4% between 2021 and 2026.

Reforms and investments underpinning the extension of the adjustment period

The plan includes reforms and investments underpinning the extension of the adjustment period from four to seven years and details their impact on growth and fiscal sustainability. The main areas of focus of the reform are the green transition; the digital transformation; human and physical capital; productivity; and budgetary measures.

The reforms and investment include key measures from the recovery and resilience plan (RRP) and new reform commitments, which focus on immigration, housing, climate, and businesses – including initiatives to reduce bureaucracy and administrative costs for companies.

The authorities state that the plan includes reforms and investments additional to those already envisaged in the RRP (although the high level of ambition set in the RRP in themselves could have been sufficient to gain an extension) to deal with the new economic and fiscal challenges that Spain is facing.

The plan contains a set of detailed tables on the package that meet all the content requirements set in the Commission Notice.⁽¹⁴³⁾ Most notably, it includes references to RRP commitments and country-specific recommendations, a description of the key steps, and a timeline. Indicators are not presented in the tables, for ease of reading, as according to the authorities *'the macroeconomic and fiscal impact has already been detailed throughout the medium term plan'*.

While the plan provides details on the economic models used to estimate the potential GDP impact of the reforms (such as REMS, EREMS, and QUEST RD), the lack of transparency or accessibility regarding their assumptions and methodologies makes it challenging to verify or replicate the results.

⁽¹⁴¹⁾ European Fiscal Board Annual Report 2024.

⁽¹⁴²⁾ Recital 31 of Regulation (EU) 2024/1263 specifies the adjustment period can be extended by a maximum of three years 'without leading to a reduction in the level of nationally-financed public investment over the period of the plan, compared to the medium-term level before the start of the plan, taking into account the scope and scale of the country-specific challenges'. Art 36(d) provides a transitional provision to 'maintain the nationally financed investment levels realised on average over the period covered by the recovery and resilience plan'.

⁽¹⁴³⁾ 'Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports', C/2024/3975, 21 June 2024.

Overall, the formal requirements set in Regulation (EU) 2024/1263 for the extension of the fiscal adjustment path seems to be met. According to the Commission assessment, ‘... each reform and investment underpinning an extension of the adjustment period is sufficiently detailed, frontloaded, time-bound and verifiable. The budgetary measures on taxation and spending reviews have not been specified in the plan’. The plan includes references to relevant RRP commitments and country-specific recommendations, key steps, a timeline and objective indicators to enable monitoring of implementation.

IFI involvement

The Independent Authority for Fiscal Responsibility (AIReF) assessed the macroeconomic scenario underpinning the MTFSP, at the request of the Spanish government. On 28 September 2024, AIReF published an endorsement ⁽¹⁴⁴⁾ (*aval*) and a press note affirming that the plan’s forecasts for 2024-2026 fall within a reasonably likely range under a fiscal consolidation scenario, but highlighted that it lacked the key information needed to make a complete evaluation. It also indicated that it would revise its analysis once the full details of the MTFSP and additional statistical data become available.

In a second report ⁽¹⁴⁵⁾ published on 5 November 2024, AIReF issued its assessment of the plan as a whole. The assessment concluded that while the plan broadly aligns with the Commission prior guidance, it lacks information on the budgetary scenario beyond 2024 at the general government level and by sub-sector. It also lacks a detailed evaluation of the measures and steps for meeting fiscal commitments. The assessment highlighted the lack of involvement of regional administrations, that the plan was not presented or discussed in Parliament, and that AIReF was not involved either in the preparation process. Moreover, AIReF states that *‘under AIReF’s revenue forecasts, compliance with the expenditure path commitment contained in the MTP, although it would represent progress in terms of sustainability, does not in itself guarantee the deficit and debt reduction contained in the MTP’*.

Commission assessment and Council conclusions

The Commission concludes that Spain’s MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment accepts the significantly higher assumption of potential GDP growth on account of the latest revisions of population projections, without noting that these are highly volatile.

The Commission did not mention that Spain used an updated forecast until 2026, a significant deviation from the common methodology.

The Commission justifies the deviation from the DSA methodology regarding the treatment of compensatory revenue measures in the ageing costs, which improves the debt dynamics and enables a higher average net expenditure growth over the adjustment period, arguing that the description of legislated measures is included in Spain’s country fiche accompanying the 2024 Ageing Report. This appears an insufficient justification, as it is not in line with the common DSA framework and it lacks the transparency and detailed explanation necessary for a comprehensive assessment.

The overall conclusions of the Council take note of the Commission assessment and endorse the set of reform and investment commitments underpinning the extension of the adjustment period. The Council welcomes Spain’s efforts to quantify the impact on growth and fiscal sustainability. The Council also takes note that, according to the Commission assessment, overall the average GDP deflator growth over the entire projection period (2025-2041) is slightly lower in the plan than in the Commission assumptions.

⁽¹⁴⁴⁾ [AIReF | Aval previsiones macroeconómicas del Gobierno 2025-2026.](#)

⁽¹⁴⁵⁾ [AIReF | Report on the Medium-Term Structural-Fiscal Plan 2025-2028.](#)

France

Overall conclusions

The original MTFSP submitted by France targeted an excessively frontloaded fiscal adjustment with a projected improvement in 2025 that goes well beyond any historical experience. The prevailing domestic political instability is not conducive to the plan's feasibility. While the amendment on 16 January 2025 made the consolidation less frontloaded by an upward revision of the 2025 headline deficit target, the level of ambition still exceeds the Commission prior guidance in terms of annual average adjustment in the primary structural balance. It is also predicated on a significantly more optimistic macroeconomic scenario over the adjustment period.

The plan's growth projections are subject to downside risks, as illustrated by the recent reading of high-frequency indicators and the negative quarter-on-quarter GDP growth figure (-0.1) in Q4 2024. The French IFI found the plan's macroeconomic scenario to be reasonable overall, but still on the somewhat optimistic side. The recourse to more optimistic macroeconomic projections in the plan compared to the prior guidance based on high-frequency data echoes the uncertainty surrounding real-time potential output and output gap estimates that marred the 'old' SGP regime. A more prudent approach would seem appropriate especially as cyclical elements will be locked in over the medium term.

The first French MTFSP was submitted on 31 October 2024 (in French). In early September, the government requested an extension of the submission deadline from 20 September to 31 October, arguing that submitting the plan after the formation of a new government would help ensure higher political ownership of the plan and thus contribute to its implementation.⁽¹⁴⁶⁾ The Commission accepted the request with its standard argument that *'such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline'*.

The technical dialogue process is not mentioned in the MTFSP. According to the Commission, the dialogue took place in October and centred on the planned net expenditure path and its underlying assumptions, and the envisaged set of reform and investment commitments to underpin an extension of the adjustment period.

The plan was presented to the national Parliament on 21 October 2024. It does not report on any consultation with national stakeholders.

On 16 January 2025, after the Commission published its assessment, the French authorities communicated an adjustment to the net expenditure path.⁽¹⁴⁷⁾ The updated path targets the same cumulative rate of expenditure growth with a less frontloaded adjustment. The French authorities' submission did not reveal how the adjusted expenditure path affects the rest of the macro-fiscal scenario.

⁽¹⁴⁶⁾ The Barnier-government was voted out in a censure motion on 4 December 2024. On 14 January 2025, the newly appointed Bayrou-government announced a less ambitious deficit target with a revised budget. Significant uncertainties remain regarding the feasibility of approving even this less constraining 2025 budget proposal.

⁽¹⁴⁷⁾ [The French Treasury's letter to the Director-General of the Directorate-General for Economic and Financial Affairs of the European Commission.](#)

Submission date	31 October 2024 (MTFSP) 16 January 2025 (letter amending the net expenditure path)
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 112.4% of GDP Government balance: -5.3% of GDP
Commission prior guidance	Reference trajectory
EDP	Council decision on the existence of an excessive deficit in July 2024 (Article 126(6)), Council recommendation to end an excessive deficit in January 2025 (Article 126(7))
Years of MTFSP	2025-2029
Adjustment period	2025-2031 (7 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.6% of GDP MTFSP: 0.8% of GDP
Stakeholder involvement	No information reported in the MTFSP, the Council's conclusions acknowledged that consultations were conducted
IFI involvement	Yes (at the request of the government)
Commission overall assessment	The plan's net expenditure path, as adapted by the letter of 16 January 2025, is accepted

Macroeconomic projections

The MTFSP's potential growth estimates are significantly higher than those in the Commission prior guidance: 1.2% vs 0.6% on average per year in 2024-2029 leading to a cumulative difference of close to 3.5 percentage points between the two trajectories by 2029. The authorities put forward three arguments to substantiate their figures: (i) estimates made by other international institutions, e.g. IMF and OECD; (ii) the French national IFI assessed the plan's estimates as overall 'reasonable'; and (iii) the commonly agreed methodology for potential growth estimations is applied by the Commission asymmetrically inasmuch as it locks-in the low labour productivity figures seen in recent years. The authorities assume that labour productivity will pick up in future years.

Article 36(1)(f) of Regulation 2024/1263 allows for smoothing estimates of potential output growth, provided that cumulative GDP growth over the entire projection horizon is broadly in line with the Commission prior guidance. However, this condition is not fulfilled, as the French plan is predicated on a clearly higher potential growth trajectory.

The GDP deflator is estimated to be substantially higher in the Commission reference trajectory: 2.3 % vs 1.7 % on average over the 2024-29 period. This is explained chiefly by methodological differences: the deflator in the Commission scenario is derived from market expectations (inflation swaps), while the French government's forecast is based on the ECB inflation target (with some adjustments).

Taken together, the differences in the real potential growth and the GDP deflator estimates offset each other to some extent. However, the plan's scenario still leads to a significantly more optimistic nominal GDP path, with a cumulative difference of around 2 percentage points in the respective trajectories by 2029.

As opposed to a uniform fiscal multiplier of 0.75 underlying the reference trajectory, the MTFSP applies different, lower estimates for each year of the programme hovering at around 0.5 (precise figures are not provided). For 2024–2025, where all consolidation measures are presented (most notably, tax changes included in the draft 2025 budget), the multiplier calculations are done in a very detailed way; from 2026, the calculations are performed in a more aggregated manner. By way of illustration, the MTFSP mentions a number of calculation principles, e.g. the impact of measures directly weighing on government consumption are calculated with a multiplier of close to 1, while some tax measures targeting taxpayers (households and firms) with a high ability to pay have a multiplier between 0.5 and 0. Based on the commonly agreed methodology to calculate potential output, a lower fiscal multiplier, everything else equal, translates into higher potential output growth due to fiscal consolidation having less of an impact on the aggregate level of economic activity.

The MTFSP uses a more favourable technical assumption on interest rates: the programme’s scenario assumes that 10-year interest rates will converge at 3.7% from 2027 on, while the Commission’s scenario assumes convergence at this level in 2034. Nevertheless, given the worse fiscal starting position of the MTFSP leading to higher debt ratios in 2024–2025, this assumption does not lead to a measurable difference in interest expenditure projections over the fiscal adjustment horizon.

Throughout 2024, the seasonally-adjusted Economic Sentiment Indicator⁽¹⁴⁸⁾ was on a slightly declining trend. In parallel, the industrial production index⁽¹⁴⁹⁾ flatlined at around its 2021 output figure in recent months. Hence, high-frequency indicators point to downside risks on the short-term growth outlook. The negative risks were further underlined by Eurostat’s flash estimate reporting a decline in quarter-on-quarter GDP growth for the fourth quarter of 2024 (-0.1%). The annual growth projections for 2024 and 2025 contained in the Commission 2024 autumn forecast (identical to the MTFSP’s projections) were predicated on a +0.1 quarter-on-quarter growth forecast for the said quarter.

Overall, the fiscal plan is built on significantly more optimistic forecasts than those underpinning the Commission prior guidance or high-frequency data. This echoes the issues around the notorious uncertainty of real-time potential output and output gap estimates that has clouded fiscal surveillance in the past.

Table A.7: France – Main macroeconomic and fiscal variables

FR	Commission prior guidance								MTFSP								Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026
	year-on-year % change																		
Potential GDP	1.1	1.0	0.6	0.4	0.3	0.3	0.4	0.4	1.2	1.2	1.2	1.2	1.2	1.0	1.0	1.0	1.2	1.1	1.0
Real GDP	0.7	1.2	0.3	0.2	0.1	0.2	0.3	0.3	1.1	1.1	1.4	1.5	1.5	1.0	1.0	1.0	1.1	0.8	1.4
GDP deflator	2.8	2.0	2.1	2.2	2.2	2.3	2.4	2.4	2.3	1.7	1.6	1.6	1.6	1.6	1.6	1.6	2.2	1.6	1.7
Nominal GDP	3.5	3.2	2.4	2.4	2.4	2.5	2.6	2.8	3.4	2.8	3.0	3.1	3.1	2.6	2.6	2.6	3.4	2.5	3.1
Net expenditure growth (annual)	1.8	2.0	1.7	1.6	1.4	1.5	1.6	1.7	3.8	0.8	1.2	1.2	1.2	1.1	1.1	1.1	3.1	-0.1	2.5
Net expenditure growth (cumulative)	1.8	3.8	5.6	7.3	8.8	10.4	12.1	14.0	3.8	4.6	5.9	7.2	8.4	9.6	10.8	12.0	3.1	3.0	5.6
	% of GDP																		
Government balance	-5.3	-4.9	-4.7	-4.5	-4.1	-3.7	-3.2	-2.8	-6.1	-5.0	-4.6	-4.0	-3.3	-2.8	-2.2	-1.7	-6.2	-5.3	-5.4
Structural balance	-5.0	-4.7	-4.4	-4.0	-3.5	-3.0	-2.5	-2.0	-5.7	-4.6	-4.3	-3.9	-3.3	-2.9	-2.2	-1.7	-6.1	-5.0	-5.4
Structural primary balance	-3.0	-2.4	-1.8	-1.3	-0.6	0.0	0.6	1.2	-3.6	-2.3	-1.7	-1.1	-0.3	0.3	1.1	1.8	-4.0	-2.5	-2.6
Gross debt (target)	112.4	113.9	115.9	117.7	119.1	119.9	120.0	119.6	112.9	114.7	115.9	116.5	116.1	115.8	114.9	113.5			
Gross debt (no policy change)	112.4	113.6	116.0	118.8	121.7	124.6	127.5	130.5	112.9	116.0	119.1	122.2	125.2	128.8	132.7	136.6	112.7	115.3	117.1

Notes: The MTFSP sets a net expenditure growth path for the period of the plan of 2025–2029. The authorities asked for an extended adjustment period until 2031 and presented the underlying assumptions for 2030–2031 (in italics in the table). For the evolution of net expenditure, the table reflects the revised figures submitted on 16 January 2025.

Sources: European Commission, MTFSP as adapted on 16 January 2025

⁽¹⁴⁸⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽¹⁴⁹⁾ A [business cycle](#) indicator that measures monthly changes in the price-adjusted output of industry.

Public finances and net expenditure path

France has a historically weak track record of fiscal policy, resulting in an almost continuous increase in its public debt-to-GDP ratio from around 65% in 2006 to over 110% in 2023. This is exemplified by its overall numerical compliance score of 21% with respect to the SGP rules in 1998-2023, the lowest in the EU. ⁽¹⁵⁰⁾

The MTFSP asks for an extension of the fiscal adjustment period from four to seven years to 2031. The period covered by the plan and the effective policy commitments is shorter; they run until 2029.

Despite the significantly more optimistic macro projections, the programme lays down a more demanding net expenditure path than the Commission reference trajectory (average annual growth rate of 1% vs 1.7%). This translates into a correspondingly higher annual average fiscal adjustment over the extended seven-year period of 2025-2031: 0.8% of GDP vs 0.6% of GDP in the structural primary balance. The authorities' letter of 16 January 2025 did not change the average fiscal effort over the programme horizon but adapted the time profile of the planned consolidation.

The French authorities mainly substantiate their ambition by the worse than anticipated starting position: the 2024 deficit in the plan is at 6.1% of GDP, compared to the 5.3% of GDP deficit forecast underpinning the Commission prior guidance. The slippage is confirmed by the Commission 2024 autumn forecast, showing a deficit of 6.2% of GDP for 2024. The authorities complement their reasoning by the intention to achieve a *'faster improvement of public accounts'*.

The French plan applies a slightly different formula to translate the required change in the structural primary balance into net expenditure growth. This is because it explicitly incorporates a non-discretionary component in the calculations, linked to the evolution of those types of government revenues that are not sensitive to nominal GDP. This results in negative non-discretionary components for 2025-2027 in the range of 0.1-0.3% of GDP, leading to a lower level of revenue elasticity than the standard unitary assumption. In essence, the revised formula correspondingly increases the adjustment needs for the above years.

The adjustment was originally envisaged to be very frontloaded with a 1.3% of GDP improvement in the structural primary balance in 2025, achieved chiefly through stable net expenditures (see the initially submitted plan at the end of this section). This being said, it is worth recalling from the recent history of French public finances that a similar magnitude of adjustment (i.e. over 1% of GDP improvement in the structural primary balance) has so far only been achieved in very specific circumstances: in 2011 under extreme pressure from financial markets, and in 2021 reflecting policy normalisation following the Covid-related fiscal support package in 2020. The authorities' letter of 16 January 2025 revised the 2025 target for the headline deficit from 5% of GDP to 5.4% of GDP through increasing net expenditure growth from 0% to 0.8%, making the planned consolidation less frontloaded.

The plan offers some indications on the fiscal strategy needed to achieve the planned adjustment. In terms of composition, the plan is to carry out adjustments through both discretionary tax increases and expenditure restraint. The former are only specified for 2025, and include, most notably, hikes in the general and sectorial corporate taxes and increased tax rates for high-income households. The expenditure side of the fiscal consolidation includes both short-term stop-gap measures (e.g. postponing the CPI indexation of pensions by half a year) and sustained efforts to contain expenditure throughout the programme period through a more systematic use of spending reviews.

The 2025 fiscal plans are further detailed in the French draft budgetary plan (DBP) that includes the above referred revenue (0.7% of GDP) and expenditure (0.4% of GDP) discretionary measures. In its DBP assessment, the Commission was more cautious regarding the positive effects of the new measures (expecting 0.2% of GDP less budgetary improvement) pointing to insufficient specifications for some of

⁽¹⁵⁰⁾ [Compliance tracker of the EFB Secretariat](#).

them. The Commission also identified additional downside budgetary risks, mainly related to the favourable macroeconomic assumptions underpinning the DBP.

The target year to correct the excessive deficit is set at 2029 in the MTFSP, confirmed by the authorities' letter of 16 January 2025 (subsequently this became the deadline for correction set in the January 2025 EDP recommendation). The envisaged structural adjustment path draws on the transitional measure laid down in Regulation 1467/97 for 2025 and 2027, which allows countries to take into account the increase in the debt service costs when checking compliance with the 0.5% of GDP minimum adjustment requirement under the EDP (interest expenditure is projected to continuously increase over the MTFSP's horizon, from 2.1% of GDP in 2024 to 3.2% of GDP in 2029).

Given the high deficit level in 2024, the public debt ratio is forecast to decrease only in 2028. At the same time, in 2029, the MTFSP projects that the debt ratio will be 4 percentage points lower than in the reference trajectory. This is partly explained by a denominator effect (higher nominal GDP as explained above), and partly linked to the frontloaded adjustment effort in 2025.

Nationally financed public investment is projected to remain in the range of 3.7%-4% of GDP during the MTFSP horizon, averaging at 3.9% of GDP. The plan therefore ensures that the average over the RRP period (3.9% of GDP over 2021-2026) is maintained, in line with Regulation 2024/1263 (Article 36(1)(d)).

Reforms and investments underpinning the extension of the adjustment period

The MTFSP includes reforms and investments to substantiate the request to extend the adjustment period, which is presented as a coherent subset of the authorities' entire reform agenda that they plan to implement over the medium-term.

The reform and investment package has four objectives (or thematic blocks): (i) achieving full employment; (ii) reindustrialisation and strengthening competitiveness; (iii) accelerating the green and energy transition; and (iv) strengthening fiscal governance.

Most of the measures listed in the MTFSP are a continuation of previously launched reforms (such as the redesign of unemployment benefits and parametric reforms of the pension system) or the implementation of previously adopted schemes (e.g. the France 2030 investment plan).

The MTFSP contains a comprehensive table detailing package with all the content requirements laid down in Regulation 2024/1263 (and further specified in the related Commission Notice.⁽¹⁵¹⁾ Most notably, it includes references to relevant RRP commitments (less than half of the reform measures put forward are existing RRP commitments, the others are new initiatives) and country-specific recommendations. The plan includes detailed descriptions of key steps, timeline and indicators.

The MTFSP lists the expected growth and budgetary impact of the reforms and investments at least qualitatively (e.g. via identifying the main channels), and quantitatively in many cases, too. However, the programme lacks an estimation of the overall expected growth and budgetary impact of the measures. The reporting is most comprehensive for the measures under the first objective (labour market and pension reforms), where both the expected macroeconomic and budgetary impacts are provided (e.g. based on the modelling work of the French Treasury or INSEE). Overall, the estimated partial growth-enhancing impacts (accumulated to 0.7 percentage point by 2030) and the expected fiscal savings (in total around 0.6% of GDP) appear to be plausible. They are in line with the recent quantitative *ex post* evaluations of similar reform measures cited in the plan. This being said, the lack of an estimate of the total improvement in the country's growth potential and government finances makes it challenging to verify the impact of the planned set of reforms and investments.

⁽¹⁵¹⁾ 'Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports', C/2024/3975, 21 June 2024.

IFI involvement

In early October 2024, the French government requested an opinion from the national IFI, the High Council of Public Finances (HCPF), both on the plausibility of the medium-term macroeconomic scenario and the on the consistency of the draft MTFSP with EU rules. On 9 October, the HCPF published its [Opinion on the national medium-term fiscal-structural plan 2025-2028](#).

The HCPF considered the official potential GDP scenario as overall reasonable, although somewhat optimistic. At the same time, it regretted that the information provided by the government had been insufficient to fully assess the realism of the multi-annual macroeconomic trajectory. Similarly, the information received did not specify which package of reforms and investments would be announced to underpin the request for the extension of the budgetary adjustment period from four to seven years. On the public finance trajectory, beyond 2025, the government only shared some indicators with the HCPF. Highlighting the incomplete nature of the information, the HCPF only assessed 2025, for which it identified high risks. In this context, the HCPF warned that any deviation from the deficit forecast in the budget law for 2025 could delay the correction of the excessive deficit.

Commission assessment and Council conclusions

The Commission concludes that France's plan fulfils the requirements of Regulation (EU) 2024/1263, and therefore the net expenditure path, as adapted by the letter of 16 January 2025, to be recommended by the Council to France. The Commission recommends endorsing the reforms and investments underpinning the extension of the adjustment period to seven years.

Overall, the Commission accepted the plan's deviations from its prior guidance even though the MTFSP's nominal GDP path is significantly higher than the prior guidance. The Commission argued that the combined impact of more cautious (e.g. a lower GDP deflator trajectory) or duly justified differences outweighs the impact of those assumptions that are not deemed to be justified (higher potential growth). The Commission overall considered that the planned cumulative net expenditure growth is lower than the one of the reference trajectory.

The Commission assessment notes that the French plan uses a different formula to translate the required change in the structural primary balance into net expenditure growth. The Commission accepts this difference as it leads to a lower (stricter) net expenditure growth trajectory in 2025-2027 than the Commission method.

The feasibility of the French plan is almost exclusively predicated on achieving a massive (by historical standards) fiscal adjustment in 2025 (a 1.3% of GDP improvement was originally factored into in the primary structural balance). The 16 January 2025 letter reduced somewhat the ambition for 2025 (by 0.4% of GDP as measured in the headline balance), but the planned adjustment remains heavily frontloaded. The Commission assessment does not appreciate the inherent risks of this strategy, which is further aggravated by the recent political instability in France. The challenge has grown with the failed attempt to approve the 2025 budget by 31 December 2024, which made a number of changes in the planned package of consolidation measures inevitable: e.g. the postponement of the CPI-indexation of pensions by half a year, or the planned tax increases will need to be recalibrated as they cannot be collected for the whole year.

The Council's overall conclusions take note of the Commission assessment. The Council recommended the net expenditure path, as adapted by the French authorities' letter of 16 January 2025, and endorsed the set of reform and investment commitments underpinning the extension of the adjustment period to seven years.

Table A.8: France – Main macroeconomic and fiscal variables in the originally submitted plan

FR	Commission prior guidance								MTFSP									Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	
	year-on-year % change																			
Potential GDP	1.1	1.0	0.6	0.4	0.3	0.3	0.4	0.4	1.2	1.2	1.2	1.2	1.2	1.0	1.0	1.0	1.2	1.1	1.0	
Real GDP	0.7	1.2	0.3	0.2	0.1	0.2	0.3	0.3	1.1	1.1	1.4	1.5	1.5	1.0	1.0	1.0	1.1	0.8	1.4	
GDP deflator	2.8	2.0	2.1	2.2	2.2	2.3	2.4	2.4	2.3	1.7	1.6	1.6	1.6	1.6	1.6	1.6	2.2	1.6	1.7	
Nominal GDP	3.5	3.2	2.4	2.4	2.4	2.5	2.6	2.8	3.4	2.8	3.0	3.1	3.1	2.6	2.6	2.6	3.4	2.5	3.1	
Net expenditure growth (annual)	1.8	2.0	1.7	1.6	1.4	1.5	1.6	1.7	3.8	0.0	1.4	1.4	1.4	1.3	1.3	1.3	3.1	-0.1	2.5	
Net expenditure growth (cumulative)	1.8	3.8	5.6	7.3	8.8	10.4	12.1	14.0	3.8	3.8	5.2	6.7	8.1	9.5	10.9	12.4	3.1	3.0	5.6	
	% of GDP																			
Government balance	-5.3	-4.9	-4.7	-4.5	-4.1	-3.7	-3.2	-2.8	-6.1	-5.0	-4.6	-4.0	-3.3	-2.8	-2.2	-1.7	-6.2	-5.3	-5.4	
Structural balance	-5.0	-4.7	-4.4	-4.0	-3.5	-3.0	-2.5	-2.0	-5.7	-4.6	-4.3	-3.9	-3.3	-2.9	-2.2	-1.7	-6.1	-5.0	-5.4	
Structural primary balance	-3.0	-2.4	-1.8	-1.3	-0.6	0.0	0.6	1.2	-3.6	-2.3	-1.7	-1.1	-0.3	0.3	1.1	1.8	-4.0	-2.5	-2.6	
Gross debt (target)	112.4	113.9	115.9	117.7	119.1	119.9	120.0	119.6	112.9	114.7	115.9	116.5	116.1	115.8	114.9	113.5				
Gross debt (no policy change)	112.4	113.6	116.0	118.8	121.7	124.6	127.5	130.5	112.9	116.0	119.1	122.2	125.2	128.8	132.7	136.6	112.7	115.3	117.1	

Notes: The MTFSP sets a net expenditure growth path for the period of the plan of 2025-2029. The authorities asked for an extended adjustment period until 2031 and presented the underlying assumptions for the period 2030-2031 (in italics in the table).

Sources: European Commission, original MTFSP as submitted on 31 October 2024

Italy

Overall conclusions

The Italian plan targets a valid level of ambition. Its fiscal adjustment is somewhat frontloaded in the early years. However, the 2025 draft budgetary plan (DBP) falls short of the ambition set in the MTFSP for that year, which is predicated on significantly more optimistic projections of nominal GDP growth than in the Commission prior guidance. More recent data suggest that the 2024 and 2025 forecasts will not be achieved, and the recent form of the industrial production indicator shows signs of deep-rooted weaknesses in the growth model of the Italian economy. The Italian national IFI found some macro variables be close to the upper edge of the acceptable interval. The plan assumes a revenue elasticity of less than one in its first couple of years. While the Commission welcomes this choice as prudent, it creates a potential margin for discretionary revenue measures should ‘windfalls’ materialise and implies lower budgetary targets both nominal and structural.

This configuration entails the risk of missing fiscal targets even when sticking to the proposed expenditure path. Using more sanguine macroeconomic projections in the plan or high-frequency data is reminiscent of the uncertainty surrounding estimates of real-time potential output and the output gap that was criticised in the past. A more prudent approach would seem appropriate, especially as cyclical elements will be locked in over the medium term.

Italy submitted its MTFSP on 15 October 2024 (in Italian and English). In September, the government requested an extension of the deadline from 20 September to 15 October, citing the imminent release of the 2023 national account data and hearings in the parliamentary committees. The Commission accepted the request with its standard argumentation (*‘...’ such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline’*).

The plan reports on the technical dialogue process. The process covered: (i) the net expenditure growth path and its underlying assumptions; (ii) reforms and investment underpinning the extension of the adjustment period from four to seven years; and (iii) reforms and investment that address issues identified in the context of the European Semester and the common priorities of the Union.

A draft of the plan was presented to the national Parliament, to social partners and to local authorities. However, the plan lacks details on the timing and process of the consultations, and on the stakeholders consulted.

Submission date	15 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 138.6% of GDP Government balance: -4.4% of GDP
Commission prior guidance	Reference trajectory
EDP	Council decision on the existence of an excessive deficit in July 2024 (Article 126(6)), Council recommendation to end an excessive deficit in January 2025 (Article 126(7))
Years of MTFSP	2025-2029
Adjustment period	2025-2031 (7 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.62% of GDP MTFSP: 0.53% of GDP
Stakeholder involvement	Yes
IFI involvement	Yes (requested by government)
Commission overall assessment	Plan fulfils requirement of regulation

Macroeconomic projections

The plan's estimates of nominal GDP growth are significantly more optimistic than those underpinning the Commission reference trajectory. Although the GDP deflator projections are similar, the plan projects stronger real GDP growth.

The Italian authorities justify the difference with an updated macroeconomic outlook. They deem this update more realistic than the outlook underpinning the Commission prior guidance, which they describe as 'stylized and pessimistic'.⁽¹⁵²⁾

The macroeconomic scenario includes the expected impact of reforms that have already been launched, such as reforms to improve the efficiency of civil and criminal proceedings; and measures to promote tax compliance.⁽¹⁵³⁾ Completion of these reforms is linked to a great extent to the implementation of the measures included in the recovery and resilience plan (RRP).

As of December 2024, the Economic Sentiment Indicator⁽¹⁵⁴⁾ (ESI) was on a declining trend, meaningfully below the 2024-peak reached in March, and lower than in May 2024 when the Commission finalised its spring forecast and prepared the reference trajectory for Italy, on a seasonally adjusted basis. As of December 2024, the changes in the index of industrial production⁽¹⁵⁵⁾ were compatible with a worsening outlook, a negative trend that has persisted for two years. Moreover, in December 2024, the Italian statistical office (Istat) lowered its GDP growth forecast for 2024 from 1% to 0.5%, and lowered growth in 2025 to 0.8% (from 1.2% in the plan). According to a preliminary flash estimate published by Eurostat at the end of January 2025, Italian GDP in the fourth quarter of 2024 undershot the

⁽¹⁵²⁾ In 2030 and 2031, real GDP growth is assumed to drop abruptly to -0.1% and 0% respectively. The authorities explain this assumption as an accounting device to comply with the DSA methodology by closing the output gap.

⁽¹⁵³⁾ Article 13 and Recital 34 of Regulation (EU) 2024/1263 provide that the impact of investments and reforms, once implemented under the medium-term plans, will be duly taken into account in the future, including in the design of subsequent plans. The impact of not-yet-implemented reforms and investments should not be taken into account in the potential GDP estimates.

⁽¹⁵⁴⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission

⁽¹⁵⁵⁾ A business cycle indicator which measures monthly changes in the price-adjusted output of industry.

Commission forecast. These elements indicate downside risks to the growth outlook underpinning the plan.

More generally, building a medium-term fiscal plan on improvements in contiguous forecasts or high-frequency data is reminiscent of the uncertainty surrounding estimates of real-time potential output and the output gap that has clouded fiscal surveillance in the past.

Table A.9: Italy – Main macroeconomic and fiscal variables

IT	Commission prior guidance							MTFSP							Commission 2024 autumn forecast				
	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026
	year-on-year % change																		
Potential GDP	1.0	1.1	1.0	0.8	0.7	0.5	0.4	0.3	1.4	1.3	1.1	1.0	0.9	0.7	0.5	0.3	1.3	1.1	0.9
Real GDP	0.9	0.6	0.3	0.4	0.4	0.3	0.3	0.3	1.0	1.2	1.1	0.8	0.8	0.6	-0.1	0.0	0.7	1.0	1.2
GDP deflator	2.2	1.8	1.9	2.0	2.1	2.2	2.3	2.4	1.9	2.1	2.0	1.8	2.0	2.0	2.1	2.2	1.6	1.9	1.8
Nominal GDP	3.2	2.4	2.2	2.4	2.5	2.5	2.6	2.6	2.9	3.3	3.1	2.6	2.8	2.6	2.1	2.2	2.3	3.0	3.0
Net expenditure growth (annual)	-2.8	1.6	1.6	1.5	1.4	1.3	1.3	1.4	-1.9	1.3	1.6	1.9	1.7	1.5	1.1	1.2	-2.3	1.3	1.9
Net expenditure growth (cumulative)	-2.8	-1.1	0.4	2.0	3.4	4.8	6.2	7.7	-1.9	-0.7	0.9	2.8	4.6	6.2	7.4	8.7	-2.3	-1.0	0.9
	% of GDP																		
Government balance	-4.4	-4.3	-4.4	-4.2	-3.9	-3.5	-3.0	-2.6	-3.8	-3.3	-2.8	-2.6	-2.3	-1.8	-1.7	-1.5	-3.8	-3.4	-2.9
Structural balance	-5.0	-4.6	-4.3	-3.9	-3.4	-2.9	-2.4	-1.9	-4.4	-3.8	-3.3	-3.0	-2.6	-2.1	-1.7	-1.3	-4.3	-3.8	-3.6
Structural primary balance	-1.1	-0.5	0.1	0.7	1.4	2.1	2.7	3.3	-0.5	0.0	0.6	1.1	1.6	2.2	2.7	3.2	-0.4	0.1	0.5
Gross debt (target)	138.6	142.0	143.2	144.1	144.4	144.4	143.8	142.7	135.8	136.9	137.8	137.5	136.4	134.9	133.9	132.5			
Gross debt (no policy change)	138.6	141.7	143.3	145.7	148.2	150.6	153.5	156.7	135.8	136.9	137.8	137.5	136.4	134.9	133.9	132.5	136.6	138.2	139.3

Notes: The MTFSP sets a net expenditure growth path for the period of the plan of 2025-2029. The authorities asked for an extended adjustment period until 2031 and presented the underlying assumptions for the period 2030-2031 (in italics in the table).

Sources: European Commission, MTFSP

Public finances and net expenditure path

Italy's track record of fiscal policy is fragile. This is exemplified by (i) a very high debt-to-GDP ratio, which unless corrective measures are taken is estimated to be on an increasing path; and (ii) low numerical score of 28% on compliance with the SGP rules in 1998-2023, the second lowest in the EU. ⁽¹⁵⁶⁾

The MTFSP asks for an extension of the fiscal adjustment period from four to seven years until 2031. The timeframe of the plan and of the related policy commitments is shorter, and running until 2029.

With an annual average rate of growth of 1.6%, the plan's net expenditure path appears almost as demanding as the Commission reference trajectory. However, it sets a lower implied cumulative fiscal adjustment, as measured by the structural primary balance (2.7 vs 3.1 percentage points). The plan assumes a significantly better starting position: a structural primary balance of -0.5% vs -1.1% of GDP in the reference trajectory. The Italian authorities justify this assumption with more recent data, including higher tax revenues than those expected by the Commission in June 2024. Note that, if the plan was built on the same macroeconomic scenario of the Commission autumn 2024 forecast, the structural deficit in 2024 would be higher than the 4.4% of GDP reported in the plan.

Thanks to higher economic growth assumptions, the plan's adjustment path is slightly frontloaded. The Commission reference trajectory implies a linear improvement in the structural primary balance per year.

In contrast to the Commission prior guidance, the plan assumes a lower revenue elasticity than the unitary assumption in the Commission DSA. ⁽¹⁵⁷⁾ In 2025, and to a lesser extent in 2026, revenues are expected to grow below potential. The authorities justify the deviation with the use of "bottom-up calculations", which they deem more suitable than a standard assumption. The assumption of lower tax elasticities explains in part why the planned fiscal adjustment is not more sustained in terms of the expected change

⁽¹⁵⁶⁾ [Compliance tracker of the EFB Secretariat](#).

⁽¹⁵⁷⁾ 'Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports', C/2024/3975, 21 June 2024.

of the structural primary budget balance, despite significantly higher assumptions of economic growth. It can be a way to retain some leeway for discretionary revenue measure down the road.

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. It includes a mix of expenditure restraints and discretionary increases in revenue. However, the exact measures underpinning the adjustment are not detailed and are meant to be specified and quantified in annual budgets. The Italian DBP for 2025 includes both discretionary measures combining increasing and decreasing revenues, as well as discretionary expenditure increases to be partly-financed by a spending review. Overall, these measures fall clearly short of the adjustment targeted in the plan. They amount to lower revenues of 0.3% of GDP and higher expenditure of 0.1% of GDP.

Although the plan targets a neutral structural primary balance in 2025 and surpluses thereafter, the debt-to-GDP ratio begins to decrease only in 2027 due to high interest expenditure (about 4% of GDP) and debt-increasing stock-flow adjustments. The stock-flow adjustments are related to the impact of tax credits for housing renovations (the *superbonus* scheme): cash disbursements are recorded in government debt statistics when the tax credits are used and in the deficit statistics when they are granted. In the reference trajectory, the debt ratio would stabilise in 2029 and start to decline only in 2030.

