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From: General Secretariat of the Council  
To: Permanent Representatives Committee/Council

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Subject: Specifications on the Implementation of the Stability and Growth Pact  
(Code of Conduct)

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Delegations will find attached the Specifications on the Implementation of the Stability and Growth Pact (also known as the Code of Conduct).

# Specifications on the Implementation of the Stability and Growth Pact

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## **INTRODUCTION**

This Opinion replaces the Opinion of the Economic and Financial Committee (EFC) of 15 May 2017 on the specifications and implementation of the Stability and Growth Pact and on the content and format of the Stability and Convergence Programmes. This new Opinion was adopted by the Economic and Financial Committee on 1 December 2025.

The Stability and Growth Pact fully entered into force on 1 January 1999 and consists of a rules-based framework with both preventive and corrective elements. It initially consisted of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure and the Resolution of 17 June 1997 on the Stability and Growth Pact.

On 27 June 2005, Regulations 1466/97 and 1467/97 were amended by Regulations (EC) No 1055/05 and (EC) No 1056/05. On 16 November 2011 and 8 November 2011, Regulations 1466/97 and 1467/97 were further amended by Regulation (EU) No 1175/2011 of the European Parliament and of the Council and Council Regulation (EU) No 1177/2011 and complemented by Regulation (EU) No 1173/2011 of the European Parliament and of the Council, which endowed the Stability and Growth Pact with effective enforcement mechanisms for euro-area Member States. On 8 November 2011, the Council also adopted Directive (EU) 2011/85 on requirements for budgetary frameworks of the Member States, which is not a part of the Stability and Growth Pact per se but is instrumental to the achievement of its objectives.

On 29 April 2024 Regulation No 1466/97 was repealed by Regulation (EU) 2024/1263<sup>1</sup>, which introduced a significant reform of the framework for the effective coordination of economic policies and budgetary surveillance. Under the new economic governance framework, multilateral surveillance is based on medium-term fiscal-structural plans prepared by Member States. Regulation 2024/1263 lays down detailed provisions regarding the content, submission, assessment, endorsement and monitoring of the plans to promote sound and sustainable public finances and sustainable and inclusive growth, and resilience through reforms and investments, including those contributing to the common priorities of the Union, and to prevent the occurrence of excessive government deficits. On 29 April 2024, Regulation (EU) 2024/1264 amended Regulation No 1467/97 to align the implementation of the excessive deficit procedure with the new economic governance framework. On the same date, the Council also adopted Directive (EU) 2024/1265, amending Directive 2011/85 on requirements for budgetary frameworks of the Member States. As required by Regulation 2024/1263, the Commission issued a notice<sup>2</sup> which provides guidance to Member States on the information requirements for the medium-term fiscal-structural plans and for the annual progress reports.

The legislation already encompasses detailed provisions and specifications to ensure the implementation of the new economic governance framework. Thus, this Opinion avoids overlaps with aspects already codified in the regulations and provides clarifications only on those elements for which additional specification was deemed needed. This Opinion could be subject to further updates in the future, if during the implementation of the framework, additional elements may require further specification.

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<sup>1</sup> Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 OJ L, 2024/1263, 30.4.2024 <https://eur-lex.europa.eu/eli/reg/2024/1263/oj/eng>.

<sup>2</sup> 'Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports' OJ: C/2024/3975 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024XC03975>.

Member States, the Commission and the Council are committed to deliver on their respective responsibilities, applying the Treaty and the Stability and Growth Pact in an effective and timely manner. In addition, since effectiveness of peer support and peer pressure is an integral part of the Stability and Growth Pact, the Council and the Commission are expected to motivate and make public their positions and decisions at all relevant stages of the procedure of the Stability and Growth Pact, including by means of economic dialogue with the European Parliament, where appropriate. The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly. Member States are expected to take into account guidance and recommendation(s) from the Council, in particular when preparing their budgets, and to appropriately involve national Parliaments in the EU procedures, taking into account national parliamentary and budgetary procedures.

## **1. THE SINGLE OPERATIONAL INDICATOR – THE DEFINITION OF THE NET-EXPENDITURE INDICATOR**

In the economic governance framework of the Union, a single operational indicator anchored in debt sustainability is used to carry out annual fiscal surveillance for each Member State. This indicator is based on nationally financed net primary expenditure. This chapter of the Code of Conduct explains the definition of net primary expenditure and how the net-expenditure aggregate is calculated in practice, as well as the data sources used. It also discusses the implementation of the general provisions related to expenditure on co-financing of programmes funded by the Union and explains why there is a need to establish a base year in the medium-term fiscal-structural plans.

### **The net-expenditure path and net-expenditure aggregate**

The net-expenditure path refers to the multi-annual trajectory for net expenditure of a Member State. The net-expenditure paths of the reference trajectories and of the medium-term fiscal-structural plans are set out in terms of annual and cumulative growth rates of nominal net expenditure. The maximum multi-annual net-expenditure growth rates, which should comply with the requirements in Regulation 2024/1263, are adopted in a recommendation by the Council. Importantly, consistent with the principle of a single operational indicator, Member States will be assessed against the net expenditure growth rates set in the recommendation endorsing the plan under the preventive arm or in the Article 126(7) TFEU recommendation under the corrective arm of the economic governance framework.

