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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL AND THE EUROPEAN CENTRAL BANK**

on the 2024 Draft Budgetary Plans: Overall Assessment

EXECUTIVE SUMMARY

This Communication summarises the Commission's opinions on the 2024 Draft Budgetary Plans submitted by euro area Member States and assesses the overall budgetary situation in the euro area, including the aggregate fiscal stance.

A further decline in the euro area deficit is projected in 2024. The euro area economy has shown resilience but has lost momentum and continues to face high uncertainty and risks. On the fiscal side, based on the Commission forecast which reflects the information in the Draft Budgetary Plans, the euro area deficit would be below 3% of GDP in 2024. The debt-to-GDP ratio in the euro area is set to decline marginally in 2024.

The aggregate fiscal stance is projected to be contractionary in 2024 on the back of an almost complete phase out of the remaining energy-related measures. This fiscal stance is considered appropriate, while policies should remain agile in view of the high uncertainty. This contractionary stance comes after the fiscal stance moved into contractionary territory in 2023 following three years of substantial crisis-related expansion. The contractionary fiscal stance projected in the Commission's autumn forecast is consistent with the need to improve the sustainability of public debt in some Member States and to enhance the fiscal position over the medium term, and will contribute to taming inflation and supporting monetary policy.

In 2024, the fiscal stance is projected to be contractionary in most Member States. It would, however, be expansionary in five. Most Member States are phasing out energy measures, but the projected fiscal stance would be more restrictive in 2024 if Member States had planned to use all the savings from energy measures to reduce their deficits, as recommended by the Council. Instead, many Member States have planned to introduce new net current expenditure. If these measures are set to be permanent and not matched by compensatory measures, they could weigh on the long-term adjustment needs of Member States.

Turning to the assessment of the Draft Budgetary Plans, the Commission's opinions are anchored by the fiscal recommendations adopted by the Council. With the general escape clause to be deactivated at the end of 2023, quantitative fiscal country-specific recommendations were made in July 2023 with respect to the maximum growth rate of net expenditure, except for Member States who were projected to be at their medium-term budgetary objective (MTO) in 2023. Member States were also recommended to (i) wind down the energy support measures as soon as possible in 2023 and 2024 and, if not at their MTO, use the related savings to reduce the government deficit; (ii) preserve nationally-financed investment; and (iii) ensure the effective absorption of the Recovery and Resilience Facility (RRF) and other EU funds. On that basis:

- Cyprus, Estonia, Greece, Spain, Ireland, Lithuania and Slovenia are in line with the fiscal recommendations. Of those, Cyprus, Estonia and Ireland are projected to be at their MTO in 2024, alongside Portugal, while Lithuania is projected to be close to its MTO in 2024.
- Austria, Germany, Italy, Luxembourg, Latvia, Malta, Netherlands, Portugal and Slovakia are not fully in line. Germany, Malta and Portugal are invited to phase out their energy measures. Italy, Latvia and the Netherlands are invited to stand ready

to take necessary measures. Luxembourg and Slovakia are invited to ensure their new plan will be in line with the fiscal recommendation.

- Belgium, Finland, France and Croatia risk not being in line. Those Member States are projected to increase net expenditure above the recommended maximum and are invited to take necessary measures. Of the four, in Finland and Croatia, national fiscal policy is projected to be expansionary.

Importantly, the fiscal tightening does not come at the expense of investment, which will be increased across the euro area. Investment is expected to expand slightly in 2024, ensuring continued support for sustainable and inclusive growth, and contributing to the green and digital transitions. The contribution of national and EU financing to overall investment growth varies across Member States. Investment financed by national budgets is projected to be preserved (or have an expansionary contribution) in all Member States, in line with the Council's recommendations on investment, alongside the support to investment provided by RRF grants.

Headline budget deficits are generally declining in the euro area, but are projected above the Treaty reference value of 3% of GDP in 2023 and 2024 for a number of Member States. Eight Member States are projected to have a deficit above 3% of GDP in both 2023 and 2024 and one additional Member State in 2024 only. In spring 2024, the Commission will propose to the Council to open deficit-based Excessive Deficit Procedures on the basis of the outturn data for 2023, in line with existing legal provisions. Member States should take account of this when executing their 2023 budgets and when conducting their fiscal policies in 2024.

INTRODUCTION

Member States' Draft Budgetary Plans are an important part of the coordination of economic policy in the Economic and Monetary Union.¹ Euro area Member States submitted the plans summarising their draft budgets to the Commission and Eurogroup in October 2023 before their submission to national parliaments.² Against the background of the Commission's 2023 autumn forecast, the Commission has adopted Opinions on whether the plans are compliant with the Stability and Growth Pact and Council recommendations. These Opinions are summarised in this Communication. The Communication also provides an overall assessment of the budgetary situation and prospects for the euro area as a whole.

The Commission's assessment is anchored by the fiscal recommendations adopted by the Council on 14 July 2023. With the general escape clause to be deactivated at the end of 2023, quantitative fiscal country-specific recommendations were made for the first time since 2019, geared towards ensuring medium-term debt sustainability as well as raising potential growth in a sustainable manner.³ Concretely, Member States who were not projected to be at their medium-term budgetary objective (MTO) in 2023 were recommended to limit the growth of net nationally financed primary expenditure to a differentiated amount that would ensure prudent fiscal policy. Countries that were projected to be at the MTO in 2023 were recommended to maintain a sound fiscal position in 2024, without such a quantitative limit. All Member States were recommended to wind down the energy support measures as soon as possible in 2023 and 2024 and, if not projected to be at the MTO in 2023, use the related savings to reduce the government deficit. The Council also recommended that all Member States should preserve nationally-financed investment and ensure the effective absorption of the Recovery and Resilience Facility (RRF) and other EU funds, in particular in light of the green and digital transition and resilience objectives. For the period beyond 2024, the Council recommended to continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth. The Commission's assessment will consider whether Member States have complied with the recommendations, including the broader goal to promote fiscal sustainability and growth.

This Communication is structured into three sections. Section 1 outlines the euro area macroeconomic and fiscal outlook set out in the Draft Budgetary Plans and in the Commission's 2023 autumn forecast. Section 2 assesses the euro area fiscal stance and its implications for the fiscal-monetary policy mix. It also looks at the drivers of the fiscal stance, for the euro area as a whole and for the Member States. Section 3 presents an overview of the Draft Budgetary Plans and of the Commission's assessment of whether they are compliant with the fiscal country-specific recommendations.

¹ As set out in Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

² The outgoing governments of Luxembourg, Spain and Slovakia submitted Draft Budgetary Plans based on unchanged policies.

³ The activation of the general escape clause of the Stability and Growth Pact in response to the onset of the COVID-19 pandemic has allowed Member States to depart from some budgetary requirements that would normally apply.