According to the plan, the Italian deficit will return to under 3% of GDP in 2026, in line with the Council recommendation to end an excessive deficit of January 2025. The net expenditure path presented in the plan is consistent with a minimum annual structural adjustment of at least 0.5% of GDP for the years when the deficit is expected to exceed the reference value of 3% of GDP. ⁽¹⁵⁸⁾

As required by Regulation (EU) 2024/1263 ⁽¹⁵⁹⁾, the plan targets an average annual level of nationally financed public investment of 3.2% of GDP between 2025 and 2029. This is slightly above the level set for the RRP period, i.e. 2.9% between 2021 and 2026.

Reforms and investments underpinning the extension of the adjustment period

The plan includes reforms and investments underpinning the extension of the adjustment period from four to seven years; and addressing EU common priorities. These reforms and investments are presented as part of a comprehensive strategy, and together with an impact assessment of the reform package on the outlook for economic growth.

In 2025 and 2026, the reform strategy is focused on the implementation of Italy's recovery and resilience plan (RRP). The authorities stress the reform and investment package's objectives are aligned with the CSRs addressed to Italy and EU common priorities.

The plan contains a set of detailed tables about the package with all the content requirements specified in the Commission Notice. ⁽¹⁶⁰⁾ Most notably, it includes: (i) references to RRP commitments and country-specific recommendations, (ii) a description of the key steps, (iii) a timeline and (iv) indicators. Key reforms and investments cover the area of civil justice, public administration, childcare, business environment, tax administration, public expenditure management and state-owned enterprises.

⁽¹⁵⁸⁾ Article 8 of Regulation (EU) 2024/1263 specifies the activation of the deficit resilience safeguard. The safeguard ensures a minimum annual improvement in the structural primary balance of 0.4 percentage points of GDP until a member state reaches a deficit level that provides a common resilience margin in structural terms of 1.5% of GDP relative to the deficit reference value of 3% of GDP. The minimum SPB is reduced to 0.25 percentage points of GDP if the adjustment period is extended.

⁽¹⁵⁹⁾ Recital 31 of Regulation (EU) 2024/1263 specifies the adjustment period can be extended by a maximum of three years 'without leading to a reduction in the level of nationally-financed public investment over the period of the plan, compared to the medium-term level before the start of the plan, taking into account the scope and scale of the country-specific challenges'. Art 36(1)(d) provides a transitional provision to 'maintain the nationally financed investment levels realised on average over the period covered by the recovery and resilience plan'.

⁽¹⁶⁰⁾ 'Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports', C/2024/3975, 21 June 2024.

The plan estimates the reform package will have a positive impact on GDP of 0.5% in 2031 on top of the RRP's impact. The plan also discusses the impact of reforms on fiscal sustainability. ⁽¹⁶¹⁾ The debt ratio improvements appear to be driven mostly by the structural impact of reforms on macroeconomic variables (i.e. higher incomes, private consumption, corporate profits) rather than specific fiscal-structural improvements, as for instance a broadening of the tax base.

Overall, the formal requirements set in Regulation (EU) 2024/1263 for the extension of the fiscal adjustment path seems to be met. According to the Commission assessment, '*... each reform and investment underpinning an extension of the adjustment period is sufficiently detailed, front-loaded, time-bound and verifiable*'.

IFI involvement

Towards the end of August 2024, the Italian government started multi-stage consultations with the national IFI – the Parliament Budget Office – on the plan. The first stage was to share with the IFI a set of assumptions for the external environment. The second stage was to share a set of macroeconomic assumptions. The IFI provided feedback on these assumptions, which the government incorporated in their macroeconomic scenario.

On 9 September, the Italian Parliament Budget Office provided formal validation by sending a letter to the Minister of Finance.

Overall, the Italian national IFI, the Parliament Budget Office assessed the official macroeconomic scenario as being within an 'acceptable interval' for the main variables, although some variables were deemed to be close to the upper edge of the acceptable interval. The Italian IFI also remarked that the macroeconomic scenario relied on full and timely implementation of the recovery and resilience plan (which so far was beset by important delays) and a stable global outlook.

Commission assessment and Council conclusions

The Commission concludes that the Italian MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment explains the difference between the MTFSP and its prior guidance by a better starting position (in terms of the structural primary balance in 2024), different potential GDP growth and GDP deflator projections, and a lower elasticity of revenues to economic growth. The Commission considers that 'all the differences in assumptions taken together lead to an average net expenditure growth in the plan that is equal to the reference trajectory'.

The Commission assessment accepts deviations from the guidance that are actually banned by its own information note. The most significant example is the deviation from the structural revenue elasticity to potential GDP, which is accepted as it is deemed to be 'more prudent'.

The Commission acknowledges that new measures will be needed to achieve the plan's target for 2025.

The overall conclusions of the Council take note of the Commission assessment and endorse the set of reform and investment commitments underpinning the extension of the adjustment period. The Council also welcomes the alignment of the plan's net expenditure path with the Commission reference trajectory while envisaging a slight frontloaded fiscal adjustment.

⁽¹⁶¹⁾ DSGE QUEST – Italian Treasury.

Cyprus

Overall conclusions

The MTFSP's macroeconomic assumptions deviate notably from the Commission prior guidance, and are significantly more optimistic, without providing evidence on the role of labour market developments to underpin the deviations. Nonetheless, the outlook aligns with the Commission autumn forecast. While the plan projects a deterioration in the structural primary balance, it still forecasts a strong budget balance surplus and a declining government debt by the end of the period, to ensure the sustainability of public finances. However, the deviations on macroeconomic assumptions mean there is a risk of missing the fiscal targets even when sticking to the proposed expenditure path. The use of more sanguine macroeconomic projections in the plan based on more recent forecasts or high-frequency data is reminiscent of the uncertainty surrounding estimates of real-time potential output and the output gap that has been criticised in the past. A more prudent approach would seem appropriate, especially as short-term errors will be locked in over the medium term.

The annual net expenditure growth path was revised with an addendum, reflecting a revised statistical treatment for the new civil servants' pension scheme. The annual net expenditure growth path without this statistical revision would match the one in the Commission prior guidance and the Cypriot government has stated that this is the path they commit to.

Cyprus submitted its MTFSP on 15 October 2024 (in English). In early September, the government requested an extension of the deadline from 20 September to 15 October, citing the time needed to prepare the fiscal and macroeconomic forecasts and conclude national procedures. The Commission accepted the request with its standard argumentation (*'... such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline'*).

The plan does not mention the technical dialogue process. However, according to the Commission assessment, the process covered the net expenditure path and its underlying assumptions (particularly concerning potential output and output gap) and reforms that address issues identified in the context of the European Semester and the common priorities of the Union.

The plan mentions that, given the tight schedule, a stakeholder consultation was not conducted.

On 15 November 2024, the Cypriot government submitted an addendum⁽¹⁶²⁾ to the MTFSP with a revised net expenditure growth path, arguing that the update reflects a statistical revision to reflect a new civil servants' pension scheme. This information was published on the same day the Commission published its assessment of the plan (26 November).

⁽¹⁶²⁾ See [addendum letter to the Commission](#).

Submission date	15 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 70.6% of GDP Government balance: 2.9% of GDP
Commission prior guidance	Reference trajectory
EDP	NA.
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.0% of GDP MTFSP: -0.4% pp. of GDP
Stakeholder involvement	No
IFI involvement	Yes (requested by government)
Commission overall assessment	Plan fulfils requirement of regulation

Macroeconomic projections

The plan's nominal GDP growth estimates are significantly more optimistic than the estimates underpinning the Commission prior guidance. The Cypriot authorities explain the stronger growth by the strong economic performance in the first half of 2024, particularly in tourism, technology, and construction.

The more optimistic projections of nominal growth reflect more optimism on real and potential GDP growth. The authorities highlight that the difference is primarily due to the timing of the national forecast and the availability of new national accounts data, including official GDP data for the first half of 2024. For the years 2026-2028, the plan uses different assumptions than the closure rule of the Commission forecasts, arguing it would result in 'unrealistic' forecasts with potential growth driven only by total factor productivity and capital, which would contrast with the resilient labour market. By contrast, the plan's GDP deflator projections suggest lower price increases than in the Commission prior guidance.

The authorities state that 'recently implemented structural reforms are considered in the potential growth projections in a prudent manner'. This is in line with Regulation (EU) 2024/1263 according to which potential growth calculations should take into account only reforms and investment that have been implemented. ⁽¹⁶³⁾

In December 2024, the Economic Sentiment Indicator ⁽¹⁶⁴⁾ (ESI) reached its 2024 peak, on a seasonally adjusted basis, building on an increasing trend throughout the year. As of November 2024, the index of industrial production ⁽¹⁶⁵⁾ is consistent with a worsening outlook compared to May, amid some volatility. However, the higher potential GDP growth estimates raise questions. While the argument of a resilient labour market is plausible, the plan does not provide enough evidence to back it up. More generally, building a medium-term fiscal plan on improvements in contiguous forecasts or high-frequency is

⁽¹⁶³⁾ Article 13 and Recital 34 of Regulation (EU) 2024/1263 provide that the impact of investments and reforms, once implemented within the medium-term plans, will be duly taken into account in the future, including in the design of subsequent plans. The impact of not-yet-implemented reforms and investments should not be taken into account in the potential GDP estimates.

⁽¹⁶⁴⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽¹⁶⁵⁾ A business cycle indicator which measures monthly changes in the price-adjusted output of industry.

reminiscent of the uncertainty surrounding estimates of real-time potential output and the output gap that has clouded fiscal surveillance in the past.

Table A.10: Cyprus – Main macroeconomic and fiscal variables

CY	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	3.7	3.5	2.6	2.0	1.8	3.9	3.6	3.3	3.3	3.1	4.0	3.6	3.2
Real GDP	2.8	3.0	2.2	1.5	1.6	3.7	3.1	3.2	3.3	3.0	3.6	2.8	2.5
GDP deflator	3.7	2.4	2.4	2.4	2.4	3.8	2.4	2.0	2.0	2.0	3.5	2.3	2.2
Nominal GDP	6.6	5.5	4.6	4.0	4.1	7.5	5.6	5.3	5.3	5.0	7.2	5.3	4.8
Net expenditure growth (annual)	7.0	5.9	5.0	4.5	4.3	2.7	6.0	5.0	5.4	4.3	3.9	4.2	3.0
Net expenditure growth (cumulative)	7.0	13.3	18.9	24.2	29.5	2.7	8.9	14.3	20.5	25.7	3.9	8.3	11.6
	% of GDP												
Government balance	2.9	2.8	2.6	2.3	2.2	3.9	2.7	2.6	2.1	2.1	3.5	2.7	2.7
Structural balance	2.1	2.2	2.2	2.2	2.2	2.7	1.8	1.6	1.1	1.2	2.2	1.8	2.1
Structural primary balance	3.5	3.5	3.5	3.5	3.5	4.2	3.3	3.1	2.5	2.4	3.4	2.8	3.1
Gross debt (target)	70.6	65.5	60.0	55.3	50.9	68.9	64.2	58.8	53.3	47.4			
Gross debt (no policy change)	70.6	65.8	60.9	57.1	53.6	68.9	64.2	58.8	53.3	47.5	66.4	61.4	56.7

Note: Although annual net expenditure growth was adjusted in an addendum to the MTFSP submitted at a later stage and published together with the Commission assessment of Cyprus' MTFSP, the Cypriot government reaffirms its commitment to the original net expenditure growth target outlined in the previous guidance, with no change to its intended pace.

Sources: European Commission, MTFSP

Public finances and net expenditure path

Cyprus has a high level of government debt with an average numerical score of 52% on compliance with SGP rules in 1998-2023, close to the EU overall score of 55%.⁽¹⁶⁶⁾ It is important to note that Cyprus has improved its history of compliance in the years following the bailout programme of 2013-2016.

The Cypriot government opted to maintain the annual net expenditure growth path from the Commission reference trajectory with some changes attributed to the statistical revision related to the change in recording the new civil servant pension scheme, which had the effect of accruing to 2023 amounts previously accounted in 2024, 2025 and 2026.

Supported by more sanguine macroeconomic projections, the plan's fiscal adjustment allows for de-consolidation in the years 2025-2028, with progressively smaller reductions to the positive structural primary balance (SPB), as opposed to the Commission prior guidance where the SPB is kept constant.

Cyprus' debt-to-GDP ratio is nonetheless projected to have a steep downward trajectory and the government balance is estimated to be strongly positive. This trend is similar to the Commission prior guidance but it is based on a lower fiscal adjustment, higher potential nominal growth and a more favourable starting point, due to statistical revisions.

The plan provides some indications on the fiscal strategy to achieve the planned adjustment. It indicates that net expenditure commitments will primarily be met by implementing existing policies. The draft budgetary plan (DBP) suggests that the net expenditure target for 2025 will be met without further budgetary adjustments. In fact, revenue measures in the DBP amount to an increase of 0.1% of GDP with no impact expected from the expenditure measures.

The plan targets an average annual level of nationally financed public investment of 2.6% of GDP in 2025-2028.

⁽¹⁶⁶⁾ [Compliance tracker of the EFB Secretariat.](#)

IFI involvement

The government sought the opinion of the independent fiscal authority, the Cyprus Fiscal Council (CCB) on the macroeconomic forecasts and budgetary projections for 2025-2028. The CCB validated the macroeconomic and budgetary assumptions. It highlights that the state budget has a three-year binding timeframe against the four-year timeframe of the MTFSP and recommends aligning the two.

The CCB draws attention to the late provision of the budget data by the Ministry of Finance. It also criticises the practice of informing the press sooner and more fully than the IFI.

Commission assessment and Council conclusions

The Commission concludes that Cyprus' MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment acknowledges differences between the MTFSP and its prior guidance. It emphasises a more favourable starting position in the plan, with the structural primary balance projected at 4.2% of GDP, against 3.5% of GDP in the prior guidance, citing higher-than-expected tax revenues based on actual data. However, the Commission autumn forecast presents a lower estimate for the structural primary balance (3.4% of GDP), which appears to contradict this outlook. The Commission also notes that Cyprus' plan does not follow the output gap closure rule.

The overall conclusions of the Council take note of the Commission assessment.

Hungary

Overall conclusions

The original Hungarian plan was predicated on very significantly more optimistic estimates of nominal GDP than contained in the Commission prior guidance. This original plan did not provide any sound arguments/explanation as to how this higher growth would be generated. The overly optimistic macroeconomic outlook was coupled with a substantially better fiscal starting position in 2024. This combination would have allowed for a fiscal strategy with a minimal annual fiscal adjustment and a backloaded profile compared with the one in the prior guidance, along with an only slightly higher trajectory of net expenditure. The original plan could therefore have been a prime candidate for prompting the Commission to conclude on non-compliance with Regulation (EU) 2024/1263 and recommend to the Council that it request a revised MTFSP. However, the subsequent addenda fundamentally changed the Hungarian medium-term plan, and set out a net expenditure trajectory that is more ambitious than the one contained in the prior guidance. While this end result may be satisfactory from a fiscal sustainability point of view, the nature of the process (most notably, revisions through bilateral negotiations and delayed publication of the addenda) raise a number of transparency-related question marks.

The Hungarian MTFSP was submitted on 4 November 2024 (both in Hungarian and in English). In early September, the government requested an extension of the submission deadline from 20 September to 31 October, on account of the need to present an accurate picture of budgetary developments, in line with the 2025 budget plan.⁽¹⁶⁷⁾ The Commission accepted the extension to 31 October, with a standard text saying that *‘such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline’*.

The technical dialogue process is mentioned in the MTFSP, but without any details about its timing or content. According to the Commission, dialogue meetings took place in July and September 2024. Discussions in these meetings focused on the net expenditure path and its underlying assumptions.

The plan does not refer to any social consultation in preparing the MTFSP. Linked to the unusual timing of submitting the draft 2025 annual budget to Parliament (one week later than the publication of the MTFSP), the plan mentions a parliamentary debate to be organised subsequently on the MTFSP.

The Commission decided not to publish an assessment of the Hungarian MTFSP as part of the autumn surveillance package on 26 November 2024. The Commission Communication did not explain the reason for this. It only referenced the relatively late submission date: *‘Hungary’s plan was submitted on 4 November 2024 and is still being assessed within the 6-week deadline in line with the Regulation.’* However, the assessment of the Croatian MTFSP submitted on 14 November 2024 (i.e. 10 days later than the Hungarian plan) was included in the autumn package.

Following a series of additional bilateral technical meetings in November and December, on 20 December 2024, the Hungarian government submitted two addenda⁽¹⁶⁸⁾ to the MTFSP: (i) a letter announcing a downward revision of the net expenditure path, and (ii) an Excel table with a full set of revised assumptions. Both addenda were made public on the same day the Commission issued its assessment of the plan (16 January 2025).

⁽¹⁶⁷⁾ The draft 2025 budget was sent to the national Parliament on 11 November 2024, unusually late and well after the domestic legal deadline of 30 September laid down in the Public Finance Act.

⁽¹⁶⁸⁾ See the (i) [addendum letter to the Commission](#), and (ii) the [revised set of assumptions](#).

Submission date	4 November 2024 20 December 2024 (addenda)
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 73.4% of GDP Government balance: 5.4% of GDP
Commission prior guidance	Reference trajectory
EDP	Council decision on the existence of an excessive deficit in July 2024 (Article 126(6)), Council recommendation to end an excessive deficit in February 2025 (Article 126(7))
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.7% of GDP MTFSP: 0.1% of GDP Addendum: 0.54% of GDP
Stakeholder involvement	No
IFI involvement	No
Commission overall assessment	The plan's net expenditure path is accepted

Macroeconomic projections

Compared with the Commission prior guidance, the original Hungarian MTFSP is based on very significantly more optimistic estimates for future nominal GDP growth. The difference amounted to 1.5-2.0 percentage points each year in 2026-2028, adding up to a gap of almost 8 percentage points gap by 2028 (mostly on account of much more optimistic real GDP projections, see table at the end of this section for details). The plan does not offer any explanation for this major departure from the Commission prior guidance, apart from some broad references to a recently unveiled Hungarian stimulus programme that includes SME support measures and the fact that a number of recent large FDI projects (most notably, for the manufacturing of electric vehicles and batteries) would start operations in the coming years.

Overall, in contrast to the call in Regulation (EU) 2024/1263 requesting Member States to substantiate any departures from the common assumptions with '*sound and data-driven economic arguments explaining the difference*', the original MTFSP did not offer specific explanations for its departures from the Commission prior guidance. Moreover, in the light of the Commission 2024 autumn forecast, which compared with the prior guidance revised real GDP growth downwards considerably in 2024-2026, the MTFSP's growth scenario is very significantly more optimistic. This was further underlined by Eurostat's flash estimate of 14 February 2025 reporting only moderate quarter-on-quarter GDP growth of 0.5% for the fourth quarter of 2024, i.e. slightly below the corresponding projection in the Commission 2024 autumn forecast of 0.6%.

The 20 December 2024 addenda to the plan fundamentally reset the official projections: it essentially mirrored the Commission DSA as updated with the 2024 autumn forecast.⁽¹⁶⁹⁾ Specifically, the addenda substantially lowered the growth outlook leading to a much lower cumulative nominal GDP trajectory: the difference amounts to -2.7 percentage points in 2028 compared with the prior guidance.

⁽¹⁶⁹⁾ There is only one highlighted adjustment to the Commission updated scenario: the incorporation of the three-year tripartite wage agreement (concluded at end-November 2024 between the government, the employers' organisations and the trade unions) led to a slightly higher deflator assumption for 2026 (from 3.3% to 3.5%).

Table A.11: Hungary – Main macroeconomic and fiscal variables

HU	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	2.2	2.5	2.3	2.1	2.0	1.4	1.5	1.7	1.7	1.6	1.4	1.5	1.7
Real GDP	2.4	2.8	2.1	2.0	1.9	0.6	1.2	2.8	1.5	1.5	0.6	1.8	3.1
GDP deflator	5.3	3.8	3.7	3.7	3.6	7.2	4.1	3.5	3.4	3.4	7.2	4.1	3.3
Nominal GDP	7.8	6.7	5.9	5.7	5.6	7.8	5.3	6.4	5.0	4.9	7.8	6.0	6.5
Net expenditure growth (annual)	3.6	4.8	4.5	4.3	4.1	4.6	4.3	4.0	3.9	3.7	3.6	5.7	5.2
Net expenditure growth (cumulative)	3.6	8.6	13.4	18.2	23.1	4.6	9.1	13.5	17.9	22.2	3.6	9.4	15.1
	% of GDP												
Government balance	-5.4	-3.9	-3.4	-2.8	-2.2	-4.9	-3.6	-2.5	-2.0	-1.5	-5.4	-4.6	-4.1
Structural balance	-4.9	-3.5	-2.9	-2.3	-1.6	-4.3	-2.8	-2.2	-1.7	-1.1	-4.7	-4.1	-4.2
Structural primary balance	0.0	0.7	1.4	2.0	2.7	0.6	1.2	1.7	2.3	2.8	0.2	-0.1	-0.2
Gross debt (target)	74.3	73.9	73.1	72.0	70.4	74.0	73.5	71.3	69.9	68.2			
Gross debt (no policy change)	74.3	73.8	73.7	73.5	73.6	74.0	73.5	71.7	71.3	71.1	74.5	74.5	73.8

Note: All numbers reflect the addendum to the Hungarian MTFSP submitted on 20 December 2024.

Sources: European Commission, revised Hungarian MTFSP

Public finances and net expenditure path

Hungary has had recurring issues with fiscal leniency over the last two decades. This is also reflected in its overall numerical compliance score of 38% with respect to the SGP rules in 1998-2023, as opposed to an EU average of 55%.⁽¹⁷⁰⁾

The original Hungarian MTFSP envisaged a much smaller fiscal adjustment and a much higher overall net expenditure dynamics than set out in the Commission prior guidance (annual average expenditure growth of 4.7% in the MTFSP vs 4.4% in the prior guidance). In addition, the Hungarian authorities planned a backloaded fiscal adjustment, with a deterioration of 0.3% of GDP in the primary structural balance in 2025, followed by small steps of adjustment thereafter (0.1-0.2% of GDP per year).

The difference between the original MTFSP and the prior guidance can in principle be fully linked to the MTFSP's better starting position: the Hungarian authorities' forecast for the 2024 headline deficit is close to 1 percentage point of GDP lower and the 2024 their forecast for the structural primary balance is 1.4 % of GDP better than the corresponding figures in the prior guidance. However, the Commission 2024 autumn forecast does not confirm the government's fiscal estimates for 2024, projecting only a slight improvement (0.2% of GDP) in the structural primary balance compared with the prior guidance.

The MTFSP does not include any specific new consolidation measures. Given that the draft 2025 budget was submitted to the national Parliament (and became public) one week later than the original MTFSP, budgetary measures for 2025 are not described in the plan. Hungary's plan only confirms that the recently adopted government programmes (e.g. housing subsidy schemes, defence and transport development projects, and career model programmes for various branches of the public sector) will be continued and that their impacts have been incorporated in the official medium-term budgetary forecasts. The addenda did not bring any changes in this respect, as the revised set of figures were not complemented by explanations.

The original plan targeted a decline in Hungary's debt-to-GDP ratio from 73.2% in 2024 to 67.7% in 2028 – chiefly through sustained annual improvements of 0.7-0.8% of GDP in the nominal budget balance. This path is clearly below the one implied by the reference trajectory (by more than 2.5 percentage points in 2028), despite the much smaller fiscal adjustment effort set out in the plan. This is fully explained by the

⁽¹⁷⁰⁾ [Compliance tracker of the EFB Secretariat](#).

denominator effect: in cumulative terms, the MTFSP's nominal GDP growth path is close to 8 percentage points higher than the Commission prior guidance.

The plan targets an annual average of nationally financed public investment of 2.8% of GDP in 2025-2028, which is significantly below the level observed in 2023-2024 of around 4% of GDP (these projections were not revised by the addenda).

The new fiscal trajectory included in the 20 December 2024 addenda follows the Commission updated DSA-table, with the exception of figures for 2024. Based on more recent information on budgetary execution, the 2024 headline deficit is forecast in the addenda at 4.9% of GDP and the corresponding structural primary surplus is at 0.6% of GDP (as opposed to the 5.4% of GDP and 0.2% of GDP projections, respectively, contained in the Commission updated DSA-table).

The addenda imply a considerably more ambitious net expenditure growth path of 4% on annual average over the programme period, compared with the 4.4% growth contained in the prior guidance (and the 4.7% growth put forward in the original plan).

The original MTFSP set 2027 as the deadline for correcting the excessive deficit. On 26 November 2024, in the absence of a positive assessment of the plan, the Commission issued an EDP recommendation under Article 126(7) TFEU based on an updated reference trajectory, incorporating its autumn forecast. Reflecting the downward revisions in the Hungarian growth outlook, the recommended net expenditure path in this EDP recommendation became much stricter than the prior guidance: cumulative net expenditure growth in 2025-2027 stipulated by the recommendation was 10.5%, while the prior guidance set a cumulated allowance for spending growth of 13.5% for the same period. The Commission stated that it stands ready to recommend a new corrective net expenditure path in a new recommendation under Article 126(7) upon a positive assessment of the plan.

IFI involvement

The Hungarian Fiscal Council was not involved in any way in drawing up the national plan.

Commission assessment and Council conclusions

On 16 January 2025, the Commission concluded that Hungary's MTFSP (as revised by the addenda) fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessed the two adjustments carried out by the Hungarian authorities to the Commission updated DSA scenario (i.e. a better budgetary outcome in 2024 and a slightly higher GDP-deflator in 2026) as duly justified by more recent data and information that became available since the cut-off date of the autumn 2024 forecast.

On 26 November 2024, the Commission expressed its readiness to revise its EDP recommendation under Article 126(7) if there was a positive assessment of the Hungarian plan. On 16 January 2025, together with such a positive Commission assessment, the net expenditure path put forward in the addenda was proposed by the Commission to be applied as a revised EDP recommendations under Article 126(7). The revised corrective net expenditure path retains the 2027 deadline for the correction of the excessive deficit as set out in the original MTFSP. It recommends a cumulative 12.2% in expenditure growth in 2025-2027, representing a compromise between the figures of the June 2024 prior guidance (13.5%) and the updated November 2024 Commission reference trajectory (10.5%).

The overall conclusions of the Council take note of the Commission assessment, and do not add any country-specific consideration. The Council recommends the net expenditure path as set out in the addenda to the plan.

Table A.12: Hungary – Main macroeconomic and fiscal variables in the originally submitted plan

HU	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	2.2	2.5	2.3	2.1	2.0	2.3	3.1	3.4	3.5	3.5	1.4	1.5	1.7
Real GDP	2.4	2.8	2.1	2.0	1.9	0.8	3.4	4.1	4.3	4.3	0.6	1.8	3.1
GDP deflator	5.3	3.8	3.7	3.7	3.6	8.0	4.0	3.2	3.2	3.2	7.2	4.1	3.3
Nominal GDP	7.8	6.7	5.9	5.7	5.6	8.9	7.5	7.4	7.6	7.6	7.8	6.0	6.5
Net expenditure growth (annual)	3.6	4.8	4.5	4.3	4.1	4.9	6.1	3.8	4.0	4.8	3.6	5.7	5.2
Net expenditure growth (cumulative)	3.6	8.6	13.4	18.2	23.1	4.9	11.3	15.5	20.1	25.8	3.6	9.4	15.1
	% of GDP												
Government balance	-5.4	-3.9	-3.4	-2.8	-2.2	-4.5	-3.7	-2.9	-2.2	-1.5	-5.4	-4.6	-4.1
Structural balance	-4.9	-3.5	-2.9	-2.3	-1.6	-3.4	-2.7	-2.2	-1.9	-1.5	-4.7	-4.1	-4.2
Structural primary balance	0.0	0.7	1.4	2.0	2.7	1.4	1.1	1.3	1.5	1.6	0.2	-0.1	-0.2
Gross debt (target)	74.3	73.9	73.1	72.0	70.4	73.2	72.6	71.4	69.8	67.7			
Gross debt (no policy change)	74.3	73.8	73.7	73.5	73.6	73.2					74.5	74.5	73.8

Sources: European Commission, (initial) Hungarian MTFSP of 4 November 2024

Malta

Overall conclusions

The macroeconomic projections underpinning the Maltese plan appear plausible, with a broad alignment between the plan and the Commission prior guidance from 2025 onwards. The MTFSP's short-term growth outlook is also supported by the reading of high-frequency indicators. The deficit and debt targets at the end of the programme are slightly better than in the Commission prior guidance. However, the unusually high expenditure growth in 2024 projected in the plan is a key factor that warrants attention. Depending on how the control account will be assessed, this could create some leeway for the coming years against breaching the cumulative threshold of the control account. This points to the crucial role that the treatment of the base year plays under the revised rules. ⁽¹⁷¹⁾

The Maltese MTFSP was submitted on 20 September 2024 (in English), in line with the deadline set by the transitional provisions of Regulation (EU) 2024/1263. It was approved by the government on 10 September. The national Parliament was not involved in the MTFSP preparation process.

The technical dialogue process is not mentioned in the MTFSP. However, according to the Commission, a series of meetings between the Maltese authorities and the Commission took place between June and September 2024. These discussions focused on the net expenditure path and its underlying assumptions.

The plan went through a consultations process with the Malta Council for Economic and Social Development, a platform that convenes the main social partners in Malta.

Submission date	20 September 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 52.0% of GDP Government balance: -4.3% of GDP
Commission prior guidance	Reference trajectory
EDP	Council decision on the existence of an excessive deficit in July 2024 (Article 126(6)), Council recommendation to end an excessive deficit in January 2025 (Article 126(7))
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.5% of GDP MTFSP: 0.5% of GDP
Stakeholder involvement	Yes
IFI involvement	No
Commission overall assessment	The plan's net expenditure path is accepted

⁽¹⁷¹⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission. A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry. [Compliance tracker of the EFB Secretariat](#).

Macroeconomic projections

The Maltese MTFSP macroeconomic projections show only minor differences compared with the Commission projections underpinning the reference trajectory, including slightly more cautious estimates of nominal GDP growth in cumulative terms over the programme period (i.e. -0.1 percentage point less than in the prior guidance). The authorities explain that this is due to their different econometric model and the use of the latest national accounts data, which include the 2024 statistical benchmark revision. The use of a national forecasting model and the integration of the most recent data are compatible with the provisions of Regulation (EU) 2024/1263.

In the final months of 2024, both the seasonally adjusted Economic Sentiment Indicator ⁽¹⁷²⁾ and the industrial production index ⁽¹⁷³⁾ were on an improving trend, and these positive trends support the plans' short-term growth outlook.

Table A.13: Malta – Main macroeconomic and fiscal variables

MT	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	4.9	4.9	4.7	4.7	4.6	5.1	4.8	4.6	4.6	4.6	5.4	4.7	4.6
Real GDP	4.6	4.5	4.6	4.6	4.6	4.9	4.4	4.4	4.5	4.6	5.0	4.3	4.3
GDP deflator	3.6	2.5	2.5	2.5	2.5	3.1	2.6	2.6	2.6	2.6	2.6	2.5	2.1
Nominal GDP	8.4	7.1	7.2	7.3	7.2	8.2	7.1	7.1	7.2	7.3	7.7	6.9	6.5
Net expenditure growth (annual)	5.5	6.0	5.8	5.9	5.7	7.4	6.0	5.8	5.8	6.1	6.3	5.7	5.5
Net expenditure growth (cumulative)	5.5	11.8	18.4	25.3	32.5	7.4	13.8	20.4	27.4	35.2	6.3	12.4	18.6
	% of GDP												
Government balance	-4.3	-4.1	-3.7	-3.3	-2.8	-4.0	-3.8	-3.4	-3.0	-2.6	-4.0	-3.5	-3.1
Structural balance	-4.2	-3.7	-3.3	-2.8	-2.3	-4.0	-3.5	-3.0	-2.6	-2.2	-3.9	-3.2	-2.6
Structural primary balance	-2.9	-2.4	-1.9	-1.4	-0.9	-2.7	-2.2	-1.7	-1.2	-0.8	-2.7	-1.8	-1.2
Gross debt (target)	52.0	52.7	52.9	52.5	51.8	49.2	49.8	49.9	49.5	48.8			
Gross debt (no policy change)	52.0	52.8	53.2	53.5	53.7	49.2					49.8	50.4	50.2

Sources: European Commission, MTFSP

Public finances and net expenditure path

Malta has a low government debt-to-GDP ratio. However, its numerical compliance with the SGP rules of 45% in 1998 – 2023 is below the EU average of 55%, albeit with a significantly improving performance in recent years.

The plan's net expenditure path from 2025 onward matches the Commission prior guidance.

The implied annual average adjustment in the plan aligns with the one implied by the reference trajectory, i.e. an improvement in the structural primary balance of 0.5% of GDP. The fiscal adjustment is broadly linear.

The MTFSP projects that net expenditure growth in 2024 will be considerably higher than in the prior guidance (by around 2 percentage points). The Commission 2024 autumn forecast only partly confirms this higher expenditure dynamics. This could raise the issue of strategic overestimation of expenditures in the base year, which, depending on how the control account will be assessed, could create some leeway in the coming years.

⁽¹⁷²⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽¹⁷³⁾ A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry.

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. Most notably, it indicates that net expenditure commitments will be met mainly through expenditure restraint. Apart from some broad references, such as making savings through the phased reduction of energy subsidies over a multi-year horizon, the details of the measures underpinning the planned adjustment are not provided in the MTFSP and need to be specified and quantified in annual budgets.

The Maltese draft budgetary plan (DBP) outlines and details the country's policy measures for 2025. However, in its DBP opinion, the Commission points out that the emergency and non-targeted energy support measures (e.g. cuts in indirect taxes on energy consumption and subsidies for energy production) were not fully wound down by the 2024/2025 winter, which is not in line with the Council recommendation of 21 October 2024. At the same time, the DBP also includes revenue increasing measures, most notably, a reform of personal income tax entailing changes to the income tax brackets and tax deductions, with a total deficit-reducing impact of 0.5% of GDP in 2025.

Following a jump of 0.5% of GDP in 2024, nationally financed public investment is projected to gradually but continuously decline throughout the programme horizon from 3.3% of GDP in 2025 to 3% of GDP in 2028.

IFI involvement

The Maltese Fiscal Council was not involved in any way in drawing up the national plan.

Commission assessment and Council conclusions

The Commission concludes that Malta's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment emphasises that the rate of average annual growth in net expenditure set out in the plan coincides with its own guidance. However, the Commission assessment does not address the impact of the significantly higher rate of annual net expenditure growth in 2024, which highlights the importance of the base year effect.

The overall conclusions of the Council take note of the Commission assessment, and do not add any country-specific consideration. The Council recommends the net expenditure path set out in the plan.

Austria

Overall conclusions

Austria's MTFSP targets a medium-term net expenditure path and average annual fiscal adjustments that are broadly consistent with the Commission reference trajectory. The plan sets off from a significantly worse-than-projected 2024 fiscal position compared with the prior guidance, but is also predicated on a more optimistic macroeconomic scenario as shown by a difference of close to 1 percentage point between the nominal GDP trajectories by 2029.

The Austrian MTFSP asks for an extension of the fiscal adjustment period until 2031 by committing to a set of mostly new reforms and investments. As a relatively rare feature among the Member States requesting similar extensions, the plan provides quantitative estimates of the overall medium-term economic and budgetary impact.

The independent assessment of the plan by the Austrian Fiscal Advisory Council warns that the fiscal consolidation measures announced by the authorities will not be enough to push Austria's headline deficit below the 3% of GDP reference value in 2028 and 2029, putting a question mark over the timely correction of the excessive deficit.

The Austrian MTFSP was submitted on 13 May 2025 (in German and English) well after the original deadline of 20 September 2024. Due to national elections on 29 September 2024, Austria initially requested an extension to 31 December 2024, arguing that alignment with the country's electoral cycle would help ensure greater political ownership of the plan. The Commission accepted the request with its standard argument that *'such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline'*. The Commission shared a new reference trajectory with Austria on 18 December 2024, updated with its 2024 autumn forecast.⁽¹⁷⁴⁾ The final submission of the MTFSP was further delayed as negotiations to form a new government took considerably longer than originally assumed.

The MTFSP mentions the technical dialogue process, stating that the various assumptions behind the Austrian net expenditure path were discussed with the Commission. According to the Commission assessment, the technical dialogue took place between March and May 2025. Beyond discussing the net expenditure path and its underlying assumptions, the dialogue also covered the envisaged set of reform and investment commitments to underpin the three-year extension of the adjustment period.

In a dedicated annex, the MTFSP reports on consultations with social partners, regional authorities, civil society organisations and other stakeholders. The plan was presented to the Austrian legislature and subsequently discussed in the relevant parliamentary committees immediately after adoption by the government on 13 May 2025.

⁽¹⁷⁴⁾ Compared with the initial prior guidance of 21 June 2024, the December reference trajectory presents more restrictive requirements, reflecting chiefly the significant downward revision to Austria's short-term economic outlook by the Commission 2024 autumn forecast compared with its 2024 spring forecast.