As described in Article 2 of Regulation 2024/1263, the net-expenditure aggregate is defined as government expenditure net of interest expenditure, discretionary revenue measures (DRMs), expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

The components of the net-expenditure aggregate used ex-post to assess compliance when implementing the economic governance framework come from several sources. For total expenditure, interest expenditure and expenditure fully matched by EU funds, outturn budgetary data validated by EUROSTAT is used. For identifying and recording the impact of fiscal policy measures, including discretionary revenue measures and one-off revenues and expenditures, the Commission will maintain the current established framework, while continuing to ensure a transparent dialogue with Member States on differences in estimates of the impact of measures.<sup>3</sup> Cyclical elements of unemployment expenditure are calculated by the Commission based on Eurostat data using a pre-agreed methodology,<sup>4</sup> in line with pre-existing rules. The cyclical unemployment rate is calculated as the difference between the total unemployment rate and the non-accelerating wage rate of unemployment (NAWRU, estimated according to the EUCAM). The cyclical elements of unemployment expenditure are then calculated as a proportional share of total unemployment benefit expenditure (function 10.5 of COFOG), as validated and published by EUROSTAT.

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<sup>3</sup> As described in the *Report on Public Finances in EMU 2024* "The Definition and Quantification of Fiscal Policy Measures" pp. 61–71.

<sup>4</sup> Cyclical elements of unemployment expenditure ( $UE_t^C$ ) continue to be calculated as follows:

$$UE_t^C = UE_t \frac{u_t - NAWRU_t}{u_t}$$

where  $UE_t$  denotes the total expenditure for unemployment,  $u_t$  is the unemployment rate and NAWRU is the structural unemployment rate at which wage inflation does not accelerate. If total expenditure for unemployment is not available for a specific year, it is estimated as follows:

$$UE_t = \left( \frac{UE_{t-1}}{N_{t-1}} \right) \cdot N_t$$

where  $\frac{UE_{t-1}}{N_{t-1}}$  represents the most recent available information on unemployment benefit per person and  $N_t$  is the number of unemployed.

## **Expenditure on co-financing of programmes funded by the Union**

The national co-financing of programmes funded by the Union concerns those EU funds for which the related regulation includes a national co-financing requirement leading to national general government expenditure as recorded in national accounts.<sup>5</sup>

EUROSTAT has established a reporting system for national co-financing contributions. The first round of reporting took place during the October 2024 fiscal notification, with new and updated data being reported during each spring and autumn fiscal notification round.<sup>6</sup>

The national co-financing provided by the private sector is not relevant for the exclusion from the net expenditure indicator. The level of national co-financing relevant for the deduction of the amounts from the net expenditure aggregate is based on outturn data to be published and validated by EUROSTAT. They are limited to national co-financing obligations fixed in the relevant agreements between Member States and the EU Institutions.

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<sup>5</sup> These funds include the European Regional Development Fund, European Social Fund Plus, Cohesion Fund, Just Transition Fund, European Maritime, Fisheries and Aquaculture Fund, Other Common Provisions Regulation funds such as the Asylum, Migration and Integration Fund, Internal Security Fund, Instrument for Financial Support for Border Management and Visa Policy, Connecting Europe Facility, as well as the European Agricultural Fund for Rural Development. This list of funds may be subject to updates following the adoption of new Multiannual- Financial Frameworks.

<sup>6</sup> Before the framework for the collection and provision of such data was established, Member States were allowed to rely on estimates (based on the minimum requirements in the relevant regulations).

## **Defining a base year**

To establish the net-expenditure path for the period of the plan, the growth rates should be anchored in the latest available outturn data. In most cases, this is the year prior (T-1) to the submission of the medium-term plan (T). However, if a plan is submitted at the beginning of a year (for example between January and March of year T) before outturn data for the previous year (T-1) have been published by EUROSTAT and the national statistical institutes, it is necessary to anchor the cumulative growth rates on the levels from the year T-2 and for this year to act as the base year. If more recent outturn data becomes available during the assessment phase of the plan, this should be taken into account in the recommendation endorsing the plan. The growth of net expenditure since the base year is incorporated in the Council recommendation through the cumulative growth rates of net primary expenditure as of the first year of the plan.

## 2. **THE ASSESSMENT OF REFORMS AND INVESTMENT IN THE MEDIUM-TERM PLANS**

In line with Regulation 2024/1263, for all Member States, a national medium-term fiscal-structural plan should explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the European Semester and address the common priorities of the Union. Regulation 2024/1263 also provides that in the annual progress report, all Member States should report on the implementation of broader reforms and investments in the context of the European Semester.

This chapter recalls the general principles underlying the information requirements and reporting on reforms and investments in the plans, including as regards the assessment undertaken by the Commission.

