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REPORT FROM THE COMMISSION

Spain, Latvia, Austria, Finland

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

1. INTRODUCTION

Article 126 of the Treaty on the Functioning of the European Union (TFEU) lays down the excessive deficit procedure. That procedure is further set out in Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[1], which is part of the Stability and Growth Pact. In accordance with Article 126(3) TFEU, this report assesses the situation of Member States *vis-à-vis* the deficit criterion. The format of this report, as in previous vintages, helps in the comparability of the different cases, while the case of each Member State is considered on its own merits.

Regulation (EU) 2024/1264 amending Regulation (EC) No 1467/97 entered into force on 30 April 2024. This amending Regulation is part of a package together with Regulation (EU) 2024/1263[2] and Council Directive (EU) 2024/1265[3]. Together, these three acts reformed the economic governance framework of the Union. The objectives of the reformed framework are public debt sustainability, and sustainable and inclusive growth through reforms and investments. The reformed framework also promotes national ownership, and has a greater medium-term focus, combined with a more effective and coherent enforcement. The latest amendment to Regulation (EC) No 1467/97 has essentially kept unchanged the assessment of compliance with the deficit criterion. Differently, the assessment of compliance with the debt criterion has been substantially modified (see below).

The previous report under Article 126(3) TFEU was adopted on 26 November 2024, in the context of the European Semester 2024 Autumn Package.[4]

The deficit and debt criteria

The **deficit criterion** is fulfilled if the *actual* general government deficit for the previous year (2024) and *planned* deficit for the current year (2025) do not exceed 3% of GDP. If either does, the Commission examines whether the deficit ratio has declined substantially and continuously, and comes close to the reference value. It also examines whether the deficit in excess over the reference value is exceptional and temporary, and remains close to the reference value (section 2). Relevant factors are to be considered by the Commission and the Council in the steps leading to the decision on the existence of an excessive deficit, if either i) the government debt does not exceed 60% of GDP, or ii) if the debt exceeds 60% of GDP, but the deficit is close to 3% of GDP and the excess over it is temporary (section 4).

According to the Treaty, the **debt criterion** is fulfilled if the general government gross debt does not exceed 60% of GDP, or if the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace. According to Article 2(2) of Regulation (EC) No 1467/97 (as amended), the debt-to-GDP ratio shall be considered sufficiently diminishing and as approaching the reference value at a satisfactory pace if the Member State concerned

1 Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997) as last amended by Council Regulation (EU) 2024/1264 of 29 April 2024 (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

2 Regulation (EU) 2024/1263 of the Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

3 Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

4 COM(2024) 959 final.

respects its net expenditure[5] path as set by the Council under Articles 17 or 19 of Regulation (EU) 2024/1263. If the Member State concerned does not respect its net expenditure path, the Commission prepares a report in line with Article 126(3) TFEU if the debits[6] recorded in the Member State's control account exceed one of two thresholds (unless the budgetary position is close to balance or in surplus). These thresholds are 0.3% of GDP annually and 0.6% of GDP cumulatively.

The debt criterion cannot be fully assessed at this stage[7]. For some Member States, the Council has not yet set a net expenditure path. In addition, Article 22(6) of Regulation (EU) 2024/1263 provides that deviations from the net expenditure path as set by the Council are recorded as debits (or credits) in the control account on the basis of outturn data. For those Member States with a net expenditure path set by the Council, the initial year of the path is 2025. The assessment of compliance with the debt criterion can thus only be undertaken by the Commission once the outturn data for 2025 are available in spring 2026.

Main data underlying and motivating this report

In the assessment of the deficit criterion, the present report concerns those Member States for which the *actual* 2024 deficit ratio provided by Eurostat,[8] or the *planned* deficit ratio for 2025[9], exceeds 3% of GDP.[10] Moreover, the assessment of compliance with the deficit criterion also considers the European Commission Spring 2025 Forecast[11]. This report also compares the government deficit with government investment expenditure and takes into account all other relevant factors, in accordance with Article 2 of Regulation (EC) No 1467/97.

Based on the data provided by Eurostat on 22 April 2025 (see Table 1), this report assesses compliance with the deficit criterion in four Member States: **Spain, Latvia, Austria, Finland**. Specifically:

- For Spain, Austria and Finland, the 2024 general government deficits exceeded 3% of GDP. This provides *prima facie* evidence of the existence of excessive deficits in each of those Member States.
- In addition, according to the spring 2025 fiscal notification, Latvia plans its government deficit to exceed 3% of GDP in 2025. The planned deficit for 2025 is also *prima facie* evidence of the existence of an excessive deficit.

As indicated above, the **debt criterion** cannot be fully assessed at this stage in accordance with the criteria of the new framework. For the data on the general government gross debt ratio-to-GDP, see Table 3.

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5 According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

6 In the control account set by the Commission in accordance with Article 22(2) to keep track of deviations from the net expenditure path set by the Council, upward deviations are registered as debits.

7 Figures on general government debt-to-GDP ratio are presented in section 3.

8 See Eurostat Euro indicators of 22 April 2025 (https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-22042025-AP), in accordance with Article 14 of Council Regulation (EC) No 479/2009.

9 The complete set of tables reported to Eurostat by Member States is available at: http://ec.europa.eu /eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables.

10 Member States currently under excessive deficit procedure are not concerned by the present report.

11 Unless stated otherwise, the source for the figures for 2025 and 2026 provided in this report is the European Commission Spring 2025 Forecast (European Economy Institutional Papers 318).