Submission date	13 May 2025
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 81.8% of GDP Government balance: -4.7% of GDP
Commission prior guidance	Reference trajectory
EDP	Council decision on the existence of an excessive deficit (Article 126(6)) and Council recommendation to end an excessive deficit (Article 126(7)) are both adopted in July 2025
Years of MTFSP	2025-2029
Adjustment period	2025-2031 (7 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.4% of GDP MTFSP: 0.5% of GDP
Stakeholder involvement	Yes
IFI involvement	Yes (independent input to the macroeconomic scenario)
Commission overall assessment	The plan's net expenditure path is accepted

Macroeconomic projections

The Austrian plan's macroeconomic scenario is more optimistic than the Commission prior guidance. By 2029, nominal GDP is close to 1 percentage point higher in cumulative terms in the plan. Around a quarter of this difference is explained by the plan's marginally more favourable real GDP growth assumptions, while the remainder can be attributed to the plan's higher GDP deflator. For 2025 and 2026, the higher deflators are justified by the incorporation of more recent data pointing to (i) increases in retail energy prices as energy relief schemes are phased out, and (ii) persistent services inflation. Indeed, based on the price dynamics in the first months of 2025, in its latest forecast the Commission also revised Austria's GDP deflator considerably upwards compared with the 2024 autumn forecast (3.5% vs 2.3% in 2025, and 2.2% vs 1.9% in 2026, respectively).

In line with Article 36(1)(f) Regulation (EU) 2024/1263, the MTFSP uses smoothed estimates of potential output growth leading to a higher potential growth trajectory compared with the prior guidance over the adjustment period, i.e. 2025-2031. This is subsequently counterbalanced by more cautious estimates of the growth trajectory until the end of the DSA projection horizon, i.e. 2032-2041. The legally defined condition for applying the smoothed growth assumptions, namely that cumulative growth over the entire projection horizon (i.e. between 2025 and 2041) must be in line with the Commission's DSA assumptions, is fulfilled.

The plan assumes a small increase in real GDP of 0.2% in 2025, following two years of negative growth. The economic turnaround seems consistent with the readings of high-frequency indicators in the first months of 2025: both the Economic Sentiment Indicator ⁽¹⁷⁵⁾ and the industrial production index ⁽¹⁷⁶⁾ have been on a clear improving trajectory from the lows reached in the second half of 2024.

⁽¹⁷⁵⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽¹⁷⁶⁾ A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry.

Table A.14: Austria – Main macroeconomic and fiscal variables

AT	Commission prior guidance								MTFSP								Commission 2025 spring forecast		
	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026
	year-on-year % change																		
Potential GDP	0.7	0.7	0.8	1.1	1.0	1.0	1.1	1.1	0.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	0.3	0.2	0.4
Real GDP	-0.6	0.4	1.1	1.3	1.1	1.1	1.2	1.2	-1.2	0.2	1.1	1.5	1.2	1.3	1.2	1.2	-1.2	-0.3	1.0
GDP deflator	4.2	2.3	1.9	1.9	2.0	2.1	2.1	2.2	3.1	2.4	2.0	2.1	2.1	2.1	2.2	2.2	3.1	3.5	2.2
Nominal GDP	3.6	2.7	3.0	3.2	3.2	3.2	3.3	3.4	1.8	2.7	3.1	3.5	3.4	3.4	3.4	3.4	1.8	3.2	3.2
Net expenditure growth (annual)	n.a.	2.0	1.7	2.4	2.4	2.5	2.6	2.7	n.a.	2.6	2.2	2.2	2.0	2.3	2.4	2.4	8.7	2.0	2.3
Net expenditure growth (cumulative)	n.a.	2.0	3.8	6.3	8.9	11.5	14.5	17.6	n.a.	2.6	4.8	7.2	9.4	11.9	14.5	17.3	8.7	10.9	13.4
	% of GDP																		
Government balance	-3.6	-3.3	-2.6	-2.3	-2.0	-1.7	-1.4	-1.1	-4.7	0.0	-4.2	-3.6	-3.0	-2.5	-2.1	-1.6	-4.7	-4.4	-4.2
Structural balance	-2.8	-2.3	-1.8	-1.6	-1.4	-1.2	-0.9	-0.6	-3.9	-3.4	-2.9	-2.6	-2.1	-1.7	-1.3	-0.9	-4.0	-3.4	-3.6
Structural primary balance	-1.3	-0.8	-0.3	0.0	0.3	0.6	0.9	1.3	-2.4	-1.9	-1.4	-0.9	-0.3	0.2	0.7	1.2	-2.5	-1.7	-1.8
Gross debt (target)	79.5	80.8	81.1	80.8	80.3	79.5	78.3	76.8	81.8	84.3	85.9	86.6	86.8	86.5	85.7	84.4			
Gross debt (no policy change)	79.5	81.1	82.3	83.7	85.1	86.6	88.3	90.1	81.8	84.3	87.2	89.5	91.7	93.7	96.4	99.3	81.8	84.0	85.8

Notes: The MTFSP sets a net expenditure growth path for the period of the plan of 2025-2029. The authorities asked for an extended adjustment period until 2031 and presented the underlying assumptions for 2030-2031 (in italics in the table).

Sources: European Commission, MTFSP

Public finances and net expenditure path

Austria has a comparatively low overall numerical compliance score of 40% with respect to the SGP rules in 1998-2024, well below the EU average of 55%.⁽¹⁷⁷⁾ This is the result of a mixed performance across SGP rules: although the country fulfilled the deficit rule in around three-quarters of the years, its compliance rate with the other three SGP rules (on debt, structural balance, and expenditure growth) has been only around 30%.

The MTFSP asks for an extension of the fiscal adjustment period from four to seven years until 2031. The period of the plan and of the effective policy commitments is shorter; they run until 2029.

The starting point in the MTFSP is considerable worse than in the Commission prior guidance. The 2024 structural primary deficit outturn is 2.4% of GDP, more than 1 percentage point of GDP higher than in the Commission 2024 autumn forecast that underpins the reference trajectory and up by around 2% of GDP on the previous year. This deterioration was mainly due to strong increases in the public wage bill and social benefits ahead of the national elections.

The plan aligns its net expenditure path reasonably closely with the Commission reference trajectory (average annual growth rate of 2.2% in the plan vs 2.3% in the reference trajectory). Correspondingly, this translates into a slightly higher annual average fiscal adjustment over the extended seven-year period of 2025-2031 with a broadly linear profile: 0.5% of GDP each year vs 0.4% of GDP each year as measured by the improvement in the structural primary balance. This is achieved from a significantly worse starting position with the help from the MTFSP's more optimistic macroeconomic scenario.

The headline deficit is envisaged in the MTFSP to decrease from 4.7% of GDP in 2024 to 3% of GDP in 2028, and fall further to 2.8% of GDP in 2029. Given the relatively high government deficits, the public debt-to-GDP ratio is forecast to peak in 2028 at 86.8% and start to decline gradually thereafter. The MTFSP's debt trajectory is some 4-5 percentage points higher than the reference trajectory. This is chiefly linked to the plan's significantly worse starting position both in terms of the 2024 deficit outturn and of debt ratios.

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. In terms of composition, the strategy aims at both discretionary tax increases and expenditure restraint. On the revenue side, the planned measures include increases in social contributions and higher dividends from

⁽¹⁷⁷⁾ [Compliance tracker of the EFB Secretariat.](#)

state-owned companies. The expenditure side of the fiscal consolidation includes both short-term stop-gap measures (e.g. cuts in administrative spending) and more structural steps (e.g. reduction in subsidies). As part of the medium-term strategy, the government also plans to undertake investments to address challenges in areas such as employment, healthcare, education, and the integration of refugees.

The short-term fiscal consolidation plans are further detailed in the Austrian draft budgetary plan (DBP) submitted simultaneously with the MTFSP. As a unique solution in terms of time coverage, the DBP was prepared to cover the two years of 2025 and 2026. On the revenue side, the discretionary steps for 2025 include the continuation of solidarity levies on energy suppliers, and an increase in taxes on gambling and tobacco. For 2026, the additional measures include the extension of the applicability of the top income tax rate. On the expenditure side, the largest consolidation measure is the abolition of the climate bonus. While the Commission finds the Austrian DBP to be in line with the SGP provisions for both 2025 and 2026, it also notes that given the exceptionally early timing of the budgetary plan for 2026, it intends to revisit its assessment of the budgetary outlook later, against the background of its 2025 autumn forecast.

Nationally financed public investment is projected in the narrow range of 3.9%-4.1% of GDP during the entire MTFSP horizon, averaging 4.0% of GDP. The plan therefore ensures that the average during the period covered by the RRP (3.8% of GDP from 2021 to 2026) is at least maintained, in line with Regulation (EU) 2024/1263 (Article 36(1)(d)).

Reforms and investments underpinning the extension of the adjustment period

The MTFSP includes a set of reforms and investments to motivate Austria's request for extending the adjustment period from four to seven years. Specifically, Austria commits to 14 selected reforms and investments in its MTFSP as part of a broad reform strategy to improve potential growth and fiscal sustainability, which in total consists of 67 measures.

The selected 14 reform and investment measures covers 7 policy areas: (i) public education; (ii) health insurance contribution; (iii) parametric pension reform steps; (iv) childcare facilities; (v) labour market policies; (vi) the tax system; and (vii) research and development. The plan notes that most of the measures (8 out of 14) were previously recommended by the independent Austrian Productivity Board in its Annual Competitiveness Reports.

The MTFSP contains a comprehensive table on reform measures with all content requirements as laid down in Regulation (EU) 2024/1263 and further specified in the relevant Commission Notice.⁽¹⁷⁸⁾ Most notably, the plan includes detailed descriptions of key steps, timeline and indicators. Moreover, it contains the relevant references to the country-specific recommendations, RRP commitments (with the exception of the public education reform, the 14 listed measures are all new initiatives) and common European priorities.

The MTFSP presents the authorities' quantitative estimates for the overall economic and budgetary impacts of the set of reforms and investments. On growth, the 14 measures are anticipated to increase the level of potential GDP by close to 0.8% by 2029, with the change in accounting rules to promote corporate research and development being responsible for around half of this effect. The direct deficit-reducing impact of the set of reforms and investments is estimated at 0.4% of GDP by 2029, with the largest effects are due to the planned reforms of the social security and pensions reform steps. As a corroborating factor to support the plausibility of the official estimates, the authorities note that simulations included in the OECD 2024 Economic Survey of Austria yielded similar results for the medium-term growth impacts of structural reforms.

⁽¹⁷⁸⁾ 'Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports', C/2024/3975, 21 June 2024.

IFI involvement

For decades, the macroeconomic scenarios underpinning annual and medium-term fiscal planning in Austria have been prepared independently by the Austrian Institute for Economic Research (WIFO). For the MTFSP, however, a modified approach was used. The macroeconomic scenario is built on the WIFO's March 2025 medium-term economic forecasts. As the WIFO's forecasts incorporated the consolidation measures already adopted by the newly formed federal government, the government filtered out the second-round/dynamic impacts of these fiscal measures to arrive at the MTFSP's final macroeconomic scenario. The Austrian authorities argued that by doing this their plan's macroeconomic projections would be in line with the DSA methodology, i.e. prepared under the no-policy-change assumption. Most notably, while the WIFO's March forecast projected 2025 real GDP growth at -0.3%, after the neutralisation of the consolidation measures referred to above—with the commonly used fiscal multiplier of 0.75, the plan's 2025 real GDP growth figure became +0.2%.

Austria's other IFI, the Fiscal Advisory Council (FAC) assessed the MTFSP in its regular annual compliance report in mid-June 2025.⁽¹⁷⁹⁾ The FAC highlighted that its forecast could only include adjustment measures that had already been adopted by Parliament or specified by the authorities with a sufficient degree of detail (e.g. the FAC's forecast does not include the planned consolidation efforts by regional and local governments and social security institutions). As a result, the FAC's headline deficit projection does not drop below 4% of GDP until 2029 (i.e. implying a more than 1 percentage point higher deficit path than in the MTFSP). Moreover, the FAC concludes that even if its forecast did take into account all the consolidation measures announced by the government, the budget deficit would still stay somewhat above the 3% of GDP reference value in 2028 and 2029. The government would therefore need to identify additional consolidation measures of 0.3-0.4% of GDP to ensure a timely correction of the excessive deficit.

Commission assessment and Council conclusions

The Commission concludes that Austria's plan fulfils the requirements of Regulation (EU) 2024/1263, and therefore the Council should recommend the plan's net expenditure path to Austria. Moreover, the Commission recommends the endorsement of reforms and investments underpinning the extension of the adjustment period to seven years.

The Commission accepts all the plan's deviations from its prior guidance as duly justified, including the slightly higher real GDP and GDP deflator trajectories, mostly on account of being based on more recent data and information. The Commission argues that the overall impact of the MTFSP's significantly worse starting position and the higher nominal GDP path broadly counterbalances each other, and results in a net expenditure growth path that is broadly aligned with the reference trajectory.

The Commission notes that following the submission of the plan, draft budget laws for two years, i.e. 2025 and 2026 (a 'double budget') were presented to the Austrian Parliament, and they were adopted on 18 June 2025. The two budget acts specify the policy measures through which the net expenditure commitment for 2025 and 2026 will be achieved.

The overall conclusions of the Council take note of the Commission assessment. The Council recommends the net expenditure path and endorses the set of reform and investment commitments underpinning the extension of the adjustment period to seven years.

⁽¹⁷⁹⁾ [Fiscal rules compliance report, 2024-2029](#). 16 June 2025, Vienna.

Poland

Overall conclusions

The Polish plan targets a backloaded fiscal adjustment predicated on more optimistic macroeconomic assumptions in the short term than the Commission prior guidance, only partly compensated by a more prudent growth trajectory in the outer years of the plan. The plan's official short-term growth projections are subject to downside risks, as illustrated by the recent reading of high-frequency indicators. The recourse to more optimistic macroeconomic projections in the plan compared with the prior guidance echoes the uncertainty surrounding real-time potential output and output gap estimates that marred the old SGP regime.

The planned cumulative expenditure growth and average annual fiscal adjustment over the programme's horizon is in line with the Commission reference trajectory. However, the fiscal adjustment is envisaged to be achieved with a significantly backloaded strategy partly due to the increase in defence expenditure. This increase in defence spending (listed as a relevant factor in the EDP Regulation 1466/97) is invoked by the Polish authorities to justify the breach of the 0.5% of GDP minimum adjustment requirement under an EDP.

The Polish MTFSP was submitted on 9 October 2024 (in Polish and English). In early September, the government requested an extension of the submission deadline 20 September to 15 October, on account of the need to include the autumn fiscal notification in the plan. The Commission accepted the delay, with a standard text saying that '*such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline.*'

The MTFSP makes reference to the technical dialogue recalling two main topics: (i) the pace of consolidation, and (ii) divergences from the Commission assumptions underpinning the reference trajectory. The Commission assessment confirmed the list of main topics, further specifying that the issue of deviating from the no-backloading safeguard was part of the technical dialogue.

Submission date	9 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 53.7% of GDP Government balance: -5.4% of GDP
Commission prior guidance	Reference trajectory
EDP	Council decision on the existence of an excessive deficit in July 2024 (Article 126(6)), Council recommendation to end an excessive deficit in January 2025 (Article 126(7))
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.8% of GDP MTFSP: 0.8% of GDP
Stakeholder involvement	Yes (partial)
IFI involvement	N.A. (national IFI is being established)
Commission overall assessment	The plan's net expenditure path is accepted

Citing time pressure, the plan states that there has been no consultation with social partners and no parliamentary debate on the plan. In September, only the reform and investment proposals responding to the June 2024 CSRs were discussed with the social partners and civil society representatives, i.e. those who participate in the work of the European Semester Group.

Macroeconomic projections

The plan's nominal GDP trajectory is more optimistic than the forecasts underpinning the Commission prior guidance, as it ends close to 2 percentage points higher in 2025-2028.

The difference between the plan and the prior guidance is chiefly explained by significantly higher estimates of real potential GDP growth in 2024 and 2025. The Polish authorities argue that their economic trajectory is based on the common methodology, but they carry out a number of adjustments to reflect specific features of the Polish economy, i.e. a catching-up country that has experienced a huge influx of chiefly Ukrainian migrants in recent years. These adjustments have not undergone the usual discussion and endorsement by the competent Council committees. In particular, the authorities use what they call 'more plausible' projections for migration. As a consequence, labour supply is substantially higher in the plan. The Commission previously criticised this approach as conceptually flawed because it mixes national accounts with labour force survey data, introducing inconsistency into the data sources.

The Polish authorities claim that while potential growth estimates for 2024 and 2025 deviate from the common methodology, they converge towards the Commission estimates in the longer term, through a technical assumption of a marked deceleration in growth (to 1.6 % in 2028).

Based on more recent market data and a different source of market expectations, the MTFSP assumes a lower interest rate trajectory, resulting in a downward shift of the entire yield curve by around 80-100 basis points from 2026 compared with the Commission assumptions.

The MTFSP applies consistently lower (implicit) fiscal multipliers: between 0.45 and 0.53 as opposed to the 'notional' common assumption of 0.75 by the Commission's DSA. The plan explains this by both theoretical arguments (e.g. a floating exchange rate regime, Polish interest rates being further from the zero lower bound) and numerous references to the empirical literature. Based on the commonly agreed methodology for calculating potential output, a lower fiscal multiplier, everything else being equal, translates into higher potential output growth due to a lighter impact of consolidation on the aggregate level of activity.

Following some upward revisions, the growth projections for 2024 and 2025 contained in the Commission 2024 autumn forecast are closer to the Polish authorities' MTFSP scenario. However, in December 2024, Poland's Economic Sentiment Indicator ⁽¹⁸⁰⁾ was on a declining trend, on a seasonally adjusted basis. In autumn 2024, the industrial production index ⁽¹⁸¹⁾ was roughly at the same output level as in the beginning of that year. These developments point to some downside risks to the short-term growth outlook underpinning the plan. More generally, preparing a medium-term fiscal plan on the basis of an optimistic macroeconomic scenario echoes the issues around the notorious uncertainty surrounding real-time potential output and output gap estimates that clouded fiscal surveillance in the past.

⁽¹⁸⁰⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽¹⁸¹⁾ A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry.

Table A.15: Poland – Main macroeconomic and fiscal variables

PL	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	2.8	2.8	2.2	1.9	1.7	3.2	3.3	2.0	1.7	1.6	2.8	2.9	2.8
Real GDP	2.8	3.3	1.9	1.7	1.5	3.1	3.9	1.7	1.4	1.2	3.0	3.6	3.1
GDP deflator	4.5	4.2	4.1	4.0	4.0	3.6	5.0	4.7	4.3	4.0	3.9	4.6	3.0
Nominal GDP	7.4	7.7	6.0	5.8	5.6	6.8	9.1	6.5	5.8	5.2	7.0	8.4	6.2
Net expenditure growth (annual)	12.8	5.3	4.6	4.2	3.9	12.5	6.3	4.4	4.0	3.5	11.8	5.5	6.6
Net expenditure growth (cumulative)	12.8	18.7	24.2	29.5	34.6	12.5	19.6	24.9	29.9	34.4	11.8	17.9	25.7
	% of GDP												
Government Balance	-5.4	-4.5	-4.3	-3.7	-3.0	-5.7	-5.5	-4.5	-3.7	-2.9	-5.8	-5.6	-5.3
Structural balance	-4.8	-4.2	-3.7	-3.0	-2.3	-5.1	-5.2	-4.1	-3.1	-2.1	-5.3	-5.4	-5.3
Structural primary balance	-2.6	-1.8	-1.0	-0.2	0.7	-2.9	-2.6	-1.5	-0.5	0.4	-3.0	-2.8	-2.8
Gross debt (target)	53.7	57.7	58.6	59.1	59.1	54.6	58.4	60.9	61.3	61.2			
Gross debt (no policy change)	53.7	58.1	60.4	63.1	66.2	54.6	59.1	62.8	65.3	68.1	54.7	58.9	62.4

Sources: European Commission, MTFSP

Public finances and net expenditure path

Poland's fiscal performance has been mixed, which is illustrated by its overall numerical compliance score of 51% with the SGP rules in 1998-2023, somewhat below the EU average of 55%.⁽¹⁸²⁾

By 2024, the reduction in the Polish debt-to-GDP ratio from its recent 2020 Covid-crisis peak was forecast at around 2 percentage points, well below the projected decline of almost 9 percentage points for the EU-27 over the same time horizon. Moreover, the MTFSP projects a significant increase in the country's future public debt ratio in both the no-policy change and the adjustment scenarios.

In terms of annual averages over the entire programme horizon, the Polish MTFSP fulfils the formal requirements set by the Commission prior guidance. However, Poland plans to meet these requirements with a backloaded adjustment profile. In 2025, the MTFSP's net expenditure growth is 1 percentage point higher (and the corresponding improvement in the structural primary budget balance is 0.5% of GDP lower) than the prior guidance, which is envisaged to be offset by lower expenditure dynamics in 2026-2028.

The backloading is in part explained by a significant increase (0.25% of GDP) in defence expenditure in 2025.⁽¹⁸³⁾ In addition, the backloading is linked to higher expenditure financed by RRF loans and co-financing of EU funds in 2025 (altogether close to 0.2% of GDP).

Due to the backloaded adjustment, and in spite of stronger macroeconomic assumptions in 2024 and 2025, the country's debt-to-GDP ratio is projected to increase by 6.6 percentage points over the programme period to above 60%, while the nominal deficit is projected to decline from 5.7% in 2024 to 2.9% in 2028, which is the target date for correcting the excessive deficit.

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. A broadly even composition is envisaged between the revenue and expenditure side. Planned discretionary tax measures include, most notably, the non-indexation of the brackets for personal income taxation and a detailed schedule for hikes in excise duties. The expenditure restraint is planned to be chiefly implemented with the help of the domestic expenditure-stabilising rule, constraining the increase in social security benefits and the operational expenditures of budgetary institutions.

⁽¹⁸²⁾ [Compliance tracker of the EFB Secretariat](#).

⁽¹⁸³⁾ In cash terms, the defence budget more than doubles between 2021 (2.2% of GDP) and 2025 (4.7% of GDP).

The Polish authorities acknowledge that the minimum adjustment requirement under an EDP of 0.5% of GDP will not be fulfilled. They attribute the slippage primarily to the planned increase in defence spending, which is officially listed as a relevant factor in Council Regulation (EC) 1466/97.

The plan targets an average annual level of nationally financed public investment of 4.3% of GDP in 2025-2028, which is higher than the level of around 4% of GDP observed in 2023-2024.

Overall, even with the envisaged backloaded adjustment profile, cumulative expenditure growth in 2024-2028 (34.4%) is in line with the Commission prior guidance.

IFI involvement

Poland is currently the only EU Member State without an IFI. Poland is now establishing an IFI following the revisions of the Budgetary Frameworks Directive (Council Directive 2011/85/EU), which obliged all EU countries to set up such an independent institution by the end of 2025 (see Section 3.2. for details).

Commission assessment and Council conclusions

The Commission concludes that Poland's plan fulfils the requirements of Regulation (EU) 2024/1263, and therefore the net expenditure path as set out in the plan should be recommended by the Council to Poland.

The Commission accepts the plan's deviations from the prior guidance. The Commission reasoned that the overall impact of duly justified differences neutralises the impact of the worse-than-expected initial fiscal position in 2024 and that other deviations from the prior guidance do not have significant impacts on expenditure growth.

The Commission assessment accepts the lower set of fiscal multipliers in the MTFSP as they '*do not have a significant impact on average net expenditure growth compared to the Commission's assumptions.*' This is at first sight a puzzling statement as the difference between the MTFSP's multipliers of around 0.5 and the uniform Commission assumption of 0.75 looks non-negligible. The explanation for the Commission assessment lies in the fact that the 'effective multiplier' in the Commission DSA underpinning the prior guidance for Poland is lower than the standard figure of 0.75. It is the result of the technical 'gap closure rule' assumption of the Commission's DSA method: to enforce this, in each year, the output gap decreases by one third of the previous year's output gap. In case of a negative output gap (which is the typical case during a fiscal adjustment period such as the current Polish situation) this assumption mechanically lowers the actual or effective multiplier. Thus, the distance between the MTFSP's lower set of multipliers and the reference trajectory's effective multipliers has been considerably reduced. This should have been explicitly explained in the Commission assessment to provide the justification for the eventual acceptance of the multipliers put forward by the Polish authorities.

The Commission assessment accepts the breach of the no-backloading clause on account of two factors: (i) higher expenditure financed by RRF loans and co-financing of EU funds; and (ii) higher defence spending. While the first factor is explicitly mentioned in the transitional provisions of Regulation (EU) 2024/1263 (specifically in Article 36(e)) as a legitimate justification factor for deviating from a linear path, higher defence spending is not listed there. Higher defence spending is referenced as relevant factor in the revised corrective arm provisions (Regulation (EU) 2024/1264), which is applicable for EDP decisions. Thus, it is not clear why it was invoked to justify the breach of the no-backloading clause.

The overall conclusions of the Council take note of the Commission assessment. In addition, the conclusions also note that the worsening security environment due to Russia's war of aggression against Ukraine has a bearing on the economy with repercussions for Polish public finances. The Council recommends the net expenditure path as set out in the plan.

Portugal

Overall conclusions

The Portuguese plan is ambitious, but the expenditure growth limits – especially at the beginning of the adjustment period – might prove not prudent. The plan’s assumptions of real GDP growth deviate significantly from the Commission reference trajectory. These assumptions in the plan combined with both a major upward shift in net expenditure in 2024 (the base year) and a backloaded fiscal adjustment. As a result, the debt ratio is higher than that in the reference trajectory at the end of the programme period. Put differently, the plan uses sanguine estimates of current economic growth to anchor the expenditure path at a high level from 2024 onward. This configuration entails the risk of missing fiscal targets even when sticking to the proposed expenditure path.

The recourse to more sanguine macroeconomic projections in the plan based on cyclical elements or high-frequency data echoes the uncertainty surrounding real-time potential output and output gap estimates that were criticised in the past. A more prudent approach would seem appropriate, especially as short-term errors risk being locked in over the medium term. The estimates of potential output growth are mostly based on new demographic projections, which are notoriously volatile and – in the case of Portugal – tend to be overestimated. The Portuguese fiscal council (i) highlights the absence of detailed information on the macroeconomic projections underpinning the plan; (ii) raises concerns about the consistency of the output gap estimates with the overall macroeconomic scenario; and (iii) considers assumptions about public revenue and expenditure trends unrealistic.

The Portuguese MTFSP was submitted on 11 October 2024 (in Portuguese and English). In early September, the government requested an extension of the submission deadline from 20 September to 13 October, citing the need to ensure consistency with the 2025 draft budgetary plan as the factor behind the delay. The Commission accepted the request with its standard argumentation (*such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline*).

The plan refers to the technical dialogue process, without providing further details. However, the Commission assessment reports that this process covered: (i) the net expenditure path and its underlying assumptions (in particular on potential growth estimates); (ii) the exception to the no-backloading safeguard; and (iii) reforms and investments identified in the context of the European Semester and the common priorities of the Union.

The government submitted documents that informed the strategy of the plan to the national Parliament for approval. The Economic and Social Council (CES) was consulted on the reform and investment projects presented in the MTFSP, and its opinion ⁽¹⁸⁴⁾ was published on 3 October 2024.

⁽¹⁸⁴⁾ [Parecer-GO-2024-2028-CES-03.10.2024-1.pdf](#)

Submission date	11 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 95.6% of GDP Government balance: 0.4% of GDP
Commission prior guidance	Reference trajectory
EDP	NA.
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.1 % of GDP MTFSP: 0.1 % of GDP
Stakeholder involvement	Yes
IFI involvement	Yes (requested by government)
Commission overall assessment	Plan fulfils requirement of regulation

Macroeconomic projections

The forecasts of nominal GDP growth in the plan are significantly more optimistic than the Commission 2024 spring forecast which underpins the reference trajectory. A large part of this difference is due to the use of more recent real GDP data, also reflected in the Commission 2024 autumn forecast, although to a lesser degree.

Contrary to the Commission assumptions, the positive output gap shows an upward trend, starting at 0.6% in 2024 and increasing to 0.9% by 2028. The output gap is projected to close only in 2031, as opposed to the end of the adjustment period (2028).

Higher real GDP growth assumptions also imply higher estimates of potential GDP growth. The plan argues that this is also due to the most recent population projections by Eurostat showing a modest increase towards 2030 rather than a previously-projected decrease. The impact of population projections on potential GDP growth should be viewed with caution, given the significant volatility in population projections in the past. ⁽¹⁸⁵⁾

The Portuguese authorities state that ‘the expansion in the productive capacity of the economy, driven by both the RRP and other planned reforms and investments is not accounted for in the estimation of potential growth’. ⁽¹⁸⁶⁾

In December 2024, the Economic Sentiment Indicator ⁽¹⁸⁷⁾ (ESI) was on an increasing trend, on a seasonally-adjusted basis, and higher than in May 2024 when the Commission finalised its spring forecast and prepared the reference trajectory for Portugal. As of December 2024, the index of industrial

⁽¹⁸⁵⁾ According to the [EEB's 2024 annual report](#) (Box 5.1), an analysis of Eurostat's Europop projections (2004-2013) revealed significant discrepancies between predicted and actual working-age population numbers for many EU countries, with some projections overestimating and others underestimating the numbers. Notably, Portugal's working-age population after 10 years was over-projected by close to 5 percentage points on average (in 2004, 2008, 2020, 2013).

⁽¹⁸⁶⁾ Article 13 and Recital 34 of Regulation(EU) 2024/1263 provide that the impact of investments and reforms, once implemented within the medium-term plans, will be duly taken into account in the future, including in the design of subsequent plans. The impact of not-yet-implemented reforms and investments should not be taken into account in the potential GDP estimates.

⁽¹⁸⁷⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

production ⁽¹⁸⁸⁾ was below its reading of May, amid some volatility. According to a preliminary flash estimate published by Eurostat at the end of January 2025, Portuguese GDP in the fourth quarter of 2024 was higher than the Commission forecast. These elements point to some risks to the short-term growth outlook underpinning the plan. More generally, building a medium-term fiscal plan based on improvements in contiguous forecasts or high-frequency data is reminiscent of the uncertainty surrounding estimates of real-time potential output and the output gap estimates that has clouded fiscal surveillance in the past.

Table A.16: Portugal – Main macroeconomic and fiscal variables

PT	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	2.2	2.2	1.6	1.4	1.2	2.4	2.1	2.0	1.7	1.6	2.3	2.1	1.9
Real GDP	1.7	2.0	1.3	1.2	1.1	1.8	2.1	2.2	1.7	1.8	1.7	1.9	2.1
GDP deflator	2.6	2.1	2.2	2.2	2.3	3.1	2.6	2.0	2.0	2.0	3.8	2.5	2.2
Nominal GDP	4.4	4.1	3.5	3.4	3.4	5.0	4.8	4.2	3.7	3.7	5.5	4.4	4.4
Net expenditure growth (annual)	8.3	4.1	3.6	3.4	3.3	11.8	5.0	5.1	1.2	3.3	10.3	4.7	4.1
Net expenditure growth (cumulative)	8.3	12.8	16.8	20.8	24.8	11.8	17.4	23.4	24.9	29.0	10.3	15.5	20.2
	% of GDP												
Government balance	0.4	0.5	0.4	0.4	0.5	0.4	0.3	0.1	1.1	1.3	0.6	0.4	0.3
Structural balance	0.0	0.1	0.2	0.3	0.4	0.2	0.0	-0.4	0.7	0.8	0.5	0.4	0.2
Structural primary balance	2.2	2.3	2.4	2.4	2.5	2.3	2.1	1.7	2.8	2.9	2.5	2.5	2.3
Gross debt (target)	95.6	91.5	87.9	84.6	81.3	95.9	93.3	90.4	87.2	83.2			
Gross debt (no policy change)	95.6	91.6	88.5	86.0	83.7	95.9	93.3	90.0	87.5	84.7	95.7	92.9	90.5

Sources: European Commission, MTFSP

Public finances and net expenditure path

Portugal's historical track-record of fiscal policy is fragile. This is exemplified by (i) a very high government debt-to-GDP ratio; and (ii) a comparatively low numerical compliance score with the SGP rules in 1998-2023: 34% as compared with an EU average of 55%. ⁽¹⁸⁹⁾ However, Portugal's performance in this area has improved in recent years.

In 2024, the plan shows a strong difference in net expenditure growth compared with the Commission prior guidance. Therefore, while net expenditure growth in the two documents is comparable during the adjustment period, it is much higher in cumulative terms for 2024-2028 in the Portuguese MTFSP than in the Commission prior guidance.

The fiscal adjustment implied by the plan's expenditure path meets the requirements of the Commission reference trajectory: an annual improvement in the structural primary budget balance of 0.1% of GDP on average. However, this improvement after a significant fiscal loosening in 2024, which lifts the level of expenditure by a significant amount.

The fiscal adjustment is strongly backloaded. The plan targets higher expenditure growth than the Commission reference trajectory in 2025 and 2026, and imposes a strong correction in 2027 in order to achieve the required net expenditure path, with average annual net expenditure growth of 3.6% over the adjustment period (2025-2028).

⁽¹⁸⁸⁾ A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry.

⁽¹⁸⁹⁾ [Compliance tracker of the EFB Secretariat](#).

To a large extent, the backloading is attributed to the impact of the implementation of RRF projects financed by RRF loans.⁽¹⁹⁰⁾ The plan highlights that the profile of annual net expenditure growth corrected for this impact is aligned with that in the reference trajectory, including estimates of impact of the RRF loans on the structural primary balance.

As a result of the backloaded adjustment, the debt-to-GDP ratio in 2028 is expected to exceed the one set out in the Commission reference trajectory.

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. This fiscal strategy includes a combination of discretionary revenue increases and spending restraints. While some revenue-decreasing measures are planned (such as tax reforms), these will be offset by the removal of emergency energy measures and the phasing out of public-private-partnership concession contracts. According to the Commission assessment, the measures presented in the DBP for 2025 will decrease revenue by 0.4% of GDP and increase expenditure by 0.1% of GDP. Moreover, the Commission points out that the emergency energy support measures are not planned to have been wound down by winter 2024/2025, which is not in line with the Council Recommendation of 21 October 2024. In conclusion, there are risks to the plan's strategy in the short term including potential spending pressures on public wages and higher social transfers.

The plan targets an average annual level of nationally financed public investment of 2.4% of GDP in 2025-2028.

IFI involvement

The government sought the opinion of the independent fiscal authority (“Conselho das Finanças Públicas”, or CFP) on the macroeconomic forecasts for 2025-2028. The opinion, included in the Annex of the MTFSP, concludes that forecasts for real GDP and its deflator are probable and plausible. At the same time, it highlights that: (i) the absence of more detailed information does not allow for a comprehensive assessment; and (ii) the output gap estimates do not seem to be consistent with the rest of the macroeconomic scenario.

The CFP published an additional report⁽¹⁹¹⁾ on 29 October 2024 with its analysis of the MTFSP as a whole. Its assessment states that the plan's fiscal commitments align with the Commission prior guidance albeit with a backloaded profile due to the RRF loans. Moreover, the CFP does not agree with the government's budget trajectory for 2027 and 2028, citing unrealistic assumptions about public revenue and expenditure trends. The CFP notes that the government's projected budget balances for those years are significantly more favourable than the CFP's estimates and the estimates from the 2024-28 stability programme under a no-policy-change scenario. When compared against its own projections, the CFP affirm that the plan does not identify any economic policy measures to back up the commitment, given the lack of plausibility of the projections of *‘public revenue and government expenditure [...] and, consequently, for the budget balance.’*

Commission assessment and Council conclusions

The Commission concludes that Portugal's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment acknowledges differences between the plan and its prior guidance discussed above. It emphasises that the average annual net expenditure growth of 3.6% in the plan for the period

⁽¹⁹⁰⁾ Article 36(1), point (e), of Regulation (EU) 2024/1263, allows Member States to request an exception to the no-backloading safeguard referred to in Article 6, point (c), in which context “projects supported by loans from the Recovery and Resilience Facility as well as national co-financing of programmes funded by the Union in 2025 and 2026 shall be taken into account, provided that such exception does not endanger fiscal sustainability over the medium term”. Discounting the impact of RRF loans, the underlying fiscal adjustment effort over the period of the national MTFSP is linear and proportional to the total effort over the entire adjustment period.

⁽¹⁹¹⁾ [Analysis to the National Medium-Term Fiscal-Structural Plan \(2025-2028\)](#).

2025-2028 coincides with the Commission reference trajectory. However, it does not address the impact of the significantly higher annual net expenditure growth in 2024, which highlights the importance of the base year effect. Also, the Commission's assessment fails to give sufficient weight to the fact that the estimates for potential GDP growth are primarily driven by revisions to population projections. These revisions should be treated with caution due to their inherent volatility and the uncertainty surrounding them. By not fully accounting for this, the Commission risks placing undue reliance on potentially unstable data, introducing significant risks for the sustainability of fiscal commitments.

The Commission acknowledges the adjustment is backloaded, but deems it to be consistent with the no-backloading safeguard clause of Regulation (EU) 2024/1263 because of the impact of RRF loans on the general government balance.

The Commission assessment remains silent on the deviation in the projections for the output gap.

The overall conclusions of the Council take note of the Commission assessment. In particular the Council takes note that according to the plan – excluding the expenditure related to projects financed by Recovery and Resilience Facility loans – the underlying fiscal adjustment effort over the period of the plan is linear.

A.1.1. Romania

Overall conclusions

The Romanian plan sets out a high level of ambition against a very challenging fiscal situation.

However, the macroeconomic assumptions of the plan might prove optimistic, as the 2024 outturn undershot the forecast and recent data point to slower than previously projected growth in 2025. As a consequence, the sanguine estimates for economic growth in 2024 set out in the plan anchor the expenditure path at a high level from 2024 onward. This configuration entails the risk of missing fiscal targets even when sticking to the proposed expenditure path. This element echoes the uncertainty surrounding real-time potential output and output gap estimates condemned in the past. A more prudent approach would seem appropriate especially as short-term errors will be locked in over the medium term.

