European Fiscal Board

The implementation of national medium-term fiscal-structural plans: progress to 2025, outlook for 2026

Brussels, 21 September 2026

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Foreword

The Commission 2026 spring package marked an important and consequential milestone in the life of the EU's reformed fiscal architecture. For the first time, the Commission and the Council could look back not merely on plans and intentions, but on a complete year of outturn data - the fiscal record of 2025, the first full year under the reformed rules.

In spite of a tight timeline, and the many wide-ranging changes implied by the reformed fiscal rules, the Commission and the Council navigated the process quite smoothly. The way the first full annual monitoring cycle under the reformed rules was conducted deserves to be acknowledged, even if room for improvement remains, as this report will show.

It is worth recalling, briefly, what made 2024's reform such a departure from what came before. At its heart lies a shift from uniform, Brussels-set numerical targets towards country-specific medium-term fiscal-structural plans, each grounded in a thorough, state-of-the-art assessment of debt sustainability. The ambition was as clear as it was laudable: to wed national ownership to analytical rigour, allowing each Member State to chart its own path toward sound public finances, calibrated to its own circumstances. This Board has, on balance, welcomed this approach while never ceasing to insist that elegance in design must be matched by discipline in implementation.

The EFB has followed the transition to the reformed rules closely. Our 2025 annual report offered the first detailed scrutiny of that inaugural vintage of national plans, examining the assumptions, trajectories and analytical foundations on which they rested. Our implementation review, published in March of this year, turned attention to the fiscal developments then unfolding, tracking how ambition was being translated into action. The present report carries that work a step further. After two years of designing, legislating and implementing, we can finally ask not only whether the framework was well conceived, but whether it is, in fact, working.

Fiscal outcomes in 2025 were not all in line with the expenditure paths Member States themselves committed to in their medium-term plans. Both country-specific factors as well as common choices played a role. While we are only at the beginning of the first medium-term surveillance cycle, this report reveals a number of concerns that merit candid attention.

Foremost among them is a question of principle: the temptation, when confronted with a new challenge, to devise an exception. Every such exception may seem reasonable from a political perspective, but rules are judged in the accumulation of precedent, and a framework that bends with each new shock risks losing its ultimate purpose, the sustainability of public finances. That purpose cannot be safeguarded through continuous accommodation of new spending pressures, but only through the determination to let the rules do their work.

A related concern lies in the manner of implementation itself: the credibility of the framework rests not only on the soundness of its rules, but on the transparency and consistency with which they are applied in practice, including all technical aspects and flexibility, which must remain open to scrutiny rather than settled away from public view.

It is in this spirit - one of measured appreciation for what has been achieved, and equally measured vigilance for what remains at stake - that the EFB offers this report to the Commission, the Council, and all those who share its commitment to a durable and credible EU fiscal framework.

KEY MESSAGES AND RECOMMENDATIONS

- The Commission 2026 spring surveillance package was a crucial test of the 2024 reform of the EU's fiscal framework. For the first time, the assessment covered a year for which outturn data were available (i.e. 2025). Until then, reformed surveillance revolved around plans and forecasts.
- The Council broadly agreed with the Commission assessments: no statements under the comply-or-explain rule of the European Semester were issued, and only one country faced procedural consequences in the form of a new excessive deficit procedure. This contrasts with a shortfall of fiscal outcomes and projections from the recommended expenditure paths. The gap reflects both flexibility under the new rules as well as discretion and forbearance on the part of the Commission and the Council.
- The Commission's assessment of compliance with the reformed rules principally focused on numerical deviations from the recommended expenditure path regardless of whether such deviations have procedural consequences under the new rules or not. To fully appreciate a country's situation, the Commission's compliance labels need more context.
- Deviations from the recommended expenditure paths are recorded in the so-called control account. The Commission's methodology to compute the balance of that account differs from an intuitive understanding of the relevant concept. The difference is set to increase over time and can affect the assessment of compliance.
- The assessment of discretionary revenue measures (DRMs) - one of the key ingredients of the single operational indicator under the reformed rules - gives rise to challenges. Unlike standard national accounts data, DRMs are not produced and verified by national statistical offices. The Commission should provide more systematic information on its DRM estimates including on exchanges with national fiscal councils.
- Under the reformed rules, eight Member States were granted a longer and more gradual fiscal adjustment conditional on the implementation of agreed investment and structural reform projects. The Commission's and the Council's assessment of progress with such projects was too brief and cursory. The MTFSPs of the relevant Member States include indicators that allow for a more in-depth monitoring and clearer conclusions on progress.
- Following repeated calls by one large Member State, the Commission suggested an extension of the national escape clause (NEC). Initially limited to defence, the proposal aims to also cover energy resilience measures taken since February this year. Extending the scope of the NEC whenever one or several Member States face new challenges risks undermining the credibility of the reformed framework.
- Following a trend observed since end-2023, when the EU aimed at returning to "*a normal application of the EU fiscal rules*", the implementation of the corrective arm of the Stability and Growth Pact (SGP) has been characterised by new elements of discretion averting or postponing the opening of EDPs. This approach weighs on the effectiveness of the only remaining enforcement tool of EU's fiscal framework. Returning to a more systematic and even-handed application of the corrective arm would give the SGP the teeth and credibility it needs.
- Since 2020, debt issued by the EU on behalf of its Member States nearly doubled as a share of GDP and now stands at more than 5% of GDP of all EU Member States taken together. This trend highlights the importance of complementing conventional debt measures - the sum of national government debt levels - with those of the EU issued on behalf of Member States.

1 MAIN MACROECONOMIC AND FISCAL DEVELOPMENTS

Highlights

- Real GDP growth in 2025 proved to be resilient and exceeded within-year forecasts, owing to investments and in parts tariff frontloading, while Member States, previously in recession, recorded positive growth.

- Growth for 2026, supported by investments and public consumption, was revised downwards in the Commission 2026 spring forecast, as the EU braces itself for new challenges from an incoming terms-of-trade crisis due to the war in Iran.

- At the EU aggregate, growth assumptions underpinning Member State's first version of medium-term fiscal-structural plans broadly held in line with outturn and latest forecasts, on a cumulative basis, over the 2025-2026 period.

- Still, several countries are forecast to undershoot their initial projections of nominal GDP growth, in some cases by up to 3 percentage points over the first two years of their plans, a risk already highlighted by the EFB in its 2025 annual report.

- Following several years of high growth, underlying government expenditure in the EU slowed markedly in 2025 narrowing the distance to current estimates of medium-term potential output growth. This pattern is particularly pronounced in countries with very-high government debt as a share of GDP.

- Nevertheless, current policies are not projected to improve underlying fiscal positions in 2026 - both in the EU and the euro area as a whole - while sovereign risks are being reassessed and interest payments on outstanding debt increase.

- National governments have cushioned the impact of the Middle East crisis with energy support measures, which were initially expected to remain limited in volume for 2026. While energy measures should be temporary and targeted in nature, governments also face rising expenditure pressures of more persistent character on defence and the green transition.

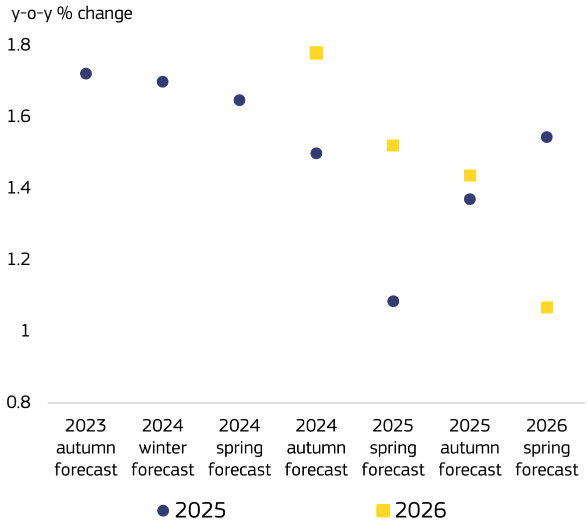
In 2025, the EU economy navigated difficult waters in an increasingly volatile geopolitical context. Despite facing unprecedented trade policy uncertainty, the Union's economy, proved to be more resilient than most observers expected immediately after decade-long trade arrangements were unilaterally abandoned in early 2025. Especially strong labour markets and the return to positive economic growth across all Member States are a testament to the EU's ability to withstand headwinds. However, the current juncture is once again putting the EU to the test. While growth is expected to be supported by investments and public consumption, risks are heavily tilted to the downside following a terms-of-trade shock coming from a persisting conflict in the Middle East.

Fiscal developments reflect the resilient economic performance to a lesser degree. Headline balances improved only very marginally in 2025, and debt inched up on the back of stock-flow adjustments and increasing average interest rates on outstanding debt (compared to nominal GDP growth). In 2026, budget balances are expected to worsen on the back of the unresolved Middle East crisis. Governments identified new spending priorities, some of which are temporary (such as energy support measures) whereas others are of more persistent nature (i.e. expenditure on defence or the energy transition).

1.1 Macroeconomic developments

In 2025, EU economies showed resilience and outperformed within-year forecasts, which predicted a marked slowdown after the US administration had announced broad based tariffs. Real GDP growth in the EU and the euro area stood solid at 1.5% in the EU and 1.4% in the euro area, up ½ percentage point compared to the previous year. After what looked like a very much awaited return to normality towards the end of 2025, the Middle East crisis relit in early 2026 giving rise to new sharp increases in energy prices and other commodities such as fertilisers. As a result, growth projections, have been revised down considerably (Graph 1.1) but remained in positive territory as energy prices were expected to normalise in the second half of the year.[1]

Graph 1.1: Real GDP growth across successive vintages of Commission forecasts, EU



Source: European Commission

Of note, the EU and euro area outturn for 2025 are driven by exceptionally strong GDP growth in Ireland (Graph 1.2). While growth across other Member States ranged between 0.2% to 4%, national accounts data available at the time of the Commission 2026 spring forecast, reported a year-on-year increase in Ireland's overall volume of domestic economic activity of more than 12%.[2] The country is particularly exposed to activities of multinationals and therefore prone to experience large fluctuations in its economic activity. The unusual surge in Irish real GDP is owed to a very strong contribution in gross fixed capital formation as well as net exports, indicating – among other things - frontloading activities ahead of the US tariff threats in early 2025. Had Ireland's economy continued to grow at the rate recorded in 2024, EU and euro area growth would have been a few decimals lower in 2025 (1.2% as opposed to 1.5% in the EU), but economic activity would still have accelerated somewhat compared to the year before.

In 2025, real GDP growth in the EU largely came on the back of a build-up of inventories and strong investment activity, alongside monetary easing. The contribution of public consumption decreased slightly, while imports outweighed exports in the wake of trade policy uncertainty and an appreciation of the euro. Private consumption also weakened somewhat, despite receding inflationary pressures. In 2026, an uptick in the contribution of public consumption, to cushion the impact of the Middle

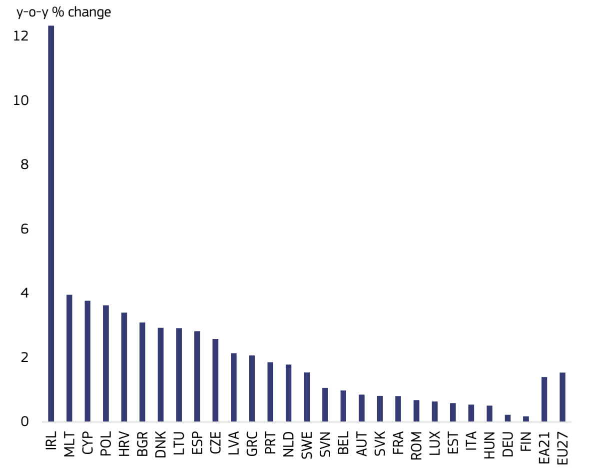
[1] See the Assessment of the fiscal stance appropriate for the euro area in 2027

[2] Ireland's GDP share in the EU is 3%.

East crisis alongside investment activity are expected to drive growth (Graph 1.3).

Moving beyond the aggregate perspective, 2025 was the first year since 2022, in which all Member States recorded positive economic growth. Countries such as Germany, Estonia, Latvia and Austria, which had been in a recession for the past two years, returned to positive territory. In Germany this resulted from a pick-up in private consumption, while in Austria and the two Baltic states the rebound took place on the back of strong public spending and investment activity also linked to defence initiatives.

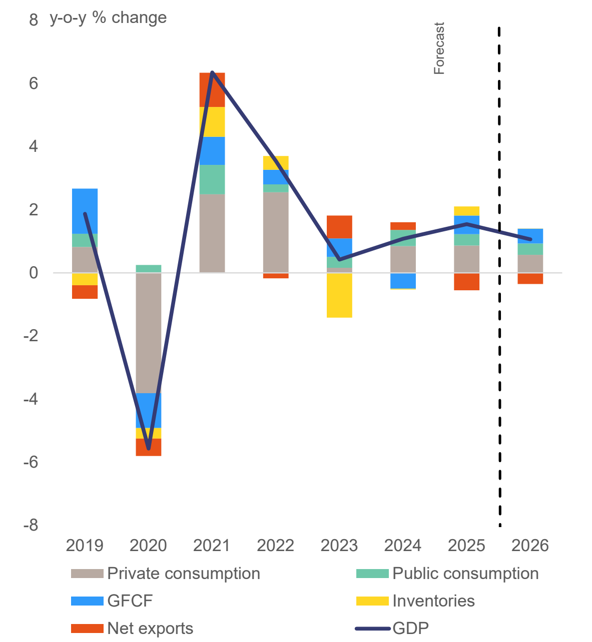
Graph 1.2: Member State's real GDP growth, 2025



Source: Commission 2026 spring forecast

By sector, 2025 was characterised by a rebound in manufacturing output. Services, such as retail trade, also expanded albeit to a lesser extent than the manufacturing sector. The contribution of public services declined following particularly strong growth in 2024.

Graph 1.3: Real GDP growth and its components, EU

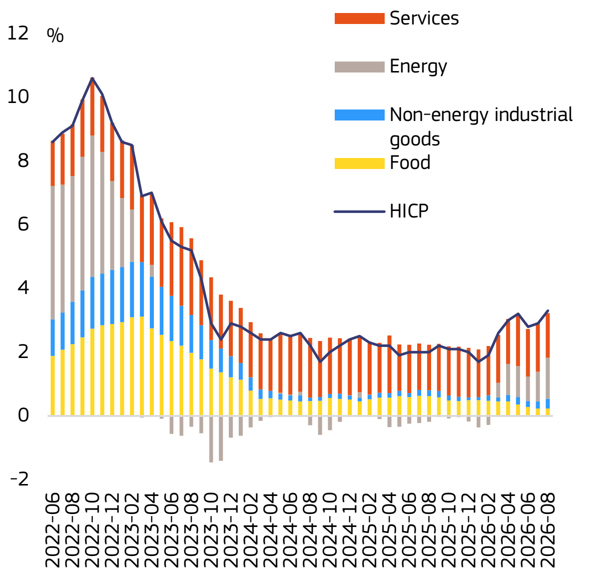


Notes: GFCF = Gross fixed capital formation.
Source: Commission 2026 spring forecast

Inflation was broadly in line with the ECB's medium-term target in 2025 but hiked in 2026. In the euro area and EU, inflationary pressures continued to ease in 2025, with headline inflation coming in at 2.1% and 2.5 % respectively. This came as services inflation eased slightly towards the end of the year, while energy disinflation progressed gradually (Graph 1.4). Yet the outbreak of a new armed conflict in the Middle East with the involvement of the US reversed the trend. The energy component jumped significantly in its year-on-year inflation rate in March 2026 and remains elevated. Subsequently, headline inflation in the euro area reached 3.3% in August. Compared to the Commission's previous forecast in autumn 2025, headline inflation for 2026 as a whole has been significantly revised upwards for the euro area, from 1.9% to 3%.

In terms of monetary policy, 2025 marked the final year of the ECB's easing cycle which had started in June 2024. In September 2026, the central bank increased its main policy rate for a second time by 25 basis points in response to accelerating consumer prices driven by the surge in energy prices.

Graph 1.4: Contributions to HICP inflation, euro area



Source: European Commission

Labour markets continued to be tight, with unemployment rates remaining in historically low territory in 2025, a trend that is also expected to continue in 2026. Nonetheless there are signs of cooling as labour demand continues to ease, inching closer towards pre-pandemic levels, while employment rates and wage growth decelerate.

An assessment of annual progress reports (APRs) – the focus of this report - warrants a comparison between the growth projections underpinning the recommended country-specific expenditure paths and outcomes or latest projections.([3]) The EFB's 2025 annual report includes a first assessment of the macroeconomic scenario underpinning the first round of MTFSPs.([4]) The assessment allocated plans to four different buckets depending on the degree of optimism of the Member States' macro assumptions compared to those underpinning the Commission prior guidance, notably: 'slightly higher', 'more optimistic', 'significantly more optimistic' and 'very significantly more optimistic'.([5]) Overall, twenty Member States were assessed to have optimistic macroeconomic projections, falling into one of the four categories. Of those, twelve were classified as 'significantly more optimistic' and one as 'very significantly more optimistic'.

This type of assessment can now be complemented with outturns in 2025 and updated GDP projections for 2026. Comparing latest developments with those underpinning the MTFSPs contributes to the understanding of whether the ultimate objective of the reformed EU fiscal rules can be achieved. By way of example, if cumulative nominal GDP falls short of plans, the debt ratio may not be on a downward path at the end of the adjustment period, even if the country concerned strictly complies with the recommended expenditure path.

Table 1.1: Evolution of nominal GDP growth compared to the projections underpinning MTFSPs and Commission prior guidance , cumulative 2025-2026

	(i)	(ii)	(iii)
	Commission Spring Forecast 2026 vs. MTFSP	Commission Spring Forecast 2026 vs. Prior Guidance	p.m. EFB assessment of full adjustment period (2025 annual report)
HU	0.9	0.0	
BE	0.0	0.2	
DK	0.3	-0.6	
MT	-2.1	-2.2	
RO	1.5	1.1	
SK	0.1	0.0	
LV	0.9	1.5	
IE	1.9	2.9	slightly higher
BG	3.0	4.6	slightly higher
LU	-2.9	-1.8	slightly higher
SI	-0.9	-0.4	slightly higher
AT	0.7	0.7	more optimistic
PL	-2.4	-0.3	more optimistic
SE	-2.8	-2.6	more optimistic
CZ	0.4	1.2	significantly more optimistic
PT	1.4	2.9	significantly more optimistic
ES	1.2	3.6	significantly more optimistic
LT	1.1	2.1	significantly more optimistic
NL	1.0	1.7	significantly more optimistic
EL	0.9	2.7	significantly more optimistic
DE	-0.5	1.5	significantly more optimistic
CY	-1.3	-0.4	significantly more optimistic
FR	-1.3	-1.1	significantly more optimistic
IT	-1.4	0.4	significantly more optimistic
EE	-3.6	0.4	significantly more optimistic
FI	-2.5	-1.6	significantly more optimistic
HR	3.4	7.2	very significantly more optimistic
EU27	-0.4	0.9	
EA21	-0.3	1.1	

Notes: (1) The table shows the evolution of cumulative nominal GDP growth of the Commission 2026 spring forecast against the forecast underlying the first round of medium-term fiscal-structural plans (MTFSP) and the Commission prior guidance. The first two columns cover the first two years of MTFSPs.
(2) In column (i) and (ii), a negative deviation implies that most recent nominal GDP growth figures undershoot MTFSPs or the prior guidance. Cumulative growth rates use 2024 as starting point.
(3) The EFB provided an initial assessment of nominal GDP growth projections between MTFSPs and the Commission prior guidance covering the entire adjustment period of a country's medium-term plan, visible in column (iii).
(4) In the EFB 2025 annual report 'slightly higher' means the MTFSP projections exceed those of the Commission prior guidance over an MTFSP's adjustment period by up to 1 percentage point, 'more optimistic' between 1 to 2 percentage points, 'significantly more optimistic' between 2 to 4 percentage points and 'very significantly more optimistic' by more than 4 percentage points.
Source: Commission 2024 prior guidance, Commission 2026 spring forecast, first vintage of MTFSPs, EFB calculation

Table 1.1 presents the main results. The focus is on cumulative rates of nominal GDP growth in the first two years of the adjustment period, i.e. 2025 and 2026. For the EU and euro area as a whole, MTFSP

[3] At the time of writing, three countries have submitted new MTFSPs, notably Czechia, Ireland and the Netherlands. However, in all cases compliance in 2025 will be assessed against the first version of the plan.

[4] 2025 annual report of the European Fiscal Board

[5] See the Notes to Table 1.1. for the definition of the different categories.

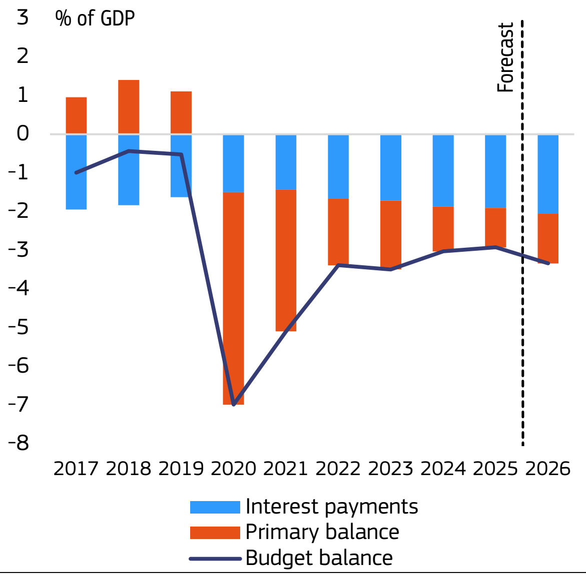
projections and latest forecasts are broadly aligned. By the end of 2026 nominal GDP is set to be only 0.3% below the level projected in national plans. However, the situation varies significantly across countries. Ten Member States (Estonia, France, Luxembourg, Malta, Italy, Cyprus, Poland, Slovenia, Finland and Sweden) are expected to undershoot their initial nominal GDP growth projections by a more significant margin, a possibility already highlighted by the EFB in its 2025 annual report (see last column in Table 1.1). By contrast, nominal GDP of the remaining countries flagged with optimistic growth assumptions back in 2025 is currently travelling at a rate above the one projected in national plans.

