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## **REPORT FROM THE COMMISSION**

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

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

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### 1. INTRODUCTION

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

Coordinated policy action has cushioned the impact of the COVID-19 pandemic on the economy since spring 2020. The activation of the general escape clause<sup>2</sup> of the Stability and Growth Pact since March 2020, coupled with the temporary framework on State aid, enabled large-scale fiscal support in all Member States. On 23 May 2022, the Commission considered that the conditions to maintain the general escape clause in 2023 and to deactivate it as of 2024 were met.<sup>3</sup>

#### *Previous policy recommendations*

On 20 July 2020, the Council recommended Member States to take all necessary measures in 2020 and 2021 to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery.<sup>4</sup> Member States were also recommended, when economic conditions allowed, to pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

A year later, on 18 June 2021, the Council adopted fiscal policy recommendations for 2022.<sup>5</sup> That guidance can be summarized as follows. Member States with low/medium debt should pursue or maintain a supportive fiscal stance, while Member States with high debt should use the Recovery and Resilience Facility (RRF) to finance additional investment in support of the recovery, while pursuing a prudent fiscal policy. All Member States should preserve nationally

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<sup>1</sup> OJ L 209, 2.8.1997, p. 6, as amended.

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

<sup>3</sup> COM(2022) 600 final.

<sup>4</sup> Council Recommendations of 20 July 2020 (2020/C 282/01 to 2020/C 282/27), OJ C 282, 26.8.2020, p. 1-182.

<sup>5</sup> Council Recommendations of 18 June 2021 (2021/C 304/01 to 2021/C 304/28, OJ C 304, 29.7.2021 p. 1-134). In the case of Romania the Council adopted, on the same day, a Recommendation with a view to bringing an end to the situation of an excessive government deficit (2021/C 304/24, 29.7.2021 p. 111-115).

financed investment. With a view to maximising support to the recovery without pre-empting future fiscal trajectories and creating a permanent burden on public finances, the growth of nationally financed current expenditure should be kept under control, and be limited by Member States with high debt. The Council also recommended that, when economic conditions allow, Member States pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, investment should be enhanced to boost growth potential. Similarly, the Council Recommendation of 13 July 2021 on the economic policy of the euro area indicated that fiscal policies should remain supportive in all euro area Member States throughout 2021.<sup>6</sup> The Council also recommended euro area Member States to pursue fiscal policies that aim to achieve prudent medium-term fiscal positions and to ensure debt sustainability, while enhancing investment.

On 5 April 2022, the Council Recommendation on the economic policy of the euro area<sup>7</sup> called for a continued use and coordinated national fiscal policies across Member States to effectively underpin a sustainable and inclusive recovery. Member States should maintain a moderately supportive fiscal stance in 2022 across the euro area, taking into account national budgets and the funding provided by the RRF. In addition, Member States should gradually pivot fiscal measures towards investments that promote a sustainable and inclusive recovery, consistent with the green and digital transitions, paying particular attention to the quality of budgetary measures. Reflecting the degree of uncertainty, Member States should keep fiscal policy agile in order to be able to react to the evolution of the COVID-19 pandemic. Fiscal policies should be differentiated taking into account the strength of the recovery, ensuring fiscal sustainability and enhancing investments, while bearing in mind the need to reduce divergences.

#### *Main data underlying and motivating this report*

According to data validated by Eurostat on 22 April 2022<sup>8</sup>, the 2021 general government deficits exceeded the 3% of GDP Treaty reference value in 14 Member States: **Belgium, Bulgaria, Czechia, Germany, Greece, Spain, France, Italy, Latvia, Hungary, Malta, Austria, Slovenia** and **Slovakia**.<sup>9</sup> Actual deficits for 2021 above 3% of GDP provide *prima facie* evidence of the existence of excessive deficits in those Member States<sup>10</sup>, as defined by Article 126 of the Treaty.

Based on their Stability or Convergence Programmes, the government deficits in **Estonia, Lithuania** and **Poland** are planned to exceed 3% of GDP in 2022 (this excess is confirmed by the Commission's 2022 spring forecast<sup>11</sup>). The deficits for 2022 planned in those programmes provide *prima facie* evidence of the existence of an excessive deficit in those three Member States.

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<sup>6</sup> Council Recommendation of 13 July 2021 on the economic policy of the euro area, OJ C 283, 15.7.2021, p. 1.

<sup>7</sup> Council Recommendation of 5 April 2022 on the economic policy of the euro area, OJ C 153, 7.4.2022, p. 1.

<sup>8</sup> Eurostat Euro Indicators 46/2022 of 22 April 2022.

<sup>9</sup> **Romania**'s government deficit also exceeded 3% of GDP in 2021. However, Romania is not covered in this report since it is under excessive deficit procedure since the Council Decision of 3 April 2020.

<sup>10</sup> In these cases the deficits for 2022 are also planned to be above 3% of GDP.

<sup>11</sup> The source for the figures provided in this report is the Commission's 2022 spring forecast, unless stated otherwise. More information in the 2022 Spring Economic Forecast: [https://ec.europa.eu/info/system/files/economy-finance/ip173\\_en.pdf](https://ec.europa.eu/info/system/files/economy-finance/ip173_en.pdf)

In Belgium, Germany, Greece, Spain, France, Italy, Hungary, Austria, Slovenia, Slovakia and Finland, the general government gross debt at the end of 2021 exceeded the 60% of GDP reference value.<sup>12</sup> Data for 2021 imply that Germany, Greece, Austria and Slovenia respected the debt reduction benchmark or, in the case of Spain, made sufficient progress towards meeting it. Belgium, France, Italy, Hungary and Finland did not respect the debt reduction benchmark in 2021. Slovakia breached the Treaty reference value of 60% of GDP at end-2021, having recorded a debt ratio of below 60% of GDP in the previous year. This provides *prima facie* evidence of the existence, in those six Member States (**Belgium, France, Italy, Hungary, Slovakia** and **Finland**), of an excessive deficit on the basis of the debt criterion.

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Against this background, the Commission has prepared this report in accordance with Article 126(3) of the Treaty. It analysis Member States' compliance with the deficit and debt criteria. It takes into account all relevant factors, including due consideration of the severe economic downturn resulting from the COVID-19 pandemic, the macroeconomic and budgetary impact of the invasion of Ukraine by Russia, and whether Member States' policies are in line with the Council Recommendations.

In its Communication of 2 March 2022,<sup>13</sup> the Commission already announced that it would not propose the opening of new excessive deficit procedures in spring 2022, as the COVID-19 pandemic continued to have an extraordinary macroeconomic and fiscal impact that, together with the invasion of Ukraine by Russia, created exceptional uncertainty, including for designing a detailed fiscal adjustment path. At the same time, the monitoring of deficit and debt developments will continue, and the Commission will re-assess the relevance of proposing to open excessive deficit procedures in autumn 2022.

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<sup>12</sup> In **Croatia, Cyprus** and **Portugal** the government debt at end 2021 was also above 60% of GDP. However, these Member States are not discussed in this report as their general government deficits in 2021 and 2022 were (and are projected to remain) below 3% of GDP and they respected the debt reduction benchmark in 2021.

<sup>13</sup> COM(2022) 85 final.

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

	Actual deficit exceeding (✘) or not exceeding (✓) 3% of GDP in 2021	Planned deficits exceeding (✘) or not exceeding (✓) 3% of GDP in 2022	Debt ratio exceeding (✘) or not exceeding (✓) 60% of GDP at end-2021
<b>Belgium</b>	✘	✘	✘
<b>Bulgaria</b>	✘	✘	✓
<b>Czechia</b>	✘	✘	✓
<b>Germany</b>	✘	✘	✘
<b>Estonia</b>	✓	✘	✓
<b>Greece</b>	✘	✘	✘
<b>Spain</b>	✘	✘	✘
<b>France</b>	✘	✘	✘
<b>Italy</b>	✘	✘	✘
<b>Latvia</b>	✘	✘	✓
<b>Lithuania</b>	✓	✘	✓
<b>Hungary</b>	✘	✘	✘
<b>Malta</b>	✘	✘	✓
<b>Austria</b>	✘	✘	✘
<b>Poland</b>	✓	✘	✓
<b>Slovenia</b>	✘	✘	✘
<b>Slovakia</b>	✘	✘	✘
<b>Finland</b>	✓	✓	✘
<i>p.m.: Member States not considered in this report</i>			
<i>Denmark</i>	✓	✓	✓
<i>Ireland</i>	✓	✓	✓
<i>Croatia</i>	✓	✓	✘
<i>Cyprus</i>	✓	✓	✘
<i>Luxembourg</i>	✓	✓	✓
<i>Netherlands</i>	✓	✓	✓
<i>Portugal</i>	✓	✓	✘
<i>Sweden</i>	✓	✓	✓
<i>Romania*</i>	✘	✘	✓

(\*) In excessive deficit procedure since 2020.

Source: Eurostat, Commission 2022 spring forecast and 2022 Stability and Convergence Programmes

## 2. DEFICIT CRITERION

Belgium, Bulgaria, Czechia, Germany, Estonia, Greece, Spain, France, Italy, Latvia, Lithuania, Hungary, Malta, Austria, Poland, Slovenia and Slovakia exceeded the deficit reference value in 2021 or plan to exceed it in 2022.