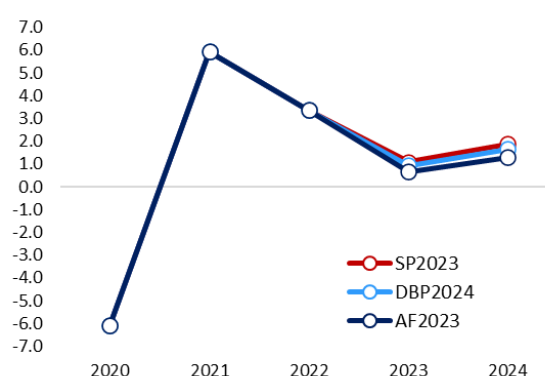
I. THE EURO AREA ECONOMIC AND FISCAL OUTLOOK

(i) *Economic outlook*

The euro area economy has shown resilience in the face of the large economic shocks it has endured in recent years but has lost momentum. After the sizeable recovery in 2021 and 2022, growth in the euro area is expected to slow down to 0.6 % in 2023. High and still fast increasing consumer prices for most goods and services, with the notable exception of declining energy prices, have been taking a heavy toll on private consumption, and external demand is not providing strong support to the economy. Meanwhile, the response of monetary policy to high inflation, with the fastest and largest interest rate increase since the creation of the monetary union, is working its way through the economy. On the positive side, the labour market remains strong, with the unemployment rate at a record low and participation and employment rates at record high, though signs of cooling are emerging. In 2024, a gradual recovery in growth is expected, by 1.2%, on the back of a continued expansion of employment and rising real wages, while disinflation continues. Euro area GDP growth for 2023 and 2024 is slightly lower in the Commission’s forecast than in the Draft Budgetary Plans (Graph 1.1 and Annex III Table), which are themselves lower than in the April 2023 Stability Programmes.

Uncertainty and downside risks to the outlook have increased in recent months. This relates primarily to the evolution of Russia’s ongoing war of aggression against Ukraine and the Middle East conflict, which may impact energy markets. Furthermore, the transmission of monetary policy tightening may weigh on economic activity for longer and to a larger degree than projected in this forecast, as the adjustment of firms, households and government finances to the high interest rate environment could prove more challenging. Structural changes linked in particular to the intensifying impact of climate change, as illustrated by the extreme weather conditions and unprecedented wildfires and floods in the summer, also weigh on the outlook.

Graph 1.1 Euro area: Real GDP growth, 2020-2024 (%)

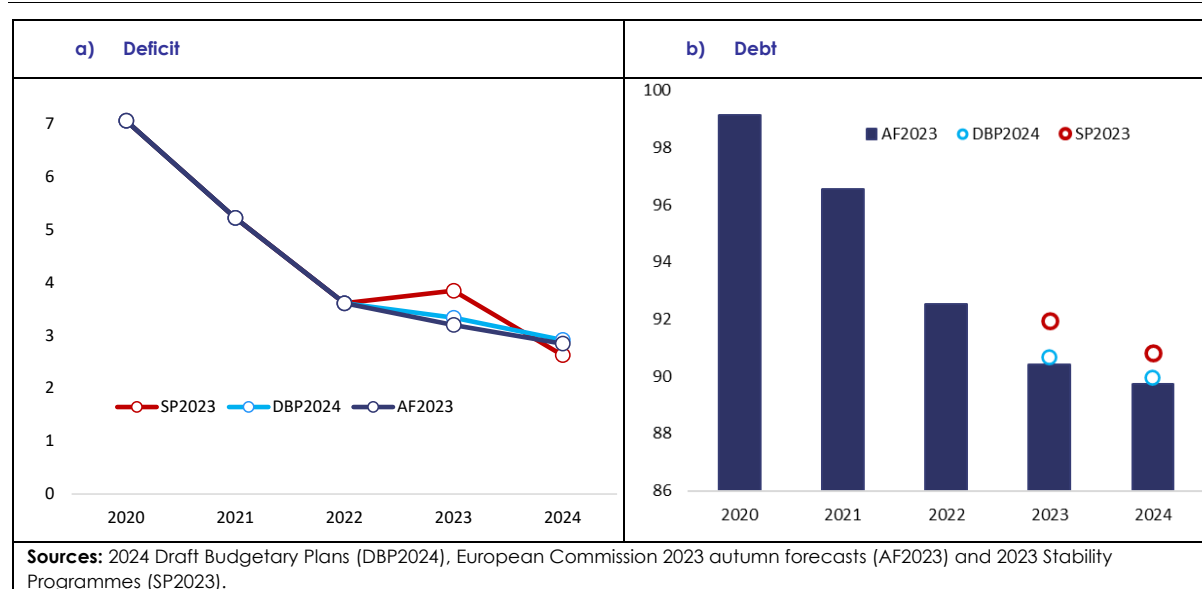


Sources: 2024 Draft Budgetary Plans (DBP2024), European Commission 2023 autumn forecasts (AF2023) and 2023 Stability Programmes (SP2023).

(ii) *Fiscal outlook*

The Draft Budgetary Plans target a further decline in the euro area deficit in 2024. Having fallen to almost half of its 2020 peak at the end of 2022, the euro area deficit is expected to have declined further in 2023 to just above 3% of GDP (Graph 1.2a). In 2024, a slight further decline is planned in the Draft Budgetary Plans and projected in the Commission forecast, to just below 3% of GDP (and was expected to be even lower in the April 2023 Stability Programmes). This is largely due to the almost complete phase out of the remaining energy support measures in 2024 and lower subsidies for private investment, which outweigh rising interest expenditure. However, the 2024 deficit would still remain well above the 2019 pre-pandemic level (0.6% of GDP) due to additional non-temporary current expenditure and tax cuts adopted after the pandemic. Seven Member States plan a deficit above 3% of GDP in 2024 (Belgium, France, Italy, Malta, Slovenia, Slovakia and Finland), with a further two projected by the Commission forecast (Spain and Latvia).

Graph 1.2: Euro area: deficit and debt, 2020-2024 (% of GDP)

