IN-DEPTH ANALYSIS

European Parliament

EGOV
ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT

ECONOMIC GOVERNANCE

Economic Dialogue with the European Commission on EU Fiscal Surveillance

ECON Committee on 5 December 2024

Commissioner Dombrovskis has been invited to an Economic Dialogue on the fiscal part of the 2025 European Semester autumn package adopted by the Commission in November 2024. This is the first Economic Dialogue with the Commission under the 10th parliamentary term and under the new provisions of the reformed EU economic governance framework.

The fiscal elements of the 2025 Autumn Semester package mark the first implementation cycle of the reformed EU economic governance framework and include:

i. Commission recommendations for Council recommendations on 21 Member States' medium-term fiscal-structural plans (see Section 3 and Annex 1 and 2 of this briefing),
ii. Commission Opinions on the Draft Budgetary Plans of 17 euro area Member States (see Section 4),
iii. Commission recommendations for Council recommendations for eight Member States to bring an end to their excessive deficit situations and two Commission reports assessing compliance with the deficit criterion (See Section 5).

The Commission will present the second part of the European Semester Autumn Package, including the Annual Sustainable Growth Strategy, the draft 2025 euro area recommendation, the Alert Mechanism Report and the proposal for a Joint Employment Report, in the coming weeks. A joint ECON and EMPL Committee meeting will be organised in early 2025 to discuss with the Commission this second part of the European Semester Package.

Economic Governance and EMU Scrutiny Unit (EGOV)
Authors: Samuel DE LEMOS, Giacomo LOI,
Bo SANGERS, Alvaro ROKOS CASTILLO
Directorate-General for Internal Policies
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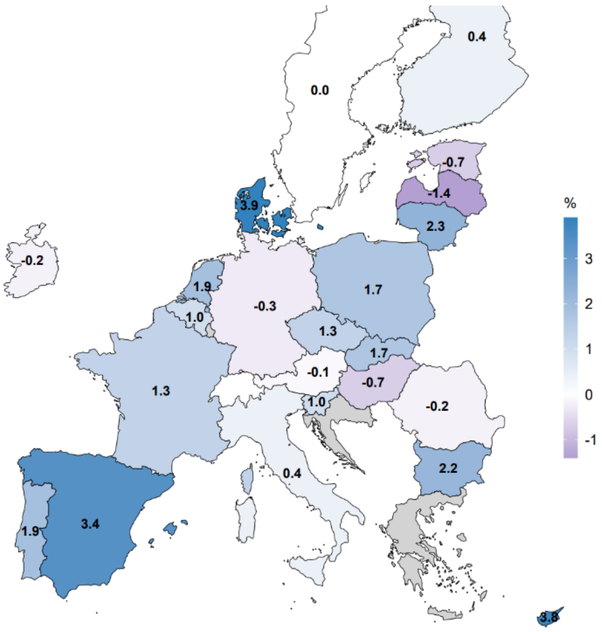
1. Latest economic developments

Figure 1: Differences in GDP growth rates (in %) in EU Member States



Note: Data refers to seasonally adjusted year-on-year growth rates for Q3 2024. Grey colour = NA. *Source: Eurostat.*

Following a period of broad-based stagnation, according to the Commission's Autumn 2024 Economic Forecasts, the EU growth resumed at the beginning of 2024. Overall, the Commission expects GDP to grow at 0.9% in the EU and 0.8% in 2024 (0.1 percentage points lower than previosuly foreseen for the EU, unchanged for the euro area), followed by a stronger rebound of 1.5% in 2025 and 1.8% in 2026 for the EU. **For the euro area, growth in 2025 and 2026 is predicted to be slightly milder, respectively at 1.3% and 1.6%.** The moderate improvements in the economic outlook seem to be sustained by a **pick-up in domestic demand and the ongoing disiflationary process.**

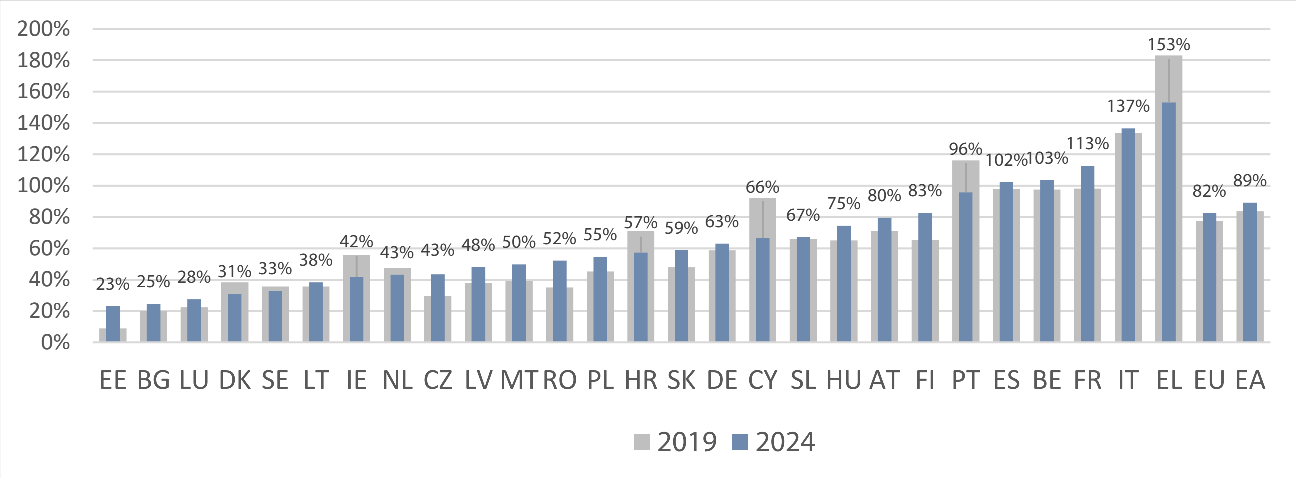
Overall, **headline inflation the euro area is expected to halve relative to the 2023 levels of 5.4% to 2.4% in 2024.** The disinflationary process, though currently slowing down following a pick up in energy prices, is forecasted to **bring headline inflation to 2.1% in 2025 before falling below target in 2026 at 2.6%.** Currently, the latest flash estimate by Eurostat shows that annual headline inflation in the euro area, as measured by the Harmonised Index of Consumer Prices (HICP), is expected to be 2.3% in November 2024, up from 2.0% in September 2024. For the EU as a whole, the Commission forecasts an even stronger decline of headline inflation from 6.4% in 2023 to 2.6% in 2024, 2.4% in 2025 and 2.0% in 2026. **Financing conditions are easing as the ECB started its loosening cycle in June with a total of three interest rate cuts by its latest Governing Council meeting in October**. The euro area policy rate (DFR) is now expected to sit at 2% by end-2025 and stabilise around that level thereafter, a 60 basis points reduction relative to the spring forecasts. Bank lending is also picking up though remaining weak in nominal terms.