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

	Actual deficit not exceeding (✓) / exceeding (✗) 3% of GDP in 2024	Planned deficit not exceeding (✓) / exceeding (✗) 3% of GDP in 2025	Debt ratio not exceeding (✓) / exceeding (✗) 60% of GDP at end-2024
Member States assessed in this report			
Spain	✗	✓	✗
Latvia	✓	✗	✓
Austria	✗	✗	✗
Finland	✗	✗	✗
Member States not considered in this report			
Belgium*	✗	✗	✗
Bulgaria	✓	✓	✓
Czechia	✓	✓	✓
Denmark	✓	✓	✓
Germany	✓	✓	✗
Estonia	✓	✓	✓
Ireland	✓	✓	✓
Greece	✓	✓	✗
France*	✗	✗	✗
Croatia	✓	✓	✓
Italy*	✗	✗	✗
Cyprus	✓	✓	✗
Lithuania	✓	✓	✓
Luxembourg	✓	✓	✓
Hungary*	✗	✗	✗
Malta*	✗	✗	✓
Netherlands	✓	✓	✓
Poland*	✗	✗	✓
Portugal	✓	✓	✗
Romania**	✗	✗	✓
Slovenia	✓	✓	✗
Slovakia*	✗	✗	✓
Sweden	✓	✓	✓

Source: Eurostat (press release of 22 April 2025 and spring 2024 fiscal notification).
Note: (*) In excessive deficit procedure since July 2024. (**) In excessive deficit procedure since April 2020.

2. GENERAL GOVERNMENT BALANCE

Spain, Austria and **Finland** exceeded the deficit reference value in 2024. **Austria** and **Finland** also plan their deficits for 2025 to be above 3% of GDP. **Latvia** had a government deficit below the reference value in 2024, but plans a deficit for 2025 exceeding 3% of GDP (see Table 2).

In Austria and Finland, the 2024 government deficits were *above and not close* to the reference value. For Spain, the deficit was *above but close* to the reference value.

For Latvia, the planned deficit for 2025[12] amounts to 3.1% of GDP (the same value as in the Commission Spring 2025 Forecast) and therefore *above but close* to 3% of GDP.

According to the Commission Spring 2025 Forecast, the government deficits in Austria and Finland are projected to continue exceeding 3% of GDP in 2025 and in 2026. Therefore, their deficits in excess of the reference value are expected to be *not temporary*. Differently, the government deficit in Spain is currently projected not to exceed the reference value in 2025 and in 2026, thus the deficit in excess of the reference value is expected to be *temporary*. For Latvia, the government deficit is projected to exceed 3% of GDP in both 2025 and 2026 marginally; thus, the excess deficit is expected to be *not temporary.*

For Spain, the deficit in excess of the reference value in 2024 is related to the budgetary impact of the devastating DANA[13] flood of October 2024. This is recognised and analysed as a relevant factor (see section 4.2.1 on Spain), but the excess is considered to be *not exceptional* for the purposes of the Treaty and the Stability and Growth Pact.

In Latvia, the planned deficit in excess of the reference value in 2025 is fully explained by an increase in defence spending[14]. On 28 April 2025, Latvia has put forward a request to activate the national escape clause to accommodate increased defence expenditure, in line with the Commission Communication of 19 March 2025.[15] The Commission has assessed the request and, on 4 June 2025, has adopted a Recommendation for a Council Recommendation allowing Latvia to deviate from, and exceed, the recommended net expenditure path[16] during the period 2025-2028.[17] This documents the exceptional circumstances outside the control of the government with a major impact on public finances underpinning the increase in defence spending. In view of this, and subject to the adoption of the Council Recommendation, the planned excess over the reference value in 2025 is considered *exceptional*.

In Austria and Finland, the deficit in excess of the reference value in 2024 has been impacted by very unfavourable macroeconomic conditions, that is, a prolonged recession in 2023 and 2024. In Austria, real GDP decreased by 1.0% in 2023 and 1.2% in 2024, and is projected in the Commission Spring 2025 Forecast to further decrease by 0.3% in 2025. In Finland, real

12 As reported to Eurostat in the context of the spring 2025 fiscal notification.

13 DANA stands for "Depresión aislada en niveles altos", or "Isolated depression at high levels".

14 According to the Commission Spring 2025 Forecast, defence spending in Latvia is estimated at 3.0% of GDP in 2024 and projected to rise to 3.3% in 2025, an increase by 0.8% of GDP compared to 2021.

15 Commission Communication (C (2025) 2000 final) of 19 March 2025.

16 Commission Recommendation for a Council Recommendation allowing Latvia to deviate from, and exceed, the recommended net expenditure path, 4.6.2025, COM(2025) 610 final.

17 According to Article 2(1) of Regulation 1467/97, the excess of the government deficit over the reference value shall be considered exceptional, in accordance with the second indent of point (a) of Article 126(2). of the Treaty on the Functioning of the European Union (TFEU), if it results from the existence of a severe economic downturn in the euro area or the Union as a whole established by the Council in accordance with Article 25 of Regulation (EU) 2024/1263 or from exceptional circumstances outside the control of the government with a major impact on the public finances of the Member State concerned, in accordance with Article 26 of that Regulation.

GDP decreased by 0.9% in 2023 and 0.1% in 2024, while it is forecast to increase by 1.0% in 2025. In addition, in Finland the worsening security environment due to the Russia's war of aggression against Ukraine has sizeable repercussions on its public finances. Based on this, the deficits in excess of the reference value can be considered as *exceptional* for both Member States.

In sum, this analysis suggests that the deficit criterion is not fulfilled in Spain, Latvia, Austria, and Finland**,** before the consideration of the relevant factors.