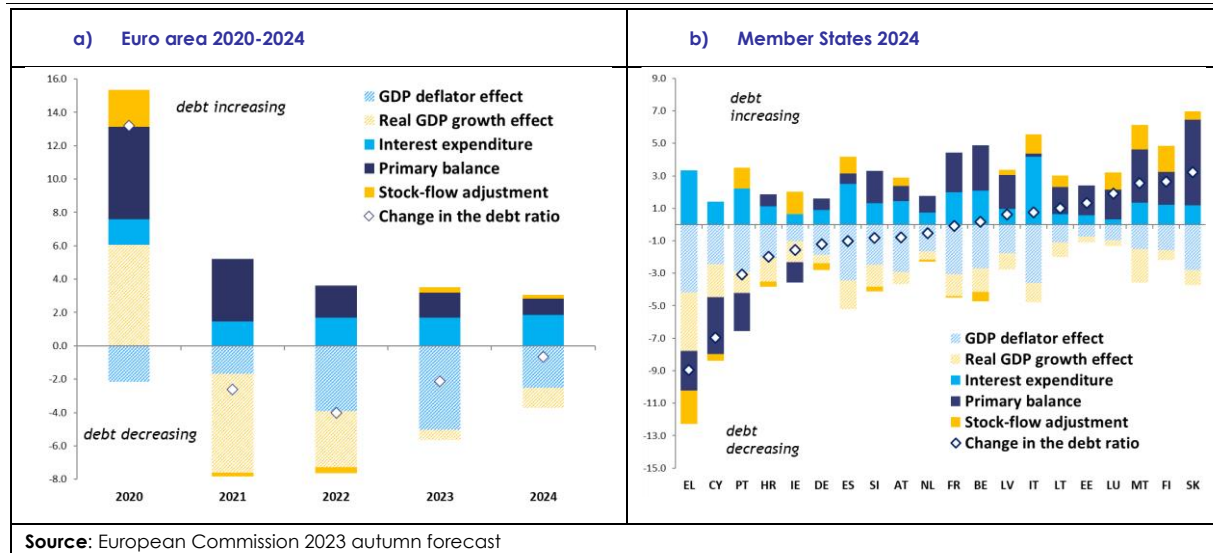


The debt-to-GDP ratio is set to decline only marginally in 2024 due to less favourable differentials between nominal GDP growth and the cost of servicing public debt. Both the Draft Budgetary Plans and the Commission forecast project the debt ratio to fall to around 90% at the end of 2024, i.e. 9 percentage points lower than the peak at end-2020 (Graph 1.2b). According to the Draft Budgetary Plans, eleven Member States project debt above 60% of GDP in 2024, of which five are above 100% (Belgium, Greece, Spain, France and Italy), with Portugal's debt planned to drop below 100%. The debt ratio is planned to decline or stabilise in more than half the euro area Member States in 2024, including in the five countries with the highest debt. However, the Commission forecast projects a slight increase in two countries with debt above 100% next year (Belgium and Italy; Graph 1.3b).

Inflation is set to remain the key driver of the slight fall in debt in 2024, but to a lesser extent than in 2023. The high levels of inflation in 2023 (measured by the GDP deflator) have driven the reduction in the debt-to-GDP ratio by increasing the nominal GDP denominator, despite weaker growth and high primary deficits (Graph 1.3a). At the same time, despite higher

interest rates on new debt issuances, interest expenditure is set to increase only marginally in 2023 thanks to the long maturity of public debts. With inflation projected to subside in 2024, its favourable impact on the debt ratio denominator will lessen. The interest-growth differential ('snowball effect')⁴ is set to become less favourable with interest expenditure also further increasing and primary deficits remaining large.

Graph 1.3 Decomposition of the change in the debt ratio (pps of GDP)



The debt projections for the upcoming years are subject to high uncertainty. Stochastic simulations, which apply a large range of macroeconomic shocks around the central scenario, suggest that euro area debt is likely to lie between 85% and 95% of GDP in 2024, and between 79% and 102% of GDP in 2028 (Annex II).

Several factors weigh on fiscal sustainability. In particular, the less favourable macro-financial environment is expected to negatively affect public debt dynamics over the coming years. The increase in interest rates, notably prompted by heightened inflationary pressures, is progressively feeding into interest payments and the debt dynamics to a varying extent depending on the level of debt, its maturity structure, and the share of inflation-linked bonds. Moreover, population ageing acts as a drag on potential growth, while increasing public spending. This points to the importance of implementing reforms and investment to relaunch growth potential and pursuing prudent fiscal policies.

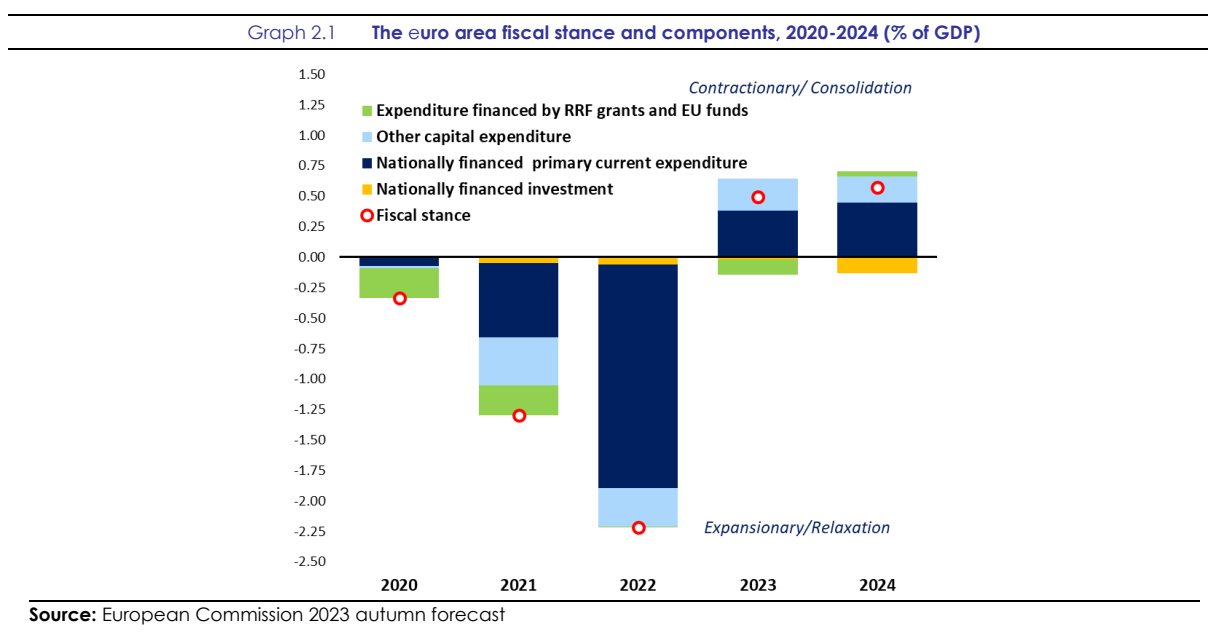
At the same time, other factors may mitigate fiscal sustainability risks. These factors include the lengthening of government debt maturities in recent years, stable financing sources and EU initiatives such as the Next Generation EU and the Recovery and Resilience Facility (RRF), supporting investments and growth-enhancing reforms.

⁴ The “snowball effect” captures the impact of interest expenditure on the annual accumulation of debt, as well as the impact of real GDP growth and inflation (GDP deflator) on the debt ratio.

II. THE FISCAL STANCE AND ITS DECOMPOSITION

(i) *The aggregate fiscal stance*

The euro area fiscal stance has moved into contractionary territory in 2023, after three years of crisis-related expansion. The fiscal stance represents the economic impulse from both the national and EU budgets, including all energy-related measures, but excluding COVID-19 temporary emergency measures (which have been fully phased out in 2023). According to the Commission 2023 autumn forecast, the euro area fiscal stance will be contractionary by 0.5% of GDP in 2023 (Graph 2.1).⁵ This comes after a significant expansion of around 4% between 2020 and 2022, due successively to the Covid-19 crisis and the energy price boom following the Russian aggression of Ukraine.



The fiscal contraction in 2023 has primarily been driven by the reduction in expenditure on energy-related measures, while national investment has been preserved. Nationally-financed net primary current expenditure has been reduced in 2023, largely due to the partial phase-out of energy-related measures, introduced in 2022, when they induced a sizeable expansion. A reduction in government subsidies for private investment (other capital expenditure) also contributes to the contraction in 2023.⁶ Conversely, expenditure financed by RRF grants and other EU funds is set to increase further, reducing the contractionary nature of the fiscal stance. This has supported investment, while public investment financed by national budgets has been preserved, making a neutral contribution.