For all those Member States, the deficits in excess over the reference value in 2021 or the planned excesses in 2022 are *exceptional*. In 2021, these excesses resulted from the impact on public finances of the economic downturn triggered by the outbreak of the COVID-19 pandemic, and the coordinated fiscal policy response by Member States. The coordinated fiscal policy support in 2020 and 2021 was key to sustain the economic recovery. In 2022, the measures taken by Member States to cushion the economic and social impact of energy prices

and to provide humanitarian assistance to those fleeing Ukraine following the invasion by Russia also contribute to high planned deficits.

The government deficits were *above and not close* to the reference value in Belgium, Bulgaria, Czechia, Germany, Greece, Spain, France, Italy, Latvia, Hungary, Malta, Austria, Slovenia and Slovakia (see Table 2).

Estonia, Lithuania and Poland had government deficits *below* the Treaty reference value in 2021, but are planning deficits *above and not close* to 3% of GDP in 2022; this is confirmed by the Commission's 2022 spring forecast (hereafter Commission's forecast).

The government deficits in Bulgaria, Germany, Greece, Latvia, Lithuania, Austria and Slovakia are projected to fall below 3% of GDP in 2023 (already in 2022 in the case of Germany). Therefore, although their deficits have been above 3% of GDP since 2020, the deficits in excess over the reference value are expected to be *temporary* in the sense of the Stability and Growth Pact. These deficit projections for 2022 and 2023 are, however, surrounded by an exceptionally high degree of uncertainty.

*In sum*, this initial analysis suggests that the deficit criterion is not fulfilled by 17 Member States before the consideration of the relevant factors as appropriate: **Belgium, Bulgaria, Czechia, Germany, Estonia, Greece, Spain, France, Italy, Latvia, Lithuania, Hungary, Malta, Austria, Poland, Slovenia and Slovakia.**

**Table 2: General government balance**

Percentage of GDP						
	2018	2019	2020	2021	2022	2023
<b>Belgium</b>	-0.9	-2.0	-9.0	-5.5	-5.0	-4.4
<b>Bulgaria</b>	1.7	2.1	-4.0	-4.1	-3.7	-2.4
<b>Czechia</b>	0.9	0.3	-5.8	-5.9	-4.3	-3.9
<b>Germany</b>	1.9	1.5	-4.3	-3.7	-2.5	-1.0
<b>Estonia</b>	-0.6	0.1	-5.6	-2.4	-4.4	-3.7
<b>Greece</b>	0.9	1.1	-10.2	-7.4	-4.3	-1.0
<b>Spain</b>	-2.6	-3.1	-10.3	-6.9	-4.9	-4.4
<b>France</b>	-2.3	-3.1	-8.9	-6.5	-4.6	-3.2
<b>Italy</b>	-2.2	-1.5	-9.6	-7.2	-5.5	-4.3
<b>Latvia</b>	-0.8	-0.6	-4.5	-7.3	-7.2	-3.0
<b>Lithuania</b>	0.5	0.5	-7.3	-1.0	-4.6	-2.3
<b>Hungary</b>	-2.1	-2.1	-7.8	-6.8	-6.0	-4.9
<b>Malta</b>	2.1	0.6	-9.5	-8.0	-5.6	-4.6
<b>Austria</b>	0.2	0.6	-8.0	-5.9	-3.1	-1.5
<b>Poland</b>	-0.2	-0.7	-6.9	-1.9	-4.0	-4.4
<b>Slovenia</b>	0.7	0.4	-7.8	-5.2	-4.3	-3.4
<b>Slovakia</b>	-1.0	-1.3	-5.5	-6.2	-3.6	-2.6
<b>Finland</b>	-0.9	-0.9	-5.5	-2.6	-2.2	-1.7
<i>p.m.: Member States not considered in this report</i>						
<i>Denmark</i>	0.8	4.1	-0.2	2.3	0.9	0.6
<i>Ireland</i>	0.1	0.5	-5.1	-1.9	-0.5	0.4
<i>Croatia</i>	0.0	0.2	-7.3	-2.9	-2.3	-1.8
<i>Cyprus</i>	-3.6	1.3	-5.8	-1.7	-0.3	-0.2
<i>Luxembourg</i>	3.0	2.3	-3.4	0.9	-0.1	0.1
<i>Netherlands</i>	1.4	1.7	-3.7	-2.5	-2.7	-2.1
<i>Portugal</i>	-0.3	0.1	-5.8	-2.8	-1.9	-1.0
<i>Sweden</i>	0.8	0.6	-2.7	-0.2	-0.5	0.5
<i>Romania*</i>	-2.8	-4.3	-9.3	-7.1	-7.5	-6.3

(\*) In excessive deficit procedure since 2020.

Source: Eurostat and Commission 2022 spring forecast

### 3. DEBT CRITERION

Among the countries discussed in this report, general government gross debt at end-2021 exceeded 60% of GDP in eleven Member States: Belgium, Germany, Greece, Spain, France, Italy, Hungary, Austria, Slovenia, Slovakia and Finland (see Table 3). Compared to the previous year, the government debt ratio decreased in all those Member States except in Germany and Slovakia.

Data show that in 2021 the debt reduction benchmark was respected in Germany, Greece, Austria and Slovenia (see Table 4). It was not respected by Belgium, France, Italy, Hungary and Finland. The debt reduction benchmark is computed over a three-year horizon that can be

forward-looking (t-1 to t+1), backward-looking (t-3 to t-1) and adjusted for the cycle.<sup>14</sup> While the debt reduction benchmark cannot be meaningfully computed for Slovakia, its debt ratio is expected to decrease to below 60% of GDP already in 2023. Spain, which is subject to a transitional debt rule, made sufficient progress towards meeting the debt reduction benchmark in 2021, as the change in the structural balance was above their required minimum linear structural adjustment (see Table 5 and respective notes).

*In sum*, the analysis thus suggests that the debt criterion is fulfilled by **Germany, Greece, Spain, Austria, Slovenia and Slovakia**, while it is not fulfilled, before the consideration of the relevant factors, by **Belgium, France, Italy, Hungary and Finland**.

Having said this, as noted in its Communication of 2 March 2022, the Commission considers, within its assessment of all relevant factors, that compliance with the debt reduction benchmark would imply a too demanding frontloaded fiscal effort that risks to jeopardise growth. Therefore, in the view of the Commission, compliance with the debt reduction benchmark is not warranted under the current exceptional economic conditions.

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<sup>14</sup> If, in any of the years, the debt ratio is below 60% of GDP, the benchmark cannot be meaningfully computed. This is the case when Member States cross the reference value from below to above 60% of GDP, notably in the case of Slovakia.



**Table 3: General government debt**

Percentage of GDP						
	2018	2019	2020	2021	2022	2023
<b>Belgium</b>	99.8	97.7	112.8	108.2	107.5	107.6
<b>Bulgaria</b>	22.1	20.0	24.7	25.1	25.3	25.6
<b>Czechia</b>	32.1	30.1	37.7	41.9	42.8	44.0
<b>Germany</b>	61.2	58.9	68.7	69.3	66.4	64.5
<b>Estonia</b>	8.2	8.6	19.0	18.1	20.9	23.5
<b>Greece</b>	186.4	180.7	206.3	193.3	185.7	180.4
<b>Spain</b>	100.5	98.3	120.0	118.4	115.1	113.7
<b>France</b>	97.8	97.4	114.6	112.9	111.2	109.1
<b>Italy</b>	134.4	134.1	155.3	150.8	147.9	146.8
<b>Latvia</b>	37.1	36.7	43.3	44.8	47.0	46.5
<b>Lithuania</b>	33.7	35.9	46.6	44.3	42.7	43.1
<b>Hungary</b>	69.1	65.5	79.6	76.8	76.4	76.1
<b>Malta</b>	43.7	40.7	53.4	57.0	58.5	59.5
<b>Austria</b>	74.1	70.6	83.3	82.8	80.0	77.5
<b>Poland</b>	48.8	45.6	57.1	53.8	50.8	49.8
<b>Slovenia</b>	70.3	65.6	79.8	74.7	74.1	72.7
<b>Slovakia</b>	49.6	48.1	59.7	63.1	61.7	58.3
<b>Finland</b>	59.8	59.6	69.0	65.8	65.9	66.6
<i>p.m.: Member States not considered in this report</i>						
<i>Denmark</i>	<i>34.0</i>	<i>33.6</i>	<i>42.1</i>	<i>36.7</i>	<i>34.9</i>	<i>33.9</i>
<i>Ireland</i>	<i>63.1</i>	<i>57.2</i>	<i>58.4</i>	<i>56.0</i>	<i>50.3</i>	<i>45.5</i>
<i>Croatia</i>	<i>73.3</i>	<i>71.1</i>	<i>87.3</i>	<i>79.8</i>	<i>75.3</i>	<i>73.1</i>
<i>Cyprus</i>	<i>98.4</i>	<i>91.1</i>	<i>115.0</i>	<i>103.6</i>	<i>93.9</i>	<i>88.8</i>
<i>Luxembourg</i>	<i>20.8</i>	<i>22.3</i>	<i>24.8</i>	<i>24.4</i>	<i>24.7</i>	<i>25.1</i>
<i>Netherlands</i>	<i>52.4</i>	<i>48.5</i>	<i>54.3</i>	<i>52.1</i>	<i>51.4</i>	<i>50.9</i>
<i>Portugal</i>	<i>121.5</i>	<i>116.6</i>	<i>135.2</i>	<i>127.4</i>	<i>119.9</i>	<i>115.3</i>
<i>Sweden</i>	<i>38.9</i>	<i>34.9</i>	<i>39.6</i>	<i>36.7</i>	<i>33.8</i>	<i>30.5</i>
<i>Romania*</i>	<i>34.7</i>	<i>35.3</i>	<i>47.2</i>	<i>48.8</i>	<i>50.9</i>	<i>52.6</i>

(\*) In excessive deficit procedure since 2020.