Moreover, the plan faces several implementation risks. For example, the impact of the planned measures seems on the low side, and there is political risk related to the stability of the coalition government. In addition, there is a general lack of support for tax reforms across the political spectrum. The timely correction of the excessive deficit may slip if economic growth weakens further, and the forecast for the year in which the excessive deficit will be corrected has already been pushed back by one year later than the EDP deadline. The final implementation risk is that the implementation of the recovery and resilience plan (RRP) and other EU-funds may be slower than planned.

The lack of involvement of an independent fiscal institution is a weakness of the plan.

The Romanian medium-term fiscal-structural plan (MTFSP) was submitted on 25 October 2024 (in Romanian). In early September, the government requested an extension of the submission deadline from 20 September to no later than 31 January 2025, due to parliamentary elections on 1 December 2024. The Romanian authorities argued that aligning the timing of the submission with the electoral cycle would help ensure greater political ownership of the plan and thus contribute to its implementation. The Commission accepted the request with its standard argumentation (*‘... such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline’*.)

The plan does not mention the technical dialogue process. However, according to the Commission assessment the process covered: (i) the net expenditure growth path; (ii) macroeconomic and fiscal assumptions; (iii) the reform and investments underpinning the extension of the adjustment period from four to seven years; and (iv) reforms and investments to address issues identified in the context of the European Semester and the common priorities of the Union.

The plan does not mention any involvement of the national Parliament in the consultation of its draft. However, the plan does refer to a public debate with the Tripartite National Council and consultations with representatives of the business community and associations of local public authorities.

Submission date	25 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 50.9% of GDP Government balance: -6.9% of GDP
Commission prior guidance	Reference trajectory
EDP	Council decision establishing that no effective action has been taken in July 2024 (126(8)), new Council recommendation to end an excessive deficit in January 2025 (Article 126(7))
Years of MTFSP	2025-2028
Adjustment period	2025-2031 (7 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.74% of GDP MTFSP: 1.0% of GDP
Stakeholder involvement	Yes
IFI involvement	No information
Commission overall assessment	Plan fulfils requirement of regulation

Macroeconomic projections

The plan's estimate of potential nominal GDP growth is lower than that set out in the Commission prior guidance. In cumulative terms, it is lower by 1.4 percentage points at the end of the programme period. The difference is mostly due to a more prudent economic outlook for 2024. The outturn for 2024 showed an even worse real GDP growth of less than 1% year-on-year. The Commission 2024 autumn forecast already pointed to a weaker outlook than both the one underpinning its prior guidance of June 2024 and the MTFSP.

The estimated impact of reforms and investment put forward in the MTSFP to justify the application for an extension of the adjustment period is not included in the GDP projections of the macroeconomic scenario. ⁽¹⁹²⁾ However, the plan provides an estimated impact of reforms to the adjustment of excessive imbalances and public finances. These reforms overlap with commitments undertaken for the Romanian (RRP), as such they are still work in progress and expected to be completed only in 2025 and 2026.

There are several elements that warrant caution in the outlook for the Romanian economy. 2024 was the second consecutive year in which there was a contraction in industrial production. ⁽¹⁹³⁾ In December 2024, managers from the manufacturing industry forecast a moderate decrease in production volumes between December 2024 and February 2025. In January 2025, the Romanian manufacturing purchasing manager index fell to a new low. These elements, point to downside risks to the growth outlook underpinning the MTFSP.

⁽¹⁹²⁾ Article 13 and Recital 34 of Regulation(EU) 2024/1263 provide that the impact of investments and reforms, once implemented within the medium-term plans, will be duly taken into account in the future, including in the design of subsequent plans. The impact of not-yet-implemented reforms and investments should not be taken into account in the potential GDP estimates.

⁽¹⁹³⁾ A business cycle indicator which measures monthly changes in the price-adjusted output of industry.

Table A.17: Romania – Main macroeconomic and fiscal variables

RO	Commission prior guidance									MTFSP									Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026		
	year-on-year % change																				
Potential GDP	2.8	2.7	2.4	2.2	2.0	2.0	2.0	2.0	2.7	2.7	2.5	2.4	2.2	2.1	2.0	2.0	2.3	2.2	2.3		
Real GDP	3.3	2.4	2.5	2.2	2.1	2.0	2.0	2.0	2.8	2.5	2.5	2.4	2.2	2.1	2.0	2.0	1.4	2.5	2.9		
GDP deflator	7.3	5.3	5.2	5.0	4.9	4.7	4.6	4.4	7.2	5.0	4.9	4.8	4.7	4.6	4.5	4.4	9.0	5.9	5.3		
Nominal GDP	10.8	7.8	7.7	7.3	7.0	6.9	6.7	6.5	10.2	7.7	7.5	7.3	7.0	6.8	6.6	6.4	10.6	8.5	8.3		
Net expenditure growth (annual)	14.3	6.1	5.7	5.3	5.0	4.8	4.7	4.5	14.3	5.1	4.9	4.7	4.3	4.2	3.9	3.8	16.1	9.1	9.3		
Net expenditure growth (cumulative)	14.3	21.3	28.2	35.0	41.7	48.6	55.5	62.6	14.3	20.2	26.0	31.9	37.6	43.3	49.0	54.7	16.1	26.7	38.5		
	% of GDP																				
Government balance	-6.9	-6.2	-5.8	-5.3	-4.8	-4.3	-3.6	-3.0	-7.9	-7.0	-6.4	-5.7	-5.0	-4.2	-3.4	-2.5	-8.0	-7.9	-7.9		
Structural balance	-6.4	-5.6	-5.2	-4.8	-4.3	-3.7	-3.1	-2.5	-7.3	-6.3	-5.7	-5.1	-4.3	-3.5	-2.7	-1.8	-7.4	-7.4	-7.6		
Structural primary balance	-4.4	-3.7	-2.9	-2.2	-1.4	-0.7	0.0	0.8	-5.3	-4.3	-3.3	-2.3	-1.3	-0.3	0.7	1.7	-5.4	-5.2	-5.4		
Gross debt (target)	50.9	53.5	55.4	57.0	58.0	58.6	58.5	58.0	52.2	55.7	58.5	60.6	62.0	62.6	62.4	61.4					
Gross debt (no policy change)	50.9	55.1	59.4	63.9	68.7	74.0	79.5	85.1	52.2	57.4	62.7	68.3	74.5	81.1	87.9	94.9	52.2	56.1	59.7		

Notes: The MTFSP sets a net expenditure growth path for the period of the plan of 2025-2028. The authorities asked for an extended adjustment period until 2031 and presented the underlying assumptions for the period 2029-2031 (in italics in the table).

Sources: European Commission, MTFSP

Public finances and net expenditure path

Romania's historical track-record in fiscal policy is mixed. Its overall numerical score on compliance with the SGP rules in 1998-2023 of 53% is in line with the EU average of 55%⁽¹⁹⁴⁾. However, the score is driven by perfect compliance with 'debt' rules and only a 27% score on 'expenditure'. More recent trends show heightened risks as evidenced by both a persistent deficit of well above 3% of GDP and an increasing debt ratio.

The MTFSP asks for an extension of the fiscal adjustment period from four to seven years until 2031. The period of the plan and of the effective policy commitments is shorter – until 2028.

Compared with the Commission reference trajectory, the plan targets a more demanding net expenditure path with average annual growth in net expenditure between 2025 and 2028 of 4.8% vs 5.5% in the prior guidance, (4.4% vs 5.2% for 2025-2031). The higher level of ambition for expenditure growth also translates into the implied annual average fiscal adjustment, as measured by the change in the structural primary budget balance, over the extended seven-year-period (2025-2031): 1.0 percentage point in the plan vs 0.74 percentage points in the reference trajectory. The plan's adjustment path is linear. The higher level of ambition reflects both: (i) a further deterioration in the fiscal situation between the time when the Commission issued its reference trajectory and the period in which the plan was drawn up, and (ii) more cautious growth assumptions. These elements combined mean that more fiscal restraint is needed to meet the various constraints imposed by the EU fiscal rules.

However, given the disappointing 2024 outturn, the plan anchors the expenditure path at a high level from 2024 onward.

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. This fiscal strategy focuses on expenditure restraints. The expenditure reforms presented in the plan include: (i) spending reviews; (ii) a pension reform (increased contributions, stronger link between contributions and benefits, reducing early retirement); and (iii) improving the governance of state-owned enterprises in order to lower their cost to the public finances. The exact measures underpinning the adjustment are not detailed and need to be specified and quantified in annual budgets. The main risk to the fiscal strategy stems from the fact that a new government was formed after the submission of the plan.

⁽¹⁹⁴⁾ [Compliance tracker of the EFB Secretariat](#).

The MTFSP targets a decrease in the debt-to-GDP ratio only in 2031, the last year of the adjustment period and one year later than in the Commission reference trajectory. This difference is mostly due to a higher starting point in 2024, as set out in the MTFSP.

According to the plan, the Romanian deficit will return below 3% of GDP only in 2031, despite the Council recommendation of January 2025 stating that ‘Romania should thus put an end to the excessive deficit situation by 2030’. The net expenditure path presented in the plan implies an annual structural adjustment higher than the minimum of at least 0.5% of GDP for the years when the deficit is expected to exceed the reference value of 3% of GDP. ⁽¹⁹⁵⁾

As required by Regulation (EU) 2024/1263 ⁽¹⁹⁶⁾, the plan targets an average annual level of nationally financed public investment of 5.0% of GDP between 2025 and 2028, slightly above the level for the RRP period, i.e. 4.1% between 2021 and 2026.

Reforms and investments underpinning the extension of the adjustment period

The plan includes reforms and investments underpinning the extension of the adjustment period from four to seven years. They are presented in a chapter with 10 different reform projects, which contains tables with the expected budgetary impact of each reform as a percentage of GDP.

The reform strategy combines the implementation of Romania’s RRP with additional reforms. The authorities claim the reform and investment package: (i) is aligned with both the CSRs addressed to Romania and EU common priorities, and (ii) promotes fiscal stability, efficiency of the public sector, and sustainable economic growth.

The plan meets all content requirements set out in the relevant Commission Notice. ⁽¹⁹⁷⁾ In particular, it includes (i) references to relevant RRP commitments and country-specific recommendations; (ii) a description of key steps; (iii) a timeline; and (iv) objective indicators to enable the monitoring of implementation. The plan also includes a table with a qualitative stock-taking on investment needs, including the build-up of defence capabilities.

The plan does not provide separate estimates of the impact of reforms and investments on potential growth. By contrast, the plan estimates the reforms will yield additional government revenues in the order of 2.0% to 2.5% of GDP, and savings on the expenditure side of 0.5% to 2.5% of GDP. Finally, the pension reforms are expected to yield some savings by the end of the seven-year adjustment period, with further savings over the longer term.

Overall, the formal requirements set in Regulation (EU) 2024/1263 for the extension of the fiscal adjustment path seems to be met.

IFI involvement

The plan does not mention any involvement of the national IFI.

⁽¹⁹⁵⁾ Article 8 of Regulation (EU) 2024/1263 specifies the activation of the deficit resilience safeguard. The safeguard ensures a minimum annual improvement in the structural primary balance of 0.4 percentage points of GDP until a member state reaches a deficit level that provides a common resilience margin in structural terms of 1.5% of GDP relative to the deficit reference value of 3% of GDP. The minimum SPB is reduced to 0.25 percentage points of GDP if the adjustment period is extended.

⁽¹⁹⁶⁾ Recital 31 of Regulation (EU) 2024/1263 specifies the adjustment period can be extended by a maximum of three years ‘without leading to a reduction in the level of nationally-financed public investment over the period of the plan, compared to the medium-term level before the start of the plan, taking into account the scope and scale of the country-specific challenges’. Art 36(d) provides a transitional provision to ‘maintain the nationally financed investment levels realised on average over the period covered by the recovery and resilience plan’.

⁽¹⁹⁷⁾ ‘Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports’, C/2024/3975, 21 June 2024.

Commission assessment and Council conclusions

The Commission concludes that the Romanian MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment explains the difference between the MTFSP and its own prior guidance by: (i) a worse starting position (in terms of the structural primary balance in 2024); (ii) different estimates for potential, real GDP and GDP deflator growth projections; and (iii) the assumed depreciation of the national currency. The Commission notes that the target of the plan's primary balance is 'very close' to that set out in its own autumn forecast.

The Commission acknowledges that compared to its own assumptions the potential GDP growth assumptions contribute to higher average net expenditure growth over the adjustment period. However, it also considers that *'all the differences in assumptions taken together lead to an average net expenditure growth in the plan that is lower than the reference trajectory'*.

Nonetheless, the Commission assessment states that additional measures will be necessary to deliver on the plan's commitments.

According to the Commission assessment, the reform package is *'expected to improve the growth and resilience potential of Romania's economy in a sustainable manner'* and *'each reform and investment underpinning an extension of the adjustment period is sufficiently detailed, frontloaded, time-bound and verifiable'*. However, the Commission also cautions that some of the estimates of discretionary measures in the plan seem on the high side.

The overall conclusions of the Council take note of the Commission assessment.

Slovenia

Overall conclusions

Predicated on a higher growth outlook, the plan sets out a level of ambition for growth which is slightly lower than the one in the Commission prior guidance, especially in the short term. This configuration entails the risk of missing fiscal targets even when sticking to the proposed expenditure path. Nonetheless, the Commission is of the view that Slovenia's plan fulfils the requirements of Regulation (EU) 2024/1263.

The measures announced in Slovenia's 2025 draft budgetary plan (DBP) are a good start, but the lack of specifications for discretionary fiscal measures in 2026 and beyond poses risks for the effective delivery of the adjustment to which Slovenia has committed. Moreover, the actual delivery of discretionary measures and reforms that were already announced also poses risks.

Finally, the national fiscal council identified risks related to spending on public wages and health and highlights the need for additional measures to fulfil the plan's commitments.

The Slovenian MTFSP was submitted on 15 October 2024 (in Slovenian). On 4 September 2024, the government requested an extension of the submission deadline from 20 September to 15 October referring to the need to incorporate the latest fiscal data as the factor behind the delay. The Commission accepted the request with its standard argumentation ('... such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline'.)

The plan does not mention the technical dialogue process. However, according to the Commission assessment the process covered: (i) the net expenditure path and its underlying assumptions (particularly the potential output and output gap); and (ii) reforms and investments to address issues identified in the context of the European Semester and the common priorities of the Union. The draft plan was discussed by both the national Parliament and the Economic and Social Council of Slovenia – the highest-level body representing the social partners in Slovenia.

Submission date	15 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 68.1% of GDP Government balance: -2.8% of GDP
Commission prior guidance	Reference trajectory
EDP	No conclusion on excessive deficit in spring 2024 (Commission Article 126(3) report)
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.44% of GDP MTFSP: 0.4% of GDP
Stakeholder involvement	Yes
IFI involvement	Yes (requested by government)
Commission overall assessment	Plan fulfils requirement of regulation

Macroeconomic projections

The plan's estimates of nominal GDP in 2024-2028 are about ½ percentage points higher than the Commission prior guidance. While the estimates of real GDP growth are broadly comparable in the two documents, the more favourable outlook in the MTFSP is driven by a much higher GDP deflator in 2025.

It is not entirely clear whether the expected impact of reforms presented in the plan is included in the macroeconomic scenario.⁽¹⁹⁸⁾ The plan discusses a public sector wage reform that is being implemented but does not provide details about the effects of the reform on the growth outlook, for instance via private consumption.

In December 2024, the Economic Sentiment Indicator⁽¹⁹⁹⁾ (ESI) was on a rebounding trend, after a significant drop between August and October. The index is nonetheless still at the same level – on a seasonally adjusted basis – as in May 2024 when the Commission finalised its spring forecast and prepared the reference trajectory for Slovenia. As of November 2024, the index of industrial production⁽²⁰⁰⁾ was consistent with an improving outlook compared with May 2024, despite some volatility.

Table A.18: Slovenia – Main macroeconomic and fiscal variables

SI	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	2.9	2.9	2.5	2.3	2.3	2.9	2.8	2.4	2.2	2.1	2.5	2.5	2.5
Real GDP	2.3	2.7	1.9	1.9	2.0	1.5	2.4	1.9	1.9	1.9	1.4	2.5	2.6
GDP deflator	3.3	3.0	2.9	2.9	2.8	3.0	3.7	2.9	2.9	2.8	3.0	3.7	2.8
Nominal GDP	5.7	5.7	4.8	4.8	4.9	4.5	6.1	4.9	4.8	4.8	4.4	6.4	5.5
Net expenditure growth (annual)	5.6	4.9	4.5	4.3	4.2	6.2	5.6	4.4	4.1	4.0	5.2	4.7	6.6
Net expenditure growth (cumulative)	5.6	10.8	15.7	20.6	25.7	6.2	12.1	17.0	21.8	26.6	5.2	10.2	17.5
	% of GDP												
Government balance	-2.8	-2.3	-1.7	-1.5	-1.2	-2.9	-2.6	-1.9	-1.6	-1.2	-2.4	-2.1	-2.1
Structural balance	-2.7	-2.2	-1.8	-1.4	-1.0	-2.7	-2.2	-1.8	-1.4	-1.0	-2.3	-2.1	-2.7
Structural primary balance	-1.2	-0.8	-0.4	0.1	0.5	-1.3	-0.9	-0.4	0.0	0.5	-1.0	-0.7	-1.3
Gross debt (target)	68.1	66.5	65.1	63.5	61.7	67.5	65.4	64.2	62.8	61.2			
Gross debt (no policy change)	68.1	66.7	66.1	66.3	66.7	67.5	65.6	65.2	65.3	65.9	67.1	64.4	63.1

Sources: European Commission, MTFSP

Public finances and net expenditure path

Slovenia's track-record in fiscal policy making is mixed. The country's average overall numerical score on compliance with SGP rules of 45% in 1998-2023 is somewhat below the EU average.⁽²⁰¹⁾ Recent performance has been encouraging, as the debt-to-GDP ratio has been declining from a post-Covid peak of 79.6% in 2020, to less than 70 % in 2023, in part thanks to the latest benchmark revision of national accounts.

Compared with the Commission reference trajectory, the plan targets a slightly less demanding net expenditure path with an average annual growth rate of net expenditure of 4.5% vs 4.4% in 2025-2028. This is driven by the more favourable assumptions of nominal economic growth, in particular by the unusually high GDP deflator in 2025. As a result, the annual average fiscal adjustment as measured by the

⁽¹⁹⁸⁾ Article 13 and Recital 34 of Regulation(EU) 2024/1263 provide that the impact of investments and reforms, once implemented under the medium-term plans, will be duly taken into account in the future, including in the design of subsequent plans. The impact of not-yet-implemented reforms and investments should not be taken into account in the estimates of potential GDP.

⁽¹⁹⁹⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission

⁽²⁰⁰⁾ A business cycle indicator which measures monthly changes in the price-adjusted output of industry.

⁽²⁰¹⁾ [Compliance tracker of the EFB Secretariat](#).

structural primary budget balance – over the 4-year adjustment period of 2025-2028 – is also somewhat lower in the plan (0.4 vs 0.44 percentage points). The plan's adjustment path is linear.

The annual fiscal adjustment that results from the plan's policy commitments and macroeconomic assumptions amounts to 0.4% of GDP throughout the adjustment period, as requested by the deficit resilience safeguard. The deficit resilience safeguard is triggered by the structural budget deficit being larger than 1.5% of GDP over the first three years of the adjustment period. ⁽²⁰²⁾

The plan offers some indications as to the fiscal strategy to achieve the planned adjustment. This fiscal strategy is based on both discretionary revenue measures and expenditure restraint. For 2025, the plan announces: (i) a new long-term care contribution; (ii) an increase in the CO₂ emission tax; and (iii) taxes on alcoholic drinks and beverage with a high content of sugar. The measures included in the draft budgetary plan (DBP) for 2025 are estimated to increase revenue by 0.3% of GDP and decrease expenditure by 0.2% of GDP. For 2026 and beyond, the plan presents: (i) additional tax measures; (ii) a pension and long-term care reform; and (iii) a reform of the health system. However, exact specifications are not provided and need to be spelled out in more detail in the forthcoming draft budgets.

The plan implies a continued decline of the debt-to-GDP ratio albeit with a slightly lower fiscal adjustment thanks to higher nominal GDP growth, especially in the short term.

The plan targets an average annual level of nationally financed public investment of 5.1% of GDP in 2025-2028. ⁽²⁰³⁾

IFI involvement

Slovenia has two IFIs. The forecasting IFI, the Institute of Macroeconomic Analysis and Development prepared independently the medium-term macroeconomic scenario underpinning the MTFSP, in line with Slovenia's traditional institutional arrangements.

Between September and October 2024, the Slovenian government also shared several documents on the plan with the other IFI, the Slovenian Fiscal Council. The Fiscal Council published an opinion on the plan on 21 October, i.e. after the formal submission of the plan to the Commission.

This opinion identifies risks in the second part of the adjustment period, related to public wages and health spending. The opinion also highlights a need for additional measures to fulfil the plan's commitments.

Commission assessment and Council conclusions

The Commission concludes that the Slovenian MTFSP fulfils the requirements of Regulation (EU) 2024/1263. While its latest growth outlook is more cautious, the Commission assessment explains the difference between the plan and its prior guidance by a new macro scenario that includes the latest policy decisions and more recent data.

The Commission acknowledges risks to the implementation of the indicative fiscal strategy in the plan, arising from: (i) expenditure overruns linked to ongoing reforms of the public sector wage system; (ii) the long-term care and health reforms; and (iii) large investment projects.

The conclusions of the Council take note of the Commission assessment.

⁽²⁰²⁾ Article 8 of Regulation (EU) 2024/1263 specifies the rules for activation of the deficit resilience safeguard. The safeguard ensures that fiscal adjustment continues until a Member State reaches a deficit level that provides a common resilience margin in structural terms of 1.5% of GDP relative to the deficit reference value of 3% of GDP. The annual improvement in the structural primary balance to achieve this margin is 0.4 percentage points of GDP, which is reduced to 0.25 percentage points of GDP if the adjustment period is extended.

⁽²⁰³⁾ Article 13 of Regulation (EU) 2024/1263 provides that a national medium-term fiscal-structural plan shall contain information on the forecasted level of nationally financed public investment throughout the period covered by the national medium-term fiscal-structural plan.

Slovakia

Overall conclusions

The Slovak MTFSP sets out a level of ambition which is in line with the Commission reference trajectory. The estimates of potential output growth are mostly based on demographic projections, which are notoriously volatile. The plan's focus on revenue measures over expenditure restraint entails risks. By experience, expenditure-based consolidation strategies are more robust. The 2025 draft budgetary plan (DBP) relies exclusively on revenue-increasing measures. While the Slovak Council for Budget Responsibility is doubtful the plan can deliver a sustainable reduction of the deficit below 3 % of GDP, or of the debt below 60 % of GDP, the Commission is of the view that the MTFSP fulfils the requirements of the reformed fiscal framework.

The Slovak MTFSP was submitted on 15 October 2024 (in Slovak). On 2 September 2024, the government requested an extension of the submission deadline from 20 September to 15 October referring to: (i) political discussions on fiscal measures; and (ii) the need to include the latest statistical updates and the need to ensure consistency with the 2025 draft budgetary plan (DBP). The Commission accepted the request with its standard argumentation ('... *such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline*').

The plan does not mention the technical dialogue process. However, according to the Commission assessment the process covered: (i) the net expenditure path (in particular a backloaded fiscal adjustment in 2026 explained by defence investment and national co-financing of EU-funded grants); (ii) its underlying assumptions; and (iii) reforms and investments to address issues identified in the context of the European Semester and the common priorities of the Union.

The plan does not mention any involvement of the national Parliament. However, the plan was discussed in the Economic and Social Council of Slovakia a consultative body consisting of social partners.

Submission date	15 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 58.5% of GDP Government balance: -5.9% of GDP
Commission prior guidance	Reference trajectory
EDP	Council decision on the existence of an excessive deficit in July 2024 (Article 126(6)), Council recommendation to end an excessive deficit in January 2025 (Article 126(7))
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 1.3% of GDP MTFSP: 1.3% of GDP
Stakeholder involvement	Yes
IFI involvement	Yes
Commission overall assessment	Plan fulfils requirement of regulation

Macroeconomic projections

The plan's estimates of nominal GDP growth are marginally lower than those in the Commission prior guidance: in cumulative terms they are lower by 0.1 percentage points in 2025-2028. The Slovak authorities forecast higher participation rates than the Commission but a lower GDP deflator. The higher participation rate is driven by projections on immigration, which by experience are subject to considerable uncertainty. ⁽²⁰⁴⁾

The plan refers to the expected impact of reforms included in the Slovak recovery and resilience plan as a factor improving total factor productivity in the macroeconomic scenario. However, it does not say explicitly if the expected impact of additional reforms is included in the economic projections, and to what extent the productivity-enhancing reforms are already implemented. ⁽²⁰⁵⁾

In December 2024, the seasonally-adjusted Economic Sentiment Indicator ⁽²⁰⁶⁾ (ESI) was rebounding from November, when it was on a declining trend, and below the reading of May 2024 when the Commission finalised its spring forecast and prepared its reference trajectory for Slovakia. As of November 2024, the index of industrial production ⁽²⁰⁷⁾ was consistent with an improving outlook compared with May 2024, despite some volatility. In 2024, Slovak industry was negatively affected by the slow recovery of its main trading partners, such as Germany. These elements, together with the assumptions on immigration, point to some downside risks in the growth outlook underpinning the plan.

Table A.19: Slovakia – Main macroeconomic and fiscal variables

SK	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	2.3	2.4	1.7	1.4	1.4	2.3	2.4	1.7	1.4	1.4	2.3	2.3	2.2
Real GDP	2.2	2.2	1.0	1.0	1.1	2.2	2.6	0.5	1.0	1.1	2.2	2.3	2.5
GDP deflator	4.6	3.2	3.1	3.0	2.9	4.6	3.2	3.1	3.0	2.9	4.4	3.8	2.8
Nominal GDP	6.9	5.5	4.1	4.0	4.1	6.9	5.9	3.6	4.1	4.1	6.8	6.2	5.4
Net expenditure growth (annual)	6.2	2.8	2.0	1.6	1.5	6.2	3.8	0.9	1.6	1.5	5.6	3.5	1.9
Net expenditure growth (cumulative)	6.2	9.2	11.3	13.1	14.8	6.2	10.3	11.2	13.0	14.8	5.6	9.3	11.3
	% of GDP												
Government balance	-5.9	-4.8	-3.9	-2.9	-1.7	-5.9	-5.1	-3.9	-2.9	-1.8	-5.8	-4.7	-4.1
Structural balance	-5.6	-4.5	-3.3	-2.1	-0.9	-5.6	-5.0	-3.4	-2.1	-0.9	-5.5	-4.5	-3.9
Structural primary balance	-4.3	-3.0	-1.7	-0.4	0.9	-4.3	-3.5	-1.7	-0.3	1.0	-4.1	-3.0	-2.3
Gross debt (target)	58.5	59.6	61.1	61.6	61.0	58.5	59.8	61.6	62.1	61.4			
Gross debt (no policy change)	58.5	60.4	64.2	68.6	73.3	58.5					58.9	59.8	61.8

Sources: European Commission, MTFSP

Public finances and net expenditure path

Slovakia's government debt ratio is approaching the 60% of GDP reference value and forecast to exceed it within the next few years. The country's average numerical score on compliance with SGP rules is 52% in 1998-2023, close to the EU average of 55%. ⁽²⁰⁸⁾

⁽²⁰⁴⁾ According to the [EFB's 2024 annual report](#) (Box 5.1), an analysis of Eurostat's Europop projections (2004-2013) revealed significant discrepancies between predicted and actual working-age population numbers for many EU countries, with some projections overestimating and others underestimating the numbers.

⁽²⁰⁵⁾ Article 13 and Recital 34 of Regulation(EU) 2024/1263 provide that the impact of investments and reforms, once implemented within the medium-term plans, will be duly taken into account in the future, including in the design of subsequent plans. The impact of not-yet-implemented reforms and investments should not be taken into account in the potential GDP estimates.

⁽²⁰⁶⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission

⁽²⁰⁷⁾ A business cycle indicator which measures monthly changes in the price-adjusted output of industry.

⁽²⁰⁸⁾ [Compliance tracker of the EFB Secretariat](#).

The plan's expenditure path targets the same average annual growth rate of 2.0% set out in the Commission reference trajectory.

The plan's adjustment path is backloaded. The plan targets higher expenditure growth in 2025 and corrects in 2026. In 2027 and 2028, the growth rates are the same as those of Commission prior guidance. According to the Slovak authorities, the difference is due to a 'large supply of defence equipment' in 2025.

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. It includes both revenue and expenditure measures but is tilted towards the revenue side. Measures to increase revenue include: (i) a VAT reform; (ii) a new tax on financial transactions; (iii) increases in excise duties on sugary drinks and e-cigarettes. Other revenue measures target: (i) firms with sales above EUR 5 million; (ii) road use; and (iii) high-income employees. The plan specifies measures amounting to only one third of the necessary consolidation over its 4-year horizon. The Slovak draft budgetary plan (DBP) for 2025 includes both discretionary revenue and expenditure measures. Measures aiming at increasing revenues are estimated to decrease the deficit by 1.3% of GDP. Expenditure measures contribute to both increasing and decreasing the deficit and are projected to offset each other.

According to the plan, the Slovak budget deficit will return below 3% of GDP only in 2031. The net expenditure path presented in the plan is consistent with a minimum annual structural adjustment of at least 0.5% of GDP in the years where the deficit is expected to exceed the reference value of 3% of GDP. ⁽²⁰⁹⁾ This is in line with the Council recommendation with a view to bringing an end to the situation of an excessive deficit in Slovakia of January 2025 stating that 'Slovakia should [...] put an end to the excessive deficit situation by 2027'.

The plan targets an average annual level of nationally financed public investment of 3.3% of GDP in 2025-2027, but does not provide a target for 2028. ⁽²¹⁰⁾

IFI involvement

The plan points to limited involvement of the fully-fledged, national IFI, the Council for Budget Responsibility (CBR). At the same time, it states that the government's latest macroeconomic and tax projections were endorsed by two dedicated expert committees, namely the Macroeconomic Forecasts Committee and the Tax Revenue Forecasts Committee. The CBR is a voting member of both committees.

In October 2024, the CBR wrote to the Commission expressing concerns over the standard assumption of unitary revenue elasticity to potential GDP underpinning the Commission reference trajectory. The CBR considers the assumption optimistic in the medium term supporting an unduly rapid growth in the net expenditure path. It considers a lower elasticity more realistic due to (i) the temporary nature of some revenue-increasing measures in 2023; (ii) the inelasticity of certain excise taxes and non-tax revenue to GDP; and (iii) the impact on GDP and government revenues of a recent deterioration in the country's terms of trade.

In December 2024 the CBR published an analysis on its website stating '*complying with the net expenditure trajectory at the level recommended by the European Commission would not result in a sustainable reduction of the deficit below 3 % of GDP, or of the debt below 60 % of GDP*' because of the unitary elasticity assumption.

⁽²⁰⁹⁾ Article 8 of Regulation (EU) 2024/1263 specifies the activation of the deficit resilience safeguard. The safeguard ensures a minimum annual improvement in the structural primary balance of 0.4 percentage points of GDP until a Member State reaches a deficit level that provides a common resilience margin in structural terms of 1.5% of GDP relative to the deficit reference value of 3% of GDP. The minimum SPB is reduced to 0.25 percentage points of GDP if the adjustment period is extended.

⁽²¹⁰⁾ Article 13 of Regulation (EU) 2024/1263 provides that a national medium-term fiscal-structural plan shall contain information on the forecasted level of nationally financed public investment throughout the period covered by the national medium-term fiscal-structural plan.

Commission assessment Council conclusions

The Commission concludes that the Slovak MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission considers that: (i) the macroeconomic and fiscal assumptions of the plan are aligned with those of the reference trajectory to Slovakia on 21 June 2024, and (ii) the use of updated macro and fiscal indicators does not significantly affect the average net expenditure growth in the plan compared with the reference trajectory.

The Commission assessment remains silent about the higher contribution of population projections to the growth outlook, without noting their highly volatile nature.

The overall conclusions of the Council take note of the Commission assessment.

Finland

Overall conclusions

Finland's MTFSP asks for an extension of the fiscal adjustment period until 2031 by committing to ongoing and new reforms and investments. The reform commitments appear to fulfil the formal reporting requirements for the extension. However, the plan does not quantify the expected impact of the reform and investment projects.

The MTFSP targets greater growth in net expenditure than in the Commission prior guidance by applying more stable estimates of potential output growth. The MTFSP assumptions in the short run are broadly supported by recent economic forecasts, some of which, however, point to risks. Finland's IFI, the Economic Policy Council, has warned about the risk of relying on assumptions of higher potential growth in the short run, and points to cost pressures weighing on the feasibility of the plan's expenditure path.

Finland submitted its MTFSP on 10 October 2024 (in Finish, Swedish and English). In early September, Finland asked for an extension of the submission deadline from 20 September to 15 October 2024 to ensure consistency with its draft budgetary plan for 2025. The Commission accepted Finland's reasoning with a standard text saying that '*such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline*'.

The plan does not mention the technical exchange and dialogue process. However, the Commission's assessment reports that the dialogue process took place from June to September 2024 and that it covered: (i) the net expenditure path; (ii) underlying assumptions; and (iii) reform and investment commitments for the extension of the adjustment period. ⁽²¹¹⁾

Finland organised public consultations on the draft MTFSP via an open hearing with civil society representatives on 3 October 2024. The MTFSP reports that Finland's Economic Policy Council discussed the draft plan on 2 October, but without giving further details.

Submission date	10 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 80.5% of GDP Government balance: -3.4% of GDP
Commission prior guidance	Reference trajectory
EDP	No conclusion on excessive deficit in spring 2024 (Commission Article 126(3) report)
Years of MTFSP	2025-2028
Adjustment period	2025-2031 (7 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.8% of GDP MTFSP: 0.4% of GDP
Stakeholder involvement	Yes
IFI involvement	Yes (The Economic Policy Council discussed MTFSP)
Commission overall assessment	MTFSP fulfils the requirements

⁽²¹¹⁾ [COM/2024/715](#).

Macroeconomic projections

The Finnish MTFSP is significantly more optimistic on real GDP growth than the forecast underpinning the Commission prior guidance. In cumulative terms, the difference amounts to 2 percentage points of GDP over the period of the plan. The plan's projections for the GDP deflator are essentially aligned with those of the Commission.

The MTFSP explains its forecast for higher real GDP growth by stronger potential growth projections over the adjustment period 2024-2031. The plan maintains that the Commission's short-term estimates are too negative about the persistence of recent shocks (those linked to Covid and the war in Ukraine). The MTFSP refers to discussions in the Council's Potential Output Working Group which point to objective difficulties in conclusively identifying the cyclical and the structural component of large economic shocks. The plan makes use of Article 36(1)(f) of Regulation (EU) 2024/1263, which allows for smoothing potential output growth derived from the commonly agreed methodology over the period 2024-2041. ⁽²¹²⁾

The Commission 2024 autumn forecast and the IMF forecast published in December 2024 ⁽²¹³⁾ broadly confirm the projections of the MTFSP in the short run. In 2024, real GDP in Finland gradually increased on a quarterly basis, recovering from the decline experienced in 2023. Finland's trend indicator of output ⁽²¹⁴⁾ followed a similar path. Finland's Economic Sentiment Indicator ⁽²¹⁵⁾ (ESI) shows an improvement in growth in the last month of 2024 and in January 2025. However, a forecast by the Bank of Finland published on 17 December 2024 expects a slower return to trend growth, in light of still-weak consumer sentiment and subdued growth in the euro area affecting Finland's exports. ⁽²¹⁶⁾

Overall, the MTFSP's macroeconomic assumptions deviate from the Commission prior guidance, but the deviations are within the confines of the allowed methodological exceptions ⁽²¹⁷⁾. Moreover, the assumptions for the short term are close to more recent economic developments and forecasts, albeit subject to risks. Uncertainty around the plan's macroeconomic forecast echoes the variability in real-time potential output and output gap estimates, which made it difficult to set an appropriate fiscal course in the past.

⁽²¹²⁾ The Commission's debt sustainability analysis (based on the 2024 spring forecast) assumes Finland's potential GDP growth to be relatively low until 2033 and then to accelerate to 1.5% by 2041. The MTFSP applies an average of the Commission growth rates over the period of 2024-2041 (0.9%).

⁽²¹³⁾ [IMF Article IV Consultation, IMF staff report.](#)

⁽²¹⁴⁾ The [trend indicator of output](#) is an estimate by the Finland's statistical office of the volume of value added. It is the source for the GDP flash estimates.

⁽²¹⁵⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽²¹⁶⁾ [Press release of the Bank of Finland.](#)

⁽²¹⁷⁾ Article 36(1)(f) of Regulation (EU) 2024/1263 that allows for smoothing potential output growth derived from the commonly agreed methodology.