Table 2 - General government balance

Percentage of GDP					Spring fiscal notification	**European Commission Spring 2025 Forecast**	
	2021	**2022**	**2023**	**2024**	**2025**	**2025**	**2026**
Member States assessed in this report							
Spain	-6.7	-4.6	-3.5	-3.2	-2.5	-2.8	-2.5
Latvia	-7.2	-4.9	-2.4	-1.8	-3.1	-3.1	-3.1
Austria	-5.7	-3.4	-2.6	-4.7	-4.5	-4.4	-4.2
Finland	-2.7	-0.2	-3.0	-4.4	-3.5	-3.7	-3.4
Member States not considered in this report							
Belgium*	-5.4	-3.6	-4.1	-4.5	-5.2	-5.4	-5.5
Bulgaria	-4.0	-3.0	-2.0	-3.0	-2.9	-2.8	-2.8
Czechia	-5.0	-3.1	-3.8	-2.2	-2.2	-2.3	-2.2
Denmark	4.1	3.4	3.3	4.5	1.6	1.5	0.6
Germany	-3.2	-2.1	-2.5	-2.8	-2.5	-2.7	-2.9
Estonia	-2.6	-1.1	-3.1	-1.5	-3.0	-1.4	-2.4
Ireland	-1.4	1.7	1.5	4.3	1.6	0.7	0.1
Greece	-7.1	-2.5	-1.4	1.3	-0.6	0.7	1.4
France*	-6.6	-4.7	-5.4	-5.8	-5.4	-5.6	-5.7
Croatia	-2.6	0.1	-0.8	-2.4	-2.3	-2.7	-2.6
Italy*	-8.9	-8.1	-7.2	-3.4	-3.3	-3.3	-2.9
Cyprus	-1.6	2.7	1.7	4.3	2.7	3.5	3.4
Lithuania	-1.2	-0.7	-0.7	-1.3	-3.0	-2.3	-2.3
Luxembourg	1.0	0.2	-0.8	1.0	-0.9	-0.4	-0.5
Hungary*	-7.1	-6.2	-6.7	-4.9	-3.7	-4.6	-4.7
Malta*	-7.0	-5.2	-4.7	-3.7	-3.5	-3.2	-2.8
Netherlands	-2.2	0.0	-0.4	-0.9	-1.8	-2.1	-2.7
Poland*	-1.7	-3.4	-5.3	-6.6	-6.3	-6.4	-6.1
Portugal	-2.8	-0.3	1.2	0.7	0.3	0.1	-0.6
Romania**	-7.1	-6.4	-6.6	-9.3	-7.0	-8.6	-8.4
Slovenia	-4.6	-3.0	-2.6	-0.9	-1.9	-1.3	-1.5
Slovakia*	-5.1	-1.7	-5.2	-5.3	-4.7	-4.9	-5.1
Sweden	-0.2	1.0	-0.8	-1.5	-1.3	-1.5	-0.8

Source: Eurostat (data from 2021 to 2024, and 2025 fiscal notification) and European Commission Spring 2025 Forecast (data for 2025 and 2026).
Note: (*) In excessive deficit procedure since July 2024. (**) In excessive deficit procedure since April 2020.

3. GENERAL GOVERNMENT DEBT

Among the Member States discussed in this Report, the general government gross debt at end-2024 exceeded 60% of GDP, and hence the reference value, in three Member States: **Spain**, **Austria** and **Finland** (see Table 3). For Spain, the government debt-to-GDP ratio decreased in 2024 compared to the previous year, whereas it increased in Austria and Finland. Based on the Commission Spring 2025 Forecast, the debt-to-GDP ratios in Austria, and Finland are projected to rise in both 2025 and 2026, while a decrease is anticipated for Spain.

Latvia's government debt at end-2024 was below 60% of GDP and this is expected to continue in 2025 and 2026.

Table 3 – General government debt

Percentage of GDP				Spring fiscal notification	European Commission Spring 2025 Forecast	
	2021	**2022**	**2023**	**2024**	**2025**	**2025**	**2026**
Member States assessed in this report							
Spain	115.7	109.5	105.1	101.8	101.5	100.9	100.8
Latvia	45.9	44.4	44.6	46.8	49.7	48.6	49.3
Austria	82.4	78.4	78.5	81.8	84.7	84.0	85.8
Finland	73.2	74.0	77.5	82.1	85.0	85.6	87.5
Member States not considered in this report							
Belgium*	108.5	102.7	103.2	104.7	106.9	107.1	109.8
Bulgaria	23.8	22.5	22.9	24.1	28.9	25.1	27.1
Czechia	40.7	42.5	42.5	43.6	44.5	44.5	45.4
Denmark	40.5	34.1	33.6	31.1	30.0	29.7	29.4
Germany	68.1	65.0	62.9	62.5	62.9	63.8	64.7
Estonia	18.4	19.1	20.2	23.6	24.3	23.8	25.4
Ireland	52.6	43.1	43.3	40.9	37.3	38.7	38.3
Greece	197.3	177.0	163.9	153.6	145.7	146.6	140.6
France*	112.8	111.4	109.8	113.0	116.2	116.0	118.4
Croatia	78.2	68.5	61.8	57.6	56.0	56.3	56.4
Italy*	145.8	138.3	134.6	135.3	136.6	136.7	138.2
Cyprus	96.5	81.1	73.6	65.0	60.9	58.0	51.9
Lithuania	43.3	38.1	37.3	38.2	44.1	41.2	43.9
Luxembourg	24.2	24.9	25.0	26.3	26.9	25.7	26.2
Hungary*	76.2	73.9	73.0	73.5	72.6	74.5	74.3
Malta*	49.8	49.5	47.9	47.4	50.1	47.6	47.3
Netherlands	50.5	48.4	45.2	43.3	44.5	45.0	47.8
Poland*	53.0	48.8	49.5	55.3	57.8	58.0	65.3
Portugal	123.9	111.2	97.7	94.9	91.8	91.7	89.7
Romania**	48.3	47.9	48.9	54.8	57.7	59.4	63.3
Slovenia	74.8	72.7	68.4	67.0	66.0	65.5	63.8
Slovakia*	60.2	57.7	55.6	59.3	59.9	60.9	63.0
Sweden	36.9	33.8	31.6	33.5	34.3	33.8	33.3

Source: Eurostat (data from 2021 to 2024, and 2025 fiscal notification) and European Commission Spring 2025 Forecast (data for 2025 and 2026).
Note: (*) In excessive deficit procedure since July 2024. (**) In excessive deficit procedure since April 2020.