Source: Eurostat and Commission 2022 spring forecast

**Table 4: Gap to the debt reduction benchmark<sup>1</sup>***A negative gap means compliance with the debt reduction benchmark*

Percentage of GDP						
	2018	2019	2020	2021	2022	2023
<b>Belgium</b>	0.1	-0.4	5.6	2.9	-0.1	2.9
<b>Germany</b>	-6.4	Debt < 60%	n.a. <sup>2</sup>	-2.8	-3.1	-2.8
<b>Greece</b>	Transitional debt rule		5.0	-1.3	0.2	-1.3
<b>France</b>	Transitional debt rule			1.4	0.9	1.4
<b>Italy</b>	6.9	6.9	9.2	4.4	2.1	4.4
<b>Hungary</b>	-3.7	-5.3	3.6	0.3	-1.4	0.3
<b>Austria</b>	-5.8	-6.0	2.8	-2.3	-3.3	-2.3
<b>Slovenia</b>	Transitional debt rule	-7.2	1.9	-1.8	0.2	-1.8
<b>Slovakia</b>	Debt < 60%			n.a. <sup>2</sup>	Debt < 60%	
<b>Finland</b>	Debt < 60%		n.a. <sup>2</sup>	0.4	0.4	-0.2
<i>p.m.: Member States not considered in this report</i>						
<b>Croatia</b>	-4.6	-3.8	-2.4	-5.5	-6.2	-5.5
<b>Cyprus</b>	Transitional debt rule		-3.3	-5.3	-10.8	-10.8
<b>Portugal</b>	Transitional debt rule		-0.2	-5.5	-8.3	-5.5

Source: Commission 2022 spring forecast and own calculations.

<sup>1</sup> The debt reduction benchmark, for the Member States with a debt in excess of 60% of GDP, is computed over a three-year horizon that can be forward-looking (t-1 to t+1), backward-looking (t-3 to t-1) and adjusted for the cycle. The table shows the difference between the debt-to-GDP ratio and the debt benchmark. If negative, the projected debt-to-GDP ratio complies with the debt reduction benchmark. In that case, the differential with respect to the reference value decreased over a three-year horizon (forward- or backward-looking) at least at an average rate of 1/20<sup>th</sup>.

<sup>2</sup> The debt reduction benchmark is not pertinent in the first year when a Member State's debt increases to above 60% of GDP as neither the backward- nor the forward-looking benchmarks can be meaningfully computed.

**Table 5: Compliance with the transitional debt rule**

	Required Minimum Linear Structural Adjustment (MLSA) <sup>3</sup>				Change in structural balance <sup>3</sup>			Gap to the debt reduction benchmark <sup>4</sup>		
	2018	2019	2020	2021	2019	2020	2021	2021	2022	2023
<b>Spain</b>	EDP <sup>1</sup>	-1.3	-1.9	-5.5	-1.1	-0.4	0.4	n.r. <sup>2</sup>	-5.6	1.5

Source: Commission 2022 spring forecast and own calculations.

<sup>1</sup> Under excessive deficit procedure

<sup>2</sup> Spain corrected its excessive deficit in 2018 and therefore was in the transition period until end-2021, i.e. it is not assessed on the basis of the debt reduction benchmark, but according to the minimum linear structural adjustment.

<sup>3</sup> Applicable during the transition period of three years after the correction of the excessive deficit, for excessive deficit procedures that were ongoing in November 2011. The MLSA defines the remaining annual structural adjustment over the transition period, which would ensure that Member States comply with the debt reduction benchmark at the end of those three years. If the change in structural balance is above the required MLSA, then the Member State complies with the transitional debt rule.

<sup>4</sup> The debt reduction benchmark, for the Member States with a debt in excess of 60% of GDP, is computed over a three-year horizon that can be forward-looking (t-1 to t+1), backward-looking (t-3 to t-1) and adjusted for the cycle. The table shows the difference between the debt-to-GDP ratio and the debt benchmark. If negative, the projected debt-to-GDP ratio complies with the debt reduction benchmark. In that case, the differential with respect to the reference value decreases over a three-year horizon (forward- or backward-looking) at least at an average rate of 1/20<sup>th</sup>.

#### 4. RELEVANT FACTORS

Article 126(3) of the Treaty provides that this report must “take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State”.

Those factors are further clarified in Article 2(3) of Regulation (EC) No 1467/97, which also provides that “any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and to the Commission” need to be given due consideration. In particular, that Article indicates that the medium-term debt position can also be considered as a relevant factor.

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

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

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

Of the Member States exceeding the deficit reference value in 2021, or planning to exceed that value in 2022, the debt ratio did not exceed the 60% reference value in the case of seven Member States: Bulgaria, Czechia, Estonia, Latvia, Lithuania, Malta and Poland.

In the remaining 10 Member States exceeding the 3% of GDP deficit reference value – *i.e.* Belgium, Germany, Greece, Spain, France, Italy, Hungary, Austria, Slovenia and Slovakia – the debt-to-GDP ratio exceeded the 60% reference value and the double condition necessary for relevant factors to be taken into account has not been met. Their deficits did not (or are not expected to) remain *close to* the reference value in these 10 Member States. In the case of Belgium, Spain, France, Italy, Hungary and Slovenia, the excess over the reference value is expected not to be *temporary* either. Therefore, for these 10 Member States, relevant factors cannot be taken into account in the steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion.

Concerning the apparent breach of the debt criterion by Belgium, France, Italy, Hungary and Finland, Article 2(4) of Regulation (EC) No 1467/97 provides that relevant factors shall always be taken into account when assessing compliance on the basis of the debt criterion, irrespective of the size of the breach.

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

#### 4.1. HORIZONTAL RELEVANT FACTORS

A key factor to take into consideration for all the Member States covered in this report is the economic and budgetary impact of the COVID-19 pandemic and the fiscal response. The pandemic and the related severe economic downturn have led to the activation of the general escape clause of the Stability and Growth Pact and to the Council Recommendations of 13 and 20 July 2020 for Member States<sup>15</sup> to take all necessary measures to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery.

The outbreak of the COVID-19 pandemic in March 2020 caused a public health crisis, which entailed a sharp decline in economic activity only partially cushioned by the effect of automatic stabilisers. Member States faced an imperative of addressing the public health emergency, supporting households and corporates, and providing general support to their economies. Significant liquidity support measures and state guarantees have also been adopted by the Member States.<sup>16</sup>

The forceful fiscal policy support at the national and at EU levels backed the improvement in economic conditions in 2021. Based on the latest data, cumulated fiscal support in the Union in 2020-2021<sup>17</sup> is estimated at 11.6% of GDP (and at 11.9% of GDP in the euro area).

The fiscal stance<sup>18</sup> in the EU as a whole – including public expenditure financed by grants from the RRF and other EU funds<sup>19</sup> – is estimated to have been expansionary by 0.1% of GDP in 2020 and 0.9% in 2021.

Moreover, Russia's invasion of Ukraine since February 2022 implies that the economic and budgetary outlook for 2022 and beyond is subject to extraordinary economic uncertainty. It has made millions of people flee their country to safety, requiring support from the social, education and health systems of the Member States. Significantly higher energy, raw materials and food prices, and increasing supply disruptions also have an impact on macroeconomic conditions. All these factors together with increased cost of defence expenditure put pressure on public finances.

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<sup>15</sup> Council Recommendation of 13 July 2020 is only relevant for the euro area Member States.

<sup>16</sup> These liquidity support measures, in particular public guarantees in support of credit flows, do not have a direct budgetary impact unless and until they are called.

<sup>17</sup> Fiscal support in 2020-2021 can be measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019, plus the fiscal impulse provided by the EU funds.

<sup>18</sup> Following the approach in the Council Recommendation of 18 June 2021, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

<sup>19</sup> Excluding COVID-19 temporary emergency measures.

## 4.2. COUNTRY-SPECIFIC RELEVANT FACTORS

This section provides an assessment of country-specific relevant factors. These factors include the medium-term macroeconomic outlook, the medium-term budgetary position (including public investment; see Table 6), the medium-term debt position, whether the Member State is experiencing macroeconomic imbalances or excessive macroeconomic imbalances, and any other relevant factors put forward by Member States in accordance with Article 2(3) of Regulation (EC) No 1467/97.

While the country-specific sections include key information on the medium-term macroeconomic position, including on the contributions to growth, more detail on the macroeconomic developments can be found in the Commission's forecast. Further information regarding the budgetary measures and the debt sustainability analysis discussed for each Member State hereunder is included in the Commission Recommendations for Council Recommendations providing Opinions on the 2022 Stability or Convergence Programmes and the accompanying Fiscal Statistical Tables, as well as in the 2022 Country Reports. The debt sustainability analysis has been updated compared to the 2021 Fiscal Sustainability Report<sup>20</sup> by reflecting the Commission's forecast.

