European Fiscal Board

Annual Report

2024

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ABBREVIATIONS

Member States

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

Other

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

HCF-PSBR	High Council of Finance – Public Sector Borrowing Requirements section (Belgium)
HICP	Harmonised Index of Consumer Prices
FPB	Federal Planning Bureau (Belgium)
IFIs	Independent fiscal institutions
IMF	International Monetary Fund
MTFSP	Medium-term fiscal-structural plan
MTO	Medium-term budgetary objective
NGEU	Next Generation EU
OECD	Organisation for Economic Co-operation and Development
RRF	Recovery and resilience facility
RT	Reference Trajectory
SB	Structural balance
SCPs	Stability and convergence programmes
SGP	Stability and Growth Pact
SPB	Structural primary balance
VAT	Value-added tax
TEC	Treaty Establishing the European Community
TFEU	Treaty on the Functioning of the European Union

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FOREWORD

Prof. Niels Thygesen

Chair of the European Fiscal Board (EFB)

This year's annual report is special from more than one point of view. First, it is the last one published under the responsibility of the current Board. Since our appointment at the end of 2016, we have had the honour of overseeing and contributing to the production of in total eight issues of what has become a key reference for everyone interested in EU fiscal surveillance. Each year, the EFB's flagship document offers an in-depth analysis of (i) economic and fiscal developments in the EU Member States, (ii) a comprehensive assessment of how the EU fiscal rules have been applied across time and countries, and (iii) reflections on how national fiscal councils contribute to better fiscal outcomes. As part of our assessment of how EU fiscal rules have been applied or not applied, the annual reports also put forward ideas for the future evolution of the EU's fiscal framework. Quite a few of them have been taken up in the recent reform.

The EFB is proud to see that its annual reports have widely and consistently been praised for their detail and rigour giving credibility to its independence. Naturally, not every reader and stakeholder will have agreed with all the conclusions and ideas presented in the successive reports. EU fiscal surveillance is, after all, a thorny part of fiscal policy making in the EU, with 27 Member States firmly in the driving seat. At the same time, the EFB was established precisely to add an independent perspective with the ultimate goal of sharpening the policy makers' vision for the safety markings along the edge of the roadside.

What makes this year's annual report also special is the focus on 2023, a year still marked by the fallout of Russia's war of aggression in Ukraine. At the same time, 2023 was also the year in which the ripples of the energy price shock started to abate paving the way for a modest but comfortable economic recovery with surprisingly resilient labour markets. In this context, the EU decided to extend the severe economic downturn clause until the end of 2023 although both the original criterion defined in EU legislation and the one formulated by the Commission itself for keeping it active had no longer been met since early 2022. The decision to extend the clause was taken against the backdrop of macroeconomic forecasts that pointed to softer but still positive real economic growth. The Commission motivated the decisions with economic uncertainty.

Although uncertainty can and does have economic effects, it is not clear whether its preventive use to *de facto* suspend EU fiscal rules was the best course of action for 2023 especially when the Commission's debt sustainability analysis continued to show high risks in a number of countries. To be fair, the Commission and to some extent the Council cautioned against a broad-based fiscal expansion in response to the energy price shock. However, energy support measures adopted by national governments remained largely untargeted and underlying expenditure growth unsustainable, especially in countries with very high debt. These underlying trends should have received more attention in the Commission's and Council's assessments including by launching excessive deficit procedures, not necessarily as means to force countries into immediate consolidation but as an instrument to define a medium-term path towards correcting excessive deficits.

Instead, the focus of EU surveillance was on aggregate demand management where the expected phasing out of energy support measures misleadingly signalled a return to normality. At the same time, underlying expenditure trends remained undetected in official assessments and contributed to an excessive level of fiscal support that carried over into 2024, leaving a challenging starting point for the implementation of the revised EU fiscal framework. The scale of the challenge is clearly evidenced by the adjustment paths the Commission shared with Member States as reference trajectories for preparing their medium-term fiscal-structural plans under the revised fiscal framework. For several high-debt countries, these trajectories imply average annual improvements of the structural primary budget balance in excess of those observed in pre-Covid times even if a

country were to go for a 7 as opposed to a 4-year adjustment period.

Still, the EFB regards the economic governance reform as a framework potentially superior to what it replaces, not to speak of the lack of policy guidelines over the last four years. But, looking back to the pre-pandemic years, the EFB is concerned whether the issues that have marked the history of EU fiscal rules have been sufficiently contained to allow the potential of the reform to unfold.

The reform is being implemented in challenging times for public finances, as public support for fiscal consolidation is far from granted and pressures on public expenditure are piling up. The level of fiscal support in the EU remains high, considering tight labour markets and inflation above the ECB's target. More importantly, the higher rates of public expenditure growth, are mostly unrelated to the mitigation of the pandemic and energy shortages, has achieved considerable momentum in a number of Member States, not least those with high debt. Fiscal prudence is hardly at the top of the agenda anywhere. To convince national policy makers that the risks of current trends of public finances have become sufficiently clear to justify consolidation has become an uphill fight.

Besides the commitment to advance the green transition, military and economic security, research and innovation emerged as growing and persistent claims on public budgets. Although a large share of these investments and other expenditures will have to be taken on by the private sector, strategic public investments remain needed. The recent Draghi Report mentions that close to 1% of EU GDP could be needed annually for a long period as a contribution from public purses.

It seems legitimate to ask whether in the face of both recent history and emerging challenges, the EU countries will be able to live up to the requirements of the economic governance reform now being implemented. The EFB has been critical, also in previous reports of the major omission of the reform – the interdependence of national and joint EU efforts. The EU has a stake in raising the potential growth of its economies. And this should be done in a more effective way than through allowances in national plans for investments in line with common objectives, or even projects and reforms supported by the RRF, which comes to an end in 2026. There is a limited overlap between these projects and the type of public goods (EPGs) with a European dimension which will be crucial to growth.

Some see the idea of such joint initiatives as premature, as long as national public finances have not even begun the adjustment process foreseen in the reform. The EFB sees the two approaches as complementary. Compliance with the revised fiscal framework should free up fiscal space for the EU to assume responsibility for organising and funding joint expenditures that benefit the participants as would greater efficiency associated with joint rather than decentralised supply.

Steps to mobilise EU savings and to supply public goods to fill an EU investment gap will be difficult to agree on; they presuppose that national public finances begin the process of consolidation as intended with the reform. The initial stages of implementation will be marked by uncertainties over the coexistence of the new preventive arm with the broadly unchanged corrective arm. Many countries remain deeply attached to the latter, but ways of making effective use of the two perspectives need to be found.

Another weakness in the new framework is the limited role governments have been prepared to leave to their respective independent fiscal institutions (IFIs). Seeking their opinion on the national expenditure plans will be optional until at least 2032; it is unclear whether the IFIs will then be judged to have the means commensurate to the task. Governments are underestimating the value of independent advice in making policies more transparent and in improving their quality, while the Commission will find it more difficult to conduct surveillance of national expenditure plans without the availability of a qualified second opinion from IFIs on the plans.

EXECUTIVE SUMMARY

In 2023, EU fiscal policies were still marked by the fallout of the war in Ukraine and the extensive interpretation of the severe economic downturn clause. The Commission's own criterion – pre-Covid income levels in both the EU and the euro area – had already been met in 2021 and economic forecasts pointed to robust growth. However, the severe economic downturn clause was extended to 2023 on account of heightened uncertainty around the economic outlook. The Commission and the Council also continued to apply an extensive interpretation of the clause which resulted most notably in further postponing excessive deficit procedures (EDPs) that would have helped address sustainability risks in some Member States. Some Member States used these circumstances to maintain or even increase their large fiscal deficits.

The economic impact of the energy price hike lagged behind most forecasts. Annual average GDP growth in 2023 was weaker than had been anticipated in the first half of 2022, when medium-term fiscal plans were formulated. Real GDP growth dropped from more than 3% in 2022 to 0.5% in both the euro area and the EU. The war-triggered terms-of-trade shock fuelled an increase in inflation that was much higher and more persistent than initially anticipated. This, together with the increase in borrowing costs and the geopolitical tensions, reduced both private consumption and investment. Despite the substantial slowdown in economic growth, the labour market was remarkably resilient in 2023, maintaining high levels of employment and vacancy rates.

The EU's headline deficit remained unchanged despite the phasing-out of Covid support measures, while the government debt ratio improved only slightly. The nominal budget deficit of the euro area and the EU remained broadly unchanged from 2022 at around 3½% of GDP. The phasing-out of the Covid fiscal support measures should have reduced the deficit yet its impact was largely offset by a pick-up in primary expenditure growth. The government debt-to-GDP ratio in both the euro area and the EU continued to decline by around 2 percentage points of GDP, driven by still high but moderating inflation that boosted nominal incomes.

Unsustainable expenditure trends kept government deficits high. Following a trend already observed in previous years, in 2023 underlying net expenditure growth (excluding the budgetary impact of temporary support measures) outpaced the benchmark rate of sustainable growth by a significant margin and across the board. By type of expenditure, social protection, healthcare and economic affairs contributed the most to the excess of underlying expenditure growth. The group of Member States with very high debt levels, in particular, recorded accelerated growth in capital expenditure and social benefits.

National medium-term fiscal plans did not use windfalls to accelerate debt reduction. In April 2022, the Member States' medium-term fiscal plans outlined in the stability and convergence programmes implied a headline deficit for the EU of less than 3% of GDP in 2023, which was in line with the 2021 vintage of the programmes. However, the plans included a significant upward revision of expenditure growth in 2022 and 2023 that was backed by revenue windfalls. Planned expenditure increases went beyond new energy support measures and support for refugees from Ukraine.

EU fiscal guidance focused on demand management, turning a blind eye to high structural deficits. The EU's country-specific recommendations remained essentially qualitative, with only a few quantitative elements. The stated objective was to achieve a broadly neutral fiscal stance in the euro area and the EU as a whole by controlling current expenditure and supporting investment, but without laying down precise guideposts. Depending on the debt-to-GDP ratio, the fiscal recommendations formally differentiated between how to link the growth rate of nationally financed primary current expenditure with the medium-term potential output growth. In practice, however, it allowed Member States with very high debt (above 90% of GDP) to pursue the same fiscal policy as others. By focusing on expenditure growth, the EU fiscal guidance ignored large structural deficits in several Member States and did not take into account the debt sustainability risks

documented in the Commission's country reports accompanying the fiscal guidance. Moreover, in contrast to past practice, the country-specific recommendations *de facto* allowed expenditure targets to move, depending on actual price developments.

The EFB called for a moderately restrictive fiscal impulse in mid-2022. Soaring energy prices created a textbook terms-of-trade shock to the euro area and the EU. In this context, the EFB cautioned against a fiscal expansion in response to such a supply shock, because it would probably be counterproductive: the loss of real income for the economy as a whole cannot be compensated by fiscal stabilisation measures and broad-based fiscal expansion makes it more difficult to fight inflation. The EFB therefore argued in favour of a gradual withdrawal of fiscal support and only targeted energy measures to aid the most vulnerable. A moderately restrictive fiscal impulse would have reduced the high structural deficits.

At the end of 2022, several euro area countries planned further increases in expenditure for 2023. In autumn 2022, draft budgetary plans for 2023 implied a reduction of the euro area's government deficit from 3.9% of GDP in 2022 to 3.2%. However, plans differed considerably between Member States. In particular, those Member States with debt below 60% of GDP or above 90% of GDP strongly increased their expenditure targets beyond their earlier medium-term fiscal plans (these targets excluded temporary Covid support and targeted energy support measures). The Commission assessed the plans to deliver a broadly neutral fiscal impulse for the euro area on average but paid less attention to divergent country impulses or deficit levels in very high debt countries. Moreover, as prices increased faster than expected, the Commission's approach of not fixing the nominal component of the expenditure benchmark made the reference points for assessing draft budgetary plans less demanding.

In hindsight, the euro area fiscal impulse had the right orientation but was entirely driven by the phasing-out of crisis support measures. As the positive output gap went to zero and the unemployment rate reached a historic low in the euro area in 2023, the stable headline balance in that year improved the structural primary deficit by 0.5% of GDP. However, the structural primary deficit would have actually worsened without the phasing-out of Covid support measures. Moreover, Member States with very high debt made a disproportionately low contribution to the deficit reduction. Against the background of a strong labour market and an economy operating close to its potential, 2023 should have been used to normalise fiscal policy at a swifter pace. This would also have helped the ECB to bring inflation back towards its target and to address the above-mentioned drift in underlying expenditure.

The Commission's final assessment glossed over underlying expenditure trends and simply took note of cases of non-compliance. In June 2024, when looking back to the previous year based on out-turn data, the Commission concluded that eight Member States had exceeded the recommended expenditure growth level in 2023. However, its assessment did not fully appreciate the underlying expenditure drift. Moreover, the Commission's continuing use of actual GDP (instead of projected deflators) to assess compliance resulted in a rosier picture than would have been obtained in accordance with established practice. The Commission did not propose any procedural follow-up for identified cases of non-compliance.

No excessive deficit procedure (EDP) was launched in 2023 on the grounds of exceptional uncertainty. As in past years, the Commission and the Council chose not to place Member States under the EDP in spring and autumn 2023 – even though all the relevant conditions were met in several Member States. The Commission motivated this by high uncertainty on the economic outlook, and arguing that this made it impossible to define a credible adjustment path. This contrasts with the idea that a more prudent policy approach would be warranted in the face of higher uncertainty. The non-opening of EDPs is in clear contrast to established practice and the letter of EU law. In particular, a repeated and general reference to uncertainty around the economic outlook introduced a new element of discretion that seems likely to continue to play a role going forward.

The Commission has started to use 'uncertainty' as a new element of judgement in its recent assessments. Since their first reform in 2005, the EU's fiscal rules have included provisions on how to deal with uncertainty when assessing Member States' compliance with the fiscal recommendations. Unexpected adverse economic events with major unfavourable consequences for government finances can be taken into account

when assessing Member States' response to Council recommendations. This means that risks are addressed *ex post* (if and when they materialise) and on the understanding that any fiscal recommendation is conditional upon a macroeconomic forecast. The same approach could have been followed in 2023. Instead, the Commission and the Council used uncertainty as an argument to exclude the application of surveillance instruments. This approach is problematic because forecasts are inherently uncertain. If, going forward, *ex ante* uncertainty were to be invoked in normal times, this would seriously affect EU fiscal surveillance as we know it and *de facto* undermine Commission forecasts, which are and will remain the main point of reference for EU fiscal surveillance.

The Commission's EDP proposals of June 2024 raise issues of consistency across time and countries. In June 2024, the Commission proposed to open EDPs for seven Member States on the basis of 2023 out-turn data. Spain was spared an EDP despite having a deficit of 3.6% of GDP in 2023 – well above 3% of GDP. Indeed, the Commission explicitly stated that the double condition for considering 'relevant factors' was not satisfied. In such cases in the past, the Commission consistently issued a proposal for a Council decision to establish the existence of an excessive deficit. This time, however, the Commission departed from this established practice, which is underpinned by EU law, by arguing that an EDP 'would, at this stage, not serve a useful purpose'. This was justified by reference to the Commission's forecast, which showed a deficit of exactly 3% of GDP in 2024 – which, according to the Commission's projection, will be achieved without further fiscal measures. Such an element of judgement adds a new element of discretion that does not feature in the relevant legal provisions.

The implementation of Romania's EDP reveals further idiosyncrasies. In June 2024, the Commission concluded that Romania had failed to take effective action in response to the Council recommendation of June 2021, which was intended to secure the correction of the excessive deficit by the end of 2024. The Commission did not invoke the 'high uncertainty' element for Romania, despite the fact that it had indicated a high degree of uncertainty throughout 2023 for that year (i.e. the year that was part of the assessment for non-effective action). The Commission also argued that the suspension of structural funds, which was to be launched in the event of no effective action, was not warranted because the non-compliance occurred when the severe economic downturn clause was still active.

The decision to split procedural steps in the EDP should not create a precedent for the future. For the seven Member States that do not meet the deficit criterion of the Treaty, the Commission adopted a proposal for a Council decision on the existence of an excessive deficit. In the past and reflecting EU law, this proposal was always accompanied by a proposal for a Council recommendation on how to correct the excessive deficit. In 2023, the Commission for the first time separated the two steps. This decision gives rise to a number of issues. First, it creates uncertainty around the fiscal requirements for 2025. The Commission confidentially shared its guidance on medium-term adjustment needs – the reference trajectories – with Member States in June 2024. The final adjustment paths are likely to be adopted towards the end of year and can differ from the Commission's reference trajectories. Second, the non-public nature of the reference trajectories excludes important stakeholders such as financial markets and national IFIs from forming a view. Third, postponing the EDP recommendation can affect the standing of the SGP's corrective arm, which the Treaty defines as distinct from the preventive arm.

Sounder fiscal policy could be facilitated by the autonomous scrutiny of independent fiscal institutions (IFIs). It is common wisdom that independence is essential to the effectiveness of modern fiscal councils. Most of the EU IFIs were established following the 2011-2013 fiscal framework reforms, which laid down a set of general principles of independence for the euro area. These safeguards are meant to ensure that these bodies benefit from a sufficient degree of functional autonomy and adequate resource endowments. As part of the recently adopted changes in the economic governance legislation, these principles were extended to the entire EU and incrementally strengthened in the Budgetary Frameworks Directive with a national transposition deadline of end-2025.

There are gaps with the more operational IFI safeguards. The EU IFIs broadly adhere to the more formal elements of the safeguards (e.g. legal basis and nomination procedures), but there are some gaps with those related to their functioning

(e.g. access to information and resources). The Commission's past enforcement actions appear too lax and inadequate. Given that the forthcoming period should see important legal amendments in virtually all Member States to transpose the new elements of the Directive, a more proactive Commission stance would be appropriate during the transposition period. This would include the use of compliance promotion tools (e.g. issuing guidelines and explanatory documents).

The recent SGP reform brought about favourable changes in design, but rigorous implementation will be key for them to have an impact. The fundamental design features of the new surveillance regime, such as a single operational indicator, the medium-term orientation and the increased country-specificity of adjustment paths, have long been advocated by the EFB. Although the final compromise contains annual numerical benchmarks, it still represents an improvement vis-à-vis the status quo. However, the governance structures were only marginally adjusted, which may expose the reformed SGP to the same enforcement issues visible in the past. A controversial launch of the new rules could prematurely weaken the credibility of the framework. These considerations call for a speedy resolution of the uncertainties surrounding the transition to the new system, and in particular clarification of the implementation aspects (e.g. the relationship between the adjustment requirements defined in the preventive and corrective arms, treatment of the potential 2024 budgetary slippages, statistical and computational issues around the net expenditure path).

The effectiveness of the new regime will also hinge on a better alignment of national institutions and procedures with the EU fiscal framework. Reinforced national ownership has been a commonly shared guiding principle of the changes. While national authorities welcomed the ensuing possibilities for having a say in the derivation of the budgetary requirements, also through requesting an extension of the adjustment path, they demonstrated a perhaps unwarranted restraint in integrating the national stakeholders in the surveillance process. It is particularly glaring for the involvement of independent fiscal institutions, whose role essentially remains constrained and optional for too long. On a related note, the focus shift to medium-term net expenditure level will necessitate rather soon a comprehensive revamp of national budgetary planning procedures throughout the EU, in particular in those Member States where the national medium-term budgetary framework remained so far only an indicative arrangement.

The omission of a central fiscal capacity from the reform is understandable, but the debate should pick up. Given the blending of long-existing and newly emerging fiscal challenges (ageing, climate change and geopolitical tensions), leaving all the additional investment needs to the national budgets and/or to the private markets would not be realistic. There is a need to combine national spending with reinforced joint efforts, based on sound economic considerations, such as taking into account spillovers and exploiting economies-of-scale. Building on the existing forms of supplying European public goods, there are various viable options for stepping up their provision, where the financing and design arrangements could ensure that it does not lead to a hidden form of redistribution among countries.

1. MAIN MACROECONOMIC AND FISCAL DEVELOPMENTS IN 2023

Highlights

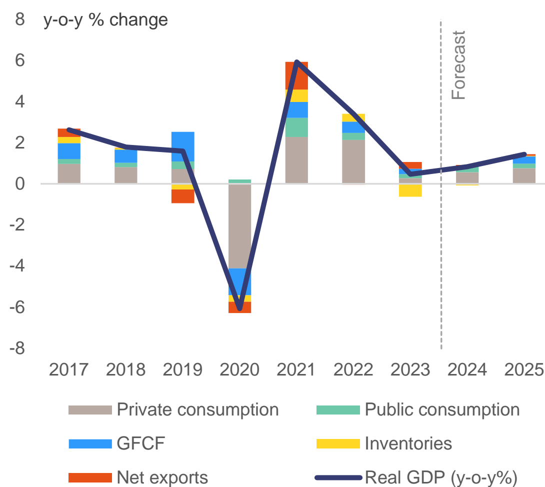
- The economic impact of Russia's full-scale invasion of Ukraine materialised with a significant lag compared to most forecasts produced in the spring of 2022.
- As a result, although real economic growth in the EU and the euro area was still around ½%, it was nevertheless much weaker than initially expected and, more importantly, much weaker than in 2022. By contrast, inflation exceeded forecasts by a considerable margin.
- On balance, the euro area's aggregate level of economic activity in current prices was well above the forecast that underpinned the draft budgetary plans presented in autumn 2023.
- The war caused a marked deterioration of the terms of trade. This in turn fuelled a strong and persistent increase in inflation eroding households' real purchasing power well into 2023. This, together with the increase in borrowing costs and the geopolitical tensions, translated into lower private consumption and investment.
- Real economic growth varied significantly between EU Member States, reflecting their different energy mixes and policy responses.
- Despite the significant slowdown in economic growth compared with 2022, labour markets were remarkably resilient in 2023, maintaining high employment levels and vacancy rates.
- In spite of the sustained increase in nominal economic activity, the budget balance of the euro area and the EU remained broadly unchanged in 2023 compared with 2022. The phasing-out of fiscal support measures was largely offset by higher underlying primary expenditure growth and higher interest payments on government debt.
- The government debt-to-GDP ratio in both the euro area and the EU remained on a downward path. The decrease of approximately 2 percentage points compared with 2022 was mainly due to inflation that was still high (albeit moderating) and, worked through the denominator (i.e. a higher-than-expected level of nominal GDP).
- Once revenue growth stabilises on the back of moderating inflation, government deficits are poised to rise unless expenditure growth is realigned with a sustainable trajectory.
- When fiscal guidance was issued for 2023, short-term fiscal sustainability risks across the EU Member States were considered to be mostly low due to the stronger-than-expected recovery. However, the medium-term outlook flagged nine Member States as being at high risk due to unfavourable debt dynamics, and the long-term perspective identified eight Member States as being at high risk due to increasing ageing costs.

1.1. MAIN MACROECONOMIC DEVELOPMENTS

After a vigorous post-pandemic recovery, the EU economy's momentum slowed down significantly towards the end of 2022. In 2023, average annual GDP growth dropped to 0.4% in both the euro area and the EU, down from more than 3% the in 2022 ([1]), while labour markets remained remarkably resilient. The economic landscape was still very much defined by the economic impact of Russia's full-scale invasion of Ukraine, which materialised later than initially expected ([2]).

The sharp increase in gas prices in 2022 significantly affected the terms of trade of the EU economy and, in turn, households' real disposable incomes and firms' real profits. This, together with broader geopolitical tensions and tighter financing conditions, translated into lower private consumption and investment in 2023 (Graph 1.1).

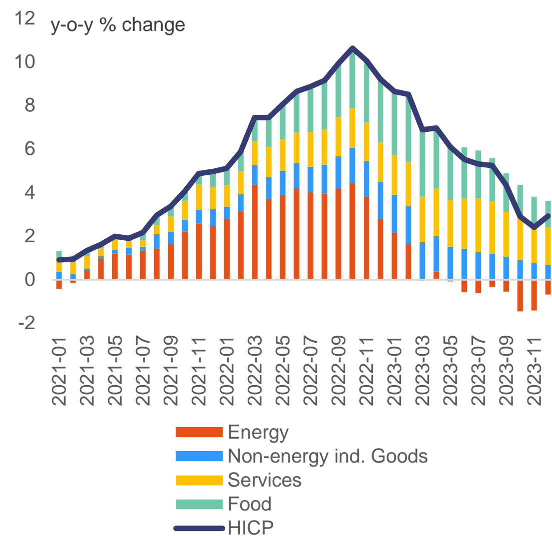
Graph 1.1: **Real GDP growth and its components (2017-2025), euro area**



Notes: GFCF: gross fixed capital formation
Source: European Commission 2024 spring forecast

There was a significant variation in economic growth between EU Member States, reflecting different energy mixes, differences in energy-intensity and policy responses. Malta, Croatia and Spain experienced the highest annual real GDP growth at 5.7%, 3.1% and 2.5% respectively. Ireland, Estonia and Finland recorded the lowest growth, with negative rates.

Graph 1.2: **Contributions to annual HICP inflation (2021-2023), euro area**

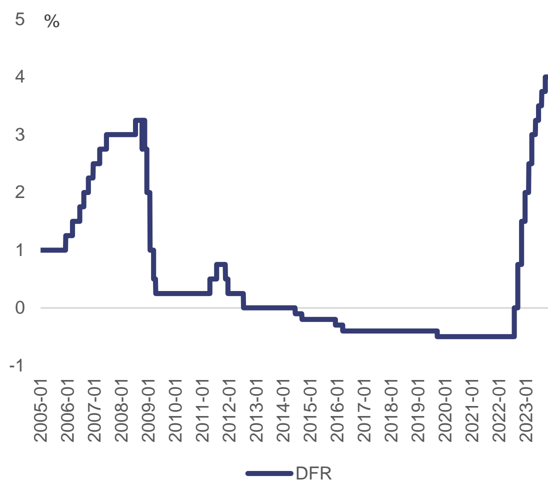


Source: Eurostat

Following the sharp increase to double-digit rates in 2022, consumer price inflation eased markedly in 2023 (Graph 1.2) in the wake of the ECB's successive decisions to raise policy rates (Graph 1.4). In 2023 as a whole, inflation averaged 5.4% and 6.4% in the euro area and the EU respectively. In terms of main components, the significant decline in headline inflation can be attributed mainly to the fall in gas and energy prices (Graph 1.3). However, while core inflation also followed a downward trajectory, it was much stickier as prices for services continued to increase at sustained rates.

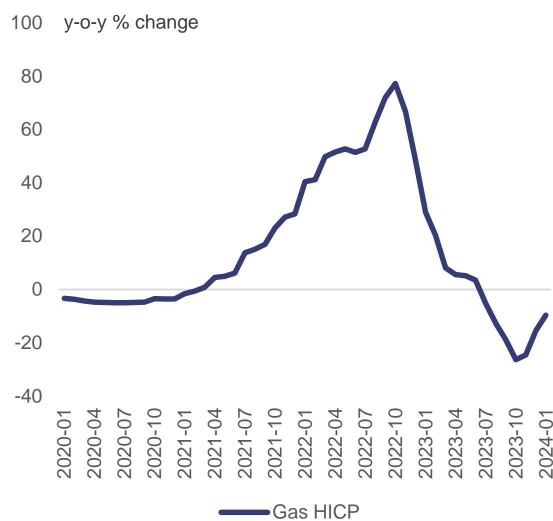
([1]) European Commission 2024 spring forecast.
([2]) European Commission 2022 spring forecast, Eurosystem staff macroeconomic projections for the euro area, June 2022 (europa.eu), World Economic Outlook, April 2022: War Sets Back The Global Recovery (imf.org).

Graph 1.3: **ECB's Deposit Facility Rate (2005-2023)**



Notes: Last observation is 31/12/2023. The DFR (Deposit Facility Rate) is the ECB's main policy rate.
Source: ECB

Graph 1.4: **Gas prices (2020-2023), euro area**

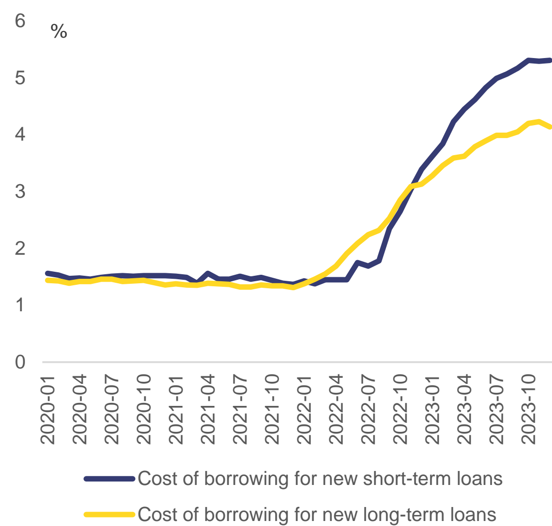


Source: Eurostat

Despite declining consumer price inflation and generous fiscal policy support, price increases surpassed nominal wage growth for multiple quarters, leading to a persistent decline in households' purchasing power and wealth. Private consumption was therefore the demand component that slowed particularly sharply in real terms, coming to a virtual standstill compared with 2022.

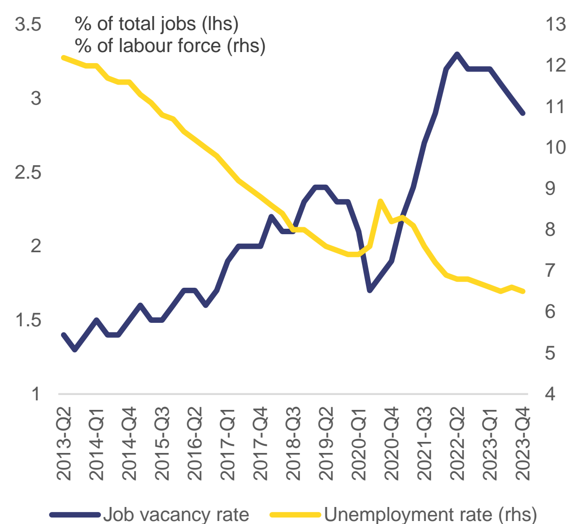
The cost of borrowing for new short-term loans significantly exceeded that for new long-term loans in 2023 (Graph 1.5). This was a signal that lower future inflation rates were expected. Notwithstanding the significant slowdown of aggregate economic activity, the labour market showed remarkable resilience. Unemployment continued its downward trend to reach a historic low of 6.5% in the second quarter of 2023, driven by robust labour demand. However, there are emerging indications that this demand is beginning to weaken (Graph 1.6). Vacancy rates remained very high but started to decline in 2023.

Graph 1.5: **Cost of borrowing (2020-2023), euro area**



Notes: Loans to households for house purchase and to non-financial corporations. Up to 1 year for short-term loans and over 1 year for long-term loans, calculated by weighting the volumes with a moving average (defined for cost of borrowing purposes). Link to source:
MIR.M.U2.B.A2J.FM.R.A.2230.EUR.N | ECB Data Portal (europa.eu)
MIR.M.U2.B.A2J.KM.R.A.2230.EUR.N | ECB Data Portal (europa.eu)
Source: ECB

Graph 1.6: **Labour market (2013-2023), euro area**



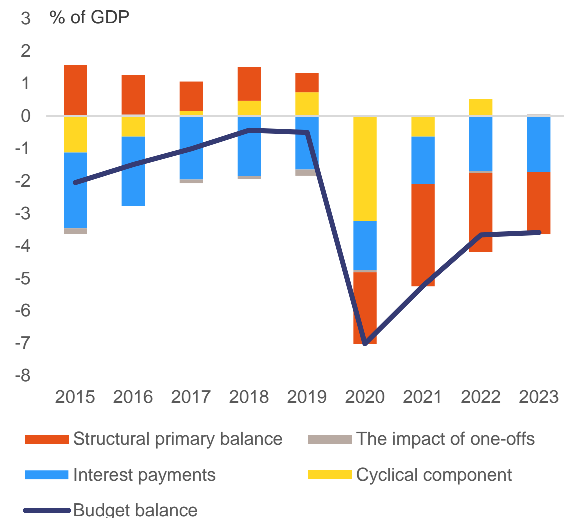
Notes: Seasonally adjusted data.
Source: Eurostat

Overall and with few exceptions, economic developments in 2023 were much less favourable than initially expected at constant prices (Graph 1.8). In spring 2022, when the EU issued its fiscal policy guidance for 2023, most observers (including the Commission) expected that Russia's full-scale invasion of Ukraine would have a much more immediate negative effect on economic activity in the euro area and the EU. This assessment changed visibly towards the end of 2022, after real GDP growth had been healthy in the first three quarters. The Commission's 2022 autumn forecast, which underpinned its assessment of euro area countries' draft budgetary plans for the upcoming year, was adapted accordingly. Real GDP growth for 2022 was marked up, but GDP growth for 2023 was revised down significantly from more than 2% in the spring to less than ½% in the 2022 autumn forecast (i.e. somewhat below the actual outcome). By contrast, nominal GDP growth was revised upwards from 5½% in spring 2022 to almost 6½% in the autumn forecast, thus reflecting the impact of high inflation.

1.2. MAIN BUDGETARY DEVELOPMENTS

The general government budget balance remained broadly unchanged in 2023 as a result of two opposing effects: The phasing-out of fiscal support measures – mostly those introduced in response to the Covid pandemic – was chiefly offset by the budgetary effects of weaker economic activity and higher primary expenditure (Graph 1.7).

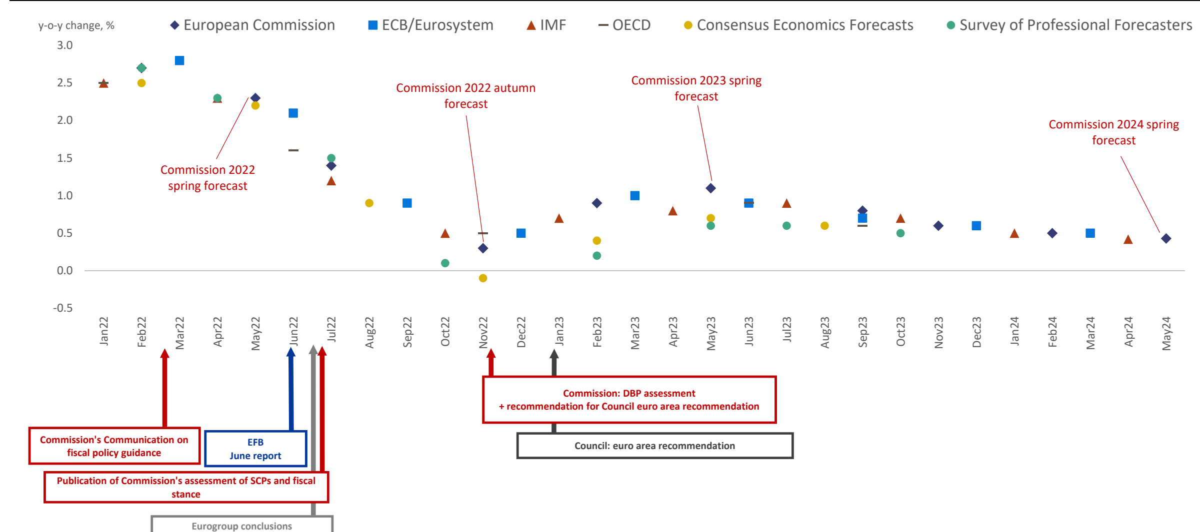
Graph 1.7: **Government budget balance and its components (2015-2023), euro area**



Source: European Commission

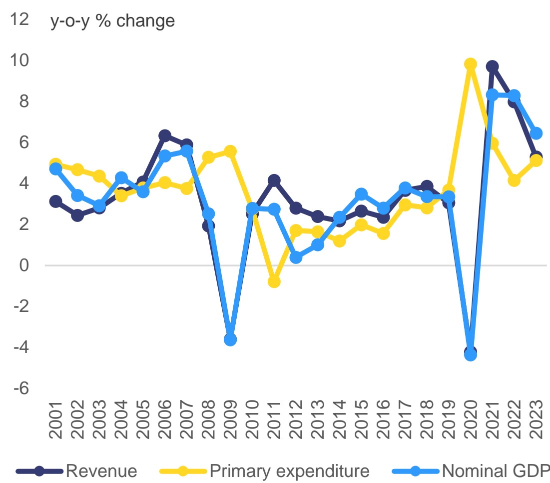
Taking a closer look at budgetary aggregates, growth in primary expenditure accelerated compared to 2022, while growth in revenues continued to slow. Primary expenditure increased by 5.1% and 5.7% in the euro area and the EU respectively. This was well above current estimates of medium-term potential output growth (see Chapter 2) and fuelled by buoyant increases in social expenditure. Revenue growth slowed, by contrast, from almost 8% to approximately 5½% in both the euro area and the EU, on the back of declining inflation and discretionary measures taken in response to the energy price hike (Graph 1.9).

Graph 1.8: **Real GDP growth projections for 2023, euro area**



Notes: The ECB/Eurosystem and the OECD report working-day adjusted growth rates, while the European Commission and the IMF report unadjusted numbers.
Source: EFB based on European Commission, ECB, IMF and OECD data.

Graph 1.9: **Government revenue, primary expenditure and GDP (2001-2023), euro area**

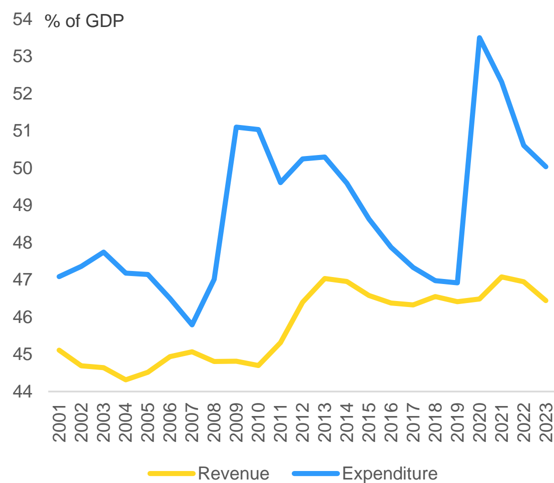


Source: European Commission

The government debt-to-GDP ratio in the euro area and the EU declined further by around 2 percentage points to 90% of GDP and 82.9% of GDP, respectively. Thanks to slowing but still high rates of inflation, there was a significant debt-reducing contribution from the differential between the average interest rate on government debt and nominal GDP growth (Graph 1.11).

The euro area and EU economy evolved differently from the projections underpinning the Stability and Convergence Programmes and the Draft Budgetary Plans for 2023 that were issued in 2022. Out-turn data shows a government budget deficit of 3.6% of GDP in the euro area and 3.5% of GDP in the EU, significantly higher than the deficit projected by the Member States (Table 1.2). Government revenues grew faster than originally expected due to the major inflation surprise, but government expenditure grew even faster. Once revenue growth returns to normal on the back of declining inflation, government deficits are set to increase unless expenditure growth is put back on a sustainable path.

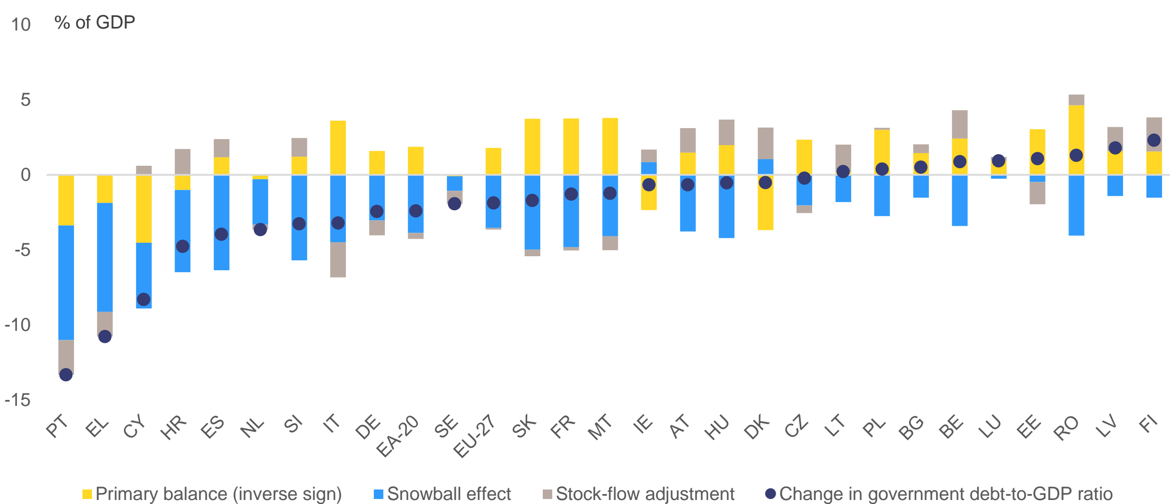
Graph 1.10: **Government revenue and expenditure (2001-2023), euro area**



Source: European Commission

Expanding on fiscal sustainability, Table 1.1 offers a detailed assessment of fiscal sustainability risks across Member States. The analysis is based on the

Graph 1.11: **Drivers of the government debt-to-GDP ratio in 2023, by EU Member State**



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

Commission's 2022 Spring Package (prepared at the time fiscal guidance was issued for 2023) and the latest 2024 Spring Surveillance Package. These assessments are informed by the 2022 and 2024 spring forecast and 2021 and 2024 ageing reports respectively. The analysis painted a generally stable picture for the short term, with overall fiscal sustainability risks assessed as low in all EU Member States. This stability was largely due to the recovery being stronger-than-expected.

However, the outlook was more concerning when medium-term and long-term overall risks are examined. In the medium-term, nine Member States were flagged as having high fiscal sustainability risks. This classification stemmed from challenging debt dynamics and uncertainty surrounding the baseline projections. Long-term fiscal sustainability presented additional challenges, with eight Member States identified as being at high risk. The primary driver of this risk was the projected increase in ageing costs, which were expected to rise significantly.

Table 1.1: **Fiscal sustainability risk classification by EU Member State from 2022 and 2024 European Semester's Spring Package** (3)

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

Notes: The table compares the sustainability risk classification from the 2022 Spring Package with the 2024 classification, noting changes in the latest reports (in brackets).
Source: European Commission

(3) The debt sustainability analysis published in 2022 as part of the Spring Package can be found here: 2022 European Semester: Country Reports - European Commission (europa.eu)) This follows the methodology and analysis of the Fiscal Sustainability Report 2021 - European Commission (europa.eu)
2024 reports can be found here: 2024 European Semester: Country Reports - European Commission (europa.eu). They follow the methodology and analysis of the Debt Sustainability Monitor 2023 (europa.eu)

Table 1.2: **Overview of budgetary plans vs outturns for 2023, euro area and EU**

		Spring 2022		Autumn 2022		Spring 2024		
		Commission forecast (SF22)	Stability and convergence programmes (SCPs)	Commission forecast (AF22)	Draft budgetary plans (DBPs)	Outturn	**Outturn vs SCPs**	**Outturn vs DBPs**
				year-on-year % change				
Euro area-20	Real GDP	2.3	2.4	0.3	1.6	0.4	-2.0	-1.2
	Nominal GDP	5.4	4.8	5.6	5.3	6.4	1.6	1.1
	Potential GDP	1.4	1.7	1.1	1.5	1.4	-0.3	-0.1
	Total revenue	4.9	4.4	4.7	4.2	5.3	0.9	1.1
	Total expenditure	2.4	2.0	5.2	2.7	5.2	3.2	2.5
	Primary expenditure	2.4	2.2	4.8	2.6	5.1	2.9	2.5
				billion euro				
	Real GDP	11793	12049	11636	11891	11806	-2.0	-0.7
	Nominal GDP	13791	13773	14029	14038	14376	4.4	2.4
	Potential GDP	11769	-	11695	-	11804	-	-
	Total revenue	6392	6344	6547	6504	6678	5.3	2.7
	Total expenditure	6735	6752	7065	6945	7194	6.5	3.6
	Primary expenditure	6549	6560	6816	6719	6946	5.9	3.4
	Effect of discretionary current revenue measures	*47.7*	*28.9*	*42.8*	*-9.1*	*-14.3*	-	-
	one-off on the revenue side	*4.0*	*5.5*	*2.8*	*13.5*	*6.1*	-	-
	one-off on the expenditure side	*-1.8*	*2.8*	*-2.6*	*-15.3*	*-5.1*	-	-
				% of GDP				
	Output gap, % of potential GDP	0.2	0.3	-0.5	0.2	0.0	-0.3	-0.2
	Budget balance	-2.5	-3.0	-3.7	-3.2	-3.6	-0.6	-0.4
	Primary balance	-1.1	-1.6	-1.9	-1.5	-1.9	-0.3	-0.4
	Structural primary balance	-1.3	-1.5	-1.6	-1.8	-1.9	-0.4	-0.1
	One-off and other temporary measures	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	-	-
				year-on-year % change				
EU-27	Real GDP	2.3	2.4	0.3	-	0.4	-2.0	-
	Nominal GDP	5.8	5.2	6.0	-	6.7	1.5	-
	Potential GDP	1.6	1.8	1.3	-	1.5	-0.3	-
	Total revenue	4.8	5.2	4.9	-	5.6	0.4	-
	Total expenditure	2.6	2.5	5.4	-	5.9	3.4	-
	Primary expenditure	2.6	2.6	5.0	-	5.7	3.1	-
				billion euro				
	Real GDP	13872	14311	13704	-	13834	-3.3	-
	Nominal GDP	16523	16440	16862	-	17175	4.5	-
	Potential GDP	13941	-	13793	-	13859	-	-
	Total revenue	7458	7480	7665	-	7793	4.2	-
	Total expenditure	7866	7944	8260	-	8387	5.6	-
	Primary expenditure	7651	7717	7970	-	8097	4.9	-
	Effect of discretionarycurrent revenue measures	*49.9*	*36.9*	*51.3*	-	*-2.4*	-	-
	one-off on the revenue side	*4.0*	*3.1*	*2.8*	-	*6.1*	-	-
	one-off on the expenditure side	*-3.7*	*4.7*	*-4.5*	-	*-5.1*	-	-
				% of GDP				
	Output gap, % of potential GDP	0.0	0.1	-0.6	-	-0.2	-0.3	-
	Budget balance	-2.5	-2.8	-3.6	-	-3.5	-0.7	-
	Primary balance	-1.2	-1.4	-1.8	-	-1.8	-0.4	-
	Structural primary balance	-1.2	-1.3	-1.5	-	-1.7	-0.4	-
	One-off and other temporary measures	*0.0*	*0.0*	*0.0*	-	*0.0*	-	-

Notes: Potential GDP, Output gap and structural primary balance in the stability and convergence programmes column are as recalculated by the Commission on the basis of information. 2022 Commission forecasts do not include Croatia in the euro area aggregates while it is included in the other columns.
Source: European Commission (AMECO - spring 2022, autumn 2022 and spring 2024 forecast editions), 2022 stability and convergence programmes, 2022 draft budgetary plans.

2. EX-POST EVALUATION OF THE IMPLEMENTATION OF THE EU FISCAL FRAMEWORK

Highlights

- The EU's fiscal policy guidance for 2023 was still marked by Russia's war against Ukraine and its expected economic impact.
- First, the Commission and the Council extended the severe economic downturn clause to 2023 although GDP in the EU and the euro area had returned to its pre-pandemic level in 2021 and robust real GDP growth was projected for 2022 and 2023. The extension was motivated by economic uncertainty.
- Second, as in previous years, EU guidance focused more on demand management than on sustainability of public finances.
- Third, fiscal recommendations for high-debt countries were slightly different, but in practice they allowed for a neutral fiscal stance – the same guidance given to other countries. Moreover, the focus on expenditure growth turned a blind eye to large structural deficits in several Member States and related sustainability challenges.
- In April 2022, stability and convergence programmes allocated higher-than-projected revenue to new expenditure increases in 2022 and 2023, repeating a previously observed pattern of not taking advantage of windfalls to accelerate debt reduction. New energy support measures were introduced, but only a small share was targeted.
- In autumn 2022, draft budgetary plans contained a higher level of energy support in 2022 and extended measures into 2023, compared to the stability programmes earlier in the year. The Commission assessed that the plans would deliver a broadly neutral fiscal impulse for the euro area, paying less attention to diverging developments across countries.
- In 2023, underlying expenditure grew faster than in previous years and estimates of medium-term nominal potential output growth. Developments were similar across countries regardless of government debt levels. Increases in social benefits more than outstripped the phase-out of temporary support measures.
- In 2023, the Commission and the Council chose not to launch any excessive deficit procedure (EDP) although all conditions were met for several countries. The choice was motivated by exceptional uncertainty.
- The EU fiscal rules include provisions on how to deal with adverse events if and when they occur. In recent years, the Commission started to use uncertainty as a reason to exclude EDPs *ex ante*. This contrasts with pre-2020 practice and adds an unforeseen layer of discretion.
- The Commission's final assessment of 2023 identified eight Member States with expenditure growth in excess of recommended rates, but no procedural steps were suggested. The assessment relied on actual instead of projected GDP deflators to set expenditure targets making them less restrictive. If established practice had been followed, very few countries would have been compliant.
- In June 2024, the Commission proposed to open EDPs for seven countries. However, Spain was not included despite its 2023 deficit well exceeding 3% of GDP. Introducing yet another element of discretion, the Commission argued an EDP would not 'serve a useful purpose'. By contrast, the Commission concluded that Romania had failed to take effective action, but argued against suspending structural funds because no effective action had taken place in a year in which the severe economic downturn clause was still active.
- For the first time, the Commission chose to split its proposal for a Council decision on the existence of excessive deficits and the proposal for a Council recommendation on how to correct them. This poses important challenges and should not create a precedent for the future.