The EU (and euro area) government deficit is estimated to be broadly stable, slightly declining from -3.1% of GDP in 2024 to -3.0% in 2025 and -2.9% in 2026 (for the euro area: -3.0% in 2024, -2.9% in 2025 and -2.8% in 2026). Relative to 2023, the EU general government deficit is thus expected to fall by 0.4 percentage points due to windfall revenue and fiscal consolidation. Budgetary restraint contributes to the moderation in 2025 whereas economic growth seems to be driving the marginal reduction in 2026. The forecasts assess the level of indebtedness of individual Member States, noting that **10 Member States (RO, PL, FR, BE, SK, HU, AT, MT, IT, FI) are expected to exceed the 3% deficit/GDP ceiling in 2024. This number is set to remain stable in 2025, with Latvia taking the place of Finland**. With the notable exception of Ireland, Spain, Cyprus and Portugal, Member States are projected to have a lower budgetary position than before the pandemic, in 2019.

The public debt-to-GDP ratio for the EU is expected to slightly increase from 82.1% in 2023 to 83.4% in 2026 (from 88.9% in 2023 to 90% in 2026 in the euro area). It still remains below the 92% peak recorded at the end of 2020 (99% in the euro area). The increase in public debt ratios reflects the high level of public deficits, which are not neutralised by inflationary developments anymore in the form of higher nominal growth as well as higher debt servicing burdens off the back of rising interest rates. Primary deficits continue to have a drag on debt dynamics.

There remains broad heterogeneity in the developments of public debt ratios. By the end of 2026, the debt-to-GDP ratio is expected to rise by more than 1 percentage point in 16 Member States yet for most Member States the debt-to-GDP ratios are projected to be lower than in 2020. The largest falls are expected in Greece, Cyprus and Portugal. 13 Member States are set to have debt ratios greater than 60% of GDP by the end of the forecast horizon; in five of them (Belgium, Greece, Spain, France and Italy) the debt-to-GDP ratio is expected to remain greater than 100% of GDP.

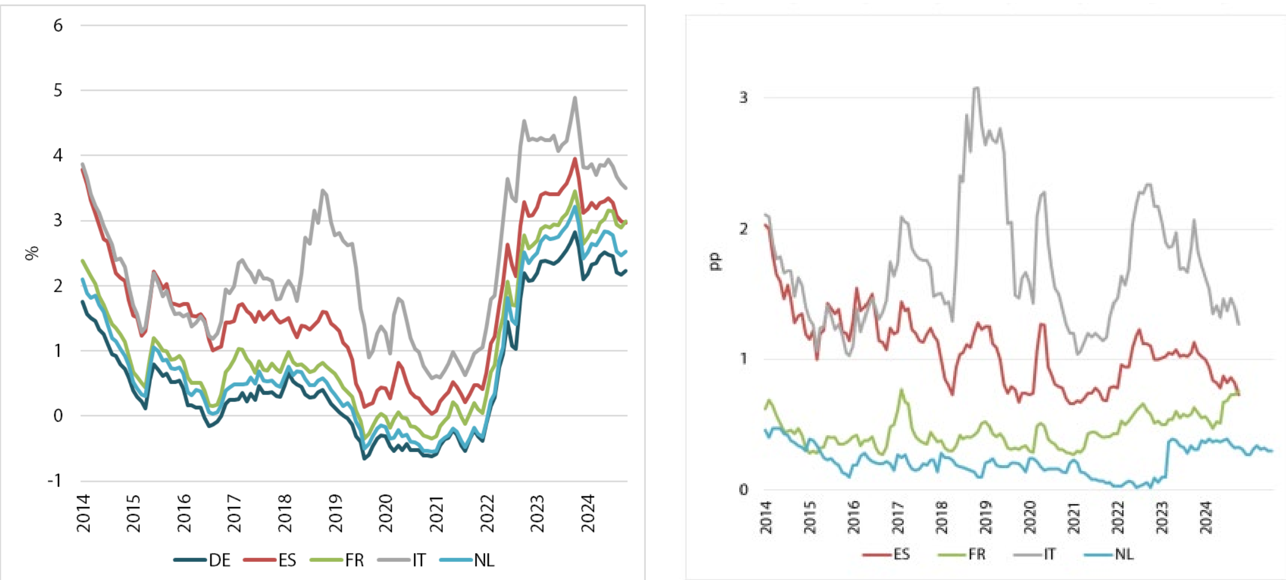
Figure 2: Public debt in EU Member States in 2019 and 2024, as % GDP



Source: EGOV's elaboration based on Eurostat and European Commission Autumn 2024 economic forecast.

In terms of sovereign bond markets, the **forecasts note how since the spring bond yields have broadly been falling in light of evolving expectations on monetary policy**. A notable exception remains France, whose spreads relative to the German 10-year bund yield have been rising after the EU elections in June and the ensuing dissolution of the French parliament. Political uncertainty in France remains an element of potential fragility in sovereign debt markets (see also Box 2).

Figure 3: Sovereign borrowing costs in % (left) and spreads vis-a-vis Germany in pp (right)



Note: On left hand side 10-year government bond yields are shown. Source: EGOV elaboration based on data from Eurostat.

In contrast, in its latest edition of the Financial Stability Review, the European Central Bank (ECB) identifies sovereign vulnerabilities as one of the key area of concern. Although aggregate debt-to-GDP ratios have recently decreased, **fiscal challenges remain in several euro area**. The ECB notes that **sovereign spreads have widened (Figure 3)** for some high-debt euro area countries due to **increased policy uncertainty** and **market concerns** about the impact on debt sustainability. Overall, high levels of sovereign debt in several euro area countries might restrict the fiscal space available for governments to respond timely and effectively to adverse shocks. In addition, despite accommodative ECB's monetary policy and expected reduction in borrowing costs, the **ECB expects interest payments to increase in the medium-term**, which will put additional pressure on government finances and thus highlights the need for timely fiscal consolidation. The ECB also warns that *"headwinds to economic growth from factors like weak productivity make elevated debt levels and budget deficits more likely to reignite debt sustainability concerns and to push sovereign credit risk premia higher in the event of adverse macro-financial surprises"*.

The Commission forecasts and the overall economic outlook are affected by uncertainty. Importantly, the cut-off date for the Commission's Autumn 2024 Economic Forecasts was set at 31 October 2024, i.e. a few days before the US election. **With Donald Trump set to return to the White House in January 2025 and pivot towards more protectionist policies, the economic prospects for the EU could turn out to be less favourable than predicted**. The Commission itself notes that "*A further increase in protectionist measures by trading partners could weigh on global trade, with negative impact on the EU's highly open economy*".