### **National medium-term fiscal-structural plans: information requirements for reforms and investments**

#### *Requirements for all plans*

A national medium-term fiscal-structural plan should explain how the Member State will ensure the delivery of relevant reforms and investments for sustainable and inclusive growth and resilience. It should present reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations.

As relevant for the implementation of the medium-term fiscal-structural plan, the plan shall include the impact of reforms and investments already implemented by the Member State concerned, with particular attention to the impact on fiscal sustainability, based on sound and data driven economic evidence. The plan should also describe how the Member State will address the common priorities of the Union. In the spirit of national ownership, Member States are free to decide on the precise outline and the level of detail of their plans. When providing information on reforms and investments, Member States should ensure consistency by using the relevant tables<sup>7</sup> to summarise reforms and investments.

#### *Requirements for plans with an extension*

Plans with an extension should specify a set of key reforms and investments that underpin an extension of the adjustment period.

The set of reforms and investments underpinning an extension of the adjustment period should entail, based on credible and prudent assumptions, an improvement of the growth and resilience potential of the economy; support fiscal sustainability; address the common priorities of the Union; address relevant country-specific recommendations; maintain the planned overall level of nationally financed public investment<sup>8</sup> over the period covered by the plan at least as high as its average level in the four years preceding the submission of the plan. In addition, each reform and investment underpinning an extension should be sufficiently detailed, frontloaded, time-bound and verifiable to allow the Commission to assess them; each reform should be implemented within the period covered by the national plan; and significant progress in the implementation of each investment should be achieved by the end of the adjustment period.

The description of the reform and investment commitments should be clear and include indicators, where relevant, to allow the assessment and monitoring of their implementation. The choice of the indicators should allow monitoring and reporting, while avoiding excessive administrative burden, where possible.

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<sup>7</sup> Tables 8 and 9 in the Commission's guidance notice in 2024.

<sup>8</sup> Defined as gross fixed capital formation by general government, net of GFCF financed by grants from the EU institutions.

The plan should contain information on the expected impact of reforms and investments underpinning the extension of the adjustment period. The impact of the set of reforms and investments underpinning an extension of the adjustment period on growth and resilience potential and on fiscal sustainability should be quantified where possible, with clear description of the assumptions and methodologies used. Both the direct and the indirect fiscal impact of the set of reforms and investments could be quantified in the plan. The evaluation of its impact is carried out at the level of the overall package of measures taken.

Member States are invited, where possible, to develop robust methodologies for assessing the impact of reforms and investments. Member States are also invited, to exchange good practices in relevant Council preparatory bodies, to ensure coherent reading of the impact of similar measures across Member States, while preserving national ownership.

### **Commission assessment**

For all plans, the Commission shall examine whether these plans explain how the Member State concerned will ensure the delivery of reforms and investments in line with Article 16 of Regulation 2024/1263. The Commission assessment will be based on the criteria provided by the Regulation and follow the principles of transparency and equal treatment, while respecting national ownership.

For the plans with an extension of the adjustment period, the Commission shall assess whether the set of reforms and investments commitments underpinning an extension of the adjustment period fulfil, as a general rule, taken altogether, the criteria outlined in Article 14(2) of Regulation 2024/1263. For this, the Commission will assess the plausibility of the Member State's assessment of impacts, including the assumptions and methodologies used, and whether they entail a positive impact on growth, resilience and fiscal sustainability.

Quantitative estimates by Member States will either be assessed in terms of their plausibility against stylised evidence in the economic literature or, where available and relevant, Commission's own quantitative estimates. The Commission assessment of the plausibility of the impact of reforms and investments provided by the Member State, including the fiscal impact of reforms and investment presented in the plan, should follow the principle of transparency.

The criteria set in Article 14(2) for reforms and investments underpinning an extension of the adjustment path will be assessed against the entire set of reforms and investment commitments and need not be fulfilled by each individual commitment.

### **Annual progress report: reporting on the state of play of implementation of reforms and investments**

The reporting requirements for annual progress reports are set out in Article 21 of Regulation 2024/1263 (and further specified in the Commission Notice). Member States are free to decide on the precise outline and the level of detail of their annual progress report, provided that the report contains the information required by the Regulation in line with the guidance provided in the Notice.

The annual progress reports should not revisit the central policy commitments in the medium-term plans. The reports are fundamentally backward-looking, administrative and factual documents, but Member States may also use them to announce new relevant policy initiatives, in particular in the area of structural reforms and investments.

Reporting should focus on the measures where new policy actions were undertaken since the submission of the latest annual progress report, to avoid repetition of developments previously reported. In case of delays, adjustments, or non-completion, the report should also explain the main reasons and how the Member State intends to achieve the objectives to be addressed by the reforms and investments.

All Member States should report on macroeconomic and external developments over the course of the implementation of the plan, using the latest available forecast as well as budgetary projections and the discretionary revenue measures and one-off measures that have contributed to the budgetary outcomes and projections.

