IN-DEPTH ANALYSIS

Economic Dialogue with the European Commission on EU Fiscal Surveillance

ECON Committee on 11 January 2024

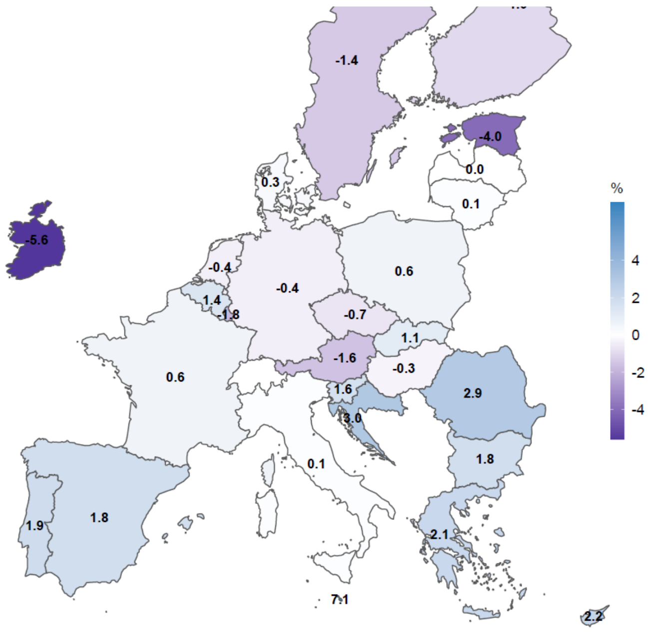
Executive Vice-President Dombrovskis and Commissioner Gentiloni have been invited to an Economic Dialogue on the fiscal part of the 2024 European Semester autumn package adopted by the Commission in November 2023. The fiscal elements of the package include the Commission Opinions on the euro area 2024 Draft Budgetary Plans, the fiscal policy recommendation for the euro area and some elements of the 2024 Alert Mechanism Report. In 2024, the general escape clause of the Stability and Growth Pact will not anymore be in force and the fiscal recommendations adopted by the Council in July 2023 will be applicable until any new rules are agreed and enter into force.

This briefing addresses the following subjects: (1) Economic situation; (2) Surveillance of national fiscal policies; (3) Surveillance of macroeconomic imbalances (fiscal aspects); (4) Implementation of the Recovery and Resilience Facility; and (5) Review of the EU economic governance framework.

1 Economic background

Recent economic developments

Figure 1: Differences in GDP growth rates (in %) in EU member states



Note: Data refers to seasonally adjusted year-on-year growth rates for third quarter of 2023. Source: Eurostat.

The European economy is stagnating. The Autumn 2023 Economic Forecast of the European Commission revised growth estimates for both the EU and the euro area were down to 0.6% in 2023 (from 0.8% in the Summer 2023 forecasts). This downward revision is even larger (0.4 percentage point) when compared to the Spring forecasts. The Commission also cut growth estimates for the EU to 1.3% next year (from 1.4% in the *Summer forecasts*) and the euro area to 1.2% (from 1.3%) for 2024.

The forecasts highlight an economic slump in the past three quarter, pointing towards a loss in momentum in the EU's economy as cost of living rises, external demand remains weak and the monetary tightening continues. A mild rebound could be at the horizon supported by a resilient labour market, positive wage growth, improvements in the external environment

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and tamed inflation. The EU labour market continues to show robustness, with unemployment sitting at record low level of 6% and expected to stabilise around this number in 2023, 2024 and 2025 (5.9%).

The latest flash estimate by Eurostat show that **annual headline inflation in the euro area, as measured by the Harmonised Index of Consumer Prices (HICP), is expected to be 2.9% in December 2023. This is a slight increase from the November estimate of 2.4%**. Core inflation (i.e. HICP inflation excluding energy and food) continues to show a downward trend as it is projected to have reached 3.4% in December, down from the 3.6% November estimate. The Commission expects headline inflation to decrease to 6.5% in the EU (down from 9.2% in 2022) and to 5.6% in the euro area (compared to 8.4% in 2022) by the end of the year. The main driver behind this decrease is the drop in consumer energy prices throughout the year, though in recent months a more widespread moderation in inflation has occurred[1].

The **monetary and fiscal interplay** is relevant for the current macroeconomic scenario. The euro area is anticipated to face challenges in 2024. The effects of monetary tightening are being gradually passed on to the economy, suggesting further headwinds in the future, including by means of declining bank lending. The fiscal stance is turning contractionary in 2023 on the back of the full roll-out of pandemic-related measures and the gradual withdrawal of government support to private investment. This will be even stronger in 2024 when energy-related support measures are expected to be fully phased out (see **Table 2** below**)**. High energy costs in 2023 have prompted Member States to prolong assistance to households and firms. According to the Commission's estimation, the overall expense of these measures is projected to be 1.0% EA GDP in 2023, indicating a slight decrease of 0.3 percentage points (p.p.) in 2022. In this macroeconomic environment, corresponding excess savings can be used to reduce deficits rather than finance new spending. If all of these savings from the phase-out are used, as suggested by the Council, fiscal stance in 2024 might be even more contractionary.

The **Commission acknowledged that contractionary fiscal stance will ensure that monetary policy is supported**. In 2024, envisaged fiscal policies should be broadly in line with monetary policy. Even as monetary policy stays data dependent, there are prevailing market expectations that key policy rates have peaked and are anticipated to be cut down in mid next year. While Commission considered fiscal stance to be broadly appropriate, it recognised the importance of not underestimating risks and the need of staying flexible given the heightened level of uncertainty.

Public finances developments

According to latest Eurostat data, in the second quarter of 2023, the seasonally adjusted general government deficit to GDP ratio stood at 3.3% in the euro area and 3.2% in the EU. The data show that the majority of EU Member States ran a government deficit, underlying the "strong impact on the government balance" of the energy support measures to alleviate high prices. **The highest deficits** were recorded in Hungary (6.6 %), Romania (6.3 %) and Slovakia (4.8%). In the euro area, France (4.6%) and Spain (4.4%) had the highest deficit levels in Q2 2023.

The Autumn Economic Forecast indicate that, relative to 2022, **the EU (and euro area) government deficit is estimated to decline only by 2 p.p. to 3.2**%, as interest rates and the adverse economic environment contribute to push EU average deficit. Overall, the EU's aggregate debt is expected to decline to 2.8% in 2024 as further energy support measures are unwind and subsidies to private investment further retrench.

The forecasts assess the **level of indebtedness on individual Member States,** noting that 12 Member States are projected to exceed the 3% deficit/GDP ceiling in 2024. This number is expected to rise to 13 in

[1] For an overview of the latest official economic forecast for the EU and the euro area, please see separate EGOV document.

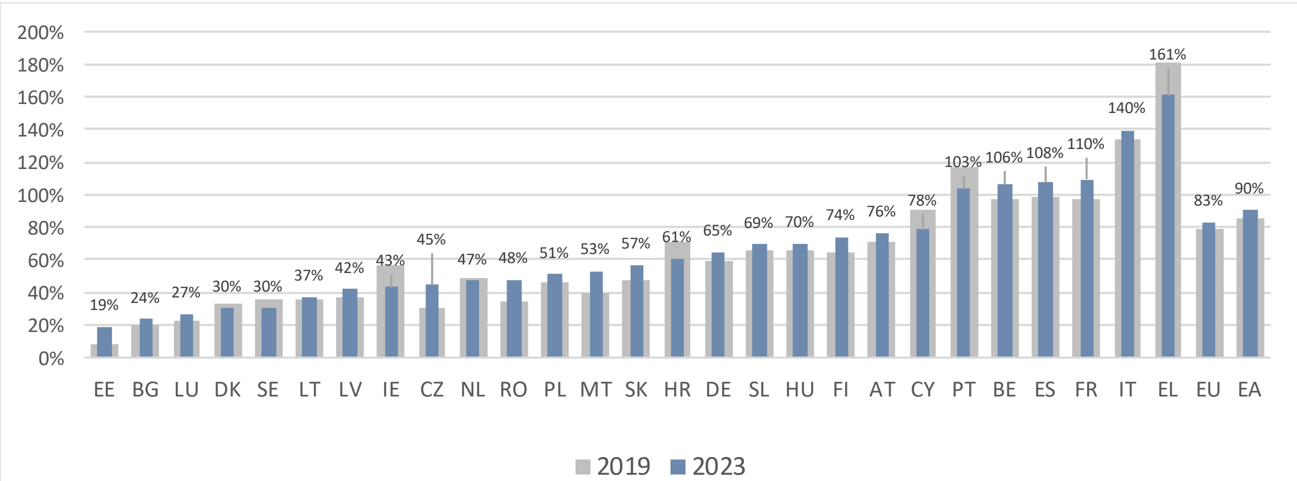
2025. In 2024, this would include Slovakia (-6.5%), Belgium (-4.9%), Malta (-4.6%), Romania (-5.3%), Poland (-4.6%) and Hungary (-4.3%), France and Italy (-4.4%), Slovenia (-3.3%), Spain and Finland (-3.2%), and Latvia (-3.1%). Only Cyprus and Ireland are expected to have a better headline budgetary position than in 2019.