Box 1: The reaction of financial markets to the French election

The unexpectedly announced French elections in early June brought fresh uncertainty to the financial markets, prompting investors to pivot their focus towards debt management. The turmoil, resulted in the largest weekly increase on record in the spread between French and German 10-year bond yields (83 bps). Yields on 10-year French government bonds rose by as much as 10 bps to 3.2%, an unprecedented level since the 2012 euro area sovereign debt crisis.

Investors remain cautious about the potential market impact, warning of possible volatility in coming months depending on the evolution of the political situation, although they believe the worst-case scenario is behind France. Investors are likely to demand higher interest rates on French government borrowing for years due to ongoing fiscal and political challenges.

The latest edition of the International Monetary Fund (IMF)'s Fiscal Monitor highlights that fiscal policies need to prioritise debt sustainability and rebuild buffers without delay. The IMF stresses that there is no room for complacency since risks to debt sustainability are skewed to the upside. In this regard, independent fiscal oversight can improve credibility by ensuring the national fiscal plans are carried out effectively.

For an overview of the **latest official economic forecast for the EU and the euro area**, please see separate EGOV briefing.

2. The transition to the new EU fiscal framework

The new EU fiscal governance framework, reformed under the Stability and Growth Pact (SGP), introduces significant changes to the governance structure of EU level fiscal surveillance. A key innovation is the requirement for Member States to submit national **medium-term fiscal-structural plans (hereafter national fiscal plans) covering a four to five-year horizon**. These plans incorporate fiscal strategies, structural reforms, and investments, particularly focusing on EU priorities like the green and digital transitions. Central to the new framework is the single country-specific operational indicator, the **net expenditure path**, which replaces the previous set of rules. This path, based on debt sustainability analysis, serves as the primary tool for monitoring and surveillance. The framework also introduces flexibility with provisions for extending adjustment periods when significant reforms and investments are proposed[1].

Transitory measures are included in the new Regulations and are designed to provide flexibility and support to Member States, ensuring a smooth implementation of the new fiscal governance framework.

One key element in the process to set-up the national fiscal plans is the European Commission's **preliminary guidance** transmitted on 21 June 2024. Based on this guidance, Member States had to prepare and submit their **medium-term fiscal-structural plans by 20 September 2024**, unless a Member State and the Commission agree to extend that deadline by a reasonable period, **with a maximum extension to 15 October**, which is also the deadline for euro area Member States to provide their **Draft Budgetary Plan** (DBP). To ensure that the budgets for 2025 are the first step in implementing these national fiscal plans and to ensure full implementation from 2025 onwards, the Commission has assessed the plans together with the 2025 DBPs for euro area Member States.

Box 2: The Debt Sustainability Assessment (DSA)

The fiscal planning process is kick-started by the Commission on the basis of a debt sustainability assessment (DSA) for Member States in breach of either the debt/deficit reference value. This analysis, based on established methodologies, evaluates the sustainability of a Member State's debt by considering future economic and fiscal projections, including growth rates, interest rates, fiscal balances, and inflation.

The DSA is therefore the core element to establish a country-specific reference trajectory and requires careful scrutiny of its application. For this reason, Article 10 of the new preventive arm foresees the possibility for the European Parliament to invite the Commission to appear in front of its competent committee in an Economic Dialogue to present its DSA methodology and related potential changes.

Against this backdrop, the ECON Committee has requested external expertise to assess the Commission's DSA methodology. The first paper by Professor Carlo Cottarelli has been published on the ECON website and recognises that the DSA methodology is analytically sound. It warns however against its reliance on non-observable variables that through their ad hoc estimation may significantly affect the required debt reduction path at the end of the fiscal adjustment period. This may in turn influence the level of primary surplus that Member States have to achieve during their fiscal consolidation period.

To expedite the transition and reduce administrative burdens, Member States **are exempted in this first cycle from the obligation to consult relevant stakeholders** before submitting their plans for the first cycle. This exemption reflects the need for swift action in the initial implementation phase. For some Member States, acknowledging the exceptional impact of recent economic shocks and uncertainties on estimates of potential growth, they may use more stable series than those derived from the commonly agreed methodology, provided such use is duly justified by economic arguments and the cumulated growth over the projection horizon remains broadly in line with established methodology.

[1] See also EGOV briefing on *The new EU fiscal framework*

The **transitory arrangements also integrate commitments under the Recovery and Resilience Facility** (RRF) when assessing requests for extensions of the adjustment periods. This integration recognises the significant investments and reforms being undertaken as part of the EU's broader economic recovery efforts. The Commission integrated its assessment of plans and coordinated different processes, including excessive deficit procedures notably for 7 Member States. It delayed Article 126(7) TFEU recommendations until after reviewing national fiscal plans to align corrective measures with plan trajectories.

3. Commission's assessment of medium-term fiscal-structural plans

Out of the 27 EU Member States, the Commission has assessed 21 medium-term fiscal-structural plans in this first implementation cycle of the new framework as part of its 2025 Autumn Package. For Hungary's submitted plan, the assessment is still ongoing within the 6-week deadline set by the regulation. Five Member States (Austria, Belgium, Bulgaria, Germany and Lithuania) have not yet submitted their plans due to general elections and government formation processes.

The outcome of the Commission's assessment is overall positive. For 20 out of the 21 assessed plans, the Commission concludes that they meet the requirements of the new framework by setting out credible fiscal paths to ensure fiscal sustainability. **Only in the case of the Netherlands did the Commission find that the proposed net expenditure growth would lead to a breach of Treaty reference values in the medium term.** For this case, the Commission proposes that the Council recommend a net expenditure path consistent with the technical information it had transmitted to the Netherlands in June. The Dutch government itself has waived its right to revise the trajectory and pre-emptively indicated in its plan that it would accept the Commission proposal: *"If the Commission and the Council consider that the net expenditure path proposed by the Netherlands is not in line with the regulation, the Netherlands waives its right to submit a revised plan as stipulated in Article 18 of the regulation and understands that the Council may recommend an expenditure path under Article 19 of the regulation on the basis of the Commission's technical information. The government sees a recommendation for a spending path based on the technical information as a proper implementation of the European fiscal rules"*.

A key feature of the assessment is that **five Member States (Finland, France, Italy, Romania and Spain) have requested a longer adjustment period** - seven years instead of four - in line with the Regulation. This reflects a central element of the new framework that allows for more gradual fiscal adjustment when backed by substantial reforms and investments. The Commission found that these five countries' plans include credible commitments that:

- contribute to sustainable growth and resilience
- support fiscal sustainability
- effectively address country-specific recommendations and EU common priorities
- maintain required levels of public investment

These commitments combine measures from their Recovery and Resilience Plans (like Romania's pension reform) with additional initiatives (such as Finland's social security reform), demonstrating how the new framework can build on and complement existing EU tools.