4. Relevant factors when assessing compliance with the deficit criterion

Article 126(3) of the Treaty provides that, for each Member State, this report shall "*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, as amended, and refer to:

a) the medium-term debt position, i.e., the degree of public debt challenges, the evolution of the government debt position and its financing, and the related risk factors, in particular the maturity structure, the currency denomination of the debt and contingent liabilities, including any implicit liabilities related to ageing and private debt;

b) the medium-term budgetary position, including, in particular, the size of the actual deviation from the net expenditure path as set by the Council, in annual and cumulative terms as measured by the control account;

c) the medium-term economic position, including potential growth, inflation developments and cyclical developments compared to the assumptions underlying the net expenditure path as set by the Council;

d) the implementation of reforms and investments, including in particular policies to prevent and correct macroeconomic imbalances and policies to implement the common growth and employment strategy of the Union, including those supported by the Recovery and Resilience Facility (RRF), and the overall quality of public finances, in particular the effectiveness of national budgetary frameworks;

e) the increase of government investment in defence, where applicable, considering also the time of recording of military equipment expenditure. The increase in government investment in defence has been included among the relevant factors, as a result of the reform of the economic governance framework.

Article 2(3) of Regulation (EC) No 1467/97 provides also that "*any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and the Commission*" need to be given due consideration in this report.

Furthermore, in accordance with Article 2(4) of Regulation (EC) No 1467/97, the presence of substantial public debt challenges is a key aggravating factor.

As regards the assessment of compliance with the deficit criterion, Article 2(4) of Council Regulation (EC) No 1467/97 further provides that the relevant factors can be taken into account by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit only when:

a) the government debt-to-GDP ratio does not exceed the 60% reference value,
or

b) if the government debt-to-GDP ratio exceeds the 60% reference value, a double condition is met – *i.e.* that the deficit remains close to the reference value *and* that the excess over the reference value is temporary.

The debt-to-GDP ratio does not exceed the 60% reference value in **Latvia**. Therefore, for Latvia, relevant factors can be taken into account by the Council and the Commission in the subsequent steps leading to the decision on the existence of an excessive deficit (paragraphs 5 and 6 of Article 126 TFEU).

The debt-to-GDP ratio exceeds the 60% of GDP reference value in **Spain**. However the double condition (closeness and temporariness) is met; therefore relevant factors can be taken into account by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit.

As for the remaining Member States concerned by the report, in **Austria** and **Finland,** the debt-to-GDP ratio exceeds the 60% reference value and the double condition necessary for relevant factors to be taken into account (closeness and temporariness) is not met. Therefore, for these Member States relevant factors cannot be taken into account by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit (paragraphs 5 and 6 of Article 126 TFEU).

According to established practice and in line with Article 2(4) of Regulation (EC) No 1467/97, the relevant factors are discussed hereunder even for the Member States where they cannot be taken into account by the Council and the Commission in the subsequent steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion.

4.1. Cross-country relevant factors

The EU economy was faced with a series of negative shocks in recent years. Russia's war of aggression against Ukraine steepened the surge of energy prices that had already started in 2021, and economic effects across Member States varied depending on the proximity to the region at war, the structure of energy markets and supply routes, as well as the structure of a Member State's trade relations. HICP inflation was pushed to two-digit rates in October 2022 in the EU as a whole, with inflation in central and eastern Europe being markedly higher. This led to a sharp erosion of household purchasing power and a shift in consumer sentiment. These factors, in addition to the COVID-19 support and emergency energy support measures, played a role in budgetary developments of Member States, via e.g. the delayed adjustment of certain tax bases to inflation, automatic indexation mechanisms and increased expenditure for defence and border safety.

Economic activity in the EU as whole was picking up in 2024, with real GDP growth rising to 1.0% in 2024 from 0.5% in 2023. While the conditions for a gradual acceleration of economic activity appeared to be in place, sharply rising trade tensions and uncertainty weigh on the outlook. Meanwhile, inflation has continued declining, decreasing from a peak of 9.2% in 2022 to 2.6% in 2024. According to the European Commission Spring 2025 Forecast, EU real GDP growth is projected at 1.1% in 2025. The disinflation process is set to continue, with headline inflation falling to 2.3% in 2025 from 2.6% in 2024.

Concerning the aggregate EU government deficit, after a sizeable reduction in 2021 and 2022 from very high levels in 2020, the deficit increased marginally to 3.5% of GDP in 2023 and then fell to 3.2% of GDP in 2024. In 2025, the aggregate deficit is projected to marginally increase to 3.3% of GDP.

At the end of 2024, the EU government debt-to-GDP ratio stood at 82.2%, broadly unchanged compared to 2023 (82.1%) and around 9 pps. lower than the 91.2% peak recorded at the end of 2020, when public debt ratios increased substantially as result of COVID-19 crisis. However, it remains around 4 pps. above the pre-COVID-19 level. According to the

European Commission Spring 2025 Forecast, the debt ratio is projected to rise to 83.2% of GDP in 2025.

After a sizeable expansion overall in 2020-23, the fiscal stance[18] in 2024 was contractionary at 0.4% of GDP, driven by the phase-out of support to private investment and somewhat lower expenditure financed by the EU budget (including due to the end of spending under the Multiannual Financial Framework 2014-2020). This was only slightly offset by an expansionary contribution from public investment financed by national budgets. The fiscal stance in 2025 is projected to be broadly neutral (below 1/4% of GDP), with the contractionary contribution from national budgets largely offset by the expansionary contribution from expenditure financed by the EU budget.

4.2. COUNTRY-SPECIFIC RELEVANT FACTORS

This section provides an assessment of country-specific relevant factors for each Member State concerned by this report. These factors include the medium-term macroeconomic outlook, the medium-term budgetary position (including public investment; see Table 4), the medium-term debt position, the overall quality of public finances, the implementation of reforms and investments (including policies to prevent and correct macroeconomic imbalances and to implement the common growth and employment strategy of the Union, including those supported by the RRF), the increase in government investment in defence, and any other relevant factors put forward by each Member State.

Concerning the increase in government investment in defence, this report uses the breakdown of government expenditure that is based on national accounts (ESA 2010) definitions with respect to the International Classification of the Functions of Government (COFOG) for defence purposes. However, COFOG data are usually released with a time lag, and they are currently only available until 2023 in Eurostat's database. Additional information and preliminary estimates on expenditure and/or investment in defence for 2024 and 2025 as presented in the country-specific sections have been provided by the respective Member States.