This chapter assesses how the EU fiscal framework was implemented for the reference year of 2023. It begins with innovations in the EU surveillance methods and then continues using the chronological order of the surveillance cycle, which started in spring 2022 and concluded in spring 2024. Moreover, the chapter includes an economic reading of underlying expenditure trends in the absence of conventional law-based fiscal requirements for 2023 (Section 2.7) and reflects upon changes in the way the excessive deficit procedure has been applied over time and specifically in 2023 (Section 2.9).

2.1. INNOVATIONS IN SURVEILLANCE METHODS AND PRACTICE

The following interpretative and methodological changes to the EU fiscal framework had an impact on the 2023 surveillance cycle:

- changes to the fiscal surveillance process and reporting by the Commission and the Council; and
- the interpretation and use of temporary and targeted measures.

Changes in surveillance and reporting

After ad hoc arrangements in 2020 and 2021, the EU's fiscal surveillance cycle for 2023 moved closer to pre-Covid practice. However, the Commission still only assessed country fiscal developments in a few paragraphs in the introduction to the Council recommendations on the stability and convergence programmes and in the Commission opinions on the draft budgetary plans. There were no dedicated country notes, which in the past underpinned the legal acts, including the assessments of compliance with EU fiscal rules, until the Commission stopped them in 2021 (EFB, 2023b). The European Semester country reports did not cover compliance with fiscal rules ([4]). As a result, some parts of the Commission conclusions were unsubstantiated (see Section 2.6).

([4]) The European Semester country reports assess macroeconomic challenges and progress made on the structural reforms in an individual country. When these reports were resumed in 2022, they become more compact than those before 2020, while covering a similar or even greater number of topics. This constrained the Commission's reporting on fiscal issues among others.

In 2023, the Commission's presentation of fiscal developments was less detailed than in 2022. Specifically, in autumn 2023, the tables annexed to the Commission opinions on the draft budgetary plans for 2024 omitted elements related to the assessment of 2023 — estimates of temporary Covid support measures and the breakdown into targeted and untargeted energy support measures were no longer provided. Moreover, compared to 2020-2021 the Commission stopped reporting its estimates of the expenditure benchmark.

Temporary and targeted measures

Fiscal measures taken in previous years in response firstly to the Covid pandemic and then the energy price hike still affected fiscal developments in 2023, and their unusual and transitory nature was reflected in the fiscal guidance for 2023.

Remaining temporary Covid support measures were still present in 2022 and by the Commission's assumption ceased in 2023 (0.6% of GDP in the EU). The Commission established the definition of temporary measures in 2021, when issuing the fiscal guidance for 2022, but did not exclude them from the structural budget balance (EFB, 2023b). Like for 2022, the country-specific recommendations for 2023 targeted the net expenditure aggregate excluding the effect of temporary Covid support measures.

Energy prices started to increase in 2021 and surged after the Russia's invasion of Ukraine in 2022. Member States responded with price and income support measures to mitigate the impact on household incomes and firms. Measures also included higher taxation of windfall profits, as some parts of energy sector benefited from the unusually high prices. Moreover, the inflow of Ukrainian refugees gave rise to additional costs for Member States who received them. The country-specific recommendations for 2023 invited governments to take measures that would be temporary and targeted to most vulnerable households and firms (Section 2.4). However, only one third of all energy measures for 2023 were targeted (0.3% of GDP out of 0.9% of GDP in the EU), based on our analysis of the Commission 2024 spring forecast (Section 2.8).

Using estimates of discretionary fiscal measures in the fiscal surveillance has both advantages and disadvantages. Such estimates help explain fiscal developments. Unusual and temporary

developments can be isolated from permanent budgetary trends, which are important for assessing the sustainability of public finances (Section 2.7). The EU fiscal framework traditionally excludes one-off and temporary measures from the structural budget balance and allows for deviations in case of unusual events. EU fiscal guidance for 2023 neither adjusted the established structural balance and the expenditure benchmark indicators nor invoked the agreed Stability and Growth Pact (SGP) flexibilities but used the fiscal impulse indicator allowing for certain temporary and targeted measures (for further details, see EFB (2023b), pages 23-25).

Estimates of discretionary fiscal measures rely on many assumptions, which can differ greatly across countries, and only aggregate results are disclosed. These estimates also do not undergo a validation process by statistical authorities. Therefore, any ad hoc adjustment to established practice risks weakening comparability and transparency.

2.2. EARLY FISCAL POLICY GUIDANCE

In March 2022, following a practice introduced in 2020 when the severe economic downturn clause was activated, the Commission adopted a communication containing early guidance for fiscal policy in 2023 (5). Apart from outlining the principles of the upcoming fiscal recommendations to the Member States, the communication confirmed an unusual innovation in the implementation of the Stability and Growth Pact (SGP) introduced in the wake of the Covid pandemic – the statement of not launching any excessive deficit procedures regardless of the fiscal situation in the Member States (6). The communication also announced that the deactivation of the severe economic downturn clause in 2023 would be reassessed.

The Commission's early guidance had been prepared against the backdrop of the fading impact of the Covid pandemic and a robust economic rebound, but it was only published shortly after Russia's full-scale invasion of Ukraine when the economic impact of the war was still uncertain. While calling on governments to be ready to react to evolving circumstances, the communication did not identify the need for a new fiscal impulse. The Commission advised high-debt countries to start 'a gradual fiscal adjustment as of 2023' to stabilise and then reduce debt ratios. Shortly after the communication, the euro area finance ministers adopted a statement which envisaged a transition 'from an aggregate supportive fiscal stance in the euro area to a broadly neutral aggregate fiscal stance' in 2023 (7).

The practice of issuing early policy guidance is not anchored in the SGP's legislative framework. It was introduced by the Commission in early 2020 after the Covid pandemic had completely changed the economic outlook and, as a result, made the previous policy guidance for 2020 (issued in spring 2019) obsolete. The declared objective of the initiative was to enable national governments to coordinate their short-term fiscal policy responses while they were less clear about the year ahead. From this perspective, the motivation for early fiscal policy guidance in March 2022 was not entirely clear. The 2022 communication was based on the Commission 2022 winter forecast, which did not forecast drastic changes compared to autumn 2021 and Russia's invasion of Ukraine was still to come. Therefore, unlike in spring 2020 when the Covid pandemic had completely changed the economic prospects, and justified an update, there was in principle no reason to offer an early guidance. The impact of the war was only properly assessed and recorded later in the spring when the Commission and the Council normally issue their formal guidance for the following year.

2.3. MEDIUM-TERM BUDGETARY PLANS

In April 2022, the stability and convergence programmes (SCPs) presented fiscal plans up to at least 2025 (8). In 2023, the headline deficit for the EU was expected to fall below 3% of GDP, down from 4% of GDP in 2022 (Graph 2.1). While the deficit ratio was in line with the previous year's plans (the 2021 SCPs), economic and geopolitical circumstances had changed significantly. The deficit in 2021 had turned out to be much lower

(5) European Commission Communication on fiscal policy guidance for 2023, 2 March 2022.

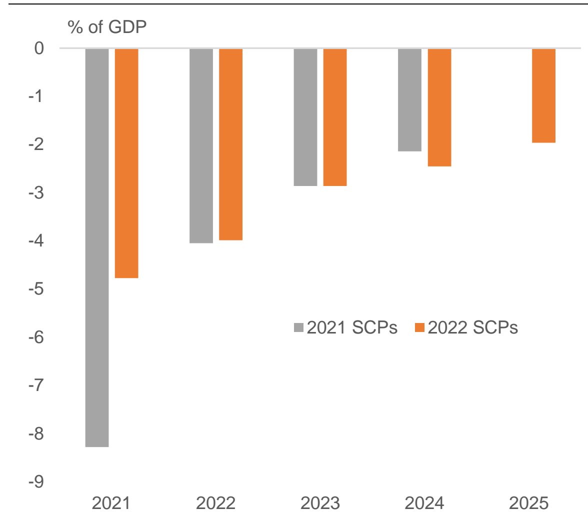
(6) Such a statement is unusual as the severe economic downturn clause does not suspend the EU fiscal rules. The Commission made this point several times in official documents, for example in its communications on the 2021 spring package and on the 2022 spring package.

(7) Eurogroup statement on the fiscal guidance for 2023, 14 March 2022.

(8) France submitted its stability programme in August 2022, after its presidential election.

than expected on the back of a strong post-Covid economic rebound and higher-than-planned government revenue. However, these revenue windfalls were being used to further increase spending in 2022.

Graph 2.1: **Headline government balance for the EU-27, based on the 2021 and 2022 stability and convergence programmes**

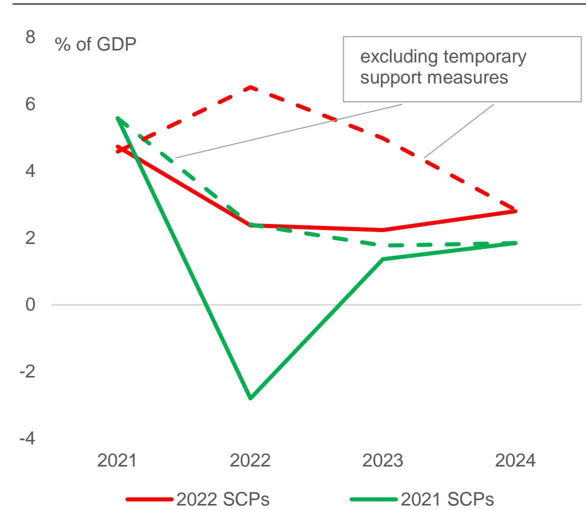


Source: 2021 and 2022 stability and convergence programmes (SCPs)

Expenditure plans in the 2021 and 2022 SCPs aimed to phase out Covid-related support measures in 2022 and completely discontinue them in 2023. For this reason, the 2021 SCPs planned for a decrease in nationally financed expenditure in 2022 and a relatively low growth rate in 2023 (Graph 2.2). However, the 2022 SCPs significantly revised upwards the expenditure growth rates for 2022 and 2023. This reflected sizable spending increases adopted in the budgets for 2022 in autumn 2021 and new energy support measures and support for refugees from Ukraine. However, even excluding the effect of temporary measures, the planned rates of expenditure growth in 2022 and 2023 stood well above earlier plans.

As a result, net of temporary support measures, many Member State SCPs actually implied a deterioration of the underlying fiscal position, including moving further away from their medium-term budgetary objectives (MTOs) ([9]). On average in the EU the underlying structural position was set to deteriorate by 0.4 percentage points of GDP in 2023; and even more for more indebted countries on average. Overall, the Member States' fiscal plans for 2023 confirmed a trend observed in previous years. Against the backdrop of significant temporary crisis support measures, many countries and especially those with high debt also kept on increasing expenditure on a permanent basis.

Graph 2.2: **Nationally financed expenditure growth for the EU-27, based on the 2021 and 2022 stability and convergence programmes**



Notes: 'Nationally financed expenditure' excludes government expenditure financed by the EU.
'Temporary support measures' stands for temporary Covid measures ending in 2023, energy support measures and support to Ukrainian refugees.
Source: 2021 and 2022 stability and convergence programmes (SCPs); Commission 2021 and 2022 spring forecasts

Departing from a well-established pre-Covid practice, the Commission did not publish dedicated country notes with a detailed analysis of fiscal developments. In May 2022, the Commission presented a very short assessment of the SCPs in a few paragraphs (recitals) preceding the fiscal recommendations for 2023 ([10]). These very succinct texts merely noted the key elements of budgetary targets, including the impact of the envisaged phase-out of Covid support measures, new energy support measures and support to Ukrainian refugees. Moreover, the Commission indicated whether or not energy support measures were targeted to the most vulnerable households and businesses. However, the assessment did not conclude whether SCPs followed the Commission's earlier guidance (issued in March 2022). It also remained silent about the underlying trend of expenditure growth net of temporary

([9]) Only Denmark, Cyprus and Sweden were estimated to remain at their MTOs in 2023.

([10]) Before 2021, the Commission fiscal recommendations and opinions were accompanied by staff working documents describing in detail the underlying analysis. Since 2021, only a short summary assessment remains in the introductory notes (recitals) of the legal documents.

support measures. Instead, it commented extensively on the SCPs implications both for the individual countries and for the euro area's fiscal stance.

2.4. FISCAL RECOMMENDATIONS FOR 2023

In May 2022, the Commission reintroduced elements of regular EU economic policy coordination under the European Semester that had been abandoned following the onset of the Covid pandemic. In particular, the Commission's spring surveillance package included the country-specific recommendations (CSRs) which combined fiscal and structural policy guidance in a single policy document [11].

The CSRs formally extended the severe economic downturn clause to 2023, which the Commission and the Council justified due to heightened uncertainty and downside risks linked to the war in Ukraine. This decision discarded the fact that economic activity in both the EU and the euro area had returned to the pre-Covid level in early 2022. Back in March 2021 the Commission, putting aside the legal definition of a severe economic downturn [12], had indicated that the decision to deactivate the severe economic downturn clause would rely on an overall assessment of the state of the economy based on quantitative criteria. It selected the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as the key quantitative criterion. At the same time, the Commission 2022 spring forecast still projected strong real GDP growth of 2.7% in 2022 and 2.3% in 2023 in the EU, amidst possible adverse scenarios.

Overall, the Commission, seconded by the Council, repeatedly stretched the interpretation of a severe economic downturn beyond the letter of the SGP and decided to rely on alternative criteria in light of new events. In parallel it continued to carry out debt sustainability analyses pointing to high sustainability risks in some countries that benefited from the extensive interpretation of the severe economic downturn clause.

The Commission formally adopted its proposals for country-specific fiscal recommendations for 2023 on 23 May 2022. They were built around the general view that the economic outlook. which included the supply-side nature of the energy price hike, would not warrant a broad-based fiscal impulse. However, this came with the qualification that Member States should be ready to react to evolving circumstances and policies should differ according to the fiscal and economic situation. The fiscal CSRs contained the following elements:

- a target or limit for net expenditure growth;
- conditions for crisis measures;
- directions for public investment;
- policy advice for the period beyond 2023; and
- recommendations for fiscal-structural reforms.

Member States with low and medium-debt ratios (according to the Commission definition with debt-to-GDP ratios below 90% of GDP) were asked to target a rate of growth of nationally financed primary current expenditure that delivers 'an overall neutral policy stance' [13]. Member States with high debt levels were asked to limit the rate of growth of nationally financed primary current expenditure to below the available estimates of medium-term potential output growth. The recommendations themselves did not include any quantitative indications, but the introductory notes of the CSRs (the recitals) reported for each country a specific estimate of the real medium-term rate of potential growth. At the same time, the CSRs did not include assumptions or forecasts for the GDP deflator, which meant that, in clear contrast to pre-Covid practice, EU fiscal guidance did not set a well-defined target but rather a moving target that would depend on actual price developments.

All fiscal recommendations stated that expenditure growth targets/limits should 'take into account continued temporary and targeted support to households and firms most vulnerable to energy

(11) In 2021, structural policies were coordinated as part of the recovery and resilience plans, while the Council recommendations addressed only fiscal issues.

(12) Regulation (EU) 1467/97 (Article 2(2)) describes a severe economic downturn as 'a negative annual GDP volume growth rate' or 'an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential'.

(13) The Commission defines 'fiscal stance' as the change in net expenditure aggregate compared to nominal medium-term potential output growth. If both indicators grow at the same rate, 'fiscal stance' is neutral. The Commission calculates the net expenditure aggregate as primary expenditure net of discretionary revenue measures, excluding temporary Covid measures and including expenditure financed by the EU funds.

price hikes and to people fleeing Ukraine'. They also asked to 'stand ready to adjust current spending to the evolving situation'. However, the recommendations did not specify how these conditions would be interpreted – whether expenditure targets/limits would be adjusted to take into account the effect of the measures. The recitals only indicated the announced energy measures that were not considered as targeted.

The fiscal recommendations de facto applied to 2022 rather than 2023. In spring 2022, most of the energy measures announced or launched by Member States impacted 2022 and were planned to be largely discontinued in 2023. The Commission estimated energy support measures at 0.5% of GDP in 2022, a large share of which were not considered to be targeted and appeared difficult to reverse in the future (14).

Based on the Commission's no-policy-change forecast for 2023, the planned phasing-out of energy support in 2023 was set to result in discretionary fiscal support being reduced in most Member States, especially those with lower debt-to-GDP ratios. Excluding the effect of energy support measures, net expenditure growth was projected to be broadly in line with the nominal medium-term potential growth in the EU, but not for high debt Member States on average, confirming the unsustainable expenditure trends highlighted in past EFB reports.

The fiscal recommendations also asked Member States to 'expand public investment for the green and digital transitions, and for energy security', including by using the Recovery and Resilience Facility and other EU funds. Based on the Commission 2022 spring forecast, the government investment to GDP ratio was projected to increase in 2023 across most Member States and in the EU on average. The projected increase was driven by both higher nationally financed investment and EU funded investment.

(14) The 2022 Stability & Convergence Programmes – An Overview, with an Assessment of the Euro Area Fiscal Stance.

Table 2.1: **Fiscal indicators for 2023 as defined in the recommendations (this table uses Commission terminology)**

	% of GDP	Overall 'fiscal stance'	of which contribution from: Change in net nat.financed primary current expenditure	Change in energy support measures	Change in support to Ukraine's refugees
'high debt' Member States	BE	0.0	0.1	0.5	
	EL	1.5	1.7	1.1	
	ES	0.0	0.1	0.4	
	FR	0.9	0.7	0.7	
	IT	-1.2	-0.2	0.5	
	PT	0.0	0.7	0.6	
other Member States	BG	-1.3	-0.5	0.9	
	CZ	0.1	0.4	0.1	-0.2
	DK	1.6	1.4	0.1	-0.1
	DE	0.6	0.7	0.7	-0.1
	EE	0.2	0.4	0.7	-0.1
	IE	1.8	1.8	0.2	
	HR	-0.7	-0.2	0.2	
	CY	0.1	0.1	0.2	-0.1
	LV	3.2	2.7	0.9	-0.1
	LT	1.5	1.5	1.2	-0.1
	LU	0.5	0.5	0.3	
	HU	1.9	1.9	0.1	-0.1
	MT	1.1	1.3	0.4	
	NL	0.5	1.0	0.7	
	AT	0.4	0.0	0.2	-0.1
	PL	1.7	1.4	0.9	-0.2
	RO	1.3	1.1	0.6	
	SI	-0.1	0.7	0.4	
	SK	-0.8	0.2	0.0	-0.1
	FI	0.3	0.4	0.1	-0.1
	SE	1.3	1.1	0.4	

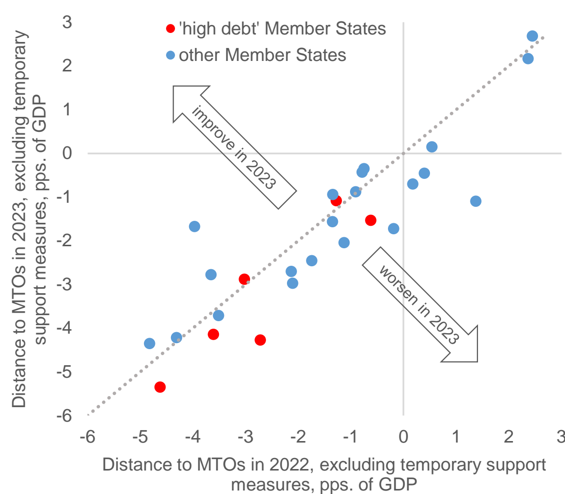
Notes: (1) Table shows fiscal indicators presented in the country-specific recommendations (CSRs) for 2023, based on the Commission 2022 spring forecast. The indicators compare the change in net expenditure aggregated (primary expenditure net of discretionary revenue measures, including changes in EU financed expenditure and excluding effect of temporary Covid support measures) with the same aggregate if it were increasing by nominal medium-term potential GDP growth: this difference is expressed as a percentage of GDP. A positive sign means that nominal medium-term potential GDP growth is higher than the growth in the net expenditure aggregate.
(2) Colour-filled cells represent indicators included in the CSRs. For high debt Member States, there were no recommendations for 'overall fiscal stance'. Therefore, these cells are not colour filled, but numbers are still shown in line with the colour code.
(3) Colour code categorises indicator performance compared with the recommended course of action:
For high debt Member States: red = expansionary fiscal impulse (negative value), green = contractionary fiscal impulse (positive value);
For other Member States: red = expansionary fiscal impulse (less than -0.25% of GDP), green = broadly neutral fiscal impulse (between -0.25% and 0.25% of GDP), yellow = contractionary fiscal impulse (above 0.25% of GDP).
(4) The planned phase-out of energy support measures in 2023 has a contractionary fiscal impulse (positive values). Estimated additional support to Ukrainian refugees in 2023 has an expansionary fiscal impulse (negative values).
Source: Country-specific recommendations for 2023

The format of the fiscal guidance for 2023 shared similarities with the guidance that had been issued since the onset of the Covid pandemic. It was formulated in qualitative terms with some quantitative elements, prioritised specific measures as part of a broader crisis response and used uniform wording except when it was differentiated for high debt countries. Compared to previous years, clarity improved somewhat by focusing attention on nationally financed primary current expenditure and by explicitly asking for 'temporary and targeted' measures in the recommendations.

These elements were less well articulated in the guidance for 2022 and 2020/2021, respectively.

Overall, the fiscal recommendations for 2023, instead of ensuring compliance with the EU fiscal rules, aimed to manage aggregate demand. This followed the precedents set since the start of the pandemic in 2020 and more explicitly in 2022 (EFB, 2023b). By focusing on expenditure changes between 2 years, the recommendations ignored differences in fiscal positions across Member States. Moreover, the adoption of energy support measures in 2022 and their planned discontinuation in 2023 appeared as a planned fiscal improvement between the 2 years. However, excluding the impact of temporary measures, few countries were estimated to be close to or to have reached their MTOs, while others were running large structural deficits (Graph 2.3).

Graph 2.3: **Gaps between structural balances and the medium-term budgetary objectives (MTOs) in 2022 and 2023 for EU-27 countries, estimated in spring 2022**



Notes: (1) Each dot represents country position in 2022 and 2023.
(2) 'Temporary support measures' stands for temporary Covid measures ending in 2023, energy support and support given to Ukrainian refugees.
(3) 'High debt' Member States are Belgium, Greece, Spain, France, Italy and Portugal, according to the Commission's definition.
Source: Commission 2022 spring forecast, own calculations

The structural positions without temporary measures were actually projected to worsen in 2023 for several countries, which was particularly worrying for some high debt Member States ([15]).

Despite different policy advice for high debt countries, the fiscal guidance did not fully appreciate sustainability challenges arising from large structural deficits. At the same time, the Commission reported high sustainability risks in the medium-term for nine countries, including six high debt Member States ([16]).

2.5. DRAFT BUDGETARY PLANS FOR 2023

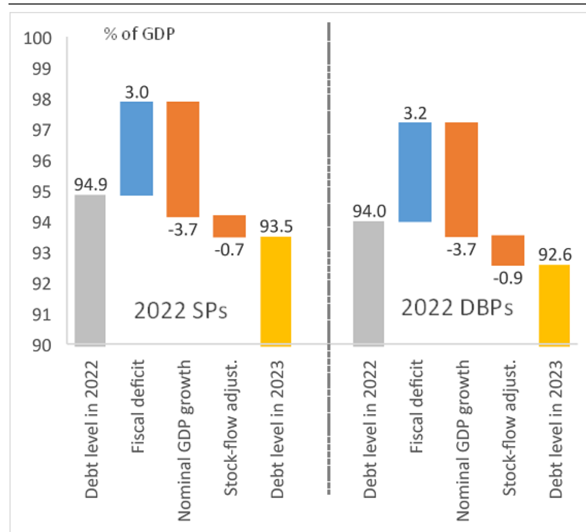
In autumn 2022, all euro area countries presented draft budgetary plans (DBPs) for 2023 ([17]). In the aggregate, they planned to reduce government deficit from 3.9% of GDP in 2022 to 3.2% of GDP in 2023. While the average deficit target was slightly higher than the one set in spring 2022, government debt-to-GDP ratio was still projected to decline in 2023 on the back of favourable nominal GDP growth and debt-reducing financial operations (Graph 2.4).

([15]) Based on the Commission 2022 spring forecast, the EU structural balance was projected to improve in 2023 by ¾ percentage points of GDP, but this was due to the planned discontinuation of the remaining temporary Covid support in 2023 (deficit-reducing impact of 0.6% of GDP in the EU) and most of the energy support and support given to Ukrainian refugees in 2022, ending in 2023 (deficit-reducing effect of 0.5% of GDP). Excluding the effect of the temporary measures, the EU structural balance deteriorated because of the projected cyclical improvement of the economy in 2023.

([16]) The 2022 European Semester country reports included debt sustainability analysis.

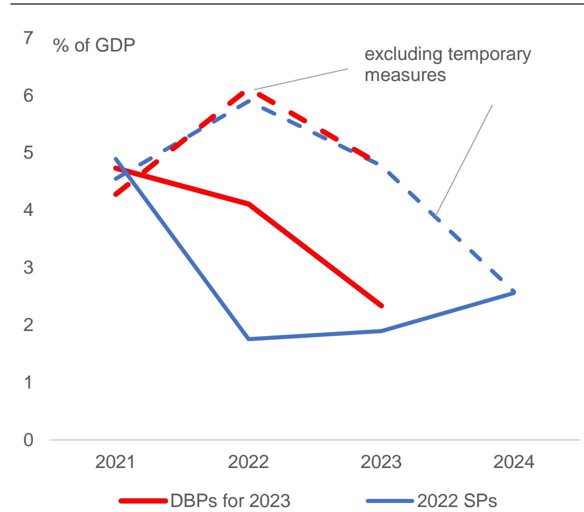
([17]) The draft budgetary plans for Italy and Latvia were presented by outgoing governments. The updated plans by the new governments were submitted on 25 November 2022 and 7 February 2023, respectively. Croatia also presented its draft budgetary plan, on a voluntary basis, due to its adoption of the euro as its currency on 1 January 2023, and the Commission assessed it.

Graph 2.4: **Planned government debt changes in 2023 in 2022 stability programmes and draft budgetary plans for 2023, euro area**



Source: 2022 stability programmes (SPs), 2022 draft budgetary plans for 2023 (DBPs), own estimates

Graph 2.5: **Nationally financed expenditure growth in the euro area – draft budgetary plans for 2023 and 2022 stability programmes**



Notes: 'Nationally financed expenditure' excludes government expenditure financed by the EU.
'Temporary support measures' stands for temporary Covid measures ending in 2023, energy support measures and support given to Ukrainian refugees.
Source: 2022 stability programmes (SPs); draft budgetary plans for 2023 (DBPs); Commission 2022 spring and autumn forecasts, own estimates

However, a closer look shows that half of the euro area Member States did not plan to reduce their fiscal deficits in 2023. This was partly due to an extension of energy support measures with an updated budgetary cost of 0.9% of GDP in 2023 in the euro area, instead of the previously planned discontinuation in 2023. Excluding the effect of temporary measures, government expenditure growth was on average in line with earlier plans in the euro area (Graph 2.5), but with large differences across countries. The group of countries with debt below 60% of GDP and those with debt above 90% of GDP strongly increased their expenditure beyond earlier plans and the effect of temporary measures, while the rest planned to restrain expenditure growth and reduce the government deficit. This corresponds to the concerns of many EU independent fiscal institutions (IFIs) about the scale of planned permanent increases in expenditure appropriations reflected in their assessments of the draft budgets for 2023 ([18]).

The Commission assessed fiscal plans for 2023 to be largely consistent with the recommendation for a broadly neutral fiscal impulse in the euro area. However, this outcome was pure coincidence as few Member States actually planned to follow EU guidance: they targeted a fiscal impulse that was either too expansionary or contractionary (Table 2.2). In contrast to pre-Covid practice, the Commission based its assessment of planned net expenditure growth / fiscal impulse on the latest available GDP deflator forecast (2022 autumn forecast) which stood at 5.3% in 2023 for the euro area. In spring 2022, when the fiscal guidance was issued, it was projected at 3.1% in 2023. Therefore, the Commission's assessment of a zero fiscal impulse for the euro area was based on a significantly higher, moving benchmark ([19]).

Overall, the Commission used less demanding reference points for assessing the DBPs. This affected the understanding of fiscal developments in the Member States and contributed to benign conclusions on the expected compliance with EU fiscal guidance. Moreover, the Commission's assessment of energy measures remained fairly dismal, confirming earlier conclusions: out of a total of 0.9% of GDP planned for 2023, only 0.1%

([18]) European Fiscal Monitor – February 2023 (Network of EU IFIs)

([19]) Based on the established practice (fixed nominal expenditure target based on the 2022 spring forecast), the fiscal impulse in the euro area emerging from the DBPs was expansionary.

was estimated to have been targeted to vulnerable groups. Regarding the recommendation to expand public investment, most euro area Member States planned to follow EU guidance and increased their public investment share in GDP.

Table 2.2: **Fiscal indicators for 2023 used for assessment of the draft budgetary plans (this table uses Commission terminology)**

	% of GDP	Overall 'fiscal stance'	of which contribution from: Change in net nat.financed primary current expenditure	Change in energy support measures	Change in support to Ukraine's refugees
'high debt' Member States	BE	-0.3	-0.3	-0.5	-0.1
	EL	2.2	1.7	-1.8	0.0
	ES	1.0	1.4	-1.6	0.0
	FR	0.8	0.5	-0.1	0.0
	IT	0.5	1.7	-2.6	0.0
	PT	-0.3	0.0	-1.2	0.0
other Member States	DE	-0.4	-0.3	0.7	0.0
	EE	-1.0	-0.9	-0.6	0.1
	IE	1.6	1.2	-0.1	0.2
	HR	-0.1	0.4	0.3	0.1
	CY	0.5	0.6	-0.6	0.0
	LV	2.3	1.7	-0.5	0.1
	LT	-2.3	-1.1	0.0	0.0
	LU	-1.2	-0.9	-0.2	0.0
	MT	1.2	1.1	0.6	0.0
	NL	-1.1	0.0	0.9	0.2
	AT	-0.2	-0.7	-0.5	0.0
	SI	-1.4	-0.7	-0.7	0.0
	SK	-2.6	-1.7	-0.6	-0.1
	FI	-0.2	0.0	0.2	0.1

Notes: (1) Table shows fiscal indicators presented in the Commission opinions on the draft budgetary plans for 2023, based on the Commission 2022 autumn forecast. The indicators compare the change in net expenditure aggregated (primary expenditure net of discretionary revenue measures, including changes in EU financed expenditure and excluding effect of temporary Covid support measures) with the same aggregate if it were increasing by nominal medium-term potential GDP growth: this difference is expressed in % of GDP. A positive sign means that nominal medium-term potential GDP growth is higher than the growth in the net expenditure aggregate.
(2) Colour-filled cells represent indicators included in the CSRs. Non-colour-filled cells also show numbers in line with the colour code, in the absence of any formal recommendation.
(3) Colour code categorises indicator performance compared with the recommended course of action:
For high debt Member States: red = expansionary fiscal impulse (negative value), green = contractionary fiscal impulse (positive value);
For other Member States: red = expansionary fiscal impulse (less than -0.25% of GDP), green = broadly neutral fiscal impulse (between -0.25% and 0.25% of GDP), yellow = contractionary fiscal impulse (above 0.25% of GDP).
(4) The planned phase-out of energy support measures in 2023 has a contractionary fiscal impulse (positive values). Estimated additional support to Ukrainian refugees in 2023 has an expansionary fiscal impulse (negative values).
Source: Commission 2023 autumn package.

2.6. IN-YEAR ASSESSMENTS

In spring 2023, the Commission assessed all Member States on their implementation of the fiscal guidance for 2023. The country-specific recommendations for 2024 included a paragraph (recital) assessing fiscal development in 2023, based on the Commission forecast. The assessments were structured around two main elements: (i) fiscal impulse from nationally financed primary current expenditure (net of discretionary revenue measures); and (ii) EU and nationally financed investments.

The Commission identified 12 Member States with an expansionary fiscal impulse from nationally financed primary current expenditure, which was assessed as not being in line with the fiscal recommendations (Annex A, Table A1). The main reasons for the high level of growth in expenditure were untargeted energy measures, public sector wage increases and higher levels of social and health spending. Member States with a contractionary or broadly neutral fiscal impulse were assessed as being in line with the recommendations. However, in these cases the Commission did not account for the withdrawal of targeted and untargeted energy support measures, which masked an expansion in underlying expenditure, particularly for several very high debt countries. This marked a change in the Commission assessment methodology compared to autumn 2022, when withdrawal of targeted energy support constituted a risk of non-compliance in the case of Portugal.

The change in the Commission's treatment of targeted energy support measures increased the ambiguity of the recommendations for 2023, allowing for different interpretations. The country-specific recommendations did not specify how targeted energy measures would be 'taken into account' in practice. The EFB observed a similar shift in the Commission's interpretation of the fiscal guidance for 2022, when the Commission's final assessment justified contractionary fiscal impulse as appropriate in a context of high inflation, while the recommendations asked the Member States to be supportive (EFB, 2023b). 'A context of high inflation' was also invoked in the Commission in-year assessments for 2023, but without altering any conclusions.

The Commission's treatment of targeted energy measures in spring 2023 could be explained by their intended purpose in the guidance. The recommendations for 2023 encouraged Member States to implement targeted support measures as an exception to the general guidance (i.e. allowing higher net expenditure growth if it results from temporary support). However, at that time it was not anticipated that sizable support would already be implemented in 2022 and would be withdrawn by some countries in 2023. Therefore, net of targeted energy measures, the remaining net expenditure growth in 2023 appeared higher or

even excessive. This would have undermined the incentives intended for more targeted as opposed to untargeted support. It can be reasoned that the Commission's asymmetrical treatment of targeted energy measures for 2023 avoided punishing countries that prioritised targeted support in 2022. At the same time, the Commission did not draw attention to worrying underlying expenditure trends, which were masked by fluctuations in temporary support measures (targeted and un-targeted) (see Section 2.7 for our analysis of underlying expenditure developments).

For the recommendation to expand public investment and use the Recovery and Resilience Facility and other EU funds, the Commission reported the size of EU financed grants in 2023 and the fiscal impulse of nationally financed investments. On that basis, the Commission concluded that all countries planned additional EU financed investment, but nationally financed investments were assessed as 'preserved' or 'not preserved' depending on the direction of the fiscal impulse indicator. In effect, the Commission used different assessment methods for the EU and nationally financed investment developments in 2023, which was also the case in its final assessment for 2022 (EFB, 2023b). The Commission also did not explain why countries were projected to underperform. Analytical background notes could have explained such details, but the Commission discontinued those in 2021 (Section 2.1).

In autumn 2023, the Commission opinions on the draft budgetary plans for 2024 contained no in-year assessments for 2023. Before the pandemic, the same Commission documents were used as an occasion for in-year fiscal assessments further to those in spring. Since 2020, the Commission opinions have only described the main fiscal developments for the passing year, but without dedicated compliance assessments. The break with past practice can be linked to the qualitative definition of the fiscal guidance issued between 2020 and 2023, lax monitoring and lack of intention to enforce the guidance.

2.7. FISCAL DEVELOPMENTS IN 2023 IN RETROSPECT

Underlying fiscal developments in 2023

EU fiscal guidance for 2023 was still mostly qualitative, stating that nationally financed current expenditure should be in line with or below the medium-term potential output growth. Explanatory notes for the country-specific recommendations for 2023 mentioned real medium-term (10-year average) potential output growth estimates, but did not specify the GDP deflator ([20]). As a result, there was no explicit overall quantitative benchmark for national fiscal policies.

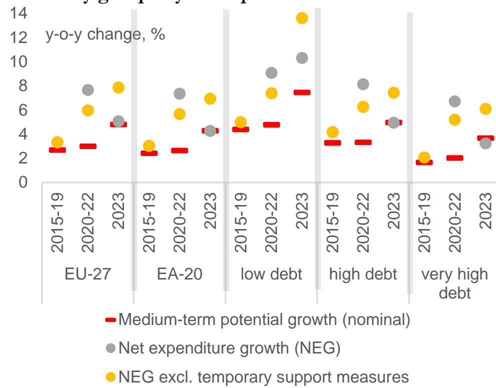
Since the EU's fiscal guidance for 2023 precludes the conventional compliance assessment, this section looks at fiscal developments beyond the SGP's provisions. Following the approach pioneered in the 2021 Annual Report (EFB, 2021b), we compare actual expenditure developments in Member States with official estimates of medium-term potential output growth. Our analysis accounts for temporary measures taken by national governments in response to extraordinary developments to identify underlying fiscal trends and their sustainability (calculation methods are described in Annex C). Graph 2.6 summarises the results.

Fiscal developments since 2020 were first affected by the extraordinary fiscal support measures in response to the Covid pandemic and then the energy price shock in the aftermath of Russia's full-scale invasion of Ukraine. The Covid support measures exceeded 3% of GDP in the EU in 2020 and 2021 but were much reduced in 2022 and almost completely phased out in 2023 (panel (c)). A small share of Covid support measures is estimated to have a more lasting impact. In 2022, net budgetary costs of the energy support measures amounted to 1.2% of GDP in the EU. According to the Commission 2024 spring forecast (panel (d)), they declined in 2023 and are estimated to decline further in the coming years. However, a measurable amount is still forecast to affect budgets in 2024 and 2025 when energy prices are expected to be well below the levels reached in 2022. Furthermore, only one third of energy

([20]) In its in-year and final fiscal monitoring, the Commission used projected/actual GDP deflators for 2023.

Graph 2.6: Benchmarking expenditure growth in 2023

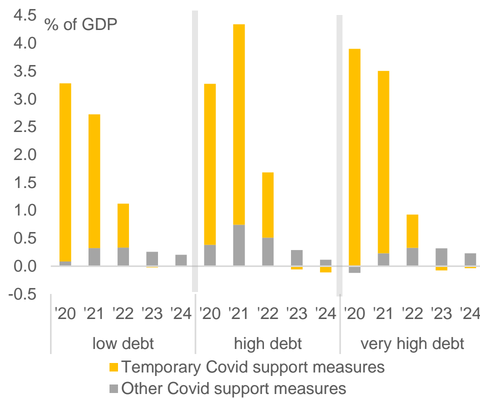
Graph a): Net expenditure growth in 2023 and in previous years on average, EU-27, EA-20 and country groups by fiscal positions



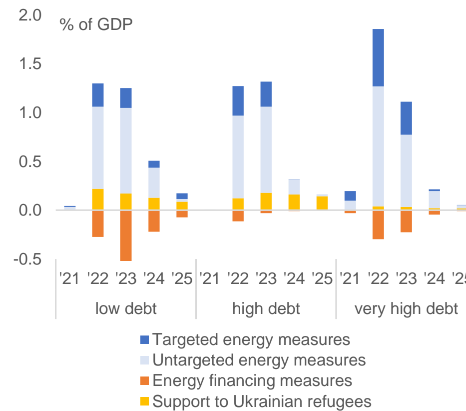
Graph b): Gap between the nominal medium-term potential growth and net expenditure growth in 2023 and in 2020-2022 on average, in % of GDP, EU-27, EA-20 and country groups by fiscal positions

		EU-27	EA-19	Low debt	High debt	Very high debt
Net expenditure growth (NEG)	2023	-0.1	0.1	-1.1	0.0	0.2
	2020-2022 on average	-2.1	-2.2	-1.6	-2.2	-2.3
NEG excl. tempoary support measures	2023	-1.2	-1.1	-2.2	-1.0	-1.0
	2020-2022 on average	-1.3	-1.4	-0.9	-1.3	-1.4

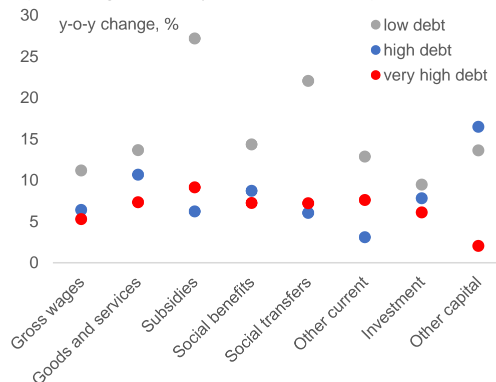
Graph c): Covid support measures, bottom-up estimates against 'no policy change' forecast



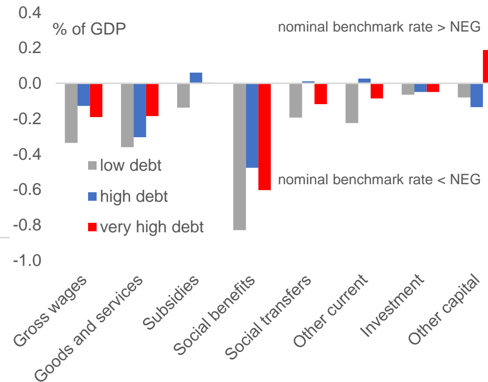
Graph d): Energy support measures and support to Ukrainian refugees



Graph e): Underlying net expenditure growth in 2023 (excluding temporary support measures)



Graph f): Gap between the nominal medium-term potential growth and underlying net expenditure growth in 2023, contributions by expenditure items



Notes: (1) The benchmark of the medium-term rate of potential GDP growth is in nominal terms. It is (a) the 10-year average of real potential output growth and (b) the GDP deflator frozen at the start of the surveillance cycle, based on the Commission forecast of the preceding year.
(2) 'Net expenditure growth' refers to the growth rate of government expenditure, excluding interest expenditure, expenditure on EU programmes fully matched by EU funds revenue, and the cyclical part of unemployment benefit expenditure and is net of discretionary revenue measures and one-offs. Investment expenditure is averaged over 4 years.
(3) 'Covid support measures' strengthened health systems and compensated workers and firms for pandemic-induced income losses. Part of the measures in 2021-2022 included public investment and other spending for a sustainable economic recovery. Covid support measures ending in 2023 are treated as temporary.
(4) 'Energy support measures' includes government support to counter the economic and social impact of the increase in energy prices. 'Targeted energy measures' are specifically designed to support vulnerable households and companies, as opposed to wide and less effective support, i.e. 'untargeted energy measures'. 'Energy financing measures' includes new revenue measures on windfall profits by energy producers, covering part of the costs of the energy support measures.
(5) 'Support to Ukrainian refugees' represents the budgetary costs of temporary protection for people fleeing Russia's war of aggression against Ukraine.
(6) 'Temporary support measures' encompass temporary Covid support measures, all energy support measures and support to Ukrainian refugees.
(7) 'Underlying net expenditure growth' stands for net expenditure growth after excluding the effect of temporary support measures.
(7) Low debt countries = BG, CZ, DK, EE, LV, LT, LU, MT, PL, RO, SK and SE; high debt countries = DE, IE, HR, HU, NL, AT, SI and FI; very high debt countries = BE, EL, ES, FR, IT, CY and PT. The values for country groups are GDP-weighted averages.
Source: European Commission, own calculations

support measures was targeted to the most vulnerable groups.

The benchmark rate of the nominal medium-term potential growth combines an estimate of real potential output growth in the medium term and an assumption about the GDP deflator in the reporting year (see Annex C for further details) ([21]). Defined as long-term averages, the estimates of medium-term potential output growth change little from year to year. However, in 2022 and 2023 the GDP deflator increased markedly compared to forecasts (to 5.1% and 6.1% in the EU) on the back of major energy price hikes. Using actual numbers to assess expenditure growth would undermine its purpose as a stable reference point for the medium term. Therefore, this report applies the GDP deflator as forecast by the Commission at the start of the surveillance cycle, i.e. the Commission 2022 spring forecast for 2023. The defined benchmark rate still increased markedly in 2023, but much less than that based on the actual GDP deflator.

On the surface, fiscal indicators continued to improve in 2023. For the EU as a whole, net expenditure growth decelerated to 5.1%, down from an average of 7.7% in 2020-2022 (panel (a)), which was broadly in line with currently used estimates of nominal medium-term potential growth. The slowdown reflects a further withdrawal of Covid and energy support measures (panel (c) and (d)). Excluding these temporary support measures, underlying net expenditure grew by 7.6% in 2023 – considerably faster than in the past including the pre-Covid years (panel (a)).

Grouping Member States by their average level of government debt shows that underlying expenditure (net expenditure excluding temporary measures) outpaced the sustainable benchmark rate across the board. Unlike in previous years, the excess was particularly large in countries with government debt levels below 60% of GDP ([22]).

To better understand the drivers of the underlying trends we break up expenditure into different components (see methodology in Annex C). The economic classification of government expenditure shows that in 2023 subsidies, social benefits and transfers were the most dynamic items in the group of low debt Member States (panel (e)). This largely explained the group's deviation from the benchmark (panel (f)). In particular, social benefits ([23]) increased by more than 20% in Bulgaria, Poland and Slovakia – more than off-setting the phase-out of temporary support measures. In these countries, the very strong increase of social spending happened in a year when national elections took place. Countries with high and very high debt levels also increased their social benefits more than the benchmark rate. In these two groups of countries, social benefits account for 31% and 36% of total expenditure respectively, as opposed to on average 30% in countries with low government debt.

Public sector wages and purchases of goods and services – also major government spending items – also outpaced the benchmark rate in 2023. Subsidies and other capital expenditure show very sharp increases for some groups of countries (panel (e)). Those movements are explained by very specific events that, based on Commission practice, are not excluded from the assessment as one-offs or other temporary measures, for example, capital injections in companies and acquisitions of inventories.

From a longer-term perspective, underlying net expenditure growth in 2023 stood out compared to the last 3 decades (Graph 2.7 panel (a)). Similar rates of expenditure growth were recorded only in the boom years leading up to the great financial crisis in 2008-2009 that was fuelled by: (i) the catching-up process in Member States that joined the EU; and (ii) the real-estate boom. In the subsequent period of economic and fiscal

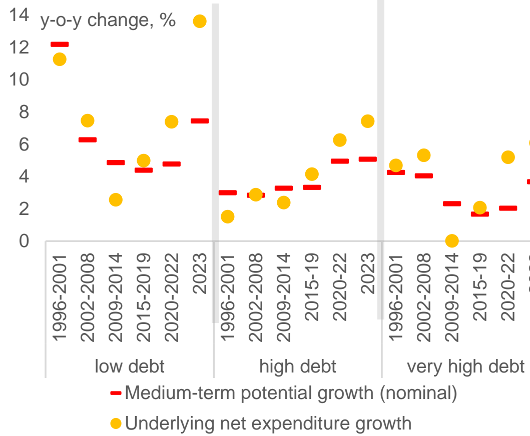
([21]) The GDP deflator is used as an approximation of price changes that affect government expenditure, while in practice price and wage increases for different types of government spending can differ.

([22]) The current analysis for 2020-2022 shows that all three groups of countries increased underlying expenditure above the benchmark – high and very high debt countries more so than low debt countries (panel (b)). This assessment differs from earlier EFB analysis, which showed net expenditure growth in low debt countries at a safe distance from the benchmark rate (EFB (2022); EFB (2023b)). This difference stems from a more prudent assumption about the GDP deflator. In particular, the GDP deflator's forecast for low debt countries for 2022 of 2.2% produced in spring 2021 did not anticipate the price hike that followed – the actual GDP deflator of 9.5% (the lower GDP deflator implies a lower benchmark rate and a greater excess of net expenditure growth). For the country groups of high and very high government debt, the current analysis confirms earlier findings of underlying expenditure growth exceeding the benchmark and the gap naturally increases with a more prudent estimate of nominal potential output growth.

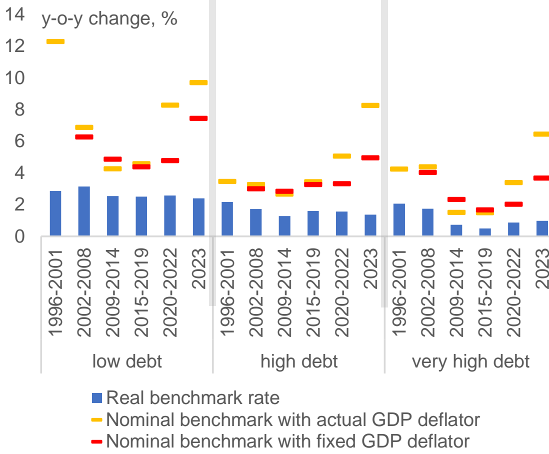
([23]) Social benefits other than social transfers in kind (ESA code D.62).