1.2 Fiscal developments

Despite decent economic growth, the headline deficit of the EU as a whole remained unchanged at 3.1% of GDP in 2025 and improved only very marginally in the euro area. This result was broadly in line with the projections of Member States in their draft budgetary plans (DBPs) as well as the Commission 2024 autumn forecast. However, as noted in the EFB's assessment of the euro area fiscal stance for 2027, the appropriate fiscal policy orientation would have been consistent with a more significant improvement in budgetary positions, especially in light of macroeconomic developments.[6] In fact, the recommended expenditure paths implied an improvement in the structural primary budget balance of the EU (and the euro area) of 0.2 % of GDP while the latest Commission forecast points to no improvement.

Looking at 2026, headline balances are expected to deteriorate by close to ½ % of GDP in both the EU and the euro area. The projected deterioration is linked to a stronger effect of interest payments, as financing conditions for sovereigns tighten, and an acceleration of other expenditure categories such as defence. The structural primary budget balance is expected to remain broadly unchanged, while original MTFSPs implied an improvement of 0.2% of GDP - as in 2025.

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

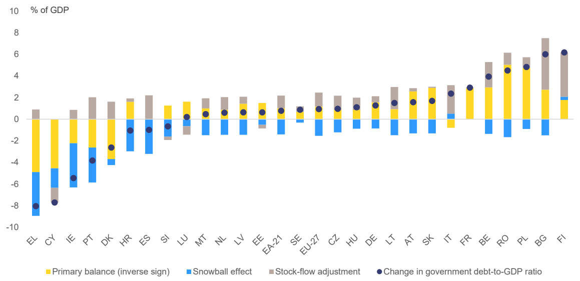


Source: Commission 2026 spring forecast

Despite largely unchanged headline deficits, the debt-to-GDP ratio of the EU aggregate increased by close to 1 percentage point in 2025. A gradual weakening of the snowball effect - the difference between the average interest rate on government debt and nominal GDP growth - offset primary budget deficits to a lesser extent than in 2021-2023. Moreover, measurable stock-flow adjustments in large Member States such as Spain and Italy further exerted a debt-increasing effect. Overall, the debt ratio of the EU aggregate increased from 82% to 83% of GDP in 2025. For 2026, fiscal balances coupled with further increases in sovereign yields are expected to push government debt up to above 84% of GDP in the EU, and to more than 91% of GDP in the euro area (Graph 1.6). Based on latest Commission forecasts, at the end of 2026 government debt in both the EU and the euro area will be around 1 percentage point of GDP higher than assumed in the MTFSPs.

[6] Assessment of the fiscal stance appropriate for the euro area in 2027

Graph 1.6: Drivers of government debt-to-GDP ratio in 2025 by country



Notes: The drivers of the debt-to-GDP ratios are calculated according to the following formula approximating the governments intertemporal budget constraint: $b_t - b_{t-1} = pb_t + \frac{i_t - \gamma_t}{1+\gamma_t} * b_{t-1} + sfa_t$, 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: Commission 2026 spring forecast

To complement the picture on fiscal developments, the remainder of this section turns to underlying expenditure trends, i.e. the evolution of total government expenditure excluding a number of temporary factors.(7) What follows is a purely analytical exercise, in line with previous EFB reports, to gain a basic understanding of the sustainability of current policies, short of a fully-fledged sustainability analysis.(8) The exercise compares underlying expenditure growth against estimates of medium-term potential output growth, a gauge of how fast a government's overall tax base is increasing.(9) As long as underlying government expenditure does not outpace medium-term potential output, debt ratios will not increase in the medium to long term.(10)

In recent years, the EU experienced a continued deceleration in underlying expenditure alongside easing inflation rates. Its growth declined from 6.3% in 2024 to 4.1% in 2025, broadly in line with the medium-term benchmark of nominal potential output. In 2026, underlying expenditure is expected to pick up again exceeding the benchmark (Graph 1.7)

Very-high-debt countries adjusted underlying expenditure more visibly than countries with more fiscal space. In 2025-2026, they are recording rates below the medium-term benchmark, likely indicating consolidation efforts. In contrast, low- and high-debt countries operate at or just above the benchmark (Graph 1.7). Developments in the high-debt category are heavily influenced by Germany, which accounts for 80% of the group's specific weight. In 2026, the country group still exceeds the benchmark rate of potential output growth, indicating the fiscal expansion is being driven by Germany's special infrastructure fund.

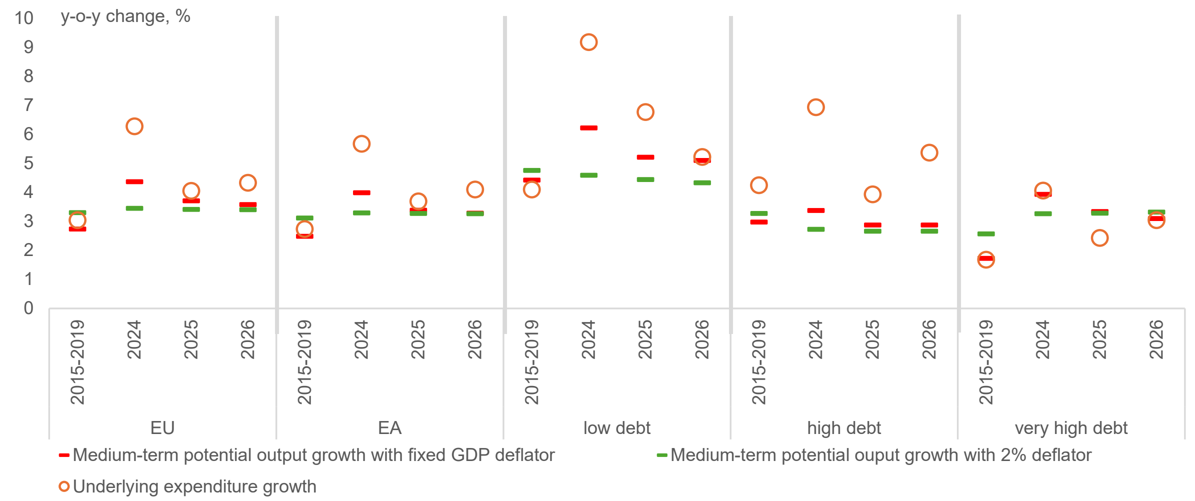
Exceptional fiscal support measures such as Covid and energy support of the previous five years had a substantial and volatile effect on public finances but were phased out eventually and should not leave lasting traces unless replaced with permanent measures. Energy support measures introduced in the wake of the re-ignited Middle East crisis of February 2026 for the current year are, as of writing, still limited amounting to less than 0.1% of GDP at the EU and euro area aggregate. Yet, some countries are planning or decided to extend some measures.

[7] Underlying expenditure is total expenditure minus discretionary revenue measures, temporary elements as well as balance-neutral expenditure items such as expenditure on EU programmes fully matched by EU funds.

[8] 2021 annual report of the European Fiscal Board

[9] The medium-term rate of potential output growth is defined as the 10-year back- and forward-looking moving average of potential growth estimates for a given Member State. Government revenues are assumed to grow in lockstep with potential output; this assumption is backed by available estimates of tax elasticities (see Price, Dang & Guillemette, 2014 or Price, Dang & Botev, 2015)

Graph 1.7: Growth rates of underlying expenditure and medium-term potential output

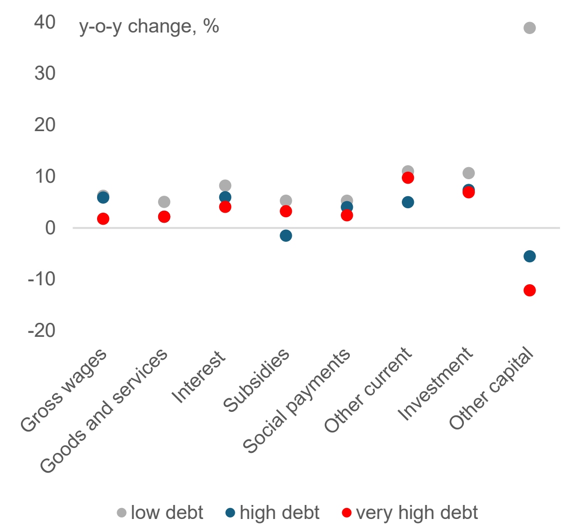


Notes: The medium-term rate of potential output growth is calculated as the 10-year moving average of real potential output growth. It is expressed in nominal terms using (1) an actual/forecast GDP deflator or (2) a 2% GDP deflator, in line with the ECB's 2021 proposal (Lane, 2021). 'Underlying expenditure growth' refers to the growth rate of total government expenditure, excluding discretionary revenue measures, expenditure on EU programmes fully matched by EU funds revenue, national co-financing of EU funded programmes (starting from 2023), cyclical part of unemployment benefit expenditure and temporary Covid and energy support measures. Countries are grouped by their government debt level in 2025. Low debt countries (debt ratio below 60% of GDP) = BG, CZ, DK, EE, IE, HR, LV, LT, LU, MT, NL, PL, RO, SK and SE; high debt countries (debt ratio between 60% and 90% of GDP) = DE, CY, HU, AT, SI and FI; very high debt countries (debt ratio above 90% of GDP) = BE, EL, ES, FR, IT, and PT. The values for country groups are GDP-weighted averages.
Sources: Commission 2026 spring forecast; EFB calculations

Turning to the composition of underlying expenditure, elements carrying the highest weight such as social payments and gross wages declined in their respective contributions in 2025 and 2026. Meanwhile subsidies and other current expenditure picked up, while the contribution of investment remained broadly steady.

Trends across expenditure items are broadly similar by country groups. In 2025, this was especially the case for high- and very-high debt countries. Other capital expenditure is more volatile than other expenditure items because it often includes irregular capital transfers (Graph 1.8). As it is one of the smallest expenditure items, large irregular transactions can strongly affect its growth rates. Looking at 2026, spending patterns on respective items become even more similar, except for the still volatile other capital component. Notably, increase in interest expenditure in 2026 is estimated to accelerate and to outpace growth rates in other expenditure items for the very high debt group of countries.

Graph 1.8: Items of underlying expenditure growth in 2025

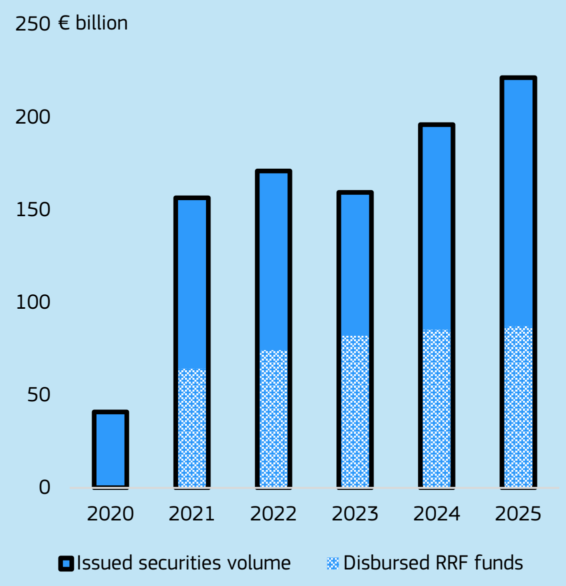


Notes: Underlying expenditure growth refers to the growth rate of total government expenditure, excluding discretionary revenue measures, expenditure on EU programmes fully matched by EU funds revenue, national co-financing of EU funded programmes (starting from 2023), and cyclical part of unemployment benefit expenditure and temporary Covid and energy support measures. Countries are grouped by their government debt level in 2025. Low debt countries (debt ratio below 60% of GDP) = BG, CZ, DK, EE, IE, HR, LV, LT, LU, MT, NL, PL, RO, SK and SE; high debt countries (debt ratio between 60% and 90% of GDP) = DE, CY, HU, AT, SI and FI; very high debt countries (debt ratio above 90% of GDP) = BE, EL, ES, FR, IT, and PT. The values for country groups are GDP-weighted averages.
Source: European Commission

Box 1.1: **EU issued debt on behalf of Member States**

In recent years, gross debt of the EU issued on behalf of Member States has nearly doubled as a share of GDP since 2020. While the Union had been borrowing limited amounts on capital markets on behalf of its Member States for decades, the Covid pandemic triggered new landmark policies, such as the SURE and the Next Generation EU (NGEU) initiative, backed by large-scale market financing turning the EU into a prominent borrower alongside large Member States such as Germany and France. Between 2020 and 2025, the EU's debt issuance on behalf of Member States, not considering in-year repayments, increased fivefold from just over € 40 bn to € 222 bn in 2025. As a result, and using economic activity of all EU Member States taken together as reference, overall gross debt of the EU issued on behalf of Member States went from 2.9% of GDP in 2020 to 5.4% in 2025.

Gross debt issued by EU on behalf of Member States and EU RRF disbursements



Notes: RRF = Recovery and Resilience Facility. According to the Commission estimates, NGEU would require annual borrowing of €150-200bn. The EU introduced a unified funding approach, where funds for programmes are raised jointly and distributed in a second step. Thereby distributed RRF funds may not coincide with their issuance date.
Source: European Commission

Until recently, the full extent of gross debt issued by the EU on behalf of Member States was not reflected in conventional measures, simply because national accounts did not feature a separate sector for the EU.([11])([12]) All transactions from and with the EU were recorded under the 'rest of the world' together with the transactions of other entities. While this arrangement was acceptable as long as outstanding gross debt of the EU issued on behalf of Member States was limited, it weighs on transparency once this debt reaches more significant levels, as is the case now.

So far, the commonly used measure of EU gross debt in any given year was simply the stock of outstanding debt of all EU Member States taken together, typically expressed in terms of GDP of all EU Member States. However, those figures do not fully capture debt issued by the EU on behalf of Member States. One part of EU debt issued on behalf of Member States is passed on to Member States and, as a result, included in the national accounts data of the very same Member States. However, EU borrowing distributed to Member States in the form of grants - a prominent feature of the Recovery and Resilience Facility (RRF), the NGEU's dominant spending programme – or in the form of loans or grants to non-EU Member States do not show up in the commonly used EU debt measure.

Against this backdrop, and in line with a suggestion issued by the EFB in its earlier reports, Eurostat has launched a process aimed at closing the gap in national accounts and, started to publish data recording the overall stock of debt securities issued by the EU on behalf of Member States.([13]) This allows interested parties (i) to access official data on government debt consistent with national accounts principles; and (ii) to easily calculate an encompassing EU aggregate gross debt stock. At the time of writing, the new Eurostat series covers the period 2020 to 2025. The breakdown into different debt categories is available via Eurostat's communications and available for the years 2021 to 2025.

The composition of the encompassing EU gross debt stock is provided in the table below.([14]) The figures in column (i) reflect the commonly used measure of EU debt, i.e. aggregated national data, which, following a decline after the end of the Covid-pandemic, started to increase again in 2024. The following three columns report outstanding debt issued by the EU on behalf of Member States and its breakdown. While the component passed on to Member States

[11] Including loans and other obligations.

[12] See Box 2 of the EFB assessment of the fiscal stance appropriate for 2022

[13] EFB assessment of the fiscal stance appropriate for 2022

[14] Research institutes also provide projections of EU debt over a longer time horizon, up to 2030. See for example Heinemann & Moorman (2026).

(column ii) remained constant, at around roughly 3 ½ % of GDP, grants to Member States as well as grants and loans to non-EU Member States (column iii) picked up significantly over the years, accounting for about a third of total debt issued by the EU. This increase reflects progress with the implementation of the RRF as well as support in the form of loans to non-EU Member States, most notably Ukraine. It correspondingly widened the gap between the common understanding of EU debt and the encompassing stock.

Loans and other debt titles vis-à-vis the Member States can be characterised as assets of the EU (see Eurostat communication on Annual statistical accounts of the EU institutions and bodies subsector). While such a characterisation is technically correct, it is not entirely clear how marketable EU loans to Member States would be compared to loan contracts between private entities. From a macroeconomic perspective, the necessary resources to service debt issued by the EU on behalf of Member States will ultimately have to come from the Member States either through new contributions to the EU budget or by cutting other expenditure within the EU budget.([15]) As a result, this box mainly serves as a reminder that there are 'no free lunches' for national governments. It also stresses the importance of recording and publishing outstanding debt issued by the EU on behalf of Member States alongside national government debt. Having a complete view of the overall gross debt burden is highly relevant for citizens as well as financial markets.

Composition of EU debt, % of GDP

Year	Conventional EU debt (aggregated national debt data)	Outstanding debt issued by EU on behalf of its Member States			Grand total
		Assets against Member States (eg. loans)	Grants + loans to non-EU countries	Total	
	(i)	(ii) included in (i)	(iii) not included in (i)	(iv) = (ii) + (iii)	(v) = (i) + (iii)
2020	91.2	N/A	N/A	2.9	N/A
2021	88.3	3.2	0.4	3.6	88.7
2022	83.8	3.3	0.7	4.0	84.5
2023	81.8	3.3	1.0	4.3	82.8
2024	81.9	3.3	1.6	4.9	83.4
2025	82.8	3.5	1.8	5.4	84.6
2026	84.2	N/A	N/A	N/A	N/A
2027	85.3	N/A	N/A	N/A	N/A

Notes: Values below the dotted line are from the Commission 2026 spring forecast.
Sources: Column (i) European Commission ; column (ii) – (iv) Eurostat; column (v) EFB calculations.

[15] For instance, the agreement on the mid-term revision of the current multiannual financial framework (MFF) of early 2024 created a new special instrument to mobilise resources to address higher-than-projected debt-servicing costs. To avert cuts on EU expenditure programmes, the special instrument sits technically outside the MFF expenditure ceiling. Any resulting financing need is ultimately borne through additional resource calls on Member States typically via GNI-based contributions, the main flexible residual source.

2 IMPLEMENTATION OF COUNTRY-SPECIFIC EXPENDITURE PATHS

Highlights

- The first full year of implementation of the reformed fiscal framework was broadly smooth, but in several countries fiscal outcomes fell short of the adjustment requirements implied by Member States' expenditure paths despite better-than-expected economic growth.

- The Commission's compliance labels focus on numerical deviations from expenditure paths. They are silent about possible procedural consequences, making additional context necessary to assess formal compliance.

- The Commission methodology to calculate the balance of the control account does not capture the intuitive understanding of possible deviations of the actual from the recommended expenditure path, with possible implications for the assessment of formal compliance.

- The 2026 forward-looking assessment reveals cases where annual and cumulative expenditure developments point to different compliance conclusions, underscoring the need for greater consistency and transparency in the way the assessment is carried out.

- The assessment of discretionary revenue measures (DRMs) is less transparent and more reliant on expert judgement than other elements of the net expenditure aggregate, despite their potentially significant impact on compliance assessments.

- The Commission's assessment of reforms and investments underpinning extended adjustment periods remains largely procedural, with limited scrutiny of the substance, quality and actual impact of the relevant action taken by governments. Overlap with commitments under other EU spending programmes such as the Recovery and Resilience Facility (RRF) seems to play a role, in the sense that a negative assessment under the EU fiscal framework would produce repercussions for the disbursement of specific EU spending programs.

- The national escape clause (NEC) has been interpreted extensively, allowing some Member States to accommodate expenditure unrelated to defence. A narrower interpretation would imply a less favourable compliance assessment for several countries. The recent extension, dubbed NEC+, to cover energy resilience measures comes with additional issues. It notably stretches the concept of exceptionality, a formal condition for activating the NEC, possibly turning the NEC into an ad-hoc golden rule.

- The involvement of independent fiscal institutions in assessing compliance with national expenditure paths was widespread but heterogeneous, with no clear pattern in the form or extent. A stronger involvement of IFIs in the assessment of compliance, including DRM estimates, can help strengthen the framework.

This chapter examines fiscal outcomes in 2025 and forecasts for 2026, as documented in the Commission 2026 spring surveillance package, and assesses them against the recommendations issued by the Council under the 2024 reform of the EU fiscal framework. In that context, it offers an independent view of how the Commission and the Council evaluated and implemented the reformed rules.

Before turning to the analysis, it is worth recalling some of the most relevant innovations or changes introduced by the 2024 reform. The most important change for the purpose of this report, is the single operational indicator, notably the net expenditure aggregate defined in Article 2 of Regulation 1263/2024. Prior to the 2024 reform, Council recommendations defined Member States' fiscal adjustment requirements with two indicators – the structural budget balance and an expenditure benchmark. Although completely aligned from a conceptual perspective, the two indicators often sent diverging signals in the monitoring and assessment phase giving rise to cherry-picking. This issue has been repeatedly highlighted and criticised in a number of previous annual reports of the EFB starting in 2019.([16]) The single operational indicator of the reformed rules is meant to address the problem and, more generally, aims to make the EU's fiscal rules simpler, more transparent and easier to enforce.