All assessed plans also properly address the framework's investment requirements and outline reforms targeting EU priorities like green and digital transitions, social resilience, energy security and defence capabilities. The Commission will begin monitoring implementation when Member States submit their first annual progress reports in spring 2025.

Overall, the Commission assessment shows the crucial role of the technical dialogue preceding the submission and publication of the plans to find an agreement on the net expenditure figures with the concerned Member State. This however may also raise **questions on the overall level of transparency of this exercise.**

Two cases, **Cyprus and Croatia, allow for an ex post assessment of the role of the technical dialogue** in adjusting the figures consistently with the guidance provided by the Commission:

- In the case of **Cyprus**, the Commission had issued a reference trajectory recommending an average growth rate of net expenditure of 4.9%, to which Cyprus seemed to adhere at first in the MTFSP submitted. However, an addendum to the plan shows how the technical exchanges with the Commission allowed to account for changes in statistical treatment of certain figures and **increase the average net expenditure growth to 5.2%.**
- The case of **Croatia** is perhaps even more explicative, given disagreement over the right level of net expenditure growth to be allowed. The Commission's prior guidance suggested a 4% average growth rate over the plan horizon whereas the Croatian plan proposed a 5.4% rate. The addendum proposes instead a **more conservative estimate of 4.8%** following interlocution and further recommendations by the Commission.

The transparency of this exercise may further be questioned based on **the timing of publication of the addenda**, which is concomitant to the issuance of the MTFSP assessments on 26 November.

Table 1 Net expenditure growth in % of GDP of countries that requested an extension

Member State	Procedure	2024	2025	2026	2027	2028	2029	2030	2031	2025-2031	Change
ES	COM prior guidance	3.8	3.2	2.8	2.7	2.7	2.7	2.6	2.5	2.8	
	MTFSP	5.3	3.7	3.5	3.2	3.0	3.0	2.5	2.4	3.0	↑
	COM Autumn Forecast 2024	4.4	3.8	4.2	-	-	-	-	-	-	
FI	COM prior guidance	4.0	1.4	1.5	1.4	1.5	1.5	1.6	1.7	1.5	
	MTFSP	3.7	1.6	1.9	2.6	2.6	2.8	2.8	2.9	2.4	↑
	COM Autumn Forecast 2024	3.1	1.7	2.1	-	-	-	-	-	-	
FR	COM prior guidance	1.8	2.0	1.7	1.6	1.4	1.5	1.6	1.7	1.6	
	MTFSP	3.8	0.0	1.4	1.4	1.4	1.3	1.3	1.3	1.1	↓
	COM Autumn Forecast 2024	3.2	-0.1	2.7	-	-	-	-	-	-	
IT	COM prior guidance	-2.8	1.6	1.6	1.5	1.4	1.3	1.3	1.4	1.5	
	MTFSP	-1.9	1.3	1.6	1.9	1.7	1.5	1.1	1.2	1.5	=
	COM Autumn Forecast 2024	-2.3	1.3	1.9	-	-	-	-	-	-	

Member State	Procedure	2024	2025	2026	2027	2028	2029	2030	2031	2025-2031	Change
RO	COM prior guidance	14.3	6.1	5.7	5.3	5.0	4.8	4.7	4.5	5.2	↓
	MTFSP	14.3	5.1	4.9	4.7	4.3	4.2	3.9	3.8	4.4	
	COM Autumn Forecast 2024	16.1	9.1	9.3	-	-	-	-	-	-	

Source: EGOV's elaboration based on Commission's prior guidance, medium-term fiscal-structural plans and Autumn Forecast 2024.
Note: An upward (downward) arrow indicates the adoption of an average net expenditure growth rate for the adjustment period higher (lower) than under the Commission's prior guidance. The equal sign indicates that the average figures for the adjustment period coincide. Yellow highlighting indicates a higher figure in the medium-term fiscal-structural plans than under the prior guidance.

Table 2: Net expenditure growth in % of GDP of countries that did not request an extension

Member State	Procedure	2024	2025	2026	2027	2028	2025-2028	Change
CY	COM prior guidance	7.0	5.9	5.0	4.5	4.3	4.9	↑
	MTFSP, addendum	2.7	6.0	5.0	5.4	4.3	5.2	
	COM Autumn Forecast 2024	3.9	4.2	3.0	-	-	-	
CZ	COM prior guidance	-	-	-	-	-	3.5	↓
	MTFSP	5.3	4.5	2.5	2.6	2.9	3.1	
	COM Autumn Forecast 2024	0.6	3.1	4.0	-	-	-	
DK	COM prior guidance	-	-	-	-	-	5.8	↓
	MTFSP	7.2	5.0	5.7	3.8	2.9	4.4	
	COM Autumn Forecast 2024	5.1	7.5	5.0	-	-	-	
EE	COM prior guidance	5.4	3.3	3.3	2.9	2.9	3.1	↑
	MTFSP	1.9	7.1	5.1	3.6	3.2	4.7	
	COM Autumn Forecast 2024	5.1	5.1	5.6	-	-	-	
EL	COM prior guidance	1.8	3.0	3.2	3.1	3.0	3.1	↑
	MTFSP	2.6	3.7	3.6	3.1	3.0	3.4	
	COM Autumn Forecast 2024	1.8	3.1	2.8	-	-	-	
HR	COM prior guidance	-	-	-	-	-	4.0	↑
	MTFSP, addendum	n.a.	6.4	4.9	4.1	3.7	4.8	
	COM Autumn Forecast 2024	17.0	6.2	4.4	-	-	-	