The annual progress report should report on the implementation of policy action delivering on country-specific recommendations, common priorities of the Union, and in particular the reforms and investments in the medium-term plan. For Member States with an extended adjustment period up to seven years, the annual progress report should specifically report on the implementation of the reforms and investment commitments underpinning the extension, as listed in the Council recommendation.

The reporting on the implementation of country-specific recommendations would be based on information submitted in the CeSaR platform, to limit duplications and administrative burden. In addition, the annual progress report would include key elements of the response to country-specific recommendations and relevant details.

For Member States concerned, the annual progress report should also report on progress in correcting imbalances under the Macroeconomic Imbalance Procedure, in particular in case the Member State is under an excessive imbalance procedure.

### **Monitoring the implementation of reforms and investments**

The Commission shall monitor the implementation of the national medium-term fiscal-structural plan, and in particular, the net expenditure path as set by the Council, and the reforms and investments underpinning the extension of the adjustment period. The Commission shall use the information provided by Member States in their annual progress reports, along with other relevant information.

Where necessary, following a Commission assessment of the national medium-term fiscal-structural plans, the annual progress reports and the socio-economic situation of Member States, the Council shall, on the basis of recommendations from the Commission, address recommendations to Member States in order to ensure a proper implementation of the plan.

Where a Member State has been granted an extension of its adjustment period but fails to satisfactorily comply with its set of reform and investment commitments underpinning the extension, the Council may, on a recommendation from the Commission, recommend a revised net expenditure path with a shorter adjustment period, unless there are objective circumstances preventing the implementation by the initial deadline.

### **3. THE OPERATION OF THE CONTROL ACCOUNT**

Article 22 of Regulation 2024/1263 sets out the key principles governing the operation of the control account in the Stability and Growth Pact. This chapter of the Code of Conduct presents more details on the calculation of the control account balances and their implications for fiscal surveillance.

The annual and cumulated balances of the control account are calculated by the Commission on the basis of outturn data and made public.<sup>9</sup> The Commission calculates the annual balance of the control account by comparing the observed and recommended annual growth rates of the net expenditure aggregate and expressing the resulting annual gap (in national currency) as a percentage of GDP.<sup>10</sup> The control account shall record a debit (credit) when the observed net expenditure growth in a given year is above (below) the recommended net expenditure growth. The cumulative balance of the control account in a specific year is calculated as the sum of the annual balances (in national currency) expressed as a percentage of that year's GDP.<sup>11</sup>

As explained in the chapter on the net expenditure indicator, the base year of the recommended net expenditure path is the last year for which outturn data are available at the time when the Council endorses the net-expenditure path of the plan. The cumulative balance of the control account includes the deviation in every year since the base year of the recommendation. If a breach of the cumulative threshold occurs and this breach is due to the anchoring of the net expenditure path to the base year, this will be examined as part of the analysis of the relevant factors in the report under Article 126(3) TFEU.

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<sup>9</sup> The control account balances as calculated in year  $t$  can only show the years to  $t-1$ , given that the control account can only be calculated on the basis of outturn data. The complete overview of all years as shown in Table 1 will thus only become available in spring  $t+5$ .

<sup>10</sup> The annual balance is expressed as percentage of outturn GDP for that year.

<sup>11</sup> The national escape clause of Article 26 of Regulation (EU) 2024/1263, activated for increases in defence expenditures during the years 2025–2028, has been operationalised by setting up an augmented control account which contains only a cumulative balance to record upward deviations from the recommended expenditure path which are not covered under the provisions of the clause.

Breaches of the annual and/or cumulative thresholds of the control account (corresponding to 0.3 % and 0.6 % of GDP respectively) based on outturn data will lead to the preparation of a report under Article 126(3) TFEU, where the ratio of the government debt to GDP exceeds the reference value of 60 % of GDP and where the budgetary position is not close to balance or in surplus. The budgetary position shall be considered close to balance if the general government deficit does not exceed 0.5 % of GDP. In case of the preparation of such a report based on a breach of the annual threshold, the cumulative balance of the control account will be considered symmetrically as a relevant factor among other relevant factors. If outturn data indicate that the annual and/or cumulative thresholds of the control account have been exceeded, but the government debt ratio remains below 60 % of GDP, the deviation is registered in the control account, but it functions as an informational instrument (and does not entail the preparation of a report under Article 126(3) TFEU).

Revisions of outturn data in subsequent years will not ex post alter surveillance decisions made during previous years. At the same time, revisions could impact the cumulative balance. When the revisions contribute to a breach of the cumulative control account threshold in subsequent years, the impact and nature of the revision will be considered by the Commission in the report under Article 126(3) TFEU.

Following a recommendation by the Council setting-up a new net-expenditure path, the cumulative balance of the control account is reset to zero. The control account of the original plan would still be assessed when outturn data appear for the last relevant year of that plan. In other words, the cumulative balance of the control account at the end of each plan will not be carried over to the control account of the next recommendation. The balances of the control account related to the final year of the old medium-term plan (i.e. in the transition year between that plan and the new plan) are calculated when outturn data for that year become available. This aims to avoid surveillance gaps as the old plan is assessed until its conclusion.

