Council of the
European Union

Brussels, 24 May 2023
(OR. en)

9763/23

ECOFIN 469
UEM 104

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	24 May 2023
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2023) 631 final
Subject:	REPORT FROM THE COMMISSION Belgium, Bulgaria, Czechia, Germany, Estonia, Spain, France, Italy, Latvia, Hungary, Malta, Austria, Poland, Slovenia, Slovakia and Finland Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

Delegations will find attached document COM(2023) 631 final.

Encl.: COM(2023) 631 final

Brussels, 24.5.2023
COM(2023) 631 final

REPORT FROM THE COMMISSION

Belgium, Bulgaria, Czechia, Germany, Estonia, Spain, France, Italy, Latvia, Hungary, Malta, Austria, Poland, Slovenia, Slovakia and Finland

Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

REPORT FROM THE COMMISSION

Belgium, Bulgaria, Czechia, Germany, Estonia, Spain, France, Italy, Latvia, Hungary, Malta, Austria, Poland, Slovenia, Slovakia and Finland

Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

1. INTRODUCTION

Article 126 of the Treaty on the Functioning of the European Union (the Treaty) lays down the excessive deficit procedure. That procedure is further set out in Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[1], which is part of the Stability and Growth Pact.

This report in accordance with Article 126(3) of the Treaty examines Member States' compliance with the deficit and debt criteria of the Treaty.

Main data underlying, and motivating, this report

In the assessment of the **deficit criterion**, the Commission takes into account the actual 2022 deficit ratio and the planned ratio for 2023. The deficit criterion under Article 126 of the Treaty is fulfilled if the general government deficit in the previous year (2022) and planned deficit for the current year (2023) do not exceed 3% of GDP. If either does, the Commission examines whether the deficit ratio has declined substantially and continuously and comes close to the reference value. It also examines whether the excess over the reference value is only exceptional and temporary and remains close to the reference value (section 2). Relevant factors are considered if either i) the government debt does not exceed 60% of GDP or ii) if the debt exceeds 60% of GDP, but the deficit is close to 3% of GDP and the excess over it is temporary (section 4).

The **debt criterion** is fulfilled if the general government gross debt does not exceed 60% of GDP at the end of the previous year (2022). If it exceeds 60% of GDP, the Commission considers whether the debt ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace by respecting the debt reduction benchmark[2] (section 3). Member States that respect that benchmark and comply with the deficit criterion are not discussed in this report. Relevant factors are always taken into account when assessing compliance with the debt criterion (section 4).

---

[1] OJ L 209, 2.8.1997, p. 6, as amended.

[2] The debt reduction benchmark is stipulated in Article 2(1a) of Council Regulation (EC) No 1467/97, which provides that the government debt ratio is considered sufficiently diminishing and approaching the 60% of GDP reference value at a satisfactory pace if the differential with respect to the reference value has decreased over the previous three years for which the data is available at an average rate of at least one twentieth per year as a benchmark. The requirement is also considered to be fulfilled if the budgetary forecasts of the Commission indicate that the required reduction in the differential will occur over the three-year period encompassing the two years following the final year for which the data is available.

This report also compares the government deficit with government investment expenditure and takes into account all other relevant factors, including the medium-term economic and budgetary positions of Member States.[3]

This report discusses compliance with the deficit and debt criteria in 16 Member States: **Belgium**, **Bulgaria**, **Czechia**, **Germany**, **Estonia**, **Spain**, **France**, **Italy**, **Latvia**, **Hungary**, **Malta**, **Austria**, **Poland**, **Slovenia**, **Slovakia** and **Finland**, for the following reasons (see also Table 1):

- According to data validated by Eurostat on 21 April 2023[4], the 2022 general government deficit exceeded the 3% of GDP in 10 Member States: **Belgium, Czechia, Spain, France, Italy, Latvia, Hungary, Malta, Austria, and Poland**.[5] Actual deficits for 2022 above 3% of GDP provide *prima facie* evidence of the existence of an excessive deficit in those Member States[6].
- In addition, according to the 2023 Stability or Convergence Programmes[7], the government deficits in **Bulgaria**, **Germany, Estonia, Slovenia** and **Slovakia** are planned to exceed 3% of GDP in 2023. These planned deficits for 2023 in those programmes provide *prima facie* evidence of the existence of an excessive deficit in those five Member States.
- General government gross debt at the end of 2022 exceeded the 60% of GDP reference value in Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia and Finland. In **France**, **Italy** and **Finland**, the general government gross debt did not respect the debt reduction benchmark. This provides *prima facie* evidence of the existence of an excessive deficit on the basis of the debt criterion in those three Member States.

Policy recommendations in the context of persistently high uncertainty

Fiscal policy recommendations as adopted by the Council have been evolving in recent years to respond to the changing economic context. Coordinated policy action at EU and national levels has cushioned the impact of the COVID-19 pandemic on Member States' economies and opened the way to a strong recovery. Against the new environment created by the Russia's war of aggression against Ukraine, the European economy has managed to contain its adverse impact, weathering the energy crisis thanks to a rapid diversification of supply and a sizeable fall in gas consumption.

---

[3] Unless stated otherwise, the source for the figures provided in this report is the Commission's 2023 spring forecast (*European Economy-Institutional Papers* 173).

[4] Eurostat Euro Indicators 47/2023 of 21 April 2023. Eurostat is expressing a reservation on the quality of data reported by France for the year 2022. Eurostat, in close cooperation with the French statistical authorities, is clarifying the recording of the capital increase by the State into the public energy company EDF (Électricité de France), as well as the application of the super-dividend test for the dividends paid by some public corporations to the French State. The deficit for 2022 might be underestimated by up to 0.2 percentage points of GDP.

[5] **Romania**'s government deficit also exceeded 3% of GDP in 2022. However, Romania is not covered in this report since the Council decided on the existence of an excessive deficit in Romania on 3 April 2020.

[6] In all these cases the deficits for 2023 are also planned to be above 3% of GDP.

[7] For the Stability or Convergence Programmes submitted by Member States in spring 2023, see: https://commission.europa.eu/content/2023-european-semester-national-reform-programmes-and-stabilityconvergence-programmes_en.

The activation of the general escape clause[8] of the Stability and Growth Pact in March 2020 enabled large-scale fiscal support in all Member States in response to the coronavirus pandemic. It allowed Member States to undertake measures to deal adequately with the crisis, while departing from some budgetary requirements that would normally apply under the EU fiscal framework. In 2020 and 2021, coordinated policy action successfully cushioned the macroeconomic impact of the COVID-19 pandemic. In 2022 fiscal policy also mitigated the social and economic impact of the sudden rise in energy prices and allowed the provision of humanitarian assistance to those fleeing Ukraine. The Commission has considered that the conditions to maintain the general escape clause in 2023 and to deactivate it as of end-2023 were met.[9]

On 20 July 2020, the Council recommended Member States to take all necessary measures in 2020 and 2021 to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery.[10] Member States were also recommended, when economic conditions so allowed, to pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

A year later, on 18 June 2021, the Council adopted differentiated fiscal policy guidance in the recommendations for 2022: Member States with low and medium debt-to-GDP ratios were asked to pursue or maintain a supportive fiscal stance, while Member States with high debt ratios were asked to use the Recovery and Resilience Facility (RRF) to finance additional investment in support of the recovery, while pursuing a prudent fiscal policy.[11] All Member States were recommended to preserve nationally financed investment. In a similar spirit, the Council Recommendation of 5 April 2022 on the economic policy of the euro area asked to maintain a moderately supportive fiscal stance in 2022 across the euro area, taking into account both national budgets and the funding provided by the RRF.[12] Fiscal policies were recommended to be differentiated taking into account the strength of the recovery, the need of ensuring fiscal sustainability and of enhancing investments, while bearing in mind the need to reduce divergences among Member States.

---

[8] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Council Regulation (EC) 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1) and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. It does not suspend the procedures of the Stability and Growth Pact. However, its activation has granted Member States budgetary flexibility to deal with the crisis, by allowing for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided this does not endanger fiscal sustainability in the medium term.

[9] COM(2022) 600 final of 23.5.2022, and COM (2023) 141 final of 8.3.2023.

[10] Council Recommendations of 20 July 2020 (2020/C 282/01 to 2020/C 282/27), OJ C 282, 26.8.2020, p. 1.

[11] Council Recommendations of 18 June 2021 (2021/C 304/01 to 2021/C 304/28, OJ C 304, 29.7.2021 p. 1). In the case of Romania the Council adopted, on the same day, an updated Recommendation with a view to bringing an end to the situation of an excessive government deficit (2021/C 304/24, OJ C 304, 29.7.2021 p. 111).

[12] Council Recommendation of 5 April 2022 on the economic policy of the euro area, OJ C 153, 7.4.2022, p. 1.

Table 1: Member States' position vis-à-vis the Treaty's deficit and debt reference values

	Actual deficit not exceeding (✓) / exceeding (✗) 3% of GDP in 2022	Planned deficit not exceeding (✓) / exceeding (✗) 3% of GDP in 2023	Debt ratio not exceeding (✓✓) 60% of GDP at end-2022 / exceeding 60% of GDP but respecting the debt reduction benchmark (✓) / not respecting the debt reduction benchmark (✗)
Belgium	✗	✗	✓
Bulgaria	✓	✗	✓✓
Czechia	✗	✗	✓✓
Germany	✓	✗	✓
Estonia	✓	✗	✓✓
Spain	✗	✗	✓
France	✗	✗	✗
Italy	✗	✗	✗
Latvia	✗	✗	✓✓
Hungary	✗	✗	✓
Malta	✗	✗	✓✓
Austria	✗	✗	✓
Poland	✗	✗	✓✓
Slovenia	✓	✗	✓
Slovakia	✓	✗	✓✓
Finland	✓	✓	✗
p.m.: Member States not considered in this report			
Denmark	✓	✓	✓✓
Ireland	✓	✓	✓✓
Greece	✓	✓	✓
Croatia	✓	✓	✓
Cyprus	✓	✓	✓
Lithuania	✓	✓	✓✓
Luxembourg	✓	✓	✓✓
Netherlands	✓	✓	✓✓
Portugal	✓	✓	✓
Sweden	✓	✓	✓✓
*Romania**	✗	✗	✓✓

(*) In excessive deficit procedure since 2020.