The war has dramatically changed the picture, by bringing renewed disruptions in global supply, fuelling further commodity price pressures and heightening uncertainty. According to the Commission's forecast, real GDP in the EU is set to slow from an estimated 5.4% in 2021 to 2.7% in 2022 and 2.3% 2023. Inflation is projected to be higher and remain elevated for longer than previously expected, driven by commodity price increases and broadening price pressures.

In 2021, the government deficit for the EU and euro area as a whole decreased to 4.7% of GDP and 5.1% respectively (a reduction of around 2 percentage points of GDP, in both cases). It is projected to continue to decrease to 3.6% and 3.7% of GDP in 2022 for the EU and euro area as a whole, respectively, and to decrease further in 2023 to 2.5% of GDP.

The deficit decrease in 2021 was mainly due to the economic recovery and the unwinding of much of the discretionary policy support activated to combat the effects of the COVID-19 pandemic crisis. Moreover, revenue developments were favourable in 2021. The only Member States, of those considered in this report, for whom the deficit ratio did not decrease in 2021 were Bulgaria, Czechia, Latvia and Slovakia, as measures to support the economy during the COVID-19 crisis remained in place. In 2022, among the Member States considered in this report, the deficit ratio is forecast to increase for Estonia, Lithuania and Poland, mostly reflecting additional spending on measures mitigating the impact of energy price rises and the cost of aid to the displaced persons from Ukraine.

Following the deficit-decreasing trend and the economic recovery, the government debt is expected to decrease over the forecast horizon for the EU and euro area as a whole. The debt-to-GDP ratio in the EU fell from 91.7% in 2020 to 89.7% in 2021 (99.2% and 97.4% for the euro area, respectively), and is projected to decrease further to 87.1% and 85.2% in 2022 and 2023 (94.7% and 92.7% for the euro area, respectively). From the Member States considered in this report, the government debt ratio did not decrease in 2021 for Bulgaria, Czechia, Germany, Latvia, Malta and Slovakia.

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<sup>20</sup> Fiscal Sustainability Report 2021 (April 2022), *European Economy-Institutional Papers* 171.

**Table 6: Public investment**

Percentage of GDP

	2018	2019	2020	2021	2022	2023
<b>Belgium</b>	2.6	2.6	2.7	2.7	2.8	2.8
<b>Bulgaria</b>	3.1	3.3	3.8	3.3	5.0	5.4
<b>Czechia</b>	4.1	4.4	4.9	4.7	4.9	5.2
<b>Germany</b>	2.4	2.4	2.6	2.5	2.7	2.8
<b>Estonia</b>	5.3	5.0	5.8	5.7	6.3	6.8
<b>Greece</b>	3.2	2.5	3.1	3.6	4.8	4.8
<b>Spain</b>	2.1	2.1	2.6	2.7	2.7	2.6
<b>France</b>	3.4	3.7	3.7	3.6	3.6	3.6
<b>Italy</b>	2.1	2.3	2.6	2.9	3.2	3.7
<b>Latvia</b>	5.6	5.1	5.7	5.2	6.1	5.8
<b>Lithuania</b>	3.2	3.1	4.1	3.2	3.7	3.3
<b>Hungary</b>	5.8	6.2	6.4	5.8	5.4	5.9
<b>Malta</b>	3.2	3.8	4.5	4.2	4.1	4.2
<b>Austria</b>	3.1	3.1	3.3	3.5	3.7	3.3
<b>Poland</b>	4.7	4.3	4.5	4.1	4.2	3.9
<b>Slovenia</b>	3.7	3.8	4.1	4.7	5.7	6.3
<b>Slovakia</b>	3.7	3.6	3.5	3.2	4.2	5.1
<b>Finland</b>	4.3	4.4	4.9	4.1	4.4	4.5
<i>p.m.: Member States not considered in this report</i>						
<i>Denmark</i>	3.4	3.2	3.6	3.5	3.5	3.8
<i>Ireland</i>	2.0	2.3	2.3	2.0	2.3	2.3
<i>Croatia</i>	3.5	4.3	5.6	4.8	5.3	5.7
<i>Cyprus</i>	4.9	2.5	2.8	2.7	2.7	2.6
<i>Luxembourg</i>	3.9	4.1	4.7	4.0	4.1	4.2
<i>Netherlands</i>	3.4	3.4	3.6	3.3	3.3	3.4
<i>Portugal</i>	1.8	1.8	2.2	2.5	3.1	3.4
<i>Sweden</i>	4.9	4.9	5.0	4.8	4.8	4.8
<i>Romania*</i>	2.7	3.5	4.6	4.2	5.9	6.0

(\*) In excessive deficit procedure since 2020.

Source: Eurostat and Commission 2022 spring forecast

#### 4.2.1. BELGIUM

**Medium-term macroeconomic position:** After a contraction of 5.7% in 2020, the economy grew by 6.2% in 2021 and is expected to grow by 2% in 2022 and 1.8% in 2023. Growth in 2022 is mainly driven by private and public consumption. Economic activity has exceeded its annual 2019 level in 2021.

**Medium-term budgetary position, including investment:** The government deficit decreased from 9% in 2020 to 5.5% of GDP in 2021. It is projected to be at 5% and 4.4% of GDP in 2022 and 2023, respectively. After increasing to 2.7% of GDP in 2020, government investment remained stable in 2021 and is projected to increase to 2.8% of GDP in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 11.3% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Belgium in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Belgium's 2022 Stability Programme, the fiscal stance is projected to be supportive at -2.4% of GDP.<sup>21</sup> Belgium plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.2% percentage points of GDP compared to 2021. Nationally financed investment is projected to provide a neutral contribution to the fiscal stance in 2022. Therefore, Belgium plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 2.1 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.5% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). Furthermore, the increase in government spending due to the automatic indexation of public sector wages and social benefits, and to a lower extent to higher government consumption of goods and services, are also projected to contribute to the expansionary contribution of nationally financed (net) primary current expenditure. Based on the Commission's forecast, these measures and drivers of higher expenditure are not fully matched by offsetting measures.

**Medium-term debt position:** The government debt increased from 97.7% at the end of 2019 to 112.8% of GDP at the end of 2020. It stood at 108.2% of GDP at the end of 2021 and it is projected at 107.5% and 107.6% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates high risks over the medium term.<sup>22</sup> According to the baseline 10-year projection, the general government debt ratio would stay around 108% of GDP until 2026. However, as of 2027 the debt ratio would start to increase to 117% of GDP in 2032. The baseline debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to

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<sup>21</sup> A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

<sup>22</sup> SWD(2022) 602 final, Annex on *Debt Sustainability Analysis*.

macroeconomic variables, it is probable that the debt ratio would be higher in 2026 than in 2021. There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risks-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investor base), government debt being fully denominated in euro and historically low borrowing costs. In addition, the implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a positive and lasting impact on GDP growth, which should strengthen debt sustainability. On the other hand, risk-increasing factors relate to the share of short-term debt, high and expected to rise gross financing needs, the large share of government debt held by non-residents and the lack of fiscal coordination among the different government levels, with several of the federated entities displaying specific vulnerabilities.

**Other factors put forward by the Member State:** On 9 May 2022, Belgium provided additional relevant factors not yet mentioned above. Namely, it emphasises that emergency support and reconstruction costs related to the floods that hit the country in July 2021 amounted to an estimated 0.4% of GDP in 2021 and to 0.1% of GDP in 2022. It also refers to a recently adopted labour market reform aiming at improving training and skills, allowing for a better reconciliation of private and professional life, and facilitating job-to-job transitions, and which could contribute to raise the employment rate. Finally, it mentions the government's intention to pursue several structural reforms that can potentially improve the public finance situation, including reforming the pension and tax systems, implementing spending reviews and raising the level of public investment.

#### 4.2.2. BULGARIA

**Medium-term macroeconomic position:** After a contraction of 4.4% in 2020, the economy grew by 4.2% in 2021 and is expected to grow by 2.1% in 2022 and 3.1% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

**Medium-term budgetary position, including investment:** The government deficit increased from 4% in 2020 to 4.1% of GDP in 2021. It is projected to be at 3.7% and 2.4% of GDP in 2022 and 2023, respectively. After increasing to 3.8% of GDP in 2020, government investment decreased to 3.3% of GDP in 2021 and is projected to increase to 5% of GDP in 2022, with the latter being larger than the government deficit in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 14.9% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Bulgaria in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Bulgaria's 2022 Convergence Programme, the fiscal stance is projected to be supportive at -3.4% of GDP, as recommended by the Council. Bulgaria plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 1.1 percentage points



of GDP compared to 2021.<sup>23</sup> Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 1.1 percentage points of GDP in 2022. Therefore, Bulgaria plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.4 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.2 percentage points of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1 percentage point of GDP), while pension system amendments (0.6%) and wage increases (0.3% of GDP) are also projected to contribute to the growth in net current expenditure. Therefore, on the basis of current Commission estimates, Bulgaria does not sufficiently keep under control the growth of nationally financed current expenditure in 2022.

**Medium-term debt position:** The government debt increased from 20% at the end of 2019 to 24.7% of GDP at the end of 2020. It stood at 25.1% of GDP at the end of 2021 and it is projected at 25.3% and 25.6% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term.<sup>24</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Bulgaria on 10 May 2022.