The second important change introduced by the 2024 reform is the medium-term orientation of the EU's fiscal recommendations and national ownership. Starting from a country-specific reference trajectory put forward by the Commission and derived from a tailor-made sustainability analysis, Member States can present their own expenditure path for at least 4 years, which can be extended by up to 3 years if the national authorities commit to a set of relevant reforms and investment projects.([17]) The direct and formal participation of the Member States in setting the adjustment requirements is meant to enhance their commitment and, ultimately, compliance. Following an assessment by the Commission and the Council, and assuming the expenditure path satisfies a number of conditions set out in EU law, the Council formalises the medium-term adjustment path by adopting a recommendation. In the event of 'objective circumstances, notably after a change in government, a Member State can submit a revised expenditure path. This means that the multi-annual assessment cycles may no longer be synchronised across all countries, a possibility that has materialised. The Annex contains assessments of three new MTFSPs – of The Netherland, Ireland and Czechia - submitted since the publication of the EFB's previous report reviewing the implementation of Member States' medium-term plans.([18])

The medium-term orientation of the Council recommendations for each Member State is coupled with an annual monitoring exercise.([19]) The key input to this exercise is the annual progress report (APR) which national governments are expected to publish and submit to the EU by the end of April. The APR documents progress in the implementation of the recommended expenditure path and, where relevant, of reform and investment projects. The Commission assesses the APRs with a view to concluding whether and to what extent Member States are staying within the expenditure limits set by the Council. Such conclusions are ultimately derived from the so-called control account, which keeps track of successive deviations – positive as well as negative ones – from the recommended medium-term expenditure path taking into account flexibility provisions.([20])

A country found to exceed the recommended expenditure path by a given margin after having considered all applicable margins of flexibility, may face the stepping up of EU surveillance, possibly in the form of a so-called debt-based excessive deficit procedure (EDP).

From a conceptual point of view, and compared to the former rules, the single operational indicator clearly mitigates past ambiguities in the assessment

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[16] Assessment of EU fiscal rules with a focus on the six and two-pack legislation

[17] Where the national plan includes a higher net expenditure path than the reference trajectory of the Commission, the Member State is required to provide in its plan sound and data-driven economic arguments explaining the difference. In addition, the Commission's assessment of the national plan then needs to establish whether the net expenditure path put forward by the Member State complies with the requirements to put or keep the general government debt on a plausibly downward path by the end of the adjustment period or remains at a prudent level, and brings and maintains the government deficit below 3% of GDP over the medium term.

[18] The implementation of national medium-term fiscal-structural plans: Recent fiscal developments and draft budgetary plans for 2026

[19] In essence, the net expenditure path, set individually for each Member State by the Council, is anchored to the 60% debt reference value to be attained (or maintained by a Member State with a ratio at or below the reference value) over a medium-term horizon. The new approach replaces the earlier uniform preordained 1/20th yearly reduction of the debt ratio in excess (if any) above the debt reference value.

[20] See Article 22, Regulation 1263/2024 and Article 2, Regulation 1467/1997.

of compliance. However, the specific definition of the net expenditure aggregate comes with non-negligible challenges. Specifically, the net expenditure aggregate includes estimates derived from expert judgment as opposed to national accounts data prepared by national statistical offices and validated by Eurostat. The most important case in point are discretionary revenue measures (DRMs). Together with other items, they are subtracted from overall primary government expenditure to account for the fact that expenditure growth beyond the recommended rates can well be justified if covered by new revenues stemming from discretionary policy decisions.

The main benchmark for the assessment of DRMs are estimates directly provided by national governments. The Commission can make their own evaluation but, except for glaring issues with the original estimates, does not necessarily and systematically have access to additional information that would credibly motivate a significant departure from national estimates, especially sizeable downward revisions. Moreover, unlike national accounts data, DRM numbers do not transit from forecasts to outturns as time passes; they remain estimates based on expert judgment. Some of the issues implied by this feature were already highlighted and documented in the EFB's implementation review and will feature also in this chapter. ([21])

A second complication in assessing compliance with the reformed fiscal rules are national reform and investment projects. A priori, reform and investment projects can produce positive effects in all Member States. Under the reformed fiscal rules, they play a special role in the sense that committing to relevant reforms and investment is a precondition for stretching the adjustment period and, in turn, making the fiscal adjustment more gradual. However, assessing progress on investment commitments beyond checking the achievement of operational milestones (e.g. the adoption of a national legal act) is far from straightforward. This chapter will therefore examine the Commission's approach to verify actual progress with reforms and their effects.

The remainder of the chapter is organised as follows. Section 2.1 looks back to the year 2025 for which most of the relevant data are outturns. Section 2.2 zooms in on the implementation of reform and investment commitments of countries with an extended adjustment period. Section 2.3 turns the focus towards ongoing developments and the short-term outlook to assess compliance risks for 2026.

2.1 Backward-looking assessment (2025)

Commission reporting

In spring 2026, the Commission presented its ex-post assessment of compliance with the country-specific fiscal requirements for 2025, the first full year of implementation of the reformed EU fiscal framework. The main findings for all Member States were set out in the Commission's chapeau communication, summarised in a dedicated box, and explained further in an annex.([22])

The Commission's assessment focused on observed net expenditure growth and its deviation from the recommended limit - where relevant taking into account flexibility linked to the activation of the national escape clause (NEC). Following an approach started in autumn 2025, the Commission's overall conclusions are encapsulated in three compliance labels (see dedicated subsection below).

The Commission followed a relatively limited approach, presenting overall conclusions on compliance without publishing the underlying analysis or any detailed explanations. Besides statistical tables, it did not provide a country-specific analytical assessment of fiscal developments, nor did it offer an analysis of comparable scope to that included by Member States in their APR. In addition, the Commission did not explain the main factors driving net expenditure growth (NEG) in 2025 or the principal differences between estimated components of NEG (e.g. DRMs), and those estimated by Member States.

As highlighted in earlier EFB reports, this represents a change from the more detailed fiscal assessments carried out before 2020 taking the form of dedicated staff working documents.([23]) Those documents examined the drivers of fiscal developments and explicitly addressed differences between Commission and Member State data/estimates. The more limited analytical detail and transparency in the current approach could affect the visibility of the

[21] See EFB (2026) The implementation of national medium-term fiscal-structural plans: Recent fiscal developments and draft budgetary plans for 2026

[22] The Commission Communication: 2026 European Semester – Spring Package (COM(2026) 200 final).

[23] See for instance, see the EFB's 2025 annual report

Commission's technical expertise in fiscal policy, as discrepancies may be less readily identified and, in the absence of public scrutiny, confidence in the robustness of its assessment could weaken.

Any procedural follow-up implied by the Commission's conclusions is discussed in a separate document, notably in the Commission report under Article 126(3) TFEU, which aims to assess the existence of an excessive deficit as defined in EU law (see Chapter 3). Where no procedural follow-up is envisaged or necessary, the Commission factually refers to deficit and debt levels of the countries concerned.

In the end, the 2026 spring fiscal surveillance round gave rise to a very limited number of procedural consequences, in spite of (i) virtually no improvement in the EU's headline deficit (see Chapter 1) and (ii) deviations from the recommended medium-term expenditure paths (see below in this chapter). Only one country – Bulgaria – was put into EDP while the EDP for Malta was abrogated. The tension between fiscal outcomes and limited consequences under the reformed rules is determined by a series of factors which will be discussed in the following subsections.

Commission assessment labels

The Stability and Growth Pact (SGP) encompasses two parts: a preventive and a corrective arm.([24]) Before the 2024 reform, the two arms were self-contained.([25]) In particular, the regulation governing the preventive arm included its own enforcement mechanism, the significant deviation procedure, applicable in cases of non-compliance with the preventive arm requirements, although Commission and the Council never applied it in practice.([26])

The 2024 reform mostly overhauled the preventive arm of the SGP creating a direct connection with the corrective one. Under the reformed framework, deviations from the medium-term expenditure path set under the preventive arm can directly trigger an excessive deficit procedure (EDP), which is at the core of the corrective arm. Therefore, a clear characterisation of what constitutes non-compliance under the preventive arm is crucial.

(i) Annual vs cumulative deviations

The Commission monitoring of the implementation of the MTFSPs, and, in particular, the net expenditure path set by the Council, revolves around the so-called control account (Article 22 of Regulation 1263/2024). The control account keeps track of all deviations – positive and negative. It records a debit (credit) when observed net expenditure is above (below) the net expenditure path as set by the Council. With the activation of the NECs in the course of 2025, followed by an extension for energy resilience measures in 2026, the Commission introduced so-called augmented control accounts to cater for the flexibility linked to eligible spending.

Pursuant to the provisions of the reformed rules, specifically Article 2(2) of Regulation 1467/1997, in its 2026 spring package the Commission assessed deviations from the net expenditure paths set by the Council in both annual and cumulative terms and, where relevant, taking into account the flexibility allowed under the NEC. The recitals of Regulation (EU) 1263/2024 explain that attention to annual and cumulative deviations is intended to capture both (i) a significant deviation in any given year and (ii) a series of smaller deviations that persist and accumulate over several years.

However, for Member States benefiting from the NEC, the Commission's assessment exclusively focused on the cumulative balance, thereby turning a blind eye on point (i) in the previous paragraph, i.e. significant deviations in a single year. More specifically, the augmented control account set up by the Commission does not show annual deviations. This creates unequal treatment with respect to countries that did not apply for the NEC and which may deviate from the recommended limit on an annual basis while remaining compliant cumulatively, yet still risk an adverse compliance assessment.

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[24] Legislation relating to the EU Stability and Growth Pact is available at this link: [Legal basis of the Stability and Growth Pact]

[25] Regulation 1466/1997 for the preventive arm and Regulation 1467/97 for the corrective arm.

[26] Article 6(2) of Regulation 1466/1997 for euro-area Member States and Article 10(2) for Member States that have not adopted the euro.

Table 2.1: Implementation of net expenditure paths in 2025 and procedural implications

		Practical perspective on the application of the SGP rules			
		No deviation: NEG within the recommended limit + NEC flexibility	Deviation: NEG above the recommended limit + NEC flexibility but no procedural follow-up		Deviation: NEG above the recommended limit + NEC flexibility with possible procedural follow-up
			because deviation within thresholds	because of fiscal situation	
Commission assessment labels	'Compliance'	BE(-0.5), CZ(-1.7), DK(-1.6), DE(-0.7), EE(-2.9), EL(-1.5), ES(-0.1), FR(0;-0.3), LV(-2.6), HU(0), AT(-0.4), PL(-0.3), RO(-0.8;-0.8), SK(-2.5), FI(-2.5), SE(-0.9;-1.1)			
	'Non-compliance'		IT(0.1;0), LT(0.3), PT(0.4), SI(0.3)		
	'Material non-compliance'			BG(1.4), IE(0.3;-0.1), HR(0.9), CY(1.3;1), LU(1.3;0.6), MT(-0.1;2.3), NL(1.5;1)	

Notes: (1) The table shows the position of each Member State in relation to the Commission assessment labels (based on deviations from the recommended net expenditure limit) and a more practical perspective on the application of the SGP rules by showing the procedural implications of net expenditure growth (NEG) deviations relative the recommended limits. (2) The Commission defines its assessment labels as follows: (i) 'compliance' = NEG is within the recommended ceiling; (ii) 'non-compliance' = NEG exceeds the recommended ceiling, but the positive deviation remains below the applicable threshold; and (iii) 'material non-compliance' = NEG exceeds the recommended ceiling, and the positive deviation exceeds the applicable threshold. The thresholds for deviations are as follows: (i) 0.3% of GDP annually and (ii) 0.6% of GDP cumulatively. (3) The figures shown in brackets next to each country code indicate deviations from the 2025 net expenditure growth limit. For the 18 Member States making use of the national escape clause (NEC), the single figure shown corresponds to the cumulative balance recorded in the augmented control account. For the remaining 9 Member States, the first figure indicates the annual balance and the second the cumulative balance in the control account. The colour coding of these figures: green = no deviation or a negative deviation (i.e. observed NEG is in line with, or below, the recommended limit); yellow = positive deviation within the applicable threshold; red = positive deviation above the applicable threshold.
Sources: Commission 2026 spring package, EFB assessment

(ii) Deviations and procedural consequences

Following a classification introduced in 2025, the Commission characterised the Member States' performance against the net expenditure path set by the Council with three assessment labels reflecting different degrees of deviation: (i) 'compliance' when net expenditure remains below the recommended limit; (ii) 'non-compliance' when net expenditure exceeds the recommended limit but the deviation is within the margins of tolerance defined in the reformed rules (i.e. 0.3% annually or 0.6% cumulatively); and (iii) 'material non-compliance' when a deviation exceeds the margins of tolerance.

The Commission found 16 Member States 'compliant'; four were labelled as 'non-compliant'; and seven Member States as 'materially non-compliant' (see Table 2.1). While these labels are internally consistent, they offer no indication on whether a country faces any procedural consequences. Under the reformed rules not every deviation from the net expenditure path set by the Council leads to enforcement steps. More generally speaking, a deviation is merely a necessary not a sufficient condition for launching enforcement steps.

Two specific constellations are to be kept in mind. First, analogous to the previous SGP rules, the reformed preventive arm explicitly defines a margin of tolerance.(27) As long as deviations from the recommended net expenditure path stay below those thresholds there are no questions asked. Second, even if a deviation exceeds the annual or cumulative threshold, the Member State concerned will not face any enforcement steps if the debt level is below 60% of GDP or if it runs a balanced budget or a surplus.

As a result, equating deviations with non-compliance is misleading. The recommended net

[27] Similar margins existed under the previous rules when assessing deviations from the annual adjustment requirements expressed as change in the structural budget balance or the expenditure benchmark. See Article 6(3) of Regulation 1466/1997.

expenditure path is not, in itself, a fiscal rule whose breach automatically entails formal non-compliance and, in turn, enforcement steps. Rather, the formal implications of a deviation depend on a number of conditioning factors explicitly set out in the reformed rules, notably the size of the deviation and/or the fiscal situation of the country concerned. In fact, none of the eleven countries that the Commission characterised as 'non-compliant' or 'materially non-compliant' faced any procedural follow-up. Table 2.1 illustrates why. It juxtaposes the Commission compliance labels with a more practical perspective, which takes into account the relevant conditioning factors. The essence of the comparison is straightforward. Additional context set out in the reformed rules is needed to correctly interpret the implications of the Commission's compliance labels.

Luxembourg and the Netherlands are two concrete and illustrative examples. The Commission labelled both as being 'materially non-compliant' in 2025. And indeed, observed net expenditure exceeded the recommended level by more than the legally defined annual and/or cumulative margins of tolerance. At the same time, thanks to the provisions of Article 2 of Regulation 1467/1997, their comparatively favourable fiscal situation in terms of debt and/or deficit, exonerates them. Ireland, Cyprus, Croatia Portugal, and Malta are in a similar situation. Bulgaria is a special case. As explained in Chapter 3, the Commission decided to open an EDP for the country on the basis of a projected headline deficit of more than 3% of GDP in 2026, even after taking into account the increase in defence expenditure under the NEC.

Of note, the Commission uses its three compliance labels only in the chapeaux communication of its 2026 spring package, the document that summarises the main findings and conclusions of the surveillance exercise. They do not feature in the country-specific recommendations, the legal acts to be adopted by the Council as part of the spring surveillance exercise pursuant to Article 121 TFEU. The recommendation only refers to net expenditure and to deviations from the recommended limits, without formally concluding on compliance or non-compliance. This could be read as an indication that albeit conscious about the difference between deviations on the one hand and formal implications on the other, the Commission chose a shortcut.

Overall, the Commission's assessment in spring 2026 was somewhat more informative than that of autumn 2025, notably by providing additional information on the fiscal situation of the Member States in the chapeaux communication. Nevertheless, improvements can be made to enhance clarity. In particular, the Commission should state more explicitly in its communication the difference between deviations from the recommended net expenditure path and the implications for fiscal surveillance. Without further context, the current compliance labels evoke a formal transgression that is not borne out in any formal sense. Resuming the pre-2020 tradition of preparing dedicated country reports with an in-depth analysis of fiscal developments would be the best option to provide said context.

Selective use of statistical corrections

In its 2026 spring package, the Commission introduced a new element that is not foreseen in the formal definition of net expenditure in EU fiscal surveillance, named 'correction for breaks in time series'. This adjustment appears in the fiscal statistical annex of the Commission package (country table 6 on compliance assessment). Its application is also noted in Box 1 on the calculation of the net expenditure aggregate. It was applied to four Member States (Spain, France, Portugal, and Slovenia), with the largest correction amounting to 0.7% of GDP in the case of Slovenia. Without this adjustment, Slovenia would formally fail to respect fiscal rules in 2025.

While accounting for such statistical corrections can improve the analytical accuracy of government-controlled expenditure, they also come with the risk of introducing inconsistencies in the form of ad hoc adjustments. The SGP's Code of Conduct acknowledges that revisions to outturn data may alter the cumulative balance of the control account, thereby affecting compliance assessments. Notably, the Code of Conduct allows the Commission to consider the impact and nature of revisions in its reports under Article 126(3) TFEU, but not during routine monitoring.

The current Commission corrections stem from reclassifications of public entities (either inside or outside the general government sector). Such accounting changes can suddenly increase or decrease government expenditure (and revenue), which was not anticipated when setting the net expenditure path. However, the Commission does not clarify the criteria for selecting these reclassifications, or which breaks in time series would qualify for a correction of the net expenditure aggregate more generally.

In practice, all Member States undergo frequent data revisions with each new statistical release, but these are not visible to external observers unless explicitly reported by statistical authorities. For full transparency, the Commission and Council should define broad parameters for statistical revisions excluded from net expenditure, making them a formal component of the EU fiscal framework (in the Code of Conduct). The Commission should publish the applied corrections in the AMECO database, ensuring all relevant data are available in a single, publicly accessible source.

Discretionary revenue measures

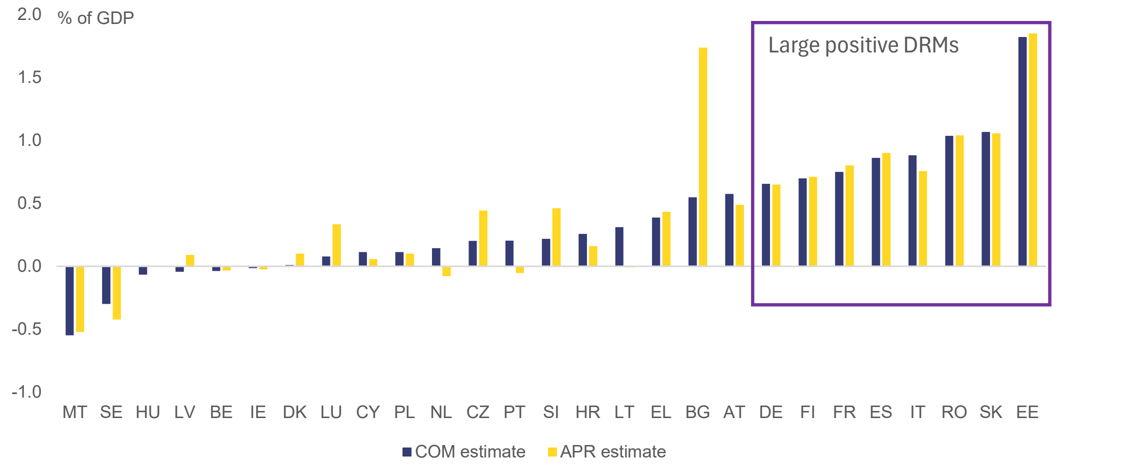
Discretionary revenue measures (DRMs) and one-off measures form a subset of fiscal policy measures. The Commission defines a fiscal policy measure as a government intervention with a direct incremental budgetary impact relative to the no-policy-change baseline. Both the baseline and the estimated impact of a policy intervention can be measured in different ways and depend on a range of assumptions as well as expert judgement.

In practice, country experts in the Commission's Directorate-General for Economic and Financial Affairs mainly rely on information provided by national governments complemented with their own views. This means, DRM estimates remain only partially comparable across countries; most importantly, they are not validated by statistical authorities. According to the latest version of the Code of Conduct, the Commission will maintain the current established framework for estimating DRMs and one-offs. When the Commission and the Council updated the Code of Conduct, the Commission also refined its methodology for fiscal policy measures, notably by introducing a uniform approach to recording the effects of fiscal drag.[28]

Member States are required to report their estimates of DRMs and one-off measures as part of the regular reporting requirements, i.e. in their APRs and draft budgetary plans (DBPs). Commission experts use this information in preparing their own estimates and as a basis for bilateral discussions. However, the Commission publishes only aggregate figures, rather than the detailed underlying estimates, while sharing information on the main measures with the competent Council committee (the Economic and Financial Committee – EFC). Although the Commission is likely to have technical discussions on DRMs with Member States, transparency towards external observers remains limited. The Commission does not provide an equally detailed assessment of the information reported by Member States, nor does it comment on significant divergences between national and Commission estimates of DRMs and one-offs. Occasionally, the Commission refers to revenue measures in the context of tax policy reforms (both those motivating an extended adjustment period and/or aimed at addressing country-specific recommendations), but without indicating their budgetary impact.

[28] The Commission communicated the methodological changes in the Public Finances in EMU 2024 report. The European Fiscal Board assessed those changes in its report on the draft budgetary plans for 2026.