Source: Eurostat, Commission 2023 spring forecast and 2023 Stability and Convergence Programmes

On 12 July 2022, the Council again adopted differentiated fiscal policy guidance for 2023.[13] Member States with low and medium debt-to-GDP ratios were asked to ensure that the growth of nationally financed primary current expenditure was in line with an overall neutral policy stance. Member States with high debt ratios were recommended to ensure prudent fiscal policy by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth. Beyond 2023, the latter were asked to ensure credible and gradual debt reduction through gradual consolidation, investment and reforms. All Member States were recommended to stand ready to adjust current spending to the evolving situation, to expand public investment for the green and digital transitions and for energy security, and to achieve prudent medium-term fiscal positions beyond 2023.

On 16 May 2023, the Council Recommendation on the economic policy of the euro area[14] has called for refraining from broad-based support to aggregate demand, and for better targeting fiscal measures to address the impact of high energy prices on vulnerable households and viable companies. Member States have been asked to preserve debt sustainability and to facilitate the task of monetary policy to ensure timely return of inflation to the ECB's 2% medium-term target. The recommendation has called to define appropriately differentiated medium-term fiscal strategies, through gradual and sustainable consolidation, as well as through investments and reforms, to achieve prudent medium-term fiscal positions. Member States should raise the growth potential of their economies, sustain a high level of public investment and promote private investments, which are needed to boost economic and social resilience and support the green and digital transition.

In its Communication of 8 March 2023 on fiscal policy guidance for 2024,[15] the Commission already announced that it would not propose the opening of new excessive deficit procedures in spring 2023, taking into consideration the persistently high uncertainty for the macroeconomic and budgetary outlook at this juncture.

The Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023.

---

13 Council Recommendations of 12 July 2022 (2022/C 334/01 to 2022/C 334/27, OJ C 334, 1.9.2022, p. 1).

14 https://www.consilium.europa.eu/en/meetings/ecofin/2023/05/16/

15 COM(2023) 141 final.

2. DEFICIT CRITERION

Belgium, **Bulgaria**, **Czechia**, **Germany**, **Estonia**, **Spain**, **France**, **Italy**, **Latvia**, **Hungary**, **Malta**, **Austria**, **Poland**, **Slovenia** and **Slovakia** exceeded the deficit reference value in 2022 or plan to exceed it in 2023.

For **all those Member States**, the actual deficits in excess over the reference value in 2022, or the planned excesses in 2023, are *exceptional*. In 2022, the measures taken by Member States to cushion the economic and social impact of energy prices and to provide humanitarian assistance to those fleeing Ukraine following the invasion by Russia contributed to the higher deficits. The increase in energy prices and the humanitarian assistance are unusual events outside the control of the Member States and with major impacts on the financial position of general government. While the cost of COVID-19 temporary emergency measures fell in 2022, the cost of such measures remained significant in many Member States and the impact of the economic downturn triggered by the outbreak of the COVID-19 pandemic was still visible in the public finances of most Member States.

The government deficits were *above and not close* to the reference value in 2022 in **Belgium**, **Czechia**, **Spain**, **France**, **Italy**, **Latvia**, **Hungary**, **Malta** and **Poland** (see Table 2).

In **Austria**, the government deficit was *above but close to* the reference value in 2022 and is planned in the Stability Programme to be above but close to the reference value in 2023, while the Commission's forecast even foresees a deficit under 3% of GDP.

Bulgaria, **Germany**, **Estonia**, **Slovenia** and **Slovakia** had government deficits *not exceeding* the Treaty reference value in 2022, but report planned deficits *above and not close* to 3% of GDP in 2023. This is confirmed by the Commission's forecast in the case of **Bulgaria**, **Slovenia** and **Slovakia**. For **Germany**, the Commission's forecast indicates a deficit ratio *below* 3% of GDP in 2023, while for **Estonia** the Commission's forecasts is for a deficit *above but close to* the reference value.

According to the Commission's forecasts, the government deficits in **Czechia**, **Germany**, **Estonia**, **Latvia**, **Austria** and **Slovenia** are projected not to exceed 3% of GDP in 2024. Therefore, the deficits in excess over the reference value are expected to be *temporary*. These deficit forecasts for 2024 are based on a no policy change assumption.

In sum, this analysis suggests that the deficit criterion is not fulfilled by 14 Member States before the consideration of the relevant factors: **Belgium, Bulgaria, Czechia, Germany, Estonia, Spain, France, Italy, Latvia, Hungary, Malta, Poland, Slovenia** and **Slovakia**. Instead, the deficit criterion is respected by **Austria,** as the excess over the reference value is exceptional and temporary, and the deficit remains close to the reference value.

Table 2: General government balance

Percentage of GDP

	2019	2020	2021	2022	2023 SCP	2023	2024
Belgium	-2,0	-9,0	-5,5	-3,9	-5,1	-5,0	-4,7
Bulgaria	2,1	-3,8	-3,9	-2,8	-6,1	-4,8	-4,8
Czechia	0,3	-5,8	-5,1	-3,6	-3,5	-3,6	-3,0
Germany	1,5	-4,3	-3,7	-2,6	-4 ¼	-2,3	-1,2
Estonia	0,1	-5,5	-2,4	-0,9	-4,3	-3,1	-2,7
Spain	-3,1	-10,1	-6,9	-4,8	-3,9	-4,1	-3,3
France	-3,1	-9,0	-6,5	-4,7	-4,9	-4,7	-4,3
Italy	-1,5	-9,7	-9,0	-8,0	-4,5	-4,5	-3,7
Latvia	-0,6	-4,4	-7,1	-4,4	-4,0	-3,8	-2,7
Hungary	-2,0	-7,5	-7,1	-6,2	-3,9	-4,0	-4,4
Malta	0,5	-9,7	-7,8	-5,8	-5,0	-5,1	-4,5
Austria	0,6	-8,0	-5,8	-3,2	-3,2	-2,4	-1,3
Poland	-0,7	-6,9	-1,8	-3,7	-4,7	-5,0	-3,7
Slovenia	0,7	-7,7	-4,6	-3,0	-4,1	-3,7	-2,9
Slovakia	-1,2	-5,4	-5,4	-2,0	-6,3	-6,1	-4,8
Finland	-0,9	-5,6	-2,8	-0,9	-2,6	-2,6	-2,6
p.m.: Member States not considered in this report							
Denmark	*4,1*	*0,2*	*3,6*	*3,3*	*NA*	*2,3*	*1,3*
Ireland	*0,5*	*-5,0*	*-1,6*	*1,6*	*1,8*	*1,7*	*2,2*
Greece	*0,9*	*-9,7*	*-7,1*	*-2,3*	*-1,8*	*-1,3*	*-0,6*
Croatia	*0,2*	*-7,3*	*-2,5*	*0,4*	*-0,7*	*-0,5*	*-1,3*
Cyprus	*1,3*	*-5,8*	*-2,0*	*2,1*	*2,0*	*1,8*	*2,1*
Lithuania	*0,5*	*-6,5*	*-1,2*	*-0,6*	*-2,2*	*-1,7*	*-1,4*
Luxembourg	*2,2*	*-3,4*	*0,7*	*0,2*	*-1,5*	*-1,7*	*-1,5*
Netherlands	*1,8*	*-3,7*	*-2,4*	*0,0*	*-3,0*	*-2,1*	*-1,7*
Portugal	*0,1*	*-5,8*	*-2,9*	*-0,4*	*-0,4*	*-0,1*	*-0,1*
Sweden	*0,6*	*-2,8*	*0,0*	*0,7*	*-0,4*	*-0,9*	*-0,5*
*Romania**	*-4,3*	*-9,2*	*-7,1*	*-6,2*	*-4,4*	*-4,7*	*-4,4*

(*) In excessive deficit procedure since 2020.
Source: Eurostat, Member States' stability and convergence programmes (2023 SCP) and Commission 2023 spring forecast

3. DEBT CRITERION

Among the countries discussed in this report, the general government gross debt at end-2022 exceeded 60% of GDP in nine Member States: **Belgium**, **Germany**, **Spain**, **France**, **Italy**,

Hungary, **Austria**, **Slovenia** and **Finland** (see Table 3).[16] Compared to the previous year, the government debt ratio decreased in all those Member States except in **Finland**.