### 4.2.3. CZECHIA

**Medium-term macroeconomic position:** After a contraction of 5.8% in 2020, the economy grew by 3.3% in 2021 and is expected to grow by 1.9% in 2022 and 2.7% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2023.

**Medium-term budgetary position, including investment:** The government deficit increased from 5.8% in 2020 to 5.9% of GDP in 2021. It is projected to be at 4.3% and 3.9% of GDP in 2022 and 2023, respectively. After increasing to 4.9% of GDP in 2020, government investment decreased to 4.7% of GDP in 2021 and is projected to increase to 4.9% of GDP in 2022, with the latter being larger than the government deficit in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 14.3% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Czechia in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Czechia's 2022 Convergence Programme, the fiscal stance is projected to be broadly neutral at +0.1% of GDP, while Council recommended a supportive stance. Czechia plans to provide continued support to the recovery by making use of the RRF to finance

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<sup>23</sup> The Commission adopted a positive assessment of Bulgaria's Recovery and Resilience Plan on 7 April 2022.

<sup>24</sup> SWD(2022) 603 final, Annex on *Debt Sustainability Analysis*.

additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 1.0 percentage point of GDP compared to 2021. Nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.6 percentage points in 2022. Therefore, Czechia does not plan to preserve nationally financed investment. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a contractionary contribution of 0.7 percentage points to the overall fiscal stance. This includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.03% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.4 % of GDP).

**Medium-term debt position:** The government debt increased from 30.1% at the end of 2019 to 37.7% of GDP at the end of 2020. It stood at 41.9% of GDP at the end of 2021 and it is projected at 42.8% and 44% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term.<sup>25</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Czechia on 11 May 2022.

#### 4.2.4. GERMANY

**Medium-term macroeconomic position:** After a contraction of 4.6% in 2020, the economy grew by 2.9% in 2021 and is expected to grow by 1.6% in 2022 and 2.4% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2023.

**Medium-term budgetary position, including investment:** The government deficit decreased from 4.3% in 2020 to 3.7% of GDP in 2021. It is projected to be at 2.5% and 1% of GDP in 2022 and 2023, respectively. After increasing to 2.6% of GDP in 2020, government investment decreased to 2.5% of GDP in 2021 and is projected to increase to 2.7% of GDP in 2022, with the latter being larger than the government deficit in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 11.8% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Germany in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Germany's 2022 Stability Programme, the fiscal stance is projected to be supportive at -1.6% of GDP as recommended by the Council. Germany plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to remain stable compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the

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<sup>25</sup> SWD(2022) 605 final, Annex on *Debt Sustainability Analysis*.

fiscal stance of 0.2 percentage points in 2022. Therefore, Germany plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.5 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.7% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP), while additional spending for the green transition (0.2% of GDP) is also projected to contribute to the growth in net current expenditure.

**Medium-term debt position:** The government debt increased from 58.9% at the end of 2019 to 68.7% of GDP at the end of 2020. It stood at 69.3% of GDP at the end of 2021 and it is projected at 66.4% and 64.5% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates low risks over the medium term.<sup>26</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Assessment under the MIP:** Germany is experiencing imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to a persistent large current account surplus, which reflects subdued investment relative to savings, and has cross-border relevance. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Germany on 9 May 2022.

#### 4.2.5. ESTONIA

**Medium-term macroeconomic position:** After a contraction of 3% in 2020, the economy grew by 8.3% in 2021 and is expected to grow by 1% in 2022 and 2.4% in 2023. Growth in 2022 is mainly driven by net exports and private consumption. Economic activity has exceeded its annual 2019 level in 2021.

**Medium-term budgetary position, including investment:** The government deficit decreased from 5.6% in 2020 to 2.4% of GDP in 2021. It is projected to be at 4.4% and 3.7% of GDP in 2022 and 2023, respectively. After increasing to 5.8% of GDP in 2020, government investment decreased to 5.7% of GDP in 2021 and is projected to increase to 6.3% of GDP in 2022, being larger than the government deficit in 2021 and 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 11.5% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Estonia in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Estonia's 2022 Stability Programme, the fiscal stance is projected to be supportive, at -2.4% of GDP, as recommended by the Council. Estonia plans to provide continued support to the recovery by making use of the RRF to finance additional investment

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<sup>26</sup> SWD(2022) 607 final, Annex on *Debt Sustainability Analysis*.

as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.1 percentage point compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.6 percentage points in 2022. Therefore, Estonia plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.4 percentage points to the overall fiscal stance. This significant expansionary contribution includes, amongst others, increases in wages and social transfers as well as the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.5% of GDP) and of the costs to offer temporary protection to displaced persons from Ukraine (0.4% of GDP).

**Medium-term debt position:** The government debt increased from 8.6% at the end of 2019 to 19% of GDP at the end of 2020. It stood at 18.1% of GDP at the end of 2021 and it is projected at 20.9% and 23.5% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates low risks over the medium term.<sup>27</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Estonia on 6 May 2022.

#### 4.2.6. GREECE

**Medium-term macroeconomic position:** After a contraction of 9% in 2020, the economy grew by 8.3% in 2021 and is expected to grow by 3.5% in 2022 and 3.1% in 2023. Growth in 2022 is mainly driven by investment and private consumption. Economic activity is forecast to return to its annual 2019 level in 2022.

**Medium-term budgetary position, including investment:** The government deficit decreased from 10.2% in 2020 to 7.4% of GDP in 2021. It is projected to be at 4.3% and 1% of GDP in 2022 and 2023, respectively. After increasing to 3.1% of GDP in 2020, government investment increased to 3.6% of GDP in 2021 and is projected to increase further to 4.8% of GDP in 2022, with the latter being larger than the government deficit in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 26.4% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Greece in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Greece's 2022 Stability Programme, the fiscal stance is projected to be supportive at –3.3% of GDP. Greece plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.2 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of

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<sup>27</sup> SWD(2022) 608 final, Annex on *Debt Sustainability Analysis*.

0.8 percentage points in 2022. Therefore, Greece plans preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 2.2 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.6 % of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP), while the increased expenditure for pensions and social benefits is also projected to contribute (0.6% of GDP) to the growth in net current expenditure. Based on the Commission's forecast, these measures are not fully matched by offsetting measures.

**Medium-term debt position:** The government debt increased from 180.7% at the end of 2019 to 206.3% of GDP at the end of 2020. It stood at 193.3% of GDP at the end of 2021 and it is projected at 185.7% and 180.4% of GDP at the end of 2022 and 2023, respectively. Greece is under enhanced surveillance.<sup>28</sup> Overall, the debt sustainability analysis indicates high risks over the medium term.<sup>29</sup> According to the baseline 10-year projection, the government debt ratio would decline over the period to around 131% of GDP in 2032. The debt trajectory is highly sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, it is probable that debt would not stabilise by 2026 and there is a high uncertainty surrounding the baseline. There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risks-mitigating factors include the large share of debt held by official lenders at low interest rates, the particularly long maturity structure of debt compared with peer countries. The currency denomination of debt and historically low financing costs also contribute to mitigate risks. In addition, the implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a positive and lasting impact on GDP growth, which should strengthen debt sustainability. On the other hand, risk-increasing factors relate to the state guarantees granted recently, also in the context of the COVID-19 crisis. Significant contingent liability risks stemming from the high share of non-performing loans in the banking sector and the costs linked to pending legal cases against the state also pose fiscal risks.

**Assessment under the MIP:** Greece is experiencing excessive imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to high government debt, incomplete external rebalancing and high non-performing loans in a context of low potential growth and high unemployment. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Greece on 9 May 2022.

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<sup>28</sup> Commission Implementing Decision (EU) 2022/216 of 15 February 2022 on the prolongation of enhanced surveillance for Greece (OJ L37, 18.2.2022, p. 34).

<sup>29</sup> SWD(2022) 609 final, Annex on *Debt Sustainability Analysis*.

#### 4.2.7. SPAIN

**Medium-term macroeconomic position:** After a contraction of 10.8% in 2020, the economy grew by 5.1% in 2021 and is expected to grow by 4% in 2022 and 3.4% in 2023. Growth in 2022 is mainly driven by net exports and investment. Economic activity is forecast to return to its annual 2019 level in 2023.

**Medium-term budgetary position, including investment:** The government deficit decreased from 10.3% in 2020 to 6.9% of GDP in 2021. It is projected to be at 4.9% and 4.4% of GDP in 2022 and 2023, respectively. After increasing to 2.6% of GDP in 2020, government investment increased to 2.7% of GDP in 2021 and is projected to remain stable in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 12.8% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Spain in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in its 2022 Stability Programme, the fiscal stance is projected to be supportive at -2.2% of GDP. Spain plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.9 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.4 percentage points in 2022. Therefore, Spain plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.2 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.3% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP), while the higher increase in consumer prices compared to the GDP deflator is projected to affect the expansionary contribution of nationally financed primary current expenditure in 2022 by increasing spending on government consumption of goods and services. Based on the Commission's forecast, these measures are not fully matched by offsetting measures.