While the country-specific sections refer to key information on the medium-term macroeconomic position, including on the contributions to growth, and on the medium-term budgetary and debt positions, more detail on the macroeconomic and fiscal outlook can be found in the Commission Spring 2025 Forecast.[19]

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18 The fiscal stance aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget.

19 For further information regarding fiscal outlook, see also the Commission Recommendations for a Council Recommendation on the economic, social, employment, structural and budgetary policies, as well as the 2025 Country Reports published by the Commission on 4 June 2025.

Table 4 - Public investment

Percentage of GDP					European Commission Spring 2025 Forecast	
	2021	**2022**	**2023**	**2024**	**2025**	**2026**
Member States assessed in this report						
Spain	2.7	2.7	3.0	2.7	3.0	3.0
Latvia	5.6	4.5	5.6	5.7	7.0	7.2
Austria	3.6	3.5	3.7	3.9	3.9	4.0
Finland	4.2	4.1	4.1	4.4	4.9	4.8
Member States not considered in this report						
Belgium*	2.8	2.7	2.8	3.0	3.3	3.2
Bulgaria	2.7	2.4	3.8	3.0	3.6	3.3
Czechia	4.6	4.5	4.9	4.7	4.9	4.6
Denmark	3.2	3.0	3.1	3.1	3.8	3.9
Germany	2.9	2.8	2.8	2.9	3.0	3.0
Estonia	5.8	5.4	6.6	6.1	7.2	7.1
Ireland	2.0	2.0	2.3	2.7	2.8	3.1
Greece	3.6	3.7	3.9	3.7	4.2	3.8
France*	4.1	4.2	4.2	4.3	4.3	4.2
Croatia	4.8	4.0	5.6	5.1	5.4	5.2
Italy*	2.8	2.6	3.2	3.5	3.8	3.9
Cyprus	2.7	2.4	3.2	3.0	3.2	3.2
Lithuania	3.2	3.2	4.2	4.2	4.9	4.6
Luxembourg	4.1	4.3	4.7	4.5	4.7	4.6
Hungary*	6.2	5.3	5.1	4.2	4.2	4.2
Malta*	3.7	3.2	3.6	3.3	3.8	3.9
Netherlands	3.4	3.2	3.1	3.2	3.2	3.3
Poland*	4.1	3.8	5.1	4.9	5.1	5.2
Portugal	2.6	2.4	2.6	2.7	3.7	4.2
Romania**	4.1	4.4	5.4	5.7	6.1	6.5
Slovenia	4.7	5.5	5.3	5.1	5.3	5.2
Slovakia*	3.0	3.1	3.5	3.6	5.1	5.2
Sweden	5.0	5.1	5.3	5.4	5.5	5.6

Source: Eurostat (data from 2021 to 2024) and European Commission Spring 2025 Forecast (data for 2025 and 2026). (*) In excessive deficit procedure since July 2024. (**) In excessive deficit procedure since April 2020.

4.2.1. MEMBER STATES FOR WHICH RELEVANT FACTORS CAN BE TAKEN INTO ACCOUNT

SPAIN

Medium-term macroeconomic position. Real GDP increased by 2.7% in 2023. Real GDP increased further by 3.2% in 2024 mainly driven by the strong evolution of consumption and the contribution from external demand boosted by tourism activity. Output is projected to increase in 2025 by 2.6% and in 2026 by 2.0%. The growth in 2025 is mainly driven by private consumption and the projected pickup in investment steering domestic demand.

Medium-term budgetary position, including investment. Spain's general government deficit decreased from 3.5% of GDP in 2023 to 3.2% in 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 3.5% in 2024. Government investment stood at 3.0% of GDP in 2023 and declined slightly to 2.7% in 2024. Based on the Commission's estimates, the fiscal stance[20], which includes both nationally and EU financed expenditure, was contractionary, by 0.3% of GDP, in 2024. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2024 provided a contractionary contribution to the fiscal stance, amounting to 0.4% of GDP.

The Commission Spring 2025 Forecast projects a general government deficit of 2.8% of GDP in 2025 and 2.5% in 2026. Government investment is projected to increase to 3.0% of GDP in 2025 and 2026. Based on the Commission's estimates, the fiscal stance is projected to be expansionary, by 0.3% of GDP, in 2025. The growth in nationally financed primary current expenditure in 2025 is projected to provide a broadly neutral contribution to the fiscal stance.

According to the Commission Spring 2025 Forecast, net expenditure in Spain is projected to grow by 4.2% in 2025 and 7.9% cumulatively in 2024 and 2025. Based on the Commission 2025 Spring Forecast , the net expenditure growth of Spain in 2025 is projected to be above the maximum growth rate recommended by the Council on 21 January 2025[21], corresponding to a deviation[22] of 0.2% of GDP compared to the recommended maximum annual net expenditure growth in 2025. The projected deviation does not exceed the 0.3% of GDP threshold for the annual deviation. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is projected to be below the recommended maximum growth rate.

Debt challenges and medium-term debt position. The government debt decreased from 109.5% at the end of 2022 to 105.1% of GDP at the end of 2023. In 2024 it further decreased to 101.8% of GDP. The debt-to-GDP ratio is projected to decrease further to 100.9% of GDP at the end of 2025 and 100.8% at the end of 2026.

Overall, the debt sustainability analysis indicates high risks over the medium term. The debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections,

[20] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

[21] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Spain, OJ C/2025/643, 10.2.2025. ELI: http://data.europa.eu/eli/C/2025/643/oj

[22] From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high likelihood that the debt ratio in 2029 will be higher than in 2024.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the context of higher interest rates given the elevated level of public debt. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources featuring a well-diversified and large investor base, and the very large share of debt denominated in euro. In addition, the ‘closure clause’ introduced by the 2023 pension reform, if fully implemented in line with the RRF commitments of Spain would contribute to addressing emerging fiscal sustainability gaps related to public pension expenditure.