The **public debt-to-GDP ratio** is expected to fall to 83.1% in 2023 (from 85% in 2022), 82.7% in 2024 and 82.5% in 2025. In the euro area, the public debt ratio is expected to sit at 90.4% of GDP in 2023 before further declining to 89.7% in 2024 and 89.5% in 2025. While public debt ratios are declining on aggregate, this seems to be mostly driven by high inflation as the stagnation in real GDP growth hardly makes a contribution.

There remains **broad heterogeneity in the developments of public debt ratios**: *"By the end of 2025, most Member States are projected to have a debt-to-GDP ratio lower than in 2022, with particularly large falls in Greece (25 pps.), Cyprus (19 pps.) and Portugal (15 pps.). However, five Member States (Belgium, Greece, Spain, France, and Italy) are expected to have debt ratios still well above 100% of GDP".* In 2023, the most indebted countries are expected to be Greece (160.9%), Italy (139.8%), France (109.6%), Spain (107.5%), Belgium (106.3%) and Portugal (103.4%).

Based on the outturn data for 2023, the Commission will propose to launch deficit-based Excessive Deficit Procedures in the spring of 2024 for 8 euro area Member States.

Figure 2: Public debt (as % GDP) in EU Member States in 2019 and 2023



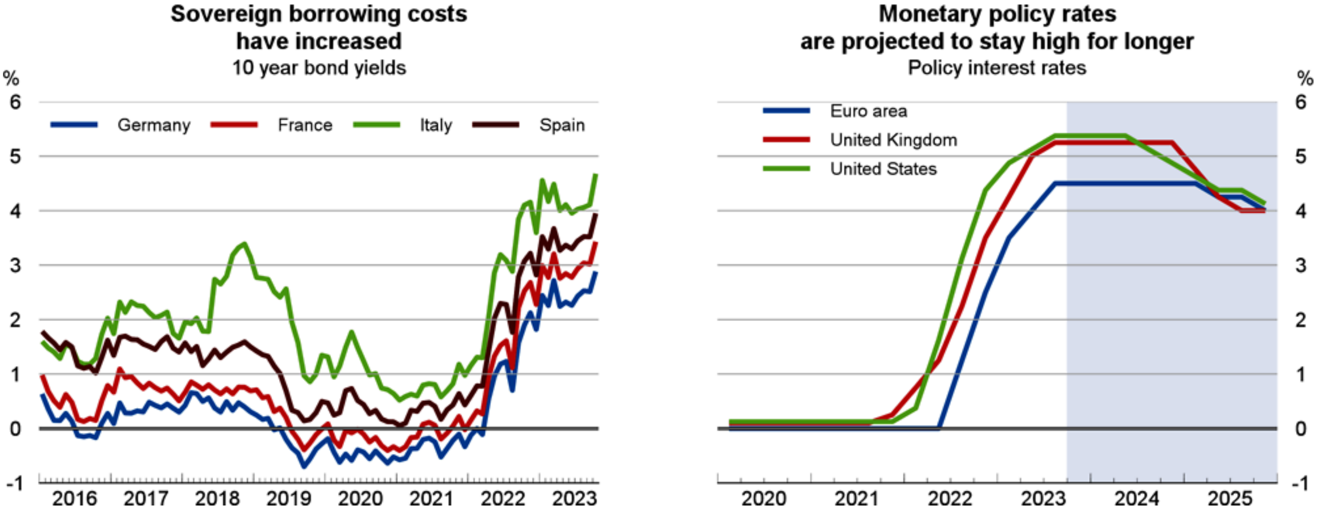
Source: European Commission Spring and Autumn 2023 economic forecast.

In the context of the publication of the 2023 European semester spring package, the Commission released also an **updated fiscal sustainability risk assessment** as an annex to the Country Reports. This evaluation adopts a multi-dimensional approach similar to the European Commission's 2022 Debt Sustainability Monitor, using the Commission's 2023 Spring Economic Forecast and incorporating the newest ageing costs from the Ageing Report 2021. The report's primary findings are as follows: in all 27 Member States, short-term risks are generally low. In the medium term, debt in the EU is anticipated to decrease on average until the mid-2020s before increasing again. Long-term risks remain widespread and significant across countries, primarily due to population ageing and an unfavourable initial fiscal position.

According to the Commission's assessment of the 2024 Draft Budgetary Plans (DBPs), a 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 heighted 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.

According to the Commission's assessment, the euro area budget deficit is expected to continue to decline to just below 3% of GDP in 2024 on the back of the almost complete unwinding of outstanding energy support measures yet it will remain above pre-pandemic levels given the additional permanent current expenditure and tax cuts which followed the COVID-19 pandemic.

Figure 3: Sovereign borrowing costs increased while spreads moderated



Source: OECD.

Fiscal stance in 2024

According to the Commission assessments of the 2024 DBPs:

"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."

2 EU fiscal coordination and surveillance

On 16 June, the Council agreed on the 2023 country-specific recommendations (CSRs) on the Member States' fiscal, economic and employment policies and on 29-30 June, the European Council held a discussion on the CSRs as discussed by the Council[2].

[2] The Council proceeds with the formal adoption of the final texts after the European Council has discussed them, in accordance with Article 121(2) TFEU.

With the general escape clause of the SGP 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.

Concretely, the Council decided that 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 (see **Table 1** below).

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**[3].

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.

Commission assessments of the 2024 Draft Budgetary Plans

As a rule, Member States of the Euro Area submit by 15 October their **Draft Budgetary Plans** (DBPs) for the forthcoming year to the assessment by the European Commission and the Eurogroup (those submitted are available here).

These plans shall be consistent with the Council recommendations issued in the context of the SGP and, where applicable, with the Country Specific Recommendations (see above).

The Commission adopted its opinions on the DBPs on 21 November and the Eurogroup made a statement on them on 7 December 2023 (see below).

The Commission reviewed the DBP in a **two-step approach**:

1. First, it evaluated their alignment with the Council's fiscal policy recommendations for 2024. This involved checking if countries not expected to meet the MTO had projected net expenditure growth within the recommended maximum growth rate.
2. Following this, other aspects of the Council's recommendations were examined. These included evaluating the gradual removal of energy support measures, using resultant savings to decrease deficits, and ensuring continued national investment funding. While positive findings from the first step were tempered after considering compliance with these additional elements.

Assessing limiting expenditure growth or maintaining the MTO

The Commission's forecast anticipates that five Member States will **either meet or be near their MTO in 2024**. **Cyprus** and **Ireland** are foreseen to maintain their position at the MTO in 2024. Moreover, **Portugal** and **Estonia**, according to the 2023 Autumn Forecast, are now anticipated to reach their MTO in both 2023 and 2024. **Lithuania** is expected to closely approach its MTO in 2024.

[3] The Commission recommended to the Council that **all Member States wind down the energy support measures in force by the end of 2023**. However, the Council slightly deviated from this and agreed instead that in **absence of new energy shocks, support measures should wind down only in 2023-2024** (see this EGOV document).

For **Austria, Germany, Greece, Spain, Malta, and Slovenia**, the projected net expenditure **aligns with the recommended maximum**.

However, net expenditure is projected **not to be fully in line with the recommended maximum** for the following Member States:

- **Luxembourg** is estimated to slightly exceed the recommended maximum.
- **Latvia, the Netherlands**, and **Slovakia** are also forecasted to exceed the recommended maximum growth of net primary expenditure. However, the Commission considered that the projected net expenditure in 2023, as per the Autumn Forecast, would be lower than initially anticipated at the time of the recommendation for these three Member States. This adjustment has a significant impact. Had the net expenditure in 2023 in Latvia, the Netherlands, and Slovakia matched the initial expectations, the resulting growth rate of net expenditure in 2024 would meet or fall below the recommended maximum.
- In **Italy,** the recorded growth rate of net expenditure is below the Council's maximum recommendation. However, the current estimates of net expenditure in 2023 surpass the initial expectations at the time of the recommendation. If the net expenditure in 2023 had aligned with the initial expectations, the resulting growth rate of net expenditure in 2024 would surpass the recommended maximum. Consequently, the assessment indicates that net expenditure growth is not fully in line with the recommendation.