⁵ The fiscal stance measures the short-term impulse to the economy from discretionary fiscal policy. This Communication assesses the fiscal stance by looking at the annual increase in net primary expenditure relative to 10-year potential growth. For more details on the computation of the fiscal stance see footnote 12 in European Commission (2023): The 2023 Stability & Convergence Programmes. An Overview, with an Assessment of the Euro Area Fiscal Stance, Institutional Paper 253.

⁶ The cost of these investment subsidies increased by 0.4% of GDP 2021 and a further 0.3pps in 2022, mainly due to measures to accelerate the green transition (e.g. the so-called Superbonus 110% in Italy) and to deal with the fallouts in the energy sector following Russia's war of aggression against Ukraine (e.g. Uniper bailout in Germany).

The fiscal stance is projected to remain contractionary by around ½% of GDP in 2024 on the back of an almost complete phase out of the remaining energy-related measures. The Commission forecast, which incorporates the information provided in the Draft Budgetary Plans, indicates that the euro area fiscal stance would remain contractionary in 2024, by 0.6% of GDP. This is related to the expected almost complete phase-out of the remaining energy support measures, which is set to have a contractionary impact of almost 1% of GDP, as well as a further decline in government subsidies for private investment. However, this is forecast to be partly offset by a projected increase in non-energy related net primary current expenditure.

Overall euro area investment is expected to expand slightly in 2024, driven by national financing. Investment financed by national budgets is set to provide a slightly expansionary contribution in 2024. The level of expenditure financed by RRF grants and other EU funds is expected to stabilise in 2024. This shows that the fiscal adjustment does not come at the expense of investment, which should be sustained at a high level to support the green and digital transition, strengthen productivity and resilience.

(ii) Considerations on the fiscal stance and fiscal-monetary policy mix

A contractionary fiscal stance is consistent with the need to improve the sustainability of public debt in some Member States and enhance the fiscal position over the medium term. This is especially true for large euro area economies with very high debt levels. Debt pressures will continue to increase due to inter alia ageing costs, the green and digital transition and defence, as well as the less favourable interest-growth differential and a still-high level of public deficits, which need to be reduced significantly. Therefore, temporary measures, such as those related to the energy crisis, need to be phased out, with the corresponding savings being used to reduce deficits, not to finance new current spending. At the same time, policies should remain agile in view of the high uncertainty. The Council's recommendations to Member States seek to ensure medium-term debt sustainability as well as the raising of potential growth in a sustainable manner, also protecting the economic and monetary union.

The contractionary stance will also ensure fiscal policy supports monetary policy, which has tightened considerably over the past year and is helping inflation to recede from the historically high levels witnessed in 2022-23. With an overall contractionary stance, planned fiscal policies in 2024 would be broadly consistent with monetary policy. After more than a year of continued monetary policy normalisation which has seen policy rates increase by 4.5 percentage points between July 2022 and September 2023, the ECB decided to pause interest rate hikes at its October 2023 meeting.⁷ While monetary policy will remain data dependent, market expectations are that policy rates have now reached their peak and should start coming down again by mid-2024. The ECB is also continuing to passively unwind its asset purchase programmes portfolio. Monetary policy transmission to financing conditions has been particularly strong in the current hiking cycle, which has contributed to dampen domestic demand and, together with falling energy prices and lower food inflation, helped annual euro area inflation to fall from a peak of over 10% in October 2022 to just below 3% one year later.

⁷ For more information on monetary policy, refer to the Commission Staff Working Document '2024 report on the euro area', accompanying the recommendation for a Council recommendation on the economic policy of the euro area.

In this context, the Commission considers the contractionary fiscal stance expected in 2023 and 2024 to be broadly appropriate, while acknowledging the need to remain agile in view of the high uncertainty. In 2023, the fiscal stance is projected to be contractionary (by ½% of GDP), driven by reductions in current expenditure, and is appropriate. In 2024, a further contractionary stance (around ½% of GDP) is projected, which would be appropriate, while acknowledging the need to remain agile in view of the high uncertainty. The 2024 fiscal stance would be more contractionary if all the savings from the phase-out of energy measures were used to reduce the deficit, as recommended by the Council. The use of these savings for the introduction of new current expenditure could weigh on the long-term adjustment needs of Member States if this new spending is permanent and not financed by compensatory measures.

Importantly, the contraction does not come at the expense of investment, which will be increased across the euro area. In both 2023 and 2024, the overall contribution of investment is projected to be expansionary. This will support sustainable growth in the long-term, in contrast to the substantial cuts to investment during the financial crisis. The contraction expected in other capital expenditure relates to the withdrawal of specific temporary measures in large Member States and is thus not reflective of a decline in support for investment.

(iii) Overview of Member States' fiscal stance

Member States' fiscal stance in 2023

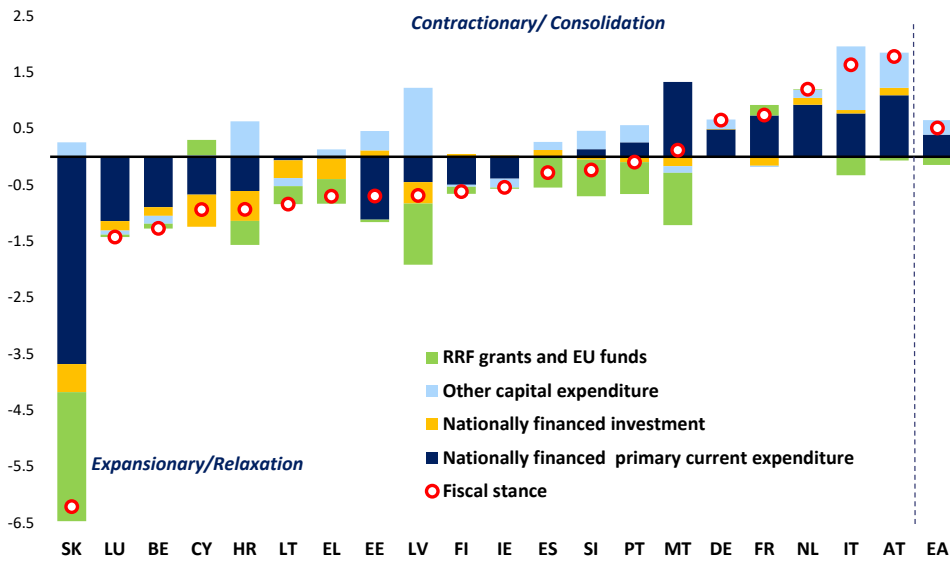
Despite an overall contractionary euro area fiscal stance in 2023, the fiscal stance has been expansionary in a majority of Member States, mostly driven by higher current spending. On 12 July 2022, the Council recommended that Member States with high debt should ensure a prudent fiscal policy, while those with low/medium debt should adopt an overall neutral policy stance. The focus for 2023 was on developments in net primary current expenditure net of (targeted) energy support measures and refugee costs. However, in a majority of Member States, the overall fiscal stance has been expansionary in 2023 (Graph 2.2).⁸ Four of them are projected to have a deficit above 3% of GDP. Fourteen Member States are projected to have an expansionary contribution to the fiscal stance from net primary current spending not related to energy or refugees, of which five had been recommended to limit this growth (Graph 2.3).⁹ In nine Member States, increased investment financed by both national and EU budgets has been the main driver of the expansionary stance, which is supportive of long-term growth. Overall, the quality of energy support measures has not improved in 2023, with three quarters of them untargeted. In spring 2024, the Commission will assess, based on the outturn data for 2023, compliance with the Council's fiscal country-specific recommendations.