Table A.20: Finland – Main macroeconomic and fiscal variables

FI	Commission prior guidance								MTFSP								Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026	2027	2028	2029	2030	2031	2024	2025	2026
	year-on-year % change																		
Potential GDP	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.5	0.7	0.5
Real GDP	0.0	1.1	0.9	0.7	0.7	0.7	0.6	0.6	-0.2	1.2	1.6	1.6	1.3	1.3	1.2	1.1	-0.3	1.5	1.6
GDP deflator	1.8	2.1	2.2	2.2	2.3	2.3	2.4	2.4	1.7	2.1	2.2	2.2	2.3	2.3	2.4	2.4	1.4	2.1	1.9
Nominal GDP	1.8	3.2	3.1	3.0	3.0	3.0	3.0	3.1	1.5	3.4	3.8	3.9	3.7	3.6	3.6	3.6	1.1	3.7	3.6
Net expenditure growth (annual)	4.0	1.4	1.5	1.4	1.5	1.5	1.6	1.7	3.7	1.6	1.9	2.6	2.6	2.8	2.8	2.9	3.1	1.7	2.1
Net expenditure growth (cumulative)	4.0	5.4	7.0	8.5	10.2	11.9	13.7	15.5	3.7	5.3	7.4	10.1	13.0	16.1	19.4	22.8	3.1	4.8	7.0
	% of GDP																		
Government balance	-3.4	-2.6	-1.8	-1.1	-0.3	0.5	1.2	2.0	-3.7	-2.9	-2.0	-1.4	-0.9	-0.4	0.0	0.3	-3.7	-3.0	-2.5
Structural balance	-1.8	-1.2	-0.6	0.1	0.8	1.5	2.3	3.0	-1.6	-1.1	-0.5	-0.2	0.1	0.3	0.6	0.9	-1.9	-1.6	-1.8
Structural primary balance	-0.5	0.2	1.0	1.7	2.5	3.3	4.0	4.8	-0.4	0.4	1.1	1.4	1.8	2.1	2.3	2.6	-0.6	-0.1	-0.2
Gross debt (target)	80.5	82.3	83.3	83.6	83.1	81.8	79.7	76.8	81.7	83.2	83.9	83.6	82.9	81.4	79.7	78.2			
Gross debt (no policy change)	80.5	82.2	83.9	85.0	86.3	88.0	89.7	91.5	81.7	83.2	84.6	85.2	85.4	86.1	86.9	88.2	82.6	84.7	85.3

Notes: The MTFSP sets a net expenditure growth path for the period of the plan of 2025-2028. The authorities asked for an extended adjustment period until 2031 and presented the underlying assumptions for the period 2029-2031 (in italics in the table).

Sources: European Commission, MTFSP

Public finances and net expenditure path

Finland currently has a high level of government debt despite a history of both prudent fiscal policy making and episodes of resolute fiscal consolidation in the wake of negative economic shocks. ⁽²¹⁸⁾ The country's average numerical score on compliance with the SGP rules of 68% in 1998-2023 is well above the EU average of 55%. ⁽²¹⁹⁾

The MTFSP asks for an extension of the fiscal adjustment period from four to seven years until 2031. The period of both the plan and the effective policy commitments is shorter – lasting only until 2028.

The MTFSP targets a net expenditure path that exceeds the one set out in the Commission prior guidance. The cumulative difference between the two forecasts amounts to 2.8 percentage points in 2024-2028. The authorities explain the difference through: (i) higher potential growth estimates (see above); and (ii) lower debt-increasing stock-flow adjustments (of 1% of GDP). ⁽²²⁰⁾ The latter reflect more recent estimates, including for planned deliveries of military equipment. ⁽²²¹⁾ Lower stock-flow adjustments and higher potential growth (which by the end of 2028 is forecast to reduce the debt-to-GDP ratio by 1.7 percentage points) reduce the adjustment in the structural primary balance necessary to achieve a similar debt ratio as in the Commission prior guidance.

The MTFSP frontloads the planned fiscal adjustment. It targets lower net expenditure growth rates (and a higher adjustment in the structural primary balance) in 2025 and 2026 than in 2027 and 2028.

On the fiscal strategy to achieve the planned adjustment, the authorities refer to domestic fiscal planning documents and an overall consolidation commitment of around 3% of GDP in 2024-2028. The

⁽²¹⁸⁾ Finland's public finances have been affected by its economic successes and failures. Until 2008/2009 Finland had a booming economy and successful ICT sector; and Finland ran fiscal surpluses. However, the global financial crisis and failure to keep up with its competitors in the ICT sector took a toll on Finland's economic growth and government finances. The pandemic and Russia's war against Ukraine were additional shocks to the Finnish economy, and the government-debt-to-GDP ratio exceeded 80% in 2024.

⁽²¹⁹⁾ The [EFB Compliance tracker](#).

⁽²²⁰⁾ Standard assumption for other countries in zero stock-flow adjustments over the forecast period. For Finland, debt-increasing stock-flow adjustments are linked to pension funds included in the government sector, which run financial surpluses and invest those in financial assets with a corresponding increase in government liabilities to cover future pension payouts. The large debt-increasing stock-flow-adjustments (1.6% of GDP annually in 2025-2031) need to be offset by large structural surpluses in order to stop debt from increasing.

⁽²²¹⁾ The MTFSP reports that defence procurement that took place in 2022-2024, and was then accounted for in government debt, will be delivered in the coming years and will be recorded as government spending at that time. This is consistent with the statistical accounting principles that military expenditure is recorded in government expenditure at the time of delivery, which is a proxy for the time of change in economic ownership ([Manual on Government Deficit and Debt](#), Section 2.5). The Commission has indicated that Member States can revise assumptions for stock-flow adjustments in some limited cases (Commission information note to the EFC of 9 July).

adjustment consists of around two thirds in expenditure restraint and one third in revenue measures, as set out in the government's plans for 2025-2028. ⁽²²²⁾ The adjustment includes: (i) a phasing out of measures introduced in response to Russia's war of aggression against Ukraine; and (ii) the consolidation plans announced in spring 2023 and in spring 2024. Around ½% of GDP in consolidation measures were implemented in 2024, but their deficit-reducing effect was offset by expenditure indexations due to the high inflation rates recorded in 2022 and 2023. As a result, the structural primary balance did not improve in 2024. In 2025-2028, the planned adjustment of the structural primary balance broadly corresponds to the announced consolidation measures.

The draft budgetary plan (DBP) for 2025 presents slightly revised macroeconomic and fiscal projections. In particular, net expenditure growth and the headline deficit are both estimated to be higher than in the MTFSP. The Commission opinion on the DBP invites Finland to take the necessary measures to ensure compliance.

Nationally financed public investment is set to increase to 4.7% of GDP in 2025 from 4.2% in 2024 and then to decline to 4.4% of GDP in 2028.

Overall, the MTFSP commits to a net expenditure path that is less demanding than the Commission prior guidance, as it is based on more optimistic macroeconomic assumptions.

Reforms and investments underpinning the extension of the adjustment period

The MTFSP presents three measures from Finland's recovery and resilience plan (RRP) (on the labour market; social care and healthcare; and R&D, green investments) and two social reforms (reforms to the benefit system and reforms to the income support system) for an extension of the adjustment path from 2028 to 2031.

The MTFSP refers to: (i) the estimated positive effects on GDP growth of the RRP in general; (ii) estimated employment gains from reforms to the income support and social benefit systems; and (iii) the indirect effects of R&D and green investments on private-sector investment based on commitments made by industry. The plan also describes potential output and fiscal sustainability gains in qualitative terms. The MTFSP does not quantify the macroeconomic impact of the reforms and investments. It refers to future assessments to be carried out during the implementation phase of the measures.

The reform and investment commitments include both already implemented and yet-to-be-implemented measures (by the second quarter of 2026 at the latest).

The plan presents the reform objectives and target indicators that make it possible to monitor implementation, as per Article 14(3) of Regulation (EU) 2024/1263.

Overall, the MTFSP commits to reforms and investments that would improve Finland's growth potential and fiscal sustainability, without quantifying expected macroeconomic effects. Nevertheless, the qualitative description of expected outcomes of the reforms seems to be plausible and is in line with the requirements for the extension of the fiscal adjustment path.

IFI involvement

Finland published its draft MTFSP on 23 September for public consultation. The MTFSP states that the country's independent advisory body, the Economic Policy Council, reviewed the draft plan on 2 October, but without giving further details. The MTFSP does not mention any input to the plan from the National Audit Office, which is the official IFI mandated to carry out functions set at the EU level.

⁽²²²⁾ [Finland's General Government Fiscal Plan for 2025-2028](#).

The National Audit Office monitoring report notes that the MTFSP is based on measures outlined in the government program and already decided consolidation measures. ⁽²²³⁾ However, the IFI highlights a risk of non-compliance with the net expenditure limit in 2025 based on a recent forecast by the Ministry of Finance.

The Economic Policy Council's annual report ⁽²²⁴⁾ notes how the MTFSP relies on estimates of average potential growth over the period 2024-2041, which are higher than the estimates from both the Ministry of Finance and the Commission for the next few years. The Economic Policy Council also points to the implementation risks of the plan – a weaker-than-previously-planned employment outlook and observed cost pressures for health and social services. To remedy the fiscal situation, the Economic Policy Council invites the Finnish government to implement additional structural reforms to those presented in the MTFSP (such as the pension reform outlined in the government's programme) that could strengthen public finances without immediate adverse effects on aggregate demand.

Commission assessment and Council conclusions

The Commission assessment concludes that Finland's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment acknowledges differences between the MTFSP and its prior guidance discussed above. These differences are chiefly the higher potential growth and lower debt-increasing stock-flow adjustments in the MTFSP than in the prior guidance. Moreover, the Commission links frontloaded fiscal adjustment to savings on interest expenditure, due to a declining debt-to-GDP ratio. The Commission finds the difference in assumptions leading to the forecasts for higher net expenditure growth to be duly justified. However, the Commission does not mention the MTFSP's forecast for a less ambitious adjustment in the structural primary budget balance, which uses fiscal space created by different potential growth and stock-flow assumptions, instead of targeting a lower debt ratio.

The Council takes note of the Commission's assessment. Apart from recognising geopolitical risks and defence spending needs like it does for all Member States, the Council adds that the worsening security environment in which Finland finds itself due to Russia's war of aggression against Ukraine has a bearing on the economy with repercussions for public finances.

The Council: (i) recommends to Finland to ensure that it does not exceed the net expenditure path as set out in its plan; and (ii) endorses the set of reforms and investments underpinning the extension of the adjustment period to seven years.

⁽²²³⁾ [Fiscal policy monitoring report 2024](#) by the National Audit Office, published on 31 January 2025.

⁽²²⁴⁾ [Economic policy council report 2024](#), published on 28 January 2025.

A.2. MEMBER STATES RECEIVING TECHNICAL INFORMATION

Member States with government debt not exceeding 60% of GDP and government deficit not exceeding 3% of GDP, upon request, receive Commission prior guidance in the form of technical information. It indicates the fiscal adjustment that would be needed over the next 4 to 7 years to ensure adherence to reference values for deficit and debt. This guidance helps Member States to prepare their national medium-term fiscal-structural plans.

Bulgaria

Overall conclusions

The macroeconomic projections underpinning the Bulgarian MTFSP appear generally plausible, with a broad alignment between the plan and the Commission prior guidance. The largest difference concerns the GDP deflator in 2025, where the plan's more sanguine assumption appears to be justified. This being said, high-frequency indicators point to downside risks to the short-term economic outlook.

Both the planned cumulative net expenditure growth and the target for the structural primary balance at the end of the adjustment period in 2028 are marginally more ambitious in the MTFSP than in the Commission technical information. Given Bulgaria's strong starting budgetary position, the new EU rules allow for a considerably more supportive fiscal stance than in the past decades in normal economic times. Moreover, the fiscal strategy in the plan relies heavily on measures to improve revenue collection and tax compliance, which are subject to specific risks, as their impact is very difficult to quantify *ex ante*.

Bulgaria submitted its MTFSP on 27 February 2025 (in Bulgarian). Bulgaria twice asked for an extension of the original MTFSP submission deadline of 20 September 2024. First, until 31 October 2024, linked to government formation talks following parliamentary elections in June 2024; second, until 28 February 2025, as a snap parliamentary election was called for 27 October 2024. The Commission accepted both of these requests.

The plan does not mention the technical exchange and dialogue process. According to the Commission assessment, the technical dialogue took place in two phases: in September-October 2024 and in January-February 2025. The dialogue focused on the net expenditure path and its underlying assumptions (in particular potential growth and inflation).

According to the MTFSP, the Bulgarian authorities carried out a broad-based stakeholder consultation involving social partners, academia, business organisations and non-governmental organisations.

Submission date	27 February 2025
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 24.1% of GDP Government balance: -3.0% of GDP
Commission prior guidance	Technical information on 24 January 2025
EDP	NA.
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Minimum structural primary balance (% of GDP) in 2028	Prior guidance: -2.1 pp. of GDP MTFSP: -1.8 pp. of GDP
Stakeholder involvement	Yes
IFI involvement	No
Commission overall assessment	The plan's net expenditure path is accepted

Macroeconomic projections

The estimates for nominal GDP underpinning the Bulgarian plan are slightly higher than those in the Commission prior guidance, in cumulative terms by close to 1 percentage point over 2025-2028. This is mainly due to a higher GDP deflator in 2025 in the MTFSP (3.9% vs 2.3%). The deflator in 2024 turned out to be considerably higher (6.5%) than contained in the Commission 2024 autumn forecast that informed the prior guidance (4.8%). The authorities chiefly explain the difference in 2025 by the carry-over effect from the higher GDP deflator in the second half of 2024. The impact of this higher 2025 GDP deflator on the entire nominal growth trajectory is partly offset by lower GDP deflators from 2026 onwards compared with the prior guidance, on account of more moderate nominal wage increases assumed in the plan.

The MTFSP's other macroeconomic assumptions show only minor deviations compared with the Commission projections underpinning the technical information, including slightly higher rates of real GDP growth in 2027 and 2028. The Bulgarian authorities argue that the small differences in economic growth projections are explained by a combination of higher labour market participation rates and higher public sector investment growth.

Representing downward revisions from its 2024 autumn forecast, the Commission 2025 spring forecast projects slower real GDP growth by some $\frac{3}{4}$ percentage point compared with the MTFSP for 2025 and 2026. In fact, Bulgaria's high-frequency indicators edged down recently. Specifically, the country's Economic Sentiment Indicator ⁽²²⁵⁾ was on a gradually declining trend on a seasonally adjusted basis between September 2024 and February 2025. In a similar vein, the industrial production index ⁽²²⁶⁾ showed a sharp decline in the output level between autumn 2024 and spring 2025. These developments point to some downside risks to the short-term growth outlook underpinning the plan.

⁽²²⁵⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽²²⁶⁾ A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry.

Table A.21: Bulgaria – Main macroeconomic and fiscal variables

BG	Commission prior guidance					MTFSP					Commission 2025 spring forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	3.2	2.8	2.4	2.4	2.1	2.5	2.8	2.6	2.5	2.4	3.3	2.9	2.5
Real GDP	2.4	2.7	2.9	2.2	1.9	2.2	2.7	2.9	2.3	2.2	2.8	2.0	2.1
GDP deflator	4.8	2.3	2.8	2.7	2.7	6.4	3.9	2.6	2.3	2.1	6.5	5.4	2.5
Nominal GDP	7.3	5.1	5.7	5.0	4.6	8.8	6.7	5.6	4.6	4.3	9.5	7.5	4.7
Net expenditure growth (annual)	7.9	5.1	5.2	5.1	4.8	11.2	6.2	4.9	4.4	4.0	10.4	9.2	1.7
Net expenditure growth (cumulative)	7.9	13.4	19.3	25.4	31.4	11.2	18.1	23.9	29.3	34.6	10.4	20.6	22.6
	% of GDP												
Government balance	-2.6	-2.6	-2.5	-2.6	-2.8	-3.0	-3.0	-2.9	-2.9	-2.9	-3.0	-2.8	-2.8
Structural balance	-2.7	-2.7	-2.6	-2.7	-2.8	-3.1	-3.0	-3.0	-3.0	-2.9	-2.7	-3.2	-2.7
Structural primary balance	-2.1	-2.1	-2.1	-2.1	-2.1	-2.5	-2.3	-2.1	-2.0	-1.8	-2.2	-2.5	-2.0
Gross debt (target)	24.5	23.0	24.1	25.5	27.2	24.2	25.8	27.4	29.1	30.8			
Gross debt (no policy change)	24.5	23.2	24.5	26.2	27.9	24.2	26.1	28.2	30.7	33.3	24.1	25.1	27.1

Notes: The technical information of the Commission includes two sets of fiscal conditions: one accounting for the deficit resilience safeguard, one without. The Commission assessment of the MTFSP uses the second scenario as the sole reference. This table shows the scenario without the deficit resilience safeguard.

Sources: European Commission, MTFSP

Public finances and net expenditure path

Bulgaria is in a robust fiscal position. It has the second lowest government debt in the EU as a share of GDP and a track record of prudent fiscal policy making. Its overall numerical compliance score with respect to SGP rules in 1998-2024 was 74%, compared with an EU average of 55%.⁽²²⁷⁾

The plan's net expenditure path corresponds to average net expenditure growth of 4.9% in 2025-2028, which is slightly lower than the projected average net expenditure growth of 5.1% in the Commission's technical information of 24 January 2025 (assuming a linear adjustment path). The plan's net expenditure path entails a structural primary balance of -1.8% of GDP at the end of the adjustment period in 2028. This is better than the minimum level of the structural primary balance of -2.1% of GDP in 2028 provided in the Commission technical information.

The plan assumed a structural primary balance of -2.5% of GDP in 2024, which is 0.4 percentage point worse than the deficit contained in the prior guidance, translating into a higher projected headline deficit of 3% of GDP. This worse starting position has since been confirmed in the spring 2025 fiscal notification.

The MTFSP targets a headline deficit of 3% of GDP in 2025 and 2.9% of GDP thereafter in 2026-2028, just within the limits of the SGP's deficit reference value. It is worth recalling that this is a much looser stance than in the previous decades of Bulgarian fiscal history: the average nominal deficit in 1997-2024 was 0.6% of GDP. In this context, the plan stresses that the presented commitments should not be interpreted as the government's forecast or as targets for fiscal indicators, but simply as the expected evolution of public finances which is permissible within the new EU framework. With these comparatively high headline deficits, the government debt ratio is projected to continuously increase over the period of the plan from 24.2% in 2024 to 30.8% of GDP in 2028. Reflecting more recent market trends, the plan is based on higher interest rate assumptions compared with the technical information. Taken together with a higher public debt trajectory, the plan's assumptions are leading to increased interest expenditure by around 0.4% of GDP in each year in 2026-2028 compared with the prior guidance.

The plan's indicative fiscal strategy mostly consists of measures to improve tax compliance and prevent tax fraud, such as the introduction of systematic electronic data exchange between taxpayers and the tax

⁽²²⁷⁾ The [EFB Compliance tracker](#).

authority. In addition, the plan refers to more conventional tax hikes, most notably: (i) increases in the threshold income after social security contributions are paid and in the contribution periods for pensions rights, and (ii) further increases in excise duties on tobacco products. Beyond a vague reference to parametric pension reform steps, there are no plans for significant consolidation measures on the expenditure side.

The plan targets an average annual level of nationally financed public investment of 3.4% of GDP in 2025-2028. However, there is a rather peculiar profile behind this average: nationally financed public investment is forecast to decline from 3.5% of GDP in 2025 to 2.3% of GDP in 2026, before doubling to 4.6% of GDP in 2027 and then retreating again to 3.3% of GDP in 2028. The plan does not offer any explanation for these wide fluctuations. They may be linked to the planned investments in modernisation and acquisition of new military capabilities in line with the recently adopted long-term defence investment programme.

IFI involvement

The Bulgarian Fiscal Council was not involved in any way in drawing up the national plan.

Commission assessment and Council conclusions

The Commission assessment concludes that Bulgaria's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment accepts the overall small deviations of the MTFSP from its prior guidance, in particular (i) the authorities' arguments for a different GDP-deflator trajectory, and (ii) the significant difference between the 2025 nominal growth forecasts resulting chiefly from the carry-over of the higher-than-expected GDP deflator in 2024.

The Commission notes that, following the submission of the MTFSP, some revenue-increasing measures were adopted on 21 March 2025 by Bulgaria's National Assembly as part of the 2025 budget, most notably: (i) increases in the threshold income after social security contributions are paid, (ii) increases in excise duties on tobacco products, and (iii) abolition of reduced VAT rates for various categories of goods and services. However, the Commission also points to implementation risks inherent in the Bulgarian fiscal strategy, which relies largely on improved revenue collection and tax compliance. These risks are partly linked to the general lack of details on the planned measures in the plan and, more generally, to the conventionally low predictability of additional revenues to be achieved through policies to fight tax evasion.

The overall conclusions of the Council take note of the Commission assessment, and do not add any country-specific consideration. The Council recommends the net expenditure path as set out in the plan.

Czechia

Overall conclusions

The level of ambition of the plan is slightly higher than the one of the Commission prior guidance. However, this is predicated on: (i) a significantly more optimistic macroeconomic scenario, especially in the short term; and (ii) a very strong increase in net expenditure in 2024. This configuration entails the risk of missing fiscal targets even when sticking to the proposed expenditure path. In particular, using the latest short-term macroeconomic projections to revise the growth outlook upwards comes with the risk of building medium-term fiscal plans on cyclical developments.

The ambition of the plan is proportional to the prior guidance. However, the technical information specified a minimum value for the structural primary balance in 2028 rather than a complete adjustment path.

The limited involvement of independent fiscal institutions is another weakness of the plan, together with the lack of an indicative fiscal strategy. Arguably, the independent fiscal council may have highlighted the optimistic growth projections.

The Czech MTFSP was submitted on 16 October 2024 (in Czech). On 5 September 2024, the government requested an extension of the submission deadline from 20 September to 15 October referring to the need to ensure consistency with both the 2025 draft budget and the medium-term outlook as factors. The Commission accepted the request with its standard argumentation (*'... such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline'*.)

The plan does not mention the technical dialogue process. However, according to the Commission assessment the process covered: (i) the net expenditure path and its underlying assumptions; and (ii) reforms and investments to address issues identified in the context of the European Semester and the common priorities of the Union.

The plan mentions a roundtable discussion in September 2024 on the draft plan held with: representatives of (i) the economic and social partners; (ii) the non-profit sector; (iii) the regions; (iv) both chambers of the national Parliament; and (v) other relevant institutions.

Submission date	16 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 45.2% of GDP Government balance: -2.4% of GDP
Commission prior guidance	Technical information
EDP	No excessive deficit identified in spring 2024 Commission Article 126(3) report
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Minimum structural primary balance (% of GDP) in 2028	Commission prior guidance: 0.4% of GDP MTFSP: 0.4% of GDP
Stakeholder involvement	Yes
IFI involvement	Yes
Commission overall assessment	Plan fulfils requirement of regulation

Macroeconomic projections

The plan's estimates of nominal GDP growth are significantly more optimistic than those in the Commission prior guidance, in cumulative terms by more than 2 percentage points in 2025-2028. The Czech authorities do not present an explicit explanation for this optimism. A statistical benchmark revision of national accounts – published after the Commission guidance was issued – shows slightly higher nominal GDP in 2023. In addition, the macroeconomic scenario in the plan assumes a relaxation in monetary policy in 2025 and 2026, which is an assumption that entails considerable uncertainty.

The plan does not discuss whether the expected impact of reforms presented in the plan is included in the macroeconomic scenario. ⁽²²⁸⁾

In December 2024, the Economic Sentiment Indicator ⁽²²⁹⁾ (ESI) was on an increasing trend, on a seasonally-adjusted basis, and above that of May when the Commission finalised its spring forecast and prepared the technical information for Czechia. As of November 2024, the index of industrial production ⁽²³⁰⁾ did not show any significant changes compared with May 2024, despite some volatility. This is compatible with the plans' outlook for 2024 and 2025 but may not be sufficient to justify the large difference in the cumulative rate of nominal GDP growth over the entire period of the plan.

Projecting a significantly more positive outlook based on more recent data entails the risk of building medium-term fiscal plans on cyclical revisions.

Table A.22: Czechia – Main macroeconomic and fiscal variables

CZ	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	1.5	1.5	1.3	1.1	1.1	2.0	1.4	1.5	1.8	1.5	1.6	1.6	1.8
Real GDP	1.2	2.7	1.6	1.3	1.3	1.1	2.7	2.6	2.6	2.0	1.0	2.4	2.7
GDP deflator	2.6	2.5	2.5	2.5	2.5	3.4	2.7	2.2	2.1	2.0	4.0	2.4	2.4
Nominal GDP	3.8	5.4	4.2	3.8	3.8	4.5	5.4	4.9	4.7	4.0	5.0	4.8	5.2
Net expenditure growth (annual)	-1.1	3.8	3.6	3.4	3.4	5.3	4.5	2.5	2.6	2.9	0.6	3.1	4.0
Net expenditure growth (cumulative)	-1.1	2.6	6.3	9.9	13.7	5.3	10.1	12.9	15.8	19.2	0.6	3.7	7.8
	% of GDP												
Government balance	-2.4	-1.8	-1.7	-1.5	-1.4	-2.8	-2.5	-1.7	-0.9	-0.5	-2.5	-2.3	-1.9
Structural balance	-1.5	-1.4	-1.4	-1.3	-1.2	-2.1	-2.3	-1.8	-1.3	-1.0	-1.7	-1.8	-1.7
Structural primary balance	-0.1	0.0	0.1	0.3	0.4	-0.7	-0.9	-0.4	0.1	0.4	-0.3	-0.4	-0.4
Gross debt (target)	45.2	45.5	45.3	45.2	44.9	44.1	45.1	45.3	44.7	44.2			
Gross debt (no policy change)	45.2	45.3	45.0	44.7	44.6	44.1	45.1	45.3	45.1	44.7	43.4	44.4	44.8

Notes: The technical information of the Commission includes two sets of fiscal conditions: one accounting for the deficit resilience safeguard, and one without. The Commission assessment of the MTFSP uses the second scenario as the sole reference. This table shows the scenario without the deficit resilience safeguard.

Sources: European Commission, MTFSP

Public finances and net expenditure path

Czechia has a relatively low but increasing level of government debt. The country has been comparatively disciplined in following the EU fiscal rules. Its overall numerical score on compliance with SGP rules of 63% in 1998-2023 is mostly driven by compliance with the SGP's previous debt rule. ⁽²³¹⁾

⁽²²⁸⁾ Article 13 and Recital 34 of Regulation(EU) 2024/1263 provide that the impact of investments and reforms, once implemented under the medium-term plans, will be duly taken into account in the future, including in the design of subsequent plans. The impact of not-yet-implemented reforms and investments should not be taken into account in the potential GDP estimates.

⁽²²⁹⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽²³⁰⁾ A business cycle indicator which measures monthly changes in the price-adjusted output of industry.

⁽²³¹⁾ [Compliance tracker of the EFB Secretariat](#).

Compared with the technical information of the Commission, the plan targets a stricter expenditure path: an average annual growth rate in net expenditure of 3.1% vs 3.5% in 2025-2028. However, this comes after a much stronger increase in net expenditure in 2024.

The implied adjustment path is irregular, with a deterioration in the structural primary balance in 2025, followed by significant improvements in 2026 and 2027 and a smaller improvement in 2028.

In contrast to the Commission prior guidance, the plan assumes a lower fiscal multiplier than the one in the Commission DSA. The authorities explain the deviation with empirical studies by the OECD, the European Central Bank and the Czech National Bank, which they deem more suitable than a standard assumption.

The plan does not offer any indications on the fiscal strategy to achieve the targeted structural primary balance in 2028.

In the plan, the debt-to-GDP ratio increases in 2025 and 2026, followed by a decline thereafter. The decline in the debt ratio is similar to that in the Commission prior guidance; however, it is supported by a significantly more optimistic growth outlook.

The plan targets an average annual level of nationally financed public investment of 3.6% of GDP in 2025-2028. ⁽²³²⁾

IFI involvement

The plan shows limited involvement of the national IFI. The Czech Fiscal Council is only mentioned as one of many stakeholders who participated in a roundtable discussion on the draft plan about one month before submission. At the same time, the government's economic and tax revenue forecasts for 2024-2025 were assessed as 'realistic' by a specialised expert body, the Committee on Budgetary Forecasts. This committee consists of at least seven experts from the private, public, and academic sectors who are all appointed by the government on a proposal of the Czech Fiscal Council.

Commission assessment and Council conclusions

The Commission concludes that the Czech MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission accepts the absence of a fiscal strategy as it considers the plan's path as a *'technical ceiling that Czechia commits not to exceed'*.

The Commission accepts deviations from its prior guidance in several variables. Those include: (i) the starting point for the general government balance; (ii) the outlook for potential and real GDP growth; (iii) GDP deflator growth; and (iv) the nominal (implicit) interest rate. The reason for accepting these deviations is the impact that more recent data have on these variables. There are other variables where the MTFSP deviates from the Commission prior guidance (the fiscal multiplier, stock-flow adjustments, and revenue elasticities). However, the Commission considers that these deviations do not have a significant impact on average growth in net expenditure compared with its own assumptions.

The overall conclusions of the Council take note of the Commission assessment.

⁽²³²⁾ Article 13 of Regulation (EU) 2024/1263 provides that a national medium-term fiscal-structural plan shall contain information on the forecasted level of nationally financed public investment throughout the period covered by the national medium-term fiscal-structural plan.

Denmark

Overall conclusions

The Danish MTFSP is predicated on more prudent macroeconomic assumptions than in the Commission prior guidance. The MTFSP also commits to a tighter path for net expenditure than the path set out in the Commission prior guidance. The more stringent fiscal targets are credible given Denmark's long history of fiscal prudence.

Denmark submitted its MTFSP on 20 September (in English) within the statutory deadline laid down by the transitional provisions of Regulation (EU) 2024/1263. ⁽²³³⁾

The plan does not mention the technical exchange and dialogue process. However, the Commission's assessment reports that the dialogue took place in September 2024 and that it covered both the net expenditure path and underlying assumptions (in particular, underlying assumptions about potential growth, about the output gap, and about discretionary measures including one-off measures) and reforms and investments. ⁽²³⁴⁾

The plan was presented to the finance committee of the national Parliament. The MTFSP states that relevant stakeholders were consulted on the policy plans and specific legislative proposals.

Submission date	20 September 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 26.5% of GDP Government balance: 2.4% of GDP
Commission prior guidance	Technical information
EDP	NA.
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Minimum structural primary balance (% of GDP) in 2028	Commission prior guidance: -1.4% of GDP MTFSP: 0.5% of GDP
Stakeholder involvement	Yes
IFI involvement	Yes (regular monitoring)
Commission overall assessment	MTFSP fulfils the requirements

Macroeconomic projections

The MTFSP is more cautious on forecast for real GDP and the GDP deflator than the Commission assumptions underpinning its prior guidance.

⁽²³³⁾ Denmark revised its MTFSP on 31 October 2024 by updating the net expenditure path and by adding reporting tables on macroeconomic and fiscal scenario at unchanged policies.

⁽²³⁴⁾ [COM/2024/712](#).

However, the MTFSP shows a much higher rate of potential GDP growth than the Commission prior guidance, with a cumulative difference of 2.8 percentage points in 2024-2028. The Danish MTFSP does not follow the commonly agreed method for estimating potential output growth. It assumes: (i) a lower level of potential output in 2024 (implying a positive output gap of 1.5% of GDP) and higher rates of potential output growth in 2025-2028 to close the gap; and (ii) an increase in structural employment owing to immigration and structural reforms incentivising work. ⁽²³⁵⁾

Recent forecasts by the Danish Economic Council ([8 October 2024](#)) and the Commission ([15 November 2024](#)) show a more optimistic short-term economic outlook for Denmark than the outlook underpinning the MTFSP (which is based on a forecast prepared in August 2024). Real GDP growth was 3.5% in 2024, even stronger than expected and helped by an expansion in exports. The solid performance in export growth mirrored growth in industrial production, but the latter decelerated from around 10% in Q1-Q3 2024 to 5% in Q4 2024. The Economic Sentiment Indicator ⁽²³⁶⁾ (ESI) increased throughout 2024 and in January 2025.

Overall, the MTFSP's macroeconomic projections appear to be prudent compared with both the assumptions of the Commission prior guidance and the recent data releases. The MTFSP deviates from the assumptions of potential output growth made by the Commission prior guidance, but this deviation seems to be inconsequential for nominal GDP growth.

Table A.23: Denmark – Main macroeconomic and fiscal variables

DK	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	1.8	1.5	1.0	0.7	0.5	2.1	2.6	1.2	1.3	0.9	2.1	1.9	1.7
Real GDP	2.6	1.4	1.9	1.2	0.8	1.9	2.2	1.0	1.0	0.6	2.4	2.5	1.8
GDP deflator	2.2	2.5	2.5	2.5	2.5	2.0	1.7	2.6	2.0	2.0	1.6	2.2	1.9
Nominal GDP	4.9	4.0	4.4	3.8	3.4	4.0	4.0	3.6	3.0	2.6	4.0	4.8	3.7
Net expenditure growth (annual)	4.7	6.3	5.9	5.5	5.3	7.2	5.0	5.7	3.8	2.9	5.1	7.5	5.0
Net expenditure growth (cumulative)	4.7	11.3	17.8	24.3	30.9	7.2	12.6	18.9	23.5	27.1	5.1	13.0	18.7
	% of GDP												
Government balance	2.4	1.4	0.8	0.0	-0.8	1.9	1.0	0.4	0.3	-0.1	2.3	1.5	0.9
Structural balance	2.4	1.4	0.3	-0.7	-1.8	0.6	0.2	-0.1	-0.2	-0.3	3.4	1.5	0.9
Structural primary balance	2.9	1.8	0.8	-0.3	-1.4	1.3	0.9	0.7	0.5	0.5	4.0	2.1	1.5
Gross debt (target)	26.5	25.1	23.2	22.3	22.4	32.8	31.4	32.7	33.9	35.6			
Gross debt (no policy change)	26.5	24.8	22.0	19.4	17.0	32.8	31.4	32.7	33.9	35.6	31.0	29.3	28.3

Notes: The technical information of the Commission includes two sets of fiscal conditions: one accounting for the deficit resilience safeguard, and one without. The Commission assessment of the MTFSP uses the second scenario as the sole reference. This table shows the scenario without the deficit resilience safeguard.

Sources: European Commission, MTFSP.

Public finances and net expenditure path

Denmark is in a solid fiscal position. In 2024, it recorded a structural surplus and has one of the lowest government debt ratios in the EU. Denmark is one of the most fiscally disciplined EU Member States: its overall numerical score on compliance with the SGP rules in 1998-2023 was 85%, as compared with an EU average of 55%. ⁽²³⁷⁾

The MTFSP confirms the government's target of a structural balance of -0.5% of GDP by 2030. ⁽²³⁸⁾ This is consistent with a structural primary surplus in 2028 of 0.5% of GDP, well above the minimum level

⁽²³⁵⁾ For Denmark, the commonly agreed method for measuring potential output growth shows an increasingly negative labour contribution from 2026 linked to the projections for negative natural population growth. In contrast, the MTFSP shows a small positive labour contribution to potential growth.

⁽²³⁶⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽²³⁷⁾ The [EFB Compliance tracker](#).

forecast by the Commission prior guidance. As a result, the MTFSP has a lower rate of net expenditure growth (4.4% on average in 2025-2028) than the rate set out in the Commission prior guidance (5.6% on average in 2025-2028).

The MTFSP uses different assumptions and methods to calculate the net expenditure path than the Commission prior guidance, but these assumptions lead to a more prudent expenditure path than set out in the Commission prior guidance.

The plan's fiscal strategy lists both the government's main objectives and the measures it is planning to achieve these objectives, which are set out in the national planning documents. The plan indicates an increase in both public consumption and transfers, including for older people, leading to government expenditure having a higher share of GDP. Nationally financed public investment is also estimated to increase and to stay at around 3.5% of GDP in 2025-2028, including investment in defence capabilities. Government revenues are expected to remain broadly unchanged as a percentage of GDP, as personal income-tax cuts from 2025 are expected to be offset by stronger revenue from VAT and taxes on pension fund returns.

Overall, the MTFSP sets a more prudent fiscal policy path than the one set out in the Commission prior guidance.

IFI involvement

The MTFSP states that the national IFI (the Danish Economic Council) '*continuously monitors compliance with fiscal targets and assesses the sustainability of fiscal policy, as well as economic policy more generally*'.

The IFI assessed the government's fiscal plans in its report issued every two years on the Danish economy without referring to the MTFSP. ⁽²³⁹⁾ According to the Danish Economic Council, the Danish economy is experiencing a boom, and it considers fiscal tightening appropriate from a macroeconomic stabilisation point of view, while the government plans a fiscal easing of ½% of GDP in 2025. The Danish Economic Council forecasts real GDP growth to accelerate to 2.8% in 2025 on the back of continued strong export growth and recovery in private consumption. This forecast is more optimistic than that contained in the MTFSP.

Commission assessment and Council conclusions

The Commission assessment concludes that Denmark's MTFSP fulfils the requirements of Regulation (EU) 2024/1263. It takes note of the commitment in the MTFSP to achieve a more stringent net expenditure path than the one set out in the Commission prior guidance.

The Commission assessment refers to the main differences between the MTFSP and the Commission prior guidance, including differences identified above: (i) higher potential growth in the MTFSP than in the Commission prior guidance; and (ii) a lower GDP deflator in the MTFSP than the Commission prior guidance. The Commission also observes that Denmark's MTSFP has a different structural primary balance in 2024, different stock-flow adjustments and different one-offs from the Commission prior guidance, and observes that Denmark has not quantified the impact of these differences. The Commission confirms that the plan's assumptions taken together lead to a lower net expenditure path than suggested by the Commission prior guidance.