Graph 2.7: **Benchmarking expenditure growth from a longer-term perspective**

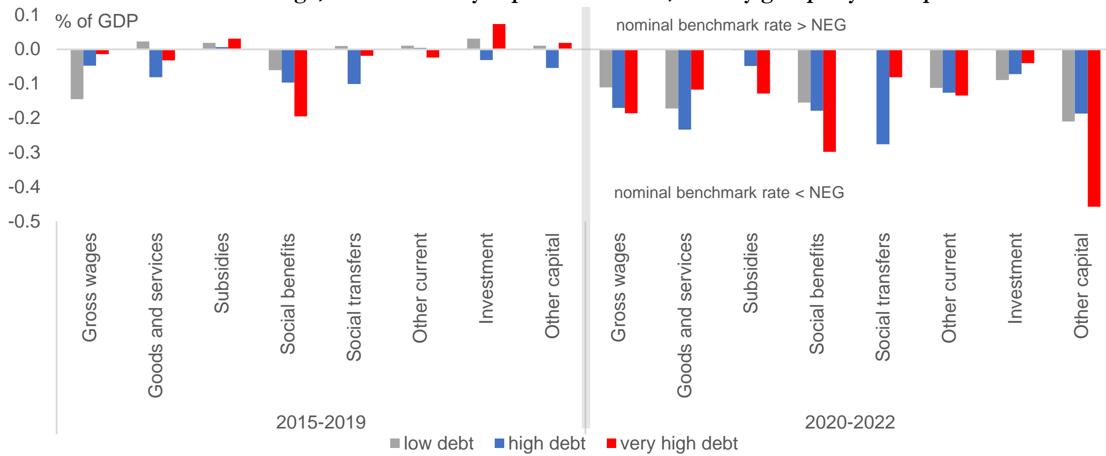
Graph a): Underlying net expenditure growth and the benchmark rates over a longer period, country groups by fiscal positions



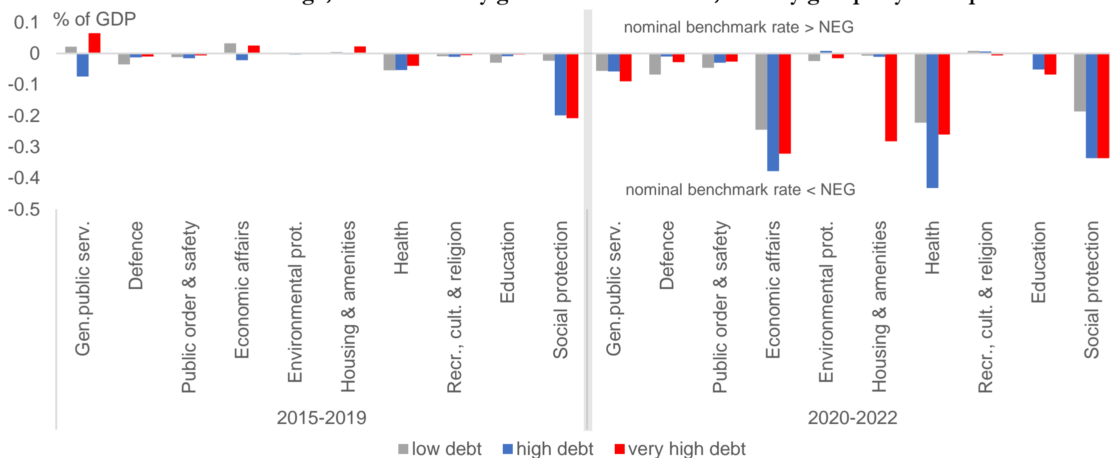
Graph b): Nominal medium-term potential growth rates with different GDP deflators, country groups by fiscal positions



Graph c): Gap between the medium-term potential growth and underlying net expenditure growth in 2015-2019 and 2020-2022 on average, contribution by expenditure items, country groups by fiscal positions



Graph d): Gap between the medium-term potential growth and underlying net expenditure growth in 2015-2019 and 2020-2022 on average, contribution by government functions, country groups by fiscal positions



Notes: (1) 'Underlying net expenditure growth' represents net expenditure growth excluding the effect of temporary support measures, as defined in Graph 2.6.
(2) The benchmark of the nominal medium-term rate of potential GDP growth is based on the GDP deflator fixed at the start of the surveillance cycle, based on the Commission forecast of the preceding year, unless mentioned otherwise (see Annex C for further details).
(3) Further details on the classification of the functions of government (COFOG) are on the Eurostat's webpage.
(3) Low debt countries = BG, CZ, DK, EE, LV, LT, LU, MT, PL, RO, SK and SE; high-debt countries = DE, IE, HR, HU, NL, AT, SI and FI; very high-debt countries = BE, EL, ES, FR, IT, CY and PT. The values for country groups are GDP-weighted averages.
Source: European Commission, own calculations

adjustment (2009-2014), net expenditure grew less than medium-term potential output. In 2015-2019 – the years of recovery – government expenditure increased somewhat above the benchmark. In cumulative terms the deviation amounted to 1% of GDP for the EU over the period. With the onset of the Covid pandemic, governments took advantage of the crisis to increase spending beyond crisis support with underlying expenditure growth significantly exceeding the benchmark.

In 2020-2022, underlying expenditure grew faster than the nominal benchmark across all categories (panel (c)). The gap was particularly large for capital expenditure in Member States with very high debt levels, reflecting growing public funding given to private companies. The comparison with the pre-Covid years also reveals a particularly large acceleration of social benefits in very high debt countries, when the same group already recorded the highest excess growth of social spending in 2015-2019 while at the same time reducing the share of nationally financed investment.

Across government functions (panel (d)) spending on social protection, healthcare and economic affairs contributed the most to the excess of underlying expenditure growth over to the nominal benchmark. The large gap for very high debt countries in the housing category is largely due to Italy's tax-credit scheme for housing renovations, known as super bonus.

2.8. FINAL ASSESSMENT OF 2023

In spring 2024, 17 Member States submitted their stability and convergence programmes (SCPs) in line with the existing legal requirements (Article 4(1) and 8(1) of Regulation (EC) 1466/97). The Commission ignored the absence of the SCPs for 10 Member States ([24]), as the new framework was in force when the 2024 spring package was published ([25]). The Commission summarised the SCPs' main indicators in a single paragraph informing the country-specific recommendation for 2025 ([26]). Unlike past practice, the Commission did not publish the SCPs in a central location and did not report on Member State projections in the statistical annex to the spring package, except for a few indicators. The Commission also discontinued its overview note of the SCPs, as many Member States did not submit the plans. That note used to include a review of country fiscal developments in the preceding year.

The Commission presented its final assessment for 2023 for each Member State in a single paragraph introducing the country-specific recommendations for 2025. It recalled the fiscal guidance for 2023 and reported on each element of the fiscal recommendation, without making a single overall conclusion for each Member State.

- Although the recommendation for an overall neutral 'fiscal stance' in 2023 was only addressed to countries with debt below 90% of GDP, the Commission presented its reading of the indicator for all countries without making any conclusion on compliance or non-compliance. Three Member States recorded a broadly neutral 'fiscal stance' in 2023, while for the rest it was assessed as either expansionary or contractionary.

- The change in net nationally financed primary current expenditure was the only element of the fiscal recommendations for which the Commission made a firm conclusion on compliance. Where relevant, the Commission noted the effect of targeted energy measures and support to Ukrainian refugees, but their presence did not sufficiently explain the net expenditure growth to influence the assessment. For nine Member States the growth in net nationally financed primary current expenditure was 'not in line with the Council recommendation' (Table 2.3). The most frequent reasons for this were increases in social benefits and in public sector wages.

- For the recommendations to expand public investment for the green and digital transitions, including by making use of the Recovery and Resilience Facility and other EU funds, the Commission reported on the amount of EU financed expenditure and nationally financed investment. It stated that 23 Member States financed additional investment through the Recovery and Resilience Facility and other EU funds, while Hungary and Sweden had not yet submitted payment requests and the first

([24]) Belgium, Denmark Spain, Croatia, Malta, Lithuania, Austria, Poland, Romania and Slovenia.

([25]) Regulation (EU) 2024/1263 repealing Regulation (EC) 1466/97 entered into force on 30 April 2024.

([26]) For Spain and Austria, the Commission referred to updated macroeconomic and fiscal projections in the absence of their stability programmes.

payment request for the Netherlands was being assessed.

Table 2.3: **Fiscal indicators for 2023 in the Commission's final assessment (this table uses Commission terminology)**

	% of GDP	Overall 'fiscal stance'	Change in net nat.financed primary current expenditure				
					of which contribution from		
				Conclusion	Change in energy support measures (targeted and untargeted)	Change in energy support measures (targeted)	Change in support to Ukraine's refugees
'high debt' Member States	BE	-0.7	-0.4	✗		0.1	
	EL	-0.5	0.6	✓	2.7		
	ES	0.2	0.3	✓	0.6		
	FR	0.5	0.3	✓			
	IT	-0.3	1.0	✓	1.4		
	PT	1.1	0.9	✓	1.1		
other Member States	BG	0.0	0.2	✓	1.3		-0.3
	CZ	0.9	0.7	✓		0.1	0.1
	DK	-2.4	-1.8	✗			
	DE	0.3	0.5	✓			
	EE	-1.6	-1.0	✗		0.1	-0.2
	IE	-0.9	-0.8	✗		0.1	-0.1
	HR	-3.0	-1.3	✗		-0.1	
	CY	-1.0	-0.2	✓		0.1	-0.2
	LV	-0.5	-1.1	✗		0.4	
	LT	-0.6	0.2	✓	0.9		-0.1
	LU	-3.2	-2.7	✗			
	HU	4.7	1.7	✓			
	MT	0.6	1.6	✓		-0.1	
	NL	0.8	0.9	✓		-0.4	
	AT	0.9	0.5	✓		-0.2	
	PL	-0.8	0.0	✓	1.2		
	SI	0.5	0.4	✓		0.3	
	SK	-6.1	-3.8	✗		0.2	0.1
	FI	-0.9	-0.8	✗			-0.2
	SE	0.0	-0.1	✓	0.3		

Notes: (1) Table shows fiscal indicators presented in the country-specific recommendation for 2025, based on the Commission 2024 spring forecast. The indicators compare the change in net expenditure aggregated (primary expenditure net of discretionary revenue measures, including changes in EU financed expenditure and excluding effect of temporary Covid support measures) with the same aggregate if it were increasing by nominal medium-term potential GDP growth. This difference is expressed as a percentage of GDP. A positive sign means that nominal medium-term potential GDP growth is higher than the growth in the net expenditure aggregate.
(2) Colour-filled cells represent indicators included in the CSRs for 2023. Non-colour-filled cells also show numbers in line with the colour code, in the absence of any formal recommendation.
(3) Colour code categorises indicator performance compared with the recommended course of action:
For high debt Member States: red = expansionary fiscal impulse (negative value), green = contractionary fiscal impulse (positive value);
For other Member States: red = expansionary fiscal impulse (less than -0.25% of GDP), green = broadly neutral fiscal impulse (between -0.25% and 0.25% of GDP), yellow = contractionary fiscal impulse (above 0.25% of GDP).
(4) Marks for conclusion:
Tick = expenditure aggregate fulfilled the recommendation;
Cross = expenditure aggregate did not fulfil the recommendation.
(5) The planned phase-out of energy support measures in 2023 has a contractionary fiscal impulse (positive values). Estimated additional support to Ukrainian refugees in 2023 has an expansionary fiscal impulse (negative values).
(6) Table excludes Romania, which was assessed for its compliance with the recommendation to bring to an end the excessive government deficit situation.
Source: Commission 2023 autumn package.

The Commission's final assessment put the growth of net nationally financed primary current expenditure as a focal point for monitoring country performance in 2023, which was consistent with the policy guidance for 2023. While the guidance differentiated between (i) the limit for expenditure for countries with debt above 90% of GDP and (ii) the target for the rest, the final assessment did not differentiate between the two. Moreover, the Commission did not propose any procedural follow-up for non-compliant cases. Therefore, any country differentiation or gradation of non-compliance was redundant. Consequently, the Commission ignored one of its own principles of the fiscal guidance that high-debt countries need to be more prudent than the rest.

In line with the fiscal recommendations, the Commission assessment considered the effect of targeted energy measures and support to Ukrainian refugees (last two columns in Table 2.3). However, that did not alter its assessment, as the incremental effect of the two elements was relatively small. ([27]).

The Commission flagged cases where the withdrawal of targeted and untargeted energy support measures had a significant contractionary impulse (middle column in Table 2.3), but without drawing any conclusions. If the Commission had excluded the effect of temporary support measures from the net nationally financed primary current expenditure indicators, the flagged cases would have recorded expansionary fiscal impulses, in the sense that underlying current expenditure trends in many more Member States exceeded prudent growth benchmarks.

The Commission's reading of the indicators was affected even more by its choice to update the reference values of the nominal medium-term potential growth, instead of freezing the targets at the time of the fiscal guidance. In particular, the EU GDP deflator assumption for 2023 of 3.4% in spring 2022 turned out at 6.2% in spring 2024. If the Commission had used the former assumption, almost all countries would have recorded sizable fiscal expansions – not in line with the recommendations.

The government investment to GDP ratio increased to 3.5% of GDP in 2023 due to both higher national and EU financed investment spending. The Commission noted increases and decreases in nationally financed investment across Member States. While EU financed investment declined for some countries, the Commission still concluded overall that additional EU investments

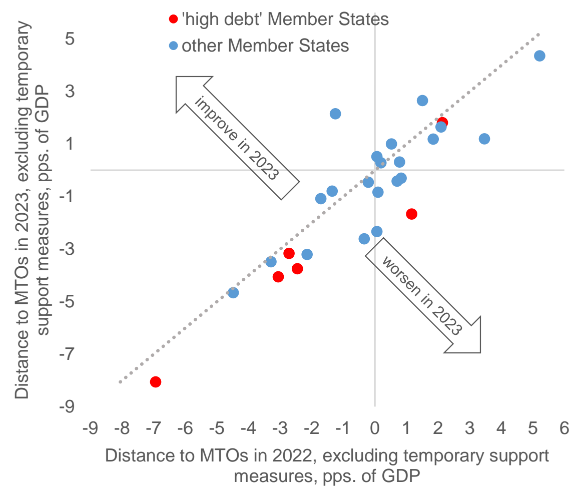
([27]) In the EU, targeted energy support measures accounted for one third of total budgetary costs of energy support, which fell from an estimated 1.2% of GDP in 2022 to 0.9% of GDP in 2023. Support to Ukrainian refugees amounted to 0.1% of GDP in 2023 in the EU, while the costs were higher in countries receiving more refugees.

were made. The uneven assessment of nationally financed and EU financed investment was also observed a year earlier (EFB, 2023b). In general, it is difficult to draw conclusions from a government investment in 1 year without exploring the reasons for underperformance and assessing a trend. However, the Commission provided no such analysis.

The Commission reduced the transparency of its reporting. In the absence of a consolidated assessment of the stability and convergence programmes, the Commission reduced coverage of energy support measures and support to Ukrainian refugees in the statistical annex of the 2024 spring package (numbers in Table 2.3 are based on the country-specific recommendations for 2025). By contrast, these elements were sufficiently detailed in spring 2023.

The Commission made no assessment of (i) the structural budget balance and (ii) the expenditure benchmark, and instead focused on a modified net expenditure target for 2023 (Section 2.4). Structural balance estimates were still reported in the statistical annex of the 2024 spring package, but not the expenditure benchmark. The EU structural deficit barely narrowed in 2023 to 3½% of GDP. However, accounting for the decline in temporary measures (by around 1% of GDP) the underlying EU structural balance deteriorated as was the case across many Member States (Graph 2.8). The outturn was worse than planned in spring 2022 (Graph 2.3). In particular, high debt Member States increased their underlying structural deficits, except Portugal, which was estimated to have a structural surplus. As a result, also in its final assessment for 2023 the Commission did not highlight the deterioration of underlying fiscal positions and resulting sustainability implications.

Graph 2.8: **Gaps between structural balances and the medium-term budgetary objectives (MTOs) in 2022 and 2023 for EU-27 countries, estimated in spring 2024**



Notes: (1) Each dot represents country position in 2022 and 2023.
(2) 'Temporary support measures' stands for temporary Covid measures ending in 2023, energy support and support to Ukrainian refugees.
(3) 'High debt' Member States are Belgium, Greece, Spain, France, Italy and Portugal, according to the Commission's definition.
Source: Commission 2024 spring forecast, own calculations

2.9. EXCESSIVE DEFICIT PROCEDURE

The severe economic downturn clause in the context of the excessive deficit procedure (EDP)

The SGP's severe economic downturn clause was activated in early 2020 but due to repeated extensions stayed in place until the end of 2023. In official documents, the Commission correctly stated that the clause does not suspend the EU's fiscal rules and procedures ([28]). Nevertheless, the Commission and the Council chose not to place Member States under the EDP although all the relevant conditions were met. The choice was officially motivated by exceptional uncertainty due to the Covid-19 pandemic and later on by Russia's war of aggression against Ukraine. These, the Commission argued, made it impossible to establish a credible adjustment path. This justification was of an ad hoc nature and not covered by the SGP provisions. At the same time, the Commission and the Council decided to open an EDP for Romania in early 2020, based on 2019 data, and to update its recommendations in the successive years.

([28]) See e.g. European Commission (2021) 'Communication on fiscal policy response to coronavirus pandemic' or European Commission (2021) Omnibus report under Art 126(3).

The way the Commission has dealt with uncertainty has fundamentally changed over recent years. Since the SGP reform in 2005, EU fiscal rules include provisions on how to deal with uncertainty when assessing Member States' compliance with fiscal recommendations. For instance, according to Article 3(5) of Regulation (EC) 1467/97 ([29]) 'unexpected adverse economic events with major unfavourable consequences for government finances' can be taken into account when assessing effective action in response to the Council recommendation. This means adverse events are addressed ex post if and when they occur based on the understanding that any fiscal recommendation is conditional on a macroeconomic forecast. The same approach could have been followed in 2023, namely assessing effective action to deal with the impact of unexpected events if they happen. Instead, the Commission and the Council used uncertainty as an argument to exclude the use of surveillance instruments *ex ante*. Such an approach is problematic because forecasts are always inherently uncertain. If *ex ante* uncertainty were to be invoked in normal times going forward it would seriously affect EU fiscal surveillance as we know it and de facto undermine Commission forecasts which are and remain the main reference for EU fiscal surveillance.

Moreover, the non-opening of EDPs stands in clear contrast to established practice and the letter and spirit of EU law (see Box 2.1). Since the 2005 reform of the SGP, EDPs have not been used to impose immediate fiscal adjustments regardless of economic conditions. They are meant to anchor and guide fiscal policy over the medium-term so as to correct an excessive deficit at the appropriate speed. In addition, since the global financial and economic crisis of 2008-2009, EDP recommendations have typically set a gradual, multi-annual adjustment in order to correct an excessive deficit.

Introduced with the six-pack reform in 2011, the severe economic downturn clause allows for additional flexibility under the preventive and corrective arm of the SGP as long as the medium-term sustainability of public finances is not endangered. EDPs could and should have been applied since 2020, providing a broad yardstick for national fiscal policies by outlining a gradual adjustment towards sustainable public finances in the medium term and, if warranted, using flexibility to adapt to changes in the economic outlook.

The surveillance cycle of 2023 was still affected by the extensive interpretation of the severe economic downturn clause. Like in previous years, in spring and autumn 2022 the Commission and Council did not open any EDP although relevant reports explicitly recorded excessive deficits and debt levels in 2022 or planned breaches of the deficit threshold in 2023 (see EFB (2023b) for more details). In spring 2023, the Commission followed the same approach as in 2021 and 2022 by preparing a single omnibus document instead of individual Article 126(3) reports.

Assessments in spring and autumn 2023

In spring 2023, after taking into account all relevant factors, the Commission's assessment formally concluded that the deficit and debt criteria were not fulfilled by 14 and 3 Member States, respectively. Before the Covid-19 pandemic, this assessment would have directly led to the next steps in the excessive deficit procedure. In particular, once the overall conclusions (after taking into account relevant factors) indicate that the deficit and/or debt criteria are not met, the Pact does not provide for the Commission to carry out any additional qualifying assessment.

Overall, the omnibus report stated that the Commission would not propose opening deficit-based EDPs on the grounds of 'persistently high uncertainty for the macroeconomic and budgetary outlook', noting specifically the war in Ukraine and increasing energy prices.

In addition, for the three breaches of the debt criteria the Commission argued that compliance with the debt reduction benchmark was not warranted as it would result in a frontloaded fiscal effort that would be 'too demanding', which would risk jeopardising economic growth ([30]).

The only additional step taken – as provided for under Article 126(4) TFEU – was an opinion issued by the relevant Council committee on the Commission's omnibus report. The opinion

([29]) The framework revised in 2024 contains similar provisions on how to deal with unexpected adverse economic events if and when they occur e.g. Article 3(6) of the revised Regulation (EC) 1467/97.

([30]) European Commission (2023) Omnibus report under Art 126(3).

followed the Commission's conclusions not to open EDPs. Significantly, the Commission had already issued a communication in March 2023, which stated that it would only propose opening EDPs in spring 2024 based on outturn data for 2023 ([31]). The communication was not anchored in EU legal provisions and effectively suspended any procedural steps in 2023. The Council did not object to the Commission's view.

The Commission's 2023 autumn forecast still projected 12 EU Member States with a deficit in excess of 3% of GDP in 2023 – almost all with a sizeable gap to the reference value. At the same time, 13 Member States had a debt ratio above 60% of GDP. While EDPs are usually opened based on outturn data from the first half of the subsequent year, the Commission can at any time also launch the EDP process on the basis of its forecasts. However, the Commission's Annual Sustainable Growth Survey ([32]) only reiterated the Commission's intention to open EDPs in spring 2024 based on 2023 outturn data.

In its assessment of the 2024 DBPs the Commission confirmed that the deficit reference value had been surpassed in eight euro-area countries in 2023. The same eight countries also planned a deficit above 3% of GDP in 2024 ([33]). However, the Commission did not provide a full assessment of compliance with the deficit and debt criteria. In particular, unlike in the past, it did not prepare reports under Article 126(3) TFEU and did not draw conclusions on the existence of excessive deficits or debt ([34]). The Commission's assessment of DBPs merely noted that, as already stated in its March 2023 Communication, EDPs would be opened in spring 2024 based on 2023 outturn data.

Assessment in spring 2024

As part of the usual spring surveillance package, on the 19 June 2024, the Commission published a report under Article 126(3) TFEU on compliance with the deficit and debt criteria. Despite deactivating the severe economic downturn clause at the end of 2023, the Commission continued to issue a single omnibus report ([35]) in 2024 – making it a seemingly permanent change in the reporting format.

The 2024 omnibus report covered 12 Member States and concluded that none of them fulfilled the deficit criterion before taking into account relevant factors. After considering relevant factors, the Commission proposed to the Council to adopt a decision that establishes the existence of an excessive deficit in seven countries (under Article 126(6) TFEU).

Under established practice, reflecting EU law, the Commission proposal for a Council decision on the existence of the excessive deficit is accompanied by a recommendation on how to correct the excessive deficit. Breaking with this established practice for the first time, in June 2024 the Commission decided to split these two steps. The recommendation on how to correct the excessive deficit is expected only towards the end of the year, when national budgetary processes are already well advanced. The Commission justified the decision arguing that the EDP needs to ensure consistency between the budgetary requirements under the excessive deficit procedure and the adjustment path set out in the medium-term fiscal-structural plans ([36]). This decision should not create a precedent for the future and gives rise to three issues.

- It creates uncertainty around the required fiscal adjustment for 2025 compared to the established course of action. On 21 June 2024, the Commission confidentially shared its reference trajectories (see Glossary) with the Member States. The reference trajectories outline a fiscal adjustment over the medium term that puts debt on a plausibly declining path. However, the national medium-term fiscal-structural plans (see Glossary) can reasonably deviate from the reference trajectories. Moreover, some countries have already raised issues with methodological elements underpinning the Commission's reference trajectory.

- Even if the national medium-term fiscal-structural plans were identical to the reference

([31]) European Commission (2023) Fiscal policy guidance for 2024.
([32]) European Commission (2023) Annual Sustainable Growth Survey 2024.
([33]) The Commission projected that one additional country would surpass the 3% of GDP deficit in 2024, after being below this figure in 2023. Contrary to the Commission's projections, two countries' DBPs suggested they would have a deficit marginally below 3% of GDP in 2024.
([34]) Article 126(3) TFEU stipulates that if the deficit or debt criteria are not fulfilled, then the Commission shall prepare a report.
([35]) European Commission (2024) Omnibus report under Art 126(3).
([36]) European Commission's 2024 Spring package Communication.

trajectories, the decision to postpone the EDP recommendation effectively excludes important stakeholders, such as IFIs and financial markets, from the policy debate. This is because the trajectories were only shared with governments.

- Splitting procedural steps under the EDP can affect the standing of the corrective arm vis-à-vis the preventive arm of the SGP. The Treaty (TFEU) clearly defines the EDP as distinct from the preventive arm to be triggered in the event of gross errors. Therefore, it is not clear why and how the two arms need to be made 'consistent'.

The Commission's assessment on whether Member States fulfilled the deficit criterion entailed idiosyncrasies. Other relevant factors – that can be considered in the steps leading to the decision on the existence of an excessive deficit – played an important role for some countries. Relevant factors provided by Estonia were deemed sufficient to consider the deficit criterion fulfilled. This is despite Estonia having a deficit of nearly 3.5% of GDP in 2023 and 2024, which is forecast to increase to 4.3% in 2025. The Commission argued that the excess over the reference value was exceptional due an ongoing economic recession.

In particular, the Commission concluded that the launch of an EDP was also not warranted for Spain. The Commission regarded the deficit criterion as not fulfilled before taking into account relevant factors. As the double condition [37] was not fulfilled by Spain, the Commission did not base its judgement on other relevant factors. In previous such cases, the Commission consistently proceeded with establishing the existence of an excessive deficit and put forward a proposal for a Council recommendation that aimed to correct the excessive deficit. This time was different [38]. The decision against the launch of an EDP was motivated by the Commission with its forecasts of the deficit declining to exactly 3% of GDP in 2024 without the need for the government to undertake any additional measures. Therefore, the Commission stated that opening an EDP 'would not, at this stage, serve a useful purpose'. This case adds a new element of discretion not provided for by legal provisions.

The Commission has started to use the concept of 'uncertainty' as a new element of judgement in its recent assessments. The Commission applied the element of high uncertainty over the economic outlook during the pandemic, which prevented the opening of EDPs. This practice also prevailed in 2023, when the criterion for applying the severe economic downturn clause established by the Commission was no longer met (Section 2.4). Moreover, after the clause was lifted at the end of 2023, the Commission continued to apply 'uncertainty' as an element in its assessments. When assessing the deficit criterion for Slovenia and Finland, where national projections both indicated a deficit of more than 3% of GDP in 2024, the Commission noted uncertainty around the planned data, pointing to its own deficit forecasts for the two countries, showing lower deficits. On 26 July, the Council followed the Commission proposal to launch an EDP for Belgium, France, Hungary, Italy, Malta, Poland and Slovakia by adopting the decision on the existence of an excessive deficit [39].

Ongoing EDP: Romania

Romania is the only country that had already been the subject of an EDP before this summer. In spring 2020, the Council, acting upon a proposal from the Commission, opened an EDP based on pre-2020 fiscal developments. At the same time, the Council, acting upon a proposal from the Commission, adopted a recommendation on how to correct the excessive deficit. In autumn 2020, the Commission issued a communication assessing the fiscal situation in Romania. It noted a major budgetary deterioration in 2020. However, the EDP was not stepped up and no revised proposal for a recommendation on how to end the excessive deficit was put forward. This was motivated by an environment of 'exceptional uncertainty'. However, at no stage did the Commission establish the numerical delineation of what constitutes 'high uncertainty', thereby adding a further element of discretion to the Commission's assessment. Moreover, this intermediate step of assessing

(37) A deficit that is close to the reference value and where the breach is considered temporary. Relevant for Article 2(4) but not Article 2(3) of Regulation (EC) No 1467/97.

(38) A somewhat similar case occurred in 2019 when the Commission assessed whether Cyprus fulfilled the deficit criterion. Outturn data showed a deficit of 4.8% of GDP for 2018 and projections indicated a surplus of 3% of GDP in 2019. However, the circumstances were different from those in Spain as the breach in Cyprus was caused by a one-off bank recapitalisation and the expected correction moved the budget balance into a firm surplus.

(39) See European Council Press release 26 July 2024.

uncertainty is not included in the opening nor the stepping-up of the EDP.

The deadline for the initial recommendation on how to correct Romania's excessive deficit was 2022. In spring 2021, the Council, acting upon a proposal from the Commission, argued that sticking to the original adjustment deadline would 'require too sharp a fiscal adjustment'. In line with Article 3(5) of Regulation (EC) 1467/97 ([40]), the Commission pointed to the severe economic downturn and proposed a revised recommendation on how to correct the excessive deficit. Therefore, the deadline to correct Romania's excessive deficit was extended to 2024, allowing for a more gradual deficit reduction. The procedure was kept in abeyance until 2024 ([41]).

Eventually, on 19 June 2024, the Commission concluded that Romania had failed to take effective action in response to the Council Recommendation of 18 June 2021, which aimed to correct the excessive deficit by the end of 2024. The Council confirmed this view and adopted the decision on non-effective action on 26 July 2024. Romania had not followed the adjustment path in 2023 when the deficit actually worsened. Moreover, the deficit for 2024 is projected at 6.9% of GDP – far above the targeted 3% reference value. Notably, this time there was no recourse to 'high uncertainty' even though the Commission had indicated ([42]) the high degree of uncertainty throughout 2023 for the year 2023 – meaning the year that was part of the assessment for non-effective action. At the same time, the Commission argued against suspending structural funds because no effective action had taken place in a year in which the severe economic downturn clause was still active. In conclusion, the use of 'uncertainty', which is always present to some degree, has blurred not only the assessment during the pandemic but continues to do so in 2024. Moreover, the way it was applied raises questions of equal treatment among Member States.

The Commission's omnibus Article 126(3) report also assessed Member States' debt ratios and confirmed that seven Member States had an excess over the 60% of GDP reference value in 2023. The Commission did not fully assess whether debt ratios were diminishing sufficiently, which could prevent the launch of a debt-based EDP. In the reformed fiscal framework ([43]) the debt ratio is regarded as sufficiently diminishing and approaching the reference value at a satisfactory speed if the Member State follows the net expenditure path agreed in its medium-term fiscal-structural plan. The Commission argued that since the plans will only become available in autumn, no full assessment can be done at this stage and a debt-based EDP should not be launched. However, of the seven indicated countries, most either already saw their debt ratio increase in 2023 or are expected to see it increase in 2024. This underscores the importance of knowing how to treat the year of transition from the previous framework to the reformed framework.

([40]) Revised regulation (EC) 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

([41]) A period during which the Commission monitors Member State's compliance with the EDP recommendation, including based on regular reports by the Member State.

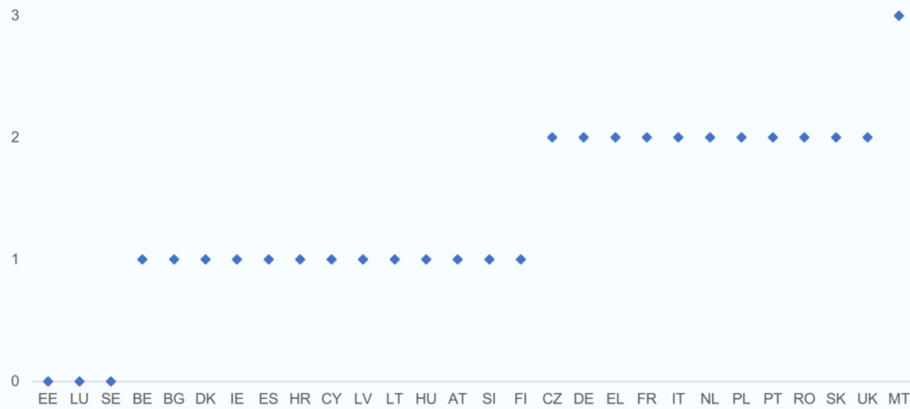
([42]) See for example the 2023 Commission Communication on fiscal policy guidance for 2024 or the 2023 Spring Package Communication.

([43]) Regulation (EU) 2024/1263.

Box 2.1: Past experience with recent excessive deficit procedures

The excessive deficit procedure (EDP) is the cornerstone of the SGP's corrective arm (see EFB, 2020b, Box 2.3 for a detailed description). It is a legal provision that aims to identify and correct 'gross errors' in national fiscal policies. Since the SGP entered into force in 1997, nearly all Member States have been subject to at least one EDP (Graph 1).

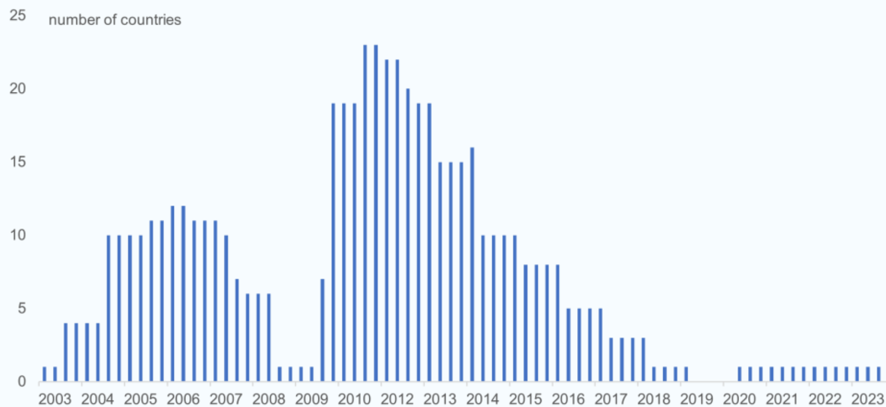
Graph 1: **Number of EDPs by Member States since 1997**



Source: European Commission

All EDPs so far have been opened on the basis of the deficit criterion, while none have been opened on the basis of the debt criterion. The first wave of EDPs started in the mid-2000s after the ICT bubble burst, which caused an economic slowdown and worsened public finances in many EU Member States. A second and even larger wave came with the global financial crisis in 2008-2009, when EDPs were launched for 25 countries (Graph 2).

Graph 2: **Active EDPs over time across all Member States**



Source: European Commission

When the SGP was originally drawn up during the 1990s, large economic shocks like those experienced since 2008 were inconceivable at the time. That is why the initial Regulation underpinning the EDP (Regulation (EC) 1467/97) set a fairly short deadline for correcting an excessive deficit (as a rule in the year following its identification – unless special circumstances apply). By contrast, since 2005 it has been possible to extend the deadline for correction during the implementation phase and after the global financial crisis EDP initial deadlines were pushed out beyond one year. This explains why the average duration of an EDP has been close to 5 years. By way of example, the last EDP opened

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Box (continued)

after the global financial crisis was abrogated in 2019. The average annual structural adjustment achieved by countries subject to an EDP after 2008 was close to 1% of GDP [1].

Following a de facto suspension of the SGP in the wake of the Covid pandemic, no EDP has been opened after 2020, although most countries recorded deficits of well-above 3% of GDP. Romania was treated differently: an EDP was opened in spring 2020 based on pre-2020 fiscal developments and was kept going while all other clear EDP cases were adjourned due to a high degree of uncertainty which, according to the official narrative, made it impossible to create a credible adjustment path. In March 2023, the Commission announced it would propose opening new EDPs in spring 2024 based on 2023 outturn data.

The implementation of EDPs has been marred by a series of issues from the outset. First, the number of EDPs effectively launched was lower than the attested cases of excessive deficits. Second, considerable forbearance was used in implementing the EDP process. The reason is the increasing role of discretion and economic judgement carved out by the Commission, and accepted by the Council, when assessing whether an excessive deficit exists and when implementing EDP recommendations. The following part of this box highlights the most conspicuous issues, focusing on the years for which the EFB has provided an *ex post* assessment, i.e. since 2016.

Opening of an EDP

Over the past decade, instances where the Commission did not recommend launching an EDP despite apparent numerical non-compliance have become more frequent. This issue pertains chiefly to debt-based EDPs. In the years leading up to the Covid pandemic, when the EU economies recovered from the shock waves of the global financial crisis, government deficits either stayed below 3% of GDP or were close to reaching the reference value or even below it.

Applying the SGP's debt criterion on the other hand turned out to be more difficult. To start with, the debt rule was only made operational in 2011. Until the onset of the global financial crisis, adherence to the 3% of GDP reference value was sufficient to ensure compliance with the debt rule thanks to high nominal GDP growth (see EFB 2019a). After the crisis, things got more complicated especially for countries with high government debt and low economic growth. Their debt dynamics systematically deviated from the debt reduction rule despite running deficits below the 3% of GDP reference value. Nevertheless, no debt-based EDP was launched. The Commission regularly prepared reports under Article 126(3) TFEU [2] but referred to 'other relevant factors' when deciding not to open the procedure, and the Council did not formally object.

In 2015, compliance with the preventive arm of the SGP became a pivotal element in deciding whether to actually open a debt-based EDP. Since then, the Commission assessment of the preventive arm has been feeding back into the corrective arm. Ideally, adherence to the country-specific MTO or the adjustment path towards it, should be enough to ensure a sufficient pace of debt reduction in the medium to long run. However, over the years, elements of forbearance and flexibility eased compliance with the preventive arm. These elements have been documented in past EFB reports and include: (i) the 'overall assessment' of sometimes conflicting signals from the structural balance and the expenditure benchmark (EB); (ii) new flexibility provisions based on a reinterpretation of the SGP; (iii) ad hoc corrections to compliance indicators; (iv) the plausibility tool (see Glossary) to apply alternative output gap estimates; and (v) the margin of discretion (see Glossary).

Every year since 2015, the Commission has prepared a report under Article 126(3) TFEU for Belgium and Italy but has never proposed opening an EDP due to the assessment of 'other relevant factors' [3] [4]. On several occasions EU countries were found to be only 'broadly compliant' with the MTO adjustment, which was still deemed sufficient to avoid a debt-based EDP [5]. The overall assessment of conflicting signals from the two key indicators - the structural balance and the expenditure benchmark – was usually concluded by giving preference to the more generous interpretation. Moreover, the reasoning provided by the Commission for attaching more value to one indicator over the other has not been consistent over time. Aside from such cherry-picking, flexibility clauses were also used to generate additional leeway in the compliance assessment. In nearly all the years between 2015 and 2019, Belgium and Italy benefited from the unusual event clause or the structural reform and investment clause (see EFB, 2019b, Table

(1) Based on *ex post* data and excluding EDPs since 2019.
(2) On 16 occasions alone in the 2017-2020 period.
(3) The Commission prepared reports for Finland (2013-2017), but its excess over the 60% was marginal.
(4) After the pandemic a broad interpretation of severe economic downturn clause sufficed to avoid EDPs.
(5) In 2017, Belgium avoided an EDP due to broad compliance with the MTO, which was based on a promise of additional fiscal measures to be enacted during that year – in the end these did not materialise.

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Box (continued)

3.4). In some instances, the pre-defined eligibility conditions to benefit from the flexibility clause were somewhat stretched (see e.g. Italy and Finland 2017) and/or the *ex post* assessment of whether policy conditions for granting flexibility had been met averted clear conclusions.

In 2017, the Commission introduced a new element of economic judgement – the margin of discretion. This offered the possibility to come to a positive conclusion even if all relevant indicators suggested that there were deviations from the MTO or the adjustment path towards it. The Commission used the margin of discretion for Italy in 2019 while assessing the opening of a debt-based EDP. Furthermore, constrained judgement based on the plausibility tool and ad hoc methodological changes to indicators have also affected the compliance assessment and their application was not always consistent (see e.g. Portugal and Slovenia for 2018).

The opening of debt-based EDPs were also affected by procedural issues. For example, between 1997 and 2018, all Commission reports under Article 126(3) TFEU pointing to an excessive deficit even after considering relevant factors, came with a proposal to open an EDP. In 2018 and 2019, the Commission report for Belgium was 'inconclusive' despite a significant deviation from the adjustment to the MTO due to 'uncertainties on the impact of a domestic reform'. A similar instance occurred in 2020 with the report under Article 126(3) TFEU for Italy.

The Commission also introduced new elements of bilateral as opposed to multilateral surveillance. This happened with Italy's 2018 DBP that was found to be non-compliant with the debt rule and deviated from the adjustment towards the MTO. Instead of preparing the usual report under Article 126(3) TFEU, the Commission addressed a letter to the government warning them of the risk of non-compliance. Despite being in a similar situation at that time, no such letter was sent to Belgium. Another example is the process concerning Italy's 2019 DBP. After initially concluding that opening a debt-based EDP was warranted, the Commission entered into bilateral exchanges with the Italian government, which afterwards announced additional fiscal measures. The Commission deemed this as sufficient. It therefore replaced a formal adjustment requirement via a Council recommendation with a political commitment by a national government ([6]).

The most far-reaching element of forbearance concerns the application of the EDP during and after the Covid pandemic. In 2020, the Commission, backed by the Council, activated the severe economic downturn clause. As repeatedly stressed by the Commission, the clause does not suspend the SGP. At the same time, the Commission considered that opening of EDPs would not be appropriate in light of exceptional uncertainty. In spring 2021, the Commission attested the existence of an excessive deficit and/or a deviation from the debt rule in 23 Member States but no EDPs were opened. In the autumn of that year, the Commission went a step further by not reporting on possible EDPs in the usual and established format ([7]). This new approach contrasted with how EDPs were applied during the global financial crisis of 2008-2009. Notably, EDPs are not meant to push Member States into immediate fiscal adjustment in difficult times. Rather, they are meant to be and can be used as a medium-term plan outlining how public finances will be brought back onto a sustainable path.

Assessment of EDP implementation

The assessment of compliance with an EDP recommendation leads to the abrogation, abeyance or stepping up of the procedure – the latter ultimately implying financial sanctions. Like the opening of EDPs, the compliance assessment also faced challenges.

Fiscal targets under the EDP are set in both structural and headline terms. In practice, governments find it easier to achieve a nominal fiscal improvement especially during an economic recovery rather than implementing consolidation measures. For example, between 2015 and 2017 France had cumulatively delivered only 0.7% of GDP of structural adjustment compared to the 2.2% recommended by the Council. However, France had been found to be compliant especially when nominal balances kept improving, moving towards the Treaty reference value of 3% of GDP. Spain's EDP followed a very similar course. While formally in line with the SGP provisions, this nominal strategy undermines the objective to build fiscal buffers during good times.

Leaving aside the first SGP crisis in November 2003, in the summer of 2016, Portugal and Spain were the closest instances of Member States facing outright financial sanctions due to non-compliance. The fiscal effort of both countries was certified to fall short of what had been recommended ([8]). By default, the fine under the SGP is 0.2% of

([6]) For a more detailed analysis see EFB (2019b), Box 2.5.
([7]) See 2021 Omnibus report under Article 126(3).
([8]) For Portugal with regard to 2015 and for Spain with regard to 2015 and the projection for 2016.

(Continued on the next page)

Box (continued)

GDP, but the Commission can propose a reduction or cancel the amount. Even though Portugal and Spain did not experience exceptional economic circumstances at the time, the Commission decided to set the fine at zero. The Council did not overturn this decision by reverse qualified majority voting (RQMV). Alongside the financial sanctions under the SGP, the Commission was also obliged to launch the procedure to suspend cohesion fund commitments for the two countries ([9]). This procedure had already been applied to Hungary in 2012 ([10]). The process includes a structured dialogue with the European Parliament. However, at the time the relevant provisions did not specify a timeline for the exchange and the suspension, unlike for Hungary some years earlier. The process was never formalised as the Parliament took time to offer its opinion.

([9]) At that time based on common provisions for the European Structural and Investment funds (Regulation (EU) 1303/2013).

([10]) The Council suspended EUR 495.2 million in cohesion fund commitments on 13 March 2012 in response to Hungary taking insufficient action while being under a deficit-based EDP. This decision was set to take effect on January 2013 but on 22 June 2012 the Council decided that in the meantime Hungary had undertaken sufficient corrective action and lifted the sanction.

3. INDEPENDENT FISCAL INSTITUTIONS AND NATIONAL FRAMEWORKS

Highlights

- Non-partisan functioning is essential for the effectiveness of fiscal councils. In this spirit, the 2011-2013 reform of the EU fiscal framework laid down for the euro-area independent fiscal institutions (IFIs) a set of broad principles setting out minimum standards for independence. As part of the recently adopted changes in the economic governance legislation, these principles were extended to the entire EU and incrementally strengthened with a national transposition deadline of end-2025.

- The EU IFIs are broadly aligned with the independence safeguards stipulated by EU law prior to the latest reform of the EU fiscal governance framework. This is to an important extent a direct result of the very general nature of these safeguards.

- The starting position regarding the recently revised or extended safeguards is less favourable. Extensive IFI-related legislative reforms will have to be adopted by the end of 2025.

- In line with earlier recommendations of the European Court of Auditors, the above findings call for a more pro-active stance by the Commission to ensure the full implementation of all safeguards, including through the use of compliance promotion tools (e.g. issuing guidelines and explanatory documents) during the transposition period.

- The IFIs in both Belgium and Denmark are home-grown. They were both established long before the 2011-2013 EU governance reforms that included the first regulatory elements for IFIs. The main findings are:

- Belgium has two IFIs. The Federal Planning Bureau (FPB) is responsible for producing the official macroeconomic forecasts, and more generally provide numerous technical inputs into fiscal policymaking. The High Council of Finance's section on Public Sector Borrowing Requirements (HCF-PSBR) acts as the country's fiscal watchdog, monitoring compliance with numerical rules.

- The FPB has a wide mandate that extends beyond the classical IFI functions, including statistical and sectoral functions. Its technical expertise is widely appreciated by stakeholders, as is also exemplified by the track-record of its macroeconomic forecasts as well as two recent costings of electoral manifestos. The FPB's traditionally close links to the government weigh on its formal independence, but its analytical autonomy is a consensus view.

- The HCF-PSBR played an important role decades ago in returning Belgium towards a sounder fiscal position. Its relevance faded more recently, partly linked to continuing uncertainties over the domestic numerical rules and some question marks over its functional autonomy.

- The Danish Economic Council (DEC) embodies a unique combination of strong technical and modelling expertise, and a prominent advisory role on a vast variety of economic policy issues.

- While the formal guarantees of the DEC's independence are not robust in international comparison, it does benefit from the time-tested integrity of its successive collective chairmanships. This ensures the DEC's credibility in public discourse.

This chapter comprises two sections. Section 3.1 takes stock of the degree of adherence to the existing independence safeguards set out in EU law across the independent fiscal institutions (IFIs) in the EU. It should be stressed from the outset that this analysis does not attempt to verify compliance in the legal sense. It is rather an assessment of how actual arrangements compare with the substance of the independence safeguards. Section 3.2 presents the portraits of IFIs in Belgium and Denmark.

3.1. SAFEGUARDS ON IFI INDEPENDENCE IN THE EU

Although IFIs are fairly new in most EU Member States, they are part of a broader and more consolidated family of institutions that are characteristic of many if not most modern democracies. They are a specific type of independent agency, such as central banks or competition authorities, mandated to pursue specifically defined regulatory or advisory roles, and are shielded from the direct reach of both the executive and legislative branches of government [44]. Independent agencies with a purely advisory function may be less prominent, but they are still pervasive (especially independent scientific councils that inject evidence-based considerations into the formulation of government policies).

In essence, IFIs are meant to reduce the information asymmetry between politicians and voters with the ultimate aim of containing the bias towards running deficits (Larch and Thygesen, 2020 and Beetsma et al., 2022). To be clear, throughout the ages and in all parts of the world rulers and governments have always relied on advisers including on questions of how to best raise taxes and debt. What obviously distinguishes today's IFIs is their independence, i.e. their capacity to provide objective analysis and assessment publicly and free from political or specific influences.