## Steps leading to the computation of the annual and cumulative balances

Table 1 sets out an illustrative example of the calculation of the annual and cumulative balances of the control account for the first vintage of the medium-term plans. This example assumes a Member State with a recommended annual net expenditure growth rate of 2 % and annual deviations up to T+4 on both the upside and downside. The calculation of the annual balance follows a number of steps:

A first step is to calculate the annual level of the net expenditure aggregate before taking into account DRMs. This calculation follows the definition of the aggregate set out in Article 2(2) of Regulation 2024/1263, which subtracts Lines 2 to 6 (interest expenditure, cyclical unemployment expenditure, EU funded expenditure, national cofinancing of EU programmes, one-offs) etc. from total expenditure (Line 1). This gives the level of net expenditure in national currency before DRMs (Line 7).

The second step consists of the calculation of the annual change in net expenditure that is not compensated by DRMs (Line 10). The annual change in net expenditure after DRMs (in national currency, Line 10) is calculated as the change in net expenditure before DRMs (Line 8) minus the annual incremental impact of DRMs (Line 9).<sup>12</sup>

These annual level changes calculated in line 10 are then converted into the observed growth rates of net expenditure (Line 11) and compared to the recommended growth rates of net expenditure (Line 12), as per the Council recommendation.

The difference between these two growth rates (Line 11 minus Line 12) is multiplied by the level of the previous year's net expenditure aggregate before the annual incremental impact of DRMs is taken into account (Line 7), thus expressing the annual gap in national currency (Line 13).

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<sup>12</sup> DRMs are reported by Member States in terms of their annual incremental impact, as opposed to the items netted out in the first step, which are in (annual) levels. Therefore, since DRMs are reported as changes in revenue, they should be deducted from the changes in (net) expenditure. In the example set out in Table 1, DRMs are revenue increasing in T+1 and T+2 (Line 9), thus creating more space for the Member State to increase expenditure in those years.

Finally, the annual balance of the control account is expressed as a percentage of GDP (Line 16). For this, the annual balance is equal to the annual gap (Line 13) divided by the nominal GDP level (Line 15).

The cumulative balance of the control account in national currency (Line 14) is equal to the previous year's cumulative balance (Line 14t-1) plus the current year's annual balance (Line 13). The cumulative balance of the control account expressed as a percentage of GDP (Line 17) is then equal to the cumulative balance (Line 14) divided by the level of nominal GDP of the current year (Line 15).

**Table 1: Illustrative example of control account calculations for all years of the first plans**

Calculations		T-1	T	T+1	T+2	T+3	T+4	
		2023	2024	2025	2026	2027	2028	
<b>Observed net expenditure</b>								
1.	Total expenditure	<i>bn NAC</i>	40.0	40.6	41.5	42.5	43.6	44.5
2.	Interest expenditure	<i>bn NAC</i>	3.0	3.1	3.2	3.4	3.4	3.3
3.	Cyclical unemployment expenditure	<i>bn NAC</i>	0.0	0.0	0.0	0.0	0.0	0.0
4.	EU funded expenditure	<i>bn NAC</i>	0.0	0.0	0.0	0.0	0.0	0.0
5.	National co-financing of EU programmes	<i>bn NAC</i>	0.0	0.0	0.0	0.0	0.0	0.0
6.	One-offs expenditure (levels, excl. EU funded)	<i>bn NAC</i>	0.0	0.0	0.0	0.0	0.0	0.0
7.	Net expenditure before DRMs (1-2-3-4-5-6)	<i>bn NAC</i>	37.0	37.5	38.3	39.1	40.2	41.2
8.	Change in net expenditure before DRMs ( $\Delta 7$ )	<i>bn NAC</i>		0.5	0.8	0.8	1.1	1.0
9.	DRM (annual incremental impact, excl. one-offs)	<i>bn NAC</i>		0.0	0.1	0.2	0.0	0.0
10.	Annual <u>change</u> in net expenditure after DRMs (8-9)	<i>bn NAC</i>		0.5	0.7	0.6	1.1	1.0
<b>Annual and cumulated gaps</b>								
11.	Observed net expenditure growth (10 (t) / 7 (t-1))	% change		1.4	1.8	1.7	2.7	2.4
12.	Recommended net expenditure growth*	% change		2.0	2.0	2.0	2.0	2.0
13.	Annual gap ((11-12) x 7 (t-1))	<i>bn NAC</i>		-0.2	-0.1	-0.1	0.3	0.2
14.	Cumulated gap (cumulative from 13)	<i>bn NAC</i>		-0.2	-0.3	-0.4	-0.1	0.0
15.	Nominal GDP	<i>bn NAC</i>	100	103	106	109	113	116

\* The growth rate for year T is not a recommendation but serves to anchor the base, as the latest year with outturn data when setting the net expenditure path is year T-1.