Graph 2.1: Discretionary revenue measures in 2025



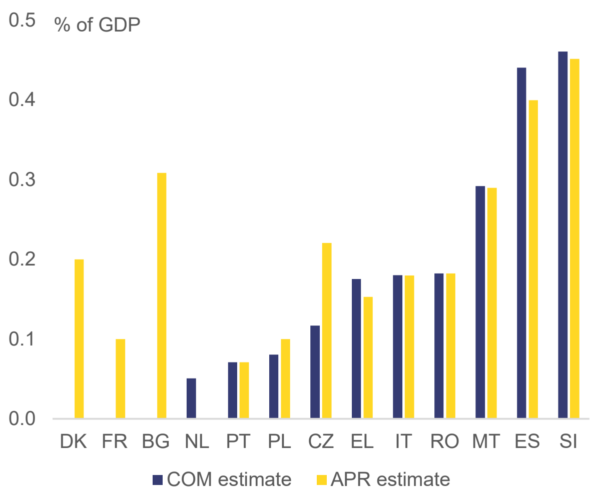
Notes: Large positive DRM are defined as exceeding 1/3 of total net expenditure growth.
Sources: Commission 2026 spring package, APRs

Almost all APRs comply with the reporting requirements set out in EU law and provide information on DRMs. In many cases, the aggregate impact of DRMs broadly corresponds to the Commission estimates, although there are also instances of substantial differences for which the Commission provides no explanation (Graph 2.1). Large DRMs can have a significant effect on net expenditure growth. While the Commission does not comment on such cases, the relevant APRs often point to important tax policy changes – such as increases in tax rates or the introduction of new taxes – that appear to justify the sizeable fiscal impact. For example, for Bulgaria the large difference between the Commission DRM estimates and the one in the APR is partly explained by the Commission treating 0.5% of GDP of revenue measures as one-offs (excluded from DRMs used for net expenditure growth). However, the Commission does not provide further detail clarifying the remaining difference between the two sets of DRM estimates.

A similar pattern can be observed for one-off expenditures: the estimated impact generally tends to be comparable between the Commission and Member States, but where differences arise, the Commission does not provide an explanation (Graph 2.2).

Another component of the net expenditure aggregate that is based purely on estimation is cyclical unemployment expenditure. This item generally has only a limited effect on net expenditure growth, and the estimates of the Commission and Member States are broadly aligned.([29])

Graph 2.2: One-off expenditures in 2025



Source: Commission 2026 spring package, APRs

Extensive interpretation of the national escape clause

To date, 18 Member States benefit from the NEC, which allows temporary deviations of up to 1.5% of GDP from the recommended net expenditure paths in order to accommodate higher defence

[29] An exception is Denmark, which takes a different view of the cyclical unemployment position from that implied by the EU commonly agreed methodology.

expenditure (and since this year also energy resilience measures; see Section 2.3) relative to the reference year. For 15 of these Member States, the reference year is 2021. According to the Commission interpretation, the NEC creates scope for accommodating other expenditure increases, including non-defence spending. Countries that already increased defence spending between 2021 and 2024 can carry forward that amount as a credit and possibly spend it on expenditure other than defence within the overall cap of 1.5% of GDP.

Since spring 2025, when the Commission invited Member States to apply for the NEC, the EFB has insisted on a narrow interpretation.([30]) In particular, the EFB has maintained that the flexibility should be used exclusively for increases in defence expenditure incurred during the period of application of the clause, namely 2025-2028. Under this interpretation, Member States should not use flexibility stemming from defence expenditure increases accumulated in 2021-2024 to finance non-defence spending.

Applying the EFB's interpretation, expenditure developments are less favourable than implied by the Commission assessment in a number of Member States; in 2025 this concerns Lithuania, Hungary and Poland; and, in 2026, Estonia, Poland and Portugal (see Table 2.2). As a result, Hungary would already have been found not to have taken effective action in 2025, with a possible stepping-up of its EDP. Estonia would also have been subject to an EDP, as its projected deficit, adjusted for the increase in defence expenditure since 2024, would have exceeded 3% of GDP in 2026. A more in-depth discussion on the implications of the NEC for EDPs is in Chapter 3.

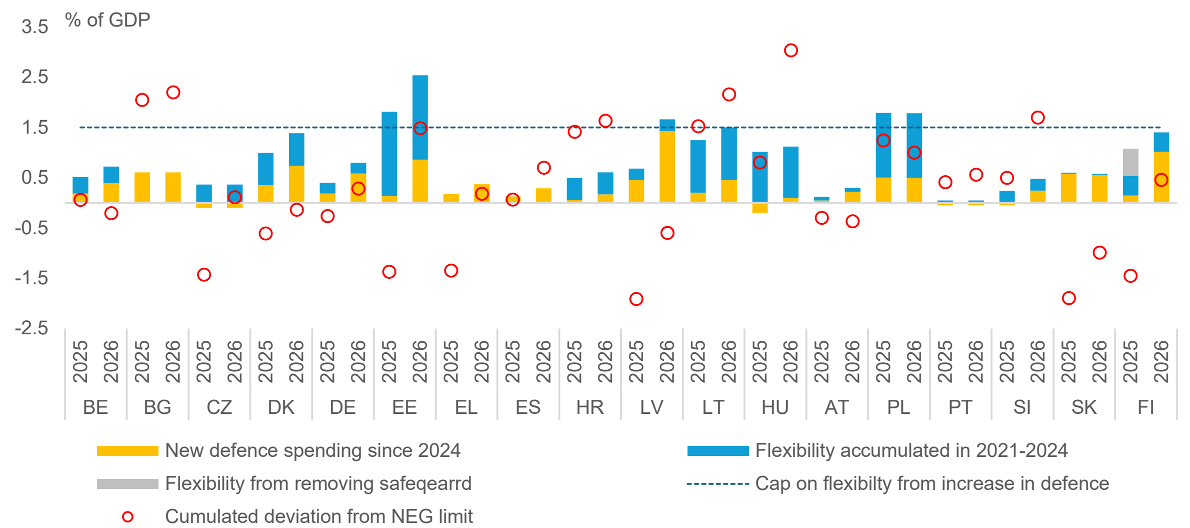
Table 2.2: Cumulative balances of the control account (% of GDP) under two interpretations of the NEC

Country	Cumulated balance of the control account		Commission interpretation of NEC Cumulated balance + increase in defence spending + general flexibility		EFB interpretation of NEC Cumulated balance + increase in defence spending		Flexibility accumulated between 2021-24		Change in assessment category based on the EFB interpretation of NEC	
	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026
BE	0.1	-0.2	-0.5	-0.9	-0.1	-0.6	0.3	0.3	🟢 = 🟢	🟢 = 🟢
BG	2.1	2.2	1.4	1.6	1.4	1.6	-	-	🔴 = 🔴	🔴 = 🔴
CZ	-1.4	0.1	-1.7	-0.2	-1.3	0.2	0.4	0.4	🟢 = 🟢	🟢 > 🟡
DK	-0.6	-0.1	-1.6	-1.5	-1.0	-0.9	0.6	0.6	🟢 = 🟢	🟢 = 🟢
DE	-0.3	0.3	-0.7	-0.5	-0.5	-0.3	0.2	0.2	🟢 = 🟢	🟢 = 🟢
EE	-1.4	1.5	-2.9	0.0	-1.5	0.6	1.4	0.6	🟢 = 🟢	🟢 > 🔴
EL	-1.3	0.2	-1.5	-0.2	-1.5	-0.2	-	-	🟢 = 🟢	🟢 = 🟢
ES	0.1	0.7	-0.1	0.4	-0.1	0.4	-	-	🟢 = 🟢	🟡 = 🟡
HR	1.4	1.6	0.9	1.0	1.4	1.5	0.4	0.4	🔴 = 🔴	🔴 = 🔴
LV	-1.9	-0.6	-2.6	-2.1	-2.4	-2.0	0.2	0.1	🟢 = 🟢	🟢 = 🟢
LT	1.5	2.2	0.3	0.7	1.3	1.7	1.0	1.0	🟡 > 🔴	🔴 = 🔴
HU	0.8	3.0	0.0	1.9	1.0	2.9	1.0	1.0	🟢 > 🔴	🔴 = 🔴
AT	-0.3	-0.4	-0.4	-0.7	-0.3	-0.6	0.1	0.1	🟢 = 🟢	🟢 = 🟢
PL	1.2	1.0	-0.3	-0.5	0.7	0.5	1.0	1.0	🟢 > 🔴	🟢 > 🟡
PT	0.4	0.6	0.4	0.6	0.5	0.6	0.1	0.1	🟡 = 🟡	🟡 > 🔴
SI	0.5	1.7	0.3	1.2	0.5	1.5	0.2	0.2	🟡 = 🟡	🔴 = 🔴
SK	-1.9	-1.0	-2.5	-1.6	-2.5	-1.5	0.0	0.0	🟢 = 🟢	🟢 = 🟢
FI	-1.5	0.5	-2.5	-0.9	-2.1	-0.6	0.4	0.4	🟢 = 🟢	🟢 = 🟢

Notes: Bulgaria, Greece and Spain are not affected by different interpretations of the NEC, as their reference year for increase in nationally financed defence expenditure is 2024.
The threshold of the cumulative balances is set at 0.6% of GDP as laid down in Regulation 1467/1997. The colour codes for cumulative balances are the following: green = (-) or no deviation; yellow = (+) deviation below the threshold; red = (+) deviation above the threshold.
Sources: Commission 2026 spring package, EFB assessment

[30] The EFB advice since its Assessment of the fiscal stance appropriate for the euro area in 2026

Graph 2.3: Flexibility under the national escape clause (NEC) and cumulated deviations of net expenditure from the recommended limits



Notes: The graph shows the relationship between increases in nationally financed defence expenditure, the 1.5% of GDP flexibility cap, and the extent to which cumulative deviations from the net expenditure limit are explained by higher defence spending.
Sources: Commission 2026 spring package, EFB assessment

Graph 2.3, where the red circle is located inside or above the blue column, indicates all the deviations from the recommended expenditure path used partly or fully for non-defence expenditure. By contrast, other Member States subject to the NEC have used, or are using, the flexibility to accommodate actual increases in defence expenditure in 2025 and 2026 and, accordingly, show a higher degree of adherence to the recommended net expenditure ceilings.

Defence expenditure data are traditionally reported by national statistical authorities under the Classification of the Functions of Government (COFOG), which provides a breakdown of government expenditure by function. These data are generally available only with a significant time lag, typically around one year after the end of the reporting period. However, in order to support the implementation of the revised EU fiscal framework, national statistical authorities have tried to bring forward the publication of total defence expenditure and defence investment data to coincide with the regular EDP notifications by 31 March and 30 September. Accordingly, the Commission 2026 spring package is based on outturn data for 2025 as reported by the statistical authorities, with some exceptions.([31])

However, the indicator used in EU fiscal surveillance is not total defence expenditure as reported by Eurostat, but the nationally financed share of that expenditure, excluding any EU-financed component. This indicator is available in the Commission's AMECO database and is also reported by Member States in their APRs. In most cases, the Commission data and the APR data are consistent. In some instances, however, the APRs estimate higher defence expenditure in 2026 (notably for Czechia, Estonia and Portugal). Even if the APR figures were used in the Commission's assessment, they would not alter conclusions.

Issues with transition between net expenditure growth recommendations

The current scope of reporting in the APRs appears incomplete. In particular, the Commission guidance notice does not address reporting requirements arising from the transition between recommendations establishing the net expenditure paths.[32]. Specifically, the APRs of Ireland and Finland do not contain 2023 data needed to recalculate or verify the cumulative growth rates for 2024 and 2025. To ensure completeness and consistency, the Commission guidance should clarify that, when compliance reporting is based on outturn data measured against an earlier

[31] Eurostat does not yet provide total defence expenditure data for 2025 for Ireland, Spain, Italy, Cyprus and the Netherlands. However, coverage is complete for gross fixed capital formation on defence.

[32] Commission notice on Guidance to Member States on the information requirements for the medium-term fiscal-structural plans and for the annual progress reports (C/2024/4209).

recommendation, APRs are to include data covering the base year of that recommendation.

Whenever a new Council recommendation is issued (based on a new MTFSP or under an EDP) clarity is needed in relation to the transition to the new adjustment requirements and the basis on which compliance with it will be assessed.[33] For instance, Finland and Ireland received new Council recommendation in January 2026 and March 2026, respectively, replacing the earlier recommendation issued in January 2025.[34] Both new recommendations used outturn data for 2024 and new NEG estimates for 2025 as the starting point for the net expenditure path. For Ireland, the recitals to the new recommendation explained the differences involved for 2024 and 2025 and specified how the Commission would assess the 2025 in the next surveillance round. By contrast, the EDP recommendation for Finland in January 2026 did not clarify this point linked to the transition to a new net expenditure path. This experience suggests that following the approach for the new Irish recommendation improves transparency and legal certainty.

IFI involvement

Article 23 of Regulation 1263/2024 states "*Member States may request the relevant independent fiscal institution as referred to in Article 8a of Directive 2011/85/EU to provide an assessment of the compliance of the budgetary outturns data reported in the annual progress report with the net expenditure path as set by the Council.*" Table 2.3 shows whether the national IFI provided such assessment and specifies the type of involvement.

Overall, the involvement of IFIs was mixed. From the table, four broadly balanced groups emerge: i) countries where the government invited the IFI to perform an ex-post assessment of compliance with the net expenditure path, ii) countries where the IFIs performed the assessment based on national requirements; iii) countries where the IFI took their own initiative; and iv) countries for which there was no IFI assessment.

The type of involvement of IFIs could potentially be driven by some of their characteristics. For instance, as identified in previous EFB publications, there could be different behaviours between 'home-grown' IFIs that existed before EU mandates and 'crisis-driven' IFIs that were established in response to external pressure.([35]) Another potential driver could be geography, to the extent that countries in the same region of the EU might share similar approaches to governance. However, no specific pattern emerges from Table 2.3 in terms of the established status of the IFI in the Member State or geography.

Table 2.3: Involvement of the IFI in assessing the compliance with the recommended net expenditure path

Member State	Assessment by the IFI	Type of involvement	Notes
LV	Yes	National requirements	EU requirements are introduced in national legislation.
LT	Yes	National requirements	EU requirements are introduced in national legislation.
LU	Yes	National requirements	
NL	Yes	National requirements	
AT	Yes	National requirements	
DE	Yes	Government invitation	
EL	Yes	Government invitation	
FR	Yes	Government invitation	
HR	Yes	Government invitation	
IT	Yes	Government invitation	
PT	Yes	Government invitation	
SI	Yes	Government invitation	
FI	Yes	Government invitation	
BG	Yes	Own initiativeof IFI	The Bulgarian IFI published an opinion on 12 May 2026 "in pursuance of its powers under Art. 6 of the Fiscal Council Act".
EE	Yes	Own initiativeof IFI	IFI commented on compliance with national and EU fiscal rules in article on its webpage.
IE	Yes	Own initiativeof IFI	Preliminary report in Apr2026 and full report in Jun2026. Comment on NEG compliance and criticise usefulness of EU rule in IE context.
ES	Yes	Own initiativeof IFI	
SK	Yes	Own initiativeof IFI	
BE	No		As part of the reform and investment commitments, APR reports that the IFI (the High Council of Finance) will be charged to monitor implementation of the NEG limit allocated to federal entities. Legislative changes will be implemented by the end of 2026.
CZ	No		
DK	No		
CY	No		
MT	No		The only mention of the IFI is that it endorsed the macroeconomic projections for 2026 underlying the APR.
PL	No		
RO	No		
SE	No		
HU	-		HU did not submit an APR.

Notes: Type of involvement: 'government initiative' = Member State requested the relevant independent fiscal institution to provide an assessment of compliance; 'own initiative of IFI' = the IFI published an assessment of the compliance of the budgetary outturns data.
Sources: Commission 2026 spring package, EFB assessment

2.2 Implementation of reforms and investments

Under the reformed EU fiscal framework, Member States may request, in their medium-term fiscal-structural plans, an extension of the fiscal

[33] Any net expenditure path recommended by the Council is either predicated on outturn data for the base year or on forecast. In the latter case, outturns will typically differ from the forecast, and this difference can impact the assessment of new recommendations issued for the same country at a later stage.

[34] Finland received the EDP recommendation and Ireland received the new MTFSP-based recommendation.

[35] 2017 annual report of the European Fiscal Board

adjustment period by up to three years, provided they commit to implementing a relevant set of reforms and investments. These commitments are intended to address structural bottlenecks, support economic growth, and strengthen medium-term fiscal sustainability.

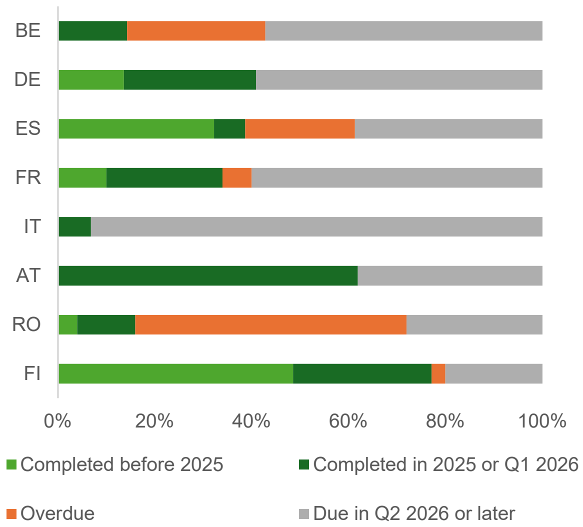
So far, eight Member States have been granted such an extension (see Graph 2.4). The reform and investment commitments put forward by those Member States have been reflected in the Council recommendations setting out their net expenditure paths. In their APRs, the Member States concerned report on progress in implementing the agreed measures, while the Commission monitors the progress.

The APRs submitted by these eight Member States set out, in a systematic manner, whether the measures concerned have been implemented within the deadlines established in the relevant Council recommendations.([36]) Where implementation has been delayed, the reports generally explain the reasons for the delay and provide updated timelines. In some cases, a share of the relevant reforms and investments had already been completed before the plans were adopted in 2025, as the commitments underpinning the extension included measures previously agreed under the recovery and resilience plan (RRP) of the Recovery and Resilience Facility (RRF).([37]) By contrast, delays in the implementation of measures under the RRP have, in certain cases, also affected progress in delivering the commitments linked to the extension of the fiscal adjustment period.

The Commission provides very short comments on the implementation of measures, due in 2025 and 2026, in the European Semester country reports and in a recital to the country-specific recommendations. The Commission reporting focuses primarily on procedural compliance, namely whether the relevant deadlines were met or are expected to be met, rather than on the substance of the reforms and investments. Only in few cases the Commission pointed out deviations from the initial commitments or their lower-than-expected budgetary gains.

Graph 2.4 provides an overview of the implementation of key steps by the recommended deadlines. It is based on a purely mechanical approach and does not take into account the complexity or quality of individual actions. In some cases, steps are recurring, such as the annual delivery of spending reviews or the annual achievement of specific targets. In other cases, a single step may correspond to the achievement of a major reform and investment objective. The relevant Member States are at different stages in implementing their reform and investment commitments. Some are already at an advanced stage, with many steps completed, while others still need to implement a larger number of steps over the remaining years of their MTFSPs. For Italy, the number of recommended steps due so far has been relatively small. At the same time, the European Semester country report for Italy refers to many RRP milestones, which are not explicitly mentioned in the recommendation establishing country's net expenditure path.

Graph 2.4: Progress on reforms and investments underpinning an extension



Sources: Commission 2026 spring package, EFB compilation

Actionable steps related to reform and investment commitments can be broadly grouped by stage of policy implementation, ranging from planning and legislative action to execution and the measurement of actual impact (Table 2.4). Around one third of the steps due by Q1 2026 consisted of legislative and regulatory actions, which also accounted for the largest share of completed steps. The second largest group comprised practical implementation actions, including the establishment of specialised IT

[36] The reporting requirements are set out in Commission guidance notice C/2024/4209.

[37] Under the framework, Member States could rely on measures included in their recovery and resilience plans in order to qualify for an extension of the adjustment period in their medium-term fiscal-structural plans. In some cases, these measures had already been implemented before the plans were adopted.

systems, the development of physical capacity, and the delivery of digital transformation programmes. The overdue steps that should already have been completed include steps linked to specific RRP commitments. For these commitments, the Commission does not prejudge its assessment before the relevant evaluation is carried out in the context of Recovery and Resilience Facility (RRF) payment requests. The Commission does not provide a qualitative assessment of the extent of progress on overdue steps, beyond reporting the relevant information contained in the APR.

Overlap with commitments taken under other EU spending programmes such as the Recovery and Resilience Facility (RRF) seems to play a role. Specifically, a negative assessment under the EU fiscal framework could cast shadows of doubt over the agreed or planned disbursement of EU spending programs.

Table 2.4: Grouping of reform and investment steps underpinning an extension due by Q1 2026

	Completed	Overdue		Total
		Awaiting RRP assessment	In progress	
Legislative & regulatory action	25%	1%	3%	29%
Analysis, planning, & stakeholder consultation	12%	2%	0%	14%
Funding & financial allocations	12%	1%	0%	12%
Operationalisation, IT, & infrastructure execution	18%	3%	5%	26%
RRP milestones & specific targets	7%	2%	2%	10%
Other / uncategorized	6%	0%	2%	9%
Total	80%	8%	12%	100%

Sources: Commission 2026 spring package, EFB compilation

Across countries with extended adjustment period, the Commission only draws general conclusions on progress in implementing reforms and investments, stating that they 'seem broadly on track' and that overall compliance with commitments is 'satisfactory'. However, the Commission does not clarify what constitutes 'broadly on track' or 'satisfactory', leaving these terms open to interpretation. While assessing progress across highly diverse reforms and investments poses challenges, the Commission already employs a range of assessment categories for country-specific recommendations, including an overall summary of progress across different policy areas. To enhance the credibility and transparency of its evaluations of reforms and investments, the Commission could adopt more specific and nuanced assessment criteria, better distinguishing variations in progress among Member States.([38])

2.3 Forward-looking assessment (2026)

The Commission's within-year assessment for 2026 follows the same methodology as for 2025. The chapeau communication of the 2026 spring package covers both years, but the conclusions for 2026 are framed in provisional terms: 'compliance' is described as 'projected', while cases of 'non-compliance' are presented as Member States being 'at risk of non-compliance' (see Table 2.5). Although the assessment approach remains unchanged, including the peculiarities discussed in Section 2.1, the Commission's 2026 assessment also displayed some additional unusual features.