But what exactly makes an IFI independent and, ultimately, effective? We may all have an intuitive understanding of what an independent advisory body should or should not look like, but pinning the concept down in practice is less obvious. One obvious difficulty is that different countries have different institutional histories with more or less experience or sympathy for independent agencies. By way of example, a few EU Member States, e.g. Belgium, Denmark, the Netherlands and Austria, had well-established entities carrying out tasks typically assigned to IFIs well before the global financial crisis exposed gaps in national fiscal frameworks. These entities turned out to be fairly effective, although they sometimes lacked, and in some cases still lack, administrative and institutional autonomy vis-à-vis government bodies. In other Member States, by contrast, either such entities did not exist, or early attempts to create independent advisory bodies, for instance as part of national parliaments before EU law set out formal requirements, fell short of what is today considered to be an IFI. In consequence, independence safeguards that may support an effective IFI in one country may not be sufficient in another: there is no one-size-fits-all template for IFIs.

This is a particularly important insight, especially in the EU context. The fiscal dislocations caused by the post-2007 global financial and economic crisis in some Member States presented EU decision-makers with a tricky dilemma. On the one hand, the crisis plainly underscored the urgent need to strengthen national fiscal frameworks including IFIs. On the other hand, it was also clear that national specificities could not be ignored lest the new IFIs be rejected as foreign bodies imposed from abroad. A practical answer to this predicament was eventually found in 2013 when, as part of an earlier reform of the EU fiscal framework, the Two-Pack Regulation [45] (i) required euro-area Member States to have in place independent bodies for monitoring compliance with fiscal rules; and (ii) outlined five broad principles of independence to ensure that these bodies benefit from a high degree of functional autonomy and accountability. The principles are defined as:

(i) a statutory regime grounded in national laws, regulations or binding administrative provisions;

(ii) not taking instructions from the budgetary authorities;

(44) For a very comprehensive and detailed discussion of independent agencies and their history see Tucker (2018).

(45) Regulation (EU) 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States of the euro area - OJ 140, 27.5.2013.

(iii) the capacity to communicate publicly in a timely manner;

(iv) procedures for nominating members on the basis of their experience and competence;

(v) adequate resources and appropriate access to information to carry out their mandate.

The economic governance review (EGR) ([46]) – the latest legislative reform of the EU's fiscal framework agreed in 2024 – largely confirmed these broad-based principles. The few differences consist of some surgical insertions of new adjectives while the very general nature of the principles is left untouched. Specifically, compared with previous EU legislation (i) nomination procedures should be 'transparent'; (ii) resources available to IFIs should not only be 'adequate' but should also be 'stable'; and (iii) access to information should be not only 'appropriate' but also 'timely'.

The more far-reaching innovations for IFIs are three-fold. First, IFIs are expected to be subject to a regular external evaluation by independent evaluators. Second, the requirement to have an IFI in place and the broad-based principles of independence now apply to all EU Member States, and not just to euro area countries. Thirdly, the reform introduces the comply-or-explain principle into the EU fiscal governance framework whereby governments now need to publicly justify deviations from the opinions issued by an IFI ([47]). The new elements are generally incremental: the Commission justified this approach by reference to the aim of preserving the balance between national ownership and spreading best practices (Axioglou et al., 2023).

([46]) The economic governance review was a formal initiative launched by the Commission back in 2020. This was followed by a concrete legislative reform proposal by the Commission in April 2023 and then a substantial revision of key elements of the EU's fiscal framework in April 2024 (notably, Regulation (EC) 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies; Regulation (EC) 1467/97 on speeding up and clarifying the implementation of the Excessive Deficit Procedure; and Directive (EU) 2011/85 on requirements for budgetary frameworks of the Member States).

([47]) The comply-or-explain principle was an element of the intergovernmental Fiscal Compact concluded in 2012. However, unlike other provisions, it had not been incorporated into EU law at that time. It only required contracting parties to apply the principle only in relation to the national IFIs' opinions on the domestic structural budget balance rules.

While moving into the right direction, and with few exceptions, the newly adopted changes do not alter the high degree of generality of existing safeguards. In fact, not every desirable characteristic can or should be translated into a detailed requirement under EU law (e.g. imposing specific elements for the interaction with the legislature, or for the modalities for the funding mechanism). Moreover, as indicated above, formal safeguards are neither a sufficient nor a necessary condition for effective independence. Experience also suggests that unless an IFI has built its reputation and *de facto* independence over a long period of time, EU initiatives are crucial to overcoming the inherent reluctance of national governments to creating or strengthening entities whose main aim is to keep a critical eye on what they are doing.

The codification of broad-based principles of independence in EU law began in 2013 and was accompanied by a growing interest among academic economists and international institutions. Drawing on both economic models and empirical evidence, the aim was to establish or corroborate determinants of effective IFIs that were more specific than the broad-based principles of independence on which everyone would agree while offering little practical guidance.

A first comprehensive initiative was launched by the OECD, which in 2014 published dedicated Principles for Independent Fiscal Institutions (OECD, 2014). Those 22 principles fully encompass the broad-based principles codified in EU law but are also more comprehensive. For example, these OECD principles already include the idea of an external evaluation of IFIs, which the EU only formalised with the latest economic governance reform in. However, what most distinguishes the OECD principles is their much higher degree of granularity. They provide fairly detailed, at times almost operational indications on many key questions (e.g. How should the leadership of an IFI be selected? For how long? What should the mandate of an IFI look like? How should relationships with the legislator be organised? and much more). Of particular note is the notion presented under the heading 'independence and non-partisanship'. The relevant paragraph states that:

'A truly non-partisan body […] always strives to demonstrate objectivity and professional excellence, and serves all parties. This favours that IFIs should be precluded from any normative

policy-making responsibilities to avoid even the perception of partisanship.' (OECD, 2014).

The last part of this statement, which effectively cautions against setting normative tasks for IFIs, is motivated by the general nature of policy making, including economic policy-making. Any form of decision making with direct political implications will inevitably attract the attention of interests – large and small – that stand to benefit or suffer from the decision. Hence, independence and normative policy-making responsibilities are difficult to reconcile.

The OECD's recommendation on independence and non-partisanship also touches upon the issue of perception, which may be less obvious, but is still highly relevant. It underscores the crucial insight whereby independence is more than an institutional firewall to keep external influence at bay. It also very much depends on the IFIs' capacity to assess whether their advice or decisions support or undermine the perception of maintaining an arms-length relationship with all parties.

Following the footsteps of the OECD, in 2016 the Network of EU independent fiscal institutions adopted its own catalogue of minimum standards (Network of EU IFIs, 2016). Unlike the OECD principles, which were issued as general recommendations to anyone interested in the subject, the initiative of the EU IFIs was directly linked to the 2011-2013 legislative upgrades of the EU's fiscal framework. Its objective was twofold. First, it aimed to put more flesh on the bones of the broad-based principles legislated by the EU. Second, and this is the crucial difference vis-à-vis the OECD initiative, it called for a system to safeguard and enforce the minimum standards with regular reporting by the Commission and, if necessary, the adoption of recommendations by the Council of the EU.

The Network of EU IFIs reiterated its call for a clearer definition of minimum standards and effective enforcement in 2017 when the Commission tried to strengthen EU economic governance. However, the proposed reform did not come to pass because neither the Council of the EU nor the European Parliament were willing to formally discuss the Commission's reform package.

Overall, the follow-up to the EU IFIs' call for effective monitoring and enforcement of independence safeguards has been limited. The relevant Commission services do prepare more or less regular reports on the evolution of the EU's landscape of IFIs, but no dedicated assessment was issued of whether and how the Member States effectively implement the legislated principles of independence. From a legal perspective, the adoption of an EU regulation has an immediate effect in all Member States concerned, and the Commission is not obliged to continuously and actively police implementation. Effective implementation and enforcement are largely expected to take place via interested parties that may signal possible infringements. In the case at hand, the obvious interested parties would be the IFIs themselves. However, we are aware of only one case of an IFI reaching out to the European Commission about a possible issue with the implementation of the broad-based principles of independence ([48]). This could mean one of the two things: either the principles of independence are sufficiently complied with or national IFIs are wary of finger-pointing national authorities.

Formal review clauses – by now a standard element of most pieces of EU legislation as part of the Better Regulation initiative – also offer an opportunity to assess implementation although at a low frequency of typically 4 to 5 years. The latest review of the two-pack (Regulation (EU) 473/2013) informed the economic governance review. The corresponding Commission document did not highlight any issues. In fact, while the Commission document did not refer to an in-depth assessment of IFIs in the EU the overall conclusion on the matter contained the following general statement: 'the establishment of independent fiscal institutions in all but one Member State should be viewed as a key institutional development. Indeed, while they differ in terms of scope, competences and experience, together they are playing an increasingly important role in fiscal discussions at national and EU levels' ([49]).

The European Court of Auditors drew less sanguine conclusions in 2019. It argued that on some dimensions the EU's broad-based principles of IFI independence fell short of international

([48]) For details, see the public minutes of Eurostat's standard EDP dialogue visit to the Slovak Republic (25-26 June 2019).
([49]) European Commission (2020a).

standards. It also noted that the Commission had not yet completed a compliance assessment and encouraged it to regularly collect information on the functioning of national frameworks – of which IFIs are an integral part – and to carry out a regular and structured assessment (European Court of Auditors, 2019).

3.1.1. Assessment of the existing and new IFI safeguards

This sub-section will examine the safeguards item-by-item and attempt to position all 31 IFIs from 26 Member States (no IFI in Poland), based on secondary sources (existing IFI databases) and primary sources (the EFB's dedicated IFI survey). The list of institutions covered in the analysis and the methodological approach are explained in detail in the methodological annex C.2.

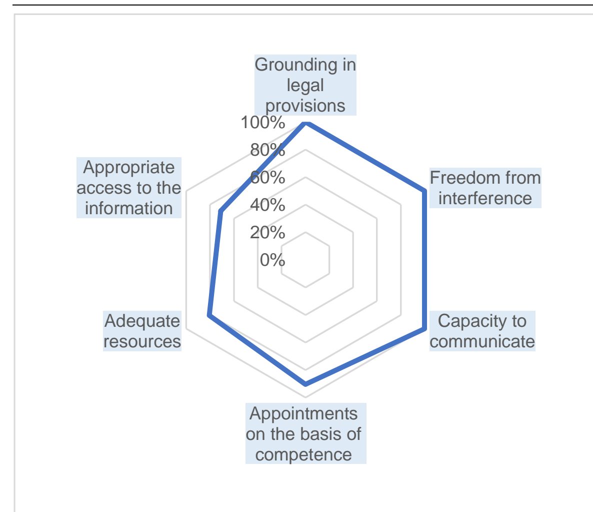
Before doing that, two important qualifications are in order. First, not all the safeguards lend themselves to an objective assessment of implementation. Although crucial to an IFI's actual independence, the principle of not taking instructions from budgetary authorities or other bodies cannot be verified in any meaningful way. It constitutes a call on the moral integrity of the IFI's leadership or governing body, a specific example of the more fundamental principle underpinning the ultimate progress of all kinds of institutions. Second, as stressed above, this evaluation is not meant to verify legal compliance, but is rather an attempt to assess the actual prevalence of the safeguards.

Existing independence safeguards

The EU's main legal requirements for euro area IFIs have been in effect since 2013. In practice, they have also served as reference points for noneuro-area countries. Since the five initial safeguards are formulated as general principles without granularity, any implementation gap could potentially point to serious issues. In other words, the broad principles can, by design, accommodate very heterogeneous national practices, thus only glaring examples of digression can be captured as problem cases. Graph 3.1 summarizes the overall picture for EU IFIs. When the nature of the safeguard makes it relevant (i.e. for nominations, resources, and information access), the potential further specifications of these broad principles are also discussed (i.e. specific arrangements that could have made the two-pack's provisions more forceful and definitive). Box 3.1 collects a number of good examples of how Member States have operationalised some of the general principles.

The first independence dimension emphasises the official codification of the institution in a 'statutory regime grounded in national laws, regulations or binding administrative provisions'. The usual solution of euro-area Member States has been to regulate their IFIs by ordinary law (16 entities), but the grounding provisions of 7 IFIs were adopted at the constitutional or other high level requiring more than a simple majority. In the case of two traditional institutions (AT-WIFO and NL-Council of State), the type of legal act was at lower level (parliamentary decision and government decree, respectively). A similar picture emerges outside the euro area: besides the dominant pattern of ordinary grounding laws, one can find IFIs established by the country's constitution (Hungary) and by a government decree (Sweden).

Graph 3.1: **Assessing EU IFIs against the two-pack's independence safeguards (share of compliant IFIs)**



Source: Existing IFI databases and the IFI survey of the EFB Secretariat (see also methodological Annex C.2.)

The second safeguard emphasises the principle that IFIs are not to take instructions from budgetary authorities or from any other public or private body. All EU IFIs benefit from a similar legal provision against political interferences. While everyone will agree with the principle of independence, it is not clear how it is to be enforced in practice except, perhaps by the perceived personal integrity of the IFI leadership.

The next item aims to ensure the IFIs' capacity to communicate publicly in a timely manner. All euro-

area IFIs report to be able to communicate at any time. The IFIs' mandated opinions and reports as well as their analytical documents (e.g. background studies, briefing papers and methodological notes) are all available on their stand-alone websites (or, in the case of embedded and some attached bodies, on the dedicated subsite of the host institution). In a similar vein, no constraints on their communication activities have been reported by non euro-area IFIs ([50]).

The fourth element requires that the nomination and appointment of (decision-making) members to be based on experience and competence. In the large majority of cases, expertise in fields relevant to the mandate is directly required by law for all voting members of the EU IFIs. For the few IFIs with *ex officio* members (e.g. the French High Council for Public Finances), the merit-based requirements are ensured via other laws governing these decision-making members' primary affiliations. At the same time, there are no formal rules for the selection procedures for three traditional forecasting institutions (AT-WIFO, LU-STATEC and NL-CPB), which were all established before the 2011-2013 economic governance reforms.

Given the lack of further specification in EU law, there are considerable variations across EU countries in terms of the years of experience and academic degree required. Several national legislations have set minimum periods of relevant professional experiences for IFI leadership teams. These are typically 10 years (e.g. the Czech, Irish and Slovenian fiscal councils), but there are examples of both shorter and longer durations (e.g. 5, 8 and 15 years for the Slovakian, Croatian, and Greek IFIs, respectively). The above-mentioned group of countries generally lay down a condition for the minimum educational attainment of eligible candidates (often a master's degree in a relevant field). Finally, there are also no specifications for other important aspects of the leadership arrangement, such as granting a full-time or part-time position to the chairperson ([51]). One can certainly find a positive association between the breadth of the mandate and the employment status of the chairperson; nevertheless, there are EU IFIs with part-time presidents (e.g. the Austrian, Irish and Latvian fiscal councils) that exhibit broadly similar level of responsibilities and analytical output as other IFIs with full-time chairs. ([52])

The fifth dimension subsumes two important subdimensions: 'adequate resources' and 'appropriate access to information' that warrant a separate discussion. Resources encompass both budgetary means and support staff ([53]), to enable IFIs to carry out their mandate to an appropriate standard and in a timely fashion. Funding arrangements are legally specified in national provisions for all euro-area IFIs, through either a separate line in the annual budget bill, or an earmarked appropriation within the host institution's budget. Nevertheless, when euro-area IFIs are asked to assess the adequacy of their annual endowment, only a third of the IFIs assessed their resources as comfortable and a fifth (namely, AT-WIFO, BE-HCF, and the fiscal councils in Germany, Ireland and Cyprus,) even labelled them as non-adequate when responding to the Commission's questionnaire. Outside the single currency area, only the Romanian IFI reported inadequate resources.

Out of the above five euro-area IFIs that have signalled resource problems in the Commission's survey, those covered also by the IMF dataset (i.e. BE-HCF, and the Cypriot and German councils) were assessed similarly by IMF experts. Concretely, either their staffing arrangements were not deemed to be commensurate with the tasks performed or they lack any safeguards or form of protection for their budgets. Interestingly, the assessment of the adequacy of resources does not appear to depend on whether the IFI is a distinct financial entity ('has its own budget line') or whether it receives its funding indirectly, i.e. from an envelope appropriated to its host organisation. In fact, euro-area IFIs financed through the national central banks (Estonia and Slovakia) or through the

([50]) There is only one EU IFI among the 31 entities, which beside the official national language(s) does not maintain an English version of its webpage: the Bulgarian Fiscal Council.

([51]) Based on the experiences of OECD countries and case studies, Caldera et al. (2024) argues that having at least one full-time position in the leadership team fosters an IFI's operational independence.

([52]) On a related note, it is worth recalling that the institutional responsibility for selecting members of national IFIs varies between EU countries. There are essentially three groups of broadly similar sizes in the euro area in terms of the dominant player in the nomination and appointment procedures: (i) the executive branch; (ii) the legislature; and (iii) a range of stakeholders, such as the central banks, national audit offices, chambers of commerce and research institutes.

([53]) For some IFIs, national law defines a numerical ceiling for the number of staff undertaking the technical work. This can range from fewer than 6 (Cyprus and Slovenia) to 20 in Greece and '30 to 40' in Italy.

Box 3.1: Good practices in codifying and implementing the independence safeguards

The two-pack Regulation (EU) 473/2013 formulates independence safeguards as general principles – rather than offering specific guidance on how to set up the administrative structures of the national fiscal councils. This box selectively collects a number of good examples for around half of the safeguards where national provisions go well beyond the 'minimum standards' laid out in EU law. It is largely based on the 14 IFI portraits contained in past Annual Reports of the EFB and should not be seen as an attempt to exhaustively map all IFIs with identical or similarly strong arrangements.

Starting with nomination and appointment procedures, when the IFI leadership is constituted as a college of experts, its reputation and autonomy are enhanced if the recruitment decisions are distributed to multiple entities. This is the case in France, where the members of the High Council of Public Finances are appointed by six different authorities. A similar example is offered by the Austrian Fiscal Advisory Council, where the large board of 15 members is partially selected through inclusive structures, in accordance with the strong corporatist and social partnership traditions of the country. The involvement of employers' and employees' organisations as well as regional stakeholders in the appointment procedures ensure a wider representation of social and economic interests on the IFI's board. Still on the area of good practices for selecting the leadership, the non-partisan stature of an IFI can be improved by appointing distinguished foreign experts to the leadership. Portuguese law explicitly allows this, and, since the first Board of the Public Finance Council was elected in 2012, the Vice-President and one non-executive member have always been foreign citizens. IFIs in smaller countries could particularly benefit from this possibility as they are often confronted with the challenge of a limited local pool of qualified public finance professionals.

Concerning resource adequacy, a robust protection mechanism can be secured if the IFI is funded by another autonomous entity, and not directly by the central government budget. One of the good examples is Slovakia, where the institutionally stand-alone Council for Budgetary Responsibility negotiates its annual budget with the country's central bank. This appropriation is subsequently reimbursed by the Ministry of Finance in the amount determined by the central bank; thereby the government has no discretion over the IFI's financing. A different type of protection was established by Finnish authorities, who recently introduced a multi-annual financing envelope for the IFI unit embedded in the supreme audit office.

Finally, the broad access to information rights laid down in national legislation could usefully be operationalised through written accords or Memoranda of Understanding. Such agreements typically include provisions for both the regular transmission of standard data series and the procedural rules governing *ad hoc* information requests. The Italian Parliamentary Budget Office has perhaps the most far-reaching domestic framework in this regard, as it has concluded cooperation agreements with several public entities (most notably with the Ministry of Economy and Finance, the national statistical office, and the tax authority) to obtain macroeconomic and budgetary data. Another way of reinforcing access to information is to define follow-up actions in the event of non-compliance. The Portuguese IFI has included a 'naming and shaming' procedure in its statutes, whereby the cases of public bodies not complying with the submitted information requests will be unveiled in the IFI's website (so far, it was applied only once by the Public Finance Council – eventually with success). Creating a public list of rejected/partially fulfilled information requests could provide a promising avenue for increasing the public pressure for fiscal transparency.

supreme audit offices (Lithuania and Finland) typically report about proper resource endowment.

Another consideration for resource adequacy is the degree of the IFI leadership's autonomy over staff recruitment. Even if full discretion is granted over the selection process, there could be legal constraints (e.g. the salary grid or other conditions of employment for civil servants) that can create issues with the recruitment of qualified staff, in particular if other national institutions (e.g. central bank or the state audit office) enjoy preferential treatment.

Access to information is formally provided to most of the euro-area IFIs through broad legal clauses. In a few countries (e.g. Germany, Finland), the right to access information is granted to the host institution and the national IFI is understood as benefitting from it. Despite these explicit legal provisions, often supplemented by detailed memoranda of understanding with the main data owners, around a fifth of euro-area IFIs (those in Greece, Spain, France, Cyprus and Slovenia) report problems with access to information. This issue appears to be even more prevalent outside the euro area, as 3 (i.e. the Bulgarian, Czech, and Romanian fiscal councils) of the altogether 6 IFIs signal difficulties in obtaining the necessary information.

As was the case with the previously described safeguards, no further specification was defined in the two-pack as regards the modalities of the information flow.

Newly adopted independence safeguards

The recently concluded economic governance reform contains some new provisions pertaining to IFIs as part of the amendment to the 2011/85 Budgetary Frameworks Directive (entered into force on 30 April 2024) (54). As was recalled in the previous sub-section, this revamped set of independence safeguards builds on the broad principles laid down in the two-pack Regulation and adds some new legal elements.

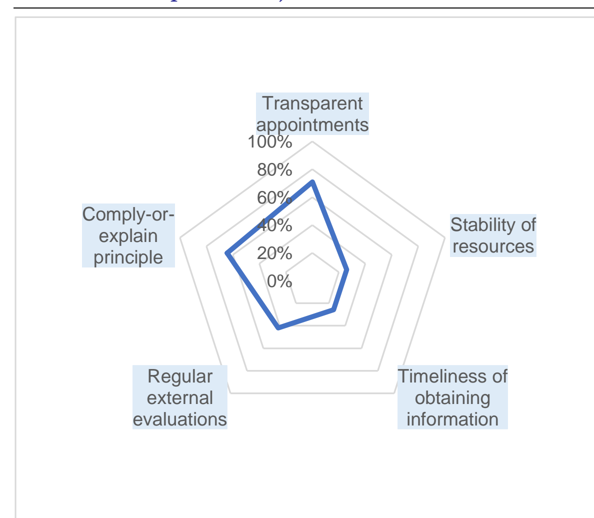
The revised Directive sets a deadline of 31 December 2025 for Member States to transpose the new provisions into national law, i.e. Member States have roughly 20 months to carry out the necessary legal changes. This challenge will slightly be more demanding for the non euro-area countries as the existing independence safeguards laid down initially in the two-pack will now become legally binding in their entirety on all 27 EU Member States, rather than only serving as orientation points. The present sub-section attempts to clarify the starting basis for the forthcoming legal harmonisation process by taking stock of the extent to which the prevalent national IFI-relevant legislations and practices are already in conformity with the reinforced safeguard provisions (the findings are summarised in Graph 3.2).

In terms of information sources, the newly adopted elements are typically only partially, if at all, covered in the existing IFI databases. Thus, this part of the analysis primarily relies on a dedicated survey that has been completed by all 31 EU IFIs (explained in the methodological annex C.2.). For some elements, a pragmatic decision has been made on how to interpret the new requirements. These operationalisation decisions are not meant to in any way pre-judge the Commission's interpretation, when – at some point beyond 2025 – it conducts its official compliance assessment on how Member States have transposed the new standards.

(54) Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, OJ L, 2024/1265, 30.4.2024.

The first of the newly adopted specifications introduces a requirement to follow transparent procedures in the selection of IFI leaderships. In the survey of the EFB Secretariat, roughly two-third of the EU IFIs reported that their national provisions already ensure some degree of transparency. The typical solution is the obligation to launch an open call for applications for chairmanship and/or board positions. In terms of frequency, this is followed by a requirement to hold public hearings before parliamentary committees for the nominated candidates before their appointment. In addition, several IFIs (e.g. the Irish Fiscal Advisory Council and the Slovakian Council for Budget Responsibility) had filled their latest leadership vacancies through open calls for application, even though they were not obliged to do so.

Graph 3.2: **Assessing EU IFIs' starting position for the new safeguard requirements (share of compliant IFIs)**



Source: Existing IFI databases and the IFI survey of the EFB Secretariat (see also methodological Annex C.2.)

As shown in the previous section, several EU IFIs had long held reservations about the adequacy of their resource endowment. A newly adopted specification expects Member States to ensure that their IFIs' financing is stable. This new condition has been interpreted as a mechanism being present to exclude a substantial and targeted reduction of the IFIs' budget from one year to the next (i.e. a larger cut than for other publicly funded bodies). Fewer than a third of EU IFIs currently enjoy some form of explicit legal protection over the stability of their appropriations, via, inter alia, an annual indexation mechanism (e.g. Ireland and Malta), a multiannual financing envelope (e.g. Latvia and Finland), or a secured financing

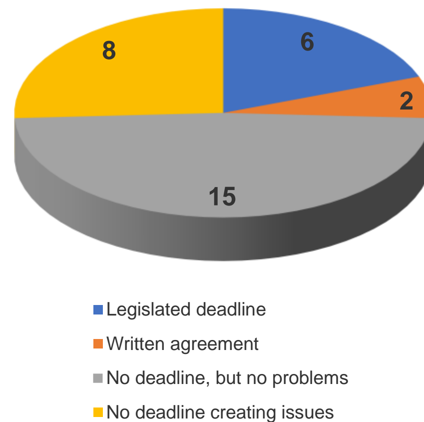
line via the host institution (e.g. the fiscal councils of Estonia and Austria). Moreover, a further quarter of EU IFIs assessed their financing as stable, benefiting from established practices or national conventions. Hence, the budgets of the remaining close to half of EU IFIs is not protected in any way even from a potentially sizeable nominal cut.

The third targeted specification concerns the timeliness of complying with the IFIs' information requests. In our survey, this new condition was operationalised as whether there is a clear deadline for the state institutions concerned to answer the queries of independent entities. Only 8 IFIs reported the existence of such a deadline, typically laid down in national law, or in some cases (e.g. Lithuania and Luxembourg) in memoranda of understandings (see Graph 3.3). Although around half of the EU IFIs stated that the absence of a specific deadline was not problematic, close to one-fourth identified the lack of a pre-set deadline as the reason why they were receiving information too late on some occasions.

The newly adopted obligation for IFIs to be subject to regular external evaluations helps to increase institutional independence by creating a permanent accountability tool. For the great majority of Member States, there is no such requirement in their national legislation as also demonstrated by the relatively few reviews published over the recent decade or so [55]. Even for some of the IFIs for which this requirement was laid down – either stipulated specifically for the IFI or as a general requirement for certain public entities, including the IFI – the first evaluation report does not appear to be publicly available (e.g. Bulgaria and Greece). On a positive note, a few IFIs (the fiscal councils of Spain, Ireland and Slovakia) have already made a commitment to undergo periodical external reviews, despite the absence of a specific legal provision.

(55) Most of these institutional evaluations were prepared by OECD-led review teams, and to a large extent financed by the Commission's Technical Support Instrument.

Graph 3.3: **The frequency of an established deadline for information requests (number of IFIs)**



Source: Survey of the EFB Secretariat

The final addition to the independence provisions is a rather extensive comply-or-explain scheme. This compels the governments to follow the IFIs' assessments in relation to all the tasks listed in the Budgetary Frameworks Directive, '…or alternatively explain why they are not following them. The explanation shall be public and be presented two months from the issuance of such assessments'. As argued by Horvath (2018), such a mechanism could provide a sound framework for a regular and visible dialogue on pertinent fiscal policy issues, thereby increasing the effectiveness of national IFIs. One of the legacies of the intergovernmental Fiscal Compact [56] is that the contracting parties had to introduce a comply-or-explain arrangement for their IFIs back in 2012-13. However, the Fiscal Compact's requirement covered only a few targeted reports strictly linked to the independent monitoring of the domestic structural budget balance rule, therefore most of these countries applied this principle with a narrow scope. Moreover, in terms of practice, the survey-based analysis of the EFB (2023b) reported a generally unsystematic approach by governments to unveiling the official responses, while IFIs typically perceived the quality of the explanations as varying or 'of little value'. This implies that for

(56) The Fiscal Compact is Title III of the intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, signed in March 2012. It requires euro-area countries to introduce into their national legislation a balanced budget rule in structural terms with pre-defined characteristics, including monitoring by an independent body. Three non-euro-area countries, Bulgaria, Denmark and Romania, are also bound by the same requirements on a voluntary basis.

most EU countries where the comply-or-explain has already been introduced, there will still be a need to substantially broaden its coverage and to design appropriate procedural rules to ensure the timeliness of the official responses.

Overall, in the case of virtually all the recently introduced elements, there is an (often significant) need to adjust the design and set-up of the large majority of IFIs, which is not a surprising finding in itself. However, it is important to stress that these new legal considerations are well-known concepts, as illustrated by the fact that almost all of them are part of the 2014 OECD principles for independent fiscal institutions and the initial 2016 Network of EU IFIs' position paper. This corroborates the view that following the 2011-2013 economic governance reforms many countries set up their IFIs or adjusted existing ones narrowly along the lines of the principles-based safeguards, and did not really attempt to go beyond them by incorporating additional good practices. Member States exploited the scope offered by the broad EU provisions when devising their national fiscal framework, as demonstrated by the varying ambitions (beyond the minimum requirements) in the design of the national IFIs.

3.1.2. Implementation and enforcement of IFI safeguards in the EU

The previous section took stock of the state of play for both the existing independence safeguards laid down in supranational legislation and the recently agreed future ones. There is no standard or commonly accepted way of measuring the IFIs' independence, but there were some efforts to operationalise the concept through composite indices. It seems to be warranted to broadly juxtapose the above-presented results with other exercises and with the perception of the IFIs themselves.

The most prominent attempt to measure the independence of IFIs is the OECD's independence index, which is based on the OECD's IFI database described in the methodological annex C.2. This index consists of four main pillars: (i) leadership independence; (ii) legal and financial independence; (iii) operational independence; and (iv) access to information and transparency (all pillars have equal weight in the computations, see von Trapp and Nicol (2018) for details). Under these pillars, the index uses 16 different variables and is considerably more granular than the two-pack framework. As most of these indicators simply reflect the written provisions and not necessarily actual practice, the results should be interpreted with caution.

The 2018 OECD index covered only 19 of the 31 EU IFIs under review in the present study ([57]). Overall, the OECD found that most EU IFIs exhibit a high level of independence, with the majority receiving an independence score of 75% or more on a scale of 0-100%. In terms of variations across the four pillars, EU IFIs consistently score very highly on leadership independence, while they score lowest on legal and financial independence chiefly on account of a lack of predictable financing free from governmental interference.

In terms of institutional models, the average score on the OECD independence index for IFIs hosted by audit institutions came out considerably worse than the scores of stand-alone fiscal councils or parliamentary budget offices. This is largely due to the financial and operational independence dimensions (more precisely the constraints stemming from their embedded set-up). In fact, the IFI-related literature has traditionally pointed to a risk of incompatibility of hosting an essentially forward-looking IFI in a naturally backward-looking audit institution ([58]).

A simple comparison of these findings with other independence indices constructed by academics (Franek, 2015; Belling, 2020) reveals that design choices have a considerable influence on institutional ranking. Most notably, the methodology applied by Belling (2020) assigns great importance to protecting IFIs from political meddling, while constraints on operational autonomy imposed by other administrative bodies are less of a concern. This leads to starkly different findings compared to the OECD's: IFIs nested in state audit offices or in other autonomous technocratic public agencies have a higher independence index than fiscal councils or parliamentary budget offices.

([57]) In addition to the fiscal councils of the five non-OECD EU Member States (Bulgaria, Croatia, Cyprus, Malta and Romania), the index did not cover the second IFIs from the five Member States with two IFIs (i.e. typically the forecasting institutions). Moreover, the 2018 OECD index is not available for the Czech IFI (due to its relatively recent establishment) and for the Lithuanian IFI (Lithuania was not an OECD member at the time of data collection).

([58]) See e.g. Kopits (2016).

The survey of the EFB Secretariat covered the national IFIs' own perception about their independence. Specifically, they were first asked to assess (on a scale of 1 to 5) their legally enshrined (*de jure*) independence based on the written national provisions; and subsequently their actual (*de facto*) independence based on recent experiences and practice. Overall, IFIs rated their independence as relatively robust from both perspectives with averages of 4.1 and 4.5, respectively. Almost all IFIs assigned the same or a higher value (typically by one grade) to their *de facto* independence. Three IFIs assessed their *de facto* position higher by two notches: the Belgian Federal Planning Bureau, the Danish Economic Councils, and the Swedish Fiscal Policy Council. Of note, all three are traditional home-grown IFIs, and were established before the 2011-2013 EU economic governance reforms. A potential explanation for this pattern is that 'older' EU IFIs may be more independent than the respective legal provisions suggest.

The survey included a follow-up question for institutions (20 out of 31) that signalled some sort of issue with either their *de jure* or *de facto* independence in relation to the most promising way to further strengthen their independence. Three quarters of the IFIs in question assessed that legal changes would be needed to upgrade IFI independence, chiefly at the national rather than at the EU level. This latter choice was probably influenced by the fact that IFIs answered the questionnaire right after the Council's political agreement on the economic governance reforms, which could have been interpreted as ending the debate on EU legislative amendments for the foreseeable future. However, the remaining quarter of the IFIs identified more stringent enforcement of existing provisions by the EU institutions as the most appropriate avenue to reinforce the autonomy of independent bodies. This is arguably linked to our finding (presented earlier) that a non-negligible number of the IFIs reported that they had experienced problems with their resource allocations and access to information; elements that are formally enshrined for euro-area IFIs.

As recalled earlier in relation to potential breaches of the existing safeguards, the Commission could launch a legal action in line with EU Treaties – the so-called infringement procedure – against a Member State that fails to implement EU law. According to the Commission's public registry on infringement procedures ([59]), however, there is no record of any formal enforcement action in relation to the independence safeguards defined in the two-pack regulation.

More broadly on fiscal framework issues (as stipulated in the Budgetary Frameworks Directive), the Commission opened 17 infringement procedures following the expiry of the end-2013 transposition deadline. However, all these infringements were of the non-communication variety, as the national administrations had failed to notify their implementing measures by the deadline (following the national reporting, these proceedings were all closed in the subsequent years). As to substantive non-conformity issues, the European Court of Auditors (2019) report pointed out that the Commission preferred to use the EU Pilot mechanism ([60]) to resolve transposition gaps, thus avoiding formal infringement proceedings, if possible.

In fact, starting in 2016, the Commission launched EU Pilot proceedings related to the Budgetary Frameworks Directive against virtually all EU Member States in successive rounds. Based on the above-mentioned public registry, the Commission had not launched any subsequent infringements by the time of writing this paper. In this context, it is worth recalling that the Network of EU IFIs (2019) proposed a systematic EU level monitoring process, in order to periodically verify that Member States are effectively complying with the independence safeguards. According to the Network's proposal, the Commission could be tasked with this regular monitoring role, which could be supplemented by an appropriate peer review mechanism.

Given the findings presented on the newly adopted independence elements, all Member States (and especially those outside the euro area) will have to take several measures by the end of 2025. Experience with the transposition of the six-pack and two-pack reforms suggests that more stringent enforcement actions by the Commission may be warranted. This view is also corroborated by several national IFIs in the survey of the EFB Secretariat and statements by the Network of EU

([59]) The searchable database is available at the Commission's website.
([60]) The EU Pilot is a mechanism for informal dialogue between the Commission and the Member State on issues concerning the conformity of national legislation with EU law or the correct application of EU law, at an early stage, with the objective of resolving non-compliance questions at a technical level.

IFIs. In addition, and as underscored by the European Court of Auditors (2019) report, the entire process could benefit from the Commission taking a more proactive stance.

It could be done by, *inter alia*, deploying some of the 'compliance promoting tools' until the end of 2025, such as implementation guidelines, explanatory documents, the involvement of expert groups and workshops, so as to help Member States to overcome the challenges of an appropriate and timely transposition of the Budgetary Framework Directive. This is all the more important as some of the adopted additional specifications (e.g. on the transparency of appointment procedures, and on the timeliness of access to information requests) may require some further clarifications of what will be needed in order to pass the new bars.

In hindsight and in view of the presented findings, the Commission's initial reform proposal of April 2023 may appear somewhat unbalanced. It targeted a major expansion of the IFIs' tasks, but it did offer avenues towards a better implementation of independence safeguards. In the end, the Council rejected the idea of entrusting EU IFIs with a series of new tasks, partly because of their heterogeneity in terms of size and capacity. An alternative course of action could be to first strengthen and level the IFIs' playing field between countries before then expanding their remit. Such an approach would be grounded in the institutional best practice highlighted in the EFB's earlier annual reports [61].

3.2. INDEPENDENT FISCAL INSTITUTIONS IN BELGIUM AND DENMARK

3.2.1. Belgium

Belgium is one of the few EU countries where two entities perform those IFI tasks that are laid down in EU legislation. The Federal Planning Bureau (FPB) has traditionally been in charge of independently producing the macroeconomic forecast underpinning fiscal planning, while the High Council of Finance – Public Sector Borrowing Requirements section (HCF-PSBR) monitors compliance with the domestic fiscal rules. Both entities are fully homegrown as they were established decades before the EU governance reforms in 2011-2013 that obliged euro-area Member States to create a national IFI. Explaining the respective roles of the two IFIs, Bogaert et al. (2006) argue that while FPB's responsibility in the Belgian budgetary process is limited to positive economics by supplying forecasts and technical calculations, the HCF-PSBR's mandate is partly in the domain of normative economics (providing recommendations on the medium-term deficit targets and their breakdown across the various governmental levels).

The FPB was established in 1959 as the Bureau for Economic Programming to act as a centralised entity of technical analysis for the government chiefly in relation to industrial and income policies. From this role as the 'government's in-house calculator' the Bureau has evolved in lockstep with the country's economic and institutional changes to become an entity with analytical autonomy operating on an open publishing model. The most significant changes took place in 1994 with the foundation of the National Account Institute, an umbrella organisation comprising the central bank, the statistics institute and the FPB [62]. This arrangement is meant to ensure the quality and the credibility of Belgium's economic statistics and the macroeconomic forecasts upon which its budget is based.

Beside the FPB's core task of macroeconomic forecasting, it is also charged with preparing regular long-term fiscal sustainability assessments. Usually at the request of the government, it prepares *ex ante* budgetary and socio-economic impact assessments. In addition, it has some functions that clearly go beyond the customary range of IFI tasks. These include the collection of statistics (e.g. drawing up input-output tables and indices to measure quality of life) and the production of sectoral reports, chiefly in the areas of energy, the environment and transport policies, and social expenditures (see Table 3.1 for details).

The FPB is headed by a full-time commissioner who is appointed by the government for a 9-year term. The commissioner has no legislated term limits or special dismissal criteria. The selection and nomination process are not stipulated in law but usually takes the form of open competition under the aegis of the Ministry of Economy. The FPB

[61] For a detailed argumentation in favour of this approach, see EFB (2022).

[62] Law of 21/12/1994.

Table 3.1: **Overview of the FPB's key reports**

Type of publications	Frequency and timing	Description and comments
Short-term macroeconomic forecasts ('Prévisions économiques')	Twice a year, in February and September	Short-term economic forecasts, used by the federal government to plan and prepare the annual draft budget bill.
Medium-term macroeconomic forecasts ('Perspectives économiques')	Annual (June, a preliminary, less detailed version is released in February)	Detailed macroeconomic and fiscal baseline projections over a five-year horizon, based on a no-policy-change assumption. Scenario analysis is performed to illustrate potential risks surrounding the baseline or to analyse the effects of changes in economic policy. It is followed up by an annual report on the regional economic outlook over the same time span.
Long-run fiscal sustainability analysis	Annual (summer months)	The FPB drafts the report of the Study Committee on Ageing with long-term projections for the costs of demographic ageing (most notably, health care and pension).
Articles	Occasional	Analytical papers by the staff, covering the many economic topics included in the FPB's mandate.
Working papers	Occasional	Technical papers, including detailed descriptions of the macro-, micro and sectoral models used by the Bureau staff.
Sectoral analysis and reports	Regular and occasional	Mostly covering the domains of energy, environment and transport. Some of the reports are mandatory (e.g. Federal Sustainable Development Report, Environmental economic accounts).

Notes: The full publications are available both in French and Flemish, while typically only a short abstract is provided in English.
Source: Own compilation.

has intensive links with many other official national, sectoral and regional institutions, and collaborates with them, in particular when preparing the costings for new policy measures. The FPB was granted by the 1994 law a general access to the data necessary to fulfil its mandate. On top of this, the Bureau has concluded a number of memoranda of understanding with key ministries. This being said, the FPB often relies in practice on its large network of national and regional partner institutions and conventions to obtain data.

The FPB receives its funding from the federal budget via the Ministry of Economy. Nonetheless, it has full operational independence as to how it uses its funds, except for large procurements. The OECD (2023b) noted that the FPB was repeatedly charged with new tasks without necessarily being granted the commensurate extra resources in parallel. The FPB's work is supported by a total staff of 85 in full-time equivalent, around 50 of whom are engaged in economic and fiscal analysis. This is much higher than the average of EU IFIs, but should be seen against the backdrop of its wide-ranging mandate.

Recently, there were further extensions of the FPB's mandate. Since the establishment of the Belgian National Productivity Board in 2019, the FPB delegates two representatives to its 12-member leadership panel. In addition, in 2021, the FPB was not only charged with assessing the macroeconomic and fiscal impacts of the draft national recovery and resilience plan but also with coordinating the verification of the 'Do No Significant Harm' principle during the implementation phase.

In 2014, the FPB was the first EU IFI to receive an official mandate to cost electoral platforms without covering the eventual coalition agreements (the legal provisions were further refined in 2018). Although the Dutch CPB had been costing election programmes and subsequently coalition agreements since 1986, this well-known example is based on conventions, and completely voluntary for the political parties ([63]). According to Belgian law, participation is mandatory for all parties represented in the Chamber of Representatives. The task not only includes estimating a proposal's initial fiscal costs, but also covers its macroeconomic second-round effects, and even the quantitative assessment of changes in a range

([63]) The costing of electoral platforms is still a relatively rarely part of official IFI mandates. According to the OECD (2023a), there are only two additional IFIs outside the EU that have started the regular conduct of this activity, namely the Parliamentary Budget Office of Australia (since 2013), and the Parliamentary Budget Officer of Canada (since 2019). In recent years, the Latvian and Slovenian fiscal councils published own-initiative evaluation reports on party manifestos in the run-up to their national parliamentary elections.

of socio-economic and environmental indicators, such as the purchasing power of various income groups.

There have been two costing exercises so far for the May 2019 and June 2024 national elections ([64]). In total, more than 300 specific measures were analysed during each occasion, but unlike the Dutch practice, the policy areas of intervention were limited. For example, for the 2024 undertaking, the FPB pre-set eight priorities/topics within which the political parties could propose new measures, also to improve the comparability of results. Macroeconomic feedback, and, where applicable, the impact on income distribution, mobility and electricity supply and consumption were simulated with the help of the FPB's own models.

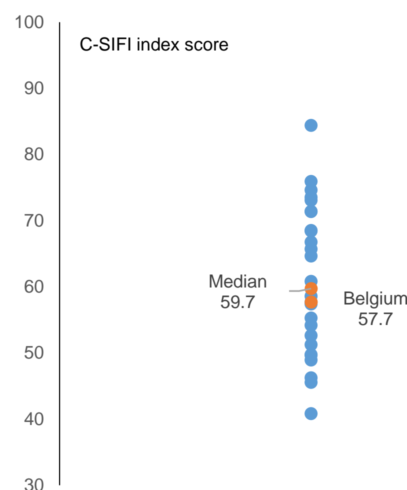
Based on a wide range of stakeholder interviews, the OECD (2023b) commended the 2019 costing workstream, as it had improved the transparency of political proposals by raising public awareness, helped political parties design better policies, and informed the post-election coalition negotiations.

Overall, despite the FPB's inherent limits for functional and operational independence stemming from its position within the federal public administration, there is consensus among stakeholders that it has analytical autonomy. In fact, according to Bisciari et. al (2020), the FPB's macroeconomic 1-year-ahead forecasts were unbiased over the 2000-2019 period, which is one of the most robust performances in the euro area.

The High Council of Finance (HCF) is one of the oldest fiscal councils in the EU. It was first established by a 1936 royal decree in order to consolidate a number of existing advisory bodies. Following several changes in its structure and mandate, the most fundamental reform took place in 1989 when, in the context of a constitutional reform process towards a federal state, the section for Public Sector Borrowing Requirements (PSBR) was created with specific competences for intergovernmental fiscal co-ordination (OECD, 2016a) ([65]).

Responding to the economic governance legislations adopted in 2011-2013, both the *ex ante* and *ex post* monitoring roles of the HCF-PSBR were formalised by the Cooperation Agreement in December 2013, concluded between the federal state, the communities, and the regions. With specific regard to the *ex ante* role, the HCF-PSBR was required to provide advice on the medium-term budgetary targets in both nominal and structural terms for all levels of the general government. The HCF-PSBR was officially charged to be the independent monitoring institution prescribed by the Fiscal Compact. Its *ex post* role was also enhanced to cover the responsibility for triggering the national correction mechanism (if it detects a significant deviation) and for activating the escape clause (if it concludes that exceptional circumstances exist).

Graph 3.4: **Country-specific Scope Index of Fiscal Institutions (C-SIFI): position of Belgium in 2022**



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

Graph 3.4 shows Belgium's score on the Commission's country-specific Scope Index of Fiscal Institutions (C-SIFI ([66])), which combines the mandate of both Belgian IFIs. This is slightly below the EU median, which is a surprising result at first sight, given in particular the FPB's relatively wide-ranging mandate. This is mainly explained by

([64]) See the dedicated website at: Chiffrage 2024.
([65]) Currently, besides the PSBR, the HCF in organisational terms consists of another section ('Taxation and social security contributions') and two committees ('Study Committee on Ageing' and 'Study Committee on Public Investments').

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

the fact that many functions of the FPB are not taken into account in the calculation of the index.

In terms of governance arrangements, the HCF-PSBR consists of 12 members: half of them are nominated by the federal public administration (3 by the National Bank of Belgium and 3 by the government), and the other half by the communities and regions.

The HCF-PSBR publishes two annual reports. The first, early spring report contains an opinion on the country's medium-term fiscal trajectory and the distribution of the budgetary objectives across different levels of government. The second report, released during the summer months, evaluates the execution of fiscal plans, and assesses *ex post* compliance with the budgetary objectives.

There was a period when observers considered that the HFC-PSBR was making an important contribution to sound budgetary policies (see e.g. Bethuyne, 2005 and Coene – Langenus, 2013). From the run-up to the introduction of the euro and until the global financial crisis, the HCF-PSBR's recommendations for the medium-term fiscal targets were the basis for the 'budgetary conventions', i.e. the political agreements between the federal and regional governments that acted as internal stability programmes for the constituent parts of this federalised country. The responsible fiscal stance resulted in the monotonous continuous decrease in Belgium's public debt ratio from over 130% in 1995 to below 90% by 2007.

The HCF-PSBR's significance in setting fiscal policy appears to have faded more recently. Bisciari et al. (2020) argue that this institutional weakening could be attributed to the *de facto* absence of straightforward numerical limits thar it is to monitor as the independent watchdog. Specifically, despite the relevant provisions, the final decision-maker of the process, the 'Concertation Committee' (67) has so far never reached a formal decision in relation to the budgetary objectives apportioned to the various levels of the general government. Due to the lack of formally approved objectives, the HFC-PSBR's annual compliance report has repeatedly concluded that it was not in a position to verify whether one or more entities (i.e.: individual communities, regions and community commissions) had significantly deviated from their objectives.

Moreover, there has been an increasing number of critical views that the HCF's traditional set-up is no longer fit for the emerging European standards for IFIs. For instance, the OECD's 2018 IFI independence index positioned the HFC-PSBR at the bottom of the list of OECD IFIs, chiefly on account of constraints on financial and operational autonomy (68). In addition, when the Commission assessed the transposition of the Fiscal Compact in 2017, it concluded that Belgium's compliance was conditional on the adoption of a number of follow-up measures targeting the reinforcement of the HCF-PSBR's independence (69). In 2018, the Belgian authorities responded by adopting several amendments to the relevant regulation (70), which, most notably, (i) defined that members are no longer deemed to represent the institutions that nominated them; (ii) granted the HCF-PSBR a right to communicate in public without any restrictions; and (iii) ordered the creation of a separate budget line and a dedicated support staff. The latter measure is yet to be implemented: according to the 2023 update of the Commission's fiscal governance database, the HCF-PSBR has 1.5 technical staff (in full-time equivalent).