The Council recommendation on 21 January 2025 endorsing the medium-term plan of Spain specifies the set of reforms and investments underpinning the extension of the adjustment period, together with a timeline for their implementation. They include existing and stepped-up measures from the recovery and resilience plan, such as reforms in the area of taxation and fight against tax fraud, reforms to improve the quality of public expenditure, and investments in the areas of digital transformation, green transition and productivity, as well as additional reforms and investments such as deployment of a common business regulation framework, the introduction of mandatory electronic invoice, and investments in human capital, physical capital. Taking into account the information provided by Spain in its Annual Progress Report, the Commission finds that the implementation of the set of reforms and investments underpinning an extension of the adjustment period that were due by the 30 April 2025 have been implemented with the exception of certain elements of Spain’s Recovery and Resilience Plan’s measure C28.R3 and the related milestone on the entry into force of tax reforms derived from the expert group recommendations or other analyses by the Ministry of Finance.

In addition, structural reforms and investments under the RRF will have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Spain is underway. However, timely completion requires increased efforts.

National budgetary framework. The Spanish Fiscal Council (AIReF) has a broad mandate and has quickly established itself as a trusted independent institution. National fiscal rules in Spain include the budget balance rule, the debt rule and the national expenditure rule. With the deactivation of the General Escape Clause at the end of 2023 and the recent adoption of new rules at EU level, Spain is currently in a transition phase with its national fiscal rules again being applied. In its national Recovery and Resilience Plan, Spain has committed to carry out spending reviews prepared by AIReF and to integrate them into the annual budgetary process.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure on defence amounted to 0.9% of GDP in 2023. Of this, government investment in defence represented 0.2% of GDP in 2023, which was 0.2 percentage point lower than in 2022.

Other factors put forward by the Member State. On 2 May 2025, Spain provided additional relevant factors not mentioned above. Fiscal developments in 2024 were impacted by the devastating floods that took place in October 2024. The DANA[23] floods constituted the worst natural disaster in Spain’s recent history and has taken a heavy toll in terms of

[23] DANA stands for depresión aislada en niveles altos, or isolated depression at high levels.

material and human losses. According to Spain, in the absence of flood-related expenditure[24] the headline deficit would have fallen to 2.8% of GDP in 2024, in compliance with the Treaty reference value and 0.2 percentage points below the projection in the medium-term fiscal-structural plan submitted only two weeks before the floods. Given the unusual severity of the October DANA storm, the Commission considers that it is a mitigating relevant factor when assessing the excess over the deficit reference value in 2024.

LATVIA

Medium-term macroeconomic position. Real GDP increased by 2.9% in 2023, before contracting by 0.4% in 2024 mainly driven by the adverse geopolitical context and increasing uncertainty weighing on consumption and especially investment. Output is projected to slightly increase in 2025, by 0.5%, and then to increase in 2026 by 2.0%. The growth in 2025 is mainly driven by private and public consumption. Investments are set to decrease due to a strong negative carry-over and persistent uncertainties while exports are forecast to recover only gradually affected by the adverse impact of US tariffs.

Medium-term budgetary position, including investment. The general government deficit decreased from 2.4% of GDP in 2023 to 1.8% in 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 4.5% in 2024. Government investment stood at 5.6% of GDP in 2023, and increased slightly to 5.7% in 2024. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, was neutral in 2024. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2024 provided a broadly neutral contribution to the fiscal stance.

The Commission Spring 2025 Forecast projects a general government deficit of 3.1% of GDP in 2025 and 3.1% in 2026. Government investment is projected to increase to 7.0% of GDP in 2025, before marginally increasing further to 7.2% in 2026, being larger than the government deficit in the same years. Based on the Commission's estimates, the fiscal stance is projected to be expansionary, by 1.1% of GDP, in 2025. The growth in nationally financed primary current expenditure in 2025 is projected to provide a broadly neutral contribution to the fiscal stance.

According to the Commission Spring 2025 Forecast, net expenditure in Latvia is projected to grow by 5.7% in 2025 and 10.4% cumulatively in 2024 and 2025. Based on the Commission 2025 Spring Forecast, the net expenditure growth of Latvia in 2025 is projected to be below the maximum growth rate recommended by the Council on 21 January 2025[25], both annually and when considering 2024 and 2025 together.

Debt challenges and medium-term debt position. The government debt slightly increased from 44.4% the end of 2022 to 44.6% of GDP at the end of 2023. In 2024 it increased to 46.8% of GDP. The debt-to-GDP ratio is projected to rise to 48.6% of GDP at the end of 2025 and 49.3% at the end of 2026.

[24] With a fiscal impact of 0.4% of GDP - around 85% of the total fiscal impact stems directly from amounts paid out by the Consorcio de Compensación de Seguros, a public insurance fund that provides direct and automatic compensation for damages resulting from extraordinary risks, such as natural disasters.

[25] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Latvia, OJ C/2025/652, 10.2.2025. ELI: http://data.europa.eu/eli/C/2025/652/oj

Overall, the debt sustainability analysis indicates medium risks over the medium term. The debt trajectory is only moderately sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a low likelihood that the debt ratio in 2029 will be higher than in 2024.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors include the relatively large share of public debt held by non-residents, the share of non-performing loans in the Latvian banking sector and the negative net international investment position. On the other hand, risk-mitigating factors include the fact that debt is fully denominated in euro and the low share of short-term debt in total debt.

In addition, structural reforms and investments under the RRF will have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Latvia is underway. However, timely completion requires increased efforts.

National budgetary framework. The national fiscal framework of Latvia underwent a comprehensive reform in 2013, when the Fiscal Discipline Law was adopted, with the Latvian Fiscal Discipline Council (FDC) starting its operations in 2014. The FDC monitors compliance with Latvia's fiscal rules, including the structural balance rule and the expenditure rule. Furthermore, the FDC endorses the macroeconomic forecasts underpinning the budgetary process and communicates proactively on various aspects of fiscal policy and sustainability of public finances. The FDC is a well-established independent collegial institution actively participating in the domestic debate.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure on defence amounted to 3.1% of GDP in 2023. Of this, government investment in defence represented 0.5% of GDP in 2023, which was 0.3 percentage point higher than in 2022.