Ambiguities in the Commission assessment

For France and Sweden, the Commission delivered two parallel conclusions. It classified France 'at risk of non-compliance' and Sweden 'at risk of material non-compliance' on the basis of their annual expenditure growth rates, while also finding both countries 'compliant' based on the cumulative expenditure growth rates (see Table 2.5). Rather than explaining how these two indicators led to divergent assessments, the Commission leaves room for ambiguity. This may reduce the predictability and transparency of the framework and make it more difficult for stakeholders to understand the basis on which compliance assessments are made.

To strengthen consistency and transparency, the Commission assessments should be consistent and use the more restrictive reading or, as a minimum, explain in a clear and systematic manner why in some cases it deviated from the standard approach. A more extensive country-specific assessment, such as dedicated country reports, would be helpful.

[38] As an example, the Commission could consider an assessment method inspired by the approach used for country-specific recommendations (CSRs). In that context, progress in implementation is assessed using five categories: 'no progress', 'limited progress', 'some progress', 'substantial progress' and 'full implementation'. Individual parts of the CSRs are assessed separately, and these assessments then feed into an overall view across policy areas and Member States. For this purpose, the Commission uses a dedicated reporting tool (CeSaR) drawing on input from Member States and relevant sectoral experts within the Commission. A similar structured methodology could be envisaged for assessing reform and investment commitments under MTFSPs.

Table 2.5: Implementation of net expenditure paths in 2026 and procedural implications

Commission assessment labels	Practical perspective on the application of the SGP rules: No deviation: NEG within the recommended limit + NEC flexibility	Deviation: NEG above the recommended limit + NEC flexibility but no procedural follow-up: because deviation within thresholds	Deviation: NEG above the recommended limit + NEC flexibility but no procedural follow-up: because of fiscal situation	Deviation: NEG above the recommended limit + NEC flexibility with possible procedural follow-up
'Projected compliance'	BE(-0.9), CZ(-0.2), DK(-1.5), DE(-0.5), EE(0), IE(-0.1;-0.6), EL(-0.2), IT(-0.1;-0.1), LV(-2.1), AT(-0.7), PL(-0.5), RO(-0.3;-1), SK(-1.6), FI(-0.9)			
'At risk of non-compliance'		ES(0.4), LU(-0.6;0), NL(0.1;0.1), PT(0.6)		
'At risk of material non-compliance'			HR(1), CY(0.9;1.8), LT(0.7), MT(0.1;2.2)	BG(1.6), HU(1.9), SI(1.2)
Annual and cumulative growth rates support different assessments		FR(0.1;-0.2)	SE(1;0)	

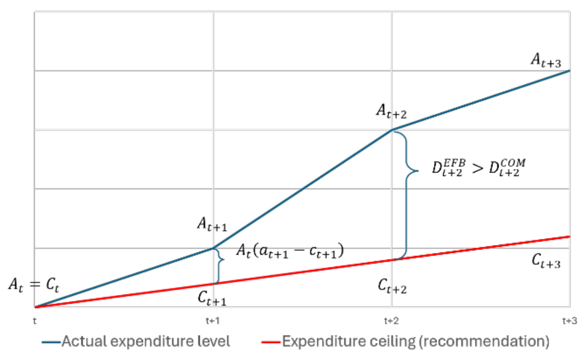
Notes: (1) The table shows the position of each Member State in relation to the Commission assessment labels (based on deviations from the recommended net expenditure limit) and a more practical perspective on the application of the SGP rules by showing the procedural implications of net expenditure growth (NEG) deviations relative the recommended limits. (2) The Commission defines its assessment labels as follows: (i) 'compliance' = NEG is within the recommended ceiling; (ii) 'non-compliance' = NEG exceeds the recommended ceiling, but the positive deviation remains below the applicable threshold; and (iii) 'material non-compliance' = NEG exceeds the recommended ceiling, and the positive deviation exceeds the applicable threshold. The thresholds for deviations are as follows: (i) 0.3% of GDP annually and (ii) 0.6% of GDP cumulatively. (3) The figures shown in brackets next to each country code indicate deviations from the 2026 net expenditure growth limit. For the 18 Member States making use of the national escape clause, the single figure shown corresponds to the cumulative balance recorded in the augmented control account. For the remaining 9 Member States, the first figure indicates the annual balance and the second the cumulative balance in the control account. The colour coding of these figures corresponds to the Commission's assessment labels: green = no deviation or a negative deviation (i.e. observed NEG is in line with, or below, the recommended limit); yellow = positive deviation within the applicable threshold; red = positive deviation above the applicable threshold.
Sources: Commission 2026 spring package, EFB assessment

The control account

The Commission assessment for Czechia reveals a peculiarity in the calculation of cumulative deviations from the recommended expenditure path. In the chapeau communication, the Commission states that, in 2026, *'the cumulative net expenditure growth is projected below the recommended ceiling, with a deviation of 0.1% of GDP in cumulative terms'*. Where cumulative net expenditure growth is projected to remain below the recommended ceiling, this would, in principle, imply a negative cumulative deviation rather than a positive one.

A closer examination of this peculiarity reveals issues in the way the Commission calculates deviations from the recommended expenditure path, i.e. the balance of the control account. In particular, the Commission methodology to calculate net expenditure deviations, as set out in the Code of Conduct, deviates from an intuitive understanding of the relevant concept. The difference between the Commission approach and an approach that measures the actual difference between the observed/projected and the recommended expenditure path is detailed in Graph 2.5.

Graph 2.5: Example calculation of deviation between actual net expenditure and recommended ceiling



Commission formula for cumulative deviation:

$$D_{t+2}^{COM} = A_{t+1}(a_{t+2} - c_{t+2}) + A_t(a_{t+1} - c_{t+1})$$

EFB formula:

$$D_{t+2}^{EFB} = A_{t+1}(1 + a_{(t+2)}) - C_{t+1}(1 + c_{(t+2)})$$

Difference between the EFB and the Commission formulas (where $A_t = C_t$):

$$D_{t+2}^{EFB} - D_{t+2}^{COM} = (A_{t+1} - C_{t+1})c_{t+2}$$

$$D_{t+n}^{EFB} - D_{t+n}^{COM} = \sum_{i=2}^{n}(A_{t+i-1} - C_{t+i-1})c_{t+i}$$

Notes: A = actual net expenditure level, C = recommended net expenditure ceiling, D = cumulative deviation, small letters = growth rates.
Sources: European Commission and EFB

At this stage, the methodological difference, affects the reading of net expenditure developments for Estonia (in 2026) and Luxembourg (in 2025 and 2026) (Table 2.6). However, given their fiscal positions, it has no procedural consequences. Over time, the methodological is bound to widen, and assessments of more Member States are likely to be affected in future years. Since the method for calculating the cumulated balance in the control account is used to verify compliance with the recommended net expenditure growth rate, it is appropriate to correct the methodology to ensure that this tool can effectively fulfil its purpose. The Code of Conduct can be amended by agreement between the Commission and the Council.

Table 2.6: Comparison of two methods for calculating deviations of net expenditure growth from the recommended limits

	Cumulative balance in control account or augmented control account				Difference (EFB vs SP)	
	Spring package (SP)		EFB calculation			
	2025	2026	2025	2026	2025	2026
BE*	-0.5	-0.9	-0.5	-0.9	0.00	0.04
BG*	1.4	1.6	1.4	1.7	0.00	0.12
CZ*	-1.7	-0.2	-1.7	-0.2	-0.05	-0.08
DK*	-1.6	-1.5	-1.7	-1.6	-0.10	-0.09
DE*	-0.7	-0.5	-0.7	-0.5	0.00	0.06
EE*	-2.9	0.0	-2.8	0.1	0.08	0.14
IE	-0.1	-0.6	-0.1	-0.6	-0.01	-0.03
EL*	-1.5	-0.2	-1.6	-0.2	-0.05	-0.04
ES*	-0.1	0.4	-0.1	0.4	-0.01	0.04
FR	-0.3	-0.2	-0.3	-0.2	0.02	0.05
HR*	0.9	1.0	0.9	1.1	-0.04	0.06
IT	0.0	-0.1	0.1	0.0	0.03	0.03
CY	1.0	1.8	0.9	1.8	-0.05	-0.01
LV*	-2.6	-2.1	-2.6	-2.2	-0.04	-0.10
LT*	0.3	0.7	0.3	0.8	0.00	0.10
LU	0.6	0.0	0.6	0.0	-0.04	-0.05
HU*	0.0	1.9	0.0	1.9	-0.04	-0.03
MT	2.3	2.2	2.4	2.5	0.16	0.25
NL	1.0	0.1	1.1	0.1	0.08	0.00
AT*	-0.4	-0.7	-0.4	-0.6	0.00	0.03
PL*	-0.3	-0.5	-0.2	-0.4	0.04	0.09
PT*	0.4	0.6	0.4	0.5	-0.04	-0.06
RO	-0.8	-1.0	-0.8	-1.0	0.00	0.00
SI*	0.3	1.2	0.3	1.4	0.03	0.15
SK*	-2.5	-1.6	-2.5	-1.6	-0.03	0.01
FI*	-2.5	-0.9	-2.5	-0.9	0.03	0.00
SE	-1.1	0.0	-1.1	-0.1	-0.05	-0.09
	XX	(-) or 0 deviation				
	XX	(+) deviation below the threshold of 0.6% of GDP				
	XX	(+) deviation above the threshold of 0.6% of GDP				

Notes: An asterisk * indicates Member States benefiting from the national escape clause (NEC). For these countries the table shows the cumulative balance of the augmented control account.
Sources: Commission 2026 spring package, EFB estimates

National escape clause for energy security measures

In the 2026 spring package, the Commission announced an extension of the existing national escape clause for defence expenditure to cover measures taken since February 2026 to reduce dependence on imported fossil fuels. The initiative is called NEC+. Within the overall cap of 1.5% of the original NEC initiative, Member States were allowed to allocate up to 0.3% of GDP annually for targeted measures and 0.6 % cumulatively across the period from February 2026 through 2028.

In contrast to established practice, the Commission did not consult the Council on the NEC+, a point regretted by a number of Member States. Of particular note, prior to the Commission's announcement, press reports referred to repeated calls by the Italian government to create additional flexibility under the EU fiscal rules to accommodate energy measures aimed at protecting households, workers and businesses (see Table 2.7). By that time, most Member States had already introduced energy support measures, with an estimated average budgetary cost of around 0.1% of GDP across the EU, although the impact varied across Member States, ranging from no measures to 0.3% of GDP.[39] Approximately two thirds of the measures adopted were untargeted, mainly consisting of across-the-board reductions in energy prices through cuts in indirect taxes on fuels. As a reminder, Italy had not applied for the original NEC because, as a country in EDP, the clause would have not implied any procedural benefits. An EDP is only abrogated if the headline deficit returns below 3% of GDP.

Table 2.7: EU response to the 2026 energy crisis: timeline

28 February 2026: Military hostilities involving Iran brake out.

19 March 2026: The European Council calls for a coordinated response to the energy price shock resulting from supply disruptions.

26 March 2026: In a note to the Eurogroup, the Commission states that energy support measures should be temporary, targeted to vulnerable households and designed to incentivise energy savings. The Commission also rules out activating the general escape clause.

1 April 2026: The Eurogroup agrees that any short-term policy responses should be targeted, temporary and tailored, drawing on lessons learned from the 2022 energy crisis.

22 April 2026: The Commission presents its Accelerate EU Communication, providing guidance on emergency short-term relief measures for consumers and businesses, alongside structural reforms aimed at reducing Europe's dependency on imported fossil fuels and accelerating the clean energy transition.

End-April/May 2026: Several media reports confirm Italy's request to the EU to create flexibility under the SGP to cushion the impact on households and business of the energy crisis caused by the war in Iran. On 17 May, Italy's Prime Minister Giorgia Meloni formalised the request with a letter to Commission President Ursula von der Leyen.([40])

3 June 2026: As part of the 2026 spring package, the Commission proposes to broaden the scope of the NEC for defence spending to include measures aimed at strengthening the structural resilience of the European energy system and reducing dependence on imported fossil fuels.

9 July 2026: The Eurogroup takes note of the Commission's proposal.

18 August 2026: The Commission publishes a notice setting out operational aspects of the extended scope of the national escape clause.

By the cut-off date of this report (14 September 2026) no Member State had applied to benefit from the extended scope of the NEC, yet.

In a notice adopted on 18 August 2026 the Commission further specified the elements of the Commission proposal. In particular, it provided illustrative examples of measures that may be considered eligible under the extended flexibility, which may be broadly grouped into two categories: public investment and incentives aimed at supporting energy supply. The notice explicitly excludes price support and income-support measures intended to mitigate the impact of high energy prices, as well as measures that generate only indirect energy savings.

The fiscal impact of the flexibility linked to energy-related measures is expected to be more limited than that of the defence-related flexibility. The direct debt-increasing effect of the former is capped at 0.6% of GDP.

Whereas increases in defence expenditure can be measured directly on the basis of statistical data, the eligibility of energy-related measures must be assessed on a case-by-case basis.([41]) Estimates of their fiscal impact will therefore rely on expert judgement, as is the case for all estimates of discretionary fiscal measures.

Many energy support measures adopted by Member States since February 2026 have taken the form of untargeted price support. Such measures clearly do not correspond to the categories of expenditure eligible under the extended NEC. Even where measures are targeted at vulnerable households and firms, they generally constitute income support and do not ensure direct energy savings, which is one of the conditions attached to the proposed extension of the national escape clause.

The Commission 2026 spring package does not refer to exceptional circumstances outside the control of the Member State that have a major impact on public finances, as referred to in

[39] Commission 2026 spring forecast, Box I.9.1.

[40] Italy adopts three-week extension of excise duty cut on fuels, Reuters, 30 April; and Italy formalises its request to extend National Escape Clause in Stability and Growth pact to energy spending, Agence Europe, 19 May.

[41] Eligible defence expenditure consists of nationally financed total defence expenditure and expenditure financed through SAFE loans that is not recorded under the statistical classification of defence spending.

Article 26 of Regulation 1263/2024, as grounds for the activation of the NEC. The recommendations activating the NEC for individual Member States identify those exceptional circumstances as heightened geopolitical tensions, Russia's continued war of aggression against Ukraine and its threat to European security. In that context, it is not clear how energy-related measures would be linked to the definition of exceptional circumstances currently relied upon.

In conclusion, the Commission decision to extend the scope of the NEC in early 2026 suffers from a number of issues. First, the sequence of events leading up to the initiative supports the impression the Commission accommodates persistent calls of large Member States without going through a consultation within the Council as a whole. Second, implementation of the extended scope will be marred by the fact that many Member States already implemented a series of energy support measures which in theory will not be eligible but may be difficult to exclude politically if Member States insist they fall within the remit of the extended scope. Lastly, it is doubtful whether the declared objective of strengthening the energy resilience and security of the EU Member States qualifies as an exceptional event in the sense of the reformed fiscal rules. Reducing dependence from external energy sources is arguably a structural objective that can only be achieved over a longer time horizon and is consistent with the EU's ambition formulated years ago, notably the energy transition.

European Semester recommendations

The European Semester is part of the EU annual surveillance cycle for the coordination of economic policies, including fiscal, across the Member States. It provides a recurring structured process for assessing national developments vis-à-vis earlier Council recommendations and issuing new policy guidance for the year ahead in the form of country-specific recommendations (CSRs).

In view of the medium-term orientation of the reformed EU fiscal rules, the main fiscal CSRs are no longer used to formulate new adjustment requirements for the coming year. They are rather used to take stock of where Member States stand in relation to the net expenditure path recommended by the Council.

As a result, in the 2026 spring package, the fiscal CSRs are framed strictly by reference to the observed and/or projected deviations from the net expenditure path. Concretely, Member States with projected deviations exceeding the tolerance thresholds of 0.3% of GDP annually or 0.6% of GDP on a cumulative basis – are recommended to 'take action to control net expenditure'. This represents the most stringent formulation of the fiscal CSRs. However, as explained in Section 2.1 and this section, some of the Member States concerned would not face procedural consequences even if the Commission forecast was confirmed by outturn data (for example, Lithuania, Luxembourg and Malta), whereas others in the same category are in a more vulnerable position (for example, Hungary and Slovenia). In this respect, the latest vintage of fiscal CSRs cannot be taken to signal possible procedural implications.

Cyprus and Sweden are exceptions to the general design of the fiscal CSRs issued in 2026. Although the CSRs refer to 'material' deviations from the net expenditure path in 2026, the policy invitations are formulated in less stringent terms. The two countries are simply asked to 'ensure' that net expenditure remains within the recommended limits. In the case of Cyprus, this exception appears to be linked to its projected budgetary surplus. In the case of Sweden, it appears to reflect uncertainty in the Commission assessment as to whether greater weight should be given to the annual or the cumulative deviation, as discussed above: the annual deviation points to a more adverse signal, while the absence of a cumulative deviation moderates the assessment. As a result, the CSR signals concern without translating it into a correspondingly stringent policy advice.

In addition to the guidance on net expenditure growth, the 2026 fiscal CSRs invited all Member States to strengthen defence and security expenditure and to maintain temporary and targeted energy measures aimed at mitigating the impact of rising energy prices. These qualitative elements were formulated in broadly uniform terms, with only limited country-specific adaptation.

Member States with an extension of their fiscal adjustment path were recommended to continue implementing the reforms and investments underpinning that extension. This element of the recommendation was not differentiated across countries, which corresponds to the Commission's rather undifferentiated assessment that the relevant reforms and investments were 'broadly on track' in all countries (see Section 2.2).

Finally, most Member States received between one and four CSRs concerning fiscal-structural reforms, namely policy guidance addressing fiscally significant areas of taxation or public expenditure. Such recommendations may be reiterated across successive years in order to support progress in policy areas identified, in the European Semester country analysis, as structural bottlenecks.

Overall, the 2026 fiscal CSRs could have been more purposeful if they had been grounded in more analytically robust country assessments and had differentiated more clearly between Member States, in particular by identifying those facing more significant fiscal challenges and a higher likelihood of corrective action in upcoming fiscal surveillance rounds.

The Council retained the country-specific differentiation in the wording of the fiscal CSRs as proposed by the Commission, making only layout improvements and adding more context to the qualitative elements of the recommendations.

Table 2.8: Overview of fiscal indicators used in the Commission 2026 spring package

							Control account				Augmented control account		Fiscal aggregates			
Member State	APR submission date	Years of adjustment	EDP	EDP dead-line	National escape clause (NEC)	NEC recommendation date	Annual deviation (% of GDP)		Cumulated deviation (% of GDP)		Cumulated deviation + flexibility (% of GDP)		General government balance (% of GDP)		General government gross debt (% of GDP)	
							(threshold of 0.3% of GDP)		(threshold of 0.6% of GDP)							
							2025	2026	2025	2026	2025	2026	2025	2026	2025	2026
BE	30.4.2026	7	Yes	2029	Yes	8.7.2025	0.1	-0.3	0.1	-0.2	-0.5	-0.9	-5.2	-5.2	107.9	110.5
BG	30.4.2026	4	Yes*	2029	Yes	8.7.2025	2.1	0.2	2.1	2.2	1.4	1.6	-3.5	-4.1	29.9	32.3
CZ	30.4.2026	4			Yes	8.7.2025	0.2	1.5	-1.4	0.1	-1.7	-0.2	-2.1	-2.8	44.3	45.8
DK	30.4.2026	4			Yes	8.7.2025	1.0	0.4	-0.6	-0.1	-1.6	-1.5	2.9	0.9	27.9	27.0
DE	30.4.2026	7			Yes	10.10.2025	-0.3	0.5	-0.3	0.3	-0.7	-0.5	-2.7	-3.7	63.5	65.8
EE	30.4.2026	4			Yes	8.7.2025	-2.0	2.8	-1.4	1.5	-2.9	0.0	-2.0	-4.5	24.1	26.9
IE	30.4.2026	4					0.3	-0.1	-0.1	-0.6			1.8	1.4	32.9	32.4
EL	30.4.2026	4			Yes	8.7.2025	-0.3	1.5	-1.3	0.2	-1.5	-0.2	1.7	0.8	146.1	140.7
ES	30.4.2026	7			Yes		0.4	0.6	0.1	0.7	-0.1	0.4	-2.4	-2.4	100.7	99.6
FR	7.5.2026	7	Yes	2029			0.0	0.1	-0.3	-0.2			-5.1	-5.1	115.6	118.1
HR	7.5.2026	4			Yes	8.7.2025	1.8	0.3	1.4	1.6	0.9	1.0	-3.0	-2.9	56.3	55.9
IT	30.4.2026	7	Yes	2026			0.1	-0.1	0.0	-0.1			-3.1	-2.9	137.1	138.5
CY	30.4.2026	4					1.3	0.9	1.0	1.8			3.4	2.1	55.0	50.4
LV	30.4.2026	4			Yes	8.7.2025	-0.4	1.2	-1.9	-0.6	-2.6	-2.1	-2.5	-3.3	46.9	48.8
LT	30.4.2026	4			Yes	8.7.2025	1.5	0.7	1.5	2.2	0.3	0.7	-1.8	-2.2	39.5	44.6
LU	29.4.2026	4					1.3	-0.6	0.6	0.0			-2.0	-1.2	26.5	29.2
HU		4	Yes	2026	Yes	8.7.2025	1.5	2.3	0.8	3.0	0.0	1.9	-4.7	-6.2	74.6	75.1
MT	30.4.2026	4	Yes*	2027			-0.1	0.1	2.3	2.2			-2.2	-2.2	46.4	46.2
NL	14.4.2026	4					1.5	0.1	1.0	0.1			-1.6	-2.5	44.4	46.9
AT	29.4.2026	7	Yes	2028	Yes	4.3.2026	-0.3	-0.1	-0.3	-0.4	-0.4	-0.7	-4.2	-4.1	81.5	83.4
PL	30.4.2026	4	Yes	2028	Yes	8.7.2025	0.9	-0.2	1.2	1.0	-0.3	-0.5	-7.3	-6.5	59.7	64.5
PT	30.4.2026	4			Yes	8.7.2025	0.2	0.2	0.4	0.6	0.4	0.6	0.7	-0.1	89.7	87.6
RO	30.4.2026	7	Yes	2030			-0.8	-0.3	-0.8	-1.0			-7.9	-6.2	59.3	61.6
SI	30.4.2026	4			Yes	8.7.2025	1.4	1.2	0.5	1.7	0.3	1.2	-2.5	-3.3	65.7	64.9
SK	30.4.2026	4	Yes	2027	Yes	8.7.2025	-0.9	0.8	-1.9	-1.0	-2.5	-1.6	-4.5	-4.6	61.4	63.7
FI	30.4.2026	7	Yes	2028	Yes	8.7.2025	-1.3	1.5	-1.5	0.5	-2.5	-0.9	-3.4	-4.5	88.5	91.2
SE	30.4.2026	4					-0.9	1.0	-1.1	0.0			-1.3	-2.8	35.1	36.6

XX	(-) or 0 deviation
XX	(+) deviation below the threshold (1)
XX	(+) deviation above the threshold (1)

Deficit:	balance > -0.5% of GDP (2)
	-0.5% > deficit > -3%
	deficit < -3% of GDP
Debt:	debt < 60% of GDP
	debt > 60% of GDP

* Following the 2026 spring package, Bulgaria received a Council recommendation to end its excessive deficit situation, while the Council abrogated Malta's EDP.