3.2.2. Denmark

Denmark's independent fiscal institution, the Danish Economic Council (DEC) is one of the oldest IFIs in the EU. It was established in 1962, originally as an advisory body to the government on income and redistribution policies. Starting from the early 1970s, it has progressively extended its analytical purview to cover salient economic policy issues and dilemmas. For instance, it published influential assessment reports in the run-up to Denmark's accession to the EU in 1972 and prior to country's referendum on the introduction of the euro in 2000. During the 1970s and 1980s, the DEC played an important role among domestic institutions in developing macro-econometric models to support economic policymaking and advice (Andersen, 1991).

(67) This is a reconciliatory body bringing together federal, regional and community ministers with the aim of resolving various conflicts that arise among the institutional layers of the Belgian federal state.

(68) The OECD did not assess the independence of the FPB.

(69) See the Commission's Fiscal Compact transposition assessment report for details.

(70) Royal Decree of May 23 2018 regarding the High Council of Finance (as published in the Belgian Official Journal).

In 2007, given the increasing significance of green issues in the public arena, a new independent advisory body was created to assess the effectiveness of environmental policies. This new entity was organisationally merged into the structure of the Economic Council and managed by the same leadership team (European Commission, 2012). Formally, the new structure is known as 'The Economic Councils', and consists of two entities: the Economic Council (the subject of this section) and the new Environmental Economic Council.

While the DEC's reports had traditionally covered economic and fiscal issues, it only officially became the country's fiscal watchdog in 2012 ([71]) when the Danish authorities transposed the intergovernmental Fiscal Compact. The 2012 budget law (Law No. 583) introduced a revised set of fiscal rules that consist of an annual lower limit of 0.5% of GDP for the general government's structural deficit, and binding multi-annual expenditure ceilings for the central and subnational governments (regions and municipalities). This law explicitly charged the DEC's leadership with an independent monitoring function for the above numerical rules, and specifically with evaluating whether the planned fiscal policy is consistent with the relevant budgetary constraints. The DEC was also given the task of regularly assessing the long-term sustainability of public finances.

The latest institutional changes have built on the rich history of the DEC, and in particular its broad analytical activities. In 2017, following the invitation of the Council of the EU ([72]), the DEC was officially appointed as Denmark's national productivity board. In this domain, its main task is to monitor productivity developments in the Danish economy, including through analysing the drivers of productivity and the country's international competitiveness position. Further in 2021, the DEC was given the task of regularly evaluating the assumptions (e.g. macroeconomic, demographic, behavioural) used by ministries when assessing the impacts of economic policy measures.

The DEC is managed collegially by four members who are collectively called as the 'chairmanship'. The four co-chairs are independent experts (typically university professors of economics, and at least one of them must have expertise in environmental economics), who are formally appointed by the minister of economic affairs for a period of up to 6 years. The duration of recent leadership appointments has typically been 3 years, but there are no codified term limits. In practice, the incumbent chairmanship has a large degree of autonomy in identifying successors and the government has respected this informal convention for decades. The other members of the DEC (up to 20 in number), who are appointed by the Minister for Economic Affairs for a term of up to 3 years, consist of representatives nominated by government ministries, the central bank, the employer's federations and the trade unions, and various economic interest groups.

The DEC is financed from the central government budget. According to the OECD (2016b), it has customarily received funds commensurate with its tasks; and there have even been episodes when the DEC was exempted from the across-the-board cuts in the budgetary appropriations of public entities.

The chairmanship is assisted in its work by the Secretariat. In parallel with its expanding mandate over the decades, the DEC was able to increase the size of the support staff to around 15 by the mid-1990 from 5 in the 1960s. The Secretariat currently employs more than 30 persons. In 2018, the government relocated the Secretariat from Copenhagen (the capital city) to Horsens (the 7th largest town in Denmark), as part of a large-scale decentralisation programme for the public administration system. The announcement of the decision triggered some rather strong domestic and international criticisms that highlighted, *inter alia*, the potential challenges of retaining and attracting qualified staff in the new premises ([73]). Eventually, a compromise was reached, whereby a small unit of the Secretariat continued to stay in Copenhagen.

In terms of access to information, there were until recently no explicit legal provisions to guarantee

([71]) Intriguingly, there had earlier been other ideas to establish a domestic fiscal watchdog in Denmark. For instance, Blöndal and Ruffner (2004) reported on specific discussions on the establishment of a parliamentary budget office in order to enhance the independent oversight of the formation and implementation of the annual budgets.

([72]) Council recommendation of 20 September 2016 on the establishment of National Productivity Boards (2016/C 349/01). There are only two other (traditional forecasting) IFIs in the EU who have become their country's national productivity boards: the Dutch CPB and the Slovenian Institute of Macroeconomic Analysis and Development.

([73]) See e.g. the statements of the Network of EU independent institutions and the European Fiscal Board.

Table 3.2: **Overview of the DEC's key reports**

Type of publications	Frequency and timing	Description and comments
Semi-annual report 'Danish Economy' and accompanying background technical notes	Twice a year, in spring and in autumn	Published since 1962, it contains the DEC's medium-term macrofiscal forecasts and an *ex ante* compliance check of the official fiscal plans vis-à-vis the domestic fiscal rules. It regularly updates the DEC's long-term sustainability assessments, and includes analysis of salient economic and policy issues
Productivity report	Annual	Published since 2017 when the DEC was appointed as the country's productivity board. It contains assessments of new policy proposals with relevance to productivity and related analysis of topical issues.
Research papers	Occasional	Technical papers by the Secretariat staff (typically linked to the topical analyses contained in the regular reports).
Methodological documents	Occasional	Detailed descriptions of the macro- and micromodels used by the Secretariat, including its workhorse model for forecasting and policy costing (Simulation Model of the Economic Council).

Notes: (1) The full reports are available only in Danish, the 'Summary and recommendations' part is provided in English, too. (2) Since 2007, the chairmanship under the Environmental Economic Council formation publishes an annual report entitled 'Economy and Environment'.
Source: Own compilation

the DEC's access to information. This did not appear to lead to problems, however, as the relevant public bodies had been willing to provide the information requested by the DEC. The above-mentioned 2017 amendment introduced formal guarantees regarding the DEC's access to data that are deemed necessary to carry out its mandate. According to the OECD's 2018 IFI independence index, which is primarily based on legal or written provisions, the DEC's score is below the OECD average. This is partly linked to the financial independence dimension, because the DEC's funding does not benefit from any type of safeguard mechanism or multiannual financing commitment ([74]).

The DEC's traditional flagship report is the semi-annual 'Danish economy', a comprehensive document of 300-400 pages (see Table 3.2 for the overview of key reports). It is prepared by the Secretariat for the two meetings of the entire Economic Council (typically held in May and October). The chairmanship has sole responsibility for these reports and approves them by consensus. Each report has a standard section which, against the backdrop of the DEC's own fully-fledged medium-term forecasts, discusses the economic and fiscal outlook, and presents the DEC's opinion on the compatibility of the official economic policy with the national fiscal framework. Once a year (more recently placed in the autumn edition), the 'Danish economy' contains an update on the DEC's long-term sustainability calculations. In addition, each edition typically contains two analytical chapters on policy issues deemed relevant by the chairmanship. For instance, the reports have over the last 2-3 years included analyses on the Danish housing market (regulation of housing lending as well as rent control policies), estimations of middle school teachers' value added to their students' test results, and the impact of free childhood dental care on long-term well-being. These analytical chapters are accompanied by the related technical notes, and if relevant, the datasets used on the DEC's webpage.

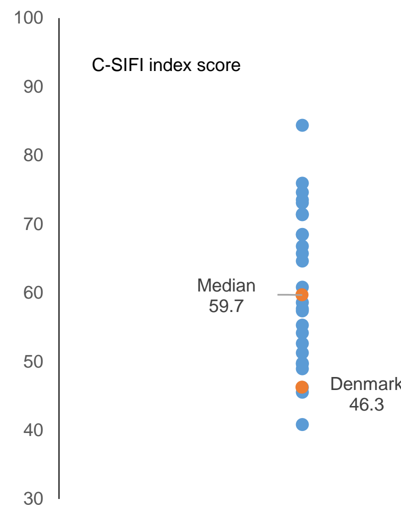
On the basis of its findings, the DEC formulates several policy recommendations for the national authorities not only on the fiscal policy course, but also on all the analysed domains. Such a wide-ranging advisory role is a rare feature among EU IFIs. After the DEC's meetings, the chairmanship publishes the 'Danish economy', which includes an extensive annex with contributions/comments from the other members. As the two relevant ministries (Ministry of Finance and Ministry of Economic Affairs) are represented in the DEC, their written responses are included in the annex and thereby constitute in essence the government's first reactions to the key findings and recommendations. The DEC's peculiar set-up and publication structure ensures that there is an immediate and meaningful policy discourse around the IFI reports. This is a strength of the Danish

([74]) For details on the OECD IFI independence index, see sub-section 3.1.2.

framework, although this dialogue is generally not covered by the comply-or-explain principle ([75]).

In a broad comparison with other EU IFIs, the extent of conventional IFI tasks specifically assigned to the DEC is relatively narrow, despite its broad analytical coverage and its strong normative function of issuing policy recommendations. This is illustrated by Denmark's scoring below the median on the Commission's country-specific Scope Index of Fiscal Institutions (C-SIFI, see Graph 3.5) ([76]). This is mainly explained by the fact that neither the DEC, nor any other independent entity provide a direct report on fiscal planning documents (e.g. assessing real-time the plausibility of the official macroeconomic and fiscal projections contained in the draft budget bills) ([77]). On a related note, stipulating an explicit *ex post* monitoring mandate over domestic fiscal rules for the DEC would further solidify its role as a watchdog, and would make its mandate more in tune with that of the peer EU IFIs.

Graph 3.5: **Country-specific Scope Index of Fiscal Institutions (C-SIFI): position of Denmark in 2022**



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

The DEC's approach to policy debates could be illuminated by a recent instructive episode, when the domestic fiscal rules were formally revised. In spring 2022, the Danish authorities decided to temporarily lower the domestic structural deficit limit by half a percentage point to 1% of GDP with effect from 1 July 2022 ([78]).

This temporary reduction was part of the 'national compromise on Denmark's security policy', which foresees a significant increase in defence spending to honour its NATO commitments in the context of increased geopolitical risks ([79]). The previous structural deficit target of 0.5% of GDP should be restored by 2030.

The revision of the domestic rule was made possible by the fact that Denmark had previously set itself a more ambitious national rule than its obligations stemming from EU and intergovernmental law. Specifically, the Stability and Growth Pact's minimum quantitative requirements for the MTO are reviewed every 3 years, and the reference minimum MTO for Denmark at the time was a deficit of 1% of GDP (European Commission, 2020b). The Fiscal Compact set a benchmark MTO-related limit at -0.5% of GDP; however, for Member States, such as Denmark, whose debt is significantly below 60% of GDP and whose risks in terms of long-term sustainability of public finances are low, this intergovernmental limit is set at -1.0% of GDP. In its assessment report ([80]), the DEC assessed the relaxation of the structural deficit target as 'appropriate' and 'justified', chiefly on account of its own sustainability analysis. The annual updates of the DEC's model simulations in the run-up to the spring 2022 changes consistently showed that even a large (i.e. more than 1 pp of GDP) permanent deterioration in the primary budget balance would be possible in Denmark without endangering the long-term sustainability of public finances ([81]). This is primarily thanks to recent reforms that indexed the retirement age to life

([75]) The 'comply-or-explain' principle as envisaged in the common principles to the Fiscal Compact initially only concerned the IFI reports on the compliance with the structural budget balance rule (first established on the basis of a formal commitment of the Danish authorities, thereafter laid down in the 2017 legal amendments). In 2021, it was extended to cover the newly assigned evaluator mandate over the government's impact assessments.
([76]) The C-SIFI score simply measures the breadth of EU IFI mandates; thereby it should not be read as a proxy for the effectiveness of the institution.
([77]) As Denmark is outside the euro area, the requirement that the macroeconomic forecasts underlying fiscal planning must be either produced or endorsed by an independent body does not apply.
([78]) See Denmark's 2022 convergence programme.
([79]) In 2014, NATO Heads of State and Government agreed to commit 2% of their GDP to defence spending, to help ensure the Alliance's continued military readiness. The 2022 Danish security policy foresaw the achievement of the 2% of GDP target in 2033.
([80]) Danish Economy, 2022 spring.
([81]) See e.g. Danish Economy, 2020 autumn.

expectancy; and also supported by the continuous, and occasionally sizeable surpluses in the headline balance since 2017 (a very prudent fiscal track-record by EU standards).

Overall, the Danish IFI has a deeply ingrained advisory function with a wide-ranging mandate, which makes it quite distinctive among its EU peers. Given that its policy recommendations are based on extensive technical works and combined with the integrity of the successive chairmanships, its advisory role is not perceived as being driven by particular ideological and political interests. On the basis of a set of stakeholder interviews, Begg et al. (2023) conclude that with its high credibility and non-partisan reputation, the DEC has helped raise awareness of fiscal sustainability issues among both decision-makers and the general public.

4. ASSESSMENT OF THE FISCAL STANCE IN 2023

Highlights

- EU fiscal guidance for 2023 was issued in early 2022, when the economic impact of Russia's war of aggression against Ukraine was yet to be determined. The Commission's 2022 spring forecast projected a greater impact on the EU economy in 2022 than 2023. In fact, the opposite occurred.
- In March 2022, the Commission offered early guidance for the euro area in 2023, calling for a broadly neutral fiscal impulse on top of the phase-out of remaining Covid-related support measures that were estimated at 0.7% of GDP.
- Two months later, as part of the annual spring surveillance package in May 2022, the Commission issued largely qualitative fiscal guidance for 2023 to the Member States.
- Given the specific nature of the economic shock, the Commission's earlier guidance for a broadly neutral impulse for 2023 switched to a warning against a broad-based fiscal expansion. The Commission also cautioned against untargeted energy support measures.
- At around the same time in 2022, the EFB also called for a moderately restrictive fiscal impulse in 2023. This is because real economic growth was still expected to be above 2%, labour markets remained strong, and structural deficits inherited from the previous year were large.
- The EFB further argued that a fiscal expansion in response to the terms-of-trade shock caused by soaring energy prices would not be warranted. Unfortunately, most energy-support measures taken by Member States turned out to be untargeted.
- In the end, the structural primary deficit in the euro area improved by close to ½% of GDP in 2023, largely due to the phase-out of Covid measures, while the rest of the budget slightly deteriorated. A careful analysis suggests that underlying expenditure developments stayed on a trend that cannot be sustained in the long run.
- In retrospect, a more restrictive fiscal policy to promote re-building fiscal buffers in some Member States would have been warranted in 2023. It would also have facilitated the ECB's pursuit of its inflation objective.
- Member States' individual contributions to the euro-area fiscal impulse in 2023 could have been improved, since the contribution to this fiscal impulse by countries with very high levels of public debt was less than proportional to their share of euro-area economic output.

This chapter provides a backward-looking assessment of the euro-area fiscal stance in 2023. Its first part recalls and contrasts policy guidance issued in 2022 by the European Commission, the Council and the EFB based on information available at the time. It then assesses whether the observed fiscal stance was in line with earlier guidance and whether this early guidance was appropriate in hindsight.

The EFB's assessment considers the possible need for discretionary fiscal stabilisation subject to sustainability constraints on public finances. A clear distinction must be made between the fiscal stance and the fiscal impulse (EFB, 2021a). The EFB defines the discretionary fiscal stance as the structural primary balance in a given year (82), which approximates the overall level of fiscal support provided by governments on top of automatic stabilisers. The annual change in the fiscal stance is referred to as the fiscal impulse (83).

4.1. GUIDANCE ISSUED IN 2022

In early 2022, the Commission offered early guidance for 2023 (84), at a time when Russia's war of aggression against Ukraine had just started and the economic impact of the war – including a confidence-effect – was yet to be determined. The war initially led to a sharp downward revision of projections for euro-area real growth for 2022 and to a lesser extent 2023, including in the Commission's 2022 spring forecast. In fact, the opposite occurred, with most of the impact of the war actually materialising in 2023 rather than 2022. Recent estimates put euro-area real economic growth at less than 1% in 2023, as opposed to nearly 3.5% in 2022 (Graph 1.8 in Chapter 1).

Despite projections for a real economic slowdown in 2023, the Commission's 2022 spring forecast still assumed that labour markets would remain exceptionally tight over the forecast horizon. The 2022 spring forecast also still assumed that the economy would be operating close to its potential in 2023. Inflation had already picked up considerably in 2021, but the energy-price hike due to the war sent inflation soaring to close to 6% in 2022 and it remained at close to 3% in 2023. The Commission's 2022 spring forecast projected a reduction in the structural primary balance by ¾% of GDP in 2023. In addition, the Commission's preferred indicator of the fiscal impulse based on the expenditure benchmark (EB) projected a restrictive fiscal impulse of ½% of GDP on top of the phase-out of Covid-related measures.

The Commission's early fiscal policy guidance for 2023 (Box 4.1) reiterated its intention to deactivate the severe economic downturn clause as of 2023. This would have implied a return to quantitative fiscal guidance in line with the provisions of the SGP. However, this view changed over the following months when the Commission, supported by the Council, came up with new ad hoc criteria for extending the clause (Chapter 2, Section 2.4).

As was the case with guidance issued in 2021, country-specific fiscal guidance issued in 2022 was qualitative in nature, but with some quantitative underpinning that was differentiated by debt level. Guidance was operationalised around limits to nationally financed current-expenditure growth, with some differentiation by the level of government debt (85) (see Chapter 2). The Commission also said it would take into account the impact of temporary and targeted support to vulnerable households to help them cope with soaring energy prices. All governments were encouraged to increase public investment.

The Commission's early fiscal guidance issued in March 2022 (see Section 2.2) called for a broadly neutral fiscal impulse in 2023. However, since autumn 2020, the Commission had started to exclude Covid-related temporary emergency measures from its measures of the fiscal impulse. The Commission reasoned that these measures had a limited impact on aggregate demand due to the lockdowns (86). The EFB has been critical of this practice for two main reasons (EFB, 2022). The first reason is that because many of the temporary support measures did prop up household income. The second reason is that the actual fiscal impulse as measured by the change of the structural primary budget balance is in all

(82) This chapter follows the EFB definition of the fiscal stance and fiscal impulse, unless other EU institutions are directly quoted.
(83) The fiscal impulse can also be derived from the expenditure benchmark (see 'Expenditure Benchmark' in the Glossary).
(84) European Commission (2022) Communication on fiscal policy guidance for 2023.
(85) Net of discretionary revenue measures.
(86) European Commission (2020) Communication on the 2021 Draft Budgetary Plans: Overall Assessment.

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

- **2 March 2022: European Commission Communication on fiscal policy guidance for 2023 (excerpts):**

On the basis of the Commission 2022 winter forecast, the general escape clause is expected to be deactivated as of 2023. […] The winter forecast did not factor in the invasion of Ukraine and the ensuing geopolitical tensions. […] Based on the winter forecast, the Commission is of the view that transitioning from an aggregate supportive fiscal stance ([1]) in 2020-2022 to a broadly neutral aggregate fiscal stance appears appropriate in 2023, while standing ready to react to the evolving economic situation. […] Nationally financed high quality public investment should be promoted and protected in medium-term fiscal plans […] As of 2023, starting a gradual fiscal adjustment in high-debt Member States is necessary to stabilise and then reduce debt ratios. […] To achieve this, nationally-financed current expenditure (net of discretionary revenue measures) should grow more slowly than medium-term potential output […] Any windfall revenues […] should be used for debt reduction. […] Low/medium debt Member States' [current expenditure] should be in line with preserving an overall neutral policy stance. […] This will contribute to preserving an appropriate policy stance for the euro area as whole.

- **14 March 2022: Eurogroup statement on the fiscal guidance for 2023 (excerpts):**

We support the Commission's view that, on the basis of its Winter Forecast 2022, transitioning from an aggregate supportive fiscal stance in the euro area to a broadly neutral aggregate fiscal stance next year appears to be appropriate while standing ready to react to the evolving economic situation, also in view of the high level of uncertainty. […] At the same time, in light of the current assessment of the economic situation, a differentiation of fiscal strategies across Member States is needed. This would also contribute to achieving a balanced aggregate fiscal stance in the euro area. […] in Member States with high public debt, we concur that starting a gradual fiscal adjustment to reduce their public debt is appropriate, if conditions allow […] Member States with low- and medium-debt levels should prioritise the expansion of public investment where necessary. All of this would contribute to achieving an appropriate overall policy stance.

- **23 May 2022: European Commission's 2022 European Semester - Spring Package (excerpts):**

Fiscal policy should be prudent in 2023, while standing ready to react to the evolving economic situation. […] a broad-based fiscal impulse to the economy in 2023 does not appear warranted. […] Member States' fiscal plans for next year should be anchored by prudent medium-term adjustment paths reflecting fiscal sustainability challenges associated with high debt-to-GDP levels that have increased further due to the pandemic. […] High-debt Member States should ensure prudent fiscal policy, in particular by limiting the growth of nationally-financed current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms […] Low/medium-debt Member States should specifically ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance. […] unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

- **21 June 2022: the EFB's June 2022 report had the objective of reviewing the situation/outlook and providing input to Member States' draft budget plans for 2023 (excerpts):**

The current terms-of-trade shock does not call for an expansionary discretionary fiscal response. […] private consumption and investment remain robust, while fiscal policy is starting from a highly supportive environment […] at the aggregate level, a moderately restrictive fiscal impulse in 2023 is warranted […] While remaining agile, fiscal policies should shift focus towards debt reduction.

- **11 July 2022: Eurogroup statement on fiscal policy orientations for 2023 (excerpts):**

The Eurogroup considers that supporting overall demand through fiscal policies in 2023 is not warranted, the focus being instead on protecting the most vulnerable, while maintaining the agility to adjust, if needed. Fiscal policies in all countries should aim at preserving debt sustainability, as well as raising the growth potential in a sustainable manner to enhance the recovery […] Broad-based fiscal measures, such as general reductions of taxes and excise

([1]) In this box the term fiscal stance follows Commission language and refers to the change in discretionary fiscal support. This is in contrast to the rest of the report, where it refers to the level of discretionary fiscal support.

(Continued on the next page)

Box (continued)

duties, were aimed to mitigate the impact of rapidly rising energy prices at the national level, but these should be temporary and increasingly adjusted towards targeting the most vulnerable.

- **13 July 2022: Commission paper on the 2022 Stability & Convergence Programmes – An Overview, with an Assessment of the Euro Area Fiscal Stance (excerpts):**

The Commission considers that the conditions to maintain the general escape clause in 2023 and to deactivate it as of 2024 are met. […] In 2023, the euro area fiscal stance would be slightly contractionary (by around ½% of GDP) due to the announced phasing out of the measures to mitigate the impact of energy price hikes. […] Fiscal policy should be prudent in 2023, while standing ready to react to the evolving economic situation. […] Fiscal policy should combine higher investment with controlling the growth in nationally-financed primary current expenditure, while allowing automatic stabilisers to operate and providing temporary and targeted measures to mitigate the impact of the energy crisis and to provide humanitarian assistance to people fleeing from Russia's invasion of Ukraine.

- **3 October 2022: Eurogroup statement on the fiscal policy response to high energy prices and inflationary pressures (excerpts):**

We recalled that broad-based support to aggregate demand through fiscal policies in 2023 is not warranted, the focus being instead on protecting the vulnerable, while maintaining the agility to adjust, if needed. Fiscal policies should aim at preserving debt sustainability as well as raising the growth potential in a sustainable manner, thus also facilitating the task of monetary policy to ensure the timely return of inflation to the ECB's 2% medium-term target. […] we aim to focus our support increasingly on cost-efficient measures, in particular income measures that are exceptional, temporary, and targeted to the vulnerable.

- **22 November 2022: the Commission's overall assessment of the 2023 DBPs (excerpts):**

For 2023, Member States with high debt should ensure a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth. Member States with low/medium debt should ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance. In both cases, the assessment of compliance with the fiscal guidance should take into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes […] […] For 2023, the euro area fiscal stance is projected to be broadly neutral […] Net primary current expenditure is set to provide a slightly contractionary contribution to the euro area fiscal stance in 2023, due to the lower net impact of energy-related measures compared to 2022. […] The projected 2023 euro area fiscal stance, as well as the underlying developments of net primary current expenditure and of investment are broadly in line with the Council recommendations of 12 July 2022 and the Eurogroup statement on the fiscal policy response to high energy prices and inflationary pressures of 3 October 2022.

- **22 November 2022: Commission Recommendation for the Council Recommendation on the economic policy of the euro area (excerpts):**

In 2023, fiscal policy should avoid amplifying the inflationary effects of the ongoing supply shocks and […] a broad-based fiscal impulse to the economy is not warranted. […] Moreover, fiscal policy should remain prudent and combine higher investment with controlling the growth in net primary current expenditure. […] In order to respond to the increase in energy prices, euro area Member States have taken measures estimated to represent 1¼% of GDP in 2022 and up to 1% in 2023 […] measures taken so far mainly aim at mitigating price increases, and only 20% are targeted income measures. […] Refrain from broad-based support to aggregate demand in 2023, while targeting fiscal measures to address the impact of high energy prices on vulnerable households and companies.

- **5 December 2022: Eurogroup statement on draft budgetary plans for 2023 (excerpts):**

Broad-based fiscal stimulus to aggregate demand in 2023 is not warranted, the focus being instead on protecting vulnerable households and firms, while maintaining the agility to adjust to the rapidly evolving situation, if needed. We agree that fiscal policies should aim at preserving debt sustainability as well as raising the growth potential in a sustainable manner, thus also facilitating the task of monetary policy to ensure the timely return of inflation to the ECB's 2% medium-term target. […] The Eurogroup agrees with the Commission's assessment that all Member States should progressively withdraw such measures as energy price pressures diminish.

circumstances, only an approximation of the actual impact of discretionary fiscal measures on the economy ([87]). Consequently, the EFB has maintained its own fiscal-impulse indicator and does not adjust for Covid-related measures.

The Commission's early fiscal guidance issued in 2022 for a broadly neutral fiscal impulse in 2023 (excluding Covid-related support measures) actually implied a restrictive fiscal impulse in 2023. Covid-related support measures in place in 2022 were estimated at 0.7% of GDP, and their phase-out – combined with a recommended broadly neutral fiscal impulse from the rest of the budget – would have implied a significant reduction in discretionary fiscal support. The often-mentioned considerable downside risks due to the war in Ukraine may have justified contingency guidance but not preventive fiscal support.

In its spring 2023 surveillance package issued on 23 May 2022, the Commission switched its language from calling for a broadly neutral fiscal impulse in 2023 to cautioning against a broad-based fiscal impulse to the economy as a response to soaring energy prices. The Commission 2022 spring forecast projected somewhat lower growth for 2023 (Graph 1.8 in Chapter 1) but still an economic expansion of over 2%.

In June 2022, the EFB argued in favour of a moderately restrictive fiscal impulse in 2023 in light of the prevailing cyclical conditions and the latest economic outlook. While the Commission and the EFB employed a somewhat different metric of the fiscal impulse, the recommended fiscal orientation was broadly similar, although the Commission's early guidance implied a somewhat faster withdrawal of fiscal support if one also considers the planned withdrawal of Covid-related support measures.

The EFB emphasised that soaring energy prices were a textbook terms-of-trade shock and that an expansionary fiscal response would not be warranted. The Commission had encouraged governments to take temporary and targeted support measures aimed at the most vulnerable. However, the Commission's own analysis showed that: (i) most of the undertaken energy measures of ¾% of GDP in 2022 were expected to be largely untargeted ([88]); and (ii) there was an increasing risk of some of the energy-support measures becoming entrenched, thereby weighing on future budgets.

4.2. FINAL ASSESSMENT

Was the guidance on the fiscal stance appropriate?

The guidance issued for 2023 has to be assessed in the context of the specific circumstances of the surveillance cycle. At the beginning of 2022, fiscal guidance would have been very much straightforward: cyclical conditions and the outlook were positive while fiscal policy had still been highly supportive in 2021 and was expected to remain so in 2022. This would have called for a sizeable restrictive fiscal impulse in 2023 to normalise fiscal policy.

The war in Ukraine led to a re-assessment of fiscal guidance for 2023, even though the labour market and cyclical conditions more broadly remained favourable. The public had seemingly grown accustomed to governments shielding households and firms from any kind of economic shock. This contrasted with conventional economic wisdom that terms-of-trade shocks should not be addressed by a broad-based fiscal expansion (see EFB (2023a), Section 3).

The Commission's early guidance for a neutral fiscal impulse in 2023, on top of the assumed withdrawal of Covid-related emergency measures pushed in the right direction. But in retrospect, a call for a somewhat faster withdrawal of these emergency measures would have been helpful to build fiscal buffers and ensure consistency between monetary and fiscal policy.

Moreover, due to the extensive interpretation of the severe-economic-downturn clause (for more detail see EFB (2020a), Box 2) that was also applied in 2023, the Commission's country-specific recommendations issued in May 2022 lacked a numerical fiscal target for the euro area. Clear quantitative fiscal guidance as prescribed by the SGP would have been valuable. The country-specific recommendations had also noted that temporary and targeted energy support measures would be taken into account when assessing compliance with the fiscal recommendations. This

([87]) The impact cannot be precisely measured as it is influenced by the size of the fiscal multiplier, which is affected by number of factors, e.g. the composition of fiscal measures.

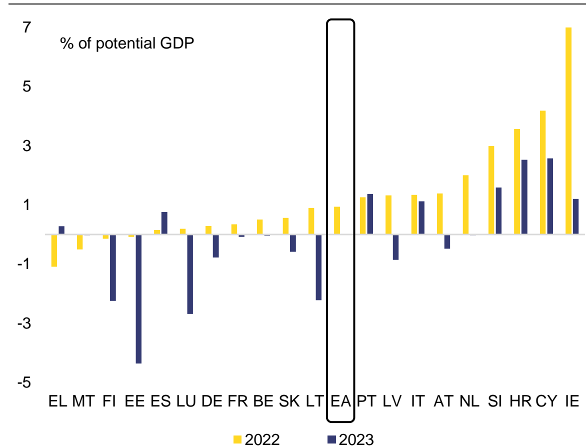
([88]) See the Commission's 2023 spring forecast and the Commission's (2023) Public Finance Report in EMU 2022.

special status given to energy measures (see Chapter 2) may have interfered with clear messaging on the overall fiscal impulse.

Was the actual aggregate fiscal stance appropriate?

After 2 years of strong economic recovery from the pandemic, 2023 saw a marked slowdown due to: (i) a cost-of-living crisis constraining private consumption; (ii) the ECB's sharp monetary tightening; and (iii) adverse geopolitical factors. These headwinds caused euro-area real economic activity to grow by only about ½% in 2023. The European Commission estimates that the euro-area economy operated well above potential in 2022 moving back close to its potential in 2023 (Graph 4.1). Notwithstanding weaker economic growth, labour-market performance continued to improve in 2023. The unemployment rate dropped further to a record low of 6.6% while vacancies remained elevated.

Graph 4.1: **Output gap of euro-area Member States in 2022 and 2023**

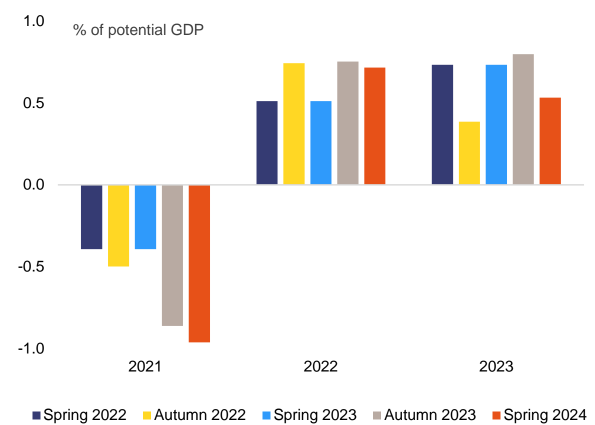


Source: EFB, based on European Commission 2024 spring forecast data.

The interaction between fiscal and monetary policy dramatically changed in 2022. The ECB's key interest rates rose by 4.5 percentage points between the beginning of 2022 and September 2023. At the same time, inflation kept surprising on the upside throughout most of these 2 years. A more restrictive fiscal policy would have helped monetary policy in pursuit of its inflation objective by reducing the need for monetary tightening.

The headline budget balance remained broadly unchanged in 2023, and the euro-area debt ratio continued to decrease to around 90% of GDP on the back of high nominal economic growth. The structural primary budget balance in the euro area improved in 2023 from 2.4% to 1.9% – in other words a restrictive fiscal impulse of ½% of GDP (Graph 4.2). However, keeping in mind that Covid-related support measures of 0.7% of GDP were phased-out in 2023, this even implies a small deterioration in the rest of the budget. The overall structural deficit, including interest payments on government debt, remained highly supportive in 2023 at just over 3.5% of GDP.

Graph 4.2: **Evolution of euro-area fiscal impulse estimates by vintage, 2021 to 2023**



Notes: A negative value indicates an expansionary fiscal impulse (i.e. change in structural primary balance).
Source: EFB, based on Commission forecast data from different vintages.

In recent years, the assessment of the fiscal impulse has become more complex as the Commission added different layers and applied ad hoc adjustments. This pertains to: (i) the special treatment of Covid support measures; (ii) EU-financed expenditures (incl. RRF grants); (iii) the GDP deflator to derive the expenditure benchmark; and (iv) the consideration of energy-support measures. Accounting for these elements can provide additional information, but it also obfuscates the general orientation of fiscal policy (Graph 4.3).

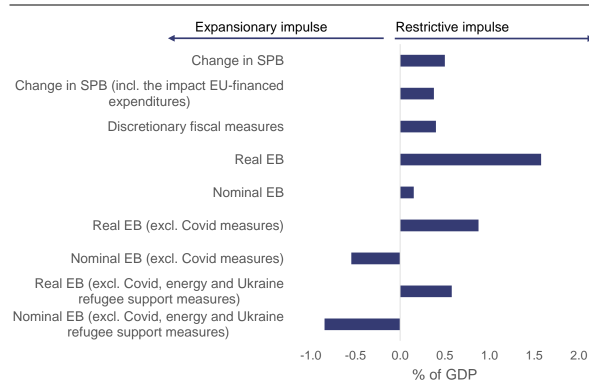
A closer look at alternative estimates (Graph 4.3) reveals that, like in 2022 ([89]), underlying expenditure developments in 2023 stayed on a trend that cannot be sustained in the long run (see Chapter 2 for a detailed analysis of underlying expenditure developments).

The withdrawal of discretionary fiscal support in 2023 signalled by the EB-approach results from an ad-hoc adjustment the Commission has applied since 2022 when switching from a 'nominal' to a

([89]) See EFB (2023b), Chapter 4.

'real' EB-approach (see Chapter 2 for more detail). The nominal approach used until 2022 indicates only a slightly restrictive fiscal impulse, which turns into a sizeable expansionary fiscal impulse if one excludes the withdrawal of Covid-related support measures (Graph 4.3) ([90]). The differences between the estimates derived from the 'nominal' and 'real' EB approach in 2023 are striking but not accidental. In the event of higher-than-expected inflation, the real approach lifts the benchmark rate for expenditure growth, while the nominal approach essentially keeps the yardstick for the assessment of sustainable expenditure fixed at the level underpinning budgetary plans ([91]). It may well be that part of the extra expenditure recorded in 2023 will recede as inflation moves back to the ECB's target. At the same time, a significant amount of higher expenditure may turn out to be permanent, as was the case for Covid-related support measures (see Chapter 2, EFB 2023).

Graph 4.3: **Euro-area fiscal impulse in 2023 by different metrics**



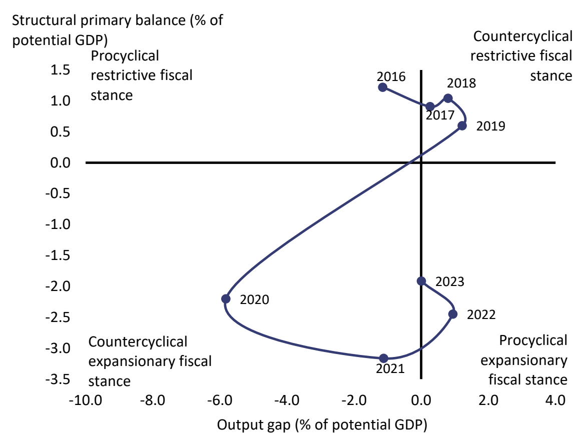
Notes: (1) SPB stands for 'structural primary balance'; EB stands for expenditure benchmark-based fiscal-impulse indicator.
(2) Discretionary measures represent the incremental budgetary impact of adopted or credibly announced measures, as compared with a 'no policy-change' forecast estimate based on judgement (bottom-up approach).
(3) The fiscal impulse based on a 'real' EB relies on outturn data for the GDP deflator while a 'nominal' EB relies on a frozen GDP deflator from the spring forecast of the preceding year (2022) to derive the benchmark and uses the outturn GDP deflator for the actual net expenditure growth (see EFB, 2023b).
Source: EFB, based on European Commission 2024 spring forecast data.

Lastly, the Commission gives special consideration to temporary support measures (Chapter 2). Despite a rapid decline in energy prices in late 2022 compared to their peak, the fiscal cost of energy-support measures only declined from 1.3% of GDP in 2022 to 1.0% of GDP in 2023. Thus, the impact of these temporary support measures on the fiscal impulse is small – even more so if only targeted measures are considered, which account for one third of all measures ([92]).

Overall, given fairly tight labour markets, output still close to potential and inflation above the ECB's target, a restrictive fiscal impulse for 2023 – as originally recommended by the EFB in its 2022 guidance – would have been appropriate from a stabilisation perspective.

Due to the loose fiscal policy in previous years, structural deficits started from a deficit close to 4% in 2022 (Graph 4.4). Thus, even a moderate withdrawal of discretionary fiscal support – foremost untargeted energy support measures – still leaves a considerable amount of fiscal support in the system. This point underscores once more the importance of distinguishing between the fiscal impulse and the fiscal stance.

Graph 4.4: **Euro-area fiscal stance, 2016 to 2023**



Source: EFB, based on European Commission 2024 spring forecast data.

Was the contribution to the euro area fiscal impulse of different countries appropriate?

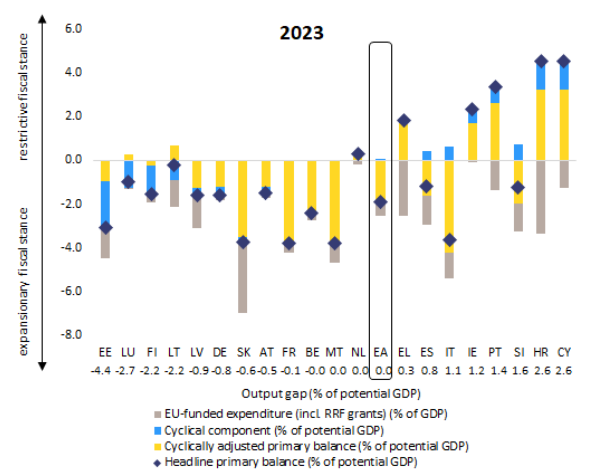
Economic growth decelerated and cyclical conditions worsened markedly in 2023 for all euro-area Member States (Chapter 1). Growth held up better in very high debt countries whose aggregate output is estimated to have operated somewhat above potential. This was in contrast to the euro area as a whole, where aggregate output was close to potential (Graph 4.5).

([90]) Normally, such temporary measures would simply be excluded from the structural balance but in this case a different approach was chosen (see EFB 2023b, Chapter 2 for more detail).

([91]) In spring 2022 the euro-area GDP deflator for 2023 was projected at close to 3% while outturn data points to close to 6%.

([92]) See the Commission's 2023 spring forecast and the Commission's (2023) Public Finance Report in EMU 2022.

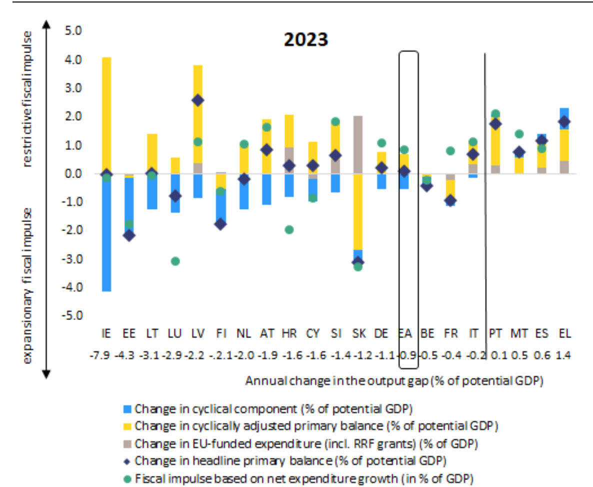
Graph 4.5: **Fiscal policy across Member States in 2023**



Source: EFB, based on European Commission 2024 spring forecast data.

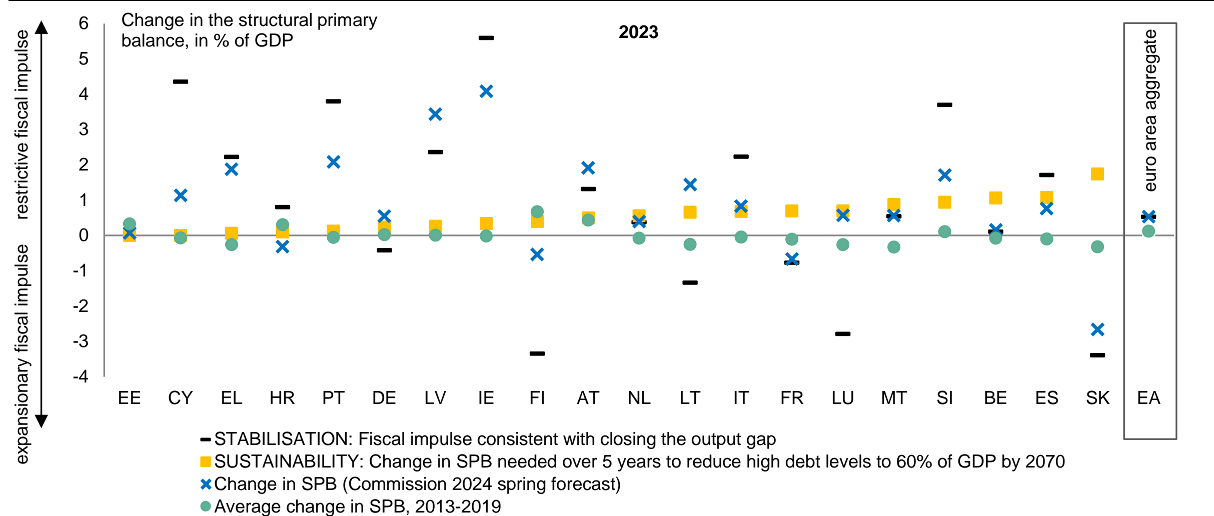
The European Commission's 2023 Debt Sustainability Monitor identified persistent risks to the sustainability of public finances in some EU countries. The report flagged nine euro-area countries as facing high risks in the medium term. Six of these countries could be classified as very-high-debt countries, as their debt-to-GDP ratio is 90% or more. The optimal contribution to the euro-area fiscal impulse should reflect cyclical factors but also sustainability risks. However, very-high debt countries contributed only ¼ of the euro-area deficit reduction in 2023 despite making up half of the euro-area's economic output – the inverse of what would have been prudent (Graph 4.6). The deficit in 2022 of this group was twice as high as the rest of the euro area. Thus, countries with a very high debt level could have reduced deficits more decisively and contributed proportionally more to the restrictive fiscal impulse of the euro area.

Graph 4.6: **Change in fiscal policy across Member States in 2023**



Notes: The depicted fiscal impulse based on net expenditure growth relies on the European Commission's new estimation method using the actual GDP deflator instead of the one underpinning fiscal guidance but includes the phase-out of Covid-related measures.
Source: EFB, based on European Commission 2024 spring forecast data.

Graph 4.7: **Overview: Expected national and aggregate fiscal impulse, stabilisation, and sustainability**



Notes: (1) Countries are ordered by increasing sustainability needs.
(2) Stabilisation: a neutral fiscal impulse (i.e. letting automatic fiscal stabilisers operate without any additional discretionary measures) is appropriate when the output gap recently changed signs or is expected to narrow at a sufficient pace. If not, the stabilisation point shows the fiscal impulse consistent with a reduction of the output gap by 50% compared with its 2022 level, using a uniform fiscal multiplier of 0.8.
(3) The new S1 indicator estimates the adjustment in the structural primary balance relative to a set baseline projection, which ensures that the debt-to-GDP ratio falls below 60% by 2070. The Commission's S1 indicator has been divided by 5 to stretch the required fiscal adjustment over 5 years. Estimates include the costs of ageing (see 2023 Debt Sustainability Monitor)
(4) In countries where S1 is negative, debt is already below 60% of GDP or expected to fall below it by 2070, and therefore no additional consolidation is needed.
(5) The sustainability estimate for the euro area is approximated by weighing countries by debt levels (in euro).
(6) Data for the stabilisation and sustainability indicator is based on the Debt Sustainability Monitor 2023 and the Commission's spring forecast of 2024.
Source: European Commission, own calculations.

5. FUTURE EVOLUTION OF THE EU FISCAL FRAMEWORK

5.1. INTRODUCTION

Agreement on the secondary legislation to change economic governance was reached by the EU legislators at the end of April 2024 [93]. The new framework, currently in the process of implementation with effect from 2025, is the outcome of a protracted process. It started in 2019, but was soon suspended, as attention had to be focussed on the major unanticipated challenges of the pandemic and of the energy/inflation shocks. It resumed, after surveys of a range of opinions, with negotiations based on the Commission's orientations of 9 November 2022, followed up by its legislative proposals of 26 April 2023, agreement in the Council on 21 December 2023, and with the European Parliament on 29 April 2024. To find compromises between preferences and divergent interpretations of past experience was a major achievement, unlikely to be modified in any major way for some time – the legislative text mentions end-2030 for the next assessment.

This long process may seem to make a chapter on the future of EU economic governance superfluous, at least until new experience has accumulated. But there is one clear lesson that emerges from the past: the results of a reform of the fiscal framework – and this is at least the fourth effort since the Treaty was agreed – depend crucially on its implementation. How will compliance develop? Will the Commission and Council be prepared to enforce the recommendations that follow from the rules? More basically, has the reform kept abreast of the major challenges facing national and EU policy makers in the coming years?

After a brief review of the main features in the design of the reform the chapter turns to the elements of residual uncertainty in its implementation. It further outlines some perspectives on how to fill what is a major omission in the reform: the absence of considerations of how to combine it with joint EU efforts to meet two central objectives of economic governance, viz. to sustain growth in the EU economies by providing public goods with a European dimension and to provide assistance following major economic shocks to what national automatic stabilisers can do to dampen their impact.

As regards the design of the agreed reform, the EFB regards its main new features as marking potentially significant progress in EU economic governance. The EFB takes pride in having been on record since 2018-2019 as proponents, together with other institutions and observers, of the main objectives the reformed framework aims to achieve: reduce risks of public finances becoming unsustainable, avoid pro-cyclical policies, offer incentives to improve the quality of public expenditures, and make the framework more transparent and simpler.

The EFB believes that the agreed reform addresses all of these four objectives better than the framework it is about to replace. It does so by endorsing a medium-term, nationally-differentiated approach to policy adjustments that can underpin the sustainability of public finances in the Member States that need it the most; by introducing stronger elements of ownership for national governments of their fiscal-structural plans, including incentives for undertaking growth-friendly public investment and structural reforms; and by simplifying an increasingly opaque rule book through emphasis on one main indicator in EU fiscal surveillance - the growth of (net) primary public expenditures relative to the trend of output in the economy. Some of these innovations offer the prospect that future EU economic governance will become more generally accepted nationally, implying better compliance than over the first 25 years since the start of EMU. A more constructive underpinning of the very particular role of the economic governance framework in the EU where fiscal policy remains, almost exclusively, a national responsibility is essential.

[93] Regulation (EU) 2024/1263 on the effective coordination of economic policies and on multilateral budgetary surveillance, OJ L, 2024/1263, 30.4.2024. Council Regulation (EU) 2024/1264 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, OJ L, 2024/1264, 30.4.2024. Council Directive (EU) 2024/1265 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, OJ L, 2024/1265, 30.4.2024.

However, as the EFB has underlined in earlier reports, a positive assessment of the design of the reformed framework does not in itself justify optimism that it will work as intended. The massive unforeseen fiscal challenges since 2020 were met with considerable success in stemming downturns, but the underlying national budgetary positions in most Member States are weaker than they were at the end of the pre-pandemic years ([94]). In addition, as shown in Chapter 2 above, in a follow-up to earlier EFB annual reports, public expenditures have been growing in recent years and across most purpose categories at a pace well above that of potential output, not least in some countries with very high debt.