Table 3: General government debt

Percentage of GDP

	2019	2020	2021	2022	2023	2024
Belgium	97,6	112,0	109,1	105,1	106,0	107,3
Bulgaria	20,0	24,5	23,9	22,9	25,0	28,1
Czechia	30,0	37,7	42,0	44,1	42,9	43,1
Germany	59,6	68,7	69,3	66,3	65,2	64,1
Estonia	8,5	18,5	17,6	18,4	19,5	21,3
Spain	98,2	120,4	118,3	113,2	110,6	109,1
France	97,4	114,6	112,9	111,6	109,6	109,5
Italy	134,1	154,9	149,9	144,4	140,4	140,3
Latvia	36,5	42,0	43,7	40,8	39,8	40,5
Hungary	65,3	79,3	76,6	73,3	70,7	71,1
Malta	40,3	52,9	55,1	53,4	54,8	56,1
Austria	70,6	82,9	82,3	78,4	75,4	72,7
Poland	45,7	57,2	53,6	49,1	50,5	53,0
Slovenia	65,4	79,6	74,5	69,9	69,1	66,6
Slovakia	48,0	58,9	61,0	57,8	58,3	58,7
Finland	64,9	74,7	72,6	73,0	73,9	76,2
p.m.: Member States not considered in this report						
Denmark	*33,7*	*42,2*	*36,7*	*30,1*	*30,1*	*28,8*
Ireland	*57,0*	*58,4*	*55,4*	*44,7*	*40,4*	*38,3*
Greece	*180,6*	*206,3*	*194,6*	*171,3*	*160,2*	*154,4*
Croatia	*71,0*	*87,0*	*78,4*	*68,4*	*63,0*	*61,8*
Cyprus	*90,8*	*113,8*	*101,2*	*86,5*	*80,4*	*72,5*
Lithuania	*35,8*	*46,3*	*43,7*	*38,4*	*37,1*	*36,6*
Luxembourg	*22,4*	*24,5*	*24,5*	*24,6*	*25,9*	*27,0*
Netherlands	*48,5*	*54,7*	*52,5*	*51,0*	*49,3*	*48,8*
Portugal	*116,6*	*134,9*	*125,4*	*113,9*	*106,2*	*103,1*
Sweden	*35,5*	*39,8*	*36,5*	*33,0*	*31,4*	*30,7*
*Romania**	*35,1*	*46,9*	*48,6*	*47,3*	*45,6*	*46,1*

(*) In excessive deficit procedure since 2020.

Source: Eurostat and Commission 2023 spring forecast

[16] In **Greece**, **Croatia**, **Cyprus** and **Portugal**, the general government gross debt also exceeded 60% of GDP at the end of 2022, but these Member States are not considered in this report, given that they respect the deficit criterion and the debt reduction benchmark.

Data show that, in 2022, the debt reduction benchmark was respected in **Belgium**, **Germany**, **Spain**, **Hungary**, **Austria** and **Slovenia** (see Table 4). It was not respected in **France**, **Italy** and **Finland**. As noted in its Communication of 2 March 2022 and in line with last year's 126.3 report, the Commission considers, within its assessment of all relevant factors, that compliance with the debt reduction benchmark could imply a too demanding frontloaded fiscal effort that could risk to jeopardise economic growth. Therefore, in the view of the Commission, compliance with the debt reduction benchmark is not warranted under the prevailing economic conditions.

In sum, the analysis thus suggests that, among the Member States discussed in this report, the debt criterion is fulfilled by **Belgium**, **Germany**, **Spain**, **Hungary, Austria,** and **Slovenia**, while it appears not to have been fulfilled, before the consideration of the relevant factors, by **France, Italy** and **Finland**.

Table 4: Gap to the debt reduction benchmark*

A negative gap means compliance with the debt reduction benchmark

Percentage of GDP

	2021	2022	2023f	2024f
Belgium	2,0	-0,7	2,0	5,1
Germany	-2,0	-2,1	-2,0	-2,1
Spain	n.r.	-6,2	-1,1	0,4
France	1,7	1,4	1,7	3,2
Italy	-0,5	1,8	-0,5	3,8
Hungary	-4,0	-3,3	-4,0	-2,5
Austria	-3,7	-4,1	-3,7	-4,1
Slovenia	-3,9	-3,4	-3,9	-3,4
Finland	1,8	0,4	1,4	1,4
p.m.: Member States not considered in this report				
Greece	*-17,3*	*-10,4*	*-17,3*	*-9,3*
Croatia	*-12,9*	*-8,7*	*-12,9*	*-6,9*
Cyprus	*-15,8*	*-13,8*	*-15,8*	*-13,8*
Portugal	*-11,9*	*-11,4*	*-11,9*	*-6,4*

Source: Commission 2023 spring forecast and Commission calculations.
f: forecast
* According to Council Regulation (EC) No 1467/97, the government debt ratio is considered sufficiently diminishing and approaching the 60% of GDP reference value at a satisfactory pace if the differential with respect to the reference value has decreased over the previous three years for which data is available at an average rate of at least one twentieth per year. The requirement is also considered to be fulfilled if the budgetary forecasts of the Commission indicate that the required reduction in the differential will occur over the three-year period encompassing the two years following the final year for which the data is available. In implementing the debt ratio adjustment benchmark, account is also taken of the influence of the business cycle on the pace of debt reduction.
The debt reduction benchmark, for the Member States with a debt in excess of 60% of GDP, is computed over a three-year horizon, under different options: backward-looking, forward-looking, and adjusted for the cycle (see Vade Mecum on the Stability and Growth Pact – 2019 edition, *European Economy-Institutional Papers*, 101). The table shows the minimum difference between the (actual and cyclically adjusted) debt-to-GDP ratio and the (backward- and forward-looking) debt benchmark(s). If the value is negative, the projected debt-to-GDP ratio complies with the debt reduction benchmark. In that case, the differential with respect to the reference value decreased over a three-year horizon (forward- or backward-looking) at least at an average rate of 1/20th.

4. RELEVANT FACTORS WHEN ASSESSING COMPLIANCE WITH THE DEFICIT AND DEBT CRITERIA

Article 126(3) of the Treaty provides that this report must “take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State”. Those factors are further clarified in Article 2(3) of Regulation (EC) No 1467/97, which also provides that “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” need to be given due consideration. In particular, that Article indicates that the medium-term debt position can also be considered as a relevant factor.

Hence, in addition to cross-country relevant factors (section 4.1), country-specific relevant factors (section 4.2) are considered. The latter include the medium-term economic position, the medium-term budgetary position (including public investment), the medium-term debt position, whether the Member State is experiencing macroeconomic imbalances or excessive macroeconomic imbalances,[17] and any other factors put forward by the Member States.

As already explained under 1 and specified in Article 2(4) of Regulation (EC) No 1467/97, as regards compliance with the deficit criterion, relevant factors can be taken into account in the steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion, but only if:

a) the government debt-to-GDP ratio does not exceed the 60% reference value, *or*
b) if it does, a double condition is met – *i.e.* that the deficit remains close to the reference value *and* that the excess over the reference value is temporary.

Of the **Member States exceeding the deficit reference value** in 2022, or planning to exceed that value in 2023, the debt ratio did not exceed the 60% of GDP reference value in the case of seven Member States: Bulgaria, Czechia, Estonia, Latvia, Malta, Poland and Slovakia. Relevant factors can thus be taken into account for these seven Member States.

In the remaining eight Member States exceeding, or planning to exceed, the 3% of GDP deficit reference value – *i.e.* Belgium, Germany[18], Spain, France, Italy, Hungary, Austria and Slovenia – the double condition necessary for relevant factors to be taken into account (closeness and temporariness) is met only in Austria, so relevant factors can be taken into account for Austria as well.

As already explained under 1 and specified in Article 2(4) of Regulation (EC) No 1467/97, as regards compliance with the debt criterion, relevant factors shall always be taken into account.

The relevant factors are discussed hereunder even for countries where they cannot be taken into account in the steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion.

---

[17] In the sense of the macroeconomic imbalances procedure provided for in Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area (OJ L 306, 23.11.2011, p. 8).

[18] The German Stability Programme reports a planned a deficit above 3% of GDP in 2023. The Commission's forecast, which was produced afterwards, projects a deficit below 3% in 2023, taking into account more updated assumptions on energy price developments.

4.1. CROSS-COUNTRY RELEVANT FACTORS

In the recent years, the EU has been hit by a series of negative shocks. A key factor to take into consideration for all the Member States covered in this report is the macroeconomic impact of the increase in energy prices, and of the invasion of Ukraine by Russia. The war has led to extraordinary economic uncertainty in 2022 and 2023. The EU is among the most exposed economies, due to its geographical proximity to the war and heavy reliance on imports of fossil fuels. Russia's invasion of Ukraine also drove up prices of other raw materials and food, and increased supply disruptions. In 2022, the terms-of-trade shock[19] made its way through the economy, leading, among others, to the sharp erosion of the purchasing power of households, which has shifted consumers' sentiment dramatically. Member States adopted a series of fiscal measures to mitigate the economic and social impact of the increase in energy prices, with a sizeable effect on general government balance. Because of the need for a fast policy response, many of those measures were not targeted and did not preserve the price signal. The net budgetary cost of these measures is estimated at 1.2% of GDP in 2022 and a similar amount in 2023.[20] The general government balance has been also affected by the budgetary cost of temporary protection to displaced persons from Ukraine, estimated at 0.1% of GDP in 2022 and 2023. All these factors together put pressure on public finances.

It also needs to be taken into account that these disruptions happened when the European economy was still recovering from the economic and budgetary impact of the COVID-19 pandemic, and public debt ratios substantially increased as result of the pandemic.