According to the information provided by the Latvian authorities, defence investment is projected to reach 1.0% of GDP in 2025, an increase by 0.2% of GDP compared to 2024.

Other factors put forward by the Member State. On 30 April 2025, Latvia provided additional relevant factors not mentioned above, including lower than previously projected GDP growth in 2025, which would adversely affect general government tax revenue. The letter also drew attention to Latvia's request to activate the national escape clause to accommodate increased defence expenditure (see section 2 above).

4.2.2. MEMBER STATES FOR WHICH RELEVANT FACTORS CANNOT BE TAKEN INTO ACCOUNT

AUSTRIA

Medium-term macroeconomic position. Real GDP contracted by 1.0% in 2023 and further by 1.2% in 2024, mainly driven by stagnant consumption and a downturn in industry, driven by cost pressures and declining investment. Output is projected to contract again, by 0.3%, in 2025, before increasing by 1.0% in 2026. The decline in 2025 is mainly driven by falling equipment investment and negative net exports.

Medium-term budgetary position, including investment. The general government deficit increased from 2.6% of GDP in 2023 to 4.7% in 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 8.7% in 2024. Government investment stood at 3.7 % of GDP in 2023 and increased to 3.9% in 2024. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, was expansionary, by 2.3% of GDP, in 2024. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2024 provided an expansionary contribution to the fiscal stance, amounting to 2.1% of GDP.

The Commission Spring 2025 Forecast projects a general government deficit of 4.4% of GDP in 2025 and 4.2% in 2026. Government investment is projected to remain at 3.9% of GDP in 2025 and to increase to 4.0% in 2026. Based on the Commission's estimates, the fiscal stance is projected to be contractionary, by 1.3% of GDP, in 2025. The growth in nationally financed primary current expenditure in 2025 is projected to provide a contractionary contribution to the fiscal stance, amounting to 0.9% of GDP.

On 13 May 2025, Austria submitted its first medium-term fiscal-structural plan, in accordance with Regulation (EU) 2024/1263. The plan covers the period 2025-2029 and presents a fiscal adjustment spread over seven years. The Commission is currently assessing the plan and will adopt its recommendation for a Council Recommendation in due course.

According to the Commission Spring 2025 Forecast, net expenditure in Austria is projected to grow by 2.0% in 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Austria in 2025 is projected to be below the maximum growth rate committed to by Austria in its plan.

Debt challenges and medium-term debt position. The government debt slightly increased from 78.4% of GDP at the end of 2022 to 78.5% at the end of 2023. In 2024 the debt-to-GDP ratio increased to 81.8%, and is projected to increase further to 84.0% at the end of 2025 and 85.8.% at the end of 2026.

Overall, the debt sustainability analysis indicates high risks over the medium term. The baseline debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high likelihood that the debt ratio in 2029 will be higher than in 2024.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors relate to the recent increase in interest rates and the fact that around 60% of the debt is held by non-residents. In addition, some contingent liability risks stem from the private sector, including via the possible materialisation of state guarantees. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years and the large share of debt denominated in euro.

In addition, structural reforms and investments under the RRF will have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Austria is underway.

National budgetary framework. Austria is one of five Member States with two independent fiscal institutions, *WIFO* and the *Fiskalrat*. The former is a well-established research institution that provides the macroeconomic forecast underlying the government's budgetary planning. The latter primarily performs both ex ante and ex post monitoring of compliance with national and EU fiscal rules; this monitoring is reported twice a year. Its assessment of the budgetary forecast takes place only after the adoption of the budget by parliament. Moreover, the *Fiskalrat* publishes recommendations on fiscal policy and medium-term budget orientation.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure on defence amounted to 0.6% of GDP in 2023. Of this, government investment in defence represented 0.1% of GDP, remaining unchanged compared to 2022.

According to the information provided by the Austrian authorities, total defence expenditure is assumed to have increased by 0.07% of GDP in 2024 compared to 2021.

Other factors put forward by the Member State. On 30 April 2025, Austria provided additional relevant factors not mentioned above, namely the impact of substantial floods in autumn 2024, which put a burden on public finances. In addition to this, according to Austria, the disinflationary process developed quicker than expected, putting a drag on the tax base compared to the latest budget presented in October 2023. The 2025-2026 budget was presented on 13 May and will be adopted by Parliament towards the end of June.[26] It contains a consolidation package of EUR 6.4 billion (1.3% of GDP) in 2025 and up to EUR 8.7 billion (1.7% of GDP) in 2026.

FINLAND

Medium-term macroeconomic position. Real GDP contracted by 0.9% in 2023. Real GDP further slightly contracted by 0.1% in 2024 mainly driven by a sizeable drop in investment, and a small decline in consumption, while government spending and net trade supported growth. Output is projected to increase in 2025 by 1.0% and in 2026 by 1.3%. The growth in 2025 is mainly driven by the recovery in consumption and investment due to rising household incomes thanks to increasing wages and improving financing conditions.

Medium-term budgetary position, including investment. Finland's general government deficit increased from 3.0% of GDP in 2023 to 4.4% in 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 3.1% in 2024. Government investment stood at 4.1 % of GDP in 2023 and increased to 4.4% in 2024. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, was expansionary, by 0.6% of GDP, in 2024. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2024 provided an expansionary contribution to the fiscal stance, amounting to 0.3% of GDP.

[26] The Draft Budgetary plan of Austria was submitted to the Commission and the Eurogroup on 13 May 2025. The Commission Opinion on the Draft Budgetary Plan is expected to be published in the course of June, together with the assessment of the medium-term plan (also submitted on 13 May 2025).

The Commission Spring 2025 Forecast projects a general government deficit of 3.7% of GDP in 2025 and 3.4% in 2026. Government investment is projected to increase to 4.9% of GDP in 2025, before marginally declining to 4.8% in 2026. Based on the Commission's estimates, the fiscal stance is projected to be contractionary, by 0.6% of GDP, in 2025. The growth in nationally financed primary current expenditure in 2025 is projected to provide a contractionary contribution to the fiscal stance, amounting to 1.1% of GDP.