Notes: (1) The thresholds for deviations in the control account are set at (i) 0.3% of GDP annually, and (ii) 0.6% of GDP cumulatively. According to Article 2(2) of revised Regulation 1467/1997, if one or both thresholds are exceeded, the Commission shall prepare a report in accordance with Article 126(3) TFEU. This report is required when the government debt-to-GDP ratio exceeds the reference value, or when the budgetary position is not close to balance or in surplus. Positive (negative) deviation means net expenditure growth exceeds (is at or below) the recommended limit.
(2) The budgetary position is considered close to balance or in surplus if the general government deficit does not exceed 0.5% of GDP (Article 2(2) of Regulation 1467/1997 and the Code of Conduct chapter on the operation of the Control Account). In such cases, a deviation does not lead to the preparation of the report under Article 126(3) TFEU.
Sources: Commission 2026 spring package, EFB calculations

3 EXCESSIVE DEFICIT PROCEDURE (EDP)

Highlights

- The EDP is the only enforcement instrument left under the reformed EU fiscal framework. The 2024 reform abolished the 'significant deviation procedure' under the preventive arm and introduced a new debt-based EDP linked to deviations from country-specific expenditure paths of the preventive arm.
- The number of Member States in the EDP remained stable in spring 2026, with Bulgaria entering and Malta exiting.
- The Commission's assessment of possible new EDPs relied heavily on judgement and mitigating factors, with Slovenia's and Hungary's case illustrating the difficulties created when new elements are used to defer a procedural decision despite projected deficits well above 3% of GDP.
- Spain's activation of the national escape clause (NEC) formally averted a possible debt-based EDP, but the very limited projected increase in defence spending and continued pro-cyclical growth of non-defence spending raises questions of whether flexibility is really justified.
- The EFB's assessment points to a broadening tendency towards forbearance and discretion on the part of the Commission in applying the corrective arm of the EU fiscal framework, with informal guidance increasingly substituting for formal, Treaty-based enforcement.
- The Commission's assessment risks blurring the fundamental distinction between 'effective action' taken in response to an EDP recommendation and subsequent 'monitoring'. In some cases, it places undue weight on headline deficit developments rather than the underlying policy effort.
- Malta's EDP was abrogated following a decline in its deficit below 3% of GDP, although the country significantly deviates from the recommended net expenditure path in 2025 and is projected to do so in 2026, too. The case illustrates the risk that favourable macroeconomic developments can be used as a substitute for discretionary fiscal adjustment.

This chapter examines the implementation of the excessive deficit procedure (EDP) – the only remaining enforcement instrument under the reformed SGP – and highlights innovations or specificities compared to previous years, as well as interlinkages with other surveillance procedures. The EDP is a Treaty-based procedure clarified by Regulation 1467/1997. Its main aim is identifying and correcting 'gross policy errors' which can concern the deficit or the debt. Further to an ECOFIN resolution issued during the last reform process, the procedure was meant to remain unchanged on the basis of a breach of the 3% deficit criterion, including the assessment of the relevant factors.(42) At the same time the reform introduced a new operationalisation of the debt criterion. Specifically, a so-called debt-based EDP can be triggered if observed net expenditure exceeds the recommended limits by a predefined margin, for Member States whose debt exceeds the reference value of 60% of GDP and the budget balance is neither close to balance nor in surplus.

3.1 Possible new EDPs

In spring 2026, the number of Member States in EDP remained stable at ten, with Bulgaria entering and Malta exiting.

As usual, and in line with relevant provisions, the Commission surveillance package included an Article 126(3) TFEU report, to establish whether countries violated the deficit or debt criterion of the Treaty. The document examined in detail the situation of five Member States on the basis of the deficit criterion: Bulgaria, Germany, Estonia, Latvia, and Slovenia.

As a first check, the Commission report verified whether the deficit was close to the reference value and temporary, as required by Regulation 1467/1997.(43) The Commission analysis concluded that none of the five Member States satisfied these two conditions, neither was their excess over the 3% of GDP reference value assessed to be exceptional, i.e. resulting from unusual events outside the control of government. This illustrates and confirms the crucial role – requested by the Council - of the Treaty-based deficit reference value of 3% of GDP in the reformed framework where net expenditure derived from national medium-term fiscal-structural plans play a prominent role.

The Commission report then progressed to the examination of relevant factors that can affect the assessment of compliance. This is a step explicitly set out in the Treaty and detailed by Regulation 1467/1997, which was often used by the Commission to postpone enforcement through broad interpretations of such factors (see Box 2.2 of EFB, 2025).

The Commission's examination of relevant factors provided a complete overview of factual details, yet was sparse in terms of analysis.(44) In fact, the examination was not systematic in explaining how the various factors influenced the overall conclusions. As detailed in Table 3.1 below, the Commission provided additional analysis explicitly only for a few relevant factors but did not elaborate for each and every relevant factor as to whether and how they were contributing to a conclusion of 'mitigating, aggravating, or mixed'. As a result, the overall conclusions did not reveal how the Commission weighed against each other the relevant factors it considered. A more detailed and systematic assessment of all relevant factors would improve transparency as regards the decision of opening or non-opening of EDPs and, in turn, predictability and equal treatment going forward.

Table 3.1: Relevant factors explicitly flagged by the Commission for EDP assessment

	Explicitly flagged by COM	**Overall conclusion**
Bulgaria	Deviations from NEG path (after the NEC) above the threshold	Aggravating
Germany	Substantial public debt challenges (key aggravating relevant factor)	Cannot be taken into account
Estonia	No relevant factors flagged explicitly	Mixed picture
Latvia	No relevant factors flagged explicitly	Mitigating
Slovenia	Deviations from NEG path (after the NEC) above the threshold	Cannot be taken into account

Notes: Relevant factors can either be put forward by the Member State or identified by the Commission. NEG stands for net expenditure growth. NEC stands for national escape clause.
Sources: European Commission, EFB assessment

[42] See ECOFIN Resolution of 14 March 2023.

[43] Closeness is defined, according to the practice, as a deficit below 3.5% of GDP. Temporary indicates a forecast for the deficit to decline and remain below 3% of GDP at the end of the forecast period.

[44] Those included macroeconomic and budgetary position, debt challenges, reforms and investment, defence spending.

Based on its overall conclusions on compliance with the deficit and debt criteria, the Commission proposed to open an EDP for only one of the five countries with a reported and/or projected deficit above 3%, namely Bulgaria. For Germany and Estonia, the Commission referred to Article 2(5) of Regulation 1467/1997 which allows for additional flexibility for countries that applied for a NEC. For Latvia, the Commission identified mitigating relevant factors supporting the conclusion that the deficit criterion was fulfilled prior to taking into account the NEC. For Slovenia, the Commission resorted to the concept of uncertainty not to take a decision. This is not the first time the Commission uses uncertainty as an excuse not to propose the opening of an EDP even when the conditions are formally met.([45])

In the case of Germany, it is worth noting that while according to the Commission 2026 spring forecast, the deficit for 2026 would be below the 3% of GDP reference value after removing the contribution of defence expenditure, the deficit planned by the German authorities exceeds the reference value even after that correction. This is a significant judgment call, as the Commission normally tends to be more cautious than the Member States in forecasting fiscal developments. The relative optimism of the Commission appears to be driven by stronger revenue projections than those of the national authorities, but the Commission did not elaborate on the differences between the two sets of forecasts in its Article 126(3) TFEU report. This raises the question of which particular insight the Commission is relying on to obtain a fiscal forecast that makes the difference between opening and non-opening an EDP.

For Slovenia, the Commission decided not to propose the opening of an EDP, on the ground of uncertainty, leaving any decision about it to the autumn of 2026. This decision is problematic on at least two grounds: (i) both the Commission's and the Member States' projection point to a deficit in excess of 3% of GDP; and (ii) the Commission took note of deficit-increasing measures adopted by the Slovenian national assembly after the cut-off for the 2026 spring forecast. Nevertheless, the Commission merely highlighted that "*if sufficient corrective measures are not taken in a credible and timely manner, this may lead to the opening of the excessive deficit procedure*".

The Commission's hesitation is reminiscent of the recent case of Austria, where an EDP was opened half a year later than warranted, when the reported deficit had reached close to 5% of GDP. As a reminder, an EDP can be opened both on the basis of observed and projected data.

Spain is another case that deserves to be mentioned. On 13 April 2026, only two weeks before the submission of its annual progress report (APR), the Spanish government submitted a request to the Council and the Commission to activate the national escape clause (NEC) for defence. The vast majority of interested Member States had applied for the NEC a year earlier, shortly after the Commission's invitation of March 2025. The timing of the Spanish request attracts attention as Spain's debt ratio is significantly above the 60% of GDP reference value, so its annual deviation from the net expenditure path of 0.4% of GDP in 2025 (coupled with a projected annual deviation of 0.6% of GDP in 2026) would normally have triggered the examination of a possible debt-based EDP. As reminder the margin of tolerance for annual deviations defined in Article 2 of Regulation 1467/1997 is 0.3% of GDP.

While applying for the NEC for defence was instrumental in averting Spain's inclusion in the Commission's Article 126(3) TFEU report and a possible debt-based EDP, it is worth noting that the projected increase in Spain's defence spending between 2024 and 2025 was minimal, at only 0.1% of GDP. Hence, the annual deviation from the recommended expenditure path of 0.4% of GDP in 2025 mainly results from expenditure other than defence. In addition, the projected 0.1% of GDP increase in defence spending between 2024 and 2025 comes after a drop of the same expenditure item of 0.2% of GDP in 2023 (compared to 2022).

Spain's deviation from the recommended expenditure path can also to be assessed against the backdrop of significantly higher than planned nominal GDP growth in 2025 and 2026. Among the large euro area Member States, Spain is the only country in which higher-than-planned nominal GDP growth went along with higher-than-recommended net expenditure growth in 2025 *and* 2026. Hence, the implementation of the Spanish MTFSP points to a procyclical fiscal expansion. As a reminder, one of the purported objectives of introducing medium-term expenditure plans was to strengthen automatic stabilisation, i.e. by sticking to agreed expenditure plans in the face of higher or

[45] 2021 annual report of the EFB

lower than projected growth, fiscal policy would help mitigate fluctuations of aggregate demand.

By way of reminder, Spain had already been at risk of an EDP since spring 2024, after the Commission and the Council had deactivated the severe economic downturn clause. In spring 2024, after having established an excessive deficit in its Article 126(3) TFEU report, the Commission resorted to a new form of discretion, concluding that an EDP would not have "*served a useful purpose*". This was a first since the inception of the SGP.

In sum, the Commission's approach on EDPs in the 2026 spring package follows a trend observed since end-2023 when the severe economic downturn clause was deactivated and the Commission announced a return to *'a normal application the EU fiscal rules'*.([46]) Specifically, there is an increasing reliance on discretion and forbearance, unchallenged by the Council, with a tendency not to open the procedure even where this would be possible, and instead to issue informal advice, which effectively substitutes for Council recommendations under the Treaty-based EDP.

3.2 Countries already in EDP

Effective action

The Council recommendation under Article 126(7) TFEU to correct an excessive deficit sets a deadline of three to six months to take effective action. The Member State concerned is then expected to report on its policy response in a dedicated document. The Commission normally publishes the assessment of effective action in its annual spring and autumn surveillance packages following the deadline established for the Member State. Once the Commission establishes effective action, the procedure is held in abeyance and the Commission monitors progress towards the timely correction of the excessive deficit.

In its chapeau communication of the 2026 spring package, the Commission seems to have bundled the two processes of assessment of effective action and monitoring into a section called 'Member States currently under EDP' referring to 'effective action' interchangeably for the two different processes.

The only case of assessment of effective action within the meaning of Regulation 1467/1997, relevant for the 2026 spring package, was Finland. The deadline for taking and reporting on effective action was 30 April 2026. The Commission assessed Finland as having taken effective action exclusively based on the expected compliance against their corrective path. This is a recent approach, different from the one followed in the past, where the focus would be on the concrete measures a country in EDP adopted in response to the Council recommendation to correct their excessive deficit. There is a strong case for the Commission to publish a detailed assessment of corrective measures, as Article 3(5) of Regulation 1467/1997 explicitly calls on Member States to report on "*the targets for government expenditure and revenue and for the discretionary measures on both the expenditure and the revenue side consistent with the Council's recommendation*".

Monitoring

In the rest of the section called 'Member States in EDP', the Commission presented an assessment of countries under 'monitoring' using the concept of 'effective action'. This choice is confusing. For instance, under effective action projections for headline deficits should not play a role as they are affected by factors outside the control of governments, notably the economic cycle. However, in the case of Italy, net expenditure growth in 2025 was above the maxima recommended by the Council both in annual and cumulative terms – even if the deviations were within the thresholds of 0.3% of GDP annually and 0.6% of GPD cumulatively. Hence, the Commission performed an 'overall assessment'. Among the favourable arguments qualified as 'effective action', the Commission included the observed decline in the nominal deficit.([47]) Giving prominence to the decline in the headline deficit clashes with established practiced since the 2005 reform of the SGP to shift attention from observed outcomes towards policy efforts, and risks supporting possible nominal strategies. The use of inaccurate language creates confusion for stakeholders that are engaged in the appropriate and even-handed implementation of the SGP.

In the case of Hungary, the projected significant deviation from the net expenditure path in 2026 pointed to a lack of effective action. Hungary was the only country that did not submit an APR in

[46] European Semester 2024 Spring Package: [EUR-Lex - 52024DC0600 - EN - EUR-Lex]

[47] Other mitigating elements for Italy were the projected correction of the excessive deficit situation as of 2026, and the small size of the deviation in 2025.

spring 2026. According to the Commission, it complied with its corrective path in 2025, but only after the application of the NEC. As indicated in Chapter 2, this was due to an extensive interpretation of the NEC, without which it would have faced an assessment of non-effective action, and a possible stepping-up of the EDP.

In addition, despite highlighting, the Commission hesitated to take any steps in the spring – even if 2026 is Hungary's deadline for correcting the excessive deficit. The Commission argued its decision was affected by the lack of outturn data for 2026, yet it stressed that a stepping-up of the procedure could be considered in autumn based on a forecast – effectively using a new form of discretion to postpone a decision for Hungary, following the April elections which led to a regime change in the country. At the same time, prospects are unlikely to change fundamentally between spring and autumn considering the projected size of the budget deficit (6.2% of GDP) and the reported risk of seeing significant upward revisions of the deficit following a stocktaking and due diligence exercise by the new government.

Finally, the Commission decided to keep the Romanian EDP in abeyance. As for other cases mentioned above, this decision was also presented as an assessment of 'effective action'. The assessment mainly relied on large planned discretionary revenue measures (DRMs), estimated, by both the Member State and the Commission, to yield more than 1% of GDP both 2025 and 2026. These estimates put Romania among the three Member States with the highest positive DRMs as a share of GDP in 2025. The Romanian APR did not feature a detailed table with estimates of the DRMs impact, but only a section of text enumerating the measures of the July and September 2025 fiscal packages. Consequently, the Commission assessment seems to be rather the result of faith than of evidence, especially as the country has gone through a repeated sequence of unmet announcements since the current EDP was opened back in 2020.

Abrogation

As part of the 2026 spring package, the Commission proposed the abrogation of the EDP for Malta in an Article 126(12) TFEU report. Malta's deficit went below the 3% of GDP reference value in 2025 and is projected to stay below it also in 2026. The decline in the headline deficit was also the result of a positive surprise in GDP growth, driven by strong inward migration, a very volatile variable.([48]) The Commission proposed the abrogation of the EDP, while at the same time assessing Malta as '*materially non-compliant*' in 2025 and '*at risk of material non-compliance*' in 2026 against the corrective path recommended by the Council.

This constellation is reminiscent of past instances where Member States could address their EDPs via so-called nominal strategies, i.e. achieving a nominal fiscal improvement, supported by strong macroeconomic outcomes, rather than just implementing consolidation measures.([49]) Or in simpler words, this case exemplifies the possibility that a Member State is rewarded for good luck over good policy.

3.3 Implications of the national escape clause for EDPs

According to Article 26 of Regulation 1263/2024, a national escape clause (NEC) is predicated on exceptional circumstances outside the control of the Member State having a major impact on the public finances of the Member State concerned. This is an innovation of the new framework, as the old one included only provisions for a severe economic downturn in the euro area or the Union as a whole. Under the 2024 reform, the main implication of the NEC is that it can avert the opening of an EDP.

The standard practice for granting a NEC would have Member States bring forward idiosyncratic elements affecting their situation, and the Commission assesses them. The Commission invitation of March 2025, for Member States to apply for the activation of the NEC, brought an element of innovation to that practice, promoting a coordinated submission of requests for the clause in the absence of cyclical conditions that would justify a general escape clause.

The significant implications of the NEC for EDP implementation - among 18 applicants, 7 are in EDP - raise the question of whether the NEC is not being used as a general escape clause under a different name or an ad-hoc golden rule for a certain type of

[48] As shown in the 2024 annual report of the European Fiscal Board (Box 5.1), an analysis of Eurostat's demographic projections (2004-2013) revealed significant volatility in the migration component.

[49] See the 2018 annual report of the European Fiscal Board. It refers to nominal strategy for the cases where Member States use windfalls gains to meet nominal deficit targets rather than implement a structural fiscal adjustment.

expenditure. For Germany, Spain, and Slovenia, the activation of the NEC to accommodate higher defence expenditure was instrumental in avoiding procedural consequences, as mentioned in Section 2.3. This significant role of the NEC in allowing Member States to target a deficit in excess of the reference value – or higher net expenditure growth – without procedural consequences, makes the NEC act as a de facto general escape clause. In this context, it is worth remembering that golden rules were excluded by the co-legislators during the negotiations of the 2024 SGP reform. Moreover, the EFB remarked at the time that golden rules *"have had mixed results, create many potential pitfalls, and may overburden the framework."*([50])

Another idiosyncrasy related to the implementation of the NEC, as a relevant factor for non-opening of EDPs, is that the Commission decided to apply the flexibility only to the cumulative balance of the control account, not the annual balances (see also Chapter 2). This interpretation affects the application of Article 2(2a) of Regulation 1467/1997, stating that an Article 126(3) TFEU report – the very first step in any EDP process – can also be triggered by a deviation on the control account of 0.3% of GDP annually.

[50] 2023 annual report of the European Fiscal Board

ANNEX A: KEY INSIGHTS FROM NEW MTFSPs

Among the distinctive features of the reformed EU fiscal framework is the possibility for Member States to revise their medium-term fiscal-structural plans (MTFSPs). One prominent event justifying a revision is a change in government. Article 14 of Regulation 1263/2024 explicitly provides that '*a newly appointed government may submit a plan*', covering a fresh four- or five-year period depending on the normal length of its legislative term.

Since the start of this year, and before the cut-off date of this report, three Member States have availed themselves of this possibility: Ireland, Czechia and the Netherlands.([51]) In all three cases, the submission of a new plan followed from a general election and the formation of a new government, offering an early opportunity to examine how this particular innovation of the reformed framework operates in practice.

The new plans are based on more favourable fiscal starting positions in 2025 and on more positive macroeconomic and revenue assumptions than those used in the scenarios that the Commission transmitted for preparing the new plans (Commission prior guidance).([52]) As a result, they imply a less demanding fiscal adjustment path than in the Commission's scenarios in terms of the underlying budgetary position. The Commission accepted the justifications provided by the national authorities for using different assumptions. It considered these differences to be balanced in the case of Ireland and Czechia, and overall acceptable in the case of the Netherlands. By he cut-off date of this plan, the Council endorsed the net expenditure paths set out in the Irish and Dutch plan.