High inflation is another factor that needs to be taken into account, since it can ultimately weigh on public finances in the medium term. In 2022, increases in the price of energy and other commodities were fuelling high inflation, which with time has broadened across the economy. Inflation is expected to remain elevated in 2023. In the short term high inflation may improve the government accounts, by increasing tax revenue, and reducing the debt-to-GDP ratios. However, such improvement could be short-lived as the increase in tax collection fades out, expenditure items are affected by the higher level of prices with a lag, and the increase in interest rates feeds into a higher debt burden at a speed depending on the average debt maturity. Also the fact that inflation was to a large extent driven by supply factors favours requests for compensatory measures, which – if not targeted to the most vulnerable groups – could lead to broad-based fiscal support and an excessively expansionary stance, making the central bank's task of reducing inflation harder, and ultimately contributing to tighter monetary policy with interest rates staying higher for longer.

The war has dramatically changed the picture, by bringing renewed disruptions in global supply, fuelling further commodity price pressures and heightening uncertainty. According to the Commission's forecast, real GDP growth in the EU is set to slow from an estimated 3.5% in 2022 to 1% in 2023 and then recover to 1.7% in 2024. Despite broadening price pressures, inflation is projected to decrease from 9.2% in 2022 to 6.7% in 2023 and 3.1% in 2024.

Overall, fiscal policy in the EU is turning from a supportive to a slightly contractionary fiscal stance. The fiscal stance[21] in the EU as a whole – including public expenditure financed by

[19] This is, the changes in the relative prices of exports and imports.

[20] See COM(2023) 600 final, 24.5.2023.

[21] Following the approach in the Council Recommendation of 18 June 2021, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-

grants from the Recovery and Resilience Facility[22] and other EU funds – is estimated to have been expansionary by 1.9% of GDP in 2022, while it is forecast to turn to slightly contractionary by 0.4% in 2023. In 2022, the government deficit for the EU and euro area as a whole decreased to 3.4% of GDP and 3.6% respectively (a reduction of around 1.5 percentage points of GDP, in both cases). It is projected to continue to decrease to 3.1% and 3.2% of GDP in 2023 for the EU and euro area as a whole.[23] The government deficit is forecast to decrease further in 2024 to 2.4% of GDP.

The deficit decrease in 2022 was mainly due to the economic recovery and the unwinding of much of the discretionary policy support activated to combat the effects of the COVID-19 pandemic crisis. Moreover, revenue developments were favourable in 2022. In 2023, deficit developments among the Member States considered in this report will be more divergent, as the deficit ratio is forecast to increase for Belgium, Bulgaria, Estonia, Poland, Slovenia, Slovakia and Finland, stay stable in Czechia and France, and decrease in Germany, Spain, Italy, Latvia, Hungary, Malta and Austria.

Following the deficit-decreasing trend and the economic recovery, the government debt is expected to decrease over the forecast horizon for the EU and euro area as a whole. The debt-to-GDP ratio in the EU fell from 89.5% in 2021 to 85.3% in 2022 (97.3% and 93.2% for the euro area, respectively), and is projected to decrease further to 83.4% and 82.6% in 2023 and 2024 (90.8% and 89.9% for the euro area, respectively). Among the Member States considered in this report, the government debt ratio did not decrease in 2022 for Estonia, Czechia and Finland.

4.2. COUNTRY-SPECIFIC RELEVANT FACTORS

This section provides an assessment of country-specific relevant factors. These factors include the medium-term macroeconomic outlook, the medium-term budgetary position (including public investment; see Table 5), the medium-term debt position, whether the Member State is experiencing macroeconomic imbalances or excessive macroeconomic imbalances, and any other relevant factors put forward by Member States.

Table 5: Public investment

Percentage of GDP

repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth.

[22] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

[23] This development in 2023 is driven by the sharp drop in Italy's government deficit as a result of the statistical treatment of tax credits (see section 4.2.8).

	2019	2020	2021	2022	2023	2024
Belgium	2,6	2,7	2,7	2,7	2,9	3,1
Bulgaria	3,3	3,3	2,6	3,0	3,8	3,0
Czechia	4,4	4,8	4,7	4,6	4,7	4,3
Germany	2,4	2,7	2,6	2,6	2,7	2,9
Estonia	5,0	5,7	5,6	5,2	5,0	4,8
Spain	2,2	2,6	2,7	2,8	2,9	2,9
France	3,7	3,7	3,6	3,7	3,7	3,8
Italy	2,3	2,6	2,9	2,7	3,1	3,5
Latvia	5,1	5,7	5,2	3,8	5,5	6,1
Hungary	6,3	6,5	6,3	5,3	5,3	5,1
Malta	3,8	4,2	3,8	3,3	3,8	3,1
Austria	3,1	3,3	3,6	3,3	3,4	3,3
Poland	4,3	4,5	4,1	4,0	4,1	4,2
Slovenia	3,8	4,1	4,7	5,2	6,1	5,0
Slovakia	3,6	3,4	3,1	3,3	4,9	4,1
Finland	4,4	4,8	4,2	4,1	4,5	4,4
p.m.: Member States not considered in this report						
Denmark	*3,2*	*3,6*	*3,4*	*3,1*	*3,3*	*3,2*
Ireland	*2,3*	*2,3*	*2,0*	*2,0*	*2,0*	*2,0*
Greece	*2,5*	*3,1*	*3,6*	*3,5*	*3,9*	*4,6*
Croatia	*4,3*	*5,5*	*4,7*	*3,8*	*4,7*	*4,6*
Cyprus	*2,5*	*2,8*	*2,7*	*2,6*	*3,0*	*2,8*
Lithuania	*3,1*	*4,4*	*3,1*	*3,0*	*3,6*	*3,6*
Luxembourg	*4,1*	*4,7*	*4,1*	*4,1*	*4,3*	*4,3*
Netherlands	*3,4*	*3,7*	*3,4*	*3,2*	*3,3*	*3,3*
Portugal	*1,8*	*2,3*	*2,6*	*2,5*	*3,1*	*3,2*
Sweden	*4,9*	*5,0*	*4,8*	*4,9*	*4,9*	*4,8*
*Romania**	*3,5*	*4,6*	*4,2*	*4,2*	*5,2*	*4,4*

(*) In excessive deficit procedure since 2020.

Source: Eurostat and Commission 2023 spring forecast

While the country-specific sections include key information on the medium-term macroeconomic position, including on the contributions to growth, and on the medium-term budgetary and debt positions, more detail on the macroeconomic and fiscal outlook can be found in the Commission's 2023 spring forecast. Further information regarding the budgetary measures, the fiscal stance[24] and the debt sustainability analysis discussed for each Member State hereunder is included in the Commission Recommendations for Council

[24] The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds. A negative (positive) sign of the indicator indicates an expansionary (contractionary) fiscal policy.

Recommendations providing Opinions on the 2023 Stability or Convergence Programmes and the accompanying Fiscal Statistical Tables, as well as in the 2023 Country Reports.[25]

4.2.1. BELGIUM

Medium-term macroeconomic position: After a contraction of 5.4% in 2020, the economy grew by 6.3% in 2021 and 3.2% in 2022. The economy is expected to grow by 1.2% in 2023 and 1.4% in 2024. Growth in 2023 is mainly driven by private consumption and investment. Economic activity exceeded its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The government deficit decreased from 9% in 2020 to 5.5% of GDP in 2021 and 3.9% in 2022. It is projected to widen to 5% and 4.7% of GDP in 2023 and 2024, respectively. After increasing to 2.7% of GDP in 2020, government investment remained stable in 2021 and 2022. It is projected to increase to 2.9% of GDP in 2023.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at -2% of GDP. As recommended by the Council, Belgium continued to support the recovery with investments financed by the Recovery and Resilience Facility (RRF). Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2022 (0.2% of GDP in 2021). Nationally financed investment provided a neutral contribution to the fiscal stance. Belgium therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 1.9 percentage points to the fiscal stance. The significant expansionary contribution of nationally financed current expenditure was only partially due to the fiscal policy measures to address the economic and social impact of the increase in energy prices, as well as the costs to offer temporary protection to displaced persons from Ukraine. Belgium therefore did not sufficiently limit the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (-1.1% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0.7% of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. The growth of nationally financed primary current expenditure in excess of the medium-term potential output growth is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is also driven by permanent increases in public sector wages and social benefits (due to the indexation of public sector wages and social benefits), structurally rising current expenditure resulting from demographic ageing,

---

[25] The debt sustainability analysis has been updated compared to the 2021 Fiscal Sustainability Report (*European Economy-Institutional Papers* 171) by reflecting the latest Commission's forecast.
See the Communication on the main elements of the European Semester 2023 Spring package (COM (2023) 600 final, 24.5.2023), and the Commission Recommendations for Council Recommendations (COM(2023) 601 to 626). For the latest assessment by the Commission of Member States experiencing imbalances or excessive imbalances, see the respective in-depth reviews (SWD(2023) 628 to 643). For the assessment of debt sustainability risks in all the Member States discussed in this report, see the annexes on *Debt Sustainability Analysis* in the country reports (SWD(2023) 601 to 626).

and a reform of residential energy contract taxation, and to a temporary decrease in firm's social contributions during the first half of 2023. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds are projected to amount to 0.3% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points.

Medium-term debt position: The government debt increased from 97.6% of GDP at the end of 2019 to 112% at the end of 2020. It stood at 105.1% of GDP at the end of 2022 and it is projected at 106% and 107.3% at the end of 2023 and 2024, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise continuously to about 126% of GDP in 2033. The baseline debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, it is probable that the debt ratio in 2027 would be higher than in 2022.