The projected net expenditure in **Belgium, Croatia, Finland**, and, to a lesser extent, **France**, poses **a risk of not aligning with the recommended maximum**. Among these, Finland and Croatia are expected to pursue an expansionary national fiscal policy.

Table 1: Quantitative fiscal recommendations for 2024 (as in Council 2023 fiscal CSRs for EA MS)

Country	CSR-1: Limiting nationally financed net primary expenditure	Commission assessment of 2024 DBPs	**Country**	CSR-1: Limiting nationally financed net primary expenditure	Commission assessment of 2024 DBPs
BE	2%	3,8 %	**LV**	3,0%	4,8%
DE	2,5%	2,6%	**LT**	NA (on MTO)	7,2%
EE	4,9%	4,2 %	**LU**	4,8%	5,0%
IE	NA (on MTO)	6,3%	**MT**	5,9%	5,5%
EL	2,6%	-0,3%	**NL**	3,5%	5,8%
ES	2,6%	2,1%	**AT**	4,6%	4,6%
FR	2,3%	2,8%	**PT**	1,8%	5,7%
HR	5,1%	10,3%	**SK**	5,7%	6,5%
IT	1,3%	0,9%	**SI**	5,5%	2,9%
CY	NA (on MTO)	4,3%	**FI**	2,2%	4,4%

Source: Council 2023 CSRs and Commission assessment of 2024 DBPs. See also the Annex to this document. Colour codes based on the above assessment by the Commission (see also the position of the Eurogroup below).

Assessing the other Council fiscal recommendations

Phasing out of energy measures an, using the related savings for deficit reduction financed investment

According to the Commission assessment, **most Member States are anticipated to phase out their remaining energy support measures, but a significant number are not utilising the resultant savings for deficit reduction**. The majority are on track to wind down these measures by 2023 and 2024. However, **Croatia, Germany, France, Luxembourg, Malta**, and **Portugal** are **projected to retain significant measures into 2024** (see Table 2 below).

Regarding the use of these savings to reduce government deficits, **Austria, Belgium, Croatia, Finland, Germany, Latvia, Luxembourg, the Netherlands, and Slovakia may not fully align with the recommendation**, as a portion of the savings might not be allocated towards reducing their government deficits. **Italy**'s compliance with this aspect of the recommendation is also assessed as **not fully in line**.

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 CSRs.

Since December 2022, the **Eurogroup has tried to coordinate the exit of these temporary energy support measures** and committed to *"discuss a common approach for households, including reflecting on appropriate ways to wind down support".* In April 2023, a technical note to the Eurogroup reiterated the need to phase out support measures according to the plans while recommending that any form of new support should remain temporary. In December 2023, the Eurogroup welcomed that *"most euro area member states plan to wind down their energy support measures, absent renewed energy price shocks" and* underlined the need for those countries expected to still have significant measure in place to wind them down "*as soon as possible in 2024*".

Table 2: Phasing out of energy measures (figures in % of GDP)

	levels		
	2023	2024	2025
AT	1.6	0.1	0.0
BE	0.4	0.0	0.0
CY	0.5	0.0	0.0
DE	1.4	0.3	0.1
EE	0.3	0.0	0.0
EL	0.0	0.1	0.1
ES	0.9	-0.1	0.0
FI	0.3	0.0	0.0
FR	0.8	0.3	0.3
HR	1.8	0.5	0.1
IE	0.4	0.2	0.0
IT	1.0	0.0	0.0
LT	0.4	0.1	0.0
LU	0.9	0.4	0.3
LV	1.0	0.0	0.0
MT	1.6	2.0	1.0
NL	1.0	0.0	0.0
PT	1.3	0.7	0.6
SI	0.9	0.0	0.0
SK	2.1	-0.1	0.0

In line: all MS except DE, FR, HR, LU, MT, PT

At risk of not being in line: DE, FR, HR, LU, MT, PT

Source: Bethuyne G. and Balcerowicz W., DG ECFIN, European Commission, Energy support measures in the Commission forecast (autumn 2023), internal paper (available upon demand)

Preserving nationally financed investment in 2024

All Member States are assessed as adhering to the recommendation to maintain their nationally financed investment in 2024. 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.

Overall assessment and next steps

Seven Member States are assessed as **compliant with the fiscal recommendations,** while **nine are not fully aligned,** and **four are at risk of not meeting the criteria:**

- **Cyprus, Estonia, Greece, Spain, Ireland, Lithuania, and Slovenia** adhere to the fiscal recommendations.
- **Austria, Germany, Italy, Luxembourg, Latvia, Malta, the Netherlands, Portugal, and Slovakia** show partial alignment.
- **Germany, Malta, and Portugal** are urged to expedite the phasing out of energy support measures by 2023 and 2024.
- **Italy, Latvia, and the Netherlands** are advised to be prepared to implement necessary measures.
- **Belgium, Finland, France, and Croatia** are at risk of non-alignment and are urged to incorporate necessary measures within their national budgetary process to ensure fiscal policy in 2024 aligns with the Council Recommendation.
- **Luxembourg and Slovakia** are encouraged to ensure their forthcoming plans align with the Council recommendations.

The **Eurogroup drew on 7 December** the following conclusions, based on the Commission assessments:

- welcomed that the DBPs of **Cyprus, Estonia, Greece, Spain, Ireland, Lithuania and Slovenia** are in line with the fiscal recommendations of the Council;
- noted that the DBPs of **Austria, Germany, Italy, Luxembourg, Latvia, Malta, Netherlands, Portugal and Slovakia** are broadly in line with the Council fiscal recommendations. It invited these member states to stand ready to take action as necessary. It took note of the announcement of **Germany** that adjustments might be necessary to its budget plans and welcome its willingness to keep the Eurogroup informed (see also **Box 1** below).
- noted that the DBPs of **Belgium, Finland, France and Croatia** risk being not in line with the fiscal recommendation of the Council, while the fiscal policy in Belgium and France is nevertheless projected to be contractionary. It invited these member states to consider in a timely manner and as necessary to take action to address the risks identified by the Commission to ensure that fiscal policy is in line with the recommendations adopted by the Council and welcomes their commitment to follow-up as needed.
- noted that **Spain, Slovakia and Luxembourg submitted DBPs on no-policy-change** basis. It welcomed that these countries will submit updated DBPs and looked forward to the Commission assessment of those updates.

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.

In its statement of 7 December 2023, the Eurogroup took note the Commission's intention to propose to the Council the opening of deficit-based EDP in spring 2024 and encouraged Member States with deficits above 3% of GDP to take the necessary measures.

Romania is currently the only Member State subject to an EDP, initiated prior to the pandemic. In April 2020, the Council determined that Romania's planned deficit in 2019 was excessive. In June 2022, the Council revised its recommendation, calling on Romania to correct its excessive deficit by 2024 at the latest. While

Romania's general government deficit in 2022 aligns with the Council's recommendation, its structural balance adjustment falls short of the Council's recommendation. The procedure remains suspended.

For an overview of the 2023 fiscal policy recommendations for all Member States, including latest fiscal figures, please see separate EGOV document on the implementation of the SGP.

Box 1: Germany's Constitutional Court ruling on Second Supplementary Budget Act 2021

The German Federal Constitutional Court ruled a 2021 budget law, known as the Second Supplementary Budget Act, as unconstitutional.

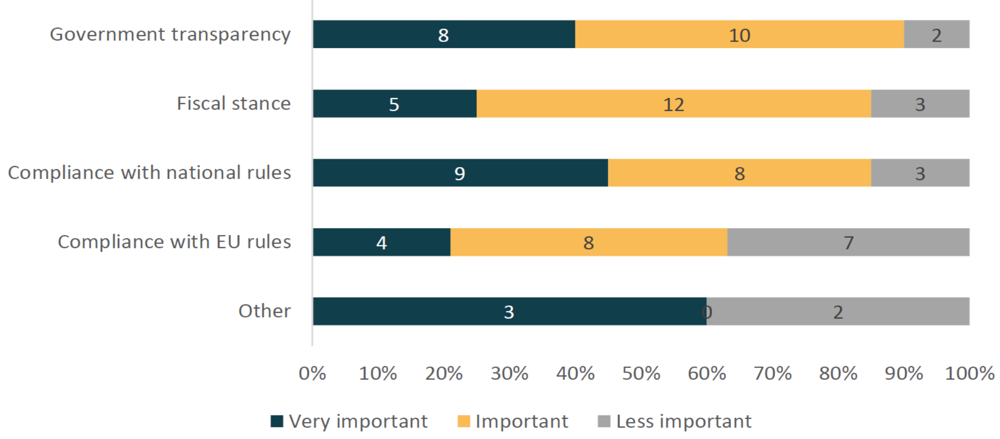
The law had authorised the transfer of €60 billion, borrowed in response to the COVID-19 pandemic, from unused funds in 2021 to a Climate and Transformation Fund for use in subsequent years. The court found this to be in violation of the constitutional rules that borrowing can only be used for the year it is authorised and should be aimed at addressing emergencies within that year. The court also stated that the government failed to sufficiently establish a clear link between the COVID-19 emergency in 2021 and the long-term climate projects planned for future years. Furthermore, the law was passed retroactively for 2021, after the fiscal year had ended, contravening the rule that budgets must be decided before the start of the year.