In these three countries, net expenditure growth in 2025 exceeds the rates set out in earlier Council recommendations. Over the period of 2026-2030, Ireland and the Netherlands set the net expenditure paths that are higher than those suggested by the Commission simulations, with cumulative differences of 2.7 and around 2 percentage points, respectively. For Czechia, net expenditure growth over 2026-2030 broadly aligns with the Commission prior guidance, although the fiscal adjustment is backloaded.

In the cases of Ireland and the Netherlands, the independent fiscal institutions expressed concerns regarding the prudence and sustainability of the planned expenditure paths. In the Netherlands, one of the IFIs, the Council of State considered that the plan was likely to comply with EU requirements. However, it cautioned that, beyond the plan horizon, the deficit could exceed 3% of GDP from 2034 and debt could rise above 60% of GDP by 2039, citing the projections of the other IFI, the CPB. The main concern therefore relates not to immediate legal compliance, but to the credibility, consistency and sustainability of the underlying assumptions and the medium-term fiscal trajectory. In Ireland, the independent fiscal institution warned that the government risked overheating an already strong economy and becoming overly reliant on potentially volatile corporate tax revenues. In the case of Czechia, the independent assessment was provided by a body, appointed by the Czech Fiscal Council, which is specialised on macroeconomic forecasting. Therefore, their assessment focused on the economic growth assumptions, which were found credible despite some moderate optimism.

The EFB assessment observes that the revised plans of Ireland and the Netherlands rely on assumptions that are more favourable than those underpinning the Commission's debt sustainability analysis. In both cases, the plans assume a higher GDP deflator, resulting in stronger nominal GDP growth projections. While divergences in short-term inflation assumptions can be justified by more recent outturn data, this does not explain why both plans diverge from the standard assumption of convergence to the ECB's 2% target over the medium term. In addition, both plans are based on more favourable revenue projections. For Ireland, this reflects an assumed revenue elasticity above one. For the Netherlands, it is driven by a projected increase in the revenue-to-GDP ratio, notably linked to higher corporate income tax receipts. Both cases deviate from the Commission's DSA methodology, which assumes unitary revenue elasticity with respect to GDP. As a result, these more favourable revenue assumptions imply higher net expenditure paths than those in the Commission's simulations. Despite these relatively favourable assumptions, the Commission did not raise objections to the plans. In the case of Czechia,

[51] Hungary is yet another country where such a situation is likely to arise soon, as a result of the recent elections.

[52] Ireland did not ask for technical information but received macroeconomic assumptions together with the Commission's DSA simulation files.

a persistently high positive output gap appears as a bold assumption.

Overall, the Commission assessed the new plans as compliant with the EU fiscal framework, although Ireland and the Netherlands foresee higher net expenditure growth than would be implied by the Commission's assumptions. In both cases, this reflects more favourable national assumptions regarding nominal growth, initial fiscal conditions or revenue developments. At the same time, the underlying issues differ. In the Netherlands, the main questions concern the durability of the inflation assumptions and debt sustainability beyond the programme horizon. In Ireland, the key issues relate to the treatment of distortions linked to multinational activity, the use of national indicators in place of common EU methodologies, and the fiscal risks associated with reliance on strong but potentially volatile revenues.

The newly endorsed plans also bring into focus broader procedural and methodological issues in the implementation of the reformed framework.

First, the Council reiterated its call for the Commission to present assessments of the MTFSPs in standalone analytical documents, rather than solely within the introductory recitals of the proposed Council recommendation. To date, the Commission has not publicly responded to this request. While the Commission initially justified the absence of dedicated assessment documents on the grounds of high workload during the simultaneous submission of numerous MTFSPs, this argument is less compelling when only a small number of plans require evaluation at any given time. The Council's position aligns with repeated calls from the EFB for the Commission to restore pre-2020 practice by publishing country-specific fiscal analyses in dedicated staff working documents.

Second, the Council used the MTFSP recommendations for Ireland and the Netherlands to reiterate the need for *'further discussions to find a common understanding on the annual surveillance implications of cumulative net-expenditure growth'*.([53]) This message – first conveyed last year – signals that full consensus has yet to be reached on key operational aspects of the revised EU fiscal framework. It is an echo of the lengthy and difficult discussions between the Commission and the Council on the updated Code of Conduct, a 'gentlemen's agreement' between the two institutions on how to implement the reformed rules where the relevant legal provisions are rather general.

[53] By the cut-off date for this report, the Council recommendation for Czechia had not yet been adopted.

A.1 Ireland

Overall conclusions

Following elections in November 2024, Ireland submitted a new MTFSP in January 2026, allowing sufficient time for stakeholder consultation. The new plan targets higher net expenditure growth rates than those implied by the Commission's macroeconomic assumptions. This is driven by more optimistic assumptions for nominal GDP growth and government revenues as well as by a stronger structural primary balance in 2025 at the start of the plan, which creates scope for its subsequent reduction through higher expenditure growth.

Although the plan deviates from the common framework for MTFSPs by relying national as opposed to the commonly agreed methodologies and metrics, the Commission acknowledges Ireland's unique economic context, influenced by multinational activity, and finds the discrepancies to be duly justified on balance.

The Irish Fiscal Advisory Council warned that the new plan may overstimulate already strong growth through a rapid increase in public spending and risk a fiscal deficit if expected gains in volatile corporate tax receipts do not materialise.

Ireland submitted a new medium-term fiscal-structural plan (MTFSP) on 12 January 2026 (in English), after presenting it to the Irish Parliament on 9 January 2026. Prior to this, the government consulted stakeholders on economic and social priorities, including medium-term budgetary plans, at the National Economic Dialogue event on 16 June 2025. The first plan was submitted by the outgoing government in October 2024, ahead of the elections in November 2024. Following the formation of the new government in January 2025, the medium-term fiscal trajectories were subsequently updated in conjunction with the 2026 budget.

Due to its fiscal surplus and low debt-to-GDP ratio, Ireland did not request prior guidance from the Commission in the form of technical information. However, it did receive the Commission macroeconomic assumptions and medium-term debt projections, which indicate the maximum permitted deterioration of the structural primary balance, using the Commission 2025 autumn forecast as a baseline.([54])

The plan does not refer to the technical exchange and dialogue with the Commission. However, according to the Commission assessment, the technical dialogue took place in October and December 2025 and centred on the net expenditure path and underlying assumptions.([55])

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[54] Article 9 of Regulation 1263/2024 mandates that the Commission provides country-specific net expenditure trajectories based on debt sustainability simulations, with the structural primary balance as one of the key assumptions. Although Ireland did not request the technical information, it received the standard simulation file, which determines the maximum allowable deterioration in the structural primary balance under EU rules. For Ireland, the most binding constraint is a 3% of GDP deficit by 2039.

[55] COM/2026/75 final

Submission date	12 January 2026
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 38.3% of GDP Government balance: 4.1% of GDP
Commission prior guidance	The authorities did not ask for EU guidance
EDP	NA
Years of MTFSP	2026-2030
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 requirements

Macroeconomic projections

The MTFSP forecasts a slightly higher cumulative rate of nominal GDP growth for 2026-2030 compared to the macroeconomic assumptions shared by the Commission, with a difference of 0.8 percentage points. This is primarily due to a more optimistic GDP deflator projected in the outer years of the plan.

The MTFSP relies on national estimates of potential output and the output gap, which differ significantly from the results derived from the EU's commonly agreed method.[56] The plan estimates a less positive output gap than the Commission for 2025 and anticipates lower potential growth over the medium term.

Overall, the plan is slightly more optimistic about nominal GDP growth compared to the Commission assumptions.

Table A.1: **Ireland – Main macroeconomic and fiscal variables**

		Commission macroeconomic assumptions (Dec 2025)							MTFSP of Jan 2026							Commission 2025 autumn forecast			
Variables	Unit	2024	2025	2026	2027	2028	2029	2030	2024	2025	2026	2027	2028	2029	2030	2024	2025	2026	2027
Potential GDP	% change	3.7	4.5	3.7	3.5	4.0	3.9	4.0	2.0	11.0	1.0	4.6	3.6	3.6	*3.6*	3.7	4.5	3.7	3.5
Real GDP	% change	2.6	10.7	1.1	2.8	3.9	3.9	3.9	2.6	10.8	1.0	4.2	3.2	3.2	*3.2*	2.6	10.7	0.2	2.9
GDP deflator	% change	4.5	2.1	2.0	1.8	1.8	1.9	2.0	4.5	1.7	2.0	2.1	2.2	2.2	*2.3*	4.5	2.1	2.0	1.8
Nominal GDP	% change	7.3	13.0	3.1	4.6	5.8	5.8	5.9	7.3	12.7	3.0	6.4	5.5	5.5	*5.5*	7.3	13.0	2.2	4.8
Net expenditure growth (annual)	% change	8.0	7.7	6.3	5.9	6.5	6.5	6.0		9.3	6.6	6.0	7.6	6.7	6.4	8.0	7.7	6.2	4.8
Net expenditure growth (cumulative)	% change	8.0	7.7	14.5	21.3	29.2	37.6	45.8		9.3	16.5	23.5	32.9	41.7	50.9	8.0	7.7	14.4	19.9
Government balance	% GDP	4.0	1.5	0.0	-0.5	-0.8	-1.0	-1.2	4.0	1.5	0.8	1.0	0.7	0.5	*0.5*	4.0	1.5	1.0	0.8
Structural balance	% GDP	1.5	-0.5	-0.7	-0.8	-1.0	-1.2	-1.3	0.5	0.6	-0.1	0.3	0.3	0.2	*0.4*	2.5	-0.5	0.8	0.9
Structural primary balance	% GDP	3.1	0.0	-0.1	-0.3	-0.4	-0.5	-0.5	1.1	1.1	0.5	0.9	0.9	0.9	*1.1*	3.1	0.0	1.4	1.5
Gross debt (target)	% GDP	38.3	33.1	32.6	32.8	31.8	31.0	30.4	38.3	33.0	32.4	31.5	30.7	30.0	*28.8*				
Gross debt (no policy change)	% GDP	38.3	33.1	32.7	33.1	32.2	31.7	31.4	38.3	33.0	32.4	31.9	31.4	31.0	*30.2*	38.3	33.1	32.5	31.3

Notes*:* For the Commission prior guidance, the indicators show the limits permitted by EU rules, based on the Commission no-policy-change scenario. Ireland did not request technical information from the Commission on the allowed minimum level of the structural primary balance.
Sources*:* European Commission, MTFSP

[56] The Irish authorities use modified national income (GNI*) as a measure of the domestic economy, excluding the activities of large multinational companies that operate in Ireland and are reflected in the GDP. See the Irish Central Statistics Office: Modified GNI.

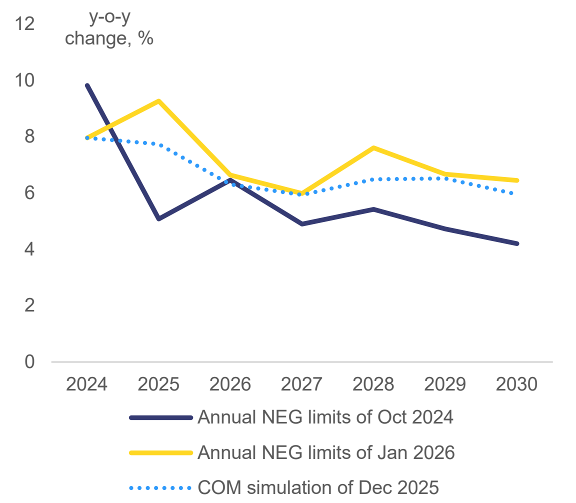
Public finances and net expenditure path

In 2025, the Irish MTFSP estimates a significantly higher rate of net expenditure growth, than the Commission 2025 autumn forecast: 9.3% as opposed to 7.7%. This discrepancy arises because the MTFSP incorporates more up-to-date spending estimates for 2025. Estimated net expenditure growth surpasses the 5.1% limit recommended by the Council in January 2025. Of note, since Ireland is recording a deficit and debt level below the Treaty thresholds, a deviation from the Council recommendations has no procedural consequences under the reformed EU fiscal framework.

For the period 2026-2030, the MTFSP targets cumulative net expenditure growth rate that is 2.7 percentage points higher than the Commission's simulation based on its 2025 autumn forecast. This divergence stems from (i) a slightly more optimistic assumption for nominal GDP growth, (ii) a more positive estimate of the structural primary balance in 2025, which provides scope for a reduction, and (iii) a projection that revenue growth will exceed nominal GDP growth. The latter contradicts the standard assumption in debt sustainability simulations of a unitary revenue elasticity.

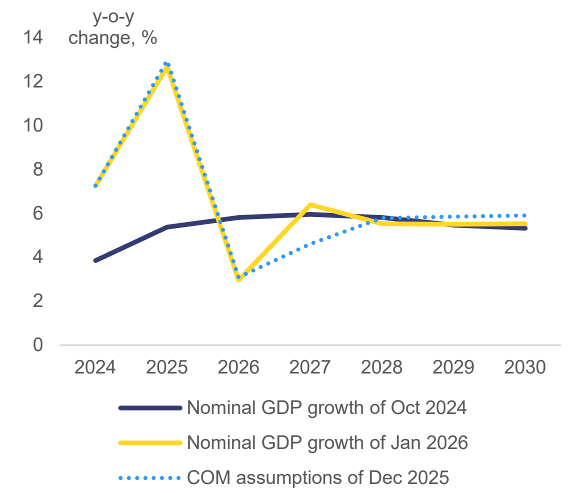
Compared to the first MTFSP, the new plan sets significantly higher net expenditure growth rates (Graph A.1.1). While the first plan targeted a net expenditure path below a theoretical limit derived from its macroeconomic assumptions and the EU minimum fiscal requirements, the new plan sets a net expenditure path that approaches the limits of EU fiscal rules.

Graph A.1.1: Net expenditure growth (NEG) limits: the new and the previous MTFSP, and Commission simulations



Sources: European Commission, MTFSPs

Graph A.1.2: Nominal GDP rates: the new and the previous MTFSP, and Commission assumptions



Sources: European Commission, MTFSPs

The plan's fiscal strategy aims to maintain current spending increases broadly in line with nominal GDP growth while increasing the share of capital spending in GDP. The government is committed to advancing productivity-enhancing infrastructure projects to catch up with other advanced economies in terms of capital stock. Additionally, the government plans to run fiscal surpluses during favourable economic times as a buffer against potential shocks, and to invest savings in dedicated long-term saving vehicles designed to address future expenditure pressures.

Overall, the plan sets higher net expenditure growth rates than those implied by the Commission's macroeconomic assumptions. The main differences arise from a more positive estimate of structural balance in 2025 and revenue projections that deviate from the standard elasticity assumption.

IFI involvement

The Irish IFI (the Irish Fiscal Advisory Council) endorsed the macroeconomic forecasts underpinning the national budget plans on 26 September 2025. The MTFSP was prepared in alignment with the budget for 2026 and incorporates its macroeconomic projections.

The Irish IFI made a preliminary assessment of the new plan on 19 December 2025, criticising the expenditure path, with growth rates exceeding available estimates of the economy's sustainable medium-term rate of growth.([57]) The IFI observed that by this approach the government is fuelling an already strong economy instead of saving more to prepare for future challenges. Moreover, the IFI observed that if expected increases of the volatile corporate income tax failed to materialise, the government may face the risk of running a deficit. The IFI also expressed criticism regarding the suitability of EU benchmarks that focus on GDP-based indicators in the Irish context, due to the significant impact of large multinational companies on public finances and GDP.

Commission assessment and Council conclusions

The Commission assessment concludes that Ireland's MTFSP fulfils the requirements of Regulation 1263/2024. The Commission released its assessment in the draft Council recommendation without any publicity.([58])

The Commission assessment notes differences between the plan and its own assumptions. While the Commission considers the plan's real GDP growth forecast to be prudent, it finds that the GDP deflator for 2028-2030 is inconsistent with the common framework for debt sustainability assessment, even after accounting for the projected price increases in 2027 linked to policy measures. While the plan deviates from the commonly agreed methodology for estimating potential output and output gap, the Commission concurs with the plan's lower estimate of positive output gap, considering developments in other cyclical indicators such as labour market slack, stable capacity utilisation, and decelerating service inflation. The Commission claims that the plan's higher revenue elasticity is justified because the government intends to channel more revenue into the savings funds set up in 2024.

The Council adopted the recommendation endorsing the Irish plan on 10 March, referencing it in the meeting results. The Council recommendation acknowledges the Commission assessment of Ireland's net expenditure path and macroeconomic assumptions, noting differences from the Commission assumptions but recognising them as well-justified and underpinned by sound economic arguments.([55]) It observes that Ireland's fiscal indicators are affected by the multinational sector, leading to a preference for modified metrics in domestic analyses. Additionally, the Council notes the establishment of two savings vehicles to provide fiscal buffers for future challenges and support climate-related goals. From a procedural perspective, however, the Council reiterates its request to the Commission to present its assessment of plans in a separate document from the Commission recommendations for Council recommendations.

The Council recommends that Ireland ensure that it does not exceed the net expenditure path as set out in its plan.

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57 Irish Fiscal Advisory Council, Flash release to the revised Medium-Term Plan, 19 December 2025.

58 On 6 February, the Commission adopted the draft Council recommendation via written procedure (SEC/2026/35). The item was then included on the agenda for the 10 February College of Commissioners meeting as a standard point, alongside other documents adopted through written procedure (SEC(2026)2554). No Commission press release was issued, nor was the document mentioned during the midday press briefings.

A.2 The Netherlands

Overall conclusions

Following elections in October 2025, the Netherlands (a euro-area country with deficit below 3% of GDP and debt below 60% of GDP) submitted a new MTFSP in April 2026. The new plan targets higher net expenditure growth rates than the previous plan and those derived from the Commission's macroeconomic assumptions; in cumulative terms by 2 percentage points in 2026-2030. As a result, the MTFSP implies a somewhat less ambitious adjustment as measured by the structural primary balance.

The authorities predicate higher net expenditure growth on higher nominal GDP growth projections, specifically on more sanguine assumptions for the GDP deflator as of 2027.

One of the two Dutch IFIs, the Council of State, raised concerns about the sustainability and consistency of the expenditure path in the new MTFSP while acknowledging it formally meets the criteria of the EU rules.

The Netherlands submitted a new medium-term fiscal-structural plan (MTFSP) on 13 April 2026 (in English), the day after its government sent a draft plan to the Dutch Parliament. The government also sent a draft plan to the social partners and states in the plan that "*all relevant stakeholders*" are involved in the development of the policies described in the MTFSP "*through the regular legislative processes*". The first MTFSP had been submitted in October 2024 by the previous government. It was the only MTFSPs within the first round of submissions which failed to meet the requirements of Regulation 1263/2024.

As the headline deficit and debt of the Netherlands are below the Treaty-based thresholds of 3% and 60% of GDP, the Commission did not share a reference trajectory for net expenditure. However, upon request by the Member State, the Commission provided technical information. The Commission also published prior guidance tables on 28 February 2026. The tables indicate a minimum level for the structural primary balance in 2029 – i.e. 0.1% of GDP – necessary to ensure the reference values in the Treaty remain respected within the horizon of the programme - a plan without extension - at unchanged policy. Moreover, the tables include the underlying macroeconomic assumptions and medium-term debt projections, based on the Commission 2025 autumn forecast, underpinning a possible adjustment.([59])

The plan does not refer to the technical dialogue with the Commission. However, according to the Commission assessment, it took place in March 2026 and centred on the net expenditure path and its underlying assumptions, particularly the GDP deflator, as well as challenges identified in the context of the European Semester and the common priorities of the Union.([60])

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[59] Article 9 of Regulation 1263/2024 mandates that the Commission provides country-specific net expenditure trajectories based on debt sustainability simulations, with the structural primary balance as one of the key assumptions. A standard simulation file determines the maximum allowable deterioration in the structural primary balance under EU rules. For the Netherlands, the most binding constraint is a 3% of GDP deficit by 2039.

[60] COM/2026/301 final

Submission date	14 April 2026
Technical dialogue	Yes
Fiscal position (in 2024)	Government debt: 43.8% of GDP Government balance: -0.7% of GDP
Commission prior guidance	Technical information
EDP	NA.
Years of MTFSP	2026-2030
Adjustment period	4 years
Average adjustment (annual change in structural primary balance)	0.1 pp.
Stakeholder involvement	Yes
IFI involvement	Yes (CPB provided macroeconomic forecasts for the plan. Council of State issued an assessment)
Commission overall assessment	MTFSP fulfils requirements

Macroeconomic projections

The MTFSP forecasts higher nominal GDP growth compared to the macroeconomic assumptions shared by the Commission, with a cumulative difference of more than 1 percentage point over the period 2026-2030. This is primarily due to a higher GDP deflator. The authorities justify the difference with the pass-through of imported energy prices into domestic prices linked to the war in the Middle East. While the macroeconomic scenario of the plan is more recent than that of the Commission prior guidance (March 2026 vs November 2025), a persistently higher deflator until 2030 would have deserved further explanations. Compared to the original MTFSP, the new plan is based on marginally higher growth rates of nominal GDP, also thanks to a better outturn for 2025. Moreover, the plan refers to a decline in potential growth over the medium term due to the impact of ageing population on labour supply, without elaborating on the extent of the impact in 2026-2030.