Finally, new challenges – more foreseeable, but potentially as demanding as in 2020-2022 and less temporary – have arisen for public finances: the need for stronger defence and security; for better resilience and competitiveness of the EU economy in the face of increasing competition from trading partners that offer less fragmented markets and supportive policies, hence faster growth potential for their own companies, and increasingly uncertain supply of intermediate inputs of strategic importance. Finally, additional resources are needed to prepare for the extension of the EU with new Member States, primarily Ukraine with massive reconstruction needs. These challenges have to be addressed; the recent Draghi Report estimates that to meet them could require as much as 4-5% of GDP in additional annual investment, of which the bulk of financing will have to come from sources outside public budgets (Draghi, 2024), but still possibly leaving a burden on the latter – national and EU – of close to 1% of GDP.

Living up to the ambitious recommendations in the economic governance is becoming even more of an uphill fight. The difficult starting positions and growing inattention in the national political debates to the risks of undermining the sustainability of public finances were well known to the drafters of the reform (see the potential implications of ageing on fiscal trajectories in Box 5.1), but the other challenges mentioned above are becoming more pressing.

From this perspective, the reform now agreed on economic governance, despite the clear qualities of its design, remains work in progress. It will need to be followed up by decisions on the effort required from the public sector (national and EU) to meet the future expenditure challenges. That debate has gained momentum through the recent Letta and Draghi reports ([95]) focussing on the one hand on the evolution of the EU Capital Markets Union – or Savings-Investment Union – and on the other on the policies needed to maintain and strengthen the EU's place in an increasingly fragmented global economy. This debate will carry on with focus on the role of joint EU provision of strategic public goods. The negotiations on the next MFF are to begin in the second half of 2025 and its role in such a process needs to be on the agenda.

The EFB well understands why the Commission and the Council found it necessary to negotiate the 2024 reform of EU economic governance while maintaining an exclusive focus on national policies; the agenda would have been overburdened by bringing in the wider issue of the interaction of national and EU policies. In addition, the experience with the major joint initiatives of 2020, creating the NGEU, with the RRF as its central element, needs to be more carefully evaluated than has been possible so far, a task for the coming 2-3 years. Over this horizon the quality of EU economic governance will depend almost exclusively on the implementation of the reform now agreed. It is essential to get off to as good a start as possible.

([94]) The broad-based deterioration in the fiscal position can be illustrated by the change in the EU 27's structural deficit from 1% of GDP in 2019 to 3.4% of GDP in 2023, which was coupled with an increase in the aggregate debt-to-GDP ratio from 79.4% to 82.9%. There was a more pronounced negative trend for the group of very high debt countries, where over the same time horizon, the average structural deficit jumped from 2.6% to 5.5% as a share of GDP, while public debt increased from 111.1% of GDP to 118.1% of GDP.

([95]) Letta (2024), Draghi (2024).

Box 5.1: The role of demographic projections on the Commission's reference trajectory

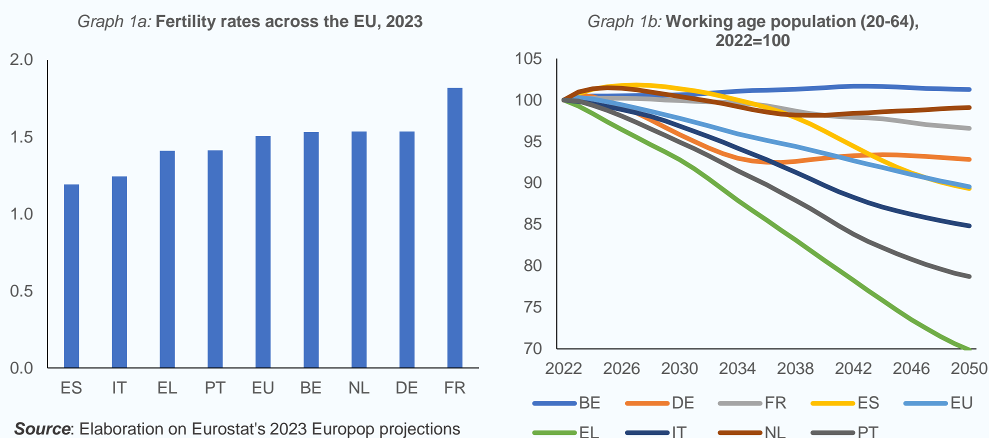
Demographic developments have a slow-moving but inexorable impact on a country's public finances. As a direct effect, an ageing society will face higher costs in (elderly) healthcare and pensions, while a shrinking labour force erodes the tax base and reduces the economy's potential growth rate. Moreover, economic growth can be attributed to either productivity gains or higher rates of employment. Therefore, any adverse demographic shift causing the labour force to shrink will, absent corrective policy measures, ultimately affect the sustainability of public finances because the existing stock of government debt has to be shouldered by fewer taxpayers. This is in particular a challenge for very-high-debt countries given their large debt stocks and their already declining workforces ([1]). In fact, it is precisely these very-high-debt countries that face the lowest fertility rates in the EU and where working-age populations are among those projected to decline the most rapidly in the EU (see graphs below).

The EU's reformed fiscal framework ([2]) is built on country-specific reference trajectories of fiscal adjustment derived from a debt sustainability analysis (DSA). The potential output-growth projections underlying the DSA heavily rely on both assumptions of productivity growth and the demographic projections – the latter are produced by Eurostat.

Some factors driving demographics, such as the fertility rate, tend to only gradually change, while others like net migration can be more volatile. Historically, there has been a tendency to overestimate demographic growth in developed economies (see Rees et al. (1999), Keilman (2020) or Ritchie (2023)). Our assessment of Eurostat's four Europop projections released between 2004 and 2013 suggests that, for many EU countries, the difference between the 10-year-ahead working-age-population projections and the actual outturn was sizeable ([3]), with some vintages over-projecting and some under-projecting. Zooming in on high-debt countries, their working-age populations were over-projected by close to 5 percentage points in the case of Portugal and Greece. Italy's population also turned out to be 2 percentage points lower than initially projected while Spain's outturn on average confirmed projections. These revisions can be the result of different rates of net migration, mortality, fertility or a combination thereof ([4]). Several of the very high-debt countries are among those countries with the lowest fertility rates (Graph 1a) and largest currently projected drops in working-age population in the EU in the coming decades (Graph 1b). As indicated, even these unfavourable demographic trends may end up being optimistic.

Graph 1a: **Fertility rates across the EU, 2023**

Graph 1b: **Working age population (20-64), 2022=100**



Source: Elaboration on Eurostat's 2023 Europop projections

Ageing reports rely on Eurostat data, which include several potentially favourable assumptions in the medium to long-term. For example, net migration is based on a linear interpolation between the current immigration/emigration levels

([1]) The working age population (aged 15-64) has been declining by 1% a year over the past decade in the very-high debt group of EU countries, i.e. Belgium, France, Greece, Italy, Portugal and Spain.

([2]) See European Commission (2024c).

([3]) These revisions should not be interpreted as indicators of the projection's quality. Long-term demographic projections are what-if scenarios that are exposed to an unusual degree of uncertainty including possible changes in policies that are impossible to anticipate. Nevertheless, revisions are a useful tool to analyse the impact of demographic uncertainty on the DSA and the reference trajectories under the revised EU fiscal framework.

([4]) Europop projections also include alternative scenarios that illustrate some of the risks. These scenarios are lower fertility, lower mortality, as well as zero net migration, lower non-EU immigration and higher non-EU immigration – see Eurostat (2023).

(Continued on the next page)

Box (continued)

and the average levels in 2003-2022 ([5]) ([6]). Similarly favourable is the assumption that there will be a cross-country convergence of fertility rates towards a group of Member States with currently the highest fertility rates. Likewise, the Ageing Report assumes a swift narrowing in unemployment rates and rising participation rates over the coming decades (see Eurostat (2023) and European Commission (2023d) for more details). UN population projections ([7]) show a somewhat faster decline in working-age population over the coming decades. This rapid decline would mean that the working-age population by 2030 for countries such as Italy, Greece or Portugal would fall back to levels observed in the mid-1980s.

Using the Ageing Report prepared by the Commission and the Ageing Working Group of the Council and applying an adverse demographic shock shows the potentially sizeable impact on fiscal sustainability of such a shock ([8]). By way of illustration, we introduce an additional annual reduction in working-age population in line with the projection revisions observed for each country in the past ([9]). In particular, we focus on high-debt countries where previous projections of demographic growth turned out to be too high. This approach would lower annual potential economic growth by a similar amount to the simulated demographic shock. All else being equal ([10]), this would mean governments may no longer be projected to fulfil the requirements of the reference trajectory, namely that of a plausibly continuous decline in the debt ratio after the initial adjustment period. If no action is taken, debt ratios at the end of the reference trajectory horizon (T+14 or T+17 or for the 2024 reference trajectories until 2038 or 2041) could be up to 10% of GDP higher due to the adverse simulated demographic shock.

As the DSA looks far into the future, and since the reference trajectories are designed with a 14- or 17-year horizon, it is worth noting that revisions to population projections can be even larger if one takes 20-year-ahead projections ([11]) for some high-debt countries. For Italy, the projection gap rises to 4% (i.e. the working-age population in 20 years' time could be 4% lower than forecast) while the gaps for Portugal and Greece are close to 10%. Thus, debt trajectories would deteriorate even further.

To ensure compliance with the EU's fiscal requirements, countries would either have to raise their productivity growth or undertake additional fiscal effort ([12]). The past decades have shown how difficult it is to lift productivity growth. In the scenario above ([13]), some countries would need to greatly increase their productivity growth to remain on the same debt path ([14]). Consequently, governments may instead have to undertake an additional structural fiscal adjustment of 0.2% of GDP annually between 2024 and 2028. This may seem small at first but accumulated over the years – and considering the need to maintain the 2028 structural surplus – this additional burden is indeed sizeable. Overall, in terms of risk management a careful assessment of demographic projections underpinning the EU's DSA is in order, and sufficient safety margins should be considered.

([5]) This method is used for projections in the period 2023-2027. Thereafter, immigration and emigration rates are assumed to converge across countries, narrowing cross-country differences in the long run. However, some differences are projected to persist due to a working-age feedback mechanism, i.e. decline in working-age population is assumed to trigger additional non-EU immigration.

([6]) For Member States that joined in or after 2004 the average immigration/emigration levels for the past 10 years are taken.

([7]) See UN Population and Demography dataset.

([8]) It should be noted that the reference trajectories entail three downside deterministic scenarios and a resilience to shocks based on a stochastic analysis. The stochastic analysis is based on quarterly data from the preceding 20 years and assumes a joint normal distribution with a zero mean.

([9]) Based on the Europop data from 2004, 2008, 2010 and 2013, which are the earliest publications available. The projection revision is calculated by comparing a 10-year-ahead projection with the 2023 outturn data.

([10]) For simplicity, the analysis does not consider the impact of changing demographics on the costs of ageing, which would further aggravate fiscal sustainability. The analysis also does not consider direct responses in investment or immigration policy.

([11]) Europop projections from 2004, 2008 and 2010 for 20 years into the future can be compared with current data from 2023, which are not too far into the future.

([12]) Another possible response to mitigate the demographic shock itself is through increased net migration into the country. However, overhauling immigration policy has proven politically difficult and comes with its own practical challenges, such as attracting skilled labour and fostering labour-market integration. In any case, the simulated demographic shock in this analysis could also be thought of as a negative net-migration shock in the first place.

([13]) Using the 20-year-head projection revisions for working-age population.

([14]) For Greece, Portugal and Italy, employment under the demographic-shock scenario would respectively be 13%, 8% and 4% lower in 2041 while, as a result, their debt ratios would be higher by 11%, 5% and 4% of GDP. Annual average productivity growth would have to increase by 50% in the case of Greece and close to 25% for Portugal and Italy in order to cancel out the simulated demographic shock – this feat would have to be achieved on top of the already favourably assumed increase in productivity growth implied by the Ageing Report (European Commission, 2023d).

The rest of this chapter consists of three sections. *First,* some issues of implementation to preserve the main qualities of the reform, are taken up, notably the relation between the new preventive arm and the broadly unchanged corrective arm during the transition to the new regime and beyond. *Second*, steps to better enable national institutional frameworks to transparently implement, monitor and get domestic acceptance of the reform are also brought up, since a stronger capacity of national IFIs to monitor the fiscal-structural plans of their governments and of the integration of a medium-term perspective in the annual budgetary process is key. *Third,* the interdependence of the national framework with joint initiatives, through financing by the EU or in other forms, is reviewed with special attention to the scope for joint provision of public goods with a European dimension.

5.2. IMPLEMENTATION OF THE ECONOMIC GOVERNANCE REFORM

While bolder and more innovative than the several earlier reforms of the SGP, underlying difficulties in implementation evident throughout more than three decades are likely to remain. How is the sustainability of public finances to be monitored through debt and deficits? What is the appropriate time horizon for policy recommendations?

The Treaty established procedures to correct departures from prudent fiscal policies, defined by the thresholds of 3% of GDP for public deficits and 60% of GDP for public debt; such departures, beyond those that could be regarded as 'small, exceptional and temporary' were to be seen as gross policy errors, justifying EU recommendations for adjustments – the corrective arm with its elaborate sequence of procedural steps outlined in TFEU Article 126, ultimately backed up by financial sanctions. The Treaty also defined (Article 121) coordinated actions to make such errors less likely – the preventive arm.

The main purpose of this framework was to reduce the risk of undesirable spillovers across borders of financial instability, triggered by unsustainable public finances in one or more countries. This purpose was pursued by focussing surveillance on the level and evolution of public debt and/or of the annual deficit. Both could lead to the launch of an EDP. However, the deficit-based EDP became the dominant element in the EU fiscal framework from the first version of the secondary legislation in the Stability and Growth Pact (SGP) of 1997. This was because up to 2008 sustained nominal rates of GDP growth of around 5% per year ensured a convergence of the debt ratio towards 60% by staying below the 3% of GDP deficit threshold, especially in high-debt countries.

Under these assumptions, an emphasis on the deficit seemed a good proxy for determining the pace of debt reduction. Opting instead for directly targeting the latter would anyway have been greatly complicated by the fact that EU countries started out from very different debt ratios, making it hard to determine 'a satisfactory pace of debt reduction', a step that would have required tailored national plans rather than the uniform rules.

Unfortunately, during much of the life of the framework, the assumption of near-automatic longer-run consistency between the two reference values for deficits and debt in TFEU Protocol 12 proved not viable. This was, in particular, the case during the decade following the financial crisis; both the rate of growth of real GDP and of its deflator were below the anticipations in the design. Gradually, despite the help of historically very low borrowing costs, a 3% of GDP headline deficit – and even more a slow reduction towards that level and hence exit from the EDP – did not necessarily imply a declining path for the debt ratio in countries where the latter was high and economic growth low.

A major effort to more directly achieve this outcome was made in 2011 after the jump to very high debt levels following the global financial and the euro area debt crisis. However, the so-called one-twentieth rule, which aimed to gradually eliminate the excess of the national debt ratios over 60% of GDP in time proved overambitious; it would have implied fiscal consolidation of a size and duration seen as politically unrealistic as well as unprecedented not only in the EU, but in the global experience; see EFB (2019a).

In part by choice, in part due to past inability to find an appropriate formulation of how to approach a medium-term sustainability objective, the deficit-based EDP remained the central instrument in the toolbox of EU economic governance, confirming its position as compass of the national political debate and among the general

public. Compliance with it did have a visible impact ([96]), though in part by clustering deficits close to 3% (Caselli and Wingender, 2018), EFB (2019a).

This experience with the deficit-based EDP, the unease with the Commission's consecutive postponement in launching any new EDP in 2020-23 with reference to a 'severe economic downturn', later to 'uncertainty' (see Chapter 2), and the realisation that public expenditures were rising faster than expected, contributed to the Commission's announcement in 2023 that EDPs would be launched in spring 2024 based on budgetary outcomes for 2023. This sequence of events also provides the background for the Council decision that the deficit-based EDP was to continue under unchanged secondary legislation (ECOFIN Resolution of 14 March 2023) – seen by many countries as an essential element of compromise in arriving at reforming the economic governance framework into untested territory.

The EFB has supported the retention of the deficit-based EDP in recognition of these arguments and to avoid the perception that the transition to the reformed framework implied entering a softer regime than the existing one (EFB, 2023).

However, the EFB has concerns that in the transition to the reformed system the deficit-based EDP procedures could eclipse the main new and positive features of the new framework: the medium-term, nationally differentiated perspective, combining more national ownership and responsibility.

At a minimum, the way in which implementation seems to be envisaged reflects a lack of confidence in the ability of the Commission and the Council to apply the new framework as designed. If it were applied as intended, simulations conducted, e.g. by Bruegel on the basis of the debt sustainability analysis (DSA) of the Commission, suggest that the adjustments required through the fiscal-structural expenditure plans under the new Regulation of the preventive arm would in most cases be larger than the minimum requirements under a deficit-based EDP. That seems to be the case, even when a country obtains an extension of its adjustment from four to seven years.

A simple solution to this problem (the risk of a lower adjustment requirement under a deficit-based EDP) could be to make clear that exiting a deficit-based EDP will be only a necessary, not a sufficient condition for getting a clean bill of fiscal health. The agreement would then be to a plan that the annual adjustments exceed the minimum requirement of 0.5% of GDP under the EDP, if needed. One might label this approach the primacy of the more demanding of the two perspectives.

The EFB would have a preference for such an approach. It would be paradoxical for national governments and the Commission to have spent more than a year to carefully negotiate an economic governance reform based on operationalising an analytically-based framework for debt reduction, only then to revert primarily to previous practice at the implementation stage.

In June 2024, the Commission chose to separate its long-promised announcement of EDPs (for seven countries on the basis of their 2023 outcomes) from its fiscal policy recommendations. A motivation for this decision could be to avoid an apparent dissonance between the restraints emanating from the preventive arm and those stemming from the corrective arm. This separation in EDP steps not only deviates from established practice, but it is at odds with the legal provisions describing the steps in TFEU Article 126, 5-7 as simultaneous. After all, if well implemented, the new corrective arm should devise fiscal trajectories consistent with debt sustainability, whose restauration is precisely the aim of the corrective arm. Chapter 2 above duly questions this separation, which has also added uncertainty to the precise adjustments that will be required of the seven countries until late this year when the expenditure plans and the Draft Budget Plans become available. Announcing the adjustments under the deficit-based EDP in June would have avoided these concerns. The Council nevertheless accepted the separation affirming that it should not create a precedent. Such confusion should be avoidable in future surveillance cycles as relevant information will be available much earlier. Still, in the transition phase the coexistence of a thoroughly amended preventive arm and a broadly unchanged corrective arm might weaken the benefits of the reform.

There are elements of a trade-off here between showing the mutual trust required for putting a more flexible, but in principle tougher, economic

([96]) See the compliance tracker of the Secretariat of the EFB.

governance in place, and relying on the well-known, but more arbitrary previous framework. While the EFB appreciates the political compromise needed to finalise the reform, the two distinct perspectives can and should complement each other, as appropriate.

One additional quality at the core of the reform – reliance on a thorough analysis of sustainability risks – should not be altered by future practice. The reform envisages that questions about the analysis used by the Commission in its DSA underpinning the reference trajectories prepared in advance of the national expenditure plans will arise. These questions should be raised at the technical expert level, i.e. the Potential Output Working Group (POWG) where the methodological issues in the fiscal framework have been resolved over more than two decades in exchanges between Commission and national experts.

The latter will at times have more updated and reliable information to add to or challenge the analysis in the Commission's DSA, including estimates for potential output. Some countries have already provided challenges relating to demographic assumptions and/or the size of fiscal policy multipliers. Hopefully, some of these issues will already have been clarified in the technical dialogues the Commission has conducted when its reference trajectories were communicated to governments. It is important for the status of the common DSA-methodology and of the methodology for estimating potential output that such challenges are not raised directly at the political level, a risk that did materialise occasionally in the past. The estimates of potential growth of national economies must be validated carefully and restrictively in the POWG, not least in the transition to the reformed framework. Nor should they be changed in the light of short-term developments. The same holds for the DSA-methodology more generally, which is in any case under the purview of a Council committee. In principle, the DSA is a richer approach to reliance on an arbitrary debt ceiling. If implemented well and based on unbiased hypotheses and forecasts, the DSA, especially its stochastic variants offers an assessment of the risk for a government to lose control of medium-term debt dynamics under feasible policies. Thus, a key innovation of the reform could be undermined, if the DSA was subject to political manipulations.

5.3. STRONGER NATIONAL FRAMEWORKS TO IMPLEMENT REFORMS

Another important issue to be reviewed again in the early stages of implementation is the role of independent advice in monitoring national fiscal policies. The literature on economic governance brings out that the institutional framework for implementing rules is as important as the design of the rules themselves, see e.g. Wyplosz (2005).

In this respect, the recent fiscal governance reform may seem somewhat unbalanced by focussing strongly on the rules, with less attention to the institutional requirements for implementing them effectively and transparently. This is a missed opportunity to fully exploit the potentially strong complementarities between IFIs and fiscal rules (Beetsma and Debrun, 2018).

The reform marks considerable progress in advancing ownership by national governments – design of expenditure plans, hence better prospects for their domestic political legitimacy - but it seems overly optimistic in meeting the requirements for transparency and national monitoring. Two examples will be briefly reviewed here: (1) the role of national independent policy advice, and (2) the continuing weak standing of multi-year perspectives in the annual budgetary process in most EU Member States.

The contribution of national independent fiscal institutions (IFIs) to monitoring policies and the assumptions underpinning them has had a positive impact over the past decade on the transparency of these issues in the domestic policy debate. The EFB has recorded the main achievements and problems in subsequent Annual Reports since 2017, devoting, as is part of its mandate, particular attention to developing 'best practices'. Chapter 3 above reviewed the main experience of the EU IFIs over the last decade, summarising in detail the dimensions of independence required to strengthen their capacity to provide advice. It concludes that the Commission, the main beneficiary of such an enhanced capacity in its own surveillance, could have intensified its efforts to monitor and encourage such an agenda, though it would no doubt have met frustrations in trying.

The reform negotiations revealed reluctance among many governments to advance the role of independent inputs in fiscal policy formulation and implementation. Support was available for

continuing the role of IFIs under the provisions of the existing regime, and the Commission obtained Council agreement for an extensive listing of IFI competencies (Directive (EU) 2024/1265 Article 8). The most notable new elements are the extension of the obligation to set up an IFI to non-euro EU Member States, and a comply-or-explain process as part of EU legislation for a government following or not following advice from its IFI.

But there was no agreement among Member States for a more prominent IFI involvement in the revised preventive and corrective arms. IFIs' role would be contingent on the government choosing to ask for their opinion – and then only on the macroeconomic assumptions and forecasts on which the plan is based (Regulation (EU). 2024/1263, Article 11(2)), not its impact on the national economy, including the path of debt. Nor is a mandatory role for IFIs envisaged in the evaluation of the annual reports on implementation of - and departures from - the expenditure paths.

National IFIs are highly diverse, reflecting different political and institutional realities. Some have neither the budgetary resources nor the diverse experiences required for evaluating medium-term fiscal-structural plans (MTFSPs); however, for many other IFIs undertaking sustainability analysis and detailed studies of public expenditures in spending reviews or in the costing of new programmes would be familiar territory. It is therefore disappointing that a general reservation on the scope for independent review and advice on the expenditure plans is based on the as yet uneven capabilities among national IFIs. Article 11(2) of the new preventive arm Regulation (EU) 2024/1263 makes the issue of opinions by IFIs mandatory only from 1 May 2032. The opinions would still only address the assumptions and forecasts behind the plans, not the latter themselves and their impact. This seems an unwarranted caution in a reform that is meant to make the new regime more transparent and to add more substance to national ownership. And, even by 2032, Article 11 foresees an assessment that the IFI must have 'built up sufficient capacity' to issue an opinion. It is unclear what the criteria will be for such an assessment; they presumably will go well beyond the strengthening of independence provisions by the end of 2025 which the Commission is committed to monitor. While those provisions do seem rather general (see Chapter 3), it would be difficult to find a clearer illustration of the inadequate role of IFIs than the ambiguity with which many governments treat the issue of bringing their IFI up to the level of capacity at which their advice has to be taken into account.

The absence of a legally mandated assessment by national IFIs will pose problems for the Commission's ability to conduct surveillance of the national expenditure paths. The EU institutions would benefit from the availability of a second, well-informed national opinion. But each country tends to be inward looking, fearing only that its national IFI could become a political nuisance at home, while ignoring the positive impact of better fiscal policies as a result of having stronger IFIs throughout the EU.

At home, governments rightly see the preparation itself of medium-term expenditure plans as an essentially political task which independent expert bodies have to take a back seat. They are also right that a perception of enhanced ownership will depend more directly than the evaluation of its IFI on government consultations with a range of stakeholders – civil society, social partners, regional authorities, the national Parliament are mentioned in Article 11 of the new preventive arm Regulation – prior to the submission of the plan to the EU institutions. However, such wide-ranging consultations would benefit considerably from stakeholders having access to the opinion of the national IFI. The latter will be a reinforcement of the democratic process, not a substitute for it.

Turning to the initial implementation of the new framework and the central role of the expenditure paths about to be submitted, the elaborate process of preparing such a plan (to submit to the EU a national expenditure plan), followed up by annual reports on its execution, raises another concern regarding the transition to the reformed governance framework. The key idea of the new framework is to increase national ownership of the fiscal rules, by allowing each country to present its own plan, although within the constraints of the agreed upon objective (putting debt over GDP on a 'plausibly declining path' in the future). It is therefore unfortunate that the first application of the new framework occurs in such a compressed time span. The adoption on the reform at end of April 2024 led to a hasty introduction of the new system (reference trajectories proposed late in June, MTFSPs to be presented by 20 September). It is not obvious that member countries are ready to apply the new system in such a short time interval.

The problem is both technical and political. On the political side, ideally 'ownership' of the MTFSPs would require that not only the parties in government, but also the opposition, social partners and civil society are consulted. There has to be a widely shared understanding and commitment to a Plan that will constrain public finances for several years, including defining *ex ante* important investments and reforms. This would require open debates in and out the Parliament, extensive coverage by the media and detailed interventions by experts, all elements that are impossible to organize in the short period of time allowed in the first application of the framework. The risk is then that the Plan remains a mechanical exercise without a real grip on future fiscal behaviour. A weak start might compromise the new system.

On the technical side, medium-term budgeting and planning is alien to the budget preparation processes of many countries, used to consider next year's budget as the only document with legal basis and force. Planning for the medium-term will require revising budgetary forecasting methods, modifying budgetary procedures, even revising the preparation and presentation of budgetary documents – all changes that will need to be understood and owned by public officials and parliamentary representatives. While the process is likely to lead eventually to an improvement of planning capacity, it is a process that takes time, that will be lacking in the first application of the process.

This technical problem is compounded by several unsolved implementation issues. For instance, it is unclear how exactly a 'discretionary change in revenues' will be estimated, and how the effect of an unexpected change in inflation (on a target, such as net spending, that is defined in nominal terms) will be treated. The Commission is on record in wishing to avoid the pitfalls of 'complete contracts' (i.e. defining *ex ante* how any potential contingency will be treated in the application of the rules) but more transparency on key implementation points would have been clearly desirable.

Finally, and still concerning the first application of the new framework, it remains unclear how fiscal slippages in 2024 will be treated by the Commission when monitoring the implementation of the expenditure path for 2025, another issue that might undermine a smooth start for the new system.

5.4. NATIONAL AND JOINT EU FISCAL EFFORTS TO SUPPLY EUROPEAN PUBLIC GOODS

As mentioned above, strong decentralisation will remain a feature of the reformed EU fiscal framework. Dominance of guidelines for national fiscal policy, accepted by governments as a constraint on their actions, continues to be the natural outcome in an EU where national budgets typically constitute 40-55% of GDP, while the joint EU budget has remained in the order of 1% of the Union's GDP over decades. The EU is not - and is not intended to become, at least in(to) the near future – a federation with major changes in the relative scope for action at the national versus the supranational level. Nevertheless, the literature and experience of fiscal federalism raises some issues that are highly relevant to the EU, notably as they relate to the provision of public goods that have a European dimension.

These issues were recognised by the Commission already half a century ago when EU integration was in danger of breaking up following the first energy shock and the divergent national responses to it. A jointly-decided stabilisation mechanism in the face of common shocks, supplemented by conditional EU lending, to bring about coordinated adjustments in increasingly divergent economies was seen as one type of public good that was out of reach for national policy governments. The other type of public goods, likely to be undersupplied in a group of countries, increasingly integrated through trade, but with fully decentralised fiscal policy making, is public investments in transnational projects, if the efficiency of undertaking them can be argued to be greater at the EU than at the national level.

The case for both types of public goods was made notably in the McDougall Report to the Commission (1977), with extensive illustrations of what realising them would imply for a 'pre-federal' EU budget. But further discussion of them soon stalled. The need for joint stabilisation became less obvious at the end of the 1970s as advances in monetary integration were given priority, promising more indirect mechanisms for coordinating national fiscal policies. And the cost of undertaking and financing even a small part of the expenditures meeting the criteria of allocative efficiency made any proposals look premature to the national policy makers who drafted the Treaty. The bar to undertaking tasks jointly was put particularly high

through adoption of the subsidiarity principle (TFEU Article 5), underlining the key role in national sovereignty of decision making on public expenditures and revenues.

The financial and sovereign debt crises and their aftermath raised the issue of joint supply of both types of public goods mentioned. Some international shocks impacting the whole of the EU were too large to retain the view that the joint monetary policy, combined with the sizeable automatic stabilisers in national budget would provide adequate stabilisation. Future financial risks to public budgets were reduced by tighter regulation and supervision of financial institutions and markets, and a crisis management and lender – the ESM – was set up to restore access to financial markets for four EU countries that had lost it, and proposals for joint stabilisation reappeared. In the environment of historically low interest rates over a decade from 2012 the arguments in favour were strengthened by the constraints on the capacity of monetary policy to provide stimulus due to reaching the zero lower bound for its policy rates. Earlier studies and EFB reports (see e.g. Carnot et al., 2017; EFB, 2018a) produced estimates of the size of a joint stabilisation mechanism required, but the idea never attracted political momentum in the pre-pandemic years. One further complication lay in the question: Was the mechanism to be accessible for countries that had adopted the euro or for all EU Member States?

The slow recovery from the crises did revive the perception that more needed to be done to protect the future potential growth of the EU economies; a major part of the burden of fiscal consolidation had taken the form of postponing public investment, hence undermining longer-term growth. Incentives had to be provided to governments to protect growth-friendly expenditures, but proposals focussed on making allowance in the national fiscal frameworks for investment, through so-called Golden Rules. However, the eligibility for such allowances was to be monitored restrictively, while the practical implementation in countries that had experience with such rules was marked by difficulties of defining the borderlines of the allowances.

The dual transition – climate and digital – became the top priority for EU policy makers, providing ready examples of how public investment in these areas could in part be more efficiently undertaken by the EU – or by a group of Member States – than through national initiatives (see e.g. Fuest and Pisani-Ferry, 2019). The outbreak of the pandemic widened attention beyond the clear cases for joint supply of public goods in the two transitions to a broader range of national expenditures that could qualify as being in line with EU objectives.

The NGEU of 2020, with the Recovery and Resilience Facility (RRF) as its central part, broke several red lines but failed to be the 'Hamiltonian moment' hoped for by some. It opened up for large EU borrowings, about half of them to be transferred to Member States as grants rather than loans, and, aided by the absence of moral hazard specific to a pandemic, it had explicit redistributive aims. But just as the pandemic itself, it was seen by many Member States as a one-off initiative reflecting a peculiar event. Far from being a centralised action, it retained a strong element of decentralisation without moving in the direction of jointly supplying public goods with a European dimension.

Among the initiatives taken during the pandemic one should also mention the SURE mechanism that allowed countries to borrow at subsidised rates to support national social insurance schemes ([97]). The mechanism expired with the end of the pandemic. However, this mechanism could provide an example of a macroeconomic stabilization instrument that could be used more generally to address asymmetric shock. As argued in previous EFB reports (see e.g. EFB, 2019a), a rainy-day fund coupled with the possibility of accessing to cheap loans in case of a crisis (perhaps funded by ESM) could help countries to better weather unexpected crisis. Making access to loans conditional on compliance with fiscal rules would also provide a powerful incentive to stick to the rules.

The RRF is instead still in place and will continue its important funding role until at least the end of 2026. A full evaluation of its achievements must then wait. What is clear, however, is that most of the public investment projects supported are small-scale and very rarely have an impact beyond national borders. More thoroughly monitored by the Commission through milestones and targets than any earlier EU funding of national projects, their impact on the macroeconomy or on public finances cannot be precisely assessed, only their

([97]) See the Commission's reporting on the SURE mechanism.

compatibility with broad EU policy objectives. But what can be concluded at this point is that the RRF has protected national public investment against the cutbacks observed after the financial crises, both through helping finance national projects and by introducing a floor under national investment generally as a condition for its transfers and loans.

In view of the massive additional challenges that have materialized or intensified since 2020 the case for the EU to take on the planning and the financing of the supply of the public goods needed to meet them is becoming more realistic - and less objectionable also to those attached to (the) a defensive interpretation of the subsidiarity principle.

While some examples of detailed EU interventions may justify such defence, the implementation of the subsidiarity principle arguably requires a major update, if one considers examples of public goods unlikely to be supplied nationally, but for which the need is growing rapidly, particularly in view of the poor performance of the EU in the last two decades in terms of growth and productivity and the challenges created by the double transitions and the new geopolitical scenario. The recent report by Mario Draghi (2024) lists some examples for EU public goods: infrastructure related to the energy transition, e.g. for the transportation of hydrogen and the expansion of electricity grids, high-speed railways, pan-European road networks, a common military defence infrastructure and the provision of medicines and vaccines. Let us then consider the economic arguments for (and against) delivering and financing some of these public goods at the EU-level, and review relevant EU small-scale experiments.

Wyplosz (2024) applies the theory of fiscal federalism to discuss the trade-off between delivery of public goods at the national or the European level. An argument in favour of the latter is the presence of positive cross-border spill-overs. For example, an expansion of the electricity grid in one country helps other countries to mitigate an excess demand or supply of electricity when the grids are properly connected. Another argument for provision at the EU level are potential economies-of-scale ([98]). For example, an air defence system at the EU level would be cheaper (and more effective) than each country setting up its own system. Arguments for national provision are differences in national preferences and information asymmetries between the EU and national levels about how a public good is best provided. Of course, these two arguments have to be balanced against the cross-country heterogeneity in preferences for specific public goods and relatedly, the local informational advantage that might play a role in the effective delivery of those goods.

Existing arrangements

First, the EU budget contains already a number of European Public Goods (EPGs) of a more general nature, such as cohesion policy, which promotes political unity, thereby maintaining support for the single market. The common agricultural policy (CAP) has, at least in principle, an environmental dimension ([99]). However, there are new or unaddressed needs and priorities that call for more spending on EPGs. This raises the issue of financial space and resource pooling. It also raises the political issue of vested interests and de-facto income transfers compared to the current division of funds.

Second, the fiscal rule book has been revised leaving room for investment expenditures with benefits potentially transcending the national borders. As discussed above as part of the new rulebook, countries need to present MTFSPs. These have to show how these plans ensure the delivery of investments and reforms (i.e. addressing the Country Specific Recommendations (CSRs)). Moreover, they have to explain how they address listed common EU priorities, which include the fair and green digital transition, social and economic resilience, ensuring energy security and, where necessary, build-up of defence capabilities. Countries can also ask for an extension of the adjustment path, on the condition that the measures underpinning the approval of the extension enhance the growth potential and

([98]) Using a benchmarking analysis based on best practices across countries, Bordignon et al. (2020) estimate the amount of waste in public spending in the areas of healthcare, climate and energy policy, social protection and defence. They find a potential for substantial savings in each of these areas. In itself, this is not enough to conclude that spending in these areas should be shifted to the EU level, as there is no a priori guarantee that the EU can provide these allocations at lower cost. A supplementary analysis of returns-to-scale and spill-overs suggests that these are particularly large when it comes to procurements in the areas of healthcare and defence, arguing in favour of shifting at least part of these procurements to the level of the EU.

([99]) Like cohesion, it also disarms some of the opposition coming from major income redistribution caused by trade ultra-liberalisation within the EU.

resilience, improve fiscal sustainability, address EU priorities, address the CSRs and protect the public investment level.

Third, the RRF stimulates reforms and investments by providing grants and loans, using innovative financing through the issuance of EU debt. However, RRF investments have a high degree of granularity and are nationally oriented.

Fourth, there are the so-called Important Projects of Common European Interest (IPCEI) ([100]). However, these projects do not receive central funding at the moment. Conditions underlying the IPCEI are that the market alone is unable to deliver these investments, because the risks are too large for an individual player, and that they result in concrete positive spillovers for the EU economy at large, involve at least four Member States and involve co-financing by companies that receive state aid.

Fifth, there exists a number of instruments (see the appendices in Demertzis et al., 2024) that are relatively small and fragmented ([101]) serve a variety of purposes and may overlap. Some are of an EPG nature, such as the Connecting Europe Facility ([102]). However, not all these instruments are intended to serve a role as an EPG by exploiting economies-of-scale or the benefits of cross-border spill-overs. An example is the Just Transition Fund ([103]).

A classification of EPGs

Table 5.1 classifies EPGs along the dimensions of delivery (national or EU) and financing (national o(f)ro. EU). 'RRF-type' EPGs are centrally-financed EPGs that are delivered at the national level. For example, countries could receive EU-funding for putting in place a hydrogen infrastructure. However, the incentives to put in place an infrastructure with sufficient capacity would be unduly weak, as there would be insufficient internalisation of the positive cross-border externalities.

Hence, such an infrastructure may be better provided as a 'genuine EPG'. EU-level delivery would in this case refer to the size of the investment and composition across member states being decided at the level of the EU. However, genuine EPGs may for political reasons only be a remote prospect in a number of instances.

An in-between step on the way towards genuine EPGs would be formed by expanding joint procurement, for example in the area of defence ([104]). Another in-between step would be enhanced coordination of national activities. Such coordination would need to be well-managed, as it could otherwise run into complications. In particular, externalities need to be properly internalised ([105]).

Draghi (2024) makes the case for more coordination of public Research and Innovation (R&I) across member states, by establishing an R&I Union and a joint formulation of a common R&I strategy and policy.

Table 5.1: **Classification of EPGs**

		Delivery	
		EU	National
Financing	EU	(A) 'Genuine' EPGs	(B) 'RRF-type' EPGs
	National	(C) Projects financed by externally assigned revenue	(D) Coordination of national activities

Source: Beetsma and Buti (2024)

Financing of EPGs

There are three main ways to finance EPGs. The *first* would be via 'carve outs' from the net primary spending indicator in the new fiscal rulebook. Such carve outs are permitted for the national co-financing of EU-financed projects, but not more broadly. There are several issues with such carve outs. First, governments may simply relabel certain types of expenditure. Second, the link (with) between the indicator and debt sustainability becomes weaker. Third, carve outs constitute a permissive, rather than an encouraging, incentive,

([100]) The legal basis originates in Article 107(3)(b) of the TFEU, following which '…aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in an economy of a Member State may be considered compatible with the internal market.'

([101]) A flaw also pointed out in Draghi (2024).

([102]) https://cinea.ec.europa.eu/programmes/connecting-europe-facility_en.

([103]) https://ec.europa.eu/regional_policy/funding/just-transition-fund_en

([104]) Substantial savings seem possible with joint procurement (e.g., Bordignon et al., 2020). Joint procurement may also entail other advantages, such as the development of a competitive internal market in the relevant area, as argued in Nicoli and Beetsma (2024).

([105]) A simple example is the following. Consider the case of an expansion of the capacity of national electricity grids. Countries with a larger hub function (more centrally located countries) would optimally need to expand more as the beneficial spill-overs to other countries are larger.

which tends to be insufficient, especially if the rules themselves do not constitute a powerful instrument influencing national-level policy-making. In this regard, it is relevant to notice that some countries choose less investment than they could by imposing more fiscal self-restraint than needed to adhere to the rules of the Stability and Growth Pact (Szczurek, 2024).

The *second* would be a dedicated fund for EPGs. The case for an EU central fiscal capacity (CFC) has been made in publications by various institutions, such as the IMF ([106]), the European Fiscal Board ([107]), the European Commission ([108]) and the European Central Bank ([109]). Many proposals envisage a CFC for macroeconomic stabilisation, which would complement ECB policies in particular when interest rates are at the zero lower bound. A precursor of sorts was the Support to mitigate Unemployment Risks in an Emergency (SURE), which aimed at preserving employment during the Covid-19 crisis. However, here the capacity to finance EPGs is discussed ([110]).

Bakker and Beetsma (2023) and Bakker et al. (2024 a, b) discuss a fund from which countries can draw to finance projects that benefit not only themselves, but also other countries, or maybe even the whole EU. An advantage of the fund is that the total outlay is restricted to a pre-set amount and that the period during which the fund is active is known ([111]). Recourse to the fund is conditional. First, countries can only draw money from the Fund, if they adhere to the fiscal rulebook, i.e. not being in an EDP or not taking effective action when in such a procedure. This conditionality adds the benefit of incentivising prudent fiscal policies, which at the same time makes fiscally disciplined countries that are critical about further EU financial integration more willing to accept such a new fund. Second, expenditures from the fund are limited to projects with a positive net present value and that benefit multiple EU countries. Assessment of the business case of a project could be done by the European Investment Bank, which should ideally also take a stake in the project, to have skin in the game and be incentivised to provide a thorough assessment. Each country gets an envelope in the Fund. Not fully using the envelope means that the remaining resources are distributed over the other countries ([112]).

The *third*, politically most far-reaching, solution would be to include EPG provision in the multiannual financial framework (MFF). This could be done within the current EU budget, hence substituting away some other expenditures towards EPGs or giving some current expenditures a stronger EPG focus. Alternatively, or in addition, this could be done with an increased EU budget to cover the additional spending on EPGs. A permanent long-term increase in EPG spending can conceivably only take place via the MFF. This would also require permanent additional resources for the EU, ideally through additional own (tax) resources of the EU. Some of this is already foreseen with the carbon border adjustment mechanism ([113]).

Introduction of EPGs does not a priori call for higher overall public spending. Hence, in those cases in which EPGs are collectively funded, i.e. the above second and third option, one should expect EPGs to substitute for national public goods and their financing from central resources to substitute for national financing. That is, an increase in contributions to the EU would go along with lower national taxes and an increase in EU debt issuance would produce a corresponding reduction in national debt issuance.

Implementation (of conditionality)

Crucial for a successful introduction of EPGs will be their implementation, especially the application of conditionality. Depending on the type of project to be financed and the financing mode, conditionality may be applied along two dimensions: adherence to the SGP and the progress with an EPG project.

([106]) See Arnold et al. (2018) and Berger et al. (2019).
([107]) EFB (2018b).
([108]) See Commissioner Gentiloni's intervention at an ECB conference on 2 December 2021.
([109]) Opening remarks by Fabio Panetta, 20 September 2023.
([110]) In fact, this is one of the roles Panetta (see above reference) sees for a CFC, besides macroeconomic stabilisation and supporting public investment at the national level.
([111]) If this is politically easier, one might start with a coalition of the willing.
([112]) A variation of this compartment idea would be in the area of defence, with a contribution of 2 or 2.5% of GDP that can be netted out by national defence spending (so only countries with sub-2 or sub-2.5% defence spending pay).
([113]) For a comprehensive overview of current and potential future EU own resources, see https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/revenue/own-resources_en

The nature of the project is important for the question whether to impose conditionality on fiscal performance in line with the SGP. Expenditures on EPGs that benefit the entire EU and bring about no or very limited redistribution, should not be subject to this type of conditionality. It would be difficult to exclude a country from benefitting from such a project and not financing it, because one or more Member States do not abide by the fiscal rules will harm all Member States. A typical example would be a pan-European air defence system, a prima facie example of "genuine EPG". Somehow excluding a country from participating would undermine defence of all countries. By contrast, EPGs that do not benefit all countries (to a roughly comparable extent) produce redistribution, because all countries make a contribution to their financing. This creates a case for fiscal conditionality. An example is a high-speed railway, which typically links at most a limited set of countries, hence which directly benefits only these countries.

When it comes to conditionality based on fiscal discipline, more than twenty-five years of experience with the SGP have shown that its enforcement is imperfect at best. So how could conditionality on adherence to the MTFSPs be made to work for the financing of EPGs? The conditionality regime introduced at the start of 2021 in the context of the NGEU initiative can provide a lead for its design. The so-called Conditionality Regulation aims at protecting the EU financial interests as countries apply for EU funds [114]. It allows the EU to take protective measures, for example by suspending (as has happened) payments to countries that do not respect the principles of the rule of law. A redefined Conditionality Regime would link access to EU funding to adherence to the SGP. This would help to protect the integrity of the new EU's fiscal governance framework and would fit in the logic of the Conditionality Regulation that EU resources, as an expression of solidarity, be used in compliance with Treaty obligations, including the new fiscal governance framework [115]. In establishing fulfilment of the fiscal conditionality, a larger role could be envisaged for the IFIs who may provide the Commission detailed information about potential transgressions of the reference values of the SGP and the reasons for these.

As to the second dimension of conditionality, as discussed above external specialised expertise, such as from the EIB, is needed to judge whether projects are of a sufficient 'EPG nature'. This expertise will also be needed to evaluate the progress with EPG projects and whether further financing is warranted. Obviously, there may be a 'time-consistency' problem here: once a project is underway, it may become difficult to terminate. A redefined Conditionality Regime could play a role here too. Recourse to project funds of other EU funds could be made conditional on proper execution of the project.

Availability of funds does not guarantee that investments in EPGs do take off. This is demonstrated by the fact that available EU co-financing of investment projects is often not depleted. Still, the fact that countries receiving more grants from the European Structural and Investment Funds (ESIF) have been better able to maintain public investments, as shown by Szczurek (2024), suggests financial incentives do have an effect.

It is informative to draw on existing experience with conditionality. The IMF negotiates macroeconomic conditionality when providing loans (beyond a certain limit) to countries to restore or maintain balance of payments viability and macroeconomic stability [116]. Conditionality comprises indicative targets and structural benchmarks. The former two mostly relate to public finance indicators, while the latter to measures such as strengthening the tax administration, improving fiscal transparency, reforming the labour market and implementing anti-corruption measures. A 2007 evaluation indicates only little success in implementing structural conditionality – conditions are frequently not met and subsequent progress in structural reform appears to be only weakly correlated with compliance [117]. An updated evaluation from 2018 indicates limited progress in terms of a lower number of structural conditions, structural conditions more focused on IMF core expertise and a modest increase in compliance [118]. The evaluation update emphasises the need for a stronger link between structural conditionality and

(114) Regulation (EU) 2020/2092 on a general regime of conditionality for the protection of the Union budget.
(115) For more details, see Bakker et al. (2024b).

(116) See the description at the IMF's website.
(117) Independent Evaluation Office of the IMF (2007), Structural Conditionality in IMF-Supported Programs, *Evaluation Report*.
(118) Independent Evaluation Office of the IMF (2018), Structural Conditionality in IMF-Supported Programs, *Evaluation Update*.

achievement of program goals and for special attention to factors driving compliance and ownership, which would also be of particular relevance for conditionality in the EU context.

The role of capital markets union and private investments

EPGs with a public investment character need to be complemented by private investments (119). And, vice versa, the private investment needs public support, as Draghi (2024) points out. Hence, sufficient savings need to be mobilised towards the relevant investments. This requires policy attention at two levels. At a general level, the capital markets union (CMU) needs to be completed, so as to channel savings to those uses where their marginal return is highest, as well as to boost the volume of savings to be deployed in risk-bearing projects, which is helped by the higher marginal returns (120). CMU is a long-winded process and requires a large number of measures such as simplifying prospectus rules and reducing compliance costs for listed companies, harmonising insolvency regimes, a common EU-wide system for withholding taxes on interest and dividends, improvements to the regulatory framework for securitizations, and harmonization of the definition of shareholders and rules regarding the exercise of voting rights (ELEC, 2024).

Successful mobilisation of private investments requires not only completion of CMU, but also sufficient commitment to the completion of the public investment needed to crowd in private capital stretching over the tenure of multiple governments. Indeed, EU-level financing of public investments strengthens the required commitment, because once funds have been formally assigned at the EU level, it is difficult to reallocate them.