As a result of the ruling, the €60 billion transferred to the Climate and Transformation Fund was invalidated, and the government will need to identify alternative means to fulfil the obligations it had committed to based on these funds.

The view of independent fiscal institutions

According to the latest update of the bi-annual publication by the Network of EU Independent Fiscal Institutions, concerns arise about fiscal plans, inflation's impact, rising interest expenditures, and uncertainties, emphasising Europe's persistent fiscal challenges. National IFIs' assessment on governments' medium-term fiscal plans found forecasts reasonable but flagged concerns about long-term issues like climate change. Criticisms emerged regarding budget plans, and while many governments aligned with EU fiscal guidance, IFIs noted a lack of structural reforms other than those financed by the Recovery and Resilience programme, emphasising the challenge of sticking to expenditure ceilings, considering that "*in the past, targets were regularly changed, putting the goal of deficit and debt reduction at risk*" (see **Figure 4** below).

Figure 4: IFI's concern about fiscal policy in their country in 2023 (number of respondents indicating one or more concerns



Note: The IFIs were asked 'Did your IFI raise any concerns about the fiscal policy in your country in 2023?', to which 23 out of 31 respondents replied positively.
Source: The Network of EU Independent Fiscal Institutions (2023).

Box 2: The latest Annual Report by the European Fiscal Board (EFB)

The latest update of the annual report by the EFB, published on 4 October 2023, assesses the fiscal policy conducted in 2022 and updates the EFB's proposals for a reform of the EU fiscal framework.

Regarding the assessment of the fiscal policy conducted in 2022, the EU's fiscal framework saw challenges in implementation due to what the EFB considers a broad interpretation of economic downturn clauses. Fiscal policy guidance for 2022 aimed at economic recovery but struggled with multiple conditions, leading to varied expenditure growth rates among countries. New measures addressing energy price hikes and aiding Ukrainian refugees impacted the structural deficit positively, but underlying expenditure growth exceeded potential output rates, raising concerns. The Commission's flexible stance in 2022, driven by high inflation and unplanned events, led to no conclusive compliance assessments. Changes in nominal expenditure benchmarks and reluctance to propose new excessive deficit procedures added to transparency concerns.

On the reform of the EU fiscal framework, the EFB expresses general agreement with the Commission's reform proposal but raises concerns about two specific points: firstly, the absence of joint components for providing essential EU public goods; secondly, the potential negative impact on public finances in the medium and long term by merging fiscal and structural surveillance. Additionally, the EFB highlights the risk of excessive quantitative benchmarks and safeguards in the ongoing Council discussions among Member States regarding deficit and debt reduction. Lastly, the EFB suggests that a revamped EU framework could gain from enhanced independent advisory elements at both national and central levels.

3 Surveillance of macro-economic imbalances - some fiscal aspects

The Commission's Alert Mechanism Report, *published in November 2023* in the context of the 2024 European Semester, **devotes a chapter to the analysis of public debt** in view of possible macro-economic imbalances.

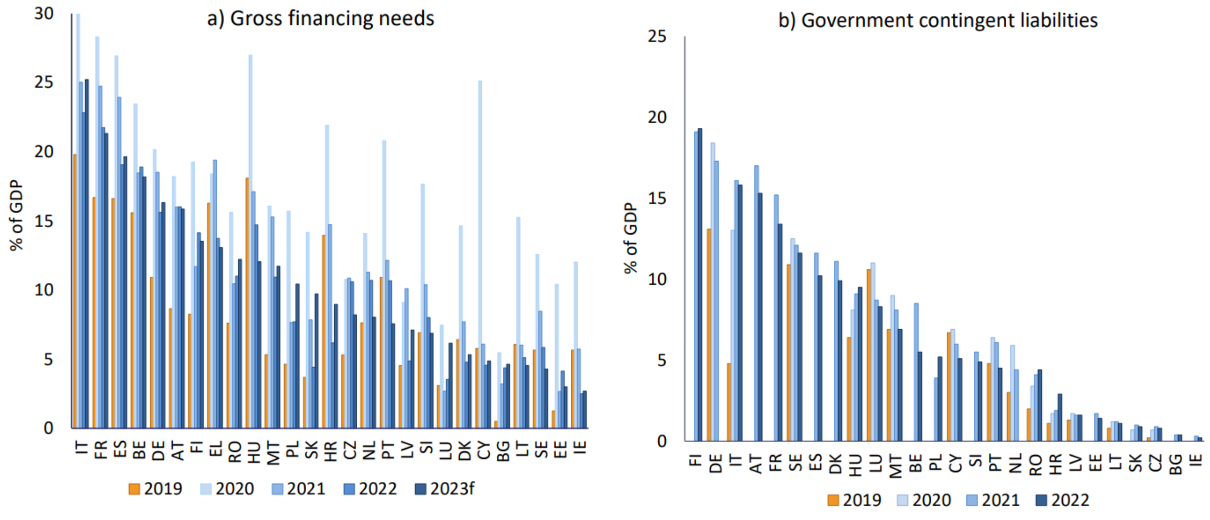
While noting that government debt ratios decreased in most Member States in 2022 supported by strong nominal GDP growth, the outlook for 2023 foresees a further reduction in government debt in most EU countries (though still being above its COVID-19 pandemic levels), with insignificant changes in 2024. Improvement of government debt ratios in 2023 is a consequence of sustained nominal GDP growth supported by inflation. Government debt ratio declines are anticipated to be more significant in the most heavily indebted countries, given that economic growth has a more pronounced deleveraging impact when debt-to-GDP ratios are higher. In contrast to countries with low or moderate government debt ratios, ratios are projected to stabilise or experience slight increases. In 2024, despite anticipated improvements in government deficits across all Member States, reductions in debt ratios are expected to be smaller.

However, while inflation can provide short-term relief in reducing the debt burden, increase of nominal interest rates increases higher costs for the rolling over of existing debt or issuance of new debt. Primarily due to increase of interest rates, as early as 2022, sovereign financing conditions experienced a shift towards being less favourable (see **Figure 3** in the chapter on Public finance developments). Spreads between countries within the euro area widened as markets factored in increased risk, stabilising and even decreasing for some heavily indebted Member States.

In 2023, the interest rate growth differential, representing the difference between the nominal interest rate and nominal GDP growth, remains favourable for lowering the debt-to-GDP burden across all EU Member States. **However, by 2024, the 'r-g' differential is predicted to shift to a positive value**, meaning an increase in debt for some Member States and close to zero in several others.

The Commission, *inter alia*, focuses its attention on Gross Financing Needs (GFN), which increased significantly in 2020 in all Member States in the wake of the COVID-19 pandemic, in many cases by more than 10 % of GDP (**Figure 5**). In 2021 and 2022, gross financing needs decreased gradually owing to improving primary fiscal balances. In 2023 and 2024 they are forecast decrease further at a slower pace. Government contingent liabilities persist at elevated levels, creating the potential for stress in the corporate and banking sectors to impact the sovereign.

Figure 5: Gross government needs and government contingent liabilities in EU Member States



Source: European Commission; Alert Mechanism Report 2024.

The following factors might compound risks at a country level:

- **Increases in interest rates**, which could lead to increases in interest payments, particularly for countries with high financing needs; for non-euro-area Member States, this is more pronounced as they face higher borrowing costs due to widening sovereign bond yields and higher share of debt denominated in foreign currencies (e.g., Romania, Hungary, Bulgaria).
- **A materialisation of the government contingent liabilities**; the size of these guarantees is forecasted to decline, however pronounced risks in banking sector in some EU Member States might materialise as bank balance sheets indicate vulnerabilities and spill over to other sectors
- **Fiscal sustainability**: in the short term all EU Member States face low fiscal sustainability risks; in the medium-term fiscal sustainability risks are considered to be high in Belgium, France, Greece, Hungary, Italy, Slovakia, Portugal and Spain.