Member State	Procedure	2024	2025	2026	2027	2028	2025-2028	Change
HU*	COM prior guidance	3.6	4.8	4.5	4.3	4.1	4.4	↑
	MTFSP	4.9	6.1	3.8	4.0	4.8	4.7	
	COM Autumn Forecast 2024	3.6	5.7	5.2	-	-	-	
IE	COM prior guidance	-	-	-	-	-	n.a.	n.a.
	MTFSP	6.6	8.1	3.0	6.6	5.0	5.5	
	COM Autumn Forecast 2024	9.2	6.6	5.6	-	-	-	
LU	COM prior guidance	-	-	-	-	-	n.a	n.a.
	MTFSP	8.0	5.8	4.7	3.8	5.4	4.9	
	COM Autumn Forecast 2024	7.8	5.7	4.9	-	-	-	
LV	COM prior guidance	-	-	-	-	-	3.7	↑
	MTFSP	9.1	5.9	3.6	3.4	3.3	4.1	
	COM Autumn Forecast 2024	3.8	4.1	4.4	-	-	-	
MT	COM prior guidance	5.5	6.0	5.8	5.9	5.7	5.9	=
	MTFSP	7.4	6.0	5.8	5.8	6.2	5.9	
	COM Autumn Forecast 2024	6.3	5.7	5.5	-	-	-	
NL	COM prior guidance	-	-	-	-	-	3.2	↑
	MTFSP	6.9	6.8	3.5	2.1	4.3	4.2	
	COM Autumn Forecast 2024	5.9	7.1	5.0	-	-	-	
PL	COM prior guidance	12.8	5.3	4.6	4.2	3.9	4.5	↑
	MTFSP	12.5	6.3	4.4	4.0	3.5	4.6	
	COM Autumn Forecast 2024	11.8	5.5	6.6	-	-	-	
PT	COM prior guidance	8.3	4.1	3.6	3.4	3.3	3.6	=
	MTFSP	11.8	5.0	5.1	1.2	3.3	3.6	
	COM Autumn Forecast 2024	10.3	4.7	4.1	-	-	-	
SE	COM prior guidance	-	-	-	-	-	4.5	↓
	MTFSP	6.4	4.0	4.4	4.4	4.6	4.4	
	COM Autumn Forecast 2024	6.2	2.2	2.0	-	-	-	

Member State	Procedure	2024	2025	2026	2027	2028	2025-2028	Change
SI	COM prior guidance	5.6	4.9	4.5	4.3	4.2	4.4	↑
	MTFSP	6.2	5.6	4.4	4.1	4.0	4.5	
	COM Autumn Forecast 2024	5.2	4.7	6.6	-	-	-	
SK	COM prior guidance	6.2	2.8	2.0	1.6	1.5	2.0	=
	MTFSP	6.2	3.8	0.9	1.6	1.5	2.0	
	COM Autumn Forecast 2024	5.6	3.5	1.9	-	-	-	

Source: EGOV's elaboration based on Commission's prior guidance, medium-term fiscal-structural plans and Autumn Forecast 2024. For CZ, DK, HR, LV, NL and SE figures on the net expenditure growth consistent with the Commission's prior guidance are extracted from Table 2 of the Commission's chapeau Communication on the European Semester. For IE and LU such figures are not available.

Note: Hungarian plan's assessment by the Commission is still pending. The average for Ireland is presented relative to its adjustment period (2025-2028) rather than for its plan horizon (2025-2029), where it would be otherwise 5.35 An upward (downward) arrow indicates the adoption of an average net expenditure growth rate for the adjustment period higher (lower) than under the Commission's prior guidance. The equal sign indicates that the average figures for the adjustment period coincide. Red highlighting indicates that the Commission has rejected the proposed average growth rate of net expenditure in its assessments of the plan. Yellow highlighting indicates a higher figure in the medium-term fiscal-structural plans than under the prior guidance.

In terms of the assessment of the plans, the above tables allow for a number of considerations.

First, **most Member States have submitted an average net expenditure figure above the original proposal of the Commission**. Where the net expenditure path is found to be above the prior guidance, the Commission noted that this is **backed by duly justified differences in the methodological assumptions** of the debt sustainability assessments performed. In the case of Poland, while the average growth rate is just marginally above the Commission's prior guidance, one may see some backloading of the fiscal consolidation effort. **In some cases (Estonia, Croatia, Netherlands and Finland), the figure is clearly much higher than what the Commission had proposed**.

- In the case of Estonia, the 1.6 percentage point higher figure presented by the Member State is justified by the fact, according to the Commission's assessment, that "*Estonia has some space for fiscal deconsolidation, which was not reflected in the Commission's prior guidance (...). The fiscal space originates from the low level of debt in Estonia in combination with the expected narrowing of the primary deficit at unchanged policy*". This is also reflected in the use of significantly higher potential output figures in the Estonian case.
- Similarly, the Finnish plan seems to rely on the use of higher potential GDP growth to justify the higher net expenditure figures compared to the reference trajectory (see Annex 2)

Second, four **Member States (Italy, Poland, Portugal and Slovakia) have the same average net expenditure rate for their adjustment period as the one proposed by the Commission in its prior guidance**. However, when looking at the annual rates in the cases of Italy and Portugal one could see a potential risk of backloading in comparison to the Commission reference trajectory, which could be further aggravated by electoral cycle bias in Italy.

Third, five **Member States propose a stricter fiscal consolidation path then suggested by the Commission**, with the notable cases of France (0.5 percentage points lower) and Romani (0.8 percentage points lower) for which the Commission has (proposed/launched an EDP. Denmark also suggests a sizeable smaller average growth rate of net expenditure 1.4 percentage points below the Commission's prior guidance.

Finally, for six countries eligible to receive technical information, i.e. with debt and deficit figures below the 60% and 3% ceiling, the Commission indicated that a fiscal adjustment would be needed to maintain deficit below 3% in the medium-term.

In terms of transparency, the Commission notes that most Member States have **consulted national parliaments and social partners** in the preparation of the plans and that, to a varying degree, independent fiscal institutions (IFIs) had a role in 2/3 of the **Member States. Our analysis (Annex 1) shows a less optimistic perspective:**

- **While most IFIs provided some backing to the figures used, only in 7 cases they issued an opinion on the plans** submitted by their respective Member States.
- When it comes to national parliaments, we note instead a more even split with **12 national governments out of 22 presenting their plans to their national parliament**. However, in one of this Member States (Finland), the plan was presented to the national parliament only after its submission.

Please refer to Annex 1 for more details on key features of Member States medium-term fiscal-structural plans.

4. Assessment of 2025 Draft Budgetary Plans and fiscal stance

The Commission has assessed the Draft Budgetary Plans for 2025 submitted by 17 euro area Member States in October (before submission of the actual annual budget respective national parliament). Austria, Belgium and Spain have not submitted their plans, meaning the Commission cannot yet assess their fiscal policies for 2025. The assessment focuses on whether these plans represent appropriate first steps in implementing the medium-term fiscal-structural plans under the new framework.

The Commission's assessment shows **mixed results. Eight euro area Member States are considered to be fully in line with fiscal recommendations: Croatia, Cyprus, France, Greece, Italy, Latvia, Slovakia and Slovenia.** Their net expenditure paths comply with the ceilings established in their medium-term plans.