The Council takes note of the Commission's assessment and recommends to Denmark to ensure that it does not exceed the net expenditure path as set out in its plan.

⁽²³⁸⁾ The MTFSP refers to the national planning documents (*Responsibility for Denmark* and *DK2030 – Denmark Equipped for the Future*). The target of a structural balance of -0.5% of GDP is tighter than the structural deficit of 1% of GDP allowed by the national fiscal framework. The tighter target is chosen with a view to keeping a safety margin to the EU debt threshold of 60% of GDP.

⁽²³⁹⁾ [Danish Economy, Autumn 2024](#).

Croatia

Overall conclusions

The Croatian plan's macroeconomic assumptions are very significantly more optimistic than the Commission prior guidance, and the differences are not sufficiently explained. These assumptions underpin a much higher expenditure path. This remains the case even after the subsequent downward adjustment of the expenditure path via an addendum letter. This is a concern, even though the Commission 2024 autumn forecast bridges much of the difference in the growth outlook between the Commission prior guidance and the Croatian plan. The recourse to more optimistic macroeconomic projections in the plan compared with the prior guidance echoes the uncertainty surrounding real-time potential output and output gap estimates that marred the 'old' SGP regime. A more prudent approach would seem appropriate, especially as short-term errors will be locked in over the medium term.

Finally, via the addendum, the Croatian authorities changed a fundamental element of their plan, the medium-term expenditure path, without a corresponding adjustment of the macro-fiscal projections. This means that the macroeconomic scenario, which served as the basis for the Commission assessment, and the revised official net expenditure trajectory may no longer be consistent.

The Croatian MTFSP was submitted on 14 November 2024 (in Croatian). In early September, the government requested an extension of the submission deadline from 20 September to 31 October. The request was motivated with the recent parliamentary elections on 16-17 April and the late availability of statistical data following the benchmark revision of national accounts on 22 October 2024. The Commission accepted the request with a standard text saying that '*such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline*'. The plan was submitted 15 days after this extended deadline without any explanation or justification for the delay.

The technical dialogue is not mentioned in the MTFSP. According to the Commission, this dialogue took place between September and November 2024. The discussions focused on the 2025 tax reform plans and the envisaged reforms and investments responding to the country-specific recommendations addressed to Croatia.

On 21 November 2024, the Croatian government submitted an addendum letter to the MTFSP with a revised net expenditure path, arguing that this update followed additional technical meetings held with the European Commission on 19 and 20 November. ⁽²⁴⁰⁾ The addendum was made public on the same day that the Commission issued its assessment of the plan (26 November 2024). However, the Croatian authorities' addendum did not reveal how the adjusted expenditure path affected the rest of the of the macro-fiscal scenario.

The plan mentions an active involvement of stakeholders in preparing sectoral strategic documents and in relation to the reforms included in the plan. It also refers to a discussion with Croatia's Economic and Social Council, an advisory body that brings together representatives of the government, employers, and trade unions.

⁽²⁴⁰⁾ See the [addendum letter to the Commission](#).

Submission date	14 November 2024 (MTFSP) 21 November 2024 (Addendum)
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 59.5% of GDP Government balance: -2.6% of GDP
Commission prior guidance	Technical information
EDP	NA.
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Average adjustment (annual change in structural primary balance)	Commission prior guidance: 0.4% of GDP MTFSP: 0.3% of GDP
Stakeholder involvement	Yes
IFI involvement	Yes (requested by the government)
Commission overall assessment	The plan's net expenditure path is accepted

Macroeconomic projections

The estimates of nominal GDP growth in the original plan were very significantly more optimistic than those in the Commission prior guidance, with a difference in cumulative rates of 6 percentage points in 2025-2028. This is, broadly evenly, resulting from higher estimates for both real GDP growth and GDP deflators. While the addendum to the plan revised the net expenditure path downwards, no changes to the macroeconomic scenario were communicated in this letter.

The plan refers to the benchmark revision of national accounts (which led to a significant upward revision of nominal GDP growth in 2023) and more generally to the incorporation of more recent data. Nevertheless, the plan does not offer a specific explanation for the differences compared with the projections underpinning the Commission prior guidance.

The Commission 2024 autumn forecast revised its real GDP forecasts for Croatia for 2024-2026 considerably upwards. However, the difference in the nominal GDP trajectories between the Commission autumn forecast and the plan still amounts to more than 1 percentage point in 2026. In the second half of 2024, both the seasonally-adjusted Economic Sentiment Indicator⁽²⁴¹⁾ and the industrial production index⁽²⁴²⁾ were on a gradually declining trend from relatively high levels, broadly in line with the decelerating GDP growth profile of the MTFSP.

In addition, the plan's assumptions on long-term interest rates are lower than in the Commission prior guidance, which the Croatian authorities justified by recalling that the country's historically high credit rating had been confirmed by the top three rating agencies between September and November 2024.

Overall, the plan's macroeconomic assumptions are very significantly more optimistic compared with the Commission prior guidance. Apart from broad references to more updated data, the plan does not provide a detailed and rigorous analysis to explain these differences. The substantial changes in the Commission projections in the course of 2024 highlight that the uncertainty surrounding fiscal plans has

⁽²⁴¹⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽²⁴²⁾ A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry.

not been eliminated in the reformed EU fiscal framework. It echoes the frequent and sizeable revisions of real-time estimates of potential output and the output gap in the ‘old’ SGP.

Table A.24: Croatia – Main macroeconomic and fiscal variables

HR	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	3.6	3.2	2.7	2.3	2.1	4.5	4.0	3.5	2.9	2.5	4.2	3.6	3.3
Real GDP	3.3	2.7	1.9	1.7	1.7	3.6	3.2	2.8	2.6	2.5	3.6	3.3	2.9
GDP deflator	5.5	2.2	2.2	2.3	2.3	6.7	3.7	2.6	2.4	2.2	6.6	3.2	2.1
Nominal GDP	9.0	4.9	4.1	4.0	4.1	10.5	7.1	5.4	5.0	4.7	10.5	6.6	5.0
Net expenditure growth (annual)	14.4	4.5	4.0	3.7	3.6	18.6	7.5	4.8	5.0	4.2	17.0	6.2	4.4
Net expenditure growth (cumulative)	14.4	19.5	24.4	29.0	33.6	18.6	27.5	33.6	40.3	46.2	17.0	24.2	29.7
	% of GDP												
Government balance	-2.6	-2.4	-2.5	-2.4	-2.2	-2.1	-2.3	-1.9	-1.8	-1.5	-2.1	-2.1	-1.9
Structural balance	-3.6	-3.2	-2.8	-2.5	-2.1	-3.0	-2.8	-2.1	-1.9	-1.6	-3.0	-2.8	-2.4
Structural primary balance	-2.0	-1.6	-1.2	-0.8	-0.4	-1.5	-1.3	-0.7	-0.5	-0.2	-1.5	-1.3	-1.0
Gross debt (target)	59.5	59.2	59.4	59.4	59.3	57.4	56.0	55.0	54.2	53.3			
Gross debt (no policy change)	59.5	59.3	59.9	61.2	62.5	57.4					57.3	56.0	56.0

Notes: The technical information of the Commission includes two sets of fiscal conditions: one accounting for the deficit resilience safeguard, and one without. The Commission assessment of the MTFSP uses the second scenario as the sole reference. This table shows the scenario without the deficit resilience safeguard. For the evolution of net expenditures, the table reflects the revised figures submitted in the addendum to the MTFSP of 21 November 2024.

Sources: European Commission, Croatian MTFSP as amended by the addendum

Public finances and net expenditure path

Croatia has a low government debt ratio and an average numerical compliance score with the SGP rules of 52% in 1998-2023, somewhat below the EU average of 55%. ⁽²⁴³⁾

Predicated on a stronger macroeconomic scenario, the original plan outlines a more expansionary net expenditure path than that of the Commission prior guidance, with an average annual growth rate in net expenditure of 5.4% in 2025-2028 (see the original submission at the end of this section). The addendum applies a more conservative approach and reduces the average growth rate of net expenditure from 5.4% to 4.8% over 2025-2028, but this is still considerably higher than the 4.0% average growth rate set out in the Commission prior guidance.

In addition, the projected increase in net expenditure in the base year, 2024, is also much higher than the Commission prior guidance. This high expenditure growth figure is only partially confirmed by the Commission 2024 autumn forecast. This could raise the issue of strategic overestimation of expenditures in the base year, which, depending on how the control account will be assessed, could create some leeway in the coming years.

The average annual improvement in the structural primary balance implied by the expenditure path set out in the plan is 0.3% of GDP, slightly lower than the 0.4% contained in the Commission prior guidance.

The fiscal adjustment is somewhat frontloaded, with a stronger planned consolidation in 2026.

The plan projects a much lower structural primary deficit in 2024 (-1.5% of GDP vs the 2% of GDP included in the prior guidance). This more favourable starting point contributes to the fact that in 2028, the final year of the plan, the MTFSP's structural primary balance continues to be lower than in the Commission technical information (-0.2% compared to -0.4%).

⁽²⁴³⁾ [Compliance tracker of the EFB Secretariat](#).

The plan offers some indications on the fiscal strategy to achieve the planned adjustment. This strategy aims to achieve the fiscal targets through a combination of expenditure restraint and discretionary revenue increases. To control spending, the government intends to limit growth in certain expenditure categories directly under the control of the authorities, such as the compensation of employees in the public sector. Additionally, the plan announces discretionary revenue measures, such as a tax reform, including the introduction of a property tax. However, the plan also mentions new expenditure measures, including pension reform steps and social policy initiatives like affordable housing, both of which will increase government spending.

Croatia's draft budgetary plan for 2025 incorporates considerable expenditure increases linked to a planned improvement in the absorption of RRF loans (by 0.6% of GDP). The resulting deficit-increasing impact is partly offset by the specification of additional revenue measures with an overall deficit-reducing impact of 0.3% of GDP in 2025.

The plan targets an annual average of nationally financed public investment of 5% of GDP in 2025-2028, essentially maintaining the level observed in 2023-2024.

IFI involvement

The country's IFI, the Fiscal Policy Commission, reviewed the macroeconomic forecast and assumptions behind the multi-annual net expenditure path in the MTFSP. The IFI's report is inserted as an annex to the plan. The IFI concludes that the projected real GDP growth rates, GDP deflators, and national price indices set out in the Croatian plan are appropriate, and endorsed the government's macroeconomic scenario up to 2028. It also stated that the macroeconomic projections are broadly in line with or slightly more optimistic than those of other relevant institutions, and that the projections fall within an acceptable range and provide a solid foundation for the national MTFSP.

Commission assessment and the Council conclusions

The Commission concludes that Croatia's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

At the same time, the Commission emphasises that the differences in potential GDP growth and the GDP deflator between its own prior guidance and the Croatian MTFSP are not duly justified, and this could lead to an average net expenditure growth that is higher than the one implied by the technical information. The Commission notes that the addendum includes a revised commitment for average net expenditure growth that is still higher than the one implied in the prior guidance but only to the extent that can be explained through the duly justified differences.

The Commission's assessment seems to overlook two crucial factors: (i) the elevated starting point of net expenditure growth in 2024; and (ii) the partial update of the MTFSP with a more conservative net expenditure trajectory creates a numerical disconnect between the plan's macroeconomic and fiscal scenario and the key policy commitment that is set to be endorsed by the Council.

The overall conclusions of the Council take note of the Commission's assessment, and do not add any country-specific consideration. The Council recommends the net expenditure path, as revised by the Croatian authorities on 21 November 2024.

Table A.25: Croatia – Main macroeconomic and fiscal variables in the originally submitted plan

HR	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	3.6	3.2	2.7	2.3	2.1	4.5	4.0	3.5	2.9	2.5	4.2	3.6	3.3
Real GDP	3.3	2.7	1.9	1.7	1.7	3.6	3.2	2.8	2.6	2.5	3.6	3.3	2.9
GDP deflator	5.5	2.2	2.2	2.3	2.3	6.7	3.7	2.6	2.4	2.2	6.6	3.2	2.1
Nominal GDP	9.0	4.9	4.1	4.0	4.1	10.5	7.1	5.4	5.0	4.7	10.5	6.6	5.0
Net expenditure growth (annual)	14.4	4.5	4.0	3.7	3.6	18.6	6.4	4.9	4.1	3.7	17.0	6.2	4.4
Net expenditure growth (cumulative)	14.4	19.5	24.4	29.0	33.6	18.6	26.2	32.3	37.8	42.9	17.0	24.2	29.7
	% of GDP												
Government balance	-2.6	-2.4	-2.5	-2.4	-2.2	-2.1	-2.3	-1.9	-1.8	-1.5	-2.1	-2.1	-1.9
Structural balance	-3.6	-3.2	-2.8	-2.5	-2.1	-3.0	-2.8	-2.1	-1.9	-1.6	-3.0	-2.8	-2.4
Structural primary balance	-2.0	-1.6	-1.2	-0.8	-0.4	-1.5	-1.3	-0.7	-0.5	-0.2	-1.5	-1.3	-1.0
Gross debt (target)	59.5	59.2	59.4	59.4	59.3	57.4	56.0	55.0	54.2	53.3			
Gross debt (no policy change)	59.5	59.3	59.9	61.2	62.5	57.4					57.3	56.0	56.0

Notes: The technical information of the Commission includes two sets of fiscal conditions: one accounting for the deficit resilience safeguard, and one without. The Commission assessment of the MTFSP uses the second scenario as the sole reference. This table shows the scenario without the deficit resilience safeguard.

Sources: European Commission, Croatian MTFSP as originally submitted on 14 November 2024

Latvia

Overall conclusions

The Latvian MTFSP is based on a macroeconomic forecast that matches the one underpinning the Commission prior guidance but may be subject to some risk in light of more recent information. However, the plan relies on its own estimates of the output gap in 2024, showing a better structural starting position in that year, which the plan appears to use to plan for a strong increase in net expenditure growth in 2025. From 2026 onwards, the net expenditure path in the plan corresponds to the one recommended by the Commission. While the plan commits to the net expenditure path at the limits of the revised SGP, it refers to tighter national fiscal targets, leaving a safety margin for the EU commitments.

Latvia submitted its MTFSP on 15 October 2024 (in both Latvian and English). The government requested for an extension of the submission deadline from 20 September to 15 October 2024 to ensure consistency with the 2025 draft budgetary plan. The Commission accepted Latvia's reasoning with a standard text saying that *'such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline.'*

The plan does not mention the technical exchange and dialogue process. However, according to the Commission assessment the dialogue took place in September 2024 and covered the net expenditure path and underlying assumptions (in particular, potential output and interest rates). ⁽²⁴⁴⁾

The MTFSP mentions a consultation with social partners on the reforms and investments included in the plan. The national Parliament was not consulted.

Submission date	15 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 44.5% of GDP Government balance: -2.8% of GDP
Commission prior guidance	Technical information
EDP	NA.
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Minimum structural primary balance (% of GDP) in 2028	Commission prior guidance: -1.3% of GDP MTFSP: -1.3% of GDP
Stakeholder involvement	Yes (on reforms and investments)
IFI involvement	Yes (regular endorsement of macroeconomic assumptions)
Commission overall assessment	MTFSP fulfils the requirements

⁽²⁴⁴⁾ [COM/2024/713](#).

Macroeconomic projections

Compared to the forecast underpinning the Commission prior guidance, the MTFSP uses broadly similar assumptions for real GDP and the GDP deflator over the programme period 2025-2028. For 2024, the plan refers to more recent data.

The MTFSP uses the Commission assumptions of potential output growth, except for a different estimate in 2024. The plan estimates the output gap to be more negative in 2024 by 0.8 percentage points of GDP, which is not consistent with the results of the commonly agreed method.

The Commission 2024 autumn forecast pointed to somewhat weaker real (and nominal) GDP growth in 2024 and 2025, while the Central Bank of Latvia ⁽²⁴⁵⁾ was more optimistic about the economic recovery in 2025 and 2026. Real GDP growth in 2024 turned out lower than expected at -0.4%. The Economic Sentiment Indicator ⁽²⁴⁶⁾ (ESI) improved in February 2025 after a dip in in January 2025.

Overall, the MTFSP's macroeconomic assumptions are broadly aligned with those of the Commission prior guidance, while more recent forecasts point to some downside risks. More generally, this is reminiscent of the issues of uncertainty in the real-time potential output and output gap estimates that clouded fiscal surveillance in the past.

Table A.26: Latvia – Main macroeconomic and fiscal variables

LV	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	1.9	2.1	1.2	0.9	0.9	2.2	2.1	1.2	0.9	0.9	1.0	1.4	1.5
Real GDP	1.7	2.5	1.5	1.1	1.0	1.4	2.9	1.6	1.2	1.1	0.0	1.0	2.1
GDP deflator	4.2	2.5	2.5	2.5	2.5	2.4	2.5	2.5	2.5	2.5	2.5	2.9	2.1
Nominal GDP	6.0	5.0	4.0	3.6	3.6	3.8	5.5	4.1	3.7	3.6	2.5	3.9	4.2
Net expenditure growth (annual)	4.9	4.5	3.6	3.4	3.4	9.1	5.9	3.6	3.4	3.3	3.8	4.1	4.4
Net expenditure growth (cumulative)	4.9	9.7	13.7	17.5	21.5	9.1	15.5	19.7	23.8	27.9	3.8	8.0	12.7
	% of GDP												
Government balance	-2.8	-2.8	-2.8	-2.8	-2.8	-2.6	-2.9	-2.9	-2.9	-2.9	-2.8	-3.2	-3.2
Structural balance	-2.4	-2.5	-2.6	-2.7	-2.7	-1.9	-2.5	-2.6	-2.7	-2.7	-2.6	-2.8	-3.1
Structural primary balance	-1.4	-1.3	-1.3	-1.3	-1.3	-0.8	-1.3	-1.3	-1.3	-1.3	-1.5	-1.6	-1.6
Gross debt (target)	44.5	46.2	47.3	48.4	49.6	45.8	47.5	48.5	49.7	50.8			
Gross debt (no policy change)	44.5	46.1	47.1	48.2	49.2	45.8					48.1	50.3	51.6

Notes: The technical information of the Commission includes two sets of fiscal conditions: one accounting for the deficit resilience safeguard, and one without. The Commission assessment of the MTFSP uses the second scenario as the sole reference. This table shows the scenario without the deficit resilience safeguard.

Sources: European Commission, MTFSP

Public finances and net expenditure path

Latvia has a relatively low but increasing level of government debt. The country has been comparatively disciplined in following the EU fiscal rules, but less so regarding the expenditure benchmark. Latvia's overall numerical score on compliance with the SGP rules in 1998-2023 was 62%, as compared with an EU average of 55%. ⁽²⁴⁷⁾

The MTFSP deviates from the Commission prior guidance for 2024 and 2025 but follows the recommended net expenditure path from 2026 onwards. The difference in 2025 is combined with a better starting position in 2024: the MTFSP estimates a lower structural primary deficit due to higher government revenues, lower expenditure, and the larger negative output gap mentioned above. The plan's

⁽²⁴⁵⁾ [Macroeconomic forecast of the Bank of Latvia](#), published on 13 December 2024.

⁽²⁴⁶⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽²⁴⁷⁾ The [EFB Compliance tracker](#).

net expenditure growth in 2024 is higher than that of the Commission prior guidance, following a better-than-planned expenditure outturn in 2023. This effect was flagged in the stability programme in spring 2024.

The MTFSP commits to the net expenditure path set out in the Commission prior guidance as a ceiling for domestic policymaking. However, the plan shows tighter operational fiscal targets for national budgetary policymaking, leading to a headline deficit of 2.2% of GDP and a debt ratio of 49% of GDP in 2028. As a result, Latvia targets a safety margin to the EU commitments and plans to overachieve them. ⁽²⁴⁸⁾

The plan's fiscal strategy presents measures announced in the draft budgetary plan for 2025. The measures include higher personal income tax rates, while reducing tax burden on low incomes, a temporary solidarity tax for banks and higher spending on national security. The MTFSP assures that the impact of different policy measures is broadly neutral on the fiscal balance. Beyond 2025, the headline deficit is expected to decline with unchanged policies, as the authorities assume nominally fixed current expenditure allocations (except for some spending items, like interest expenditure and social transfers), while revenue is projected to follow nominal GDP growth. The plan targets an increase in nationally financed public investment to around 4½% of GDP in 2026-2028.

Overall, the MTFSP uses a better starting position in 2024 to increase net expenditure growth in 2025 to the limits allowed under the revised SGP but exceeding the Commission prior guidance. For 2026-2028, the net expenditure path follows the prior guidance. The domestic targets are more demanding.

IFI involvement

In June, the national IFI (the Fiscal Discipline Council) endorsed the macroeconomic scenario underlying the MTFSP, in accordance with the provisions in national legislation. The endorsement was attached to the MTFSP. Along with the endorsement, the IFI noted several risks to the macroeconomic outlook and highlighted implementation risks, though it did not provide any quantification.

Commission assessment and Council conclusions

The Commission assessment concludes that Latvia's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment recognises that the MTFSP's assumptions for 2025-2028 align with the debt sustainability analysis framework. However, the Commission disagrees with the plan's estimate of a better structural primary budget balance in 2024, arguing that tax revenue projections are optimistic and the negative output gap is too large compared to the Commission 2024 autumn forecast. The presumption is that the plan is using a more favourable forecast for 2024 to justify increased net expenditure growth in 2025. While the Commission does not share the authorities' estimate of the structural primary balance in 2024, it argues that the use of common assumptions from 2025 onwards balances out the differences and makes them acceptable overall. The Commission does not comment on the MTFSP's higher net expenditure growth in 2024.

The Council takes note of the Commission's assessment and recommends to Latvia to ensure that it does not exceed the net expenditure path as set out in its plan.

⁽²⁴⁸⁾ Under the new EU fiscal rules, an overachievement of the net expenditure path can yield a credit being recorded in the control account.

Lithuania

Overall conclusions

The Lithuanian MTFSP is based on a significantly more optimistic forecast than the Commission prior guidance (technical information), resulting from higher projections for both price dynamics and real GDP growth. The official multi-year macroeconomic scenario was endorsed by the national IFI in March 2025, when it published its own, even more optimistic forecast. Most of the more sanguine projections are explained by the use of more recent data compared with the Commission autumn 2024 forecast underpinning the technical information, most notably a considerably better-than-expected outturn in 2024. However, using latest macroeconomic projections for budgetary planning without further consideration comes with the risk of building medium-term fiscal plans on cyclical developments. Indeed, high-frequency indicators in the first months of 2025 point to downside risks.

On the back of a more favourable macroeconomic scenario, the plan's average rate of annual net expenditure growth exceeds the Commission prior guidance by almost a full percentage point. At the starting point of the plan, the primary structural balance is at around 0.3% of GDP, which incidentally equals the requirement laid down in the technical information for the end of the adjustment period in 2028. Hence, no fiscal adjustment is assumed to be needed. to meet this constraint.

Lithuania submitted its MTFSP on 30 April 2025 (in Lithuanian). Because of national elections in October 2024, Lithuania asked for an extension of the original MTFSP submission deadline of 20 September 2024 to 30 April 2025. The authorities argued that aligning the timing of submission with the country's electoral cycle would help ensure greater political ownership of the plan. The Commission accepted the request to provide *'the possibility to present a plan based on a solid political commitment'*.

The plan does not mention the technical exchange and dialogue process. According to the Commission assessment, this technical dialogue took place in April 2025. The dialogue covered, in particular, (i) the net expenditure path and its underlying assumptions (e.g. the GDP deflator, potential GDP growth, stock-flow adjustments, and long-term interest rates), and (ii) the implications of the better-than-expected 2024 budgetary outturn data.

The Lithuanian authorities carried out consultations on the plan involving representatives of civil society, social partners, regional authorities and other relevant stakeholders. Before its adoption by the government, the plan was presented to the national Parliament's standing committee on European affairs.

Submission date	30 April 2025
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 38.2% of GDP Government balance: -1.3% of GDP
Commission prior guidance	Technical information on 31 January 2025
EDP	NA.
Years of MTFSP	2025-2029
Adjustment period	2025-2028 (4 years)
Minimum structural primary balance (% of GDP) in 2028	Prior guidance: +0.3 pp. of GDP MTFSP: +0.3 pp. of GDP
Stakeholder involvement	Yes
IFI involvement	Yes
Commission overall assessment	The plan's net expenditure path is accepted

Macroeconomic projections

The growth estimates underpinning the Lithuanian plan are significantly more optimistic than the Commission prior guidance, as shown by a cumulative difference of more than 2 percentage points in the respective nominal growth trajectories by 2028. Two thirds of this difference comes from a higher GDP deflator, while one third is linked to the more sanguine assumptions for real GDP growth in the outer years of the plan.

Stronger-than-expected consumption and investment at the end of 2024 had a large positive effect pushing real GDP growth to 2.8% in that year. Partly on account of the carry-over effect, this led the Commission to revise its 2025 spring growth forecasts for 2025 and 2026 up by 0.2-0.4%. At the same time, in the first four months of 2025, Lithuania's high-frequency indicators were not pointing towards dynamism: the country's Economic Sentiment Indicator ⁽²⁴⁹⁾ was on a gradually declining path on a seasonally adjusted basis, while the industrial production index ⁽²⁵⁰⁾ was broadly flatlining.

Benefiting from the possibility to use alternative potential growth assumptions granted by Article 36(1)(f) Regulation (EU) 2024/1263, the MTFSP uses smoothed estimates for potential output growth leading to a higher real GDP growth trajectory over the horizon of the plan, i.e. 2025-2028. This is subsequently counterbalanced by more cautious estimates for later years until the end of the DSA projection horizon, i.e. between 2029-2038. The legally stipulated condition for using these smoothed growth assumptions, namely that cumulative growth over the entire projection horizon (i.e. between 2025 and 2038) must be in line with the Commission's DSA assumptions, is fulfilled.

The Lithuanian authorities explain most of the plan's other differences compared with the Commission prior guidance by references to more recent data. Most notably, this is cited as the main reason for the differences in both (i) stock-flow adjustments with an average debt-increasing annual impact of 0.7% of GDP in 2025-2028, and (ii) interest rates (reflecting recent financial market turbulence, the plan assumes higher 10-year government bond rates over 2025-2028).

⁽²⁴⁹⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

⁽²⁵⁰⁾ A [business cycle](#) indicator which measures monthly changes in the price-adjusted output of industry.

Table A.27: Lithuania – Main macroeconomic and fiscal variables

LT	Commission prior guidance					MTFSP					Commission 2025 spring forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	2.4	2.5	2.1	2.1	1.8	2.8	2.5	2.3	2.1	2.0	2.7	2.8	2.2
Real GDP	2.2	2.6	2.7	2.6	2.1	2.7	2.8	2.9	2.6	2.3	2.8	2.8	3.1
GDP deflator	3.6	3.5	2.2	2.2	2.2	2.8	3.4	2.8	2.6	2.5	3.4	3.6	2.4
Nominal GDP	5.9	6.1	5.0	4.8	4.4	5.6	6.3	5.8	5.3	4.8	6.3	6.4	5.5
Net expenditure growth (annual)	n.a.	5.6	3.9	3.9	3.6	n.a.	6.1	5.2	4.8	4.5	10.7	9.0	5.8
Net expenditure growth (cumulative)	n.a.	5.6	9.7	14.0	18.1	n.a.	6.1	11.6	17.0	22.3	10.7	20.7	27.7
	% of GDP												
Government balance	-2.0	-2.0	-1.8	-1.6	-1.3	-1.3	-1.3	-1.3	-1.3	-1.2	-1.3	-2.3	-2.3
Structural balance	-1.2	-1.1	-1.2	-1.1	-1.0	-0.5	-0.6	-0.8	-0.9	-1.0	-0.6	-1.6	-2.0
Structural primary balance	-0.4	-0.2	0.0	0.1	0.3	0.3	0.4	0.3	0.3	0.3	0.2	-0.6	-0.8
Gross debt (target)	38.3	40.7	43.6	43.2	42.7	38.5	41.0	42.5	43.5	43.7			
Gross debt (no policy change)	38.3	41.2	44.9	45.6	46.4	38.5	41.0	43.5	45.1	45.9	38.2	41.2	43.9

Notes: The technical information of the Commission includes two sets of fiscal conditions: one accounting for the deficit resilience safeguard, and one without. The Commission assessment of the MTFSP uses the second scenario as the sole reference. This table shows the scenario without the deficit resilience safeguard. Unlike plans submitted earlier, the base year of Lithuania's plan is shifted to 2025, which is the reason why no net expenditure growth figure is reported for 2024.

Sources: European Commission, MTFSP

Public finances and net expenditure path

Lithuania has a relatively strong fiscal policy track record, as illustrated by its low public debt-to-GDP ratio of below 40%. Its overall numerical compliance score with respect to SGP rules in 1998-2024 was 66%, compared with an EU average of 55%.⁽²⁵¹⁾

The plan's net expenditure path targets an average growth rate of 5.2% in the 2025- 2028 adjustment period, almost 1 percentage point higher than the Commission technical information of 31 January 2025 (assuming a linear adjustment path). Thanks to the plan's strong nominal growth assumptions, the net expenditure path entails a small structural primary surplus of 0.3% of GDP in 2028, equalling the minimum level of the 2028 structural primary balance set in the Commission prior guidance.

On the basis of 2024 outturn data, the plan estimates a structural primary surplus of 0.3% of GDP in 2024, which is $\frac{3}{4}$ percentage point better than the structural primary deficit contained in the prior guidance. This essentially mirrors the improvement in the 2024 headline deficit, which came in at 1.3% of GDP as opposed to the deficit assumption of 2% of GDP in the prior guidance.

The MTFSP targets to broadly maintain the headline budget deficit at its 2024 outturn of 1.3% of GDP throughout the entire horizon of the plan. In parallel, the public debt ratio is projected to increase considerably from 38.5% in 2024 to 43.5% in 2026, and broadly stabilise around this ratio in 2027-2028. This is exclusively linked to significant debt-increasing stock-flow adjustments: between 2024 and 2028, this factor adds on average 2 percentage points of GDP annually to the debt ratio. The plan does not offer a detailed explanation for the unusually large forecasts for stock-flow developments, only broadly refers to (i) cash prefinancing of EU and other international funds, (ii) increases in government loans, and (iii) changes in the liquid assets of the State Treasury.

The fiscal figures for 2025 imply that the plan deviates in that year from the standard DSA assumption of unitary revenue elasticity underpinning the Commission prior guidance.⁽²⁵²⁾ The plan does not explicitly announce or provide an explanation for this choice. This deviation from the standard set of assumptions might be linked to the fact that the authorities simply plugged into the plan the revenue numbers from

⁽²⁵¹⁾ The [EFB Compliance tracker](#).

⁽²⁵²⁾ 'Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports', C/2024/3975, 21 June 2024.

their already adopted 2025 budget, which was prepared on the basis of a different set of macroeconomic assumptions and without the numerical constraints of the DSA framework.

The plan's fiscal strategy includes both discretionary revenue increases and expenditure measures. On the former, tax policy changes aim to (i) increase the progressivity of personal income taxation, (ii) broaden the tax base, and (iii) reduce tax evasion through administrative simplification and the deployment of smart, electronic tools for revenue collection. On the expenditure side, spending restraint is to be mainly achieved via the general use of zero-based budgeting, and making spending reviews annual and more comprehensive to enhance efficiency. Some of the revenue side consolidation measures were specified in the 2025 budget, adopted by Parliament on 19 December 2024, such as the increase in excise duties, and an increase in the rate of corporate income tax.

The plan targets an average annual level of nationally financed public investment of 3.4% of GDP in the 2025-2028 adjustment period (or 3.3% of GDP over the entire programme period of 2025-2029). Nationally financed public investment is expected to increase in 2026 by 0.5% of GDP to 3.7% of GDP, and gradually decline thereafter to 3.1% of GDP in 2029.

IFI involvement

The Lithuanian IFI, the Budget Monitoring Department of the National Audit Office endorsed the official macroeconomic scenario for 2025-2028 (the 'Economic Development Scenario'), which underpinned the MTFSP.⁽²⁵³⁾ At the same time, when it published its opinion, the Budget Monitoring Department also released its own medium-term macroeconomic forecast, which served as the basis for the endorsement decision. The accompanying analysis highlighted that the 2.9% growth projection of the IFI for 2025 is identical to that of the government. However, from 2026 onwards, the IFI's real GDP forecasts are steady at around 3%, so they become increasingly more favourable than the official path projecting a gradual slowdown in economic activity to a 2% growth rate in 2028.

Commission assessment and Council conclusions

The Commission assessment concludes that Lithuania's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission accepts the plan's deviations from its prior guidance even though the MTFSP's nominal GDP path is significantly higher than the prior guidance. The Commission argues that the deviations are typically linked to the use of more recent data and thereby these are duly justified. The Commission also states that there are instances where the MTFSP uses more cautious assumptions than the prior guidance (e.g. on stock-flow adjustments and interest rates). The Commission considers that the targeted structural primary surplus of 0.3% of GDP at the end of the adjustment period in 2028 equals the minimum level set in the technical information.

The Commission explains that, as a general principle, it could not agree to higher than unitary revenue elasticity in its assessment. However, it argues that there are in parallel more cautious MTFSP assumptions with an offsetting impact in 2025, such as the ones for interest rates and stock-flow adjustments, thus the overall impact of the non-unitary elasticity assumption is acceptable.

The overall conclusions of the Council take note of the Commission assessment, and do not add any country-specific consideration. The Council recommends the net expenditure path as set out in the plan.

⁽²⁵³⁾ [Opinion on the Endorsement of the Economic Development Scenario](#), March 26, 2025.

The Netherlands

Overall conclusions

The Dutch plan fails to meet the debt and deficit requirements outlined in Article 16(2) of Regulation (EU) 2024/1263. A key factor contributing to this result seems to be a lack of agreement within the government coalition, which has faced challenges in reaching consensus on fiscal commitments.

The plan acknowledges that the existing government plans are not compatible with the revised SGP and pre-emptively waives the right to submit a revised plan. As a result, the Dutch authorities accept the net expenditure path set out in the Commission prior guidance and recommended by the Council.

The Dutch MTFSP was submitted on 15 October 2024 (in Dutch). In early September, the government requested an extension of the submission deadline from 20 September to 15 October, without providing a specific reason. The Commission accepted the request with a standard text saying that *'such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline'*.

The plan does not mention the technical exchange and dialogue process. However, according to the Commission assessment, the technical dialogue took place in July and August 2024 and covered underlying assumptions. ⁽²⁵⁴⁾

The government submitted the plan to the Dutch Parliament on 17 September. There was no public consultation on the plan, but the policy described in the plan involves relevant stakeholder consultations as part of the regular legislative processes.

The Dutch MTFSP states that if the Commission and the Council consider that the net expenditure path proposed in the plan is not in line with Regulation (EU) 2024/1263, the Netherlands *'shall waive its right to submit a revised plan as provided in Article 18 of the Regulation'*.

Submission date	15 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 47.1% of GDP Government balance: -2.0% of GDP
Commission prior guidance	Technical information
EDP	NA.
Years of MTFSP	2025-2028
Adjustment period	2025-2028 (4 years)
Minimum structural primary balance (% of GDP) in 2028)	Commission prior guidance: 0.1% of GDP MTFSP: -0.8% of GDP
Stakeholder involvement	Yes
IFI involvement	Yes. The Council of State assessed the MTFSP. The Central Planning Bureau provided the macroeconomic projections.
Commission overall assessment	The plan does not comply with the requirements.

⁽²⁵⁴⁾ [COM/2024/722](#).

Macroeconomic projections

In line with national practice, the macroeconomic projections underpinning the MTFSP are based on the latest estimates of the Netherlands Bureau for Economic Policy Analysis (CPB).

The plan's cumulative estimates of nominal GDP growth in 2024-2028 are significantly more optimistic than those underpinning the Commission prior guidance, showing a gap of 2.5 percentage points. In particular, the plan: (i) estimates a higher GDP deflator in 2024, based on more recent data; and (ii) assumes higher inflation in the coming years as higher wage growth in services is expected to be passed through to consumers.

The plan is also predicated on a higher estimate for potential output growth. The cumulative difference with the Commission prior guidance amounts to 1.5 percentage points in 2024-2028. The plan also relies on estimates of stronger growth in structural labour supply. The plan states that its estimate uses a stable rate of equilibrium unemployment, compared with an increase estimated by the Commission.

Both the Commission 2024 autumn forecast and the forecasts of the Dutch Central Bank broadly confirm the plan's forecast in the short run ⁽²⁵⁵⁾. Real GDP growth in 2024 turned out broadly as expected at 0.9%. The Dutch Economic Sentiment Indicator ⁽²⁵⁶⁾ in January-February 2025 remained largely at the same level as at the end of 2024.

Overall, the plan is built on significantly more optimistic macroeconomic forecasts than the Commission prior guidance, mostly due to the use of a higher GDP deflator. While the plan's macroeconomic assumptions appear plausible in the light of more recent forecasts, high-frequency indicators show less favourable prospects in the short run. The use of more sanguine macroeconomic projections carries a risk of relying on cyclical elements for the medium-term fiscal plans. This is reminiscent of the uncertainty surrounding estimates of real-time potential output and the output gap that clouded fiscal surveillance in the past.