Investment has expanded in most Member States in 2023, supported by both national and EU funding. In July 2022, all Member States were recommended to expand public investment for the green and digital transitions. Most Member States increased investment, either through national or EU financing. Expenditure financed by RRF grants and other EU funds is set to increase or stabilise in all Member States except two.

⁸ The significant expansion in Slovakia is largely due to the timing of the absorption of the European structural and investment funds as well as an increase in energy measures.

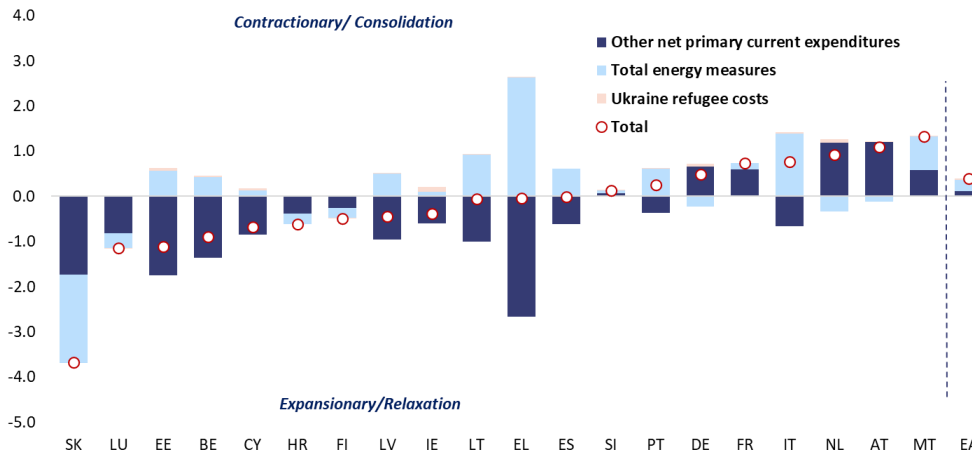
⁹ For simplicity and consistency across years, the focus of the analysis here is based on all energy measures.

Graph 2.2 Fiscal stance and components of euro area Member States, 2023 (% of GDP)



Source: European Commission 2023 autumn forecast

Graph 2.3 Net primary current expenditure (nationally financed), contribution to fiscal stance and drivers, 2023 (% of GDP)

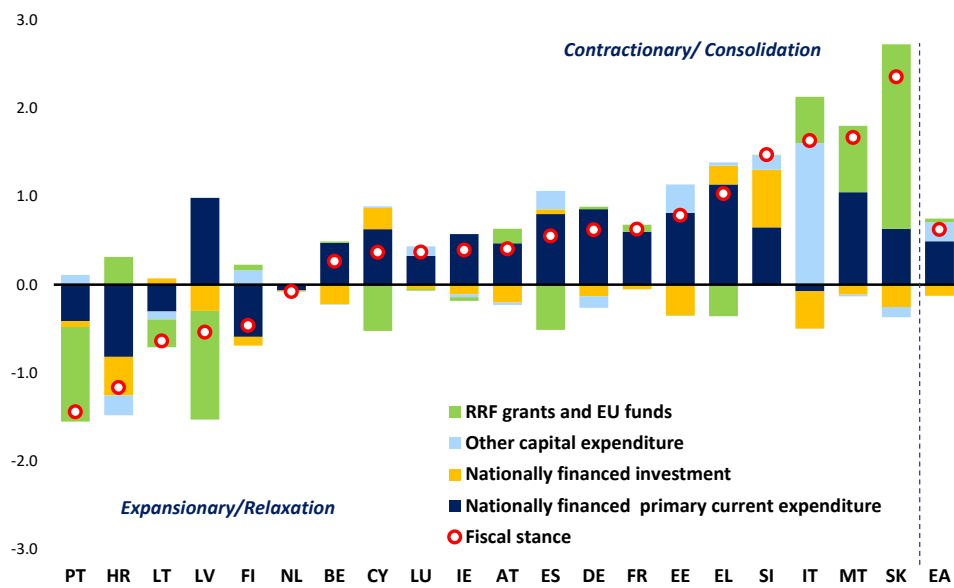


Source: European Commission 2023 autumn forecast

Member States' fiscal stance in 2024

In 2024, the fiscal stance is expected to be contractionary in 14 Member States and expansionary or broadly neutral in the others. There is a wide range across Member States, from a contractionary stance of more than 2% of GDP to an expansionary stance of 1.5%. Based on the Commission's forecast, the fiscal stance is expected to be contractionary or broadly neutral in most Member States (Graph 2.4), while it is set to be expansionary in five Member States. A contractionary stance is projected in all Member States with debt above 100%, bar Portugal, which is however projected to have reached its MTO in 2023. This stance is consistent with their fiscal recommendations to limit the growth of nationally financed net primary expenditure.

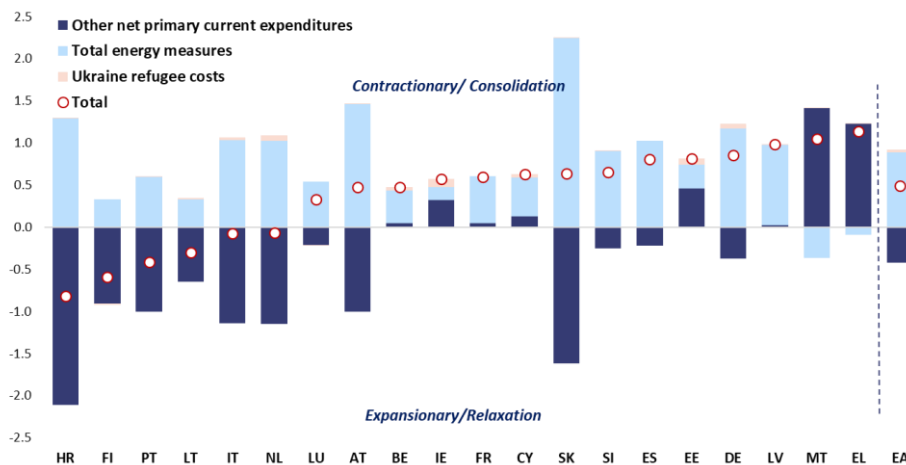
Graph 2.4 Fiscal stance and components of euro area Member States, 2024 (% of GDP)



Source: European Commission 2023 autumn forecast

While energy measures are expected to make a contractionary contribution in almost all Member States, non-energy-related current expenditure is expansionary in many. The phasing out of energy support measures would lead to a contraction in overall net primary current expenditure in most Member States (Graph 2.5). However, non-energy-related net current expenditure is also increasing in many Member States. Therefore, in more than half of Member States, the overall contraction in current expenditure is projected to be less than if the energy measures were fully phased out.