Seven Member States' plans are assessed as not fully in line with recommendations:

- **Estonia, Germany, Finland and Ireland:** their annual **(Finland**) and/or cumulative (**Estonia, Germany**) net expenditure is projected to be above the respective net expenditure growth ceilings, but still within the thresholds for the control account foreseen in the Regulation. **Ireland**'s cumulative net expenditure is also projected to be above the respective ceiling.
- **Luxembourg, Malta and Portugal:** while their net expenditure growth is within limits, they have not phased out energy emergency support measures by winter 2024-2025 as recommended

Two Member States' plans face more significant concerns:

- **The Netherlands**: assessed as not in line with recommendations due to net expenditure projections above the ceiling
- **Lithuania:** risks not being in line with recommendations as projected net expenditure exceeds rates considered appropriate for implementing the new framework

Looking at the aggregate euro area level, the Commission's assessment points to a slightly contractionary fiscal stance in 2025. Under a no policy change assumption, this contraction would mainly come through primary net current expenditure, partly offset by higher public investment supported by RRF and other EU funds. The fiscal stance varies significantly across Member States, reflecting the framework's risk-based approach where larger fiscal efforts are expected from countries facing greater fiscal challenges.

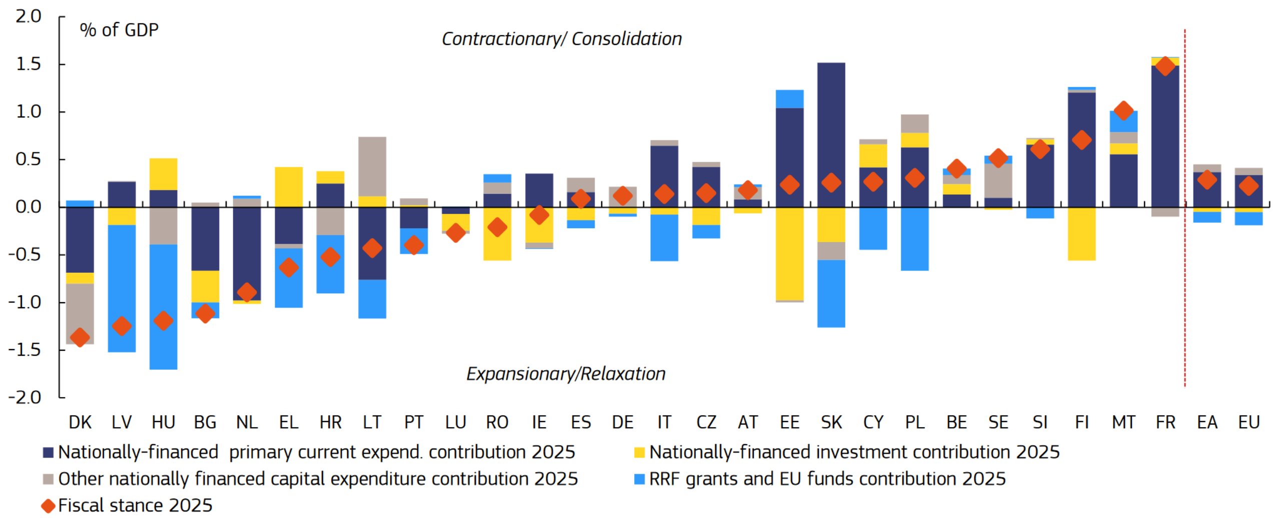
This slightly contractionary stance aligns with views from key EU institutions. **The Eurogroup considers it appropriate given the economic context:** despite a weak start to 2024, euro area economic activity is expected to accelerate in 2025, supported by a strong labour market and declining inflation nearing the ECB target, though global uncertainty remains a downside risk. The Eurogroup has committed to ambitious reforms, investment in green and digital transitions, and phasing out energy support measures in 2024 to reduce deficits.

The European Fiscal Board (EFB) has gone further, advocating for a restrictive fiscal impulse in 2025. The EFB bases this recommendation on projections that the euro area economy will operate near full capacity, with tight labour markets and inflation slightly above the ECB's target. It particularly emphasizes the need to address underlying expenditure drift in high-debt Member States like Belgium, Greece, Spain, France, and Italy, while protecting investment levels.

Importantly, **the projected fiscal contraction is expected to be achieved while maintaining growth in public investment**, which is set to increase in 2025 in almost all Member States. Euro area public investment should reach 3.5% of potential GDP compared to 3% in 2019, reflecting both national budget contributions and significant support from EU funds, particularly the Recovery and Resilience Facility. This suggests according to the Commission the new framework is effective in protecting investment while pursuing fiscal consolidation.

However, fiscal stances are expected to be very heterogeneous across EU Member States.

Figure 4: Fiscal stance across Member States, 2025



Source: European Commission autumn 2024 economic forecast

5. Excessive deficit procedures

The European Commission has conducted an assessment **of the budgetary situations in twelve Member States in accordance with Article 126(3) of the TFEU.**

The Commission's analysis focused on **Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland, Slovenia, Slovakia and Finland**. These countries were examined due to their government deficits exceeding or being projected to exceed the 3% of GDP reference value in 2023 or 2024. The Commission has also assessed whether an excessive deficit exists in Austria.

After a thorough evaluation of each country's fiscal position, including factors such as the medium-term economic outlook, budgetary developments, debt sustainability, and implementation of reforms and investments, the Commission has concluded that **seven Member States warrant the opening of an excessive deficit procedure. These countries are Belgium, France, Italy, Hungary, Malta, Poland and Slovakia. The Commission will also consider proposing opening a deficit-based excessive deficit procedure for Austria**, as it has reported a planned deficit above 3% of GDP for 2024 and the Commission forecast does not project a reduction below this threshold in 2025 or 2026 under a no policy change assumption. The Austrian authorities have however expressed their intention to take necessary action to bring the deficit below 3% in 2025, and the Commission stands ready to assess new measures once formally agreed.

The decision not to propose opening excessive deficit procedures for the other examined countries is based on several factors. For **Czechia** and **Estonia**, relevant mitigating factors were taken into account, leading to an assessment that they are complying with the deficit criterion despite exceeding the 3% threshold. For Spain, the deficit is projected to fall below the reference value in 2024 and 2025 without additional measures. For **Slovenia** and **Finland**, given the uncertainty in projections and the fact that their deficits are expected to be close to or below the reference value in the near future, the Commission will continue to monitor the situation closely. For Finland specifically, which reported a planned deficit over 3% of GDP for 2024, no excessive deficit procedure is proposed since the deficit is projected to fall below the reference value from 2025 without additional measures.

In addition to these new cases, **Romania's situation remains a significant concern**. The Council had already determined the existence of an excessive deficit in Romania back in 2020, based on 2019 data. **Despite recommendations and corrective actions prescribed by the Council, Romania has not taken effective measures to address and rectify its excessive deficit situation.** The latest assessments indicate that Romania's government deficit continues to exceed the 3% of GDP threshold, both for the past year and projected for the current year.