**Medium-term debt position:** The government debt increased from 98.3% at the end of 2019 to 120% of GDP at the end of 2020. It stood at 118.4% of GDP at the end of 2021 and it is projected at 115.1% and 113.7% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates high risks over the medium term.<sup>30</sup> According to the baseline 10-year projection, the general government debt ratio would slightly increase to around 116% of GDP in 2032. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, it is probable that the debt ratio would be higher in 2026 than in 2021. There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risks-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investor base), the currency denomination of debt, and historically low borrowing costs. In addition, the

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<sup>30</sup> SWD(2022) 610 final, Annex on *Debt Sustainability Analysis*.

implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a positive and lasting impact on GDP growth, which should strengthen debt sustainability. On the other hand, risk-increasing factors relate to the share of short-term debt, state guarantees granted to firms and self-employed during the COVID-19 crisis, and contingent liabilities linked to the banking sector. Gross financing needs are projected to increase.

**Assessment under the MIP:** Spain is experiencing imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to high external, government and private debt, in a context of high unemployment, and have cross-border relevance. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Spain on 9 May 2022.

#### 4.2.8. FRANCE

**Medium-term macroeconomic position:** After a contraction of 7.9% in 2020, the economy grew by 7% in 2021 and is expected to grow by 3.1% in 2022 and 1.8% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

**Medium-term budgetary position, including investment:** The government deficit decreased from 8.9% in 2020 to 6.5% of GDP in 2021. It is projected to be at 4.6% and 3.2% of GDP in 2022 and 2023, respectively. After remaining at 3.7% of GDP in 2020, government investment decreased to 3.6% of GDP in 2021 and is projected to remain stable in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 10.4% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by France in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast, the fiscal stance is projected to be supportive at -1.7% of GDP. France plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to decrease by 0.2 percentage points of GDP compared to 2021. This decrease in 2022 is due to the frontloaded financial support from the RRF in 2021. Nationally financed investment is projected to provide a neutral contribution to the fiscal stance in 2022. Therefore, France plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.6 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.5% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). Other current expenditure measures include those put forward in the "*Plan de résilience économique et sociale*" to address the economic consequences of the conflict in Ukraine, such as direct subsidies to ad hoc sectors (0.1% of GDP), and the increase of civil servant wages (0.1% of GDP). On the revenue side, the cut in the corporate income tax rate (0.1% of GDP) and of the housing taxes (0.1% of GDP) are also

projected to contribute to the expansionary fiscal stance. The higher increase in consumer prices compared to the GDP deflator is projected to affect the expansionary contribution of nationally financed primary current expenditure in 2022 by increasing public consumption and social benefits. Based on the Commission's forecast, these measures and drivers of higher expenditure are not fully matched by offsetting measures.

**Medium-term debt position:** The government debt increased from 97.4% at the end of 2019 to 114.6% of GDP at the end of 2020. It stood at 112.9% of GDP at the end of 2021 and it is projected at 111.2% and 109.1% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates high risks over the medium term.<sup>31</sup> According to the baseline 10-year projection, the general government debt ratio would broadly stabilise over the next 10 years, remaining at a high level. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, it is probable that the debt ratio would be higher in 2026 than in 2021. There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risks-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investor base), and historically low borrowing costs. In addition, the implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a positive and lasting impact on GDP growth, which should strengthen debt sustainability. On the other hand, risk-increasing factors relate to the share of short-term debt, the expected increase in gross financing needs over the medium term and the contingent liability risks stemming from the private sector, including via the possible materialisation of state guarantees granted to firms and self-employed during the COVID-19 crisis.

**Assessment under the MIP:** France is experiencing imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to high government debt and weak competitiveness, which have cross-border relevance, in a context of low productivity growth. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

**Other factors put forward by the Member State:** On 9 May 2022, France provided additional relevant factors not yet mentioned above, namely, the French government argues that, from 2023 onwards, the recently adopted reforms of the public finances governance framework, including the introduction of a multiannual expenditure rule and enhanced responsibilities of the French fiscal council, will allow the effective control of public spending and the progressive return to balanced public finances.

#### 4.2.9. ITALY

**Medium-term macroeconomic position:** After a contraction of 9% in 2020, the economy grew by 6.6% in 2021 and is expected to grow by 2.4% in 2022 and 1.9% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2023.

**Medium-term budgetary position, including investment:** The government deficit decreased from 9.6% in 2020 to 7.2% of GDP in 2021. It is projected to be at 5.5% and 4.3% of GDP in

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<sup>31</sup> SWD(2022) 612 final, Annex on *Debt Sustainability Analysis*.



2022 and 2023, respectively. After increasing to 2.6% of GDP in 2020, government investment increased to 2.9% of GDP in 2021 and is projected to increase further to 3.2% of GDP in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 14.1% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Italy in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Italy's 2022 Stability Programme, the fiscal stance is projected to be supportive at - 2.7% of GDP. Italy plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.9% of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.3 percentage points in 2022. Therefore, Italy plans to preserve nationally financed investment, as recommended by the Council. The growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.3 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.2 % of GDP)<sup>32</sup> as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1 % of GDP). The growth in current expenditure also reflects higher expenditure on compensation of government sector employees, due to the renewal of public contracts for the period 2019-2021, for which a substantial part (amounting to ¼% of GDP) will be recorded in 2022, while additional resources are also budgeted for the healthcare sector (0.1% of GDP). On the revenue side, the reduction of personal income taxes and the regional tax on productive activities (0.4% of GDP) are also projected to contribute to the expansionary fiscal stance. Therefore, on the basis of current Commission estimates, Italy does not sufficiently limit the growth of net nationally financed current expenditure in 2022.

**Medium-term debt position:** The government debt increased from 134.1% at the end of 2019 to 155.3% of GDP at the end of 2020. It stood at 150.8% of GDP at the end of 2021 and it is projected at 147.9% and 146.8% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates high risks over the medium term.<sup>33</sup> According to the baseline 10-year projection, the general government debt ratio would stabilise over the next five years. However, as of 2027 the debt ratio would start to increase to around 155% of GDP in 2032. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, it is probable that the debt ratio would be higher in 2026 than in 2021. There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risks-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investors' base), and historically low borrowing costs. In addition, the implementation of reforms under the Next Generation EU, notably the

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<sup>32</sup> In 2021, measures to address the economic and social impact of the increase in energy prices were already in place in Italy, amounting to 0.3% of GDP. These measures mainly consisted of reductions of fixed levies and VAT rates on electricity and natural gas bills and of an increase of the social bonus for electricity and natural gas bills.

<sup>33</sup> SWD(2022) 616 final, Annex on *Debt Sustainability Analysis*.

RRF, is expected to have a positive and lasting impact on GDP growth, which should strengthen debt sustainability. On the other hand, risk-increasing factors relate to the share of short-term debt, contingent liability risks stemming from the private sector, including via the possible materialisation of state guarantees granted to firms and self-employed during the COVID-19 crisis. Gross financing needs are projected to increase over the medium term.

**Assessment under the MIP:** Italy is experiencing excessive imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to the high government debt and weak productivity growth, in a context of labour market fragilities and some weaknesses in financial markets, which carry cross-border relevance. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

**Other factors put forward by the Member State:** On 11 May 2022, Italy provided additional relevant factors not yet mentioned above, namely the authorities highlighted that the countercyclical fiscal policy interventions have been effective in stabilizing the economy, also leading to lower-than-expected deficits in 2020-2021; that the substantial increase in general government liabilities has been effective in shielding the private sector balance sheets; the comparatively low stock of contingent liabilities even after the increase caused by the COVID-19 crisis; the limited economic impact of the Recovery and Resilience Plan so far, which is however expected to become more favourable following the full deployment of the measures included in the Plan.

#### **4.2.10. LATVIA**

**Medium-term macroeconomic position:** After a contraction of 3.8% in 2020, the economy grew by 4.5% in 2021 and is expected to grow by 2% in 2022 and 2.9% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity has exceeded its annual 2019 level in 2021.

**Medium-term budgetary position, including investment:** The government deficit increased from 4.5% in 2020 to 7.3% of GDP in 2021. It is projected to be at 7.2% and 3% of GDP in 2022 and 2023, respectively. After increasing to 5.7% of GDP in 2020, government investment decreased to 5.2% of GDP in 2021 and is projected to increase to 6.1% of GDP in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 13.9% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Latvia in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Latvia's 2022 Stability Programme, the fiscal stance is projected to be supportive at -3.3% of GDP, as recommended by the Council. Latvia plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.8% of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.3 percentage points in 2022. Therefore, Latvia plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.5 percentage points to the overall fiscal

stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.8 % of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.3 % of GDP). Latvia broadly keeps under control the growth of nationally financed current expenditure in 2022, as the significant expansionary contribution of nationally financed current expenditure in 2022 is mainly due to the measures to address the economic and social impact of the increase in energy prices as well as the costs to offer temporary protection to displaced persons from Ukraine.

**Medium-term debt position:** The government debt increased from 36.7% at the end of 2019 to 43.3% of GDP at the end of 2020. It stood at 44.8% of GDP at the end of 2021 and it is projected at 47% and 46.5% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates low risks over the medium term.<sup>34</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Latvia on 5 May 2022.

#### 4.2.11. LITHUANIA

**Medium-term macroeconomic position:** After a contraction of 0.1% in 2020, the economy grew by 5% in 2021 and is expected to grow by 1.7% in 2022 and 2.6% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity has exceeded its annual 2019 level in 2021.