(119) Pisani-Ferry et al. (2023) estimate that of the additional annual investments (compared to the 2011-2020 levels) to achieve the EU 2030 climate target, estimated at 2% of GDP, the largest part (1-1.5%) need to come from private investments. For example, in the case of a hydrogen infrastructure, a basic skeleton of pipelines could be publicly provided, with private investors connecting to this infrastructure and paying user fees.

(120) CMU would also draw in savings from outside the EU. In his recent report, Letta (2024) advocates 'the formation of a Savings and Investments Union, built upon the incomplete CMU. By achieving full integration of financial services within the Single Market, the Savings and Investments Union is envisioned to not only retain European private savings but also to attract additional resources from abroad.'

The support for EPGs

There is substantial political reluctance to further financial integration at the EU level. Much of the resistance comes from countries fearing on net to lose out financially, i.e. they fear they would effectively have to pay for other countries (the *juste retour* argument). However, although EPGs are not intended to redistribute among countries, some redistribution from the 'richer' to the 'less rich' countries is unavoidable. What is crucial is that the benefit to each individual country outweigh its costs. That requires their financing to be designed such that any redistribution is transparent and as limited as possible.

Indeed, in contrast to some of the political rhetoric, there is evidence of substantial *popular* support for EU level policies, coming from the Eurobarometer and conjoint experiments (121). However, this does not make it easy to free up resources for EPGs. A growing share of the population votes for EU sceptical parties. This may require a strategy in which new EPGs are gradually introduced or expanded, starting with those for which the value-added is most clear. Expanding defence at the EU level could be the most obvious candidate.

(121) The latter are experiments in which respondents get to see packages that consist of several policy dimensions. The random assignment of these packages to respondents makes them a good instrument for causally establishing the relationship between the composition of the package and the support for it. Examples are Beetsma et al. (2021) on vaccine procurement, Burgoon et al. (2023) on defence policy, and Nicoli et al. (2023) on an energy union.

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fiscal space. Leeway to run an expansionary fiscal policy. There is no generally accepted definition, but in this present EFB report a Member State is considered to have fiscal space in year t if its structural balance in year t-1 is estimated to be above its *medium-term budgetary objective (MTO)*.

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

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

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

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) and using investment expenditure smoothed over 4 years. It is also net of discretionary revenue measures and revenues mandated by law, and is corrected for the impact of one-offs. This expenditure aggregate was used for the *expenditure benchmark*.

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

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

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

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

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

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

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

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

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

S1 indicator. A long-term sustainability indicator used by the Commission in its *debt sustainability analysis*. It measures the permanent adjustment in the structural primary balance relative to a set baseline projection, which ensures that the debt-to-GDP ratio will fall below 60% by 2070.

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

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

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

Stabilisation. Economic policy intervention to bring actual output closer to *potential output*. In the euro area in normal economic times, this is expected to be achieved through the ECB's monetary policy (for common shocks) and national *automatic fiscal stabilisers* (for country-specific

shocks). When this is not sufficient, *discretionary fiscal policy* can also play a role.

Stability and convergence programmes (SCPs). Until 2024, Member States were required to present their fiscal plans for the next 3 years and to submit them for assessment to the Commission and the Council in the April of each year. The euro area Member States submitted stability programmes; the other Member States submitted convergence programmes. Since 2024, the SCPs have been replaced by the *medium-term fiscal-structural plans (MTFSPs)* and annual progress reports.

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

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

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

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

Two-pack. Two EU regulations entered into force in 2013 to introduce stronger fiscal surveillance tools for euro area countries. These aim to make Member State' budgetary decision-making more transparent, strengthen coordination in the euro area, and recognise the special needs of euro area countries under severe financial pressure.

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

ANNEX A: OVERVIEW TABLES

Table A1: **Application of EU fiscal rules in the 2023 surveillance cycle - the preventive arm of the SGP (see Box A1 on how to read the table)**

<table>
<tr><th rowspan="4"></th><th colspan="3">Spring 2022</th><th>Autumn 2022</th><th>2023</th><th colspan="3">Spring 2024</th></tr>
<tr><th rowspan="3">Distance to MTO in 2022 % of GDP</th><th colspan="2">Fiscal recommendation for 2023</th><th rowspan="3">Commission assessment of draft budgetary plan (DBP)</th><th rowspan="3">In-year assessment (Commission 2023 Spring Package)</th><th colspan="3">Final Commission assessment</th></tr>
<tr><th rowspan="2">Requirement</th><th rowspan="2">Flexibility clauses (granted ex ante)</th><th colspan="2">Observed fiscal performance in 2023 (% of GDP)</th><th rowspan="2">Conclusion</th></tr>
<tr><th>ΔSB</th><th>NEG*</th></tr>
<tr><td rowspan="2">BE</td><td rowspan="2">-4.5</td><td rowspan="2">Limit the growth of nationally financed primary current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.

Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.</td><td rowspan="2">Severe economic downturn clause</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was not in line with the recommendation of the Council.

Belgium planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment.

Overall, the draft budgetary plan for Belgium was partly in line with the fiscal guidance.</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation.

Belgium planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.</td><td>-0.3</td><td>-0.4</td><td rowspan="2">The growth of nationally financed primary current expenditure was not in line with the Council recommendation.

Belgium financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.</td></tr>
<tr><td colspan="2">No assessment of compliance</td></tr>
<tr><td rowspan="2">BG</td><td rowspan="2">-2.5</td><td rowspan="2">Ensure the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.

Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.</td><td rowspan="2">idem</td><td rowspan="2">n.a.</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation.

Bulgaria planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.</td><td>1.1</td><td>0.2</td><td rowspan="2">The growth of nationally financed primary current expenditure was in line with the Council recommendation.

Bulgaria financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.</td></tr>
<tr><td colspan="2">No assessment of compliance</td></tr>
<tr><td rowspan="2">CZ</td><td rowspan="2">-2.3</td><td rowspan="2">idem</td><td rowspan="2">idem</td><td rowspan="2">n.a.</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the Council recommendation.

Czechia planned to finance additional investment through the Recovery and Resilience Facility and other EU funds, but was not projected to preserve nationally-financed investment.</td><td>0.4</td><td>0.7</td><td rowspan="2">The growth of nationally financed primary current expenditure was in line with the Council recommendation.

Czechia financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.</td></tr>
<tr><td colspan="2">No assessment of compliance</td></tr>
</table>

(Continued on the next page)

Table (continued)

	Spring 2022			Autumn 2022	2023	Spring 2024		
	Distance to MTO in 2022 % of GDP	Fiscal recommendation for 2023		Commission assessment of draft budgetary plan (DBP)	In-year assessment (Commission 2023 Spring Package)	Final Commission assessment		
		Requirement	Flexibility clauses (granted ex ante)			Observed fiscal performance in 2023 (% of GDP)		Conclusion
						ΔSB	NEG*	
DK	2.4	Ensure the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	Severe economic downturn clause	n.a.	The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation. Denmark planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**-0.1**	**-1.8**	The growth of nationally financed primary current expenditure was not in line with the Council recommendation. Denmark financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.
						No assessment of compliance		
DE	-1.3	idem	idem	The projected growth of nationally financed primary current expenditure was not in line with the recommendation of the Council. Germany planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Germany was partly in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was in line with the Council recommendation. Germany planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**0.4**	**0.5**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Germany financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.
						No assessment of compliance		
EE	-3.3	idem	idem	The projected growth of nationally financed primary current expenditure was not in line with the recommendation of the Council. Estonia planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Estonia was partly in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation. Estonia planned to finance additional investment through the Recovery and Resilience Facility and other EU funds, but was not projected to preserve nationally-financed investment.	**-0.2**	**-1.0**	The growth of nationally financed primary current expenditure was not in line with the Council recommendation. Estonia financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.
						No assessment of compliance		

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Table (continued)

<table>
<tr><th rowspan="4"></th><th colspan="3">Spring 2022</th><th>Autumn 2022</th><th>2023</th><th colspan="3">Spring 2024</th></tr>
<tr><th rowspan="3">Distance to MTO in 2022 % of GDP</th><th colspan="2">Fiscal recommendation for 2023</th><th rowspan="3">Commission assessment of draft budgetary plan (DBP)</th><th rowspan="3">In-year assessment (Commission 2023 Spring Package)</th><th colspan="3">Final Commission assessment</th></tr>
<tr><th rowspan="2">Requirement</th><th rowspan="2">Flexibility clauses (granted ex ante)</th><th colspan="2">Observed fiscal performance in 2023 (% of GDP)</th><th rowspan="2">Conclusion</th></tr>
<tr><th>ΔSB</th><th>NEG*</th></tr>
<tr><td rowspan="2">IE</td><td rowspan="2">-1.5</td><td rowspan="2">Ensure the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.

Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.</td><td rowspan="2">Severe economic downturn clause</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council.

Ireland planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment.

Overall, the draft budgetary plan for Ireland was in line with the fiscal guidance.</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the Council recommendation.

Ireland planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.</td><td>4.1</td><td>-0.8</td><td rowspan="2">The growth of nationally financed primary current expenditure was not in line with the Council recommendation.

Ireland financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.</td></tr>
<tr><td colspan="2">No assessment of compliance</td></tr>
<tr><td rowspan="2">EL</td><td rowspan="2">-3.2</td><td rowspan="2">Limit the growth of nationally financed primary current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.

Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.</td><td rowspan="2">idem</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council.

Greece planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment.

Overall, the draft budgetary plan for Greece was in line with the fiscal guidance.</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the Council recommendation.

Greece planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.</td><td>0.9</td><td>0.6</td><td rowspan="2">The growth of nationally financed primary current expenditure was in line with the Council recommendation.

Greece financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.</td></tr>
<tr><td colspan="2">No assessment of compliance</td></tr>
<tr><td rowspan="2">ES</td><td rowspan="2">-3.5</td><td rowspan="2">idem</td><td rowspan="2">idem</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council.

Spain planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment.

Overall, the draft budgetary plan for Spain was in line with the fiscal guidance.</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the Council recommendation.

Spain planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.</td><td>0.7</td><td>0.3</td><td rowspan="2">The growth of nationally financed primary current expenditure was in line with the Council recommendation.

Spain financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.</td></tr>
<tr><td colspan="2">No assessment of compliance</td></tr>
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Table (continued)

<table>
<tr><th rowspan="4"></th><th colspan="3">Spring 2022</th><th>Autumn 2022</th><th>2023</th><th colspan="3">Spring 2024</th></tr>
<tr><th rowspan="3">Distance to MTO in 2022 % of GDP</th><th colspan="2">Fiscal recommendation for 2023</th><th rowspan="3">Commission assessment of draft budgetary plan (DBP)</th><th rowspan="3">In-year assessment (Commission 2023 Spring Package)</th><th colspan="3">Final Commission assessment</th></tr>
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<tr><th>ΔSB</th><th>NEG*</th></tr>
<tr><td rowspan="2">FR</td><td rowspan="2">-4.1</td><td rowspan="2">Limit the growth of nationally financed primary current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.

Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.</td><td rowspan="2">Severe economic downturn clause</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council.

France planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment.

Overall, the draft budgetary plan for France was in line with the fiscal guidance.</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the Council recommendation.

France planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.</td><td>-0.5</td><td>0.3</td><td rowspan="2">The growth of nationally financed primary current expenditure was in line with the Council recommendation.

France financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.</td></tr>
<tr><td colspan="2">No assessment of compliance</td></tr>
<tr><td rowspan="2">HR</td><td rowspan="2">-1.7</td><td rowspan="2">Ensure the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.

Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.</td><td rowspan="2">idem</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council.

Croatia planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment.

Overall, the draft budgetary plan for Croatia was in line with the fiscal guidance.</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation.

Croatia planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.</td><td>-0.7</td><td>-1.3</td><td rowspan="2">The growth of nationally financed primary current expenditure was not in line with the Council recommendation.

Croatia financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.</td></tr>
<tr><td colspan="2">No assessment of compliance</td></tr>
<tr><td rowspan="2">IT</td><td rowspan="2">-6.3</td><td rowspan="2">Limit the growth of nationally financed primary current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.

Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.</td><td rowspan="2">idem</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council.

Italy planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment.

Overall, the draft budgetary plan for Italy was in line with the fiscal guidance.</td><td rowspan="2">The projected growth of nationally financed primary current expenditure was in line with the Council recommendation.

Italy planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.</td><td>1.3</td><td>1.0</td><td rowspan="2">The growth of nationally financed primary current expenditure was in line with the Council recommendation.

Italy financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.</td></tr>
<tr><td colspan="2">No assessment of compliance</td></tr>
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Table (continued)

	Spring 2022			Autumn 2022	2023	Spring 2024		
		Fiscal recommendation for 2023				Final Commission assessment		
	Distance to MTO in 2022 % of GDP	Requirement	Flexibility clauses (granted ex ante)	Commission assessment of draft budgetary plan (DBP)	In-year assessment (Commission 2023 Spring Package)	Observed fiscal performance in 2023 (% of GDP)		Conclusion
						ΔSB	NEG*	
CY	-0.4	Ensure the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	Severe economic downturn clause	The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council. Cyprus planned to finance additional investment through the RRF and other EU funds, but did not preserve nationally-financed investment. Overall, the draft budgetary plan for Cyprus was in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was in line with the Council recommendation. Cyprus planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**1.2** **No assessment of compliance**	**-0.2**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Cyprus financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.
LV	-5.6	idem	idem	The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council. Latvia planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Latvia was in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation. Latvia planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**3.2** **No assessment of compliance**	**-1.1**	The growth of nationally financed primary current expenditure was not in line with the Council recommendation. Latvia financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP declined.
LT	-3.0	idem	idem	The projected growth of nationally financed primary current expenditure was not in line with the recommendation of the Council. Lithuania planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Lithuania was partly in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was in line with the Council recommendation. Lithuania planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**1.2** **No assessment of compliance**	**0.2**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Lithuania financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.

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Table (continued)

	Spring 2022			Autumn 2022	2023	Spring 2024		
		Fiscal recommendation for 2023				Final Commission assessment		
	Distance to MTO in 2022 % of GDP	Requirement	Flexibility clauses (granted ex ante)	Commission assessment of draft budgetary plan (DBP)	In-year assessment (Commission 2023 Spring Package)	Observed fiscal performance in 2023 (% of GDP)		Conclusion
						ΔSB	NEG*	
LU	-0.4	Ensure the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	Severe economic downturn clause	The projected growth of nationally financed primary current expenditure was not in line with the recommendation of the Council. Luxembourg planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Luxembourg was partly in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation. Luxembourg planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**0.4** **No assessment of compliance**	**-2.7**	The growth of nationally financed primary current expenditure was not in line with the Council recommendation. Luxembourg financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.
HU	-4.8	idem	idem	n.a.	The projected growth of nationally financed primary current expenditure was in line with the Council recommendation. Hungray planned to finance additional investment through the Recovery and Resilience Facility and other EU funds, but was not projected to preserve nationally-financed investment.	**0.9** **No assessment of compliance**	**1.7**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Hungary had not yet submitted a payment request under the Recovery and Resilience Facility. Nationally financed investment ratio-to-GDP increased.
MT	-5.2	idem	idem	The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council. Malta planned to finance additional investment through the RRF and other EU funds, but did not preserve nationally-financed investment. Overall, the draft budgetary plan for Malta was in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was in line with the Council recommendation. Malta planned to finance additional investment through the Recovery and Resilience Facility and other EU funds, but was not projected to preserve nationally-financed investment.	**0.4** **No assessment of compliance**	**1.6**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Malta financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.

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Table (continued)

	Spring 2022			Autumn 2022	2023	Spring 2024		
		Fiscal recommendation for 2023				Final Commission assessment		
	Distance to MTO in 2022 % of GDP	Requirement	Flexibility clauses (granted ex ante)	Commission assessment of draft budgetary plan (DBP)	In-year assessment (Commission 2023 Spring Package)	Observed fiscal performance in 2023 (% of GDP)		Conclusion
						ΔSB	NEG*	
NL	-2.7	Ensure the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	Severe economic downturn clause	The projected overall fiscal policy stance was expansioanry and was not in line with the recommendation of the Council. The Netherlands planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for the Netherlands was partly in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation. The Netherlands planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**0.3**	**0.9**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. The Netherlands submitted a first payment request under the Recovery and Resilience Facility for the Commission's assessment. Nationally financed investment ratio-to-GDP decreased.
						No assessment of compliance		
AT	-2.5	idem	idem	The projected growth of nationally financed primary current expenditure was not in line with the recommendation of the Council. Austria planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Austria was partly in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was in line with the Council recommendation. Austria planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**1.7**	**0.5**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Austria financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP decreased.
						No assessment of compliance		
PL	-3.0	idem	idem	n.a.	The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation. Poland planned to finance additional investment through the Recovery and Resilience Facility and other EU funds, but was not projected to preserve nationally-financed investment.	**0.1**	**0.0**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Poland financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.
						No assessment of compliance		

(Continued on the next page)

Table (continued)

	Spring 2022			Autumn 2022	2023	Spring 2024		
		Fiscal recommendation for 2023				Final Commission assessment		
	Distance to MTO in 2022 % of GDP	**Requirement**	**Flexibility clauses (granted ex ante)**	**Commission assessment of draft budgetary plan (DBP)**	**In-year assessment (Commission 2023 Spring Package)**	**Observed fiscal performance in 2023 (% of GDP)**		**Conclusion**
						ΔSB	**NEG***	
PT	-1.9	Limit the growth of nationally financed primary current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	Severe economic downturn clause	The projected growth of nationally financed primary current expenditure risked not being in line with the recommendation of the Council. Portugal planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Portugal risked being only partly in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was in line with the Council recommendation. Portugal planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**1.8** **No assessment of compliance**	**0.9**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Portugal financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.
SI	-5.3	Ensure the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	idem	The projected growth of nationally financed primary current expenditure was not in line with the recommendation of the Council. Slovenia planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Slovenia was partly in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation. Slovenia planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**1.6** **No assessment of compliance**	**0.4**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Slovenia financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP decreased.
SK	-2.3	idem	idem	The projected growth of nationally financed primary current expenditure was not in line with the recommendation of the Council. Slovakia planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Slovakia was partly in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation. Slovakia planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**-2.8** **No assessment of compliance**	**-3.8**	The growth of nationally financed primary current expenditure was not in line with the Council recommendation. Slovakia financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP increased.

(Continued on the next page)

Table (continued)

	Spring 2022			Autumn 2022	2023	Spring 2024		
	Distance to MTO in 2022 % of GDP	Fiscal recommendation for 2023		Commission assessment of draft budgetary plan (DBP)	In-year assessment (Commission 2023 Spring Package)	Final Commission assessment		
		Requirement	Flexibility clauses (granted ex ante)			Observed fiscal performance in 2023 (% of GDP)		Conclusion
						ΔSB	NEG*	
FI	-1.2	Ensure the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.	Severe economic downturn clause	The projected growth of nationally financed primary current expenditure was in line with the recommendation of the Council. Finland planned to finance additional investment through the RRF and other EU funds and to preserve nationally-financed investment. Overall, the draft budgetary plan for Finland was in line with the fiscal guidance.	The projected growth of nationally financed primary current expenditure was not in line with the Council recommendation. Finland planned to finance additional investment through the Recovery and Resilience Facility and other EU funds and to preserve nationally-financed investment.	**-1.1** **No assessment of compliance**	**-0.8**	The growth of nationally financed primary current expenditure was not in line with the Council recommendation. Finland financed additional investment through the Recovery and Resilience Facility and other EU funds. Nationally financed investment ratio-to-GDP decreased.
SE	1.0	idem	idem	n.a.	The projected growth of nationally financed primary current expenditure was in line with the Council recommendation. Sweden planned to finance additional investment through the Recovery and Resilience Facility and other EU funds, but was not projected to preserve nationally-financed investment.	**-0.8** **No assessment of compliance**	**-0.1**	The growth of nationally financed primary current expenditure was in line with the Council recommendation. Sweden had not yet submitted a payment request under the Recovery and Resilience Facility. Nationally financed investment ratio-to-GDP increased.

* The net expenditure growth (NEG) indicator in this table reflects nationally financed primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis), as defined in the fiscal recommendations for 2023. This indicator compares the growth in net expenditure aggregate to the growth rate of nominal medium-term potential GDP; and the difference is expressed as a percentage of GDP. A positive sign means that nominal medium-term potential GDP growth is higher than the growth in the net expenditure aggregate.
The NEG indicator does not follow the methodology of the expenditure benchmark as defined in Regulation (EC) 1466/97. It does not smooth investment expenditure over the past 4 years. It does include expenditure financed by transfers from the EU budget, but it excludes the impact of the Covid-19 pandemic-related temporary emergency measures. Moreover, the measurement of medium-term nominal potential growth uses estimates from the Commission 2024 spring forecast, as opposed to freezing the reference point at the beginning of the surveillance cycle (Commission 2022 spring forecast).
Source: European Commission

Table A2: **Application of EU fiscal rules in the 2023 surveillance cycle - the corrective arm of the SGP; countries not in EDP (see Box A1 on how to read the table)**

	Spring 2022		2023	Spring 2024		
				Final assessment		
	Deficit Rule	**Debt Rule (DR) / Transitional Arrangement (MLSA)**	**Procedural steps during the reference period**	**Deficit Rule**	**Debt Rule (DR) / Transitional Arrangement (MLSA)**	**Procedural steps after the reference period**
BE	Non-compliant	Non-compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Belgium did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on Belgium's DBP, which confirmed projections of a deficit above the reference value of 3% of GDP both in 2023 and 2024. The Commission affirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Non-compliant	NA	**19.6.2024 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Belgium did not fulfil the deficit criterion. The Commission proposed to the Council to adopt a decision under Article 126(6) establishing the existence of an excessive deficit. The omnibus report did not provide a full assessment whether Member States fulfilled the debt criterion, which was motivated by the lack of a net expenditure path that will only become available when medium-term fiscal structural plans are agreed. The Commission chose not to table a proposal for a Council recommendation on how to correct the excessive deficit. This step is currently foreseen only towards the end of the year. **26.7.2024** – Further to Art. 126 (6) TFEU, the Council adopted a decision establishing the existence of an excessive deficit in Belgium, thereby formally launching an EDP.
BG	Non-compliant	Compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Bulgaria did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	-	-	**19.6.2024 –** Bulgaria respected the deficit criterion in 2023 based on outturn data and was not expected to breach the 3% reference value in 2024, therefore Bulgaria was not considered in the Commission's omnibus report.
CZ	Non-compliant	Compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Czechia did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Compliant	NA	**19.6.2024 –** The Commission's omnibus report confirmed that Czechia did not fulfil the deficit criterion before taking into account relevant factors. Relevant factors considered by the Commission were assessed as on balance as mitigating and the Commission concluded that Czechia had fulfilled the deficit criterion after taking into account these relevant factors.
EE	Non-compliant	Compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Estonia did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on Estonia's DBP, which noted projections showing a deficit slightly above the reference value of 3% of GDP in 2023 but below in 2024.	Compliant	NA	**19.6.2024 –** The Commission's omnibus report confirmed that Estonia did not fulfil the deficit criterion before taking into account relevant factors. Relevant factors considered by the Commission were assessed as on balance as mitigating and the Commission concluded that Estonia had fulfilled the deficit criterion after taking into account these relevant factors. The Commission had also noted that the deficit was above but close to the reference value in 2023 and that the excess over the reference value was exceptional.
ES	Non-compliant	Compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Spain did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on Spain's DBP, which confirmed projections of a deficit above the reference value of 3% of GDP both in 2023 and 2024. The Commission affirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Compliant	NA	**19.6.2024 –** The Commission's omnibus report confirmed that Spain did not fulfil the deficit criterion before taking into account relevant factors. Other relevant factors could not be considered in the steps leading to the decision on the existence of an excessive deficit as the 'double condition' was not met. The Commission did nevertheless not propose to open an EDP as the deficit was projected to fall below the reference value in 2024 without the need for additional measures. The Commission considered 'initiating an excessive deficit procedure would not, at this stage, serve a useful purpose.' The omnibus report noted that the Commission will re-assess the situation in autumn 2024. The omnibus report did not provide a full assessment whether Member States fulfilled the debt criterion, which was motivated by the lack of a net expenditure path that will only become available when medium-term fiscal structural plans are agreed.

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Table (continued)

FR	Non-compliant	Non-compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that France did not fulfil the deficit and debt criteria. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on France's DBP, which confirmed projections of a deficit above the reference value of 3% of GDP both in 2023 and 2024. The Commission affirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Non-compliant	NA	**19.6.2024 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that France did not fulfil the deficit criterion. The Commission proposed to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit. The omnibus report did not provide a full assessment whether Member States fulfilled the debt criterion, which was motivated by the lack of a net expenditure path that will only become available when medium-term fiscal structural plans are agreed. The Commission chose not to table a proposal for a Council recommendation on how to correct the excessive deficit. This step is currently foreseen only towards the end of the year. **26.7.2024** – Further to Art. 126 (6) TFEU, the Council adopted a decision establishing the existence of an excessive deficit in France, thereby formally launching an EDP.
IT	Non-compliant	Non-compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Italy did not fulfil the deficit and debt criteria. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on Italy's DBP, which confirmed projections of a deficit above the reference value of 3% of GDP both in 2023 and 2024. The Commission affirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Non-compliant	NA	**19.6.2024 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Italy did not fulfil the deficit criterion. The Commission proposed to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit. The omnibus report did not provide a full assessment whether Member States fulfilled the debt criterion, which was motivated by the lack of a net expenditure path that will only become available when medium-term fiscal structural plans are agreed. The Commission chose not to table a proposal for a Council recommendation on how to correct the excessive deficit. This step is currently foreseen only towards the end of the year. **26.7.2024** – Further to Art. 126 (6) TFEU, the Council adopted a decision establishing the existence of an excessive deficit in Italy, thereby formally launching an EDP.
LV	Non-compliant	Compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Latvia did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on Latvia's DBP, which confirmed projections of a deficit above the reference value of 3% of GDP both in 2023 and 2024. The Commission affirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	-	-	**19.6.2024 –** Latvia respected the deficit criterion in 2023 based on outturn data and was not expected to breach the 3% reference value in 2024, therefore Latvia was not considered in the Commission's omnibus report.
HU	Non-compliant	Non-compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Hungary did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Non-compliant	NA	**19.6.2024 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Hungary did not fulfil the deficit criterion. The Commission proposed to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit. The omnibus report did not provide a full assessment whether Member States fulfilled the debt criterion, which was motivated by the lack of a net expenditure path that will only become available when medium-term fiscal structural plans are agreed. The Commission chose not to table a proposal for a Council recommendation on how to correct the excessive deficit. This step is currently foreseen only towards the end of the year. **26.7.2024** – Further to Art. 126 (6) TFEU, the Council adopted a decision establishing the existence of an excessive deficit in Hungary, thereby formally launching an EDP.
MT	Non-compliant	Compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Malta did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on Malta's DBP, which confirmed projections of a deficit above the reference value of 3% of GDP both in 2023 and 2024. The Commission affirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Non-compliant	NA	**19.6.2024 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Malta did not fulfil the deficit criterion. The Commission proposed to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit. The Commission chose not to table a proposal for a Council recommendation on how to correct the excessive deficit. This step is currently foreseen only towards the end of the year. **26.7.2024** – Further to Art. 126 (6) TFEU, the Council adopted a decision establishing the existence of an excessive deficit in Malta, thereby formally launching an EDP.

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Table (continued)

PL	Non-compliant	Compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Poland did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Non-Compliant	NA	**19.6.2024 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Poland did not fulfil the deficit criterion. The Commission proposed to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit. The Commission chose not to table a proposal for a Council recommendation on how to correct the excessive deficit. This step is currently foreseen only towards the end of the year. **26.7.2024** – Further to Art. 126 (6) TFEU, the Council adopted a decision establishing the existence of an excessive deficit in Poland, thereby formally launching an EDP.
SI	Non-compliant	Compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Slovenia did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on Slovenia's DBP, which confirmed projections of a deficit above the reference value of 3% of GDP both in 2023 and 2024. The Commission affirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Compliant	NA	**19.6.2024 –** The Commission's omnibus report confirmed that Slovenia did not fulfil the deficit criterion before taking into account relevant factors. This assessment was based on government projections. The Commission's 2024 spring forecast projected a deficit below 3% of GDP in 2024. Relevant factors could be taken into account as the deficit remained close the reference value and was regarded as temporary. Relevant factors considered by the Commission were assessed as on balance as mitigating. The omnibus report noted 'uncertainty attached to the planned data" for Slovenia. The Commission did not propose to open an EDP for Slovenia but intended to re-assess the situation in autumn 2024. The omnibus report did not provide a full assessment whether Member States fulfilled the debt criterion, which was motivated by the lack of a net expenditure path that will only become available when medium-term fiscal structural plans are agreed.
SK	Non-compliant	Compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Slovakia did not fulfil the deficit criterion. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on Slovakia's DBP, which confirmed projections of a deficit above the reference value of 3% of GDP both in 2023 and 2024. The Commission affirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Non-compliant	NA	**19.6.2024 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Slovakia did not fulfil the deficit criterion. The Commission proposed to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit. The Commission chose not to table a proposal for a Council recommendation on how to correct the excessive deficit. This step is currently foreseen only towards the end of the year. **26.7.2024** – Further to Art. 126 (6) TFEU, the Council adopted a decision establishing the existence of an excessive deficit in Slovakia, thereby formally launching an EDP.
FI	Compliant	Non-compliant	**24.5.2023 –** Further to Art. 126 (3) TFEU, the Commission prepared an omnibus report confirming that Finland did not fulfil the deficit and debt criteria. Noting persistently high uncertainty for the macroeconomic and budgetary outlook, the Commission did not propose to open EDPs but confirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023. **21.11.2023** – The Commission published its opinion on Finland's DBP, which confirmed projections of a deficit below the reference value of 3% of GDP in 2023 but above in 2024. The Commission affirmed its intention to propose opening EDPs in spring 2024 based on outturn data for 2023.	Compliant	NA	**19.6.2024 –** The Commission's omnibus report confirmed that Finland did not fulfil the deficit criterion before taking into account relevant factors. Finland did not exceed the deficit reference value in 2023 but planned a deficit above but close to 3% of GDP in 2024, which was confirmed by the Commission own forecast. Relevant factors could be taken into account as the deficit remained close the reference value and was regarded as temporary. Relevant factors considered by the Commission were assessed as on balance as mixed. The omnibus report noted 'uncertainty attached to the planned data" for Finland and that the deficit is projected to fall below the reference value in 2025. The Commission did not propose to open an EDP for Finland but intended to re-assess the situation in autumn 2024. The omnibus report did not provide a full assessment whether Member States fulfilled the debt criterion, which was motivated by the lack of a net expenditure path that will only become available when medium-term fiscal structural plans are agreed.

Source: European Commission

Table A3: **Application of the EU fiscal rules in the 2023 surveillance cycle - the corrective arm of the SGP; countries in EDP (see Box A1 on how to read the table)**

	EDP status (deadline)	2021-2022			2023	2024		
		Revised targets/requirements for 2023 % of GDP		Procedural steps before the reference period	Procedural steps during the reference period	Final assessment % of GDP		Procedural steps after the reference period
		Headline budget balance	Structural adjustment			Headline budget balance	Change in the structural budget balance	
RO	Non-effective action	-4.4	-1.7	**2.6.2021** – The Commission issued a Recommendation in accordance with Article 126(7) TFEU for a Council Recommendation to bring an end to Romania's excessive government deficit. In its recommendation, the Commission took into account the country's changed fiscal situation, including budgetary developments in 2020 and the new budgetary strategy put in place by the Romanian government. It concluded to extend the deadline for correcting the excessive deficit to 2024 and provided a new adjustment path for the rate of nominal growth of net primary government expenditure and an annual fiscal adjustment to the structural balance. It also stated that growth rates of net primary government expenditure would be the primary indicator used to assess Romania's fiscal effort if necessary. **18.6.2021** – The Council adopted a revised EDP recommendation for Romania, to put an end to the excessive deficit situation by 2024 at the latest. **24.11.2021** – Communication from the Commission to the Council on the Fiscal situation in Romania. In its assessment, the Commission recognised the commitment of the Romanian authorities to ensure a correction of the excessive deficit. However, it signalled that the report contained only measures adopted with the aim of delivering compliance with the 2021 intermediate deficit target. Based on the projected achievement of the required headline deficit target in 2021, it kept the excessive deficit procedure in abeyance. It expected the Romanian government, when formed, to present a budget for 2022 and a medium-term fiscal strategy in line with the June 2021 Council recommendation as a matter of urgency. **23.5.2022 –** The Commission issued an assessment of Romania's compliance with its EDP targets in the recitals of the country-specific recommendations. Based on its 2022 spring forecast, the Commission assessed that Romania complied with its nominal deficit target and the required structural adjustment in 2021. For this reason, it has kept the procedure in abeyance.	**24.5.2023 –** The Commission issued an assessment of Romania's compliance with its EDP targets in the recitals of the country-specific recommendations. Based on data validated by Eurostat, the Commission assessed that Romania complied with its nominal deficit target while the required structural adjustment in 2022 was well below the target. The latter called for careful analysis based on the expenditure benchmark which showed that net primary expenditure growth was 14.1%, well above recommended 1.3%. Since Romania complied with its headline budget balance target, the Commission has kept the procedure in abeyance.	-6.6	+0.1	**19.6.2024** – The Commission issued a recommendation for a Council decision (Article 126(8) TFEU) establishing that no effective action has been taken by Romania in response to the Council Recommendation of 18 June 2021. The deficit increased to 6.6% of GDP in 2023, thus well above the targeted 4.4% of GDP recommended by the Council. This deviation was largely due to strong expenditure growth. The structural balance deteriorated slightly rather than the required improvement of 1.7% of GDP. Lastly, net primary expenditure growth was much higher than recommended. Projections also indicated that Romania would miss its 2024 target to correct the excessive deficit. The Commission concluded that Romania had not taken effective action.

Source: European Commission

Box A1: Reading the overview tables A1, A2 and A3

The tables in Annex A summarise various Stability and Growth Pact (SGP) procedures and conclusions for all Member States for 2023. The columns in the tables follow the main steps of the annual cycle of EU fiscal surveillance, and the content of each column is explained below.

Table A1. Application of EU fiscal rules in the 2023 surveillance cycle: preventive arm

EU fiscal surveillance for 2023 did not follow the standard surveillance methods under the preventive arm of the SGP, due to continued application of the severe economic downturn clause. Explanations for Table A1 describe both the surveillance practice for 2023 and the standard practice in normal years (before the activation of the severe economic downturn clause in 2020).

Distance to the medium-term budgetary objective (MTO): The difference between the country-specific medium-term budgetary objective and the 2022 structural balance, based on the Commission's 2022 spring forecast.
In normal years, this measure is used to draw up the fiscal requirements that underpin the country-specific recommendations.

Requirement: For 2023, the fiscal recommendations asked in qualitative terms for countries to target the growth of nationally financed primary current expenditure relative to medium-term potential output growth. The given expenditure growth was defined net of discretionary revenue measures and Covid-related temporary measures, but including expenditure financed by grants under the Recovery and Resilience Facility and other EU funds.
In ordinary years, the annual adjustment requirement is expressed in terms of the two quantitative indicators of the SGP's preventive arm: (i) the expenditure benchmark; and (ii) the change in the structural budget balance (ΔSB). The expenditure benchmark limits the year-on-year increase in government spending unless funded by new revenue measures. It is expressed using the annual growth rate of aggregate expenditure (net of interest payments) on EU programmes paid for by EU funds and the cyclical component of unemployment benefits, while nationally financed government investment is smoothed over 4 years. ΔSB is defined on the basis of a country's cyclical conditions, taking into account the sustainability needs of its public finances ([1]). The required structural adjustment is net of any flexibility clauses granted *ex ante*.

Flexibility clauses granted *ex ante*: In 2023, the severe economic downturn clause was applied.

Commission overall assessment of the 2023 draft budgetary plan (DBP): For 2023, the assessment for euro-area Member States was qualitative, based on the Commission's assessment of net expenditure growth relative to medium-term potential output growth. The Commission made overall conclusions of the DBPs being: (i) in line with the fiscal guidance; (ii) partly in line with the fiscal guidance; or (iii) at risk of not being in line with the fiscal guidance.
In ordinary years, DBPs are assessed for compliance with the SGP. The Commission's overall conclusion can be: (i) compliant; (ii) a risk of (some) deviation ([2]); or (iii) a risk of significant deviation. If there is a risk of some deviation, the DBP is considered to be broadly compliant. However, if there is a risk of significant deviation, the DBP is considered to be non-compliant. For a comprehensive presentation of the assessment of compliance with the preventive arm of the SGP, see Section 1.3.7 of the Vade Mecum (2019).

In-year assessment: The Commission's assessment presented in the 2023 spring package.

Observed fiscal performance in 2023: Presents fiscal developments on the basis of two indicators: (i) the change in the structural budget balance (ΔSB); and (ii) net expenditure growth, as defined in the fiscal recommendations, compared to the medium-term, nominal, potential GDP growth (i.e. NEG). Both indicators are expressed as a percentage of GDP and were presented in the 2024 spring package.
In ordinary years, the observed deviation from both the ΔSB and the EB are monitored for the given year and over 2 consecutive years. The assessment of both indicators informs the overall conclusion on compliance, broad compliance or non-compliance.

([1]) The *required structural adjustment based on matrix* is based on the matrix for specifying the annual adjustment required to achieve the medium-term budgetary objective under the preventive arm of the SGP, as presented in the Commonly agreed position on flexibility in the Stability and Growth Pact endorsed by the ECOFIN Council of 12 February 2016.
([2]) 'Some deviation' refers to any deviation that is not significant, namely below 0.5% of GDP – as stated by Articles 6(3) and 10(3) of Regulation (EC) 1466/97 (in force until 29 April 2024).

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Box (continued)

Conclusion: Presents the Commission's final assessment for 2023 in the 2024 spring package. The Commission did not provide the usual compliance assessment for 2023, but instead provided a qualitative assessment compared to the fiscal guidance. The Commission did not take any procedural steps for the assessed deviations from the guidance.
In ordinary years, the Commission concludes on the overall assessment and follows up with procedural steps after the reference period if it has been assessed that there was non-compliance with the requirements.

Table A2. Application of EU fiscal rules in the 2023 surveillance cycle – the corrective arm: countries not subject to the excessive deficit procedure (EDP)

Deficit rule: The Commission's assessment of a country's fulfilment of the criterion that its government deficit must not exceed 3% of GDP.

Debt rule (DR)/transitional arrangement – Minimum Linear Structural Adjustment (MLSA): The Commission's assessment of a country's fulfilment of the debt criterion. A Member State is considered as complying with the debt criterion if its general government consolidated gross debt is below 60% of GDP or is sufficiently diminishing and approaching 60% of GDP at a satisfactory pace; see Sections 2.2.1.2 and 2.2.1.3 of the Vade Mecum (2019).

Procedural steps taken during the reference period: Records procedural or other steps under the corrective arm of the SGP during the year under assessment. For 2023, this column presents: (i) a single report written pursuant to Article 126(3) of the Treaty on the Functioning of the European Union – the first step in the EDP – which analyses compliance with the Treaty's deficit and debt criteria for 14 Member States; and (ii) assessments of the draft budgetary plans of euro-area Member States.

Deficit rule: See above.

Debt rule (DR) / transitional arrangement (MLSA): See above.

Procedural steps after the reference period: Records procedural or other steps (if any) taken following the final assessment of fiscal performance for a given year. For 2023, this column presents: (i) the Commission's report under Article 126(3) TFEU, analysing compliance with the Treaty's deficit and debt criteria by 12 Member States; and (ii)the Council decision under Article 126(6) TFEU establishing the existence of an excessive deficit in 7 Member States.

Table A3. Application of EU fiscal rules in the 2023 surveillance cycle – the corrective arm: countries subject to the excessive deficit procedure (EDP)

EDP status (deadline): Presents a country's status in the EDP procedure; in brackets, the deadline set by the Council for correcting the excessive deficit.

Procedural steps before the reference period: This column presents all steps taken in 2021-2022 and a Member State's status in the EDP procedure.

- **Headline budget balance:** The Council recommends that Member States subject to the EDP meet annual headline deficit targets to ensure the excessive deficit is corrected by a set deadline. This column presents the required headline budget balance for 2023 as recommended by the Council.
- **Structural adjustment:** The required annual improvement in the structural balance consistent with the nominal target recommended by the Council.

Procedural steps taken during the reference period: Covers all steps taken under the corrective arm of the SGP in 2023.

Procedural steps after the reference period: Records procedural or other steps (if any) taken following the final assessment of fiscal performance for a given year.

- **Headline budget balance**: Presents the headline budget balance outturn in 2023 or information attesting to the correction of the excessive deficit.
- **Structural adjustment**: The estimated structural adjustment made in 2023, together with the corrected figure for unanticipated revenue windfalls/shortfalls and changes in potential growth compared with the scenario underpinning the EDP's recommendations. For the latter, see Section 2.3.2.1 of the Vade Mecum (2019).

ANNEX B: STATISTICAL ANNEX

Table B1: **Gross domestic product at constant prices (annual percentage change, 2006-2025)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
BE	2.6	3.7	0.4	-2.0	2.9	1.7	0.7	0.5	1.6	2.0	1.3	1.6	1.8	2.2	-5.3	6.9	3.0	1.4	1.3	1.4
BG	6.8	6.7	6.1	-3.3	1.6	2.1	0.7	-0.5	0.9	3.4	3.0	2.7	2.7	4.0	-4.0	7.7	3.9	1.8	1.9	2.9
CZ	6.8	5.6	2.7	-4.7	2.4	1.8	-0.8	0.0	2.3	5.4	2.5	5.2	3.2	3.0	-5.5	3.6	2.4	-0.3	1.2	2.8
DK	3.9	0.9	-0.5	-4.9	1.9	1.3	0.2	0.9	1.6	2.3	3.2	2.8	2.0	1.5	-2.4	6.8	2.7	1.9	2.6	1.4
DE	3.8	3.0	1.0	-5.7	4.2	3.9	0.4	0.4	2.2	1.5	2.2	2.7	1.0	1.1	-3.8	3.2	1.8	-0.2	0.1	1.0
EE	9.8	7.6	-5.1	-14.6	2.4	7.3	3.2	1.5	3.0	1.9	3.2	5.8	3.8	4.0	-1.0	7.2	-0.5	-3.0	-0.5	3.1
IE	5.0	5.3	-4.5	-5.1	1.7	1.3	-0.1	1.2	8.8	24.5	1.8	9.3	8.5	5.3	6.6	15.1	9.4	-3.2	1.2	3.6
EL	5.7	3.3	-0.3	-4.3	-5.5	-10.1	-7.1	-2.5	0.5	-0.2	-0.5	1.1	1.7	1.9	-9.3	8.4	5.6	2.0	2.2	2.3
ES	4.1	3.6	0.9	-3.8	0.2	-0.8	-3.0	-1.4	1.4	3.8	3.0	3.0	2.3	2.0	-11.2	6.4	5.8	2.5	2.1	1.9
FR	2.4	2.4	0.3	-2.9	1.9	2.2	0.3	0.6	1.0	1.1	1.1	2.3	1.9	1.8	-7.5	6.4	2.5	0.7	0.7	1.3
HR	5.1	5.1	2.0	-7.2	-1.2	-0.1	-2.3	-0.3	-0.3	2.5	3.6	3.4	3.0	3.4	-8.5	13.0	7.0	3.1	3.3	2.9
IT	1.8	1.5	-1.0	-5.3	1.7	0.7	-3.0	-1.8	0.0	0.8	1.3	1.7	0.9	0.5	-9.0	8.3	4.0	0.9	0.9	1.1
CY	4.7	5.1	3.6	-2.0	2.3	0.4	-3.4	-6.6	-1.8	3.4	6.6	5.7	5.6	5.5	-3.4	9.9	5.1	2.5	2.8	2.9
LV	12.0	9.9	-3.2	-14.3	-4.5	2.6	7.0	2.0	1.9	3.9	2.4	3.3	4.0	0.6	-3.5	6.7	3.0	-0.3	1.7	2.6
LT	7.4	11.1	2.6	-14.8	1.7	6.0	3.8	3.6	3.5	2.0	2.5	4.3	4.0	4.7	0.0	6.3	2.4	-0.3	2.0	2.9
LU	6.0	8.1	-0.3	-3.2	3.8	1.0	1.6	3.2	2.6	2.3	5.0	1.3	1.2	2.9	-0.9	7.2	1.4	-1.1	1.4	2.3
HU	3.9	0.3	1.0	-6.6	1.1	1.9	-1.3	1.8	4.2	3.7	2.2	4.3	5.4	4.9	-4.5	7.1	4.6	-0.9	2.4	3.5
MT	2.5	4.8	3.8	-1.1	5.5	0.5	4.1	5.5	7.6	9.6	3.4	10.9	7.4	7.1	-8.2	12.5	8.1	5.7	4.6	4.3
NL	3.5	3.8	2.2	-3.7	1.3	1.6	-1.0	-0.1	1.4	2.0	2.2	2.9	2.4	2.0	-3.9	6.2	4.3	0.1	0.8	1.5
AT	3.5	3.7	1.5	-3.8	1.8	2.9	0.7	0.0	0.7	1.0	2.0	2.3	2.4	1.5	-6.6	4.2	4.8	-0.8	0.3	1.6
PL	6.1	7.1	4.2	2.8	2.9	5.0	1.5	0.9	3.8	4.4	3.0	5.1	5.9	4.5	-2.0	6.9	5.6	0.2	2.8	3.4
PT	1.6	2.5	0.3	-3.1	1.7	-1.7	-4.1	-0.9	0.8	1.8	2.0	3.5	2.8	2.7	-8.3	5.7	6.8	2.3	1.7	1.9
RO	8.0	7.2	9.3	-5.5	-3.9	4.5	1.9	0.3	4.1	3.2	2.9	8.2	6.0	3.9	-3.7	5.7	4.1	2.1	3.3	3.1
SI	5.7	7.0	3.5	-7.5	1.3	0.9	-2.6	-1.0	2.8	2.2	3.2	4.8	4.5	3.5	-4.2	8.2	2.5	1.6	2.3	2.6
SK	8.5	10.8	5.6	-5.5	6.7	2.7	1.3	0.6	2.7	5.2	1.9	2.9	4.0	2.5	-3.3	4.8	1.9	1.6	2.2	2.9
FI	4.0	5.3	0.8	-8.1	3.2	2.5	-1.4	-0.9	-0.4	0.5	2.8	3.2	1.1	1.2	-2.4	2.8	1.3	-1.0	0.0	1.4
SE	4.7	3.2	-0.9	-4.3	5.8	3.2	-0.4	1.1	2.3	4.4	2.3	1.8	1.9	2.5	-2.0	5.9	1.5	-0.2	0.2	2.1
EA-20	3.2	3.0	0.4	-4.5	2.1	1.7	-0.9	-0.2	1.4	2.0	1.9	2.6	1.8	1.6	-6.1	5.9	3.4	0.5	0.8	1.4
EU-27	3.5	3.1	0.6	-4.3	2.2	1.9	-0.7	-0.1	1.6	2.3	2.0	2.8	2.1	1.8	-5.6	6.0	3.4	0.5	1.0	1.6

Notes: EA and EU aggregated figures are weighted in common currency.
Source: European Commission 2024 spring forecast