Following these assessments, on 26 July 2024, the **Council formally adopted decisions establishing the existence of excessive deficits for Belgium, France, Italy, Hungary, Malta, Poland and Slovakia, officially launching excessive deficit procedures for these seven Member States.** At the same time, the Council confirmed that **Romania has not taken effective action to correct its deficit,** meaning its procedure will remain open with continued scrutiny and potential further recommendations.

The Commission has also reviewed the budgetary situation of those Member States which were concerned by the Article 126(3) report in spring 2024 but for whom the Commission did not recommend the opening of excessive deficit procedures (Czechia, Estonia, Spain and Slovenia), and concluded that the spring assessment was still valid.

ANNEX 1: Medium-term fiscal-structural plans at a glance

Member State	Debt >60%?	Deficit >3%?	Reference trajectory / technical information?	Adjustment period	Average net expenditure (MTFSP)	Presented to national parliament?	IFI opinion?	IFI endorsed forecasts?
CY	Yes	No	Yes	2025-28	5.2 %	No	Yes	Yes
CZ	No	No	Yes	2025-28	3.1%	Yes	No[1]	Yes
DK	No	No	Yes	2025-28	4.4%	Yes	No	No
EE	No	Yes[2]	Yes	2025-28	4.7%	No	No	No
EL	Yes	No	Yes	2025-28	3.4%	Yes	Yes	Yes
ES	Yes	Yes[2]	Yes	2025-31	3.%	No	No	Yes
FI	Yes	Yes	Yes	2025-31	2.4%	Yes[4]	No	No
FR	Yes	Yes	Yes	2025-31	1.1%	Yes	No[1]	No
HR	No	No	Yes	2025-28	4.8%	No	Yes	Yes

Member State	Debt >60%?	Deficit >3%?	Reference trajectory / technical information?	Adjustment period	Average net expenditure (MTFSP)	Presented to national parliament?	IFI opinion?	IFI endorsed forecasts?
HU	Yes	Yes	Yes	2025-28	4.7%	No[3]	No	No
IE	No	No*	No	2025-28	5.5%	Yes	No	Yes
IT	Yes	Yes	Yes	2025-31	1.5%	Yes	Yes	Yes
LU	No	No	No	2025-28	4.9%	Yes	No	No
LV	No	No	Yes	2025-28	4.1%	No	Yes[1]	Yes
MT	No	Yes	Yes	2025-28	5.9%	No	No	No
NL	No	No	Yes	2025-28	3.2[7]%	Yes	Yes	N.A.[6]
PL	No	Yes	Yes	2025-28	4.6%	No	No	No
PT	Yes	No	Yes	2025-28	3.6%	Yes	Yes	N.A.[5]
RO	No	Yes	Yes	2025-31	4.4%	No	No	No

Member State	Debt >60%?	Deficit >3%?	Reference trajectory / technical information?	Adjustment period	Average net expenditure (MTFSP)	Presented to national parliament?	IFI opinion?	IFI endorsed forecasts?
SE	No	No	Yes	2025-28	4.4%	Yes	No	No
SI	Yes	No	Yes	2025-28	4.5%	Yes	No	N.A.[6]
SK	No	Yes	Yes	2025-28	2.0%	No[3]	No	Yes

Source: EGOV elaboration based on medium-term fiscal-structural plans as well as Commission assessments.

Notes:
[1] CZ and FR did not attach an opinion from their respective IFI to their plans, though they did publish one. The LV plans mentions that the IFI opinion is attached, yet it is not the case. Nonetheless, the IFI did publish an opinion.
[2] EE and ES deficit are expected to be 3% in 2025.
[3] Both HU and SK state in their plan they will present their plan to their parliament.
[4] FI presented its plan to parliament only after they submitted and published its plan.
[5] The PT IFI considers the expected economic growth to be plausible but expressed reservations on potential growth.
[6] The NL and SI IFI did not specifically endorse the plans, the figures used in the plans however come from their respective IFI.
[7] The average net expenditure growth rate for the NL is the one recommended by the Commission to the Council consistently with prior guidance.

ANNEX 2: Potential GDP growth (%) in 2024 Autumn Forecast and MTFSP

Member State	Source	2024	2025	2026
Croatia	Autumn 2024 Forecast	4.2	3.6	3.3
	MTFSP	4.5	4.0	3.5
Cyprus	Autumn 2024 Forecast	4.0	3.6	3.3
	MTFSP	3.9	3.6	3.3
Czechia	Autumn 2024 Forecast	1.6	1.6	1.8
	MTFSP	2.0	1.4	1.5
Denmark	Autumn 2024 Forecast	2.1	1.9	1.7
	MTFSP	2.1	2.6	1.2
Estonia	Autumn 2024 Forecast	0.1	0.2	0.3
	MTFSP	0.7	1.0	0.9
Finland	Autumn 2024 Forecast	0.5	0.7	0.5
	MTFSP	1.1	0.9	0.9
France	Autumn 2024 Forecast	1.2	1.1	1.0
	MTFSP	1.2	1.2	1.2
Greece	Autumn 2024 Forecast	1.2	1.8	2.0
	MTFSP	1.2	2.5	2.4
Hungary	Autumn 2024 Forecast	1.4	1.5	1.7
	MTFSP	2.3	3.1	3.4

Member State	Source	2024	2025	2026
Ireland	Autumn 2024 Forecast	2.6	2.9	2.7
	MTFSP	3.1	3.2	2.9
Italy	Autumn 2024 Forecast	1.3	1.1	0.9
	MTFSP	1.4	1.3	1.1
Latvia	Autumn 2024 Forecast	1.0	1.4	1.5
	MTFSP	2.2	2.1	1.2
Luxembourg	Autumn 2024 Forecast	1.9	1.9	1.9
	MTFSP	1.5	1.7	1.8
Malta	Autumn 2024 Forecast	5.4	4.7	4.6
	MTFSP	5.1	4.8	4.6
Netherlands	Autumn 2024 Forecast	1.9	1.7	1.5
	MTFSP	2.1	1.8	1.7
Poland	Autumn 2024 Forecast	2.8	2.9	2.8
	MTFSP	3.2	3.3	2.0
Portugal	Autumn 2024 Forecast	2.3	2.1	1.9
	MTFSP	2.4	2.1	2.0
Romania	Autumn 2024 Forecast	2.3	2.2	2.3
	MTFSP	2.7	2.7	2.5

Member State	Source	2024	2025	2026
Slovakia	Autumn 2024 Forecast	2.3	2.3	2.2
	MTFSP	2.3	2.4	1.7
Slovenia	Autumn 2024 Forecast	2.5	2.5	2.5
	MTFSP	2.9	2.8	2.4
Spain	Autumn 2024 Forecast	2.4	2.4	2.3
	MTFSP	1.9	2.0	2.1
Sweden	Autumn 2024 Forecast	1.2	1.4	1.4
	MTFSP	1.4	1.6	1.8

Source: EGOV elaboration based on Commission's 2024 Autumn Forecast and Member States' medium-term fiscal-structural plans. Five countries have not yet submitted their MTFSP (Austria, Belgium, Bulgaria, Germany, and Lithuania) and are therefore not covered in the table.