**Medium-term budgetary position, including investment:** The government deficit decreased from 7.3% in 2020 to 1% of GDP in 2021. It is projected to be at 4.6% and 2.3% of GDP in 2022 and 2023, respectively. After increasing to 4.1% of GDP in 2020, government investment decreased to 3.2% of GDP in 2021 and is projected to increase to 3.7% of GDP in 2022, with the first being larger than the government deficit in 2021. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 12.6% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Lithuania in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Lithuania's 2022 Stability Programme, the fiscal stance is projected to be supportive at -4.2% of GDP as recommended by the Council. Lithuania plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.5 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.3 percentage points in 2022. Therefore, Lithuania plans to preserve nationally financed investment, as recommended by the Council.

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<sup>34</sup> SWD(2022) 619 final, Annex on *Debt Sustainability Analysis*.

At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 3.2 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (1.2% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.2% of GDP, while, among other measures, additional support to lower income households (additional increase of pensions, child benefits, social assistance, minimum level of non-taxable income) is also projected to contribute 0.4 % of GDP to the growth in net current expenditure. Therefore, on the basis of current Commission estimates, Lithuania does not sufficiently keep under control the growth of nationally financed current expenditure in 2022.

**Medium-term debt position:** The government debt increased from 35.9% at the end of 2019 to 46.6% of GDP at the end of 2020. It stood at 44.3% of GDP at the end of 2021 and it is projected at 42.7% and 43.1% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates low risks over the medium term.<sup>35</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Lithuania on 5 May 2022.

#### 4.2.12. HUNGARY

**Medium-term macroeconomic position:** After a contraction of 4.5% in 2020, the economy grew by 7.1% in 2021 and is expected to grow by 3.6% in 2022 and 2.6% in 2023. Growth in 2022 is mainly driven by private consumption and net exports. Economic activity has exceeded its annual 2019 level in 2021.

**Medium-term budgetary position, including investment:** The government deficit decreased from 7.8% in 2020 to 6.8% of GDP in 2021. It is projected to be at 6% and 4.9% of GDP in 2022 and 2023, respectively. After increasing to 6.4% of GDP in 2020, government investment decreased to 5.8% of GDP in 2021 and is projected to be at 5.4% of GDP in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 15.1% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Hungary in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Hungary's 2022 Convergence Programme, the fiscal stance is projected to be broadly neutral at -0.1% of GDP, while the Council recommended a supportive fiscal stance. Hungary plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to decrease by 1.0 percentage point of GDP compared to 2021 due to expected slowdown in the

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<sup>35</sup> SWD(2022) 617 final, Annex on *Debt Sustainability Analysis*.

EU funds absorption.<sup>36</sup> Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.2 percentage points in 2022. Therefore, Hungary plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 0.4 percentage points to the overall fiscal stance. This includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.1% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.2% of GDP). Several discretionary measures also contribute to the growth in nationally financed primary current expenditure (net of new revenue measures), such as the reintroduction of the 13th monthly pension, wage benefits for law enforcement and military officers, a reduction of employers' social security contributions and training levy.

**Medium-term debt position:** The government debt increased from 65.5% at the end of 2019 to 79.6% of GDP at the end of 2020. It stood at 76.8% of GDP at the end of 2021 and it is projected at 76.4% and 76.1% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term.<sup>37</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Hungary on 9 May 2022.

#### 4.2.13. MALTA

**Medium-term macroeconomic position:** After a contraction of 8.3% in 2020, the economy grew by 9.4% in 2021 and is expected to grow by 4.2% in 2022 and 4% in 2023. Growth in 2022 is mainly driven by public and private consumption. Economic activity has exceeded its annual 2019 level in 2021.

**Medium-term budgetary position, including investment:** The government deficit decreased from 9.5% in 2020 to 8% of GDP in 2021. It is projected to be at 5.6% and 4.6% of GDP in 2022 and 2023, respectively. After increasing to 4.5% of GDP in 2020, government investment decreased to 4.2% of GDP in 2021 and is projected to be at 4.1% of GDP in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 21.8% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Malta in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Malta's 2022 Stability Programme, the fiscal stance is projected to be supportive at -1.5% of GDP as recommended by the Council. Malta plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure

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<sup>36</sup> These are Commission projections. The Commission has not yet assessed the Recovery and Resilience Plan for Hungary.

<sup>37</sup> SWD(2022) 614 final, Annex on *Debt Sustainability Analysis*.

financed by RRF grants and other EU funds is projected to increase by 0.2 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.3 percentage points in 2022. Therefore, Malta does not plan to preserve nationally financed investment. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.6 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.5 % of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1 % of GDP). Moreover, the government granted financial support to households (0.3% of GDP), increased contributory and non-contributory pension benefits in excess of the cost of living adjustment (0.2% of GDP), while the growth rate of the intermediate consumption (net of measures) remained strong (0.4% of GDP).

**Medium-term debt position:** The government debt increased from 40.7% at the end of 2019 to 53.4% of GDP at the end of 2020. It stood at 57% of GDP at the end of 2021 and it is projected at 58.5% and 59.5% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term.<sup>38</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Malta on 9 May 2022.

#### 4.2.14. AUSTRIA

**Medium-term macroeconomic position:** After a contraction of 6.7% in 2020, the economy grew by 4.5% in 2021 and is expected to grow by 3.9% in 2022 and 1.9% in 2023. Growth in 2022 is mainly driven by private consumption and net exports. Economic activity is forecast to return to its annual 2019 level in 2022.

**Medium-term budgetary position, including investment:** The government deficit decreased from 8% in 2020 to 5.9% of GDP in 2021. It is projected to be at 3.1% and 1.5% of GDP in 2022 and 2023, respectively. After increasing to 3.3% of GDP in 2020, government investment increased to 3.5% of GDP in 2021 and is projected to increase further to 3.7% of GDP in 2022, with the latter being larger than the government deficit in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 15.9% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Austria in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Austria's 2022 Stability Programme, the fiscal stance is projected to be supportive at -1.2% of GDP as recommended by the Council. Austria plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure

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<sup>38</sup> SWD(2022) 620 final, Annex on *Debt Sustainability Analysis*.

financed by RRF grants and other EU funds is projected to increase by 0.1 percentage point of GDP in 2022 compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.3 percentage points in 2022. Therefore, Austria plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 0.5 percentage points to the overall fiscal stance. This includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.4% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.3% of GDP).

**Medium-term debt position:** The government debt increased from 70.6% at the end of 2019 to 83.3% of GDP at the end of 2020. It stood at 82.8% of GDP at the end of 2021 and it is projected at 80% and 77.5% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term.<sup>39</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Austria on 3 May 2022.

#### 4.2.15. POLAND

**Medium-term macroeconomic position:** After a contraction of 2.2% in 2020, the economy grew by 5.9% in 2021 and is expected to grow by 3.7% in 2022 and 3% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity has exceeded its annual 2019 level in 2021.

**Medium-term budgetary position, including investment:** The government deficit decreased from 6.9% in 2020 to 1.9% of GDP in 2021. It is projected to be at 4.0% and 4.4% of GDP in 2022 and 2023, respectively. After increasing to 4.5% of GDP in 2020, government investment decreased to 4.1% of GDP in 2021 and is projected to increase to 4.2% of GDP in 2022, being larger than the government deficit in 2021 and 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 10.5% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Poland in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Poland's 2022 Convergence Programme, the fiscal stance is projected to be supportive at -3.4% of GDP, as recommended by the Council. Poland plans to provide support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.1 percentage points of GDP compared to 2021.<sup>40</sup> Nationally financed investment is projected to provide an expansionary contribution

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<sup>39</sup> SWD(2022) 601 final, Annex on *Debt Sustainability Analysis*.

<sup>40</sup> These are Commission projections. The Commission has not yet assessed the Recovery and Resilience Plan for Poland.

to the fiscal stance of 0.3 percentage points in 2022. Therefore, Poland plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 2.7 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (1.0% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.6% of GDP), while a new care allowance for young children (the Family Care Capital) is also projected to contribute (0.1% of GDP) to the growth in net current expenditure. On the revenue side, the cut in the personal income tax rate under the Polish Deal (0.7% of GDP) and the decrease of the corporate income tax rates (0.1% of GDP) are also projected to contribute to the expansionary fiscal stance. The higher increase in consumer prices compared to the GDP deflator is projected to affect the expansionary contribution of nationally financed primary current expenditure in 2022, by increasing spending on government consumption of goods and services.

**Medium-term debt position:** The government debt increased from 45.6% at the end of 2019 to 57.1% of GDP at the end of 2020. It stood at 53.8% of GDP at the end of 2021 and it is projected at 50.8% and 49.8% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates medium risks over the medium term.<sup>41</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** On 9 May 2022, Poland provided additional relevant factors not yet mentioned above, namely that the government deficit in 2023 is forecast at 3.7% of GDP, despite a planned increase in military spending (which is partially recorded as public investments), in line with the Act of 11 March 2022 on Homeland's defence, to 3.0% of GDP from 2.2% of GDP in 2022.

#### 4.2.16. SLOVENIA

**Medium-term macroeconomic position:** After a contraction of 4.2% in 2020, the economy grew by 8.1% in 2021 and is expected to grow by 3.7% in 2022 and 3.1% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity has exceeded its annual 2019 level in 2021.

**Medium-term budgetary position, including investment:** The government deficit decreased from 7.8% in 2020 to 5.2% of GDP in 2021. It is projected to be at 4.3% and 3.4% of GDP in 2022 and 2023, respectively. After increasing to 4.1% of GDP in 2020, government investment increased to 4.7% of GDP in 2021 and is projected to increase further to 5.7% of GDP in 2022, with the latter being larger than the government deficit in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 15.8% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Slovenia in 2021 have been in line with the Council Recommendation of 20 July 2020.