There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the recent increase in interest rates, the share of short-term debt, high gross financing needs, the large share of government debt held by non-residents and the lack of fiscal coordination among the different government levels, with several of the federated entities displaying specific vulnerabilities. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, which allows for a gradual pass through of increasing interest rates on the debt burden after benefitting from historically low borrowing costs for long, relatively stable financing sources (with a diversified and large investor base), and government debt being fully denominated in euro. In addition, the structural reforms under the NextGenerationEU (NGEU)/Recovery and Resilience Facility (RRF), if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Other factors put forward by the Member State: On 9 May 2023, Belgium provided additional relevant factors not mentioned above, namely a government project for a reform of the tax and benefit system aiming at boosting employment and economic activity, thereby fostering the sustainability of public finances, a pension reform (as foreseen in the Recovery and Resilience Plan, RRP) to improve the financial sustainability of the pensions system, various initiatives to foster labour market participation, the implementation of spending reviews, and a commitment to step up public investment to accelerate the green and digital transition (including through the implementation of the RRP).

4.2.2. BULGARIA

Medium-term macroeconomic position: After a contraction of 4% in 2020, the economy grew by 7.6% in 2021 and 3.4% in 2022. It is expected to grow by 1.5% in 2023 and 2.4% in 2024. Growth in 2023 is mainly driven by private and public consumption. Economic activity returned to its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The government deficit increased from 3.8% in 2020 to 3.9% of GDP in 2021, before falling to 2.8% in 2022. It is projected to be at 4.8% of GDP in both 2023 and 2024. This projection takes into account Bulgaria's 2023 draft budget and medium term fiscal strategy, which include a baseline no-policy-change budgetary plan driven by measures legislated in previous years such as

increases in wages and pensions and reductions of some taxes. These documents have not yet been approved by Parliament. Government investment decreased from 3.3% in 2020 to 2.6% of GDP in 2021, before increasing to 3% in 2022, and being larger than the government deficit in 2022.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at -1.2% of GDP, as recommended by the Council. As recommended by the Council, Bulgaria continued to support the recovery with investments to be financed by the Recovery and Resilience Facility and other EU funds. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.8% of GDP in 2022 (0.9% of GDP in 2021). Nationally financed investment provided an expansionary contribution of 0.5 percentage points to the fiscal stance. Bulgaria therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution 0.8 percentage points to the fiscal stance. This expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 0.9% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). Bulgaria therefore sufficiently kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary – 3.1% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 1.9% of GDP to the fiscal stance. The expansionary contribution of nationally financed net primary current expenditure is not due to a targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Bulgaria is projected to finance additional investment through the Recovery and Resilience Facility and other EU funds, and to preserve nationally financed investment. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 1.9% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points.

Medium-term debt position: The government debt increased from 20% of GDP at the end of 2019 to 24.5% at the end of 2020. It stood at 22.9% of GDP at the end of 2022 and it is projected at 25% and 28.1% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Bulgaria on 11 May 2023. Bulgarian authorities also informed that, as part of the ongoing discussions on the draft budget for 2023, the leading parties represented in Parliament have publicly committed to reducing the deficit to 3% of GDP in 2023.

4.2.3. CZECHIA

Medium-term macroeconomic position: After a contraction of 5.5% in 2020, the economy grew by 3.6% in 2021 and 2.5% in 2022. It is expected to grow by 0.2% in 2023 and 2.6% in 2024. Growth in 2023 is mainly driven by investment and net exports. Economic activity exceeded its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The government deficit decreased from 5.8% in 2020 to 5.1% of GDP in 2021 and 3.6% in 2022. It is projected to be at 3.6% and 3% of GDP in 2023 and 2024, respectively. After increasing to 4.8% of GDP in 2020, government investment decreased to 4.7% of GDP in 2021 and 4.6% in 2022. It is projected to increase to 4.7% of GDP in 2023, and to be larger than the government deficit in 2022 and 2023.

According to the Commission estimates, the fiscal stance in 2022 was broadly neutral, at -0.1% of GDP, as recommended by the Council. As recommended by the Council, Czechia continued to support the recovery including with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.1% of GDP in 2022 (1.1% of GDP in 2021). Nationally financed investment provided a neutral contribution to the fiscal stance. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 0.3 percentage points to the fiscal stance. Czechia therefore sufficiently kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+1.4% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 1.2% of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. This also includes lower costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 1.6% of GDP in 2023, while nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.5 percentage points. Therefore, Czechia plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is not projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 30% of GDP at the end of 2019 to 37.7% at the end of 2020. It stood at 44.1% of GDP at the end of 2022 and it is projected at 42.9% and 43.1% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Assessment under the macroeconomic imbalances procedure: Czechia is not found to experience imbalances. Vulnerabilities relate to price competitiveness and house prices, but seem limited going forward as household debt is contained and inflation is expected to decelerate significantly faster than the EU average.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Czechia on 9 May 2023.

4.2.4. GERMANY

Medium-term macroeconomic position: After a contraction of 3.7% in 2020, the economy grew by 2.6% in 2021 and 1.8% in 2022. It is expected to grow by 0.2% in 2023 and 1.4% in 2024. Growth in 2023 is mainly driven by net exports. Economic activity exceeded its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The government deficit decreased from 4.3% in 2020 to 3.7% of GDP in 2021 and 2.6% in 2022. It is projected to be at 2.3% and 1.2% of GDP in 2023 and 2024, respectively. After increasing to 2.7% of GDP in 2020, government investment decreased to 2.6% of GDP in both 2021 and 2022. It is projected to increase to 2.7% of GDP in 2023, and to be larger than the government deficit in 2023.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at -2.7% of GDP, as recommended by the Council. As recommended by the Council, Germany continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2022 (0.3% of GDP in 2021). Nationally financed investment provided a neutral contribution to the fiscal stance. Germany therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 2.4 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.2% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). At the same time, tax reductions in income taxation lowered government revenues and also contributed (0.1% of GDP) to the growth in net primary current expenditure. The significant expansionary contribution of nationally financed current expenditure was only partially due to the measures to address the economic and social impact of the increase in energy prices, as well as the costs to offer temporary protection to displaced persons from Ukraine. Germany therefore did not sufficiently keep under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+0.5% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0.3% of GDP to the fiscal stance. This includes the increased cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.2% of GDP. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 0.2% of GDP in 2023, while nationally financed investment is projected to provide a neutral contribution to the fiscal stance. Therefore, Germany plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 59.6% of GDP at the end of 2019 to 69.3% at the end of 2021. It stood at 66.3% of GDP at the end of 2022 and it is

projected at 65.2% and 64.1% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Assessment under the macroeconomic imbalances procedure: Germany continues to experience imbalances. The persistent large current account surplus, reflecting also subdued investment relative to savings, which has cross-border relevance, has been gradually reduced, most recently amid the energy crisis, but is expected to increase markedly.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Germany on 9 May 2023. Germany also confirmed that, based on the current trend of lower energy prices, the 2023 deficit might be lower than planned in the Stability Programme.

4.2.5. ESTONIA

Medium-term macroeconomic position: After a contraction of 0.6% in 2020, the economy grew by 8% in 2021 and contracted by 1.3% in 2022. It is expected to contract further by 0.4% in 2023 and to return to growth of 3.1% in 2024. Inventories and net exports are expected to grow in 2023. Economic activity exceeded its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The government deficit decreased from 5.5% in 2020 to 2.4% of GDP in 2021 and 0.9% in 2022. It is projected to be at 3.1% and 2.7% of GDP in 2023 and 2024, respectively. After increasing to 5.7% of GDP in 2020, government investment decreased to 5.6% of GDP in 2021 and 5.2% in 2022. It is projected to decline further to 5% of GDP in 2023, and to remain larger than the government deficit in 2022 and 2023.

According to the Commission estimates, the fiscal stance in 2022 was contractionary, at 1.3% of GDP, which was appropriate in a context of high inflation. As recommended by the Council, Estonia continued to support the recovery with investments financed by the Recovery and Resilience Facility, as recommended by the Council. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.4% of GDP in 2022 (1.6% of GDP in 2021). The decrease in expenditures financed by Recovery and Resilience Facility grants and other EU funds in 2022 was due to the rapid and unforeseen rise in construction prices. Nationally financed investment provided a contractionary contribution of 0.6 percentage points to the fiscal stance. Estonia therefore did not preserve nationally financed investment, which is not in line with the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 0.8 percentage points to the fiscal stance. Estonia therefore sufficiently limited the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (-0.8% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 1.2% of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. This also includes higher costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). The expansionary contribution of nationally financed net primary current expenditure is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes

and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is mainly driven by social spending, public wages, education and defence expenditure. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 1.8% of GDP in 2023, while nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.3 percentage points. Therefore, Estonia plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is not projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 8.5% of GDP at the end of 2019 to 18.5% at the end of 2020. It stood at 18.4% of GDP at the end of 2022 and it is projected at 19.5% and 21.3% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates low risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Assessment under the macroeconomic imbalances procedure: Estonia is not found to experience imbalances. Vulnerabilities relating to competitiveness and house price developments have recently increased but overall seem to be contained at present.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Estonia on 5 May 2023.

4.2.6. SPAIN

Medium-term macroeconomic position: After a contraction of 11.3% in 2020, the economy grew by 5.5% annually in both 2021 and 2022. It is expected to grow by 1.9% in 2023 and 2.0% in 2024. Growth in 2023 is mainly driven by net exports and, to a lesser extent, private investment. Economic activity is forecast to return to its annual 2019 level in 2023.