Note: A green cell implies that the potential output growth used in the MTFSP is below or equal the Commission forecast, an orange cell indicates that the MTFSP figure is above the Commission forecast.

ANNEX 3: 10-year government bond yields, in %

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
BE	2,8	3,0	3,0	3,1	3,0	3,1	3,1	3,2	3,3	3,5	3,2	2,7	2,8	3,0	2,9	3,0	3,1	3,1	3,1	2,8	2,8	2,8
DE	2,2	2,4	2,4	2,4	2,3	2,4	2,5	2,6	2,7	2,8	2,6	2,1	2,2	2,3	2,4	2,5	2,5	2,5	2,5	2,2	2,2	2,2
EE	3,8	3,8	4,0	3,9	3,9	3,9	4,1	4,2	4,3	4,1	3,7	3,2	3,3	3,5	3,5	3,6	3,7	3,8	3,8	3,6	3,4	3,4
IE	2,7	2,9	2,9	2,8	2,8	2,8	2,9	3,0	3,1	3,3	3,0	2,5	2,6	2,8	2,8	2,9	2,9	2,9	2,9	2,6	2,6	2,6
EL	4,3	4,3	4,3	4,2	4,0	3,7	3,9	3,9	4,1	4,3	3,9	3,3	3,3	3,5	3,4	3,5	3,6	3,7	3,5	3,3	3,2	3,2
ES	3,2	3,4	3,4	3,4	3,4	3,4	3,5	3,6	3,7	4,0	3,7	3,1	3,2	3,3	3,2	3,3	3,3	3,4	3,3	3,1	3,0	3,0
FR	2,7	2,9	2,9	2,9	2,9	2,9	3,0	3,1	3,2	3,5	3,2	2,7	2,7	2,9	2,8	3,0	3,0	3,2	3,1	2,9	2,9	3,0
HR	3,7	3,8	3,9	3,7	3,7	3,7	3,7	3,9	4,0	4,2	3,9	3,4	3,3	3,3	3,3	3,3	3,4	3,4	3,4	3,4	3,3	3,3
IT	4,2	4,3	4,2	4,2	4,3	4,1	4,2	4,2	4,5	4,9	4,4	3,8	3,8	3,9	3,7	3,9	3,8	3,9	3,8	3,7	3,6	3,5
CY	4,2	4,1	4,2	4,0	4,0	3,8	3,7	3,8	4,0	4,1	3,8	3,2	3,3	3,3	3,2	3,3	3,3	3,3	3,2	3,0	2,9	2,9
LV	3,7	3,7	3,9	3,9	3,8	3,8	3,8	3,9	3,9	4,1	4,0	3,5	3,4	3,4	3,4	3,5	3,4	3,4	3,4	3,2	3,1	3,1
LT	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9
LU	2,7	2,9	3,0	3,0	3,0	3,0	3,0	3,1	3,2	3,3	3,0	2,5	2,6	2,8	2,8	2,9	2,9	2,9	2,9	2,7	2,6	2,7
MT	3,6	3,6	3,6	3,6	3,6	3,7	3,8	3,8	3,9	4,2	3,9	3,3	3,4	3,5	3,4	3,5	3,5	3,6	3,5	3,4	3,2	3,2
NL	2,5	2,7	2,8	2,7	2,7	2,8	2,8	2,9	3,0	3,2	3,0	2,4	2,5	2,6	2,6	2,7	2,8	2,8	2,8	2,5	2,5	2,5
AT	2,8	3,0	3,1	3,0	3,0	3,1	3,1	3,2	3,3	3,5	3,2	2,7	2,8	2,9	2,9	3,0	3,0	3,0	3,0	2,8	2,7	2,7
PT	3,1	3,3	3,3	3,2	3,2	3,1	3,2	3,3	3,5	3,6	3,3	2,9	3,0	3,1	3,0	3,1	3,2	3,2	3,1	2,9	2,8	2,7
SI	3,3	3,4	3,5	3,3	3,2	3,4	3,4	3,5	3,5	3,7	3,5	3,3	3,1	3,2	3,2	3,2	3,2	3,3	3,2	3,0	2,9	3,0
SK	3,3	3,4	3,6	3,7	3,6	3,6	3,7	3,8	3,9	4,1	3,9	3,3	3,4	3,5	3,5	3,7	3,7	3,7	3,6	3,4	3,4	3,3
BG	1,9	2,7	4,2	4,0	4,0	4,0	4,0	4,0	4,0	4,0	4,0	4,0	3,9	3,9	3,9	3,9	3,9	3,9	3,9	3,9	3,9	3,9
CZ	4,5	4,6	4,7	4,7	4,5	4,4	4,2	4,3	4,5	4,7	4,4	4,0	3,9	3,8	3,8	4,2	4,2	4,2	4,0	3,8	3,8	4,0
DK	2,4	2,6	2,6	2,6	2,5	2,6	2,7	2,8	3,0	3,1	2,9	2,4	2,4	2,5	2,4	2,5	2,5	2,5	2,5	2,2	2,1	2,1
FI	2,8	2,9	3,0	3,0	3,0	3,0	3,1	3,2	3,3	3,5	3,2	2,7	2,8	2,9	2,9	2,9	3,0	3,1	3,0	2,8	2,7	2,8
HU	7,8	8,2	8,5	8,4	7,8	7,2	7,1	7,4	7,1	7,5	7,0	6,2	6,0	6,2	6,5	7,0	6,8	6,8	6,6	6,3	6,2	6,6
PL	6,0	6,2	6,1	6,1	5,9	5,9	5,5	5,6	5,7	5,8	5,5	5,2	5,2	5,4	5,4	5,7	5,7	5,7	5,7	5,3	5,3	5,6
RO	6,8	7,5	7,1	7,0	6,3	6,1	6,2	6,3	7,5	6,8	6,8	6,2	6,1	6,1	6,0	6,3	6,3	6,0	6,5	6,4	6,4	6,4
SE	2,1	2,4	2,4	2,4	2,3	2,5	2,5	2,8	2,9	3,0	2,8	2,2	2,2	2,4	2,4	2,5	2,4	2,3	2,1	1,9	1,9	2,0

Note: Colour gradient scale ranges from minimum (blue) to maximum (red), with white representing the mid-point (50th percentile).
Source: Eurostat