Table A.28: The Netherlands – Main macroeconomic and fiscal variables

NL	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	1.8	1.7	1.4	1.1	1.1	2.1	1.8	1.7	1.5	1.4	1.9	1.7	1.5
Real GDP	0.8	1.3	1.8	1.4	1.2	0.6	1.5	1.5	1.4	1.1	0.8	1.6	1.5
GDP deflator	3.7	2.3	2.3	2.3	2.4	5.1	2.7	2.6	2.6	2.4	5.0	3.0	2.3
Nominal GDP	4.5	3.6	4.1	3.7	3.6	5.7	4.2	4.1	4.0	3.5	5.9	4.6	3.8
Net expenditure growth (annual)	6.6	3.5	3.3	3.0	3.0	6.9	6.8	3.5	2.1	4.3	5.9	7.1	5.0
Net expenditure growth (cumulative)	6.6	10.4	14.0	17.5	21.0	6.9	14.1	18.1	20.7	25.9	5.9	13.5	19.1
	% of GDP												
Government balance	-2.0	-2.0	-1.8	-1.5	-1.3	-1.8	-2.5	-3.4	-2.1	-2.5	-0.2	-1.9	-2.4
Structural balance	-1.3	-1.2	-1.1	-1.0	-0.9	-0.9	-1.7	-1.9	-1.4	-1.9	0.2	-0.9	-1.7
Structural primary balance	-0.6	-0.5	-0.3	-0.1	0.1	-0.2	-0.9	-1.0	-0.4	-0.8	1.0	-0.1	-0.9
Gross debt (target)	47.1	48.4	48.2	48.0	47.6	45.0	46.7	49.7	50.1	51.1			
Gross debt (no policy change)	47.1	48.4	48.6	48.7	49.0	45.0	48.1	49.5	50.5	52.3	43.3	44.3	46.6

Notes: The technical information of the Commission includes two sets of fiscal conditions: one accounting for the deficit resilience safeguard, and one without. The Commission assessment of the MTFSP uses the second scenario as the sole reference. This table shows the scenario without the deficit resilience safeguard.

Sources: European Commission, MTFSP

⁽²⁵⁵⁾ [Autumn Projections 2024 of the Dutch Central Bank](#).

⁽²⁵⁶⁾ Business and consumer surveys conducted by the Directorate General for Economic and Financial Affairs of the European Commission.

Public finances and net expenditure path

Historically, the Netherlands has followed a prudent course of fiscal policy, as evidenced by its low level of government debt to GDP and an overall numerical score on compliance with the SGP rules in 1998-2023 of 64%, significantly above the EU average of 55%. ⁽²⁵⁷⁾

The plan presents no-policy-change fiscal projections produced by the CPB, instead of showing the planned fiscal adjustment in line with the revised EU fiscal rules. The plan recognises that the currently announced policy measures are not sufficient to meet the European and national requirements for fiscal frameworks.

According to the plan, the headline deficit would temporarily reach 3.4% of GDP in 2026 and the government-debt-to-GDP ratio would also increase over the programme period. Moreover, beyond the period of the plan, the headline deficit is projected to exceed 3% from 2029 and the debt-to-GDP ratio 60% from 2033, due to the pickup in ageing-related costs and interest expenditure among other spending needs.

The plan deviates from the Commission prior guidance as it estimates that the structural primary balance will be -0.8% of GDP in 2028, as compared with the allowed minimum of 0.1% of GDP. The plan also estimates that cumulative growth in net expenditure will exceed the Commission prior guidance by 4.9 percentage points in cumulative terms in 2024-2029. Around half of this difference is explained by the more optimistic macroeconomic outlook (which translates into higher expenditure growth), and the other half by the planned deterioration in the structural primary balance.

The plan affirms the Dutch government's commitment to take the necessary measures to respect the reference values of the SGP, but it does not present a strategy for how this will be achieved. The budgetary estimates of the plan include the impact of the announced revenue measures over the coming years and higher expenditure for: (i) climate related targets; (ii) the one-off transfer of budget-financed military pensions to a funded pension scheme in 2026; and (iii) higher social spending due to an ageing population. The plan indicates possible expenditure savings in development aid, public sector salaries, and asylum support, but specific policy measures will be detailed in annual budgets. The DBP for 2025 confirms the plan's rate of growth in net expenditure and presents detailed policy measures for that year.

Overall, the plan's net expenditure path fails to meet the minimum requirements of the revised SGP.

IFI involvement

In the Netherlands, the Council of State is the authority responsible for overseeing compliance with EU fiscal rules, while the independent CPB provides macroeconomic forecasts. A draft of the Dutch MTFSP was submitted to both the Council of State and the CPB. There is no information in the MTFSP on the date these drafts were submitted. However, the assessment of the Council of State and the macroeconomic projections of the CPB were prepared in September.

The Council of State's assessment of the draft MTFSP concludes that government deficit and debt are expected to remain within the Treaty reference values throughout the government's term, except for a shortfall in 2026. However, over the longer term, public finances are projected to deteriorate, with a fiscal deficit above 3% of GDP from 2029 and public debt above 60% of GDP from 2033. According to the Council of State, this is set to be driven primarily by rising costs associated with an ageing population; asylum support; defence expenditure; and increasing interest expenditure. On this basis, the Council of State concludes that growth in net primary expenditure does not comply with the requirements of the SGP and that the planned policies are not sufficient to keep public finances within the SGP limits.

⁽²⁵⁷⁾ Over the period 1998-2023, as illustrated in the EFB Secretariat's [Compliance Tracker - European Commission](#).

Commission assessment and Council conclusions

The Commission assessment concludes that the Dutch MTFSP does not fulfil the requirements of Regulation (EU) 2024/1263.

The Commission assessment states that *‘the Commission is of the view that the Netherlands’ plan does not comply with the requirements of Article 16(2) of Regulation (EU) 2024/1263 given the lack of consistency of the net expenditure path of the plan with the debt and deficit requirements of that Regulation’*. Acknowledging that the Netherlands waived its right to submit a revised plan, it recommends that the net expenditure path based on the Commission prior guidance should be recommended by the Council to the Netherlands.

The Council takes note of the Commission’s assessment and recommends to the Netherlands the net expenditure path based on the technical information provided by the Commission on 21 June 2024.

Sweden

Overall conclusions

The Swedish plan is an example of the conflicts between EU and national fiscal rules. Against the background of slightly more optimistic macroeconomic trajectory than contained in the Commission prior guidance, the plan presents a scenario of a significant fiscal expansion depicting the largest stimulus permissible by the revised EU rules. Such a scenario would imply a major fiscal loosening as shown by a deterioration of 2 percentage points of GDP in the structural primary balance over the programme horizon (2025-2028). At the same time, the authorities point out that they do not intend to follow that path as they are constrained by considerably stricter domestic rules.

The Swedish MTFSP was submitted on 11 October 2024 (in Swedish). It was adopted by the government on the preceding day. In early September, the government requested an extension of the submission deadline from 20 September to 25 October. The Commission's letter did not refer to any factor/argument substantiating the Swedish request for the delay. Nevertheless, the Commission accepted the Swedish request, invoking the usual argument that *'such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline'*.

The technical dialogue is not mentioned in the MTFSP. However, according to the Commission, the dialogue took place in August and centred on the net expenditure path and its underlying assumptions, and in particular the initial position in 2024 and potential GDP growth estimates over the medium term.

The Swedish Parliament was informed about the plan on 1 October 2024.

Submission date	11 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 32% of GDP Government balance: -1.4% of GDP
Commission prior guidance	Technical information
EDP	NA.
Years of MTFSP	2025-2028
Adjustment period	NA.
Average adjustment (annual change in structural primary balance)	Commission prior guidance: -0.6% of GDP MTFSP: -0.5% of GDP
Stakeholder involvement	No information
IFI involvement	No
Commission overall assessment	The plan's net expenditure path is accepted

Macroeconomic projections

The macroeconomic forecast underlying the MTFSP has been estimated with different inputs and assumptions than those used in the Commission technical information. This is in part due to more recent

data made use of by the MTFSP, in particular the statistical changes brought about by the 2024 benchmark revision of national accounts.

The MTFSP contains slightly but consistently higher estimates for both potential output growth and the GDP deflator for each year of the programme period. As a result, cumulative nominal GDP growth is close to 2 percentage points higher in 2028 than in the forecast underpinning the Commission prior guidance.

Table A.29: Sweden – Main macroeconomic and fiscal variables

SE	Commission prior guidance					MTFSP					Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028	2024	2025	2026
	year-on-year % change												
Potential GDP	1.4	1.5	1.7	1.6	1.6	1.4	1.6	1.8	1.7	1.8	1.2	1.4	1.4
Real GDP	0.2	2.7	2.7	2.2	2.0	0.8	2.9	2.5	2.2	2.1	0.3	1.8	2.6
GDP deflator	2.6	1.3	1.5	1.6	1.8	2.8	1.4	1.6	1.7	1.8	2.3	1.4	1.3
Nominal GDP	2.8	4.1	4.2	3.9	3.8	3.6	4.3	4.1	3.9	3.9	2.6	3.2	4.0
Net expenditure growth (annual)	5.9	4.2	4.5	4.5	4.7	6.4	4.0	4.4	4.4	4.6	6.2	2.2	2.0
Net expenditure growth (cumulative)	5.9	10.3	15.2	20.4	26.1	6.4	10.7	15.5	20.6	26.1	6.2	8.5	10.7
	% of GDP												
Government balance	-1.4	-1.3	-1.5	-1.7	-2.2	-1.7	-1.5	-1.6	-1.9	-2.2	-1.9	-1.4	-0.3
Structural balance	0.0	-0.5	-1.0	-1.6	-2.2	-0.5	-0.9	-1.4	-2.0	-2.5	-0.7	-0.3	0.1
Structural primary balance	0.7	0.1	-0.5	-1.2	-1.8	0.2	-0.3	-0.8	-1.3	-1.8	0.0	0.2	0.6
Gross debt (target)	32.0	31.7	31.8	32.4	33.4	32.7	33.3	34.0	34.9	36.2			
Gross debt (no policy change)	32.0	31.3	30.6	29.5	28.2	32.7	33.0	33.0	32.8	32.3	32.8	32.7	31.7

Notes: The technical information of the Commission includes two sets of fiscal conditions: one accounting for the deficit resilience safeguard, and one without. The Commission assessment of the MTFSP uses the second scenario as the sole reference. This table shows the scenario without the deficit resilience safeguard.

Sources: European Commission, MTFSP

Public finances and net expenditure path

Sweden has a solid fiscal position as exemplified by one of the lowest public debt-to-GDP ratios in the EU and a robust national fiscal framework (dating back to the 1990s). This strong track record is also exemplified by Sweden's overall numerical score on compliance with the SGP rules of 92% in 1998-2023. ⁽²⁵⁸⁾

The Commission prior guidance does not imply any adjustment need for Sweden. In fact, it allows the country to reduce its initial structural primary surplus to a deficit of 0.8% of GDP when complying with the deficit resilience safeguard, and a deficit of 1.8% of GDP without complying with the deficit resilience safeguard. Table 2 shows only the latter scenario. Given that the respect of the deficit resilience safeguard is set out only for countries with a reference trajectory (see Article 8 of Regulation (EU) 2024/1263), the Swedish MTFSP treats the scenario without the safeguard as the lower bound for national fiscal policy.

The MTFSP presents a scenario of a massive reduction in Sweden's structural primary surplus to a deficit of 1.8% of GDP by 2028, corresponding to the maximum permissible level set by the Commission prior guidance. This leads to a trajectory of expenditure growth almost fully in line with the Commission prior guidance.

The authorities clarify that they chose to present the most expansionary fiscal path as the 'central' scenario of the plan that is allowed by the new EU rules. At the same time, they stress very clearly that they do not intend to use the MTFSP scenario as a policy target for national purposes, and, in a similar vein, it should not be interpreted as a forecast or an attempt to define an appropriate fiscal policy path. The authorities

⁽²⁵⁸⁾ [Compliance tracker of the EFB Secretariat.](#)

also recall that the Swedish national fiscal framework, and in particular its structural surplus rule (i.e. the rule that the budget balance should reach 1/3% of GDP over the business cycle), imposes significantly stricter constraints on the course of fiscal policy than the EU framework.

In light of the above, the MTFSP does not include any fiscal adjustment measures.

The plan targets an average annual level of nationally financed public investment of 5.7% of GDP in 2025-2028 with slightly annual increases over the programme horizon.

IFI involvement

There was no involvement of the Swedish Fiscal Policy Council in the preparing the plan. The Council will reflect on the MTFSP in its forthcoming annual report, expected to be published in May 2025.

Commission assessment and Council conclusions

The Commission concludes that Sweden's plan fulfils the requirements of Regulation (EU) 2024/1263 and recommends the net expenditure path as set in the plan.

There is a disputable point in the Commission's assessment: the MTFSP contains slightly but consistently higher estimates for potential output growth rates (by 0.1-0.2 percentage point each year). This is explained by more recent outturn data than what were available in spring 2024; and the Commission therefore concludes that the *'assumption of slightly different potential growth is deemed to be duly justified.'* However, it is not clear how the incorporation of more recent statistical data or methodological changes in the context of the benchmark revision could underpin higher future growth rates in the medium term. Moreover, the slight annual differences cumulate to almost 2 percentage points of distance in the nominal GDP trajectories by 2028.

The overall conclusions of the Council take note of the Commission assessment, and do not add any country-specific consideration. The Council recommends the net expenditure path as set out in the plan.

A.3. MEMBER STATES RECEIVING ONLY MACROECONOMIC ASSUMPTIONS

Like all countries, Member States with government debt at or below 60% of GDP and a government deficit at or below 3% of GDP who do not request Commission prior guidance in the form of technical information receive medium-term public debt projections and macroeconomic forecasts and assumptions from the Commission (Article 9(1) Regulation (EU) 1263/2024).

Ireland

Overall conclusions

The Irish MTFSP commits to a net expenditure path below a theoretical ceiling implied by the plan's macroeconomic assumptions; and the path is well within the minimum requirements of the EU fiscal rules.

Ireland submitted its MTFSP on 15 October 2024 (in English). The government asked for an extension of the submission deadline from 20 September to 15 October 2024 to ensure consistency with the 2025 draft budgetary plan. The Commission accepted Ireland's reasoning with a standard text which says that '*such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline.*'

The plan does not mention the technical exchange and dialogue process. However, according to the Commission's assessment, this technical dialogue took place in September 2024 and covered the net expenditure path and underlying assumptions, in particular, potential GDP growth and stock-flow adjustments. ⁽²⁵⁹⁾

Because of its fiscal surplus and low debt-to-GDP ratio, Ireland did not request any input from the Commission. The MTFSP spans until 2030, while the Council recommendation sets the net expenditure path until 2029.

The plan was presented to the Irish Parliament on 15 October 2024. Moreover, the government discussed the medium-term fiscal obligations with stakeholders as part of the annual event called the National Economic Dialogue, on 27 May 2024.

⁽²⁵⁹⁾ [COM/2024/717](#)

Submission date	15 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 42.5% of GDP Government balance: 1.3% of GDP
Commission prior guidance	The authorities did not ask for EU guidance
EDP	NA.
Years of MTFSP	2025-2030
Adjustment period	NA.
Average adjustment (annual change in structural primary balance)	NA.
Stakeholder involvement	Yes
IFI involvement	Yes (endorsed macroeconomic forecasts)
Commission overall assessment	MTFSP fulfils the requirements

Macroeconomic projections

Compared with the Commission assumptions shared with Ireland on 21 June 2024, the MTFSP assumes marginally higher cumulative rates of nominal GDP growth. The difference amounts to only 0.4 percentage points in 2024-2029.

The Irish MTFSP is predicated on more cautious forecast for potential output growth, and the negative output gap in the MTFSP is forecast to take longer to close.

The Commission 2024 autumn forecast broadly confirmed the projections of the MTFSP in the short run, while the Irish Central Bank was more optimistic. ⁽²⁶⁰⁾ However, real GDP in 2024 turned out to have declined by 0.6% year-on-year, close to the Commission 2024 autumn forecast.

Overall, the macroeconomic projections of the MTFSP appear to be broadly in line with those of the Commission prior guidance.

⁽²⁶⁰⁾ [Quarterly Bulletin Q4 2024](#) of the Central Bank of Ireland, published on 17 December 2024.

Table A.30: Ireland – Main macroeconomic and fiscal variables

IE	Commission prior guidance							MTFSP							Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2029	2030	2024	2025	2026	2027	2028	2029	2030	2024	2025	2026
	year-on-year % change																
Potential GDP	3.6	3.3	3.4	3.3	3.3	3.2	2.9	3.1	3.2	2.9	2.8	3.6	3.5	3.5	2.6	2.9	2.7
Real GDP	1.2	3.4	3.7	3.8	3.6	3.2	2.9	-0.2	3.9	3.8	3.7	3.6	3.6	-0.5	4.0	3.6	
GDP deflator	2.6	1.9	2.0	2.1	2.2	2.2	2.3	3.2	2.1	2.1	2.1	2.1	2.1	3.3	2.1	1.7	
Nominal GDP	3.9	5.4	5.8	6.0	5.8	5.5	5.3	3.0	6.1	6.0	5.9	5.8	5.8	2.7	6.2	5.4	
Net expenditure growth (annual)	7.4	5.2	5.4	5.4	5.5	5.4	5.2	9.8	5.1	6.5	4.9	5.4	4.7	4.2	9.2	6.6	5.6
Net expenditure growth (cumulative)	7.4	13.0	19.0	25.5	32.4	39.5	46.9	9.8	15.4	22.8	28.9	35.8	42.3	48.2	9.2	16.4	23.0
	% of GDP																
Government balance	1.3	1.3	1.5	1.8	1.9	1.9	1.9	4.4	1.7	1.4	1.1	1.6	1.5	1.4	4.4	1.4	1.3
Structural balance	1.8	1.8	1.8	1.9	1.9	1.9	1.9	3.1	2.7	1.9	1.2	1.6	1.5	1.4	2.9	2.1	1.5
Structural primary balance	2.5	2.5	2.5	2.5	2.5	2.5	2.5	3.7	3.3	2.5	1.8	2.3	2.2	2.1	3.6	2.7	2.0
Gross debt (target)	42.5	41.2	37.5	33.6	29.8	26.4	23.2	41.4	37.9	36.0	34.8	34.0	33.1	31.7			
Gross debt (no policy change)	42.5	41.3	37.7	34.3	31.0	28.1	25.4	41.4	37.9	36.0	34.8	34.0	33.1	31.7	41.6	38.3	36.8

Notes: For the Commission prior guidance, the indicators show the Commission's no-policy-change scenario. Ireland did not request technical information from the Commission on the allowed minimum level of the structural primary balance. The MTFSP sets the net expenditure path until 2030, while the Council recommendation endorses the net expenditure path until 2029 (the maximum length of the plan). MTFSP numbers for 2030 are for information (in italics) as the legal commitment of the net expenditure path covers the period up to 2029 (in regular format).

Sources: European Commission, MTFSP

Public finances and net expenditure path

Ireland recorded a solid structural surplus in 2024, and its debt-to-GDP ratio of well below 60% is expected to steadily decline in the coming years. Ireland ranks well above average in terms of compliance with the SGP rules in 1998-2023 with overall numerical score on compliance of 69%.⁽²⁶¹⁾ Ireland's GDP and government revenues benefit from the strong presence of multinational companies. The same presence also makes the country's economy and public finances vulnerable to possible relocation decisions or decisions to divert company revenues.

Ireland did not request technical information from the Commission and received only assumptions for net expenditure growth.

The Irish MTFSP commits to annual average growth in net expenditure of 5.3% in 2025-2029. This expenditure path is based on the ceilings set out in the national budgetary plan.

The plan's net expenditure path is more demanding than the one set out in the Commission assumptions. The plan assumes a higher structural surplus and higher net expenditure growth in 2024, but it forecasts that rates of net expenditure growth in 2025-2029 will be lower on average than in the Commission assumptions.

The plan's fiscal strategy intends to use the fiscal surpluses for expanding public services, increasing the public capital stock, and setting up long-term saving vehicles in preparation for long-term challenges. Nationally financed public investment is set to increase from 2.5% of GDP in 2024 to 3.1% of GDP in 2029. The DBP for 2025 was presented before the general elections in November 2024 and included few new measures. The new government may use the opportunity to submit a revised MTFSP.⁽²⁶²⁾

Overall, the plan targets a net expenditure path that remains below a theoretical path of net expenditure growth based on its macroeconomic assumptions; and the path is well within the minimum requirements of the revised EU fiscal rules.

⁽²⁶¹⁾ The [EFB Compliance tracker](#).

⁽²⁶²⁾ After the snap elections on 29 November 2024, the new Irish government took office on 15 January 2025.

IFI involvement

The Irish IFI (the Irish Fiscal Advisory Council) endorsed the macroeconomic forecasts underpinning the MTFSP on 23 September 2024. At the same time, the IFI concluded that the Irish economy was performing above its potential and that there were risks related to domestic capacity constraints.

Commission assessment and Council conclusions

The Commission assessment concludes that Ireland's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment notes differences between the plan and its own assumptions. However, it concludes that Ireland is committing to a net expenditure path that is lower than both the plan's own macroeconomic assumptions would justify and the path implied by the Commission's assumptions.

The Council takes note of the Commission's assessment. At the same time, the Council notes that: (i) Ireland's economic and fiscal indicators are distorted by the presence of the sizeable multinational sector; and (ii) the authorities prefer adjusted indicators that reflect developments in the domestic economy. The Council also takes note of a new savings vehicle to be used as a fiscal buffer against future challenges.

The Council recommends to Ireland to ensure that it does not exceed the net expenditure path as set out in its plan.

Luxembourg

Overall conclusions

Luxembourg's MTFSP is based on cautious macroeconomic assumptions, in particular for the GDP deflator in 2024. The plan uses a more favourable starting position in 2024 for increasing net expenditure over the coming years than the starting position in the Commission prior guidance, but the net expenditure path remains within the limits of the revised SGP. The plan recognises long-term sustainability challenges related to ageing population but does not say how those will be addressed.

The MTFSP was submitted on 15 October 2024 (in French and English). In early September, the government asked for an extension of the submission deadline to 15 October, without providing a specific reason. The Commission accepted the request with its standard argumentation that *'such a delay will not be detrimental to the quality of macroeconomic surveillance and for fiscal discipline'*.

Because of its low deficit and debt levels, Luxembourg did not request any input from the Commission.

The plan mentions the technical dialogue with the European Commission without giving details. The Commission's assessment reports that the technical dialogue took place in September 2024 and that it covered underlying assumptions (in particular, potential growth and the GDP deflator).⁽²⁶³⁾

The plan was presented to Luxembourg's national Parliament on 15 October. The plan mentions government discussions with social partners on the country specific recommendation for 2025 and changes in the EU economic governance framework.

Submission date	15 October 2024
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 27.1% of GDP Government balance: -1.7% of GDP
Commission prior guidance	The authorities did not ask for EU guidance
EDP	NA.
Years of MTFSP	2025-2029
Adjustment period	NA.
Average adjustment (annual change in structural primary balance)	NA.
Stakeholder involvement	Yes
IFI involvement	Yes
Commission overall assessment	MTFSP fulfils the requirements

Macroeconomic projections

The macroeconomic forecasts underpinning the Luxembourg plan were prepared independently by Luxembourg's national institute of statistics (STATEC) on 19 September 2024.⁽²⁶⁴⁾

⁽²⁶³⁾ [COM/2024/719](#).

The Luxembourg plan is more conservative on nominal GDP growth than the Commission assumptions shared with Luxembourg on 21 June 2024. The difference in cumulative growth rates between the Luxembourg plan and the Commission assumptions amounts to 1.9 percentage points in 2024-2026. This is mostly due to differences between the two documents on the level of the GDP deflator in 2024. The plan assumes a higher GDP deflator in 2025 and 2026 and explains this by the phase-out of electricity price caps. The plan's estimates of potential output growth broadly correspond to those of the Commission.

Quarterly real GDP growth in Q1-Q3 2024 was weaker than estimated in the Commission 2024 autumn forecast. The recent STATEC macroeconomic forecast assessed that Luxembourg had real GDP growth of 0.5% in 2024 – lower than estimated in the plan – but the STATEC forecast for 2025 of 2.5% real GDP growth remained close to that of the plan. ⁽²⁶⁵⁾

Overall, the plan is based on a cautious macroeconomic forecast, on account of a lower GDP deflator in 2024 that contained in the Commission prior guidance.

Table A.31: Luxembourg – Main macroeconomic and fiscal variables

LU	Commission prior guidance						MTFSP						Commission 2024 autumn forecast		
	2024	2025	2026	2027	2028	2029	2024	2025	2026	2027	2028	2029	2024	2025	2026
	year-on-year % change														
Potential GDP	1.9	1.8	1.8	1.9	1.9	1.9	1.5	1.7	1.8	1.9	2.0	2.1	1.9	1.9	1.9
Real GDP	1.4	2.0	2.9	3.2	2.6	1.9	1.5	2.7	2.0	3.2	3.0	2.7	1.2	2.3	2.2
GDP deflator	4.0	2.5	2.5	2.5	2.5	2.5	1.7	3.1	3.1	1.9	2.6	2.5	3.9	3.0	2.9
Nominal GDP	5.5	4.6	5.5	5.8	5.2	4.5	3.2	5.9	5.2	5.1	5.6	5.3	5.2	5.4	5.2
Net expenditure growth (annual)	6.8	4.3	4.4	4.4	4.5	4.4	8.0	5.8	4.7	3.8	5.4	4.7	7.8	5.7	4.9
Net expenditure growth (cumulative)	6.8	11.5	16.3	21.5	26.9	32.5	8.0	14.2	19.6	24.1	30.8	36.9	7.8	14.0	19.6
	% of GDP														
Government balance	-1.7	-1.7	-1.3	-0.7	-0.5	-0.6	-0.6	-0.6	-0.5	-0.3	-0.4	-0.2	-0.6	-0.8	-0.6
Structural balance	-0.3	-0.3	-0.4	-0.4	-0.5	-0.6	0.7	0.2	0.3	0.2	-0.2	-0.1	1.1	0.7	0.8
Structural primary balance	0.1	0.1	0.1	0.1	0.1	0.1	1.1	0.6	0.7	0.7	0.4	0.4	1.5	1.1	1.1
Gross debt (target)	27.1	28.6	29.4	29.4	29.2	29.3	27.5	27.5	27.2	26.7	26.0	25.6			
Gross debt (no policy change)	27.1	28.5	29.2	29.1	28.8	28.8	27.5						27.5	27.6	27.5

Note: For the Commission prior guidance, the indicators show the Commission's no-policy-change scenario. Luxembourg did not request technical information from the Commission on the allowed minimum level of structural primary balance.

Sources: European Commission, MTFSP

Public finances and net expenditure path

Luxembourg generally exhibits prudent fiscal behaviour, evidenced by its low government debt ratio and an impressive overall fiscal numerical compliance rate of 89%, significantly exceeding the EU average of 55%. ⁽²⁶⁶⁾ However, an expected substantial increase in ageing costs is a challenge for Luxembourg's fiscal sustainability in the long run.

Luxembourg did not request technical information from the Commission to prepare the MTFSP and received only assumptions for net expenditure growth.

The plan commits to annual average growth of net expenditure of 4.9% in 2025-2029. The net expenditure path is consistent with the plan's macroeconomic assumptions and the planned deterioration of the structural primary balance.

The plan targets the deficit and debt ratios below the Treaty reference values in the medium-term. However, it also shows that ageing-related expenditure will increase the government deficit to 2.1% of

⁽²⁶⁴⁾ [Updated forecasts for 2024 and 2025 and medium-term projections - Statistics Portal - Luxembourg.](#)

⁽²⁶⁵⁾ [STATEC macroeconomic forecast of 7 February 2025.](#)

⁽²⁶⁶⁾ Over the period 1998-2023, as illustrated in the EFB Secretariat's [Compliance Tracker - European Commission.](#)

GDP by 2038 in the absence of other budgetary measures. As highlighted in the latest Debt Sustainability Monitor ⁽²⁶⁷⁾ from the Commission, Luxembourg faces overall high long-term sustainability risks, mainly due to greater pension expenditure. On this subject, the plan reports on the start of nationwide consultation on the long-term sustainability of the pension system in 2024.

The plan's fiscal strategy indicates revenue growth broadly in line with nominal GDP growth, while expenditure will be prioritised towards competitiveness, intergenerational equity, social cohesion, defence, and the sustainable and digital transitions. The DBP for 2025 presents revenue-reducing measures that would contribute to slightly higher net expenditure growth in 2025 than set out in the MTFSP. The plan targets an increase in nationally financed public investment to 5% of GDP by 2028.

Overall, the plan targets a net expenditure path in line with the minimum requirements of the revised EU fiscal rules. However, the plan is less clear on the fiscal strategy, including on how Luxembourg intends to address the high sustainability risks in the long term.

IFI involvement

Luxembourg has two independent fiscal institutions (IFIs). The forecasting IFI, the National Institute of Statistics and Economic Studies independently prepared the medium-term macroeconomic scenario underlying the MTFSP, in line with country's traditional institutional arrangements.

After the plan was submitted, the other IFI, the National Council of Public Finance published its regular report, which assessed that Luxembourg would remain within the requirements of the revised preventive arm of the SGP. The report noted that the government deficit is set to remain below 3% of GDP, while not returning to the fiscal surpluses of the past. ⁽²⁶⁸⁾

In the context of the upcoming transposition of the Budgetary Frameworks Directive (EU) 2011/85, the IFI suggests that the national fiscal framework could (i) become more medium- and long-term oriented; and (ii) adjust to national budget planning needs, for example by excluding some investments from the calculation of the structural balance.

Commission assessment and Council conclusions

The Commission assessment concludes that Luxembourg's MTFSP fulfils the requirements of Regulation (EU) 2024/1263.

The Commission assessment acknowledges differences between the MTFSP and its prior guidance. It finds that the better structural primary balance in 2024 is in line with its 2024 autumn forecast. The Commission does not explain the significantly more cautious GDP deflator in 2024 but refers to the forecast of the Luxembourg national statistical office, as the source of that more cautious GDP deflator. The Commission assesses that, taken together, the differences lead to a higher rate of growth in net expenditure in the MTFSP than that theoretically calculated based on the Commission 2024 spring forecast. However, the Commission recognises that the plan commits to a more stringent net expenditure path.

The Council takes note of the Commission's assessment and recommends to Luxembourg to ensure that it does not exceed the net expenditure path as set out in its plan.

⁽²⁶⁷⁾ [Debt Sustainability Monitor 2023 - European Commission.](#)

⁽²⁶⁸⁾ [Assessment of Public Finances - November 2024.](#)

ANNEX B: MAIN MACROECONOMIC AND FISCAL VARIABLES

Table B.1: Gross domestic product at constant prices (annual percentage change, 2006-2026)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
BE	2.6	3.7	0.4	-1.9	2.7	1.9	0.2	0.3	1.8	1.5	1.2	1.5	1.9	2.4	-4.8	6.2	4.3	1.2	1.0	0.8	0.9
BG	6.8	6.7	6.1	-3.3	1.6	2.1	0.7	-0.5	0.9	3.4	3.0	2.7	2.5	3.8	-3.2	7.8	4.0	1.9	2.8	2.0	2.1
CZ	6.6	5.5	2.6	-4.8	2.7	1.8	-0.8	0.0	2.2	5.0	2.6	5.2	2.8	3.6	-5.3	4.0	2.8	-0.1	1.1	1.9	2.1
DK	3.8	1.0	-0.4	-5.0	1.6	1.3	0.0	1.4	1.3	2.1	3.1	3.1	1.9	1.7	-1.8	6.5	0.4	0.6	3.5	3.6	2.0
DE	3.9	2.9	0.9	-5.5	4.1	3.8	0.5	0.4	2.2	1.7	2.3	2.7	1.1	1.0	-4.1	3.7	1.4	-0.3	-0.2	0.0	1.1
EE	9.8	7.6	-5.1	-14.6	2.4	7.6	3.7	1.8	3.3	1.8	3.1	5.6	3.7	3.7	-2.9	7.2	0.1	-3.0	-0.3	1.1	2.3
IE	5.0	5.3	-4.5	-5.1	1.7	1.6	-0.4	2.2	9.3	24.6	1.2	10.0	7.5	5.0	7.2	16.3	8.6	-5.5	1.2	3.4	2.5
EL	6.4	3.5	0.1	-4.1	-5.7	-9.9	-8.3	-2.3	0.8	-0.2	0.0	1.5	2.1	2.3	-9.2	8.7	5.7	2.3	2.3	2.3	2.2
ES	4.0	3.5	0.8	-3.8	0.1	-0.6	-2.9	-1.4	1.5	4.1	2.9	2.9	2.4	2.0	-10.9	6.7	6.2	2.7	3.2	2.6	2.0
FR	2.7	2.5	0.4	-2.8	2.0	2.4	0.2	0.8	1.0	1.1	0.9	2.1	1.6	2.0	-7.4	6.9	2.6	0.9	1.2	0.6	1.3
HR	5.1	5.0	2.0	-6.8	-1.3	-0.1	-2.3	-0.1	-0.6	2.3	3.5	3.3	2.9	3.1	-8.3	12.6	7.3	3.3	3.9	3.2	2.9
IT	1.8	1.5	-1.0	-5.3	1.5	0.7	-3.1	-1.8	0.0	0.9	1.2	1.6	0.8	0.4	-8.9	8.9	4.8	0.7	0.7	0.7	0.9
CY	4.7	5.1	3.6	-2.0	2.3	0.4	-3.4	-6.6	-1.8	3.4	6.6	5.8	6.3	5.9	-3.2	11.4	7.2	2.8	3.4	3.0	2.5
LV	12.8	10.4	-3.4	-16.0	-3.7	3.0	7.3	2.1	2.1	3.8	2.6	3.4	0.7	-3.5	6.9	1.8	2.9	-0.4	0.5	2.0	2.0
LT	7.4	11.1	2.6	-14.8	0.4	6.3	4.4	4.0	3.8	2.8	2.7	4.6	4.9	4.7	0.0	6.4	2.5	0.3	2.8	2.8	3.1
LU	6.0	8.1	-0.3	-3.2	3.8	1.0	1.6	3.2	2.6	2.3	5.0	1.3	1.6	2.7	-0.5	6.9	-1.1	-0.7	1.0	1.7	2.0
HU	3.9	0.3	1.0	-6.7	1.1	1.9	-1.3	2.0	4.3	3.7	2.4	4.1	5.6	5.1	-4.3	7.2	4.3	-0.8	0.5	0.8	2.5
MT	2.3	5.0	4.4	-1.4	6.2	1.0	4.1	6.3	7.6	9.6	4.1	13.0	7.2	4.1	-3.3	13.3	4.3	6.8	5.9	4.1	4.0
NL	3.5	3.9	2.1	-3.7	1.3	1.8	-1.0	0.0	1.6	2.1	2.4	2.8	2.3	2.3	-3.9	6.3	5.0	-0.6	1.1	1.3	1.2
AT	3.3	3.8	1.5	-3.6	1.8	2.9	0.6	-0.3	0.8	1.3	2.1	2.3	2.5	1.8	-6.3	4.8	5.3	-1.0	-1.0	-0.3	1.0
PL	6.2	6.8	4.4	2.6	3.2	5.3	1.5	0.7	3.9	4.4	3.0	5.2	6.2	4.6	-2.0	6.9	5.3	0.2	2.9	3.3	3.0
PT	1.6	2.5	0.3	-3.1	1.7	-1.7	-4.1	-1.0	0.7	1.6	2.0	3.3	2.9	2.7	-8.2	5.6	7.0	2.6	1.9	1.8	2.2
RO	8.0	7.2	9.3	-5.5	-3.9	4.5	1.9	0.3	4.1	3.2	2.9	8.2	6.1	3.9	-3.7	5.5	4.0	2.4	0.8	1.4	2.2
SI	5.9	7.1	3.4	-7.6	1.1	0.7	-2.9	-0.8	2.8	2.4	3.0	5.2	4.4	3.5	-4.1	8.4	2.7	2.1	1.6	2.0	2.4
SK	8.9	10.8	5.4	-5.5	6.8	2.6	1.6	0.7	2.7	5.2	1.9	2.9	4.1	2.3	-2.6	5.7	0.4	2.2	2.1	1.5	1.4
FI	4.0	5.3	0.8	-8.1	3.2	2.4	-1.5	-1.0	-0.5	0.5	2.6	3.3	1.2	1.3	-2.5	2.7	0.8	-0.9	-0.1	1.0	1.3
SE	4.7	3.2	-0.9	-4.3	5.8	3.2	-0.4	1.1	2.3	4.4	2.1	1.9	1.8	2.6	-1.9	5.2	1.3	-0.2	1.0	1.1	1.9
EA-20	3.3	3.0	0.4	-4.5	2.1	1.7	-1.0	-0.2	1.4	2.1	1.8	2.6	1.8	1.6	-6.0	6.3	3.5	0.4	0.9	0.9	1.4
EU-27	3.5	3.1	0.6	-4.3	2.1	1.9	-0.8	0.0	1.6	2.3	1.9	2.8	2.0	1.9	-5.6	6.3	3.4	0.4	1.0	1.1	1.5

Notes: EA and EU aggregated figures are weighted in common currency.