Graph 2.5 Net primary current expenditure (nationally financed), contribution to fiscal stance and drivers, 2024 (% of GDP)

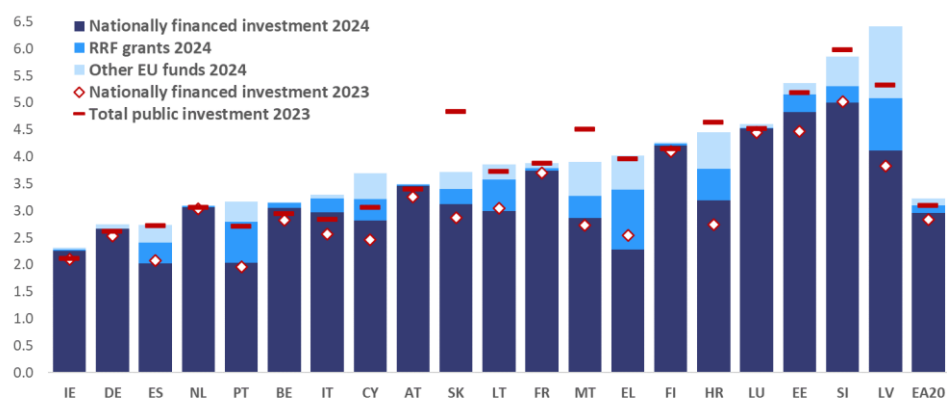


Source: European Commission 2023 autumn forecast

Although overall investment is expected to expand in 2024 in most Member States, the contribution to the fiscal stance of both national and EU-financed investment varies across Member States. Based on the Commission’s forecast, investment financed by national budgets is projected to be preserved or have an expansionary contribution to the fiscal stance

in almost all Member States in 2024 (Graph 2.4). In a small number of Member States, the contribution of EU funds and/or nationally financed investment would be contractionary only due to the timing of the absorption of EU structural and investment funds and related spending for national co-financing.¹⁰ The support to investment provided by RRF grants meanwhile is projected to increase or remain stable, allowing the EU to continue to finance investment projects and productivity-enhancing reforms without giving rise to higher deficits and debt in national budgets. Other capital expenditure is set to provide large contractionary contributions in some Member States (see footnote 6). As a share of GDP, overall public investment is expected to rise on its 2023 levels in most Member States (Graph 2.6).

Graph 2.6 Public investment (nationally financed vs. RRF loans vs. other EU funds), in 2023 and 2024 (% of GDP)



Source: European Commission 2023 autumn forecast

III. OVERVIEW OF THE DRAFT BUDGETARY PLANS

Most euro area Member States submitted their Draft Budgetary Plans on time. In line with Article 6 of Regulation (EU) No 473/2013, most Member States submitted their Draft Budgetary Plans for 2024 by the mid-October deadline.¹¹ For Luxembourg, Spain and Slovakia, ‘no-policy-change’ Draft Budgetary Plans were submitted by caretaker governments. The budgetary figures presented in their Draft Budgetary Plans do not represent policy targets and draft budget laws were not presented to national parliaments. Updated Draft Budgetary Plans should be submitted in principle as soon as a government with full budgetary powers takes office.

In its assessment of the Draft Budgetary Plans, the Commission has followed a two-step approach. The Commission assessed the consistency of the Draft Budgetary Plans with the Council Recommendations on fiscal policy for 2024. In the first step, the Commission assessed, for countries not projected to be at the MTO, whether net expenditure growth in 2024 is projected to respect the recommended maximum growth rate. In the second step, other elements of the Council recommendation were assessed, notably those concerning the phasing out of the

¹⁰ All Member States are assessed to be in line with the Council recommendation on preserving nationally financed investment, as seen in Section III.

¹¹ In accordance with Article 6(3)(d) of Regulation 473/2013, some Draft Budgetary Plans contained quantitative estimates on the distributional effects of the planned budgetary measures.

energy support measures, the use of the related savings to reduce the deficit, as well as the preservation of nationally financed investment. A positive conclusion from the first step was modulated (downgraded) taking into account the compliance with the three other elements assessed in the second step. The Commission's assessment will consider whether Member States have complied with the recommendations, including the broader goal to promote fiscal sustainability and growth.

The following is a summary of the Commission Opinions on the 2024 Draft Budgetary Plans.¹² The Opinions are based on the Commission 2023 autumn forecast including the information in the Draft Budgetary Plans¹³:

- *Step 1: Limiting expenditure growth or maintaining the MTO:*

The Commission forecast projects five Member States to be at or close to their MTO in 2024. Cyprus and Ireland are projected to remain at the MTO in 2024. In addition, based on the 2023 autumn forecast, Portugal and Estonia are now also expected to achieve the MTO in both 2023 and 2024. Lithuania is projected to be close to its MTO in 2024.

Net expenditure is projected in line with the recommended maximum for Austria, Germany, Greece, Spain, Malta and Slovenia.

Net expenditure is projected not to be fully in line with the recommended maximum for the following Member States:

- For Luxembourg, a small deviation above the recommended maximum is estimated.
- Latvia, the Netherlands and Slovakia are also projected to have growth of net primary expenditure above the recommended maximum. However, the Commission took into account for these three Member States that net expenditure in 2023, based on the autumn forecast, is projected to be lower than what was expected at the time of the recommendation. This base effect is particularly sizeable for these Member States. If net expenditure in 2023 in Latvia, the Netherlands and Slovakia had been the same as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would be at or below the recommended maximum growth rate.
- In the case of Italy, the recorded growth rate of net expenditure is below the maximum recommended by the Council. However, the current estimates of net expenditure in 2023 are higher than expected at the time of the recommendation.

¹² The Opinions are accompanied by a Statistical Annex including the necessary information to assess Member States' plans.

¹³ Upon receipt of the Draft Budgetary Plans the Commission conducted a preliminary assessment 'at face value' and sent a letter to 7 Member States (Belgium, Croatia, Finland, Lithuania, Latvia, the Netherlands and Slovakia) with its preliminary observations and a request for further information (the letters were sent on 27 October 2023, except for the letter to Latvia, which letter was sent on 3 November 2023). The information received from these Member States has been taken into account in the Commission's assessments.

If net expenditure in 2023 were as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would be above that recommended.¹⁴ Therefore, net expenditure growth is assessed as not fully in line.

Net expenditure is projected at risk of being not in line with the recommended maximum in Belgium, Croatia, Finland and, to a lesser extent, France. Of those four, in Finland and Croatia, national fiscal policy is projected to be expansionary.¹⁵

- *Step 2: Phasing-out energy measures, using the related savings for deficit reduction and preserving nationally financed investment:*

Most Member States are projected to phase out the remaining energy measures, but many are not using the corresponding savings for deficit reduction. Most Member States are winding down the energy support measures as soon as possible in 2023 and 2024. However, this is not the case for Croatia, Germany, France, Luxembourg, Malta and Portugal, which are projected to have significant measures still in force in 2024. Concerning the use of the related savings to reduce the government deficit, Austria, Belgium, Croatia, Finland, Germany, Latvia, Luxembourg, the Netherlands and Slovakia risk being not in line with the recommendation, as part of the savings are not expected to be used to reduce their government deficit.¹⁶ Italy is assessed as not fully in line with this part of the recommendation.