Table A.2: **The Netherlands – Main macroeconomic and fiscal variables**

		Commission macroeconomic assumptions (Feb 2026)							MTFSP of Apr 2026						Commission 2026 spring forecast		
Variables	Unit	2024	2025	2026	2027	2028	2029	2030	2025	2026	2027	2028	2029	2030	2025	2026	2027
Potential GDP	% change	1.8	1.7	1.4	1.3	1.2	1.1	1.1	1.7	1.4	1.3	1.2	1.1	*1.1*	1.6	1.4	1.3
Real GDP	% change	1.1	1.7	1.2	1.5	1.5	1.3	1.3	1.8	1.3	1.5	1.3	1.4	*1.3*	1.8	1.0	1.1
GDP deflator	% change	5.7	3.2	3.3	2.1	2.1	2.1	2.2	3.2	3.3	2.5	2.4	2.4	*2.4*	3.2	3.2	2.5
Nominal GDP	% change	6.9	4.9	4.5	3.7	3.6	3.5	3.5	5.1	4.6	4.0	3.7	3.8	*3.7*	5.2	4.2	3.6
Net expenditure growth (annual)	% change	6.2	7.3	4.3	3.0	3.0	2.9	3.3	7.2	4.7	3.5	3.1	3.5	3.7	7.2	4.9	3.7
Net expenditure growth (cumulative)	% change		7.3	11.9	15.3	18.8	22.2	26.3	7.2	12.2	16.2	19.7	23.9	28.5	7.2	12.5	16.6
Government balance	% GDP	-0.9	-1.9	-2.6	-1.7	-1.4	-1.2	-1.3	-1.5	-2.4	-1.5	-1.3	-1.2	*-1.2*	-1.6	-2.5	-1.9
Structural balance	% GDP	-0.3	-1.3	-1.1	-1.1	-1.0	-0.9	-1.0	-1.0	-1.1	-1.1	-0.9	-0.9	*-1.0*	-1.1	-1.1	-1.1
Structural primary balance	% GDP		-0.6	-0.4	-0.2	-0.1	0.1	0.1	-0.4	-0.3	-0.3	0.0	0.0	0.0	-0.4	-0.4	-0.3
Gross debt (target)	% GDP	43.7	45.2	47.8	47.8	47.5	47.2	46.8	44.4	46.8	46.5	46.1	45.6	*45.2*	44.4	46.9	47.0
Gross debt (no policy change)	% GDP	43.7	45.2	47.9	48.3	48.7	49.1	49.6	44.4	46.8	46.8	46.8	46.9	*47.0*	44.4	46.9	47.0

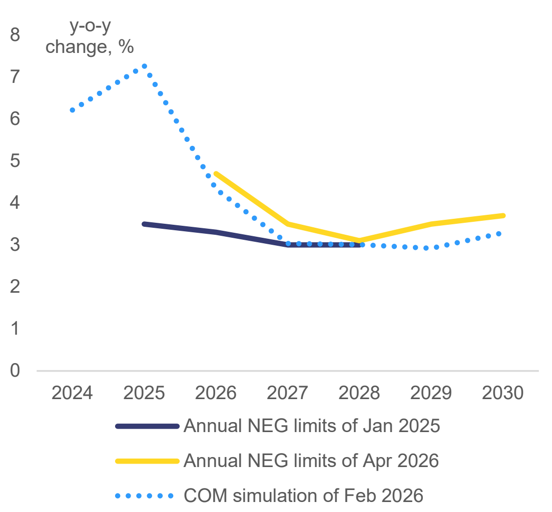
Notes*:* For the Commission prior guidance, the indicators show the limits permitted by EU rules, based on the Commission no-policy-change scenario.
Sources*:* European Commission, MTFSP

Public finances and net expenditure path

For 2025, the Dutch MTFSP estimates a rate of net expenditure growth, 7.2%, in line with that in the Commission prior guidance. This is markedly higher than the 3.5% limit for 2025 established in the Council recommendation of January 2025.([61]) For the period 2026-2030, the MTFSP proposes a net expenditure growth rate that is cumulatively about 2 percentage points higher than the Commission simulation based on its 2025 autumn forecast. This difference is based on (i) a more optimistic assumption for nominal GDP growth (Graph A.2.2), and (ii) as of 2028, an increase in the revenue to GDP ratio, motivated by an assumed increase in corporate income tax receipts, whose drivers are not specified in detail.

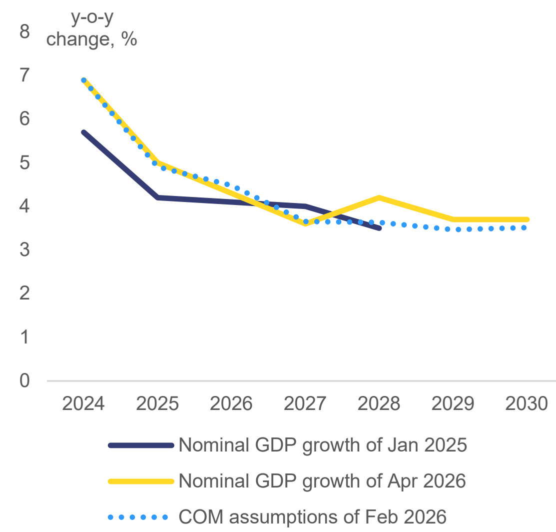
Compared to the earlier Council recommendation, the new plan sets higher net expenditure growth rates (Graph A.2.1). The debt path implied by the new plan mirrors the Commission prior guidance, as the assumptions of stronger nominal growth offset the impact of higher expenditure. However, the debt ratio of the plan starts from a lower level in 2025, due to more updated data. Compared to the debt path of the original MTFSP, the new plan shows a decreasing trend towards 2030, as opposed to an overall stable trend.

Graph A.2.1: Net expenditure growth (NEG) limits: the new and the previous MTFSP, and Commission simulations



Sources: European Commission, MTFSPs

Graph A.2.2: Nominal GDP rates: the new and the previous MTFSP, and Commission



Sources: European Commission, MTFSPs

The government signals commitment to the Treaty reference values of 3% of GDP for the deficit and 60% of GDP for gross government debt. Additionally, the government plans to address the country specific recommendations of the European semester and highlights the following priority areas: investments in defence and the energy transition, the cost of an ageing population, nitrogen policy and the housing market.

IFI involvement

Both Dutch IFIs were involved in the preparation of the MTFSP. The CPB provided the macroeconomic forecasts underlying the plan and an estimated growth of net primary expenditures based on the Commission technical information but resulting in higher annual ceilings than the technical information. The Council of State issued an assessment, included as an annex of the plan, which stated the net expenditure growth path of the plan was likely to meet the requirements of Regulation 1263/2024.

However, the Council of State was also concerned the same net expenditure path was not economically sustainable in the medium term. Specifically, the reservations of the Council of State include: i) the

[61] Given the deficit and debt of the Netherlands are below the Treaty-based thresholds of 3% and 60% of GDP, a deviation from the Council recommendations has no procedural consequences under the reformed EU fiscal framework.

non-respect of the Treaty-based reference values over a longer horizon than the one in the plan, as according to the CPB projections, the headline deficit will exceed 3% of GDP from 2034 onwards and the debt ratio will exceed 60% in 2039; ii) the selective use by the government of CPB figures to replace Commission assumptions, such as the GDP deflator from 2027 onwards; iii) deviations from domestic legislation in the methodology used to estimate the general government deficit, as the law enshrines the use of CPB macroeconomic assumptions in that calculation.

Commission assessment and Council conclusions

The Commission assessment concludes that the Dutch MTFSP fulfils the requirements of Regulation 1263/2024.

The Commission assessment notes differences between the plan and its own assumptions. The first is a smaller structural primary deficit in 2025, which contributes to higher NEG. The second is a higher projected GDP deflator, also contributing to higher NEG. According to the Commission, both these deviations are duly justified.

The Commission assessment also shows their understanding that "*according to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered mainly through discretionary revenue increases that are consistent with further increases in government expenditure*."

The Commission also reports their assessment of the Netherlands' compliance with the maximum growth rates of net expenditure established by the Council recommendation on their first plan, noting that in 2025 the NEG rate was above the maximum recommended by the Council, and the cumulative growth of 2024 and 2025 was also above the limit, amounting to a cumulation deviation of 1% of GDP.

The Council adopted the recommendation endorsing the Dutch plan on 10 July, referencing it in the meeting results and during the subsequent press conference. In its recommendation endorsing the Dutch plan, the Council acknowledged the Commission assessment of the Netherlands' net expenditure path and macroeconomic assumptions, differences from the Commission assumptions but recognising them as well-justified and underpinned by sound economic arguments. The Council reiterated "*its request to the Commission to present its assessment of plans in a separate document from the Commission recommendations for Council recommendations*.", a request which is in line with the advice provided in the EFB's 2025 annual report.

The Council recommends to the Netherlands to ensure that it does not exceed the net expenditure path as set out in its plan.

A.3 Czechia

Overall conclusions

Following elections in October 2025, Czechia (a non-euro-area country with a deficit below 3% of GDP and debt below 60% of GDP) submitted a new MTFSP in June 2026. The new plan targets net expenditure growth rates that are aligned, on a cumulative basis, with those derived from the Commission's macroeconomic assumptions but present a more backloaded profile.

The debt ratio of 2028 is forecast to be 4 percentage points higher than expected in the original MTFSP. The authorities target a slower pace of deficit reduction in the new plan than in their previous plan.

The Committee on Budgetary Forecasts, a body nominated by the Czech Fiscal Council, highlighted a tinge of optimism within a realistic forecast underlying the MTFSP and made a limited number of methodological remarks.

Czechia submitted a new medium-term fiscal-structural plan (MTFSP) on 22 June 2026 (in English). The MTFSP does not mention any involvement of the Czech Parliament. However, the Commission and the IFI assessments refer to a draft budget for 2027 to be presented to the national parliament in September 2026. The government stated the plan was prepared in cooperation with the relevant ministries and other public administration bodies and "*a roundtable on reform and investment priorities was held on 6 May 2026, attended by representatives of employers, trade unions, experts and other stakeholders*".

The first MTFSP had been submitted in October 2024 by the previous government. At that time the EFB remarked a couple of weaknesses of the plan: i) its optimistic macroeconomic scenario and ii) the limited involvement of independent fiscal institutions.

As the headline deficit and debt of Czechia are below the Treaty-based thresholds of 3% and 60% of GDP, the Commission did not share a reference trajectory for net expenditure. However, upon request by the Member State, the Commission provided technical information. The Commission also published prior guidance tables on 28 May 2026. The tables indicate a minimum level for the structural primary balance in 2030 – i.e. 0.5% of GDP – necessary to ensure the reference values in the Treaty remain respected within the horizon of the programme - a plan without extension - at unchanged policy. Moreover, the tables include the underlying macroeconomic assumptions and medium-term debt projections, based on the Commission 2026 spring forecast, underpinning a possible adjustment.([62])

The plan does not refer to a technical dialogue with the Commission. However, according to the Commission assessment, it took place in May and June 2026 and centred on the maximum growth rates of net expenditure envisaged by Czechia and their underlying assumptions, as well as on reforms and investments.([63])

[62] Article 9 of Regulation 1263/2024 mandates that the Commission provides country-specific net expenditure trajectories based on debt sustainability simulations, with the structural primary balance as one of the key assumptions. A standard simulation file determines the maximum allowable deterioration in the structural primary balance under EU rules. For Czechia, the most binding constraint is a 3% of GDP deficit by 2040.

[63] COM (2026) 414 final

Submission date	22 June 2026
Technical dialogue	Yes
Fiscal position (in 2025)	Government debt: 44.3% of GDP Government balance: -2.1% of GDP
Commission prior guidance	Technical information
EDP	NA.
Years of MTFSP	2027-2030
Adjustment period	4 years
Average adjustment (annual change in structural primary balance)	0.2 pp.
Stakeholder involvement	Yes
IFI involvement	Yes
Commission overall assessment	MTFSP fulfils requirements

Macroeconomic projections

The MTFSP forecasts higher nominal GDP growth compared to the macroeconomic assumptions shared by the Commission, with a cumulative difference of 2 percentages point over the period 2027-2030. This is primarily due to the assumption of the national authorities that the Czech economy will exceed its potential GDP significantly across the whole horizon of the MTFSP.

The authorities justify the differences mainly with more optimistic assumption about the resilience of the Czech economy to the aftermath of the Middle East war, with early signals that government investment is likely to do better than previously forecast, and a lesser impact of the fiscal multiplier in response to consolidation. Both scenarios are from spring 2026. A persistently high positive output gap appears as a bold assumption.

Compared to the original MTFSP, the new plan is based on marginally higher growth rates of nominal GDP.

Table A.3: **Czechia – Main macroeconomic and fiscal variables**

		Commission macroeconomic assumptions (May 2026)						MTFSP of June 2026						Commission 2026 spring forecast		
Variables	Unit	2025	2026	2027	2028	2029	2030	2025	2026	2027	2028	2029	2030	2025	2026	2027
Potential GDP	% change		1.6	1.5	1.5	1.2	1.2	1.6	1.6	1.5	1.5	1.2	*1.2*	1.5	1.5	1.4
Real GDP	% change	2.6	1.8	1.9	1.2	1.1	1.1	2.6	2.1	2.4	2.5	2.4	*0.7*	2.6	1.8	1.4
GDP deflator	% change	3.5	2.7	3.1	3.0	2.9	2.8	3.5	2.9	3.3	2.8	2.6	*2.4*	3.5	2.7	3.1
Nominal GDP	% change	6.2	4.5	5.0	4.2	4.0	3.9	6.2	5.0	6.1	5.3	5.0	*3.1*	6.2	4.5	5.6
Net expenditure growth (annual)	% change	4.9	6.4	3.5	3.3	3.0	2.9		6.4	5.4	2.7	2.4	2.2	4.9	6.4	4.3
Net expenditure growth (cumulative)	% change			10.0	13.7	17.1	20.5			12.1	15.2	17.9	20.5		6.4	11.0
Government balance	% GDP	-2.1	-2.8	-2.2	-2.0	-1.7	-1.4	-2.0	-2.6	-2.8	-2.0	-1.6	*-1.2*	-2.1	-2.8	-2.9
Structural balance	% GDP	-1.8	-2.6	-2.2	-1.9	-1.5	-1.1	-1.8	-2.6	-2.9	-2.5	-1.9	*-1.4*	-1.8	-2.6	-3.1
Structural primary balance	% GDP	-0.5	-1.3	-0.9	-0.4	0.0	0.5	-0.5	-1.3	-1.5	-1.0	-0.3	0.2	-0.5	-1.3	-1.8
Gross debt (target)	% GDP	44.3	45.8	46.7	46.8	46.7	46.3	44.3	45.6	46.9	46.6	46.8	*46.6*			
Gross debt (no policy change)	% GDP	44.3	45.8	47.0	48.0	49.4	51.0							44.3	45.8	47.2

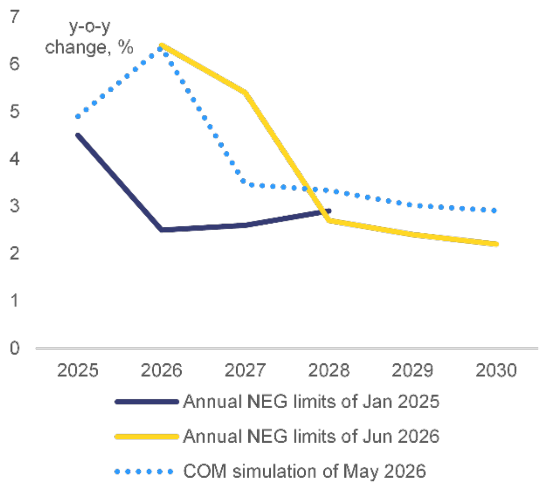
Notes: For the Commission prior guidance, the indicators show the limits permitted by EU rules, based on the Commission no-policy-change scenario.
Sources: European Commission, MTFSP

Public finances and net expenditure path

For 2026, the Czech MTFSP estimates a rate of net expenditure growth, 6.4%, in line with that in the Commission prior guidance. This is markedly higher than the 2.5% limit for 2026 established in the Council recommendation of January 2025.([64]) For the period 2027-2030, the MTFSP proposes a net expenditure path that is aligned on a cumulative basis with the Commission simulation based on its 2026 spring forecast, but with a more backloaded profile featuring higher net expenditure growth in 2027 and lower in the other years. The drivers of the differences are not specified in detail; however, in its assessment, the Commission identifies the backloaded profile as one of the risks to the implementation of the indicative fiscal strategy in the plan.

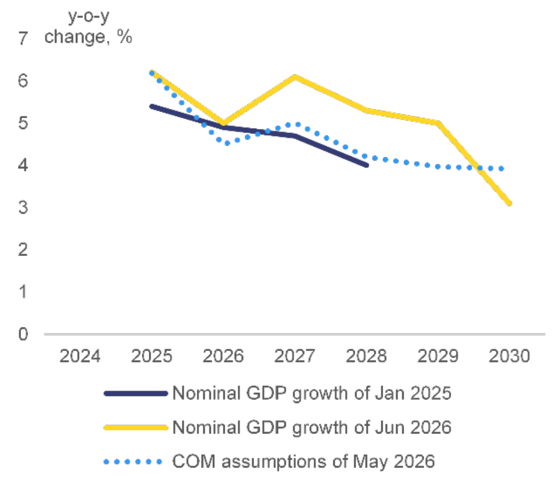
Compared to the earlier Council recommendation, the new plan sets higher net expenditure growth rates (Graph A.3.1). The debt path implied by the new plan mirrors the Commission prior guidance, with the gradual narrowing of the deficit driving debt-to-GDP stabilisation only as of 2028. Nonetheless, in 2028, the debt ratio is forecast to be 4 percentage points higher than expected in the original MTFSP, as the new plan targets a slower deficit reduction than in the previous MTFSP.

Graph A.3.1: Net expenditure growth (NEG) limits: the new and the previous MTFSP, and Commission simulations



Sources: European Commission, MTFSPs

Graph A.3.2: Nominal GDP rates: the new and the previous MTFSP, and Commission assumptions



Sources: European Commission, MTFSPs

The Czech government's fiscal strategy is nonetheless aimed at keeping the deficit below 3% of GDP and gradually improving structural position of public finances. Additionally, the government plans to address the country specific recommendations of the European semester and highlights the following priority areas: decarbonisation; social systems; education and labour markets; digitisation.

IFI involvement

The Committee on Budgetary Forecast, a body nominated by the Czech Fiscal Council assessed the macroeconomic forecast underlying the Czech MTFSP. The MTFSP reports that some members of the committee expected growth in fixed capital formation may be lower, and a better performance in the balance of trade. The official statements of the Committee on Budgetary Forecasts mention that some members perceived a tinge of optimism within a realistic forecast, especially in relation to the GDP deflator in 2027.

[64] Given the deficit and debt of Czechia are below the Treaty-based thresholds of 3% and 60% of GDP, a deviation from the Council recommendations has no procedural consequences under the reformed EU fiscal framework.

Commission assessment and Council conclusions

The Commission assessment concludes that Czechia's MTFSP fulfils the requirements of Regulation 1263/2024.

The Commission remarks that the structural primary balance of 0.3% of GDP at the end of the adjustment period (2030) is lower than the minimum level of the structural primary balance of 0.5% of GDP in 2030 provided by the Commission in the technical information.

The Commission assessment notes differences between the plan and its own assumptions, highlighting six variables: GDP deflator growth, real GDP growth, nominal (implicit) interest rate, fiscal multiplier, stock-flow adjustment, and one-offs. Despite raising reservations on specific methodological points, the Commission concludes that on balance "*the impact of more cautious assumptions broadly cancels out the impact of the differences in assumptions that are not in line with the DSA framework*."

The Commission assessment includes their understanding that "*according to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered mainly through both expenditure restraint and discretionary revenue increases.*"

GLOSSARY

Annual Progress Reports (APR). Under the reformed fiscal framework, governments submit an APR by 30 April each year covering the previous fiscal year. The report documents the implementation of the medium-term fiscal-structural plans and, where applicable (see '*Medium-term fiscal-structural plans*'), the reform and investment commitments made by Member States.

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.

Control Account. Under the reformed fiscal framework, deviations from the recommended, country-specific expenditure path are recorded in a control account. A positive (negative) deviation indicates expenditure growth in excess of (below) the recommended path. In case the annual or cumulated positive balance exceeds a pre-defined value, and depending on the overall fiscal situation of a country, the Commission will prepare a report to establish whether launching a debt-based EDP is warranted. The thresholds for deviations in the control account are set at (i) 0.3% of GDP annually, and (ii) 0.6% of GDP cumulatively.

Corrective arm of the Stability and Growth Pact (SGP). The part of the SGP that deals with preventing the risk of an excessive fiscal 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 Commissions 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.

Draft budgetary plans (DBP). Between 1 and 15 October of each year euro area governments submit a DBP to the Commission and the Council to support coordination of national fiscal policies. The requirement was introduced in 2013 with the two-pack reform of the Stability and Growth Pact (SGP).

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. The reformed fiscal framework amended the operationalisation of a 'debt-based' EDP, whereby countries with debt exceeding the Maastricht criteria and deviating from the agreed fiscal path would lead to the opening of an EDP.

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.

National escape clause (NEC). 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 its 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 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 State. It is the single operational indicator used in the EU fiscal surveillance from 2025.

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 *Output gap*).

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.

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.

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 assesses sustainability over three different time frames (short-, medium-, and long-term), complemented by a debt sustainability analysis that includes sensitivity tests on government debt projections and alternative scenarios.

Two-pack. Two EU regulations - Regulation (EU) 472/2013 and 473/2013 - 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.