Medium-term budgetary position, including investment: The government deficit decreased from 10.1% in 2020 to 6.9% of GDP in 2021 and 4.8% in 2022. It is projected to be at 4.1% and 3.3% of GDP in 2023 and 2024, respectively. After increasing to 2.6% of GDP in 2020, government investment increased further to 2.7% of GDP in 2021 and 2.8% in 2022. It is projected to reach 2.9% in 2023.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at - 2.5% of GDP. As recommended by the Council, Spain continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.1% of GDP in 2022 (1.2% of GDP in 2021). Nationally financed investment provided an expansionary contribution of 0.3 percentage points to the fiscal stance. Spain therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 2.7 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.5% of GDP). At the same time, higher spending on intermediate consumption and social transfers in kind also contributed to the growth in net primary current

expenditure. Spain therefore did not sufficiently limit the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (- 0.3% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a broadly neutral contribution of 0.2 % of GDP to the fiscal stance. Therefore, the projected growth of nationally financed primary current expenditure is in line with the recommendation of the Council. The projected broadly neutral contribution of nationally financed primary current expenditure is due, in substance, to the reduced net costs of the (targeted and untargeted) support measures to households and firms in response to energy price hikes (by 1.0% of GDP). The main drivers of growth in nationally financed primary current expenditure (net of new revenue measures) are the increase in social transfers, driven by the relinking of pensions to past inflation, and higher spending on intermediate consumption. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 1.6% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points. Therefore, Spain plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 98.2% of GDP at the end of 2019 to 120.4% at the end of 2020. It stood at 113.2% of GDP at the end of 2022 and it is projected at 110.6% and 109.1% at the end of 2023 and 2024, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would slightly decline before increasing again to around 106% of GDP in 2033. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, it is probable that the debt ratio would be higher in 2027 than in 2022.

There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the recent increase in interest rates and the elevated level of external and private debt, which may amplify the adverse impact of the tightening of financial conditions on households' and firms' financial position. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, which allows for a gradual pass through of increasing interest rates on the debt burden after benefitting from historically low borrowing costs for long, relatively stable financing sources featuring a well-diversified and large investor base and the currency denomination of debt. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Assessment under the macroeconomic imbalances procedure: Spain continues to experience imbalances. Vulnerabilities related to high private, government and external debt, which have cross-border relevance, are receding but remain present.

Other factors put forward by the Member State: On 9 May 2023, Spain provided additional relevant factors not mentioned above, namely the structural transformation of the Spanish economy that is yielding results in terms of sustained improvement in: employment rates (Social Security enrolment stands at its highest level), the net international investment position (and the external sector at large, with a current account surplus for the tenth year in a

row) and public finances (with a significant increase in public revenues underpinned by important behavioural changes of economic agents and measures taken).

4.2.7. FRANCE

Medium-term macroeconomic position: After a contraction of 7.8% in 2020, the economy grew by 6.8% in 2021 and 2.6% in 2022. It is expected to grow by 0.7% in 2023 and 1.4% in 2024. Growth in 2023 is mainly driven by investment and public consumption. Economic activity exceeded its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The government deficit decreased from 9% in 2020 to 6.5% of GDP in 2021 and 4.7% in 2022. It is projected to be at 4.7% and 4.3% of GDP in 2023 and 2024, respectively. After remaining at 3.7% of GDP in 2020, government investment decreased to 3.6% of GDP in 2021, to reach back 3.7% in 2022. It is projected to remain stable in 2023.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at - 2.0% of GDP. As recommended by the Council, France continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.6% of GDP in 2022 (0.7% of GDP in 2021). The marginal decrease in expenditure financed by Recovery and Resilience Facility grants and other EU funds in 2022 was due to the frontloaded implementation of the plan over its first two years. Nationally financed investment provided an expansionary contribution of 0.1 percentage points to the fiscal stance. France therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 1.7 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 0.8% of GDP). At the same time, the indexation of pensions, social benefits and public wages also contributed (0.4% of GDP) to the growth in net primary current expenditure. France therefore did not sufficiently limit the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+0.5% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0.6 % of GDP to the fiscal stance. This includes the increased cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.4% of GDP in 2023, while nationally financed investment provided a neutral contribution to the fiscal stance. Therefore, France plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it plans to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 97.4% of GDP at the end of 2019 to 114.6% at the end of 2020. It stood at 111.6% of GDP at the end of 2022 and it is projected at 109.6% and 109.5% at the end of 2023 and 2024, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would increase over the

next 10 years, reaching around 125.6% of GDP in 2033. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, it is probable that the debt ratio would be higher in 2027 than in 2022.

There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the recent increase in interest rates, the expected increase in gross financing needs over the medium term and the contingent liability risks stemming from the private sector, including via the possible materialisation of state guarantees granted to firms and self-employed during the COVID-19 crisis. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, which allows for a gradual pass through of increasing interest rates on the debt burden after benefitting from historically low borrowing costs for long, and relatively stable financing sources (with a diversified and large investor base). In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Assessment under the macroeconomic imbalances procedure: France continues to experience imbalances. Vulnerabilities related to high government debt, and competitiveness and low productivity growth, which have cross-border relevance, remain present but have shown signs of reduction.

Other factors put forward by the Member State: On 9 May 2023, France provided additional relevant factors not mentioned above, namely the investment efforts deployed as of 2021 to support the green and digital transitions in addition to the Recovery and Resilience Facility grants, as well as the reduction in production taxes to enhance firms' competitiveness.

4.2.8. ITALY

Medium-term macroeconomic position: After a contraction of 9% in 2020, the economy grew by 7% in 2021 and 3.7% in 2022. It is expected to grow by 1.2% in 2023 and 1.1% in 2024. Growth in 2023 is mainly driven by investment and net exports. Economic activity exceeded its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The government deficit decreased from 9.7% in 2020 to 9% of GDP in 2021 and 8% in 2022. Both 2021 and 2022 levels include the deficit-increasing impact of the new statistical treatment of some housing renovation tax credits, now recorded as capital transfers and mostly accrued to 2021-2022. The government deficit is projected to be at 4.5% and 3.7% of GDP in 2023 and 2024, respectively. After increasing to 2.6% of GDP in 2020, government investment further increased to 2.9% of GDP in 2021, before decreasing to 2.7% in 2022. It is projected to reach 3.1% of GDP in 2023.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at - 3.2% of GDP. As recommended by the Council, Italy continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.9% of GDP in 2022 (0.4% of GDP in 2021). Nationally financed investment provided a neutral contribution to the fiscal stance. Italy therefore preserved nationally-financed investment, as recommended by the Council. At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 2.4 percentage points to the fiscal stance. This significant expansionary contribution included

the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 2.2% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). Italy therefore sufficiently kept under control the growth in national financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+2.6% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0.9% of GDP to the fiscal stance. Therefore, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. The projected contractionary contribution of nationally financed primary current expenditure is due, in substance, to the reduced costs (by 1.5 percentage points of GDP) of the support measures (targeted and untargeted) to households and firms in response to energy price hikes. The main drivers of growth in nationally financed primary current expenditure (net of new revenue measures) are the increase in pension expenditure due to the indexation to previous-year inflation and the recently adopted additional cuts to the labour tax wedge for low- and medium-income earners. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 1.4% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points. Therefore, Italy plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 134.1% of GDP at the end of 2019 to 154.9% at the end of 2020. It stood at 144.4% of GDP at the end of 2022 and it is projected at 140.4% and 140.3% at the end of 2023 and 2024, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio increases continuously, reaching about 156.5% of GDP in 2033. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high probability that the debt ratio would be higher in 2027 than in 2022.

There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to the recent increase in interest rates, the share of short-term government debt and to contingent liability risks stemming from the private sector, including via the possible materialisation of COVID-19 crisis related state guarantees. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, which allows for a gradual pass through of increasing interest rates on the debt burden after benefitting from historically low borrowing costs for long, relatively stable financing sources (with a diversified and large investor base) and the positive net international investment position. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Assessment under the macroeconomic imbalances procedure: Italy continues to experience excessive imbalances. While there have been some improvements vulnerabilities related to high government debt and weak productivity growth, in a context of labour market fragilities and some weaknesses in financial markets, which carry cross-border relevance, persist.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Italy on 11 May 2023.

4.2.9. LATVIA

Medium-term macroeconomic position: After a contraction of 2.3% in 2020, the economy grew by 4.3% in 2021 and 2.8% in 2022. It is expected to grow by 1.4% in 2023 and 2.8% in 2024. Growth in 2023 is mainly driven by private consumption and net exports. Economic activity exceeded its annual 2019 level in 2021.

Medium-term budgetary position, including investment: After increasing from 4.4% in 2020 to 7.1% of GDP in 2021, the government deficit decreased to 4.4% in 2022. It is projected to be at 3.8% and 2.7% of GDP in 2023 and 2024, respectively. After increasing to 5.7% of GDP in 2020, government investment decreased to 5.2% of GDP in 2021 and 3.8% in 2022. It is projected to increase to 5.5% of GDP in 2023, and to be larger than the government deficit.

According to the Commission estimates, the fiscal stance in 2022 was neutral, which was appropriate in a context of high inflation. As recommended by the Council, Latvia continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.1% of GDP in 2022 (1.3% of GDP in 2021). Due to capacity constraints and a rise in construction prices, some investments financed by Recovery and Resilience Facility grants and other EU funds in 2022 were delayed, leading to the small decrease in expenditure. Nationally financed investment provided a contractionary contribution of 1.2 percentage points to the fiscal stance. Latvia therefore did not preserve nationally financed investment which is not in line with the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 0.3 percentage points to the fiscal stance. Latvia therefore kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (- 0.9% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0.5 % of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.4% of GDP. This also includes higher costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). The expansionary contribution of nationally financed net primary current expenditure is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is driven by expenditure measures included in the 2023 budget package, such as wage increase for administration and medical personnel, additional current expenditure financing oncology, science and research and other discretionary current expenditure for national administration as well as higher spending for pensions and allowances. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 2.2% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 1.0 percentage points. Therefore, Latvia plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 36.5% of GDP at the end of 2019 to 42.0% at the end of 2020. It stood at 40.8% of GDP at the end of 2022 and it is projected at 39.8% and 40.5% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates low risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Assessment under the macroeconomic imbalances procedure: Latvia is not found to experience imbalances. Vulnerabilities relating to external borrowing and housing remain mild; risks to competitiveness are pertinent, but overall seem contained in the near future.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Latvia on 8 May 2023.