4 Implementation of the Recovery and Resilience Facility

By end of December 2023, the Commission had received payment requests from all Member States and disbursed a total amount of EUR 157 billion in regular payments to 22 Member States (plus EUR 58 billion in pre-financing). The state of play of the implementation of the RRF is summarised in the Table 3.

Table 3: State of play re RRF implementation (as at 13/12/2023)

	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
27 plans approved by the Commission and adopted by the Council																											
23 plans adopted by COM/Council include a **REPowerEU** chapter																											
21 pre-financing disbursed (EUR 56.6 billion)																											
10 pre-financing disbursements for **REPowerEU**																											
24 Operational Arrangements signed																											
All MS sent (multiple) payment requests to the Commission																											
22 MS received RRF-related payments (EUR 157 billion net of pre-financing)																											

Source: European Commission (RRF scoreboard and additional information in COM press releases that was not yet incorporated into the scoreboard)

On 8 December, the Council gave greenlight for the modified national Recovery and Resilience Plans (RRPs) of 13 member states, namely those of Belgium, Bulgaria, Croatia, Cyprus, Finland, Germany, Greece, Ireland, Italy, Latvia, and Romania, as well as those of Poland and Hungary. Most of the modified RRPs (in total 23) now include a new REPowerEU chapter. Most member states requested to transfer their share of the Brexit Adjustment Reserve, in line with the REPowerEU Regulation, to contribute to the financing of amended projects.

As regards the situation of **Hungary**: On 23 November 2023, the Commission published a positive assessment of Hungary's modified RRP, which includes a REPowerEU chapter. In the press release, the Commission underlines that the need to fulfil the **27 super milestones** remains **unchanged**, and that the Commission will only authorise **regular disbursements** based on the satisfactory completion of the reforms to ensure the protection of the Union's financial interests, and to strengthen judicial independence, i.e. criteria that were translated into 27 "super milestones". However, the Commission's positive assessment and Council's subsequent adoption of Hungary's modified RRP paved the way to unblock EUR 0.9 billion in **pre-financing** of the REPowerEU funds, as foreseen under Article 21d of the RRF Regulation.

Over the past weeks, the question emerged in the public domain whether such disbursement would be warranted. Article 22 of the RRF Regulation provides that the financing and loan agreements to be concluded before the pre-financing is distributed should set out the obligations for Hungary on the protection of the Union's financial interest, thus allowing for possible ways for the Commission to reduce and recover financial support in case of breaches or departures from these obligations. That article also indicates that "*Member States shall provide an effective and efficient internal control system*" to ensure compliance with the principle of financial management. The [original Council Implementing Decision] indicated that the fulfilment of the super milestones would be needed to establish an adequate control system and ensure protection of the Union's financial system, and that "***no payment*** *under the Facility should be made before their fulfilment*" (recital 56, emphasis added). The [Amended Council Implementing Decision], however, just states that "*the internal control system of Hungary's RRP is overall adequate*".

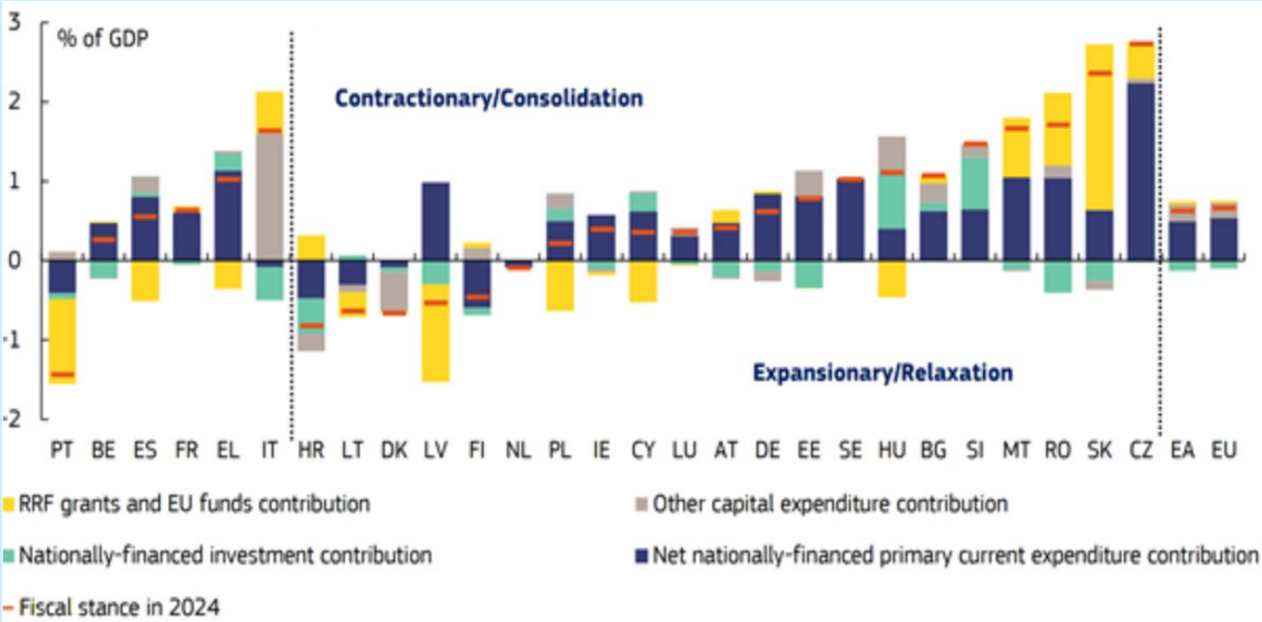
Box 3: Contribution of RRF grants to the EU fiscal stance

As also described above, the Commission's European Economic **Autumn Forecast** published in November 2023 elaborates on the **EU fiscal stance.**

After an overall expansionary fiscal stance in the period 2020-22 (estimated at around 3½ % of GDP), the fiscal stance in the EU is set to become **contractionary in 2023** (by 0.4 % of GDP), a development said to be mainly driven by a reduction of measures to mitigate the impact of high energy prices and lower subsidies to private investment. The Commission finds, though, that **expenditure financed by RRF grants provides an expansionary contribution** to the 2023 fiscal stance in the majority of member states.

In 2024, the majority of the EU countries is also expected to take a contractionary fiscal stance. Yet, as regards the contribution and effect of RRF grants in that period, the wording in the Commission's Autumn Forecast is somewhat **ambiguous**; the statement reads: "*Spending financed by **RRF grants** and other EU funds is expected to provide **contractionary or expansionary contributions** to the 2024 fiscal stance almost evenly across EU countries*" (p. 49; emphasis added, also see figure X below). The Autumn Forecast does not set out in more detail why the RRF grants in 2023 have a predominantly expansionary effect, while those in 2024 are said to provide both contractionary or expansionary contributions.

Figure: Expected fiscal stance developments in 2024 according to the Autumn Forecast



Source: European Commission, [European Economic Forecast Autumn 2023], p. 49 (graph 1.2.53)

5 Review of the EU economic governance framework

On 26 April, the Commission presented its **legislative proposals for the EU economic governance reform**.

The reform proposals by the Commission comprises of three legal texts:

- Proposal to repeal and replace the current preventive arm of the Stability and Growth Pact;
- Proposal amending the Regulation on the corrective arm of the Stability and Growth Pact; and
- Proposal amending the Directive on the requirements for budgetary frameworks of Member States

These legal texts propose *de facto* amendments that would also affect the application of some of the other EU economic governance legal acts in force today[4].

Box 4: Core elements of the Commission's proposal for EU economic governance reform

The proposals of the European Commission aim at striking a balance between reductions of debt levels and supporting sustainable growth, while promoting national ownership, improving enforcement and simplifying the rules. The proposals pivot around a number of key elements:

- **Country-specific fiscal adjustment**: Depending on levels of public indebtedness, as measured by the Maastricht reference values of debt above 60% of GDP and deficit above 3% of GDP, the Commission would propose technical trajectories for debt/deficit reduction. After bilateral discussions with the Commission and endorsement in Council, each Member State would adopt country-specific medium-term fiscal-structural adjustment plans (MTFSP) outlining numerical targets to be achieved by the end of the assessment period.
- **Medium-term focus:** The minimum length of the MTFSP would be four years, but could be extended by three more years to achieve a more gradual debt reduction subject to the commitment to investment and reform programmes. Changes in government would allow for a revision as long as this does not lead to lower ambition in the fiscal adjustment effort or back loading. The Commission also envisages a certain degree of flexibility by codifying the existence of two escape clauses and regulate their use.
- **Shift towards more observable indicators:** Compliance would be monitored only through net public expenditure targets. The Commission would establish a control account to track cumulative deviations from the expenditure path while Member States would be obliged to report annually on their plans.
- **More automaticity for debt-based excessive deficit procedures (EDPs):** This would allow to replace the current 1/20th annual debt reduction rule. The degree of debt challenge for a Member State would become a key relevant factor to assess when considering the launch of an EDP.
- **Safeguards:** A number of safeguards are proposed to ensure that debt ratios fall below their initial level at the end of the period, that fiscal adjustment is at least 0.5% of GDP per year for deficits (expected to be) in excess of 3% of GDP, that in case of extensions most of the fiscal adjustment is delivered in the first four years and prevent back-loading / lowering of fiscal adjustment efforts.