All Member States are considered in line with the recommendation to preserve their nationally financed investment in 2024. For most Member States, the autumn forecast projects that nationally financed investment as a share of GDP does not decline compared to 2023. The exceptions are Greece and, to a lesser extent, Spain. However, this is due to the timing of the programming periods of the EU structural funds and the related nationally financed contributions. As a result, public investment in 2024 in these two Member States is assessed as respecting the Council recommendations.

Overall, seven Member States are considered to be in line with the fiscal recommendations, while nine are not fully in line and four risk being not in line. Cyprus, Estonia, Greece, Spain, Ireland, Lithuania and Slovenia are in line with the fiscal recommendations. Austria, Germany, Italy, Luxembourg, Latvia, Malta, Netherlands, Portugal and Slovakia are not fully in line. Germany, Malta and Portugal are invited to wind down the energy support measures as soon as possible in 2023 and 2024. Italy, Latvia and the Netherlands are invited to stand ready to take necessary measures. Luxembourg and Slovakia are invited to ensure their new plan will be in line with the Council recommendation. Belgium,

¹⁴ This is mainly driven by two factors concerning the tax credits for energy-efficiency renovation of residential buildings: (i) a higher-than-expected take up in 2023; and (ii) legislative amendments changing the nature of the tax credits, which imply that they have no expected impact on 2024 expenditure. For more information, see Eurostat advice of September 2023: (IT+Advice+on+recording+of+2023+Superbonus.pdf (europa.eu)).

¹⁵ National fiscal policy is defined as all nationally-financed expenditure, excluding expenditure financed by RRF grants and other EU funds.

¹⁶ Portugal and Lithuania also fall into this category, but this part of the recommendation does not apply to countries projected to be at or close to the MTO in 2024.

Finland, France and Croatia risk being not in line and are invited to take necessary measures within the national budgetary process to ensure that fiscal policy in 2024 will be in line with the Council Recommendation.

Finally, headline budget deficits are generally declining in the euro area, but are projected above the Treaty reference value of 3% of GDP for a number of Member States in 2023 and 2024. Eight Member States are projected to have a deficit above 3% of GDP in both 2023 and 2024 (Belgium, Spain, France, Italy, Latvia, Malta, Slovenia and Slovakia) and one additional Member State in 2024 only (Finland). In spring 2024, the Commission will propose to the Council to open deficit-based Excessive Deficit Procedures on the basis of the outturn data for 2023, in line with existing legal provisions. Member States should take account of this when executing their 2023 budgets and when conducting their fiscal policies in 2024.

ANNEX I: The methodology and assumptions underpinning the Commission 2023 autumn forecast¹⁷

The assumptions underlying the Commission 2023 autumn forecast, which is produced independently by Commission staff, are explained in the forecast document itself.¹⁸ Budgetary data up to 2022 are based on data notified by Member States to the Commission before 1 October 2023 and validated by Eurostat on 23 October 2023. Eurostat has made no amendments to, and has no reservations on, these data.

For the forecast, measures in support of financial stability have been recorded in line with the Eurostat Decision of 15 July 2009.¹⁹ Unless reported otherwise, capital injections known in sufficient detail have been included in the forecast as financial transactions, i.e. increasing the debt, but not the deficit. State guarantees on bank liabilities and deposits are not included as government expenditure, unless there is evidence that they have been called on. However, loans granted to banks by the government sector usually add to government debt.

For 2024, budgets adopted or presented and all other measures known in sufficient detail, including the information in the Draft Budgetary Plans, are taken into consideration. For 2025, the ‘no-policy-change’ assumption used implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

European aggregates for general government debt in the forecast years 2023-2025 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans). General government debt projections for individual Member States in 2023-25 include the impact of guarantees to the European Financial Stability Facility, bilateral loans to other Member States, and the participation in the capital of the European Stability Mechanism as planned on the cut-off date of the forecast.²⁰

¹⁷ According to Article 7(4) of Regulation (EU) No 473/2013, “the methodology and assumptions of the most recent economic forecasts of the Commission services for each Member State, including estimates of the impact of aggregated budgetary measures on economic growth, shall be annexed to the overall assessment”.

¹⁸ Methodological assumptions underlying the Commission 2023 autumn economic forecast, available at: https://economy-finance.ec.europa.eu/system/files/2023-11/ip258_en.pdf

¹⁹ Available at: [FT - Eurostat Decision - 9 July 2009_3_final \(europa.eu\)](https://ec.europa.eu/eurostat/decision/9-july-2009-3-final)

²⁰ In line with the Eurostat decision of 27 January 2011 on the statistical recording of operations undertaken by the EFSF, available at: <http://ec.europa.eu/eurostat/documents/2995521/5034386/2-27012011-AP-EN.PDF>.

ANNEX II: Debt sustainability analysis and sensitivity analysis

This Annex presents a sensitivity analysis of public debt developments to possible macroeconomic shocks, as required by Article 7 of Regulation (EU) No 473/2013. Stochastic debt projections are used to assess the possible impact on public debt dynamics of risks to nominal GDP growth, financial market developments and fiscal shocks affecting the government budgetary position ⁽²¹⁾.

The stochastic projections account for macroeconomic uncertainty around one ‘central’ debt projection scenarios in 2024-2028: the Commission 2023 autumn forecast scenario. In this scenario, the usual ‘no-fiscal policy change’ assumption is applied beyond the forecast horizon ⁽²²⁾.

Shocks are applied to the macroeconomic conditions assumed in the central scenario to obtain the distribution of possible debt paths (the ‘cone’ in the fan charts shown in Graph III.1). The cone corresponds to a wide set of possible macroeconomic conditions, with up to 2000 shocks simulated on growth, interest rates and the primary balance. The size and correlation of these shocks reflect historical volatility and relationships between these variables ⁽²³⁾. Therefore, the fan charts provide probabilistic information on euro area debt dynamics, taking into account the possible occurrence of shocks to growth, interest rates and the primary balance of a magnitude and correlation mirroring the past developments.

The fan chart reports the projected debt path under the central scenario as a red line. The median outcome of the simulations is shown as a dashed black line. The cone covers 80% of all possible debt paths, while the paths derived from the 20% least likely shocks are not shown. The differently shaded areas within the cone represent different portions of the overall distribution of possible debt paths.

For 2024, the simulations suggest that, with an 80% probability, the euro area debt ratio will be between 85% and 95% of GDP under the Commission scenario. By 2028, there would be a 50% probability of a debt ratio higher than around 90% of GDP under the Commission scenario.