Control account		T-1	T	T+1	T+2	T+3	T+4
		2023	2024	2025	2026	2027	2028
16.	Annual balance (13/15)	% GDP		-0.05	-0.12	0.25	0.14
17.	Cumulated balance (14/15)**	% GDP		-0.28	-0.39	-0.13	0.02

\*\* The cumulated balance (17) is the sum of the annual balances in national currency (cumulative gap, 14) divided by the nominal GDP of the last year (15). The cumulated balance includes any deviation for 2024.

#### **4. REVISION OF THE MEDIUM-TERM PLANS**

This section sets out general principles concerning the revision of the medium-term plans.

##### **Cases of revision**

Regulation 2024/1263 foresees four possible cases for the revision of the plan:

1. The Council considers that the plan submitted by the Member State cannot be positively assessed on the basis of the criteria established by Regulation 2024/1263 (Article 18). In this case the Council shall, on a recommendation from the Commission, recommend that the Member State concerned submit a revised national medium-term fiscal-structural plan.
2. The Member State is put under the Excessive Imbalance Procedure (EIP) (Article 31(2)) in accordance with Article 7(2) of Regulation No 1176/2011. In that case the Member State shall submit a revised national medium-term fiscal-structural plan in accordance with Article 15 of the Regulation.
3. There are objective circumstances preventing the implementation of the original plan (Article 15(1)). Upon submission of the revised plan, the Member State concerned should inform the Council and the Commission on the existence of objective circumstances. Such objective circumstances should be assessed by the Commission and justified in the recommendation on the revised plan.
4. A newly appointed government can submit a revised plan (Article 15 (2)). A newly appointed government is understood to refer to the formation of a new government following either an election or national constitutional procedures.

Multiple, repeated revisions of plans should be avoided as they would undermine the medium-term planning approach enshrined in the Regulation. Some further details on the arrangements for revisions are as follows:

## **Procedures for revised plans**

In case of a revision of the plan as outlined in case 1 above, the procedure follows Articles 18 and 19 of Regulation 2024/1263. In the other cases, Member States will need to go through all the steps of the Regulation culminating in the endorsement of the plan by the Council, unless in case of minor revisions (see below).

Before the transmission of prior guidance for a revised plan, the Member State may request a technical exchange with the Commission. Thereafter, following the transmission of the prior guidance, the technical dialogue will take place between the Commission and the Member State as normal under Article 12 prior to the submission of the revised plan.

The revised plan must fulfil the same set of requirements provided by Regulation 2024/1263, including those concerning the reforms and investment commitments underpinning the extension of the adjustment period if the Member State requests it as part of its revised plan (the set of reforms and investments underpinning the extension can be different from the original set). Member States can request an extension of the adjustment period in the revised plan irrespective of whether the original plan included such an extension. The revised plan will be assessed by the Commission and endorsed by the Council according to the same criteria and procedural steps as in the case of the original plan.

If the Member State has requested to revise the original plan due to objective circumstances preventing the implementation of the original plan or in case of an excessive imbalance procedure, an evaluation of any potential continued application of an existing extension of the adjustment period will consider the progress in the implementation of the set of reform and investment commitments underpinning the extension under the original plan. This assessment would consider the impact of the objective circumstances justifying the revision of the plan on the implementation of certain reforms and investment.

In the case of minor revisions to the reform and investment commitments where new prior guidance, a fully revised Commission assessment, and a fully revised Council recommendation are not necessary, the procedural steps may be streamlined.

The endorsement by the Council of a new net expenditure path would lead to a resetting of the preventive arm control account, while the control account of the original plan would remain valid for *ex post* assessments of the years not covered by the annual growth rate of net expenditure of the new recommendation.

### **Interaction between the excessive deficit procedure and the revision of the plan**

On the interaction between the plan and the excessive deficit procedure (EDP), a few cases and general principles to be followed can be distinguished:

- If a Member State enters an EDP during the implementation of the plan, the corrective path included in the Article 126(7) recommendation supersedes the path set by the Council in its endorsement of the plan. For plans with an extended adjustment period, the reforms and investment commitments underpinning the extension remain valid in the EDP.
- If a Member State already under an EDP submits a revised plan for the years covered by the EDP, the net expenditure path set out in the revised plan should be consistent with the corrective path included in the Article 126(7) recommendation, in accordance with Article 6(d) of Regulation 2024/1263.
- If the EDP contained a different path than the original plan and the EDP is abrogated during the lifetime of the plan, a return to the path of the original plan after the EDP might not be feasible. This could allow a revision of the plan in accordance with article 15(1) of Regulation 2024/1263. In other cases, the Member State will continue to comply with the net expenditure path for the remaining years of the plan, for instance when the plan itself projected a correction of the deficit under the reference value during the lifetime of the plan and the net expenditure path in the plan coincides with the corrective path until the correction of the excessive deficit. The plan could also be revised in cases of an early abrogation of the EDP under the same conditions.