Council negotiating position

On 20 December 2023, the Council reached a political agreement on the economic governance reform. Following the formal endorsement of an official negotiating position (general approach) by ambassadors on 21 December 2023, the Council is now ready to start interinstitutional negotiations with

[4] The Proposal to repeal and replace the current preventive arm of the SGP has a connection with Regulation No 1176/2011 to prevent and correct macroeconomic imbalances: if a Member State does not fulfil its commitments regarding reforms and investments outlined in its medium-term fiscal-structural plan to address the CSRs relevant to the Macroeconomic Imbalances Procedure, the Council may issue a recommendation declaring that an excessive imbalance exists. Moreover, when providing an opinion on the draft budgetary plans submitted pursuant to Article 6 of Regulation No 473/2013, the Commission should assess if the DBPs are consistent with the net expenditure paths pursuant to this proposal.

the EP (see Council's negotiating mandate on the preventive arm here and agreements in principle with a view of consulting the EP on the corrective arm here and on budgetary frameworks here).

The Council general approach was structured around **four building blocks**, namely:

- Institutional balance
- Common safeguards
- Fiscal space for investments and incentives for reforms
- Credible enforcement and ownership.

Among its major changes, the Council agreed on the introduction of a number of additional safeguards, including:

- A **debt sustainability safeguard**, by which the technical trajectory shall ensure a minimum annual average reduction in the projected general government debt-to-GDP ratio by 1 p.p. for Member States with public debt above 90% of their GDP and by 0.5 p.p. for those with ratios between 60 and 90%.
- A **deficit resilience safeguard** to ensure continued fiscal adjustment by creating *a "common resilience margin*" relative to the 3% reference value of deficit to GDP. This margin would be set in structural terms at 1.5%. It furthermore requires that the yearly improvement in the structural primary balance to achieve the margin should be 0.4% of GDP, with the possibility to reduce it to 0.25% in case of an extension of the adjustment period.
- **Deviations** from the net expenditure path recorded in the **control account of 0.3 p.p. of GDP annually or 0.6 p.p. on a cumulative basis** should lead the Commission to issue a report under a debt-based EDP. The control account would be reset after the endorsement of a new MTFSP. The Council further defines some key factors to be take into account for the purpose of opening an EDP, e.g. a substantial debt challenge should also considered as a key aggravating factor. Similarly, for a transitory period between 2025 and 2027 the increase in the interest rates should be take into account when setting the EDP corrective trajectory.

On key accountability and transparency issues, **Member States did not substantially change the Commission's proposal on the role of the European Parliament**, but still tabled a few relevant amendments to **boost the national dimension of the framework** (e.g. calling for the involvement of national parliaments in the European Semester or removing the possibility for the EP to invite a Member State to an exchange of views when at risk of deviating from net expenditure path or exceeding the 3% deficit-to-GDP ceiling).

The framework for the European Fiscal Board (EFB) and Independent Fiscal Institutions (IFIs) is also changed, with the text being more prescriptive on the advisory role of the EFB and softening the role of the IFIs in assessing deviations from the net expenditure path. At a later stage, a review might also allow to explore the establishment of minimum standards for IFIs. Overall, the **Council seems to be limiting accountability checks by IFIs and favouring instead additional involvement (though limited) of national parliaments.** This is done by emphasising the non-binding nature of the IFIs' opinions and introducing across the board a requirement that their opinions are provided when explicitly requested by the EU's executive bodies (Commission or Council) in a number of areas.

On other issues, the Council further **specifies the conditions to be met by reforms and investment to justify an extension of the adjustment period of *at most* 3 years** and describes the **timing for the budgetary planning in 2024.** This would require the Commission to issue prior guidance to Member States by 15 February 2024 and the submission of MTFSP by 30 April 2024, unless there is an agreement on the extension of the deadline "*by a reasonable period of time".*

A number of transitional arrangements are also introduced. These would allow **commitments under the RRF to be taken into account for the extension of the adjustment period or to give consideration to RRF loans and national co-financing of EU funds in 2025 and 2026** when a country requests an exception to the no-backloading safeguard. Member States would also be temporarily allowed to use "*more stable series than the ones resulting from the commonly agreed methodology*" in order to acknowledge "*the exceptional impact of recent economic shocks and current uncertainty on estimates of potential growth*"

European Parliament's ECON Committee's position

On 11 December 2023, **the European Parliament's Committee on Economic and Monetary Affairs (ECON), the lead committee for the three proposals, adopted its position on the reform**. Interinstitutional negotiations with the Council (so-called "*trilogue*") will only start once the EP plenary has provided its mandate. Formally, the EP has only a role as co-legislators for the preventive arm proposal (ordinary legislative procedures) while it will be consulted on the other two proposals.

The EP position, prepared under the leadership of MEPs *Esther de Lange* (EPP, NL) and *Marguerida Marques* (S&D, PT) as co-rapporteurs, was further informed by an opinion of the Committee on Employment and Social Affairs (EMPL) based on its areas of competence (e.g. European Pillar of Social Rights in the context of the European Semester) under the leadership of MEP Gabriele Bischoff (S&D, DE).

Please see here the EP press release following the vote in the ECON Committee. The final report as voted by the committee are available here (preventive arm), here (corrective arm) and here (national IFIs).

Notable changes relative to the Commission proposal include:

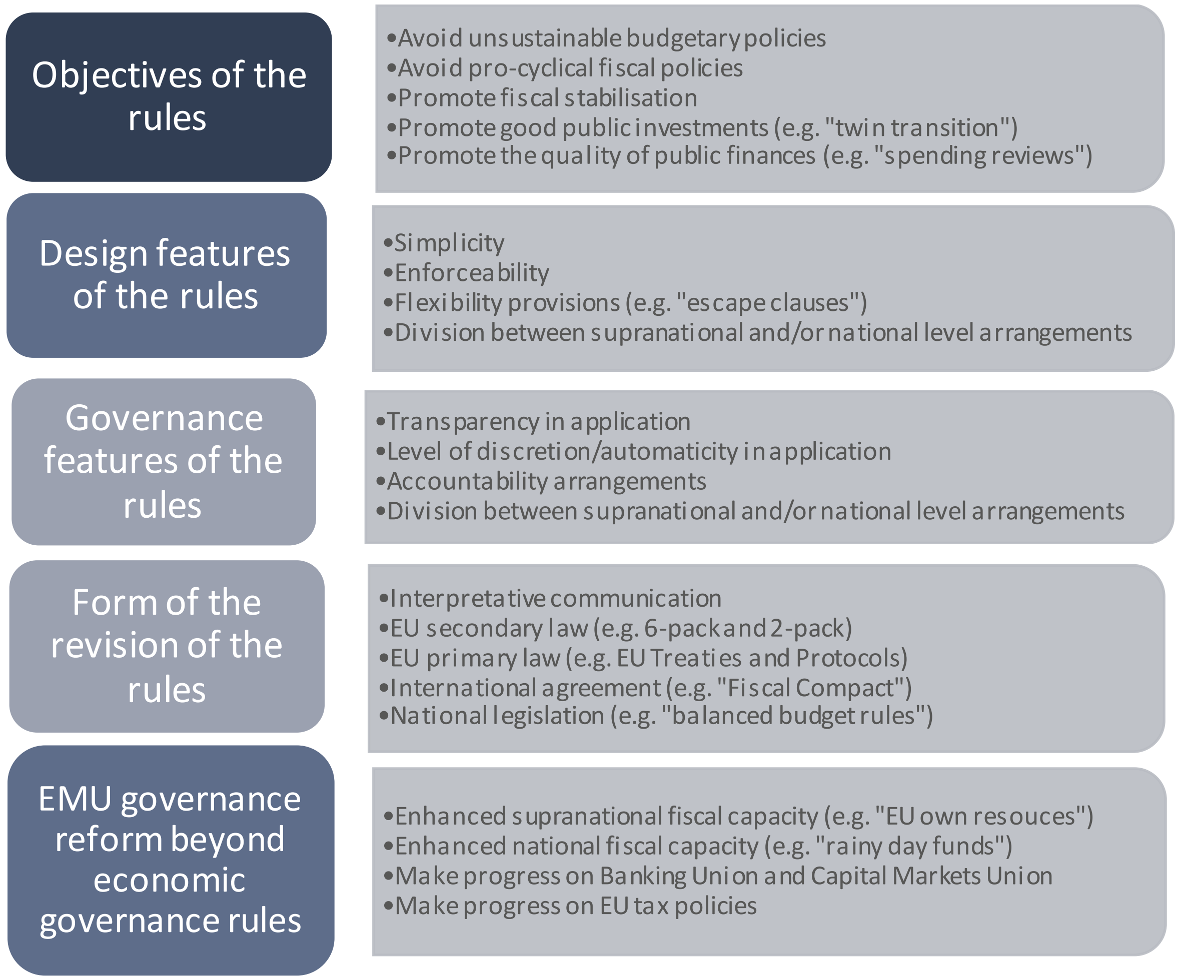
- **Exclusion of co-financing from net expenditure definition** - government expenditure on Union's programmes, though capped at 0.25% GDP, as well as cyclical elements of unemployment benefit expenditures and costs related to costs of borrowing under the RRF are now excluded.
- **Revision of the process for the definition of a "reference trajectory**" - Member States with debt above 60% or deficit above 3% require the Commission to propose a "reference trajectory" in a report to the EP and Council. This trajectory should be based on a publicly available methodology and include data, assumptions, and calculations for replication. It involves dialogue between the country and the Commission. For further details on the process see **Figure 6** below.
- **Introduction of annual fiscal consolidation of 1 p.p. of GDP on average for highly indebted Member States** - A rule mandates a yearly reduction of public debt by 1 p.p. for countries with debt ratios above 90% GDP, and at least 0.5 p.p. for those between 60% and 90%. Exceptions exist for deficit over 3% but debt below 60%. There is also deletion of the requirement for net expenditure growth to stay below medium-term output growth.
- **Enforcement role of the control account is made more binding** - Member States are considered non-compliant with their net expenditure path if the cumulative balance on the control account exceeds 1% of GDP during growth years. An exception allows temporary deviation (up to 5 years) for strategic investments aligned with Union priorities.
- **Specifics on Medium-Term Fiscal-Structural Plans (MTFSPs):** The text outlines criteria for MTFSPs, including setting nominal targets for the net expenditure path. Key points include focusing on sustainable debt reduction, addressing warnings from the Commission/Council, aligning with Union priorities (defined in the text), and evaluating public investment gaps.
- **Introduction of a MTSTP scoreboard to display the progress of implementation of the MTFSPs** A scoreboard to track MTFSP implementation progress is mandated. It includes reforms, investments, Union priorities, net expenditure path status, and national public investment gaps. It'll be online by June 2024, updated biannually, and publicly accessible.

- **Stronger role for the European Parliament:**
  - **EP's strengthened role:** The European Parliament now gets simultaneous and equal information as the Council, with more involvement in the European Semester. It can call for appearances from the Commission and Member States, and the Council and Commission must regularly report to the EP. The Eurogroup submits an annual report.
    - **New Dialogues introduced:**
      - **European Semester Dialogue:** Leaders appear before the EP upon invitation.
      - **MTFSP ('Medium-Term Fiscal Structural Plan') Dialogue:** Commission appears at committee level upon EP's request. EP can invite various presidents (Council, EUCO, or Eurogroup) for discussions. Commission considers these dialogues and EP resolutions in its policies.
    - **The EP's competent committee can invite Member States** to participate in discussions when the Council issues recommendations to Member States in case of failures to submit a Multiannual Financial and Strategic Plan, non-compliance with commitments leading to an extension of the adjustment period, or when the Council recommends measures to address the risk of surpassing the 3% reference value for debt-to-GDP.
- **The framework for IFIs and EFB is substantively revised:**
  - **EFB:** To be an independent advisory body with diverse members, advising multiple entities.
  - **IFIs:** Need diverse views in assessments, should disclose minority positions. Proposals suggest publicising their opinions and sharing best practices among IFIs coordinated by the EFB.
  - **Commission Assessments:** Should be accompanied by EFB opinion on Union aspects and relevant IFI opinions on national aspects regarding MTFSPs.
- **General Escape Clause activation:** EFB's opinion should accompany activation, but a delay should not hinder the Commission from recommending clause activation.
- The review is anticipated to end-2028 and shall assess if **[Communication on Making the Best Use of Flexibility within the SGP](#)** **is still fit for purpose**.
  - **New relevant factor for the purposes of a debt-based EDP:** Proposed factors for assessing the launch of an EDP in the preventive arm include commitments to common priorities, investments in Recovery and Resilience Plans, cohesion funds, and future EU investment instruments.

Figure 6: The new reference trajectory process proposed by the European Parliament

Source: EGOV based on ECON report.

Figure 7: Review of the EU fiscal governance framework: Some pieces of the puzzle



Source: EGOV own elaboration.

Further reading: EGOV briefing on Enhanced political ownership and transparency of the EU economic governance framework

Annex 1: GDP growth in EU Member States

	Eurostat* (12/2023)						EC (11/2023)			IMF (10/2023)			ECB (12/2023)			OECD (11/2023)		
	2020	2021	2022	2023 Q1	2023 Q2	2023 Q3	2023	2024	2025	2022	2023	2024	2023	2024	2025	2023	2024	2025
BE	-5.3	6.9	3	0.4	0.3	0.4	1.4	1.4	1.5	3.2	1.0	0.9	1.5	1.3	1.2	1.4	1.1	1.5
DE	-3.8	3.2	1.8	0	0.1	-0.1	-0.3	0.8	1.2	1.8	–0.5	0.9	-0.1	0.4	1.2	-0.1	0.6	1.2
EE	-1	7.2	-0.5	-0.8	-0.6	-1.3	-2.6	1.9	2.7	–0.5	–2.3	2.4	-3.5	-0.4	3.2	-2.6	0.6	2.5
IE	6.6	15.1	9.4	-1.9	-0.4	-1.9	-0.9	3.0	3.4	9.4	2.0	3.3	-1.4	2.4	4.6	-0.6	2.4	2.9
EL	-9.3	8.4	5.6	0	1.3	:	2.4	2.3	2.2	5.9	2.5	2.0	2.4	2.5	2.5	2.4	2.0	2.4
ES	-11.2	6.4	5.8	0.6	0.4	0.3	2.4	1.7	2.0	5.8	2.5	1.7	2.4	1.6	1.9	2.4	1.4	2.0
FR	-7.5	6.4	2.5	0.1	0.6	-0.1	1.0	1.2	1.4	2.5	1.0	1.3	0.9	0.9	1.3	0.9	0.8	1.2
HR	-8.6	13.8	6.3	0.9	1.5	0.3	2.6	2.5	2.8	6.2	2.7	2.6	2.6	3.0	2.7	2.5	2.6	2.7
IT	-9	8.3	3.7	0.6	-0.4	0.1	0.7	0.9	1.2	3.7	0.7	0.7	0.7	0.6	1.1	0.7	0.7	1.2
CY	-3.4	9.9	5.1	1	-0.4	1.1	2.2	2.6	2.9	5.6	2.2	2.7	2.2	2.6	3.1	:	:	:
LV	-3.5	6.7	3.4	-0.5	-0.3	0.2	-0.2	2.4	3.0	2.8	0.5	2.6	-0.4	2.0	3.6	-0.1	1.9	2.7
LT	0	6.3	2.4	-1.9	2.4	0	-0.4	2.5	3.4	1.9	–0.2	2.7	-0.2	1.8	3.1	-0.4	1.7	3.1
LU	-0.9	7.2	1.4	0.6	-0.1	:	-0.6	1.4	2.0	1.4	–0.4	1.5	1.4	2.0	2.4	-1.1	1.4	3.1
MT	-8.1	12.3	6.9	0.6	1.1	:	4.0	4.0	4.2	6.9	3.8	3.3	4.3	3.8	3.6	:	:	:
NL	-3.9	6.2	4.3	-0.5	-0.4	-0.2	0.6	1.1	1.7	4.3	0.6	1.1	0.1	0.3	1.0	0.2	0.5	1.1
AT	-6.6	4.2	4.8	0.1	-1.1	-0.5	-0.5	1.0	1.3	4.8	0.1	0.8	-0.7	0.6	1.7	-0.4	0.6	1.5
PT	-8.3	5.7	6.8	1.5	0.1	-0.2	2.2	1.3	1.8	6.7	2.3	1.5	2.1	1.2	2.2	2.2	1.2	2.0
SI	-4.2	8.2	2.5	0.2	1	-0.2	1.3	2.0	2.7	2.5	2.0	2.2	1.3	2.2	2.3	1.4	1.8	2.7
SK	-3.3	4.8	1.8	0.2	0.4	0.2	1.3	1.7	2.0	1.7	1.3	2.5	1.2	2.3	3.2	1.1	1.8	2.4
FI	-2.4	3.2	1.6	0.3	0.6	-0.9	0.1	0.8	1.5	1.6	–0.1	1.0	-0.5	-0.2	1.5	0.0	0.9	1.8
EA	**-6.1**	**5.9**	**3.4**	**0**	**0.2**	**-0.1**	**0.6**	**1.2**	**1.6**	**3.3**	**0.7**	**1.2**	**0.6**	**0.8**	**1.5**	**0.6**	**0.9**	**1.5**
BG	-4	7.7	3.9	0.3	0.4	0.4	2.0	1.8	2.6	3.4	1.7	3.2	:	:	:	1.7	2.8	3.0
CZ	-5.5	3.6	2.4	0.1	0.1	-0.5	-0.4	1.4	3.0	2.3	0.2	2.3	:	:	:	-0.3	1.6	2.1
DK	-2.4	6.8	2.7	1.1	-0.9	-0.1	1.2	1.4	1.6	2.7	1.7	1.4	:	:	:	1.3	1.2	1.5
HU	-4.5	7.1	4.6	-0.2	0	0.9	-0.7	2.4	3.6	4.6	–0.3	3.1	:	:	:	-0.6	2.4	2.7
PL	-2	6.9	5.3	1.1	0.3	1.4	0.4	2.7	3.2	5.1	0.6	2.3	:	:	:	0.4	2.6	2.9
RO	-3.7	5.7	4.6	-0.7	1.3	0.4	2.2	3.1	3.4	4.7	2.2	3.8	:	:	:	1.9	3.0	3.3
SE	-2.2	6.1	2.8	0.4	-0.9	0	-0.5	-0.2	1.3	2.8	–0.7	0.6	:	:	:	-0.5	0.9	2.6
EU	**-5.6**	**6**	**3.4**	**0.1**	**0**		**0**	**0.6**	**1.3**	**1.7**	**3.6**	**0.7**	**1.5**	**:**	**:**	**:**	**:**	**:**