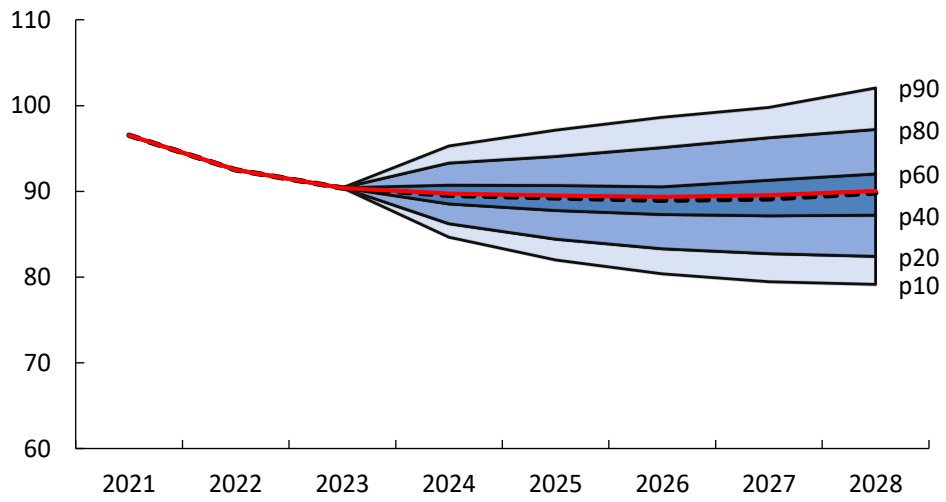
Additional risks surround these projections. As the size and correlation of the shocks reflect the variables’ historical behaviour, the methodology does not capture real-time uncertainty, in particular related to the output gap assessment. This uncertainty suggests an additional source of risks on future debt paths that is not reflected in this analysis. Another source of uncertainty relates to the realisation of contingent liabilities, as the fan charts only capture risks that materialised in the past through a deterioration of the primary balance.

²¹ The methodology for stochastic public debt projections used here is presented in the European Commission's Debt Sustainability Monitor 2019, Annex A7, and in Berti K. (2013), "Stochastic public debt projections using the historical variance-covariance matrix approach for EU countries", European Economy Economic Paper No. 480.

²² The Commission 2023 autumn forecast incorporates fiscal policy measures that were adopted or at least credibility announced and information that was available as of 31 October 2023. Beyond 2025 (the last forecast year), the structural primary balance is only modified by the projected (net) costs of ageing.

²³ Shocks are assumed to follow a joint normal distribution.

Graph II.1: Fan charts from stochastic public debt projections around the Commission’s forecast scenario and the Draft Budgetary Plans’ forecast scenario; euro area



Note: the dashed line represents the median while the red line represents the baseline

ANNEX III: Tables of macro and fiscal indicators

Country	Real GDP growth (%)						Headline balance (% of GDP)						General government debt (% of GDP)					
	2023			2024			2023			2024			2023			2024		
	SP	DBP	COM	SP	DBP	COM	SP	DBP	COM	SP	DBP	COM	SP	DBP	COM	SP	DBP	COM
BE	1.0	1.0	1.4	1.7	1.3	1.4	-5.1	-5.2	-4.9	-4.2	-4.6	-4.9	106.7	108.3	106.3	107.1	108.1	106.4
DE	0.2	0.4	-0.3	1.8	1.6	0.8	-4 ¼	-2 ½	-2.2	-1 ¾	-2.0	-1.6	67 ¾	65 ¼	64.8	66 ½	64 ¾	63.6
EE	-1.5	-2.0	-2.6	3.0	2.7	1.9	-4.3	-3.3	-2.9	-4.2	-2.9	-2.4	20.2	19.4	19.2	23.6	20.9	20.5
IE	5.6	2.0	-0.9	4.1	4.5	3.0	1.8	1.6	0.9	2.8	1.5	0.6	40.5	41.4	43.0	38.2	38.6	41.4
EL	2.3	2.3	2.4	3.0	3.0	2.3	-1.8	-2.2	-2.3	-0.8	-1.0	-0.9	162.6	159.3	160.9	150.8	152.3	151.9
ES	2.1	2.4	2.4	2.4	2.0	1.7	-3.9	-3.9	-4.1	-3.0	-3.0	-3.2	111.9	108.1	107.5	109.1	106.3	106.5
FR	1.0	1.0	1.0	1.6	1.4	1.2	-4.9	-4.9	-4.8	-4.4	-4.4	-4.4	109.6	109.7	109.6	109.5	109.7	109.5
HR	2.2	2.8	2.6	2.6	2.8	2.5	-0.7	-0.3	-0.1	-1.5	-1.9	-1.8	62.6	60.7	60.8	59.8	58.0	58.8
IT	1.0	0.8	0.7	1.5	1.2	0.9	-4.5	-5.3	-5.3	-3.7	-4.3	-4.4	142.1	140.2	139.8	141.4	140.1	140.6
CY	2.8	2.4	2.2	3.0	2.9	2.6	2.0	2.5	2.3	2.3	2.8	2.1	81.1	81.8	78.4	72.9	74.7	71.5
LV	0.0	1.0	-0.2	2.0	2.5	2.4	-4.0	-2.7	-3.2	-2.5	-2.8	-3.1	39.6	39.9	41.7	39.7	41.0	42.3
LT	0.5	-0.4	-0.4	3.0	1.7	2.5	-2.2	-1.9	-1.6	-1.7	-2.9	-2.3	37.8	37.9	37.3	37.7	39.8	38.3
LU	2.4	1.5	-0.6	3.8	2.5	1.4	-1.5	-1.9	-1.9	-1.7	-2.7	-2.1	26.1	25.0	26.8	27.5	27.8	28.7
MT	4.1	4.1	4.0	4.5	4.2	4.0	-5.0	-5.0	-5.1	-4.3	-4.5	-4.6	54.5	53.1	53.3	55.7	55.6	55.8
NL	1.6	0.7	0.6	1.4	1.5	1.1	-3.0	-1.5	-0.5	-2.6	-2.4	-1.8	48.4	47.7	47.1	48.7	46.9	46.6
AT	0.3	-0.8	-0.5	1.8	1.2	1.0	-3.2	-2.7	-2.6	-1.6	-2.7	-2.4	77.0	76.4	76.3	75.1	76.4	75.6
PT	1.8	2.2	2.2	2.0	1.5	1.3	-0.4	0.8	0.8	-0.2	0.2	0.1	107.5	103.0	103.4	103.0	98.9	100.3
SI	1.8	1.6	1.3	2.5	2.8	2.0	-4.1	-4.5	-3.7	-2.8	-3.8	-3.3	68.9	69.9	69.3	66.5	68.9	68.4
SK	1.3	1.3	1.3	1.8	1.3	1.7	-6.3	-6.2	-5.7	-4.7	-6.5	-6.5	58.7	57.1	56.7	59.3	60.0	59.9
FI	-0.2	0.0	0.1	1.3	1.2	0.8	-2.6	-2.4	-2.4	-2.6	-3.2	-3.2	74.4	74.2	74.3	76.9	76.8	76.9
EA20	1.1	0.9	0.6	1.9	1.7	1.2	-3.8	-3.3	-3.2	-2.6	-2.9	-2.8	91.9	90.7	90.4	90.8	90.0	89.7