## **5. THE CORRECTIVE ARM – THE OPERATION OF THE EXCESSIVE DEFICIT PROCEDURE AND THE ASSESSMENT OF EFFECTIVE ACTION**

The provisions governing the avoidance of excessive government deficit and the implementation of the excessive deficit procedure (EDP) are laid down in Article 126 TFEU and in Regulation (EC) No 1467/97 as amended by Council Regulations No 1055/2005, No 1177/2011 and 2024/1264.

The following gives details on the additional specifications for the practical operation of the excessive deficit procedure under the revised economic governance framework and the assessment of effective action:

### **Opening the EDP**

Regulation 1467/97 distinguishes between EDPs opened on the basis of the deficit criterion and EDPs opened on the basis of the debt criterion. Whether an EDP is deficit-based or debt-based will thus be determined by the trigger leading to the opening of the procedure and will remain unchanged once the EDP is opened. An EDP can also be opened based on both criteria.

The EDP based on the deficit criterion, as laid out by Regulation 1467/97, remains fundamentally unchanged, following the 2024 reform of the economic governance framework.

If a Member State does not fulfil the requirements under one or both criteria, the Commission shall prepare a report under Article 126(3). Article 2(3) of Regulation 1467/97 states that the Commission shall give due and express consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and the Commission. Although not mentioned in Regulation 1467/97, these could include, in line with achieving the common priorities of the Union, and among others, any significant increase in defence expenditure. However, in the medium-term, in the interests of preserving fiscal sustainability, the increase in defence expenditure should be financed by reprioritisation within national budgets.

## **The recommendation for the correction of the excessive deficit**

### *General rules*

When an EDP is opened, the Council recommendation made in accordance with Article 126(7) shall specify for the Member State a corrective net-expenditure path which ensures that the general government deficit remains or is brought and maintained below the reference value within the deadline set by the recommendation. The corrective path should also ensure that the debt is kept on a plausibly downward path or remains at prudent levels below 60 % of GDP in the medium term. Relevant factors must be taken into account when establishing both the corrective path and the deadline.

The corrective path in the EDP recommendations is set in terms of net expenditure growth only and the recommendation does not set intermediate headline deficits targets. The corrective path supersedes the path recommended by the Council under the preventive arm during the period in which an EDP is open.

When an EDP is opened, the corrective path will, where needed, be based on updated projections produced by the Commission using the DSA methodology. The concerned Member State may signal to the Commission country-specific issues that it considers relevant for setting the corrective path.

### *Deficit-based EDP*

In accordance with Article 3(4), third subparagraph of Regulation 1467/97, the corrective path in a deficit-based EDP shall be consistent with a minimum annual structural adjustment of at least 0.5 % of GDP as a benchmark (with a transitional regime based on the structural primary balance for 2025–27). To ensure compliance with the Treaty reference values and to ensure a consistent risk-based framework, the pace of adjustment in the corrective path shall also be compatible ex-ante with putting or keeping public debt on a plausibly downward path or at prudent levels below 60 % of GDP over the medium term. In a deficit-based EDP, the deadline for correction of the excessive deficit is the year, according to the projections of the corrective path, by which the deficit should be brought and thereafter maintained below the 3 % of GDP reference value.

### *Debt-based EDP*

Article 3(4), last subparagraph of Regulation 1467/97 provides that for the debt-based EDP, the corrective net expenditure path shall be at least as demanding as the net expenditure path under the preventive arm from which the Member State deviated and correct the cumulated deviations of the control account by the deadline set by the Council as a rule.

The debt-based EDP shall recommend a new expenditure path as the corrective path, which brings and keeps the debt on a plausible downward path in the medium-term in accordance with the relevant requirements of Article 16(2) of Regulation 2024/1263 and brings and keeps the deficit durably below the 3 % of GDP reference value.

The time horizon for the correction of cumulated deviations in debt-based EDPs shall be the original adjustment period used under the preventive arm as a baseline. However, the Commission may recommend to the Council, and the Council may thus adopt, a recommendation which includes a deadline which extends beyond the original adjustment period for cases where it would not be feasible to correct the cumulated deviations within the original period. In this case, the concerned Member State may signal to the Commission any element or country-specific issues it considers relevant when setting the duration of the corrective path. The corrective path shall be based, where needed, on updated projections by the Commission using the DSA.

To ensure a suitable element of correction and ensure an effort 'at least as demanding' as the original path from which the Member State deviated, the adjustment in the corrective path may be frontloaded.

## **Monitoring compliance with the corrective path**

In accordance with Article 3(5) of the Regulation 1467/97, the Member State shall report to the Council and the Commission on action taken in response to the Council's recommendation under Article 126(7) TFEU within the deadline set out in the same recommendation. The first report following the EDP recommendation shall mainly focus on the first year(s) covered by the EDP (typically the ongoing year and possibly also the following year when the reporting takes place in autumn). A report due in spring can be integrated into the Annual Progress Report to be submitted by the end of April in accordance with the preventive arm, while a report due in autumn can be part of the draft budgetary plan for euro area Member States. An assessment of effective action by the Commission, based on an in-year forecast shall be considered as preliminary and a reassessment should take place based on outturn data. A stepping-up of the procedure in the absence of outturn data shall only be considered in particularly serious cases of non-compliance with the EDP recommendation. In case of revision in the outturn data, the impact and nature of revisions will be taken into account by the Commission in its assessment of effective action.