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<sup>41</sup> SWD(2022) 622 final, Annex on *Debt Sustainability Analysis*.



In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in its 2022 Stability Programme, the fiscal stance is projected to be supportive at -2.6% of GDP. Slovenia plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.2 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.9 percentage points in 2022. Therefore, Slovenia plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.6 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.4% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). The higher increase in consumer prices compared to the GDP deflator is projected to affect the expansionary contribution of nationally financed primary current expenditure in 2022, by increasing spending on government consumption of goods and services, as well as on social benefits as a result of indexation and on public wages as a result of increasing wage pressure.

**Medium-term debt position:** The government debt increased from 65.6% at the end of 2019 to 79.8% of GDP at the end of 2020. It stood at 74.7% of GDP at the end of 2021 and it is projected at 74.1% and 72.7% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates high risks over the medium term.<sup>42</sup> According to the baseline 10-year projection, the general government debt ratio would stabilise over the next five years. However, as of 2027 the debt ratio would start to increase to around 83% of GDP in 2032. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, it is probable that the debt ratio would be higher in 2026 than in 2021. In addition, a fiscal consolidation effort of 4½ percentage points of GDP would be needed to reduce debt to 60% of GDP in 15 years' time. There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risks-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources, the currency denomination of debt, and historically low borrowing costs. In addition, the implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a positive and lasting impact on GDP growth, which should strengthen debt sustainability. On the other hand, risk-increasing factors relate to the share of debt held by non-residents, higher additional long-term care expenditure resulting from a newly adopted long-term care act, and contingent liability risks stemming from the private sector, including via the possible materialisation of sizeable state guarantees granted to firms and self-employed during the COVID-19 crisis.

**Other factors put forward by the Member State:** The analysis presented in the previous sections already covers the key factors put forward by Slovenia on 9 May 2022.

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<sup>42</sup> SWD(2022) 626 final, Annex on *Debt Sustainability Analysis*.

#### 4.2.17. SLOVAKIA

**Medium-term macroeconomic position:** After a contraction of 4.4% in 2020, the economy grew by 3% in 2021 and is expected to grow by 2.3% in 2022 and 3.6% in 2023. Growth in 2022 is mainly driven by investment and private consumption. Economic activity is forecast to return to its annual 2019 level in 2022.

**Medium-term budgetary position, including investment:** The government deficit increased from 5.5% in 2020 to 6.2% of GDP in 2021. It is projected to be at 3.6% and 2.6% of GDP in 2022 and 2023, respectively. After decreasing to 3.5% of GDP in 2020, government investment decreased to 3.2% of GDP in 2021 and is projected to increase to 4.2% of GDP in 2022, with the latter being larger than the government deficit in 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 11.9% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Slovakia in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Slovakia's 2022 Stability Programme, the fiscal stance is projected to be contractionary at +0.3% of GDP, while the Council recommended a supportive fiscal stance. Slovakia plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.7 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.4 percentage points in 2022. Therefore, Slovakia plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a contractionary contribution of 1.6 percentage points to the overall fiscal stance. This includes the additional impact of the costs to offer temporary protection to displaced persons from Ukraine (0.1 % of GDP). Due to a lagged indexation with inflation, major government expenditures like social benefits other than in kind or compensation of employees have a growth rate lower than inflation in 2022 and contribute to the contractionary stance.

**Medium-term debt position:** The government debt increased from 48.1% at the end of 2019 to 59.7% of GDP at the end of 2020. It stood at 63.1% of GDP at the end of 2021 and it is projected at 61.7% and 58.3% of GDP at the end of 2022 and 2023, respectively. Overall, the debt sustainability analysis indicates high risks over the medium term.<sup>43</sup> According to the baseline 10-year projection, the general government debt ratio would decrease over the next five years to 54% in 2026. However, as of 2027 the debt ratio would start to increase to around 61% of GDP in 2032. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a significant uncertainty surrounding the projections. There are other factors relevant for an overall assessment of debt sustainability. On the one hand, risks-mitigating factors include the lengthening of debt maturity in recent years, the currency denomination of debt, the limited share of short-term public debt, and historically low borrowing costs. In addition, the implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a positive and lasting impact on GDP growth, which should strengthen debt sustainability. On the other hand, risk-

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<sup>43</sup> SWD(2022) 627 final, Annex on *Debt Sustainability Analysis*.

increasing factors relate to the high share of debt held by non-residents, the negative net international investment position, and contingent liability risks stemming from the private sector, including via the possible materialisation of sizeable state guarantees granted to firms and self-employed during the COVID-19 crisis.

**Other factors put forward by the Member State:** On 6 May 2022, Slovakia provided additional relevant factors not yet mentioned above, namely regarding the impact of an increased levy to the EU budget as a result of irregularities in custom clearance (0.5% of GDP). Slovakia also mentions, besides the prevailing primary deficit, an additional accumulation of financial assets (2.2% of GDP), with the total estimated at 12% of GDP, well above historical values.

#### 4.2.18. FINLAND

**Medium-term macroeconomic position:** After a contraction of 2.3% in 2020, the economy grew by 3.5% in 2021 and is expected to grow by 1.6% in 2022 and 1.7% in 2023. Growth in 2022 is mainly driven by private consumption and investment. Economic activity has exceeded its annual 2019 level in 2021.

**Medium-term budgetary position, including investment:** The government deficit decreased from 5.5% in 2020 to 2.6% of GDP in 2021. It is projected to be at 2.2% and 1.7% of GDP in 2022 and 2023, respectively. After increasing to 4.9% of GDP in 2020, government investment decreased to 4.1% of GDP in 2021 and is projected to increase to 4.4% of GDP in 2022, being larger than the government deficit in 2021 and 2022. Fiscal support – as measured by the cumulated annual change in the primary balance in 2020 and 2021 compared to 2019 plus the fiscal impulse provided by the EU funds – is estimated at 7.1% of GDP, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken by Finland in 2021 have been in line with the Council Recommendation of 20 July 2020.

In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Finland's 2022 Stability Programme, the fiscal stance is projected to be supportive at -0.6% of GDP. Finland plans to provide continued support to the recovery by making use of the RRF to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by RRF grants and other EU funds is projected to increase by 0.2 percentage points of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.2 percentage points in 2022. Therefore, Finland plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a broadly neutral contribution of 0.1 percentage points to the overall fiscal stance. This includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.1% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP).

**Medium-term debt position:** The government debt increased from 59.6% at the end of 2019 to 69% of GDP at the end of 2020. It stood at 65.8% of GDP at the end of 2021 and it is projected at 65.9% and 66.6% of GDP at the end of 2022 and 2023, respectively. Overall, the

debt sustainability analysis indicates medium risks over the medium term.<sup>44</sup> The implementation of reforms under the Next Generation EU, notably the RRF, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which should contribute to strengthening debt sustainability.

**Other factors put forward by the Member State:** On 6 May 2022, Finland provided additional relevant factors not yet mentioned above, namely regarding a strong net asset position.

## 5. CONCLUSIONS

For all the 17 Member States exceeding the deficit Treaty reference value in 2021 or planning to exceed it in 2022 (*i.e.* all the Member States considered in this report but Finland), the deficit was *above and not close* to the 3% of GDP. The excess over the Treaty reference value States is considered to be *exceptional* as defined by the Treaty. However, for Belgium, Czechia, Estonia, Spain, France, Italy, Hungary, Malta, Poland and Slovenia, the excess over the reference value is not expected to be *temporary*.

Overall, taking into account all relevant factors as appropriate<sup>45</sup>, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is **not fulfilled by Belgium, Bulgaria, Czechia, Germany, Estonia, Greece, Spain, France, Italy, Latvia, Lithuania, Hungary, Malta, Austria, Poland, Slovenia and Slovakia.**

From the Member States exceeding the 60% of GDP debt reference value at end-2021, the debt reduction benchmark was not respected by Belgium, France, Italy, Hungary and Finland. For Slovakia, the debt ratio is expected to decrease to below 60% of GDP in 2023.

Overall, taking into account all relevant factors, the analysis suggests that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is fulfilled by Slovakia. The debt criterion is not fulfilled by Belgium, France, Italy, Hungary and Finland.

Nevertheless, the Commission considers, within its assessment of all relevant factors, that compliance with the debt reduction benchmark would imply a too demanding frontloaded fiscal effort that risks to jeopardise growth. **Therefore, in the view of the Commission, compliance with the debt reduction benchmark is not warranted under the current exceptional economic conditions.**

The COVID-19 pandemic continues to have an extraordinary macroeconomic and fiscal impact that, together with the invasion of Ukraine by Russia, creates exceptional uncertainty, including for designing a detailed path for fiscal policy. **On these grounds, the Commission does not propose to open new excessive deficit procedures at this stage.** The monitoring of debt and deficit developments will continue and the Commission will re-assess the relevance of proposing to open excessive deficit procedures in autumn 2022.

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<sup>44</sup> SWD(2022) 611 final, Annex on *Debt Sustainability Analysis*.

<sup>45</sup> Section 4 explains the conditions needed for the relevant factors to be taken into account in the steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion. The relevant factors shall always be taken into account when assessing compliance on the basis of the debt criterion.