Table B2: Harmonised index of consumer prices (percentage change on preceding year, 2006-2025)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
BE	2.3	1.8	4.5	0.0	2.3	3.4	2.6	1.2	0.5	0.6	1.8	2.2	2.3	1.2	0.4	3.2	10.3	2.3	4.0	2.3
BG	7.4	7.6	12.0	2.5	3.0	3.4	2.4	0.4	-1.6	-1.1	-1.3	1.2	2.6	2.5	1.2	2.8	13.0	8.6	3.1	2.6
CZ	2.1	2.9	6.3	0.6	1.2	2.2	3.5	1.4	0.4	0.3	0.6	2.4	2.0	2.6	3.3	3.3	14.8	12.0	2.5	2.2
DK	1.8	1.7	3.6	1.0	2.2	2.7	2.4	0.5	0.4	0.2	0.0	1.1	0.7	0.7	0.3	1.9	8.5	3.4	2.0	1.9
DE	1.8	2.3	2.8	0.2	1.1	2.5	2.2	1.6	0.8	0.7	0.4	1.7	1.9	1.4	0.4	3.2	8.7	6.0	2.4	2.0
EE	4.4	6.7	10.6	0.2	2.7	5.1	4.2	3.2	0.5	0.1	0.8	3.7	3.4	2.3	-0.6	4.5	19.4	9.1	3.4	2.1
IE	2.7	2.9	3.1	-1.7	-1.6	1.2	1.9	0.5	0.3	0.0	-0.2	0.3	0.7	0.9	-0.5	2.4	8.1	5.2	1.9	1.8
EL	3.3	3.0	4.2	1.3	4.7	3.1	1.0	-0.9	-1.4	-1.1	0.0	1.1	0.8	0.5	-1.3	0.6	9.3	4.2	2.8	2.1
ES	3.6	2.8	4.1	-0.2	2.0	3.0	2.4	1.5	-0.2	-0.6	-0.3	2.0	1.7	0.8	-0.3	3.0	8.3	3.4	3.1	2.3
FR	1.9	1.6	3.2	0.1	1.7	2.3	2.2	1.0	0.6	0.1	0.3	1.2	2.1	1.3	0.5	2.1	5.9	5.7	2.5	2.0
HR	3.3	2.7	5.8	2.2	1.1	2.2	3.4	2.3	0.2	-0.3	-0.6	1.3	1.6	0.8	0.0	2.7	10.7	8.4	3.5	2.2
IT	2.2	2.0	3.5	0.8	1.6	2.9	3.3	1.2	0.2	0.1	-0.1	1.3	1.2	0.6	-0.1	1.9	8.7	5.9	1.6	1.9
CY	2.2	2.2	4.4	0.2	2.6	3.5	3.1	0.4	-0.3	-1.5	-1.2	0.7	0.8	0.5	-1.1	2.3	8.1	3.9	2.4	2.1
LV	6.6	10.1	15.3	3.3	-1.2	4.2	2.3	0.0	0.7	0.2	0.1	2.9	2.6	2.7	0.1	3.2	17.2	9.1	1.6	2.0
LT	3.8	5.8	11.1	4.2	1.2	4.1	3.2	1.2	0.2	-0.7	0.7	3.7	2.5	2.2	1.1	4.6	18.9	8.7	1.9	1.8
LU	3.0	2.7	4.1	0.0	2.8	3.7	2.9	1.7	0.7	0.1	0.0	2.1	2.0	1.6	0.0	3.5	8.2	2.9	2.3	2.0
HU	4.0	7.9	6.0	4.0	4.7	3.9	5.7	1.7	0.0	0.1	0.4	2.4	2.9	3.4	3.4	5.2	15.3	17.0	4.1	3.7
MT	2.6	0.7	4.7	1.8	2.0	2.5	3.2	1.0	0.8	1.2	0.9	1.3	1.7	1.5	0.8	0.7	6.1	5.6	2.8	2.3
NL	1.6	1.6	2.2	1.0	0.9	2.5	2.8	2.6	0.3	0.2	0.1	1.3	1.6	2.7	1.1	2.8	11.6	4.1	2.5	2.0
AT	1.7	2.2	3.2	0.4	1.7	3.6	2.6	2.1	1.5	0.8	1.0	2.2	2.1	1.5	1.4	2.8	8.6	7.7	3.6	2.8
PL	1.3	2.6	4.2	4.0	2.6	3.9	3.7	0.8	0.1	-0.7	-0.2	1.6	1.2	2.1	3.7	5.2	13.2	10.9	4.3	4.2
PT	3.0	2.4	2.7	-0.9	1.4	3.6	2.8	0.4	-0.2	0.5	0.6	1.6	1.2	0.3	-0.1	0.9	8.1	5.3	2.3	1.9
RO	6.6	4.9	7.9	5.6	6.1	5.8	3.4	3.2	1.4	-0.4	-1.1	1.1	4.1	3.9	2.3	4.1	12.0	9.7	5.9	4.0
SI	2.5	3.8	5.5	0.8	2.1	2.1	2.8	1.9	0.4	-0.8	-0.2	1.6	1.9	1.7	-0.3	2.0	9.3	7.2	2.8	2.4
SK	4.3	1.9	3.9	0.9	0.7	4.1	3.7	1.5	-0.1	-0.3	-0.5	1.4	2.5	2.8	2.0	2.8	12.1	11.0	3.1	3.6
FI	1.3	1.6	3.9	1.6	1.7	3.3	3.2	2.2	1.2	-0.2	0.4	0.8	1.2	1.1	0.4	2.1	7.2	4.3	1.4	2.1
SE	1.5	1.7	3.3	1.9	1.9	1.4	0.9	0.4	0.2	0.7	1.1	1.9	2.0	1.7	0.7	2.7	8.1	5.9	2.0	1.8
EA-20	2.2	2.2	3.4	0.3	1.6	2.7	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4	5.4	2.5	2.1
EU-27	2.3	2.4	3.7	0.8	1.8	2.9	2.6	1.3	0.4	0.1	0.2	1.6	1.8	1.4	0.7	2.9	9.2	6.4	2.8	2.3

Notes: National index if not available.
Source: European Commission 2024 spring forecast

Table B3: **Net lending (+) or net borrowing (-), general government (as a percentage of GDP, 2006-2025)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
BE	0.24	0.07	-1.10	-5.43	-4.09	-4.33	-4.32	-3.13	-3.06	-2.41	-2.36	-0.68	-0.87	-1.99	-8.97	-5.40	-3.57	-4.44	-4.4	-4.7
BG	2.67	-0.01	1.42	-4.44	-3.66	-1.75	-0.81	-0.73	-5.38	-1.86	0.32	1.62	1.73	2.14	-3.81	-3.94	-2.90	-1.88	-2.8	-2.9
CZ	-2.15	-0.64	-1.96	-5.41	-4.15	-2.70	-3.90	-1.28	-2.08	-0.64	0.71	1.50	0.89	0.29	-5.77	-5.11	-3.17	-3.65	-2.4	-1.9
DK	4.99	5.02	3.17	-2.80	-2.71	-2.06	-3.49	-1.24	1.14	-1.33	-0.11	1.79	0.76	4.13	0.33	4.06	3.34	3.13	2.4	1.4
DE	-1.65	0.26	-0.12	-3.15	-4.38	-0.88	0.01	0.04	0.58	0.96	1.16	1.34	1.95	1.53	-4.34	-3.59	-2.50	-2.46	-1.6	-1.2
EE	2.89	2.74	-2.65	-2.19	0.19	1.09	-0.29	0.18	0.71	0.11	-0.41	-0.48	-0.55	0.12	-5.43	-2.46	-0.97	-3.39	-3.4	-4.3
IE	2.78	0.27	-7.03	-13.87	-32.12	-13.57	-8.48	-6.40	-3.61	-2.03	-0.77	-0.29	0.13	0.48	-4.98	-1.51	1.71	1.65	1.3	1.2
EL	-5.95	-6.71	-10.18	-15.22	-11.40	-10.51	-9.19	-13.46	-3.75	-5.87	0.21	0.73	0.91	0.83	-9.77	-6.98	-2.49	-1.59	-1.2	-0.8
ES	2.12	1.89	-4.57	-11.28	-9.53	-9.74	-11.55	-7.53	-6.11	-5.31	-4.30	-3.12	-2.59	-3.06	-10.12	-6.73	-4.73	-3.64	-3.0	-2.8
FR	-2.65	-2.98	-3.50	-7.38	-7.15	-5.31	-5.17	-4.95	-4.58	-3.90	-3.76	-3.35	-2.31	-2.39	-8.93	-6.60	-4.77	-5.49	-5.3	-5.0
HR	-1.86	-2.12	-2.33	-7.02	-6.66	-7.61	-5.48	-5.52	-5.14	-3.48	-1.03	0.56	-0.03	0.22	-7.23	-2.53	0.13	-0.69	-2.6	-2.6
IT	-3.62	-1.34	-2.56	-5.12	-4.24	-3.59	-2.95	-2.85	-2.95	-2.55	-2.40	-2.42	-2.17	-1.50	-9.38	-8.74	-8.56	-7.39	-4.4	-4.7
CY	-1.03	3.22	0.87	-5.43	-4.68	-5.65	-5.75	-5.59	-8.80	-0.91	0.32	1.91	-3.62	0.94	-5.67	-1.83	2.73	3.08	2.9	2.9
LV	-0.53	-0.56	-4.25	-9.54	-8.62	-4.30	-1.41	-1.22	-1.61	-1.48	-0.02	-0.29	-0.74	-0.49	-4.38	-7.18	-4.63	-2.21	-2.8	-2.9
LT	-0.27	-0.82	-3.09	-9.12	-6.90	-8.95	-3.17	-2.63	-0.60	-0.30	0.25	0.42	0.54	0.49	-6.49	-1.15	-0.59	-0.80	-1.8	-2.2
LU	1.91	4.36	3.37	-0.21	-0.32	0.66	0.51	0.84	1.34	1.33	1.89	1.37	2.98	2.22	-3.42	0.54	-0.35	-1.25	-1.7	-1.9
HU	-9.26	-5.08	-3.78	-4.75	-4.43	-5.21	-2.32	-2.60	-2.77	-2.00	-1.80	-2.46	-2.06	-2.05	-7.56	-7.16	-6.23	-6.69	-5.4	-4.5
MT	-2.45	-2.05	-4.08	-3.13	-2.24	-3.03	-3.36	-2.24	-1.52	-0.86	1.13	3.29	1.95	0.76	-9.39	-7.61	-5.53	-4.90	-4.3	-3.9
NL	-0.03	-0.23	0.12	-5.22	-5.34	-4.44	-3.93	-2.96	-2.25	-1.94	0.13	1.37	1.50	1.80	-3.71	-2.24	-0.09	-0.34	-2.0	-2.1
AT	-2.54	-1.35	-1.50	-5.33	-4.44	-2.55	-2.19	-1.95	-2.73	-1.01	-1.53	-0.82	0.17	0.57	-7.99	-5.77	-3.27	-2.65	-3.1	-2.9
PL	-3.54	-1.88	-3.61	-7.25	-7.47	-5.00	-3.82	-4.27	-3.67	-2.60	-2.40	-1.49	-0.25	-0.74	-6.93	-1.83	-3.44	-5.10	-5.4	-4.6
PT	-4.18	-2.90	-3.70	-9.87	-11.40	-7.66	-6.18	-5.10	-7.36	-4.45	-1.94	-2.96	-0.35	0.12	-5.82	-2.88	-0.32	1.20	0.4	0.5
RO	-2.14	-2.76	-5.42	-9.53	-7.10	-5.56	-3.84	-2.28	-1.19	-0.54	-2.55	-2.54	-2.82	-4.32	-9.27	-7.16	-6.32	-6.64	-6.9	-7.0
SI	-1.23	-0.05	-1.39	-5.81	-5.60	-6.63	-3.99	-14.58	-5.51	-2.85	-1.92	-0.05	0.74	0.72	-7.65	-4.58	-2.98	-2.46	-2.8	-2.2
SK	-3.58	-2.05	-2.52	-8.15	-7.47	-4.30	-4.35	-2.88	-3.10	-2.67	-2.57	-0.98	-1.01	-1.21	-5.35	-5.18	-1.67	-4.89	-5.9	-5.4
FI	3.97	5.11	4.18	-2.48	-2.53	-1.02	-2.16	-2.52	-2.99	-2.43	-1.70	-0.65	-0.85	-0.95	-5.57	-2.80	-0.36	-2.67	-3.4	-2.8
SE	2.08	3.29	1.90	-0.86	-0.12	-0.36	-1.14	-1.49	-1.55	-0.02	0.98	1.38	0.75	0.54	-2.82	0.00	1.18	-0.64	-1.4	-0.9
EA-20	-1.56	-0.72	-2.21	-6.28	-6.34	-4.30	-3.85	-3.27	-2.64	-2.05	-1.49	-1.01	-0.43	-0.50	-7.02	-5.24	-3.66	-3.59	-3.0	-2.8
EU-27	-1.42	-0.56	-2.05	-6.08	-6.03	-4.12	-3.72	-3.13	-2.54	-1.94	-1.38	-0.86	-0.38	-0.43	-6.70	-4.73	-3.38	-3.50	-3.0	-2.9

Source: European Commission 2024 spring forecast

Table B4: **Interest expenditure, general government (as a percentage of GDP, 2006-2025)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
BE	4.14	4.0	4.0	3.9	3.6	3.5	3.5	3.3	3.2	2.9	2.7	2.4	2.1	2.0	2.0	1.7	1.6	2.0	2.2	2.2
BG	1.29	1.1	0.8	0.7	0.7	0.7	0.8	0.8	0.9	0.9	0.9	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.5	0.5
CZ	1.03	1.1	1.0	1.2	1.3	1.3	1.4	1.3	1.3	1.1	0.9	0.7	0.7	0.7	0.8	0.8	1.1	1.3	1.4	1.5
DK	1.79	1.6	1.4	1.9	1.9	2.0	1.8	1.7	1.5	1.6	1.3	0.8	0.8	0.7	0.6	0.6	0.7	0.5	0.5	0.4
DE	2.71	2.7	2.7	2.6	2.5	2.5	2.3	1.8	1.6	1.4	1.2	1.0	0.9	0.8	0.6	0.6	0.7	0.9	0.9	1.0
EE	0.17	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.3	0.5	0.6
IE	1.00	1.0	1.3	2.0	2.8	3.4	4.2	4.3	3.9	2.6	2.3	2.0	1.6	1.3	1.0	0.8	0.7	0.7	0.7	0.7
EL	4.42	4.5	4.8	5.0	6.1	7.7	5.3	4.1	4.0	3.6	3.2	3.1	3.4	3.0	3.0	2.5	2.5	3.5	3.4	3.2
ES	1.61	1.6	1.6	1.7	1.9	2.5	3.0	3.6	3.5	3.0	2.8	2.5	2.4	2.3	2.2	2.1	2.4	2.5	2.5	2.6
FR	2.60	2.7	2.9	2.5	2.5	2.7	2.6	2.3	2.2	2.0	1.9	1.8	1.8	1.5	1.3	1.4	1.9	1.7	2.0	2.3
HR	1.63	1.6	1.8	2.2	2.4	2.6	3.0	3.1	3.4	3.4	3.1	2.6	2.3	2.2	2.0	1.5	1.4	1.7	1.6	1.6
IT	4.44	4.7	4.9	4.4	4.3	4.6	5.2	4.8	4.6	4.1	3.9	3.8	3.6	3.4	3.4	3.5	4.2	3.8	4.0	4.1
CY	2.95	2.8	2.6	2.3	2.0	2.1	3.3	3.2	3.3	3.1	2.6	2.5	2.3	2.2	2.1	1.7	1.5	1.4	1.4	1.3
LV	0.45	0.4	0.6	1.5	1.8	1.8	1.7	1.5	1.3	1.2	1.0	0.9	0.7	0.7	0.6	0.5	0.4	0.6	1.0	1.2
LT	0.70	0.7	0.7	1.2	1.8	1.8	2.0	1.8	1.6	1.5	1.3	1.1	0.9	0.9	0.7	0.4	0.4	0.6	0.7	0.9
LU	0.22	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.3	0.4	0.4
HU	3.84	4.0	4.1	4.5	4.1	4.1	4.6	4.5	4.0	3.4	3.1	2.6	2.3	2.2	2.3	2.3	2.8	4.7	4.9	4.1
MT	3.71	3.5	3.3	3.2	3.0	3.2	3.0	2.8	2.7	2.3	2.1	1.8	1.5	1.3	1.3	1.1	0.9	1.1	1.3	1.3
NL	2.01	2.0	2.0	2.0	1.8	1.8	1.7	1.6	1.5	1.3	1.2	1.0	0.9	0.8	0.7	0.5	0.5	0.6	0.7	0.7
AT	3.14	3.1	2.9	3.1	2.9	2.8	2.7	2.6	2.4	2.3	2.1	1.8	1.6	1.4	1.3	1.1	0.9	1.2	1.4	1.4
PL	2.37	2.2	2.1	2.5	2.5	2.6	2.7	2.6	2.0	1.8	1.7	1.6	1.4	1.4	1.3	1.1	1.5	2.1	2.2	2.4
PT	2.78	3.0	3.1	3.0	2.9	4.3	4.9	4.8	4.9	4.6	4.1	3.8	3.4	3.0	2.9	2.4	1.9	2.2	2.2	2.2
RO	0.84	0.7	0.8	2.0	1.9	2.0	2.2	2.1	1.8	1.6	1.4	1.1	1.0	1.2	1.4	1.5	1.5	2.0	2.0	2.0
SI	1.37	1.2	1.1	1.3	1.6	1.9	2.0	2.5	3.2	3.2	3.0	2.5	2.0	1.7	1.6	1.2	1.1	1.2	1.4	1.4
SK	1.45	1.4	1.3	1.5	1.3	1.5	1.8	1.9	1.9	1.8	1.7	1.4	1.3	1.2	1.2	1.1	1.0	1.2	1.3	1.5
FI	1.49	1.4	1.4	1.3	1.3	1.4	1.4	1.3	1.2	1.2	1.1	1.0	0.9	0.9	0.7	0.5	0.6	1.1	1.2	1.5
SE	1.76	1.7	1.6	1.3	1.1	1.2	1.0	0.9	0.7	0.5	0.5	0.4	0.4	0.4	0.3	0.2	0.5	0.7	0.7	0.7
EA-20	2.83	2.9	2.9	2.8	2.8	3.0	3.0	2.8	2.6	2.3	2.1	2.0	1.8	1.6	1.5	1.5	1.7	1.7	1.9	2.0
EU-27	2.72	2.7	2.8	2.7	2.7	2.9	2.9	2.7	2.5	2.2	2.0	1.8	1.7	1.5	1.4	1.4	1.6	1.7	1.8	1.9

Source: European Commission 2024 spring forecast

Table B5: **Structural budget balance, general government (as a percentage of GDP, 2014-2025)**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
BE	-3.0	-2.6	-2.3	-1.3	-1.7	-2.8	-5.6	-4.8	-3.9	-4.2	-4.0	-4.3
BG	-1.6	-1.4	0.5	1.7	1.8	1.8	-2.3	-3.9	-3.3	-2.2	-2.8	-3.2
CZ	-0.5	-0.6	0.8	0.5	-0.3	-1.1	-4.3	-4.8	-3.3	-2.9	-1.5	-1.5
DK	-0.2	-1.3	0.5	2.0	1.1	4.7	3.3	4.6	3.6	3.6	2.4	1.4
DE	1.0	1.2	1.0	0.8	1.5	0.9	-2.7	-3.1	-2.4	-2.1	-0.9	-0.7
EE	0.9	0.7	-0.3	-1.5	-1.5	-0.7	-4.2	-4.4	-1.1	-1.3	-0.7	-2.6
IE	-4.8	-3.7	-1.8	-0.4	1.4	3.1	-2.3	-3.9	-3.0	1.0	1.8	1.6
EL	4.7	4.5	6.6	6.4	6.0	3.1	-3.1	-4.6	-2.5	-1.5	-1.7	-1.8
ES	-0.5	-1.7	-2.7	-2.8	-3.0	-4.1	-4.2	-4.3	-4.8	-4.1	-3.4	-3.3
FR	-3.4	-2.9	-3.0	-3.4	-3.2	-3.0	-5.1	-5.9	-4.9	-5.4	-5.0	-4.9
HR	-3.0	-2.1	-0.6	0.5	-0.7	-0.7	-3.3	-2.7	-1.2	-1.8	-3.6	-3.4
IT	-0.6	-0.3	-1.3	-1.9	-2.2	-1.7	-4.6	-8.4	-9.6	-8.3	-5.0	-5.3
CY	4.5	3.0	1.3	1.7	3.0	0.2	-4.0	-3.2	0.6	1.8	2.1	2.4
LV	-1.2	-1.9	-0.7	-1.1	-2.1	-1.0	-3.0	-7.3	-5.1	-1.9	-2.4	-2.7
LT	-1.1	-0.6	-0.3	-0.7	-0.8	-1.1	-6.5	-2.0	-1.1	0.1	-0.8	-1.4
LU	2.1	1.9	1.5	1.5	3.5	2.6	-1.7	0.2	-0.4	0.0	-0.3	-0.7
HU	-2.1	-2.2	-2.0	-3.7	-3.7	-3.9	-6.1	-7.1	-7.0	-6.0	-4.9	-4.4
MT	-2.5	-2.6	1.3	1.9	0.2	-0.9	-4.9	-6.7	-5.3	-4.9	-4.2	-3.5
NL	-0.9	-1.0	0.3	0.6	0.8	0.9	-1.0	-1.9	-1.1	-0.8	-1.3	-1.4
AT	-0.6	0.0	-1.1	-1.1	-0.8	-0.7	-5.0	-4.5	-4.1	-2.4	-2.5	-2.7
PL	-2.5	-2.0	-1.8	-1.7	-1.4	-2.1	-5.8	-2.4	-4.6	-4.5	-4.8	-4.3
PT	-1.7	-2.1	-1.8	-1.4	-0.8	-0.9	-1.5	-1.4	-0.9	0.9	0.0	0.2
RO	-0.9	-0.4	-1.4	-2.7	-3.0	-4.6	-7.5	-6.3	-5.9	-6.0	-6.4	-6.7
SI	-1.2	-0.4	-0.4	-0.2	-0.5	-1.1	-6.3	-5.9	-4.4	-2.8	-2.7	-2.1
SK	-2.4	-2.5	-2.3	-1.1	-1.8	-2.0	-4.3	-5.3	-1.9	-4.7	-5.6	-5.3
FI	-1.2	-0.6	-0.9	-1.1	-1.2	-1.5	-4.2	-2.7	-0.3	-1.4	-1.8	-1.6
SE	-0.7	-0.4	0.7	1.0	0.6	0.5	-0.6	0.1	0.9	0.1	0.0	0.2
EA-20	-0.9	-0.8	-0.9	-1.1	-0.8	-1.0	-3.7	-4.6	-4.1	-3.6	-2.7	-2.7
EU-27	-0.9	-0.8	-0.8	-0.9	-0.8	-1.0	-3.6	-4.2	-3.8	-3.5	-2.7	-2.7

Source: European Commission 2024 spring forecast

Table B6: Gross debt, general government (as a percentage of GDP, 2006-2024)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
BE	91.5	87.3	93.2	100.2	100.3	103.5	104.8	105.5	107.0	105.2	105.0	102.0	99.9	97.6	111.9	107.9	104.3	105.2	105.0	106.6
BG	20.9	16.3	13.0	13.7	15.3	15.2	16.6	17.0	27.0	25.9	29.1	25.1	22.1	20.0	24.6	23.9	22.6	23.1	24.8	24.6
CZ	27.6	27.3	28.1	33.4	37.1	39.7	44.2	44.4	41.9	39.7	36.6	34.2	32.1	30.0	37.7	42.0	44.2	44.0	45.2	45.5
DK	31.5	27.3	33.3	40.2	42.6	46.1	44.9	44.0	44.3	39.8	37.2	35.9	34.0	33.7	42.3	36.0	29.8	29.3	26.5	25.1
DE	66.9	64.2	65.7	73.2	82.0	79.4	80.7	78.3	75.3	71.9	69.0	65.2	61.9	59.6	68.8	69.0	66.1	63.6	62.9	62.2
EE	4.6	3.8	4.5	7.2	6.7	6.2	9.8	10.2	10.6	10.1	10.0	9.1	8.2	8.5	18.6	17.8	18.5	19.6	21.4	24.6
IE	23.6	23.9	42.5	61.8	86.2	110.4	119.9	120.1	104.0	76.5	74.4	67.4	62.9	57.1	58.1	54.4	44.4	43.7	42.5	41.3
EL	103.6	103.1	109.4	126.7	147.5	175.2	162.0	178.2	180.3	176.7	180.5	179.5	186.4	180.6	207.0	195.0	172.7	161.9	153.9	149.3
ES	39.1	35.8	39.7	53.3	60.5	69.9	90.0	100.5	105.1	103.3	102.7	101.8	100.4	98.2	120.3	116.8	111.6	107.7	105.5	104.8
FR	65.3	65.4	69.7	84.0	86.3	88.9	91.7	94.7	96.3	97.1	98.0	98.5	98.2	97.9	114.9	113.0	111.9	110.6	112.4	113.8
HR	38.4	37.1	38.9	48.1	56.9	63.3	69.0	79.8	83.4	82.8	79.1	76.0	72.6	70.4	86.1	77.5	67.8	63.0	59.5	59.1
IT	106.7	103.9	106.2	116.6	119.2	119.7	126.5	132.5	135.4	135.3	134.8	134.2	134.5	134.2	155.0	147.1	140.5	137.3	138.6	141.7
CY	59.3	54.0	45.5	54.3	56.3	65.8	80.1	103.7	108.8	107.5	103.2	93.2	98.5	93.0	114.9	99.3	85.6	77.3	70.6	65.4
LV	10.0	8.4	18.5	37.0	47.6	45.1	42.4	40.3	41.6	37.0	40.3	38.9	37.0	36.7	42.7	44.4	41.8	43.6	44.5	46.3
LT	17.3	15.9	14.6	28.0	36.2	37.1	39.7	38.7	40.5	42.5	39.7	39.1	33.7	35.8	46.2	43.4	38.1	38.3	38.9	41.6
LU	8.2	8.1	14.6	15.3	19.1	18.5	20.8	22.4	21.9	21.1	19.6	21.8	20.9	22.4	24.6	24.5	24.7	25.7	27.1	28.5
HU	64.4	65.6	71.8	78.0	80.0	80.3	78.2	77.2	76.5	75.8	74.9	72.1	69.1	65.3	79.3	76.7	74.1	73.5	74.3	73.8
MT	64.3	61.9	61.8	66.3	65.5	70.0	66.6	66.4	62.1	56.2	54.7	47.8	43.4	40.0	52.2	53.9	51.6	50.4	52.0	52.6
NL	45.2	43.0	54.7	56.8	59.3	61.7	66.2	67.7	67.9	64.7	61.9	57.0	52.4	48.6	54.7	51.7	50.1	46.5	47.1	48.4
AT	67.3	65.0	68.7	79.9	82.7	82.4	81.9	81.3	84.0	84.9	82.8	78.5	74.1	70.6	82.9	82.5	78.4	77.8	77.7	77.8
PL	47.3	44.5	46.7	49.8	54.0	55.1	54.8	57.1	51.4	51.3	54.5	50.8	48.7	45.7	57.2	53.6	49.2	49.6	53.7	57.7
PT	73.7	72.7	75.6	87.8	100.2	114.4	129.0	131.4	132.9	131.2	131.5	126.1	121.5	116.6	134.9	124.5	112.4	99.1	95.6	91.5
RO	12.4	11.9	12.3	21.8	29.0	32.3	35.4	37.8	39.1	37.7	37.8	35.3	34.4	35.1	46.7	48.5	47.5	48.8	50.9	53.9
SI	26.1	22.8	21.8	34.5	38.3	46.5	53.6	70.0	80.3	82.6	78.5	74.2	70.3	65.4	79.6	74.4	72.5	69.2	68.1	66.4
SK	31.4	30.3	28.6	36.4	40.6	43.2	51.7	54.7	53.5	51.7	52.3	51.5	49.4	48.0	58.8	61.1	57.7	56.0	58.5	59.9
FI	40.2	36.0	34.7	44.1	50.1	51.9	57.7	60.6	64.5	68.3	68.0	66.0	64.8	64.9	74.7	72.6	73.5	75.8	80.5	82.4
SE	43.6	38.9	37.5	40.7	38.1	37.2	37.5	40.3	45.0	43.7	42.2	41.4	39.6	35.6	40.2	36.7	33.2	31.2	32.0	31.3
EA-20	68.4	66.1	69.7	80.4	86.0	88.5	93.1	95.6	95.8	93.8	92.5	90.2	88.1	86.0	99.2	96.6	92.4	90.0	90.0	90.4
EU-27	65.1	62.4	65.2	75.9	80.8	82.6	86.9	89.1	89.2	87.3	86.2	83.7	81.6	79.4	91.7	89.0	84.8	82.9	82.9	83.4

Source: European Commission 2024 spring forecast

Table B7: **Debt dynamic components (as a percentage of GDP)**

	Primary balance						Snowball effect (1)						Stock-flow adjustment (2)					
	Average 2015-2020	2021	2022	2023	2024	2025	Average 2015-2020	2021	2022	2023	2024	2025	Average 2015-2020	2021	2022	2023	2024	2025
BE	-0.6	-3.7	-2.0	-2.4	-2.3	-2.4	0.0	-8.8	-7.4	-3.4	-1.7	-1.4	0.2	1.1	1.8	1.9	-0.7	0.4
BG	0.7	-3.5	-2.5	-1.4	-2.3	-2.4	-0.8	-2.8	-3.7	-1.5	-0.7	-0.8	1.1	-1.3	-0.2	0.6	0.2	-1.9
CZ	0.3	-4.4	-2.0	-2.3	-1.0	-0.4	-0.8	-1.7	-3.0	-2.0	-0.2	-0.9	0.4	1.7	3.2	-0.5	0.5	0.7
DK	1.9	4.6	4.1	3.7	2.9	1.8	0.0	-3.3	-2.9	1.1	-0.9	-0.6	1.6	1.6	0.7	2.1	1.0	1.0
DE	1.4	-3.0	-1.8	-1.6	-0.6	-0.2	-0.7	-3.5	-3.9	-3.0	-1.3	-0.9	1.1	0.7	-0.8	-1.0	0.0	0.0
EE	-1.1	-2.4	-0.9	-3.0	-3.0	-3.7	-0.4	-2.2	-2.3	-0.5	-0.2	-0.6	0.7	-1.1	2.2	-1.5	-1.0	0.0
IE	0.6	-0.8	2.4	2.3	1.9	1.8	-6.5	-7.1	-7.1	0.8	-0.9	-1.6	-0.6	2.7	-0.5	0.8	1.6	2.2
EL	1.1	-4.5	0.0	1.9	2.3	2.4	5.5	-16.3	-21.2	-7.3	-4.7	-3.6	0.0	-0.2	-1.1	-1.6	-1.1	1.5
ES	-2.2	-4.6	-2.4	-1.2	-0.5	-0.2	1.2	-8.0	-8.4	-6.4	-3.0	-1.8	-0.9	0.0	0.8	1.2	0.5	0.9
FR	-2.4	-5.2	-2.8	-3.8	-3.3	-2.7	0.5	-7.1	-3.9	-4.8	-1.7	-1.3	0.2	0.0	0.0	-0.2	0.2	0.0
HR	0.8	-1.0	1.5	1.0	-1.0	-1.0	0.9	-10.0	-9.4	-5.5	-3.6	-1.3	0.3	0.4	1.2	1.7	-0.9	-0.2
IT	0.3	-5.2	-4.3	-3.6	-0.5	-0.5	3.3	-10.2	-6.3	-4.5	-0.2	0.2	0.2	-2.9	-4.6	-2.3	1.1	2.3
CY	1.3	-0.1	4.2	4.5	4.3	4.2	-1.4	-11.4	-8.7	-4.4	-3.4	-2.3	3.7	-4.4	-0.7	0.6	1.0	1.3
LV	-0.4	-6.7	-4.2	-1.6	-1.8	-1.8	-0.7	-3.7	-5.4	-1.4	-1.4	-1.0	0.5	-1.4	-1.4	1.6	0.6	1.0
LT	0.2	-0.7	-0.2	-0.2	-1.1	-1.3	-0.9	-5.0	-6.7	-1.8	-0.9	-0.9	2.0	1.5	1.1	1.8	0.4	2.3
LU	1.4	0.7	-0.2	-0.9	-1.3	-1.5	-0.4	-2.5	-1.5	-0.3	-1.0	-0.8	2.3	3.1	1.5	0.2	1.0	0.7
HU	-0.3	-4.9	-3.4	-2.0	-0.5	-0.4	-1.9	-7.5	-9.7	-4.2	-0.4	-1.0	2.0	0.0	3.6	1.7	0.7	0.2
MT	1.2	-6.5	-4.6	-3.8	-3.1	-2.6	-2.0	-5.6	-5.6	-4.1	-2.6	-2.0	1.5	0.8	-1.3	-0.9	1.2	0.1
NL	0.8	-1.7	0.4	0.3	-1.3	-1.4	-0.7	-4.1	-4.2	-3.0	-1.3	-1.0	-0.7	-0.6	3.1	-0.3	0.6	0.9
AT	0.0	-4.7	-2.3	-1.5	-1.7	-1.4	-0.1	-3.9	-6.8	-3.8	-1.9	-1.7	-0.1	-1.2	0.4	1.6	0.2	0.4
PL	-0.9	-0.7	-1.9	-3.0	-3.2	-2.2	-1.1	-5.3	-6.2	-2.7	-1.2	-1.5	1.2	1.0	-0.1	0.1	2.1	3.3
PT	1.1	-0.5	1.6	3.4	2.6	2.7	0.5	-7.3	-11.6	-7.6	-2.0	-1.5	0.9	-3.5	1.1	-2.3	1.1	0.1
RO	-2.4	-5.7	-4.8	-4.6	-4.9	-5.0	-1.4	-3.4	-5.9	-4.0	-2.8	-2.1	0.3	-0.6	0.0	0.7	0.0	0.0
SI	0.5	-3.3	-1.9	-1.2	-1.4	-0.8	-0.5	-6.7	-5.1	-5.7	-2.3	-2.3	0.9	-1.8	1.3	1.2	-0.2	-0.2
SK	-0.9	-4.1	-0.6	-3.7	-4.5	-3.9	-0.3	-2.9	-4.3	-5.0	-2.3	-1.9	0.3	1.0	0.3	-0.5	0.2	-0.6
FI	-1.1	-2.3	0.2	-1.6	-2.2	-1.4	-0.6	-3.2	-4.0	-1.5	-0.1	-1.3	1.2	-1.2	5.2	2.3	2.6	1.8
SE	0.5	0.2	1.7	0.1	-0.7	-0.2	-1.2	-3.1	-2.5	-1.0	-0.1	-0.4	0.9	-0.2	0.6	-0.9	0.1	-0.4
EA-19	-0.2	-3.8	-2.0	-1.9	-1.1	-0.9	0.1	-6.2	-5.7	-3.9	-1.6	-1.1	0.3	-0.2	-0.4	-0.4	0.4	0.7
EU-27	-0.2	-3.4	-1.8	-1.8	-1.2	-0.9	-0.1	-6.0	-5.5	-3.5	-1.6	-1.2	0.4	-0.2	-0.4	-0.1	0.4	0.7

Notes: (1) The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator); (2) The stock-flow adjustment includes: (i) differences in cash and accrual accounting; (ii) the accumulation of financial assets: and (iii) valuation and other residual effects.
Source: European Commission 2024 spring forecast

ANNEX C

Annex C: Methodological annex

C.1. NET EXPENDITURE GROWTH AND ITS BREAKDOWN BY ECONOMIC AND FUNCTIONAL CATEGORIES USED IN CHAPTER 2

Net expenditure growth measures the annual percentage change of expenditure that is presumed to be under direct control of the government. It is set out against an estimate of nominal medium-term potential growth to assess its sustainability. In the analysis underpinning Section 2.5, the two indicators follow the definitions used for the expenditure benchmark of the Stability and Growth Pact [122].

General government net expenditure (NE_t) is traditionally calculated from total government expenditure (TE_t), excluding interest expenditure (I_t), expenditure on EU programmes fully matched by EU funds revenue (EU_t), and the cyclical part of unemployment benefit expenditure (CUE_t) and one-off expenditure measures (${one_{offs}}_t^E$), and replacing annual nationally financed investment expenditure ($GFCF_t^{nat}$) with average over 4-year period:

$$NE_t = TE_t - I_t - EU_t - CUE_t - {one_{offs}}_t^E - GFCF_t^{nat} + \frac{GFCF_t^{nat} + GFCF_{t-1}^{nat} + GFCF_{t-2}^{nat} + GFCF_{t-3}^{nat}}{4}$$

Net expenditure growth (NEG) is calculated as a change in net expenditure (NE) excluding the incremental impact of discretionary revenue measures (without one-off revenue measures) (DRM):

$$NEG = \frac{NE_t - DRM_t}{NE_{t-1}}$$

Disaggregated net expenditure growth

Net expenditure growth can be broken down by economic categories and government functions. Government data by economic classification is made available in a fairly timely manner, with the first releases less than 4 months after the end of the reporting year [123], and it is used for most fiscal analysis and forecasts. Data by government functions, COFOG, is released more than a year after the end of the reporting period [124].

Disaggregated net expenditure growth by economic categories – calculation steps:

1. Eurostat data for general government expenditure by 12 economic categories.

2. Exclude interest expenditure.

3. Exclude the effect of one-off expenditure measures by economic categories [125].

4. Exclude cyclical part of unemployment benefit expenditure from social benefits (ESA code D.62). It is estimated based on unemployment benefit expenditure (COFOG code 10.5) and differential between actual and structural unemployment rate.

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[122] The expenditure benchmark and its application in the EU fiscal surveillance is described in the SGP vade mecum.
[123] Eurostat publishes main aggregates of general government after validating data submitted by the national statistical offices. The statistical recording methodology for general government data is based on the manual of the European System of National and Regional Accounts, which is further interpreted by the Manual on Government Deficit and Debt.
[124] General government expenditure by function (COFOG) is transmitted to Eurostat 12 months after the reporting period and published some 2 months later. The manual on sources and methods for the compilation of COFOG statistics — Classification of the Functions of Government.
[125] Estimates of discretionary fiscal measures (one-off measures, revenue measures and temporary crisis-related measures) are made by the Commission country experts in DG ECFIN and contain information on economic classification of measures.

5. Exclude current transfers received from the EU institutions, proportionally distributing the effect across current expenditure items calculated in the previous steps.

6. Exclude capital transfers received from the EU institutions from gross fixed capital formation up to step 4;

7. Replace annual nationally financed gross fixed capital formation (step 6) with its moving average over 4-years (t to t-3).

8. Expenditure items calculated in the previous steps amount to net expenditure aggregate.

9. Calculate annual change in net expenditure items in step 8 by excluding incremental impact of discretionary revenue measures (without one-off revenue measures), proportionally distributing the effect across the net expenditure items.

Disaggregated net expenditure growth by economic and functional categories (COFOG) is calculated following the above-listed steps, but at a greater granularity – 12 economic categories are broken over 10 government functions. Effect of one-off expenditure measures, EU transfers and discretionary revenue measures is proportionally attributed across both economic and functional categories of (net) expenditure.

Disaggregated net expenditure growth excluding the temporary support measures involves additional calculation steps:

- Net expenditure aggregate in step 8 excludes the effect of temporary expenditure measures (level), using information on their economic classification and proportionally distributing the effect across government functions (COFOG breakdown).

- Discretionary revenue measures in step 9 exclude the incremental effect of temporary revenue measures.

Nominal medium-term potential growth

Nominal medium-term potential output growth is the benchmark for sustainable net expenditure growth in the medium term. It relies on 10-year average of forward and backward-looking estimates of potential output growth (t-5 to t+4) and assumptions about the GDP deflator in the reporting year. The GDP deflator is used as a measure of inflation, and it can be defined in different ways:

- Fixed annual GDP deflator at the beginning of the fiscal surveillance cycle is used in this report. This follows the approach used in the EU fiscal surveillance (European Commission, 2019). The GDP deflator from the Commission's spring forecast of the preceding year is used for years 2018 to 2023 ([126]). This approach ensure that nominal fiscal targets are fixed when the fiscal plans are designed.

- Actual GDP deflator was used in the EFB net expenditure analysis in the previous years (EFB, 2022); EFB, 2023). This approach was practical in the low and stable inflation environment, but it became less predictable under the conditions of high and unexpected price volatility.

Methodological caveats:

- Data on discretionary revenue measures and one-off measures start in 2009. Net expenditure growth is not adjusted for these elements for earlier years.

([126]) For 2012-2017, it is the average GDP deflator from the Commission's spring and autumn forecasts of the preceding year, in line with the agreed approach at that time. For years before 2011, the GDP deflator from the Commission's autumn forecast of the preceding year is used, as at that time the EU fiscal guidance was issued early in the year, based on the Commission autumn forecasts.

- Proportional allocation of the effect of measures and EU transfers across economic or functional categories is a technical assumption, while in practice allocation can be more specific.

- Estimates of discretionary fiscal measures rely on the expert judgement and may need to be revisited if underlying assumptions or statistical account principles change, which is difficult to ensure given many measures taken by Member States. There is a risk of under- or over-estimating the impact of a measure or misclassifying it, but the risk should less affect aggregate results across several Member States.

- Expenditure developments by economic and functional categories are compared to the common nominal benchmark of the medium-term potential growth. However, different government expenditures depend on different real and nominal growth factors (e.g., demographic dynamics of different age groups; different impact of price and wage changes) and their benchmarks could be sector/category specific.

C.2. METHODOLOGICAL APPROACH AND DATA SOURCES FOR THE ASSESSMENT OF IFI SAFEGUARDS

The comprehensive evaluation in Section 3.1 of where EU IFIs stand vis-à-vis existing and recently approved EU legislation is primarily based on the existing IFI databases maintained by international organisations: the IFI partition of the European Commission's Fiscal Governance Database (FGD), the IMF's Fiscal Council Dataset, and the OECD's IFI database. These datasets contain information on various aspects of IFIs, ranging from the mandate of independent entities through all kinds of institutional and administrative features, to even covering reporting patterns and the relationship with domestic counterparts active in the fiscal policy domain (most notably, government, legislature, media outlets). The present investigation only uses one particular segment of the available information, which describe the independence safeguards. The Commission's and OECD's datasets are based on a dedicated questionnaire, while the IMF relies on a host of secondary sources, including legal documents, IFI websites and relevant reports. The databases are regularly updated: the frequency is annual for the Commission's FGD, while more occasional for the other two institutions (between three and five years) ([127]).

All three datasets undergo internal and external review and verification processes before their publication. Nonetheless, there are some limitations to the available information that should be borne in mind when interpreting our results reported below. First, the databases typically contain information on written legal provisions that are in force, but not necessarily about their actual practice. For instance, they report on whether the principle of freedom from interference is formally laid down in national legislations, typically by banning the leadership of national IFIs from seeking and taking instructions from any other body in performing their mandate. At the same time, some of the IFIs benefitting from such provisions could *de facto* still struggle with undue political pressure or actually take instructions from other entities. Second, linked to the cut-off dates of the current versions of these databases, some of the reported answers might not fully reflect very recent changes. Specifically, at the time of writing, answers in the Commission's dataset refers to 2022, the IMF's refers to end-2021, while the OECD's database was last updated with the year 2020. Naturally, the Commission's underlying questionnaire is the one most closely adapted to EU legal requirements, so the FGD was the primary basis for the EFB's analysis, while the other two datasets were predominantly used to complement the information with further details and additional aspects.

In total, our analysis encompasses 31 IFIs in 26 Member States (the exception is Poland ([128])), as these are the institutions that are officially mandated to fulfil at least one task stemming from EU legislation (for a

([127]) For detailed technical descriptions of the latter two datasets, see IMF (2022) and OECD (2021), respectively.
([128]) Until May 2024, the legal requirement of the 2011-2013 economic governance reforms to establish an IFI did not apply to the Member States outside the euro area. However, they either already had an independent entity in place carrying out relevant tasks (Denmark, Hungary and Sweden) or they decided to create a fully-fledged IFI on a voluntary basis (Bulgaria, Czechia, Romania). Poland was a notable exception. The government referred to the reports of the Polish Supreme Audit Office IFIs as independent inputs to the monitoring of domestic numerical

detailed list of EU IFIs with some essential characteristics, see the overview table C.1 at the end of this Annex). The EU-mandated functions are either the monitoring of compliance with domestic numerical rules or the independent production or endorsement of the macroeconomic forecasts underpinning fiscal planning, or both. In most EU countries, these two tasks are carried out by the same institution, whereas in five Member States (Belgium, Luxembourg, the Netherlands, Austria and Slovenia, all in the euro area) two entities fulfil these functions: a fiscal council and a forecasting institution.

In this context, it is worth noting that there are differences among the databases in their institutional coverage, most notably, non-OECD EU Member States are not covered by the OECD database (Bulgaria, Croatia, Cyprus, Malta, Romania). Importantly, all three include at least one IFI from 26 EU Member States, but the 'pure' forecasting institutions in the EU (namely, the Austrian WIFO, the Luxembourgish STATEC, and the Slovenian IMAD, supplying independently the macroeconomic scenarios for national fiscal plans) are only covered by the Commission's database.

Beyond relying on databases of international organisations, in certain cases, the EFB Secretariat gathered information from the official webpages of the national IFIs as they typically describe their institutional arrangements and the applicable legal provisions and documents. As an additional source of information, in early 2017, the Commission published country-specific transposition reports on compliance with the requirements of the intergovernmental Fiscal Compact ([129]). These reports are available for the 22 Member States that were initially bound by the provisions of the Fiscal Compact and contain the Commission's assessments of the independent monitoring bodies vis-à-vis a set of safeguards very similar to those laid down in the two-pack ([130]).

Finally, in order to address the remaining information gaps in the above listed secondary sources, a dedicated IFI survey was conducted by the EFB Secretariat in early 2024. The survey was distributed to the 31 institutions in 26 Member States with EU-law mandated task as explained above. The questionnaire comprises several thematic blocks and covers those specific elements of the two-pack defined independence safeguards that are not covered by the existing IFI databases. In addition, it includes questions about the new safeguard elements agreed in the economic governance reform process. The blocks are: (i) nomination and appointment procedures; (ii) funding arrangements; (iii) access to information; (iv) comply-or-explain arrangements. At the end, IFIs were also asked to provide an overall evaluation about their *de jure* (as supported by national legal provisions) and *de facto* (as perceived by the IFIs themselves) independence.

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rules. It is worth noting that similar *ex post* reports on budgetary execution and/or on the final accounts have been produced in many other Member States by audit institutions for decades, linked to their long-established role in national budgetary processes.

([129]) It is the fiscal chapter of the intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union signed in 2012, aimed at reinforcing fiscal discipline in the EU.

([130]) See the Commission's 2017 transposition reports. At the time of the Commission's assessment in 2017, the Fiscal Compact provisions were binding for 22 Member States, i.e. for the 19 euro-area Member States plus, on a voluntary basis for Bulgaria, Denmark and Romania. Currently, there are 23 contracting parties, as the Fiscal Compact provisions became automatically binding for Croatia when it accessed to the euro area on 1 January 2023.

Table C.1: **The list of the 31 IFIs carrying out EU mandated tasks**

MS	Name (if relevant, commonly used abbreviation)	Established /reorganised (1)	Administrative set-up (2)
AT	Fiscal Advisory Council	1970/2013	Attached to the national central bank
	Austrian Institute of Economic Research (WIFO)	1927	Standalone
BE	Federal Planning Bureau	1959/1970	Standalone
	Public Sector Borrowing Requirement Section	1990/2006	Embedded in the High Council of Finance
BG	Fiscal Council	2015	Standalone
CY	Fiscal Council	2014	Standalone
CZ	Fiscal Council	2017	Standalone
DE	Independent Fiscal Advisory Council	2013	Attached to the Stability Council
DK	Economic Councils	1962	Standalone
EE	Fiscal Council	2014	Attached to the national central bank
EL	Hellenic Fiscal Council	2015	Standalone
ES	Independent Authority for Fiscal Responsibility (AIReF)	2013	Standalone
FI	Fiscal Policy Monitoring and Audit Unit	2013	Embedded in the National Audit Office
FR	High Council for Public Finance	2012	Attached to the National Audit Office
HR	Fiscal Policy Commission	2013/2018	Standalone
HU	Fiscal Council	2009/2011	Standalone
IE	Fiscal Advisory Council	2011	Standalone
IT	Parliamentary Budget Office	2012	Attached to the Parliament
LT	Budget Policy Monitoring Department	2014	Embedded in the National Audit Office
LU	National Institute of Statistics and Economic Studies (STATEC)	2011	Standalone
	National Council for Public Finance	2014	Standalone
LV	Fiscal Discipline Council	2013	Standalone
MT	Fiscal Advisory Council	2014	Standalone
NL	Advisory Division of the Council of State	2013	Embedded in the Council of State
	Netherlands Bureau for Economic Policy Analysis (CPB)	1945	Attached to the Ministry of Economic Affairs
PT	Public Finance Council	2012	Standalone
RO	Fiscal Council	2010	Attached to the Romanian Academy of Sciences
SE	Fiscal Policy Council	2007	Standalone
SI	Fiscal Council	2015	Standalone
	Institute of Macroeconomic Analysis and Development (IMAD)	1991	Standalone
SK	Council for Budget Responsibility	2012	Standalone

Notes: (1) Date of establishment or significant institutional reform, it may differ from the timing of effective start. (2) 'Attached' means that the IFI has financial and administrative links with a host institution, whereas 'embedded' signifies that the IFI is an organisational unit of a host institution. It should be noted that some of the standalone institutions (e.g. the Bulgarian and the Hungarian fiscal councils) also receive administrative support from existing public bodies.

Source: European Commission's fiscal governance database.

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