In terms of fiscal indicators, the assessment of effective action shall be based solely on compliance with the corrective path set in the EDP recommendation. A Member State that adheres to the corrective path shall be considered as having taken effective action, regardless of developments in the headline deficit, structural balance or public debt. When the Commission considers that the measures taken are sufficient to ensure adequate progress towards the correction of the excessive deficit within the deadline, it shall inform the Council of its assessment and the EDP is put in abeyance (Article 9 of the Regulation 1467/97).

To monitor deviations from the corrective path, a corrective control account, starting from zero, will be set as the tool to track both annual and cumulative deviations, over the duration of the EDP. When a plan is revised or a new plan submitted during the EDP, the path in the revised or new plan should ensure compliance with the recommended path of the EDP. The control account relevant for surveillance continues to be the corrective one.

When the net expenditure growth deviates from the corrective path, the Commission shall carry out an overall assessment. The overall assessment by the Commission shall not follow a mechanical approach. The overall assessment will consider the size of the deviation, mitigating and aggravating relevant factors such as substantial inflation developments and exceptional circumstances where applicable.

A deviation above one of the thresholds of the corrective control account, which are the same of those used for the control account of the preventive arm, shall entail a strong presumption of no effective action. However, it shall not automatically lead to a stepping up of the EDP since mitigating relevant factors may be also considered. Symmetrically the overall assessment shall also take into account aggravating relevant factors, which may lead to stepping-up of an EDP, also in cases where a deviation remains below the relevant control account thresholds. To avoid double-counting, only relevant factors that were not considered when setting the corrective path or for which the intensity has changed (e.g. compared to those underlying the EDP recommendation), including factors which were indicated by the Member State for the Article 126(3) report, shall be considered in the assessment of effective action.

Regulation 1467/97 envisages that exceptional circumstances, which are covered by the national escape clause under certain conditions allow for a revision of the EDP recommendation.<sup>13</sup> Where the national or general escape clause is active, the assessment of effective action shall consider the impact of the exceptional circumstances (in comparison to the baseline underlying the EDP recommendation) on net expenditure growth.

In the deficit-based EDP, in case the headline deficit remains above 3 % of GDP by the deadline for correction despite the Member State having taken effective action, the Commission shall recommend to the Council a revised recommendation under Article 126(7) TFEU. This revised recommendation shall extend the deadline for the correction of the excessive deficit by one year as a rule. The revised recommendation shall also, where needed, be based on updated debt projections by the Commission using the DSA methodology and shall consider the minimum annual structural adjustment of 0.5 % of GDP as a benchmark as long as the deficit remains above 3 % of GDP.

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<sup>13</sup> Regulation 1467/97 also envisages the possibility of a revision of the EDP recommendation if the conditions referred to in Article 25 of Regulation 2024/1263 relative to the general escape clause apply.

## **Abrogation of the EDP**

### *Deficit-based EDP*

The deficit-based EDP shall be abrogated when the Member State brings its headline deficit durably below the 3 % of GDP reference value (Article 8(3) of Regulation 1467/97). Here, "durably" implies the headline deficit is projected by the Commission to remain below the reference value in the current and following year. An abrogation before the deadline set in the EDP recommendation ('early abrogation') could therefore be warranted as soon as the deficit is brought durably below 3 % of GDP, irrespective of any deviations from the corrective path.

### *Debt-based EDP*

The debt-based EDP shall be abrogated when the Member State has respected its corrective path, provided that the headline deficit is durably below the 3 % of GDP threshold. Thus, the debt-based EDP may be abrogated when the deadline has passed without a stepping up of the procedure. In the case of debt-based EDPs with a long deadline, the recitals of the EDP recommendation may include a specification of early abrogation conditions. Early abrogation may be considered in case of compliance over the previous two years based on outturn data and the current year based on the most recent forecast by the Commission, in particular in cases where the adjustment in the corrective path has been frontloaded to ensure a suitable element of correction. Moreover, early abrogation is warranted if the Member State brings the debt below the 60 % of GDP reference value, provided that the headline deficit is also durably below the 3 % of GDP reference value.

When an EDP is launched on the basis of both the deficit and the debt criterion, abrogation arrangements will follow the debt-based EDP.

## **Transition to the preventive arm**

When the EDP is abrogated and the Member State moves back to the preventive arm, the control account for the most recent plan becomes relevant for surveillance. Upward and downward deviations from the expenditure path of the most recent plan (including for the overlapping years covered by the EDP recommendation) would be included in this control account. In case of a new or revised plan following the abrogation, the control account of this new or revised plan would be reset to zero. Any deviation from the corrective path will impact the starting point of the net expenditure path.

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