4.2.10. HUNGARY

Medium-term macroeconomic position: After a contraction of 4.5% in 2020, the economy grew by 7.2% in 2021 and 4.6% in 2022. It is expected to grow by 0.5% in 2023 and 2.8% in 2024. Growth in 2023 is mainly driven by net exports. Economic activity exceeded its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The government deficit decreased from 7.5% in 2020 to 7.1% of GDP in 2021 and 6.2% in 2022. It is projected to be at 4% and 4.4% of GDP in 2023 and 2024, respectively. After increasing to 6.5% of GDP in 2020, government investment decreased to 6.3% of GDP in 2021 and 5.3% in 2022. It is projected to be at 5.3% of GDP also in 2023, thus larger than the general government deficit.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at -0.4% of GDP, as recommended by the Council. As recommended by the Council, Hungary continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.5% of GDP in 2022 (2.1% of GDP in 2021). The decrease in expenditure financed by Recovery and Resilience Facility grants and other EU funds in 2022 was due to lower absorption of the European structural and investment funds. Nationally financed investment provided a contractionary contribution of 0.2 percentage points to the fiscal stance. Hungary therefore did not preserve nationally financed investment, which is not in line with the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 0.6 percentage points to the fiscal stance. Hungary therefore sufficiently kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+4.2% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 2.2% of GDP to the fiscal stance. Therefore, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 2.3% of GDP in 2023, while nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.6 percentage points. Therefore, Hungary plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, although it is not projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 65.3% of GDP at the end of 2019 to 79.3% at the end of 2020. It stood at 73.3% of GDP at the end of 2022 and it is projected at 70.7% and 71.1% at the end of 2023 and 2024, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would overall stabilise over the next five years. However, as of 2027, the debt ratio would start to increase, reaching 72.5% of GDP in 2033. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high probability that the debt ratio would be higher in 2027 than in 2022.

There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to the recent increase in interest rates, Hungary's negative net international investment position, the rising share of short-term and foreign debt, and to contingent liability risks stemming from the private sector, including via the possible materialisation of COVID-19 crisis related state guarantees. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years and relatively stable financing sources. In addition, the measures under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Assessment under the macroeconomic imbalances procedure: Hungary is experiencing imbalances. Vulnerabilities related to very strong price pressures and external and government financing needs have increased and are significant.

Other factors put forward by the Member State: On 9 May 2023, Hungary provided additional relevant factors not mentioned above, namely that Hungary is experiencing increased risk premia on the capital markets in view of the uncertainty about when Hungary will fulfil the necessary conditions to gain full access to EU funds.

4.2.11. MALTA

Medium-term macroeconomic position: After a contraction of 8.6% in 2020, the economy grew by 11.8% in 2021 and 6.9% in 2022. It is expected to grow by 3.9% in 2023 and 4.1% in 2024. Growth in 2022 is mainly driven by net exports and private consumption. Economic activity exceeded its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The government deficit decreased from 9.7% in 2020 to 7.8% of GDP in 2021 and 5.8% in 2022. It is projected to be at 5.1% and 4.5% of GDP in 2023 and 2024, respectively. After increasing to 4.2% of GDP in 2020, government investment decreased to 3.8% of GDP in 2021 and 3.3% in 2022. It is projected to be at 3.8% of GDP in 2023.

According to the Commission estimates, the fiscal stance in 2022 was broadly neutral, at -0.2% of GDP, as recommended by the Council. As recommended by the Council, Malta continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.9% of GDP in 2022 (1.1% of GDP in 2021). The decrease in expenditures financed by Recovery and Resilience Facility grants and other EU funds in 2022 was due to a lower absorption of other EU funds. Nationally financed investment provided a contractionary contribution of 0.2 percentage points to the fiscal stance. Malta therefore did not preserve nationally financed investment which was not in line with the Council recommendation. At the same time, the growth in nationally financed primary current

expenditure (net of new revenue measures) provided an expansionary contribution of 0.9 percentage points to the fiscal stance. However, this significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.9% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). Malta therefore sufficiently kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+ 0.4% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0.8 % of GDP to the fiscal stance. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.6% of GDP in 2023, while nationally financed investment provided a contractionary contribution to the fiscal stance of 0.3 percentage points. Therefore, Malta plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, but it is not projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 40.3% of GDP at the end of 2019 to 52.9% at the end of 2020. It stood at 53.4% of GDP at the end of 2022 and it is projected at 54.8% and 56.1% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Other factors put forward by the Member State: On 5 May 2023, Malta provided additional relevant factors not mentioned above, namely the cost incurred in 2022 related to the restructuring of the national airline and the early retirement of its employees.

4.2.12. AUSTRIA

Medium-term macroeconomic position: After a contraction of 6.5% in 2020, the economy grew by 4.6% in 2021 and 5% in 2022. It is expected to grow by 0.4% in 2023 and 1.6% in 2024. Growth in 2023 is mainly driven by private consumption. Economic activity exceeded its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The government deficit decreased from 8% in 2020 to 5.8% of GDP in 2021 and 3.2% in 2022. It is projected to be at 2.4% and 1.3% of GDP in 2023 and 2024, respectively. After increasing to 3.3% of GDP in 2020, government investment increased further to 3.6% of GDP in 2021, before declining to 3.3% in 2022. It is projected to reach 3.4% in 2023, and to be larger than the government deficit in both 2022 and 2023.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at - 2.8% of GDP, as recommended by the Council. Also as recommended by the Council, Austria continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2022 (0.2% of GDP in 2021). Nationally financed investment provided a contractionary contribution of 0.1 percentage point to the fiscal stance. Austria therefore did not preserve nationally financed investment, which is not in line with

the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 1.8 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.5% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.2% of GDP). Austria therefore sufficiently kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+ 1.0% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0.3 percentage points to the fiscal stance. This includes the increased cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.2% of GDP. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 0.3% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points. Therefore, Austria plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 70.6% of GDP at the end of 2019 to 82.9% at the end of 2020. It stood at 78.4% of GDP at the end of 2022 and it is projected at 75.4% and 72.7% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates low risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Austria on 8 May 2023.

4.2.13. POLAND

Medium-term macroeconomic position: After a contraction of 2% in 2020, the economy grew by 6.9% in 2021 and 5.1% in 2022. It is expected to grow by 0.7% in 2023 and 2.7% in 2024. Growth in 2023 is mainly driven by net exports and investment. Economic activity exceeded its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The government deficit decreased from 6.9% in 2020 to 1.8% of GDP in 2021, before increasing to 3.7% in 2022. It is projected to be at 5% and 3.7% of GDP in 2023 and 2024, respectively. After increasing to 4.5% of GDP in 2020, government investment contracted to 4.1% of GDP in 2021 and 4% in 2022. It is projected to increase to 4.1% of GDP in 2023, being larger than the government deficit in 2021 and 2022, but not in 2023.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at – 3.0% of GDP, as recommended by the Council. As recommended by the Council, Poland continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.0% of GDP in 2022 (1.3% of GDP in 2021). Nationally financed investment

provided an expansionary contribution of 0.2 percentage points to the fiscal stance. Poland therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 2.3 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.9% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.5% of GDP). Poland therefore sufficiently kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (- 0.8% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0.8 % of GDP to the fiscal stance. This includes the increased cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.1% of GDP. This also includes lower costs to offer temporary protection to displaced persons from Ukraine (by 0.2% of GDP). The expansionary contribution of nationally financed net primary current expenditure is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure is driven by untargeted energy measures, higher spending on defence and health as well as permanent increases in public sector wages and social benefits. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 1.8% of GDP in 2023, while nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.2 percentage points. Therefore, Poland plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is not projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 45.7% of GDP at the end of 2019 to 57.2% at the end of 2020. It stood at 49.1% of GDP at the end of 2022 and it is projected at 50.5% and 53% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Other factors put forward by the Member State: On 9 May 2023, Poland provided additional relevant factors not mentioned above, namely a significant increase in expenditure focused on modernization of the armed forces due to the war in Ukraine and in local government investments. The Act of 11 March 2022 on the Defence of the Homeland has increased the expenditure on national defence from the planned 2.2% of GDP in 2022 to 3% of GDP in 2023. Due to the increase in defence expenditure and in local government investments (by about 21% y-o-y in nominal terms), the dynamics of public investments accelerated in 2022 (by 14.3% y-o-y in nominal terms) and in relation to GDP reached the level of 4.0%. It is expected to increase further in 2023, to approximately 4.2% of GDP.