Source: European Commission 2025 spring forecast

Table B.2: Harmonised index of consumer prices (percentage change on preceding year, 2006-2026)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
BE	2.3	1.8	4.5	0.0	2.3	3.4	2.6	1.2	0.5	0.6	1.8	2.2	2.3	1.2	0.4	3.2	10.3	2.3	4.3	2.8	1.8
BG	7.4	7.6	12.0	2.5	3.0	3.4	2.4	0.4	-1.6	-1.1	-1.3	1.2	2.6	2.5	1.2	2.8	13.0	8.6	2.6	3.6	1.8
CZ	2.1	2.9	6.3	0.6	1.2	2.2	3.5	1.4	0.4	0.3	0.6	2.4	2.0	2.6	3.3	3.3	14.8	12.0	2.7	2.2	2.0
DK	1.8	1.7	3.6	1.0	2.2	2.7	2.4	0.5	0.4	0.2	0.0	1.1	0.7	0.7	0.3	1.9	8.5	3.4	1.3	1.6	1.5
DE	1.8	2.3	2.8	0.2	1.1	2.5	2.2	1.6	0.8	0.7	0.4	1.7	1.9	1.4	0.4	3.2	8.7	6.0	2.5	2.4	1.9
EE	4.4	6.7	10.6	0.2	2.7	5.1	4.2	3.2	0.5	0.1	0.8	3.7	3.4	2.3	-0.6	4.5	19.4	9.1	3.7	3.8	2.3
IE	2.7	2.9	3.1	-1.7	-1.6	1.2	1.9	0.5	0.3	0.0	-0.2	0.3	0.7	0.9	-0.5	2.4	8.1	5.2	1.3	1.6	1.4
EL	3.3	3.0	4.2	1.3	4.7	3.1	1.0	-0.9	-1.4	-1.1	0.0	1.1	0.8	0.5	-1.3	0.6	9.3	4.2	3.0	2.8	2.3
ES	3.6	2.8	4.1	-0.2	2.0	3.0	2.4	1.5	-0.2	-0.6	-0.3	2.0	1.7	0.8	-0.3	3.0	8.3	3.4	2.9	2.3	1.9
FR	1.9	1.6	3.2	0.1	1.7	2.3	2.2	1.0	0.6	0.1	0.3	1.2	2.1	1.3	0.5	2.1	5.9	5.7	2.3	0.9	1.2
HR	3.3	2.7	5.8	2.2	1.1	2.2	3.4	2.3	0.2	-0.3	-0.6	1.3	1.6	0.8	0.0	2.7	10.7	8.4	4.0	3.4	2.0
IT	2.2	2.0	3.5	0.8	1.6	2.9	3.3	1.2	0.2	0.1	-0.1	1.3	1.2	0.6	-0.1	1.9	8.7	5.9	1.1	1.8	1.5
CY	2.2	2.2	4.4	0.2	2.6	3.5	3.1	0.4	-0.3	-1.5	-1.2	0.7	0.8	0.5	-1.1	2.3	8.1	3.9	2.3	2.0	2.0
LV	6.6	10.1	15.3	3.3	-1.2	4.2	2.3	0.0	0.7	0.2	0.1	2.9	2.6	2.7	0.1	3.2	17.2	9.1	1.3	3.0	1.7
LT	3.8	5.8	11.1	4.2	1.2	4.1	3.2	1.2	0.2	-0.7	0.7	3.7	2.5	2.2	1.1	4.6	18.9	8.7	0.9	2.6	1.2
LU	3.0	2.7	4.1	0.0	2.8	3.7	2.9	1.7	0.7	0.1	0.0	2.1	2.0	1.6	0.0	3.5	8.2	2.9	2.3	2.1	1.8
HU	4.0	7.9	6.0	4.0	4.7	3.9	5.7	1.7	0.0	0.1	0.4	2.4	2.9	3.4	3.4	5.2	15.3	17.0	3.7	4.1	3.3
MT	2.6	0.7	4.7	1.8	2.0	2.5	3.2	1.0	0.8	1.2	0.9	1.3	1.7	1.5	0.8	0.7	6.1	5.6	2.4	2.2	2.1
NL	1.6	1.6	2.2	1.0	0.9	2.5	2.8	2.6	0.3	0.2	0.1	1.3	1.6	2.7	1.1	2.8	11.6	4.1	3.2	3.0	2.0
AT	1.7	2.2	3.2	0.4	1.7	3.6	2.6	2.1	1.5	0.8	1.0	2.2	2.1	1.5	1.4	2.8	8.6	7.7	2.9	2.9	2.1
PL	1.3	2.6	4.2	4.0	2.6	3.9	3.7	0.8	0.1	-0.7	-0.2	1.6	1.2	2.1	3.7	5.2	13.2	10.9	3.7	3.6	2.8
PT	3.0	2.4	2.7	-0.9	1.4	3.6	2.8	0.4	-0.2	0.5	0.6	1.6	1.2	0.3	-0.1	0.9	8.1	5.3	2.7	2.1	2.0
RO	6.6	4.9	7.9	5.6	6.1	5.8	3.4	3.2	1.4	-0.4	-1.1	1.1	4.1	3.9	2.3	4.1	12.0	9.7	5.8	5.1	3.9
SI	2.5	3.8	5.5	0.8	2.1	2.1	2.8	1.9	0.4	-0.8	-0.2	1.6	1.9	1.7	-0.3	2.0	9.3	7.2	2.0	2.1	1.9
SK	4.3	1.9	3.9	0.9	0.7	4.1	3.7	1.5	-0.1	-0.3	-0.5	1.4	2.5	2.8	2.0	2.8	12.1	11.0	3.2	4.0	2.9
FI	1.3	1.6	3.9	1.6	1.7	3.3	3.2	2.2	1.2	-0.2	0.4	0.8	1.2	1.1	0.4	2.1	7.2	4.3	1.0	1.7	1.5
SE	1.5	1.7	3.3	1.9	1.9	1.4	0.9	0.4	0.2	0.7	1.1	1.9	2.0	1.7	0.7	2.7	8.1	5.9	2.0	2.2	1.6
EA-20	2.2	2.2	3.4	0.3	1.6	2.7	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.4	2.4	2.1	1.7
EU-27	2.3	2.4	3.7	0.8	1.8	2.9	2.6	1.3	0.4	0.1	0.2	1.6	1.8	1.4	0.7	2.9	9.2	6.4	2.6	2.3	1.9

Notes: National index if not available.

Source: European Commission 2025 spring forecast

Table B.3: Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 2006-2026)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
BE	0.2	0.1	-1.1	-5.4	-4.1	-4.4	-4.3	-3.2	-3.2	-2.5	-2.4	-0.8	-1.0	-2.0	-9.0	-5.4	-3.6	-4.1	-4.5	-5.4	-5.5
BG	2.7	0.0	1.4	-4.4	-3.7	-1.7	-0.8	-0.7	-5.4	-1.9	0.3	1.6	1.7	2.2	-3.8	-4.0	-3.0	-2.0	-3.0	-2.8	-2.8
CZ	-2.2	-0.7	-2.0	-5.5	-4.1	-2.7	-3.9	-1.3	-2.1	-0.7	0.7	1.5	0.9	0.3	-5.6	-5.0	-3.1	-3.8	-2.2	-2.3	-2.2
DK	5.3	5.3	3.5	-2.7	-2.5	-1.8	-3.2	-0.9	1.4	-0.9	0.3	1.7	0.8	4.3	0.4	4.1	3.4	3.3	4.5	1.5	0.6
DE	-1.8	0.2	-0.3	-3.2	-4.4	-0.8	-0.1	0.1	0.7	0.9	1.1	1.3	1.9	1.3	-4.4	-3.2	-2.1	-2.5	-2.8	-2.7	-2.9
EE	2.8	2.7	-2.6	-2.7	-0.4	0.6	-0.4	-0.2	0.9	0.2	-0.1	-0.5	-0.6	-0.1	-5.4	-2.6	-1.1	-3.1	-1.5	-1.4	-2.4
IE	2.8	0.3	-7.0	-13.9	-32.1	-13.5	-8.4	-6.3	-3.5	-2.0	-0.8	-0.3	0.1	0.4	-4.9	-1.4	1.7	1.5	4.3	0.7	0.1
EL	-6.0	-6.8	-10.3	-15.4	-11.4	-10.5	-9.3	-13.6	-3.8	-5.9	0.2	0.7	0.9	0.8	-9.6	-7.1	-2.5	-1.4	1.3	0.7	1.4
ES	2.1	1.9	-4.6	-11.2	-9.5	-9.7	-11.5	-7.5	-6.0	-5.3	-4.2	-3.1	-2.6	-3.1	-9.9	-6.7	-4.6	-3.5	-3.2	-2.8	-2.5
FR	-2.7	-3.0	-3.5	-7.4	-7.2	-5.3	-5.2	-4.9	-4.6	-3.9	-3.8	-3.4	-2.3	-2.4	-8.9	-6.6	-4.7	-5.4	-5.8	-5.6	-5.7
HR	-1.9	-2.1	-2.3	-7.0	-6.6	-7.6	-5.5	-5.5	-5.1	-3.5	-1.0	0.5	0.0	0.2	-7.2	-2.6	0.1	-0.8	-2.4	-2.7	-2.6
IT	-3.6	-1.3	-2.6	-5.1	-4.2	-3.5	-3.0	-2.9	-2.8	-2.5	-2.4	-2.5	-2.2	-1.5	-9.4	-8.9	-8.1	-7.2	-3.4	-3.3	-2.9
CY	-1.0	3.2	0.7	-5.6	-5.1	-5.9	-15.2	-5.6	-8.8	-0.8	0.5	2.1	-3.4	1.0	-5.6	-1.6	2.7	1.7	4.3	3.5	3.4
LV	-0.6	-0.6	-4.5	-9.8	-8.8	-4.5	-1.5	-1.3	-1.7	-1.5	0.0	-0.3	-1.4	-0.2	-4.1	-7.2	-4.9	-2.4	-1.8	-3.1	-3.1
LT	-0.3	-0.8	-3.1	-9.1	-6.9	-5.9	-3.1	-2.7	-1.8	-0.8	0.0	0.4	0.5	0.4	-6.4	-1.2	-0.7	-0.7	-1.3	-2.3	-2.3
LU	1.9	4.4	3.4	-0.2	-0.3	0.7	0.5	0.8	1.3	1.3	1.9	1.4	3.2	2.7	-3.1	1.0	0.2	-0.8	1.0	-0.4	-0.5
HU	-9.3	-5.1	-3.8	-4.8	-4.4	-5.2	-2.3	-2.6	-2.8	-2.0	-1.8	-2.5	-2.0	-2.0	-7.5	-7.1	-6.2	-6.7	-4.9	-4.6	-4.7
MT	-2.5	-2.1	-4.1	-3.1	-2.2	-3.0	-3.3	-2.2	-1.5	-0.8	1.1	3.4	1.9	0.7	-8.7	-7.0	-5.2	-4.7	-3.7	-3.2	-2.8
NL	0.0	-0.3	0.0	-5.1	-5.3	-4.4	-3.8	-2.9	-2.2	-1.8	0.2	1.3	1.5	1.8	-3.6	-2.2	0.0	-0.4	-0.9	-2.1	-2.7
AT	-2.6	-1.4	-1.6	-5.4	-4.5	-2.5	-2.2	-2.0	-1.9	-0.5	-1.5	-0.8	0.2	0.5	-8.2	-5.7	-3.4	-2.6	-4.7	-4.4	-4.2
PL	-3.5	-1.9	-3.6	-7.2	-7.4	-5.0	-3.8	-4.2	-3.7	-2.6	-2.4	-1.5	-0.2	-0.7	-6.9	-1.7	-3.4	-5.3	-6.6	-6.4	-6.1
PT	-4.2	-2.9	-3.8	-9.9	-11.4	-7.7	-6.2	-5.2	-7.4	-4.5	-1.9	-3.0	-0.4	0.1	-5.8	-2.8	-0.3	1.2	0.7	0.1	-0.6
RO	-2.1	-2.8	-5.4	-9.5	-7.1	-5.6	-3.8	-2.3	-1.2	-0.5	-2.5	-2.5	-2.8	-4.3	-9.2	-7.1	-6.4	-6.6	-9.3	-8.6	-8.4
SI	-1.3	-0.1	-1.4	-5.9	-5.6	-6.7	-4.2	-11.2	-4.5	-2.8	-2.0	0.1	0.9	0.7	-7.7	-4.6	-3.0	-2.6	-0.9	-1.3	-1.5
SK	-3.6	-2.3	-2.5	-8.2	-7.4	-4.4	-4.4	-2.9	-3.2	-2.8	-2.6	-1.0	-1.0	-1.2	-5.3	-5.1	-1.7	-5.2	-5.3	-4.9	-5.1
FI	4.0	5.1	4.2	-2.5	-2.6	-1.0	-2.2	-2.5	-3.0	-2.4	-1.7	-0.6	-0.9	-0.9	-5.5	-2.7	-0.2	-3.0	-4.4	-3.7	-3.4
SE	2.2	3.4	1.9	-0.9	-0.1	-0.4	-1.2	-1.6	-1.8	-0.3	0.9	1.3	0.7	0.4	-3.2	-0.2	1.0	-0.8	-1.5	-1.5	-0.8
EA-20	-1.6	-0.8	-2.3	-6.3	-6.3	-4.2	-3.9	-3.2	-2.5	-2.0	-1.5	-1.0	-0.4	-0.5	-7.0	-5.1	-3.5	-3.5	-3.1	-3.2	-3.3
EU-27	-1.4	-0.6	-2.1	-6.1	-6.0	-4.1	-3.7	-3.1	-2.4	-1.9	-1.4	-0.9	-0.4	-0.5	-6.7	-4.6	-3.2	-3.5	-3.2	-3.3	-3.4

Source: European Commission 2025 spring forecast

Table B.4: Interest expenditure, general government (as a percentage of GDP, 2006-2026)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
BE	4.14	4.0	4.0	4.0	3.6	3.6	3.6	3.4	3.3	3.0	2.8	2.4	2.2	2.0	2.0	1.7	1.6	2.0	2.3	2.4	2.5
BG	1.29	1.1	0.8	0.7	0.7	0.7	0.8	0.8	0.9	0.9	0.9	0.8	0.7	0.6	0.5	0.5	0.4	0.5	0.5	0.6	0.7
CZ	1.03	1.1	1.0	1.2	1.3	1.3	1.4	1.3	1.3	1.1	0.9	0.7	0.7	0.7	0.7	0.7	1.1	1.3	1.3	1.3	1.3
DK	1.66	1.5	1.4	1.8	1.8	1.8	1.6	1.6	1.4	1.3	1.1	0.8	0.8	0.7	0.5	0.5	0.7	0.7	0.7	0.7	0.7
DE	2.69	2.7	2.7	2.6	2.4	2.5	2.3	1.8	1.6	1.4	1.2	1.0	0.9	0.8	0.6	0.6	0.7	0.9	1.1	1.1	1.1
EE	0.17	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.4	0.6	0.5	0.6
IE	1.00	1.0	1.3	2.0	2.8	3.3	4.1	4.2	3.8	2.5	2.3	1.9	1.6	1.3	1.0	0.7	0.6	0.7	0.6	0.6	0.6
EL	4.49	4.6	4.9	5.1	6.1	7.7	5.4	4.2	4.0	3.6	3.2	3.1	3.4	3.0	3.0	2.5	2.5	3.4	3.5	3.1	3.0
ES	1.61	1.6	1.6	1.7	1.9	2.5	3.0	3.6	3.5	3.1	2.8	2.5	2.4	2.3	2.2	2.1	2.3	2.4	2.4	2.6	2.6
FR	2.60	2.7	2.9	2.5	2.5	2.7	2.6	2.3	2.2	2.0	1.9	1.8	1.8	1.5	1.3	1.4	1.9	1.9	2.1	2.5	2.9
HR	1.63	1.6	1.8	2.2	2.4	2.6	3.0	3.1	3.4	3.4	3.1	2.6	2.3	2.2	2.0	1.5	1.4	1.7	1.5	1.5	1.5
IT	4.42	4.7	4.9	4.4	4.3	4.6	5.1	4.8	4.6	4.1	3.9	3.7	3.6	3.3	3.4	3.4	4.1	3.7	3.9	3.9	4.0
CY	2.96	2.8	2.6	2.3	2.0	2.1	3.3	3.2	3.3	3.1	2.6	2.5	2.3	2.2	2.0	1.7	1.3	1.3	1.2	1.2	1.2
LV	0.48	0.4	0.6	1.6	1.8	1.9	1.7	1.6	1.4	1.3	1.1	1.0	0.8	0.8	0.7	0.5	0.5	0.7	1.1	1.3	1.4
LT	0.70	0.7	0.7	1.2	1.8	1.9	2.0	1.8	1.7	1.6	1.4	1.2	1.0	0.9	0.7	0.5	0.3	0.6	0.8	1.0	1.2
LU	0.22	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.2	0.1	0.2	0.3	0.3	0.3	0.3
HU	3.85	4.0	4.1	4.5	4.1	4.1	4.6	4.5	4.0	3.4	3.1	2.6	2.3	2.2	2.3	2.2	2.8	4.7	5.0	4.2	4.0
MT	3.73	3.5	3.3	3.2	3.0	3.1	2.9	2.8	2.6	2.3	2.0	1.7	1.4	1.3	1.2	1.0	0.9	1.1	1.2	1.3	1.3
NL	2.09	2.1	2.1	2.1	1.9	1.9	1.7	1.7	1.5	1.3	1.2	1.0	0.9	0.8	0.7	0.5	0.6	0.7	0.7	0.8	0.8
AT	3.17	3.2	3.0	3.2	3.0	2.8	2.8	2.7	2.5	2.4	2.1	1.8	1.6	1.4	1.4	1.1	1.0	1.2	1.5	1.7	1.8
PL	2.36	2.2	2.1	2.4	2.5	2.5	2.7	2.5	2.0	1.8	1.7	1.6	1.4	1.4	1.3	1.1	1.5	2.1	2.2	2.5	2.7
PT	2.78	3.0	3.1	3.0	2.9	4.3	4.8	4.8	4.8	4.5	4.1	3.7	3.3	2.9	2.8	2.4	1.9	2.1	2.1	2.1	2.2
RO	0.84	0.7	0.7	1.9	1.8	1.9	2.0	1.9	1.6	1.5	1.3	1.1	1.0	1.0	1.2	1.3	1.4	1.9	2.3	2.6	2.8
SI	1.40	1.3	1.1	1.3	1.7	1.9	2.0	2.6	3.3	3.3	3.1	2.5	2.0	1.6	1.6	1.2	1.1	1.2	1.3	1.3	1.3
SK	1.46	1.4	1.4	1.5	1.3	1.5	1.8	1.9	1.9	1.8	1.7	1.4	1.3	1.2	1.2	1.1	1.0	1.2	1.4	1.6	1.6
FI	1.49	1.4	1.4	1.3	1.4	1.5	1.5	1.3	1.3	1.2	1.2	1.0	1.0	0.9	0.7	0.5	0.6	1.2	1.6	1.5	1.7
SE	1.76	1.7	1.6	1.3	1.1	1.2	1.0	0.9	0.7	0.5	0.5	0.4	0.5	0.4	0.3	0.2	0.5	0.7	0.6	0.7	0.6
EA-20	2.83	2.9	3.0	2.8	2.8	3.0	3.0	2.8	2.6	2.3	2.1	2.0	1.8	1.6	1.5	1.4	1.7	1.7	1.9	2.0	2.1
EU-27	2.72	2.7	2.8	2.7	2.7	2.9	2.9	2.7	2.5	2.2	2.0	1.8	1.7	1.5	1.4	1.4	1.6	1.7	1.9	2.0	2.1

Source: European Commission 2024 spring forecast

Table B.5: Structural budget balance, general government (as a percentage of GDP, 2014-2026)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
BE	-3.2	-2.4	-2.1	-1.1	-1.7	-2.8	-5.9	-4.6	-4.4	-4.1	-4.2	-4.8	-4.7
BG	-1.7	-1.5	0.5	1.7	1.8	1.8	-2.5	-4.0	-3.5	-2.8	-2.7	-3.2	-2.7
CZ	-0.6	-0.5	0.8	0.5	-0.1	-1.0	-4.1	-4.7	-3.3	-3.2	-1.6	-1.8	-2.0
DK	0.0	-0.9	1.0	1.9	1.1	4.8	3.1	4.3	4.4	4.6	5.6	1.3	0.4
DE	1.2	1.1	1.0	0.7	1.4	0.7	-2.7	-2.8	-2.1	-2.1	-2.1	-1.8	-2.4
EE	0.7	0.6	-0.2	-1.9	-1.9	-1.3	-3.8	-4.0	-1.3	-1.2	0.6	0.3	-1.7
IE	-5.1	-4.0	-1.8	-0.3	1.7	3.5	-2.1	-4.2	-3.5	1.5	2.3	1.0	0.4
EL	4.6	4.5	6.6	6.4	6.0	3.0	-2.9	-4.8	-2.5	-1.6	0.6	-0.5	-0.1
ES	-0.5	-1.8	-2.7	-2.7	-2.9	-4.0	-3.9	-4.2	-4.6	-3.8	-3.2	-3.2	-3.2
FR	-3.5	-3.0	-2.9	-3.2	-2.8	-2.7	-4.7	-5.7	-4.8	-5.3	-5.7	-5.2	-5.6
HR	-3.1	-2.1	-0.7	0.3	-0.9	-0.8	-3.6	-2.6	-1.1	-1.9	-3.3	-3.3	-2.9
IT	-0.6	-0.3	-1.3	-1.9	-2.0	-1.2	-4.2	-8.4	-9.4	-8.4	-4.1	-3.7	-3.4
CY	4.6	3.4	1.8	2.3	3.5	0.6	-3.4	-2.6	0.3	0.1	2.9	2.4	2.6
LV	-1.3	-1.9	-0.7	-1.1	-2.7	-0.7	-2.7	-7.3	-4.8	-2.6	-1.6	-2.6	-2.9
LT	-2.2	-1.1	-0.5	-0.6	-0.9	-1.1	-6.3	-1.9	-1.3	0.0	-0.6	-1.6	-2.0
LU	2.0	1.8	1.5	1.5	3.5	2.9	-1.6	0.4	0.8	0.8	2.7	1.0	0.6
HU	-2.1	-2.1	-2.1	-3.7	-3.7	-3.9	-6.2	-7.4	-7.3	-6.6	-4.5	-4.0	-4.7
MT	-2.2	-2.1	1.4	1.4	-0.2	0.3	-5.1	-7.0	-4.5	-4.4	-3.6	-3.0	-2.3
NL	-0.9	-0.9	0.3	0.6	0.9	1.0	-0.8	-1.7	-1.2	-1.0	-0.4	-1.5	-1.3
AT	0.3	0.6	-1.1	-1.0	-0.7	-0.6	-5.2	-4.7	-4.8	-2.8	-4.0	-3.4	-3.6
PL	-2.6	-2.0	-1.7	-1.6	-1.4	-2.1	-5.7	-2.2	-4.5	-4.7	-6.1	-6.1	-6.1
PT	-1.8	-2.2	-1.9	-1.4	-0.9	-0.9	-1.5	-1.3	-0.8	1.1	0.3	0.0	-0.8
RO	-0.9	-0.5	-1.5	-2.7	-2.9	-4.5	-7.4	-6.4	-6.4	-6.4	-8.8	-7.9	-7.9
SI	0.0	-0.2	-0.2	0.1	-0.1	-0.8	-6.1	-5.8	-4.3	-3.0	-1.2	-1.2	-2.1
SK	-2.5	-2.6	-2.3	-1.0	-1.7	-1.8	-4.4	-5.7	-1.9	-5.4	-5.2	-4.5	-4.6
FI	-1.2	-0.7	-0.9	-1.1	-1.3	-1.6	-4.3	-2.5	0.1	-1.7	-2.7	-2.3	-2.5
SE	-0.9	-0.6	0.5	1.1	0.7	0.2	-1.3	-0.4	0.9	0.0	-0.5	-0.4	0.0
EA-20	-0.8	-0.8	-0.9	-1.0	-0.7	-0.9	-3.5	-4.5	-4.0	-3.6	-3.0	-2.9	-3.1
EU-27	-0.9	-0.8	-0.8	-0.9	-0.7	-0.9	-3.5	-4.1	-3.7	-3.5	-3.0	-3.0	-3.2

Source: European Commission 2025 spring forecast

Table B.6: Gross debt, general government (as a percentage of GDP, 2006-2026)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
BE	91.5	87.3	93.2	99.9	100.2	102.7	104.3	105.0	106.6	105.6	105.5	102.5	100.1	97.6	111.2	108.5	102.7	103.2	104.7	107.1	109.8
BG	20.9	16.3	13.0	13.7	15.3	15.2	16.6	17.0	27.0	25.9	29.1	25.1	22.1	20.1	24.4	23.8	22.5	22.9	24.1	25.1	27.1
CZ	27.6	27.3	28.2	33.4	36.7	39.4	43.8	44.1	41.5	39.5	36.2	33.8	31.7	29.6	36.9	40.7	42.5	42.5	43.6	44.5	45.4
DK	33.2	29.5	35.5	43.0	46.1	50.0	48.7	47.8	48.7	44.6	41.7	40.2	38.5	38.3	46.3	40.5	34.1	33.6	31.1	29.7	29.4
DE	66.4	63.7	65.2	72.3	81.0	78.5	79.8	77.4	74.5	71.2	68.3	64.0	60.8	58.7	68.1	68.1	65.0	62.9	62.5	63.8	64.7
EE	4.7	3.9	4.7	8.0	8.0	7.6	11.1	11.4	11.6	10.8	10.2	9.4	8.5	9.0	19.1	18.4	19.1	20.2	23.6	23.8	25.4
IE	23.7	23.9	42.5	61.8	86.1	109.4	118.7	117.5	101.3	74.0	72.6	65.2	61.5	55.9	57.0	52.6	43.1	43.3	40.9	38.7	38.3
EL	105.3	104.6	110.9	128.5	147.8	175.1	164.1	180.4	182.7	179.6	183.1	182.1	189.0	183.2	209.4	197.3	177.0	163.9	153.6	146.6	140.6
ES	39.0	35.7	39.6	53.1	60.3	69.5	89.6	100.0	104.4	102.5	102.0	101.2	99.8	97.7	119.3	115.7	109.5	105.1	101.8	100.9	100.8
FR	65.4	65.5	69.8	84.1	86.3	88.7	91.7	94.6	96.2	97.0	98.1	98.8	98.5	98.2	114.9	112.8	111.4	109.8	113.0	116.0	118.4
HR	38.4	37.1	38.9	47.9	56.8	63.1	68.8	79.5	83.2	82.8	79.3	76.2	72.8	70.9	86.5	78.2	68.5	61.8	57.6	56.3	56.4
IT	106.3	103.5	105.8	116.1	118.8	119.1	125.9	131.9	134.8	134.8	134.2	133.7	134.2	133.9	154.4	145.8	138.3	134.6	135.3	136.7	138.2
CY	60.0	54.8	46.3	56.8	59.3	69.1	83.6	107.5	112.7	111.6	106.9	96.5	100.7	92.3	113.6	96.5	81.1	73.6	65.0	58.0	51.9
LV	10.6	8.9	19.5	38.0	48.6	46.6	44.0	41.8	43.1	38.3	41.7	40.3	38.3	37.9	44.0	45.9	44.4	44.6	46.8	48.6	49.3
LT	17.3	15.9	14.6	27.9	36.7	37.4	39.9	38.9	40.7	42.4	39.8	39.1	33.3	35.6	45.9	43.3	38.1	37.3	38.2	41.2	43.9
LU	8.2	8.1	14.6	15.3	19.1	18.5	20.8	22.4	21.9	21.1	19.6	21.8	20.9	22.3	24.5	24.2	24.9	25.0	26.3	25.7	26.2
HU	64.5	65.6	71.8	78.2	80.2	80.5	78.4	77.2	76.5	75.7	74.6	72.0	68.8	65.0	78.7	76.2	73.9	73.0	73.5	74.5	74.3
MT	64.5	62.0	61.5	66.0	65.0	68.9	65.6	64.9	60.7	55.0	53.1	45.6	41.4	39.3	48.8	49.8	49.5	47.9	47.4	47.6	47.3
NL	45.0	42.8	54.3	56.3	58.9	61.2	65.7	67.2	67.2	63.8	60.9	56.0	51.6	47.7	53.4	50.5	48.4	45.2	43.3	45.0	47.8
AT	68.2	65.8	69.5	80.8	83.7	83.4	82.9	82.4	85.2	85.6	83.4	79.1	74.6	71.0	83.2	82.4	78.4	78.5	81.8	84.0	85.8
PL	47.1	44.4	46.6	49.7	53.7	54.8	54.5	56.9	51.1	51.1	54.1	50.4	48.2	45.2	56.6	53.0	48.8	49.5	55.3	58.0	65.3
PT	73.7	72.7	75.5	87.6	99.9	114.0	128.6	130.8	132.5	131.0	131.2	126.0	121.1	116.1	134.1	123.9	111.2	97.7	94.9	91.7	89.7
RO	12.4	11.9	12.3	21.8	29.0	32.3	35.4	37.8	39.1	37.7	37.8	35.3	34.4	35.0	46.6	48.3	47.9	48.9	54.8	59.4	63.3
SI	26.2	22.9	21.9	34.9	38.6	46.8	54.1	70.8	81.1	83.4	79.4	74.9	71.0	66.0	80.2	74.8	72.7	68.4	67.0	65.5	63.8
SK	31.5	30.4	28.6	36.4	40.7	43.3	51.7	54.6	53.4	51.6	52.1	51.4	49.3	48.0	58.4	60.2	57.7	55.6	59.3	60.9	63.0
FI	40.2	36.0	34.7	44.1	50.1	52.0	57.9	60.8	64.8	68.8	68.6	66.6	65.4	65.3	75.3	73.2	74.0	77.5	82.1	85.6	87.5
SE	43.8	39.2	38.0	41.2	38.6	37.7	38.0	40.8	45.7	44.5	42.8	41.6	39.8	35.7	40.4	36.9	33.8	31.6	33.5	33.8	33.3
EA-20	68.3	65.9	69.6	80.0	85.7	88.0	92.7	95.1	95.3	93.2	92.1	89.6	87.6	85.6	98.6	95.7	91.2	88.9	88.9	89.9	91.0
EU-27	65.0	62.4	65.1	75.7	80.6	82.3	86.7	88.8	88.9	87.0	85.9	83.3	81.2	79.1	91.2	88.3	83.9	82.1	82.2	83.2	84.5

Source: European Commission 2025 spring forecast

Table B.7: Debt dynamic components (as a percentage of GDP)

	Primary balance							Snowball effect (1)							Stock-flow adjustment (2)						
	Average 2015-2020	2021	2022	2023	2024	2025	2026	Average 2015-2020	2021	2022	2023	2024	2025	2026	Average 2015-2020	2021	2022	2023	2024	2025	2026
BE	-0.6	-3.7	-2.0	-2.1	-2.3	-3.0	-3.0	0.1	-7.6	-9.5	-3.6	-0.7	-1.2	-0.6	0.1	1.2	1.6	2.0	-0.1	0.6	0.3
BG	0.7	-3.5	-2.6	-1.5	-2.5	-2.2	-2.1	-0.8	-2.8	-3.7	-1.6	-1.5	-1.0	-0.4	1.1	-1.3	-0.2	0.5	0.1	-0.1	0.4
CZ	0.3	-4.2	-2.0	-2.5	-0.9	-1.0	-0.9	-0.9	-2.1	-3.2	-1.9	-0.7	-0.7	-0.8	0.4	1.7	3.0	-0.7	1.0	0.7	0.7
DK	1.9	4.6	4.2	4.0	5.2	2.2	1.3	-0.3	-3.8	-3.2	1.1	-1.0	-0.9	-0.4	1.8	2.6	1.0	2.3	3.8	1.7	1.4
DE	1.4	-2.6	-1.4	-1.6	-1.7	-1.6	-1.7	-0.6	-3.6	-4.1	-2.7	-0.7	-0.4	-0.9	0.9	1.1	-0.4	-1.0	-1.4	0.1	0.1
EE	-1.0	-2.5	-1.0	-2.8	-0.9	-0.8	-1.8	-0.4	-2.1	-2.4	-0.5	-0.1	-0.6	-0.5	0.7	-1.1	2.1	-1.2	2.6	0.0	0.2
IE	0.5	-0.6	2.3	2.2	4.9	1.3	0.6	-6.2	-7.8	-6.6	1.6	-1.3	-1.8	-1.1	-0.6	2.7	-0.5	0.8	3.9	0.9	1.3
EL	1.1	-4.6	0.0	2.0	4.8	3.8	4.4	4.9	-16.9	-19.6	-10.3	-5.1	-5.3	-3.4	0.6	0.2	-0.6	-0.9	-0.4	2.0	1.8
ES	-2.1	-4.5	-2.3	-1.1	-0.7	-0.2	0.1	1.2	-8.1	-9.3	-6.7	-3.7	-2.2	-1.4	-0.9	0.0	0.8	1.2	-0.3	1.1	1.4
FR	-2.4	-5.2	-2.8	-3.5	-3.7	-3.1	-2.8	0.6	-7.3	-4.3	-4.9	-1.7	-0.1	-0.3	0.2	0.0	0.0	-0.2	1.1	0.0	0.0
HR	0.8	-1.0	1.5	0.9	-0.8	-1.2	-1.1	1.0	-9.7	-9.3	-7.5	-3.9	-2.6	-1.5	0.3	0.4	1.2	1.7	-1.2	0.2	0.5
IT	0.3	-5.5	-4.0	-3.6	0.4	0.6	1.1	3.3	-11.0	-7.3	-5.0	0.2	0.1	0.4	0.2	-3.0	-4.2	-2.3	1.0	1.9	2.2
CY	1.5	0.1	4.0	3.0	5.5	4.7	4.6	-1.7	-12.9	-10.8	-3.8	-3.6	-2.3	-1.5	3.3	-4.1	-0.6	-0.6	0.5	0.0	0.0
LV	-0.3	-6.7	-4.4	-1.6	-0.7	-1.8	-1.7	-0.7	-3.6	-4.3	-3.0	0.2	-0.7	-0.8	0.6	-1.2	-1.5	1.5	1.3	0.7	-0.3
LT	0.2	-0.7	-0.4	-0.1	-0.5	-1.3	-1.2	-0.9	-4.7	-6.6	-2.7	-1.4	-1.3	-1.0	1.9	1.4	1.0	1.9	1.8	3.0	2.5
LU	1.6	1.1	0.3	-0.5	1.3	-0.1	-0.2	-0.4	-2.7	-1.0	-1.0	-1.2	-0.8	-0.9	2.4	3.5	2.1	0.6	3.8	0.0	1.2
HU	-0.3	-4.9	-3.3	-2.1	0.0	-0.4	-0.7	-1.9	-7.3	-9.4	-4.5	-0.4	0.2	-0.3	2.0	0.0	3.7	1.6	0.9	0.4	-0.6
MT	1.2	-6.0	-4.3	-3.7	-2.5	-1.9	-1.5	-2.3	-5.8	-3.4	-4.4	-2.9	-1.7	-1.5	1.5	0.8	-1.1	-0.9	0.0	-0.1	-0.3
NL	0.9	-1.7	0.6	0.3	-0.2	-1.4	-2.0	-0.8	-4.0	-4.6	-2.7	-2.0	-1.3	-0.9	-0.6	-0.6	3.1	-0.3	-0.1	1.6	1.8
AT	0.1	-4.6	-2.5	-1.4	-3.2	-2.7	-2.4	-0.2	-4.2	-6.7	-3.0	0.1	-0.8	-0.8	-0.1	-1.2	0.2	1.7	0.0	0.4	0.1
PL	-0.9	-0.7	-1.9	-3.2	-4.4	-3.8	-3.4	-1.1	-5.3	-6.0	-2.4	-0.9	-1.4	-0.7	1.2	1.0	-0.2	0.0	2.2	0.3	4.6
PT	1.0	-0.5	1.6	3.3	2.8	2.3	1.7	0.4	-7.2	-12.1	-7.9	-3.9	-2.3	-1.7	0.9	-3.5	1.0	-2.3	3.8	1.4	1.3
RO	-2.5	-5.8	-5.1	-4.7	-7.0	-6.0	-5.6	-1.5	-3.5	-5.5	-4.5	-2.0	-1.5	-1.7	0.3	-0.6	0.0	0.8	0.9	0.1	0.0
SI	0.5	-3.4	-1.9	-1.3	0.4	-0.1	-0.2	-0.5	-6.9	-5.3	-6.8	-1.8	-1.8	-1.9	0.9	-1.8	1.3	1.1	0.8	0.2	0.0
SK	-0.9	-4.0	-0.6	-4.0	-3.9	-3.3	-3.5	-0.3	-3.3	-3.4	-5.3	-1.6	-1.5	-1.2	0.3	1.0	0.3	-0.8	1.4	-0.2	-0.2
FI	-1.0	-2.1	0.4	-1.8	-2.8	-2.2	-1.7	-0.5	-3.2	-4.2	-0.6	0.6	-0.7	-0.8	1.3	-1.0	5.4	2.3	1.1	2.0	1.0
SE	0.4	0.0	1.5	-0.1	-0.9	-0.8	-0.2	-1.2	-3.1	-2.0	-1.2	-0.5	-0.2	-0.6	0.7	-0.4	0.5	-1.1	1.5	-0.3	-0.1
EA-20	-0.2	-3.7	-1.8	-1.8	-1.2	-1.2	-1.1	0.1	-6.4	-6.1	-3.8	-1.4	-0.9	-0.8	0.3	-0.1	-0.2	-0.4	0.2	0.7	0.8
EU-27	-0.2	-3.3	-1.6	-1.7	-1.3	-1.3	-1.3	-0.1	-6.1	-5.8	-3.5	-1.5	-1.1	-0.9	0.3	0.0	-0.2	-0.1	0.4	0.7	0.9

Notes: (1) The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator); (2) The stock-flow adjustment includes: (i) differences in cash and accrual accounting; (ii) the accumulation of financial assets; and (iii) valuation and other residual effects.

Source: European Commission 2025 spring forecast

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