** Note: Year-on-year GDP growth is provided for 2020 to 2022, while quarter-on-quarter changes are provided for 2023 Q1, Q2 and Q3.*

Annex 2: Inflation in EU Member States (HICP rate of change)

	Eurostat* (12/2023)						EC (11/2023)			IMF (10/2023)			ECB (12/2023)			OECD (11/2023)		
	2020	2021	2022	2023 Q1	2023 Q2	2023 Q3	2023	2024	2025	2022	2023	2024	2023	2024	2025	2023	2024	2025
BE	0.4	3.2	10.3	4.9	1.6	0.7	2.4	4.2	1.9	10.3	2.5	4.3	2.3	4.0	1.8	2.4	3.0	2.4
DE	0.4	3.2	8.7	7.8	6.8	4.3	6.2	3.1	2.2	8.7	6.3	3.5	6.1	2.7	2.5	6.2	2.7	2.1
EE	-0.6	4.5	19.4	15.6	9	3.9	9.4	3.5	2.1	19.4	10.0	3.8	9.1	3.5	2.5	9.2	3.4	2.4
IE	-0.5	2.4	8.1	7	4.8	5	5.3	2.7	2.1	8.1	5.2	3.0	5.2	2.3	2.2	5.3	3.1	2.6
EL	-1.3	0.6	9.3	5.4	2.8	2.4	4.3	2.8	2.1	9.3	4.1	2.8	4.1	3.0	2.4	4.3	2.8	2.4
ES	-0.3	3	8.3	3.1	1.6	3.3	3.6	3.4	2.1	8.3	3.5	3.9	3.4	3.3	2.0	3.5	3.7	2.3
FR	0.5	2.1	5.9	6.7	5.3	5.7	5.8	3.0	2.0	5.9	5.6	2.5	5.7	2.5	1.8	5.7	2.7	2.2
HR	0	2.7	10.7	10.5	8.3	7.4	8.1	2.4	1.6	10.7	8.6	4.2	8.4	4.0	2.5	8.6	4.2	2.6
IT	-0.1	1.9	8.7	8.1	6.7	5.6	6.1	2.7	2.3	8.7	6.0	2.6	6.0	1.9	1.8	6.1	2.6	2.3
CY	-1.1	2.3	8.1	6.1	2.8	4.3	4.1	3.0	2.2	8.1	3.5	2.4	4.0	2.4	2.0	:	:	:
LV	0.1	3.2	17.2	17.2	8.1	3.6	9.6	3.2	1.9	17.2	9.9	4.2	9.0	2.0	2.3	9.4	3.1	3.3
LT	1.1	4.6	18.9	15.2	8.2	4.1	8.8	2.9	2.5	18.9	9.3	3.9	8.8	2.5	2.5	8.8	2.0	2.1
LU	0	3.5	8.2	2.9	1	3.4	3.2	3.0	1.8	8.1	3.2	3.3	2.9	2.1	2.4	3.1	3.4	2.3
MT	0.8	0.7	6.1	7.1	6.2	4.9	5.7	3.3	3.1	6.1	5.8	3.1	5.6	3.0	2.3	:	:	:
NL	1.1	2.8	11.6	4.5	6.4	-0.3	4.6	3.7	2.0	11.6	4.0	4.2	4.1	2.9	2.2	4.4	3.7	2.4
AT	1.4	2.8	8.6	9.2	7.8	5.8	7.7	4.1	3.0	8.6	7.8	3.7	7.7	4.0	3.0	7.7	3.9	2.5
PT	-0.1	0.9	8.1	8	4.7	4.8	5.5	3.2	2.4	8.1	5.3	3.4	5.3	2.9	2.0	5.5	3.3	2.4
SI	-0.3	2	9.3	10.4	6.6	7.1	7.5	3.9	2.4	8.8	7.4	4.2	7.2	3.0	3.1	7.5	4.8	3.2
SK	2	2.8	12.1	14.8	11.3	9	10.8	5.2	3.0	12.1	10.9	4.8	11.0	4.7	4.0	11.1	5.2	3.4
FI	0.4	2.1	7.2	6.7	4.1	3	4.4	1.9	2.0	7.2	4.5	1.9	4.4	1.0	1.4	4.5	2.2	2.3
EA	**0.3**	**2.6**	**8.4**	**6.9**	**5.5**	**4.3**	**5.6**	**3.2**	**2.2**	**8.4**	**5.6**	**3.3**	**5.4**	**2.7**	**2.1**	**5.5**	**2.9**	**2.3**
BG	1.2	2.8	13	12.1	7.5	6.4	8.8	4.0	2.9	13.0	8.5	3.0	:	:	:	9.5	4.5	3.1
CZ	3.3	3.3	14.8	16.5	11.2	8.3	12.2	3.2	2.4	15.1	10.9	4.6	:	:	:	10.7	3.1	2.3
DK	0.3	1.9	8.5	7.3	2.4	0.6	3.6	2.4	2.1	8.5	4.2	2.8	:	:	:	3.6	2.8	2.5
HU	3.4	5.2	15.3	25.6	19.9	12.2	17.2	5.2	4.1	14.5	17.7	6.6	:	:	:	17.5	4.6	3.3
PL	3.7	5.2	13.2	15.2	11	7.7	11.1	6.2	3.8	14.4	12.0	6.4	:	:	:	11.8	4.7	3.7
RO	2.3	4.1	12	12.2	9.3	9.2	9.8	5.9	3.4	13.8	10.7	5.8	:	:	:	10.4	5.0	3.7
SE	0.7	2.7	8.1	8.1	6.3	3.7	5.7	1.8	2.2	8.1	6.9	3.6	:	:	:	8.6	3.8	2.2
EU	**0.7**	**2.9**	**9.2**	**8.3**	**6.4**	**4.9**	**6.5**	**3.5**	**2.4**	**9.3**	**6.5**	**3.6**	**:**		**:**	**:**	**:**	**:**

** Note: Average annual rate of HICP change is provided for 2020 to 2022, while information of annual rate of HICP change for the last month of the quarter is provided for Q1 to Q3 2023.*