4.2.14. SLOVENIA

Medium-term macroeconomic position: After a contraction of 4.3% in 2020, the economy grew by 8.2% in 2021 and 5.4% in 2022. It is expected to grow by 1.2% in 2023 and 2.2% in 2024. Growth in 2023 is mainly driven by domestic demand. Economic activity exceeded its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The government deficit decreased from 7.7% in 2020 to 4.6% of GDP in 2021 and 3% in 2022. It is projected to be at 3.7% and 2.9% of GDP in 2023 and 2024, respectively. After increasing to 4.1% of GDP in 2020, government investment expanded further to 4.7% of GDP in 2021 and 5.2% in 2022. It is projected to continue growing to reach 6.1% of GDP in 2023, and to be larger than the government deficit for a third consecutive year in a row counting from 2021.

According to the Commission estimates, the fiscal stance in 2022 was supportive, at –1.2% of GDP, as recommended by the Council. As recommended by the Council, Slovenia continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.7% of GDP in 2022 (0.8% of GDP in 2021). Nationally financed investment provided an expansionary contribution of 0.7 percentage points to the fiscal stance. Slovenia therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 0.4 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.0% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). Slovenia therefore sufficiently kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (-1.2% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0.3% of GDP to the fiscal stance. This is despite the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.5% of GDP. The expansionary contribution of nationally financed net primary current expenditure is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is driven by higher subsidies and an increase in the public sector wage bill. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.6% of GDP in 2023, while nationally financed investment provided an expansionary contribution to the fiscal stance of 0.1 percentage points. Therefore, Slovenia plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 65.4% of GDP at the end of 2019 to 79.6% at the end of 2020. It stood at 69.9% of GDP at the end of 2022 and it is projected at 69.1% and 66.6% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive

impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Other factors put forward by the Member State: On 8 May 2023, Slovenia provided additional relevant factors not mentioned above, namely the 2023 statutory adjustment of pensions and social transfers with wage growth and inflation in 2022.

4.2.15. SLOVAKIA

Medium-term macroeconomic position: After a contraction of 3.3% in 2020, the economy grew by 4.9% in 2021 and 1.7% in 2022. It is expected to grow by 1.7% in 2023 and 2.1% in 2024. Growth in 2023 is mainly driven by investment and public consumption. Economic activity exceeded its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The government deficit decreased from 5.4% of GDP in 2020 and 2021 to 2% in 2022. It is projected to be at 6.1% and 4.8% of GDP in 2023 and 2024, respectively. After decreasing to 3.4% of GDP in 2020 and 3.1% in 2021, government investment increased to 3.3% of GDP in 2022. It is projected to increase further to 4.9% of GDP in 2023, and to be larger than the government deficit in 2022, but not in 2023.

According to the Commission estimates, the fiscal stance in 2022 was contractionary, at 1.3% of GDP, which was appropriate in a context of high inflation. As recommended by the Council, Slovakia continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.2% of GDP in 2022 (1.3% of GDP in 2021). The decrease in expenditure financed by Recovery and Resilience Facility grants and other EU funds in 2022 was due to the low absorption of the structural EU funds and postponements of the realised expenditures from the Recovery and Resilience Facility grants. Nationally financed investment provided an expansionary contribution of 0.2 percentage points to the fiscal stance. Slovakia therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 1.3 percentage points to the fiscal stance. Slovakia therefore sufficiently kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (- 6.2% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 4.4 % of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.2% of GDP. This also includes lower costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). The expansionary contribution of nationally financed net primary current expenditure is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is driven by untargeted energy measures, permanent wage increases for healthcare professionals, and the reduction in VAT rates on the food and leisure sectors. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 2.8% of GDP in 2023, while nationally financed investment is projected to provide

an expansionary contribution to the fiscal stance of 0.1 percentage points. Slovakia plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it projects to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 48% of GDP at the end of 2019 to 61% at the end of 2021. It stood at 57.8% of GDP at the end of 2022 and it is projected at 58.3% and 58.7% at the end of 2023 and 2024, respectively.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would increase continuously over the next years, reaching 84.7% of GDP in 2033. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, it is probable that the debt ratio would be higher in 2027 than in 2022.

There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risk-increasing factors are related to the recent increase in interest rates, Slovakia's negative net international investment position, the share of short-term government debt held by non-residents, and to contingent liability risks stemming from the private sector, including via the possible materialisation of COVID-19 crisis related state guarantees. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, which allows for a gradual pass through of increasing interest rates on the debt burden after benefitting from historically low borrowing costs for long, and relatively stable financing sources (with a diversified and large investor base). In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Assessment under the macroeconomic imbalances procedure: Slovakia is not found to experience imbalances. Vulnerabilities relating to competitiveness, housing, household debt and external balance have been increasing, but overall seem contained in the near future and are expected to ease as economic conditions normalise.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Slovakia on 9 May 2023.

4.2.16. FINLAND

Medium-term macroeconomic position: After a contraction of 2.4% in 2020, the economy grew by 3% in 2021 and 2.1% in 2022. It is expected to grow by 0.2% in 2023 and 1.4% in 2024. Growth in 2023 is mainly driven by net exports and public consumption. Economic activity exceeded its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The government deficit decreased from 5.6% in 2020 to 2.8% of GDP in 2021 and 0.9% in 2022. It is projected to be at 2.6% in both 2023 and 2024. After increasing to 4.8% of GDP in 2020, government investment declined to 4.2% of GDP in 2021 and 4.1% in 2022. It is projected to increase to 4.5% of GDP in 2023, and to be larger than the government deficit for a third consecutive year counting from 2021.

According to the Commission estimates, the fiscal stance in 2022 was broadly neutral, at -0.1% of GDP, as recommended by the Council. As recommended by the Council, Finland continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.3% of GDP in 2022 (0.2% of GDP in 2021). Nationally

financed investment provided a neutral contribution of 0.0 percentage points to the fiscal stance. Finland therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a broadly neutral contribution of 0.1 percentage points to the fiscal stance. Finland therefore sufficiently kept under control the growth in nationally financed current expenditure.

In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (-1.0% of GDP), in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0.6% of GDP to the fiscal stance. This includes the broadly stable costs of the targeted support measures to households and firms most vulnerable to energy price hikes. This also includes the higher costs to offer temporary protection to displaced persons from Ukraine (by 0.2% of GDP). The expansionary contribution of nationally financed net primary current expenditure is therefore only partly due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is also driven by the indexation of social benefits, central government funding to local authorities, as well as additional defence spending and R&D-related investments. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.4% of GDP in 2023, while nationally financed investment provided an expansionary contribution to the fiscal stance of 0.4 percentage points. Therefore, Finland plans to finance additional investment through the Recovery and Resilience Facility and it is projected to preserve nationally financed investment.

Medium-term debt position: The government debt increased from 64.9% of GDP at the end of 2019 to 74.7% at the end of 2020. It stood at 73% of GDP at the end of 2022 and it is projected at 73.9% and 76.2% at the end of 2023 and 2024, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term. In addition, the structural reforms under the NGEU/RRF, if fully implemented, could have a further positive impact on GDP growth in the coming years, and therefore help to mitigate debt sustainability challenges.

Other factors put forward by the Member State: On 9 May 2023, Finland provided additional relevant factors not mentioned above, namely the fact that, due to the parliamentary elections held in Finland on 2 April 2023, a no-policy change Stability Programme was submitted on 23 March 2023. Finland's new government will present its target for public finances in the Stability Programme to be submitted in the autumn, along with the Draft Budgetary Plan, as part of the General Government Fiscal Plan.

5. CONCLUSIONS

15 EU Member States exceeded the deficit reference value in 2022 or plan to exceed it in 2023: Belgium, Bulgaria, Czechia, Germany, Estonia, Spain, France, Italy, Latvia, Hungary, Malta, Austria, Poland, Slovenia and Slovakia.

In Austria the deficit ratio in 2022 and the planned deficit ratio in 2023 are *above but close to* the 3% of GDP. For the remaining 14 Member States considered in this report and exceeding the deficit Treaty reference value in 2022 or planning to exceed it in 2023, the deficit was, or is planned to be, *above and not close* to 3% of GDP.

In all the 15 Member States the excess over the Treaty reference value is considered to be *exceptional* as defined by the Treaty. However, for Belgium, Bulgaria, Spain, France, Italy, Hungary, Malta, Poland and Slovakia, the excess over the reference value is not expected to be *temporary*.

Overall, taking into account all relevant factors as appropriate, the analysis in this report shows that **the deficit criterion** as defined in the Treaty and in Regulation (EC) No 1467/1997 is **not fulfilled by Belgium, Bulgaria, Czechia, Germany, Estonia, Spain, France, Italy, Latvia, Hungary, Malta, Poland, Slovenia** and **Slovakia.**

Nine Member States had general government gross debt exceeding 60% of GDP at the end of 2022: Belgium, Germany, Spain, France, Italy, Hungary, Austria, Slovenia and Finland. Among these Member States, the debt reduction benchmark was respected in Belgium, Germany, Spain, Hungary, Austria and Slovenia, while it was not respected by France, Italy and Finland.

Overall, taking into account all relevant factors, the analysis in this report shows that **the debt criterion** as defined in the Treaty and in Regulation (EC) No 1467/1997 is **not fulfilled by France**, **Italy** and **Finland**. Nevertheless, the Commission considers, within its assessment of all relevant factors, that compliance with the debt reduction benchmark could imply a too demanding frontloaded fiscal effort that would risk to jeopardise economic growth. **Therefore, in the view of the Commission, compliance with the debt reduction benchmark is not warranted under the prevailing economic conditions.**

Taking into account the persistently high uncertainty for the macroeconomic and budgetary outlook at this juncture, **the Commission has already announced in March 2023 that it would not propose the opening of new excessive deficit procedures in spring 2023.** At the same time, the monitoring of deficit and debt developments will continue, and the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023.