According to the Commission Spring 2025 Forecast, net expenditure in Finland is projected to grow by 1.3% in 2025 and 4.4% cumulatively in 2024 and 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Finland in 2025 is projected to be below the maximum growth rate recommended by the Council on 21 January 2025[27], both annually and when considering 2024 and 2025 together.

Debt challenges and medium-term debt position. The government debt slightly increased from 74.0% at the end of 2022 to 77.5% of GDP at the end of 2023. In 2024 the debt-to-GDP ratio increased to 82.1% of GDP, and is projected to increase further to 85.6% of GDP at the end of 2025 and to 87.5% at the end of 2026.

Overall, the debt sustainability analysis indicates high risks over the medium term. The baseline debt trajectory is sensitive to macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a high likelihood that the debt ratio in 2029 will be higher than in 2024.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, government guarantees, and the related implicit liabilities for the public sector, are the largest in the EU. On the other hand, risk-mitigating factors include relatively stable financing sources (with a diversified and large investor base) and the currency denomination of debt.

The Council recommendation on 21 January 2025 endorsing the medium-term plan of Finland specifies the set of reforms and investments underpinning the extension of the adjustment period, together with a timeline for their implementation. They include existing and stepped-up measures from the Recovery and Resilience Plan such as the introduction of the Nordic model of employment services, energy infrastructure investments, and introducing digital innovation in social and healthcare, as well as additional reforms and investments such as the reform introducing the general social security model and the reform of social assistance, related to the green transition, innovation, labour market, healthcare and social care. Taking into account the information provided by Finland in its Annual Progress Report, the Commission finds that all the reforms and investments underpinning an extension that were due by 30 April 2025 have been implemented.

In addition, structural reforms and investments under the RRF will have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the Recovery and Resilience Plan of Finland is underway.

National budgetary framework. The cornerstone of the Finnish fiscal framework is a set of binding expenditure ceilings covering the central government. At the beginning of the parliamentary term, the government decides on the spending limits and the rules governing the procedure for the entire 4-year term, complemented by a nominal deficit rule. In addition, Finland has a balanced-budget rule in structural terms as well as a debt rule covering the general government, which also apply over the length of the government term (four years).

[27] Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Finland, OJ C/2025/656, 10.2.2025. ELI: http://data.europa.eu/eli/C/2025/656/oj

Finally, the budget balance rules for local governments and the social security sector are set by ordinary law. Finland builds its medium-term budgetary strategy outlining the government's fiscal objectives and medium-term priorities according to these rules, following a rolling planning window.

Increase in government investment in defence. Based on COFOG data published by Eurostat, total general government expenditure on defence amounted to 1.4% of GDP in 2023. Of this, government investment in defence represented 0.1% of GDP in 2023, which was 0.1 percentage point lower than in 2022.

According to the information provided by Finland, total defence expenditure is expected to increase by 0.4% of GDP in 2024, compared to 2021. Additionally, total defence expenditure is assumed to increase by 0.9% of GDP in 2025 compared to 2021, while defence investments are forecast to increase by 0.6 % of GDP in 2025, compared to 2021.

Other factors put forward by the Member State. On 6 May 2025, Finland provided additional relevant factors not mentioned above, namely the consolidation efforts decided in 2024 amounting to 1% of GDP and taking effect in 2025. The letter also drew attention to Finland's request on 30 April 2025 to activate the national escape clause to accommodate increased defence expenditure. The Commission has assessed the request and has adopted a Recommendation for a Council Recommendation allowing Finland to deviate from, and exceed, the recommended net expenditure path[28] under the period 2025-2028.

5. CONCLUSIONS

The government deficit exceeded the reference value of 3% of GDP in 2024 in **Spain, Austria** and **Finland**. In **Spain**, the government deficit was *above but close* to the reference value in 2024. In **Austria** and **Finland**, the government deficits were *above and not close* to the reference value in 2024.

Latvia had a government deficit *not exceeding* the reference value in 2024, but reported a planned deficit above but close to 3% of GDP in 2025; the Commission's forecast likewise projects a deficit(s) *above but close* to 3% of GDP in 2025.

According to the Commission's forecast, the government deficits in Latvia, Austria and Finland are projected to exceed 3% of GDP in 2025 and 2026 (though in the case of Latvia only marginally). Therefore, the deficits in excess of the reference value are assessed to be *not temporary* for **Latvia, Austria** and **Finland**. Differently, the government deficits in **Spain** are projected the Commission's forecast not to exceed the reference value in 2025 and 2026, and therefore the deficit in excess of the reference value is assessed as *temporary*.

The excess over the reference value is assessed as *exceptional* in the case of **Austria, Finland,** and **Latvia,** and *not exceptional* in the case of **Spain**.

In sum, the deficit criterion is not fulfilled by **Spain**, **Latvia, Austria,** and **Finland** before the consideration of the relevant factors.

Relevant factors can be taken into account in the steps leading to the decision on the existence of an excessive deficit for Member States with government debt below 60% of GDP (**Latvia**) and for Member States with government debt above 60% of GDP if the deficit

[28] Commission Recommendation for a Council Recommendation allowing Finland to deviate from, and exceed, the recommended net expenditure path, 04.06.2025, COM(2025) 606 final.

remains close to the reference value and the excess over the reference value is temporary (**Spain**). These factors can affect the assessment of compliance with the deficit criterion as mitigating or aggravating factors, whereby substantial debt challenges are regarded as a key aggravating factor. The relevant factors examined in this report are assessed as, on balance, mitigating for Latvia and a mixed picture for Spain.

Overall, for Spain and Latvia, taking into account all relevant factors as appropriate, the deficit criterion is assessed as being fulfilled.

Finland has requested the activation of the national escape clause on 30 April 2025, and the Commission is recommending to the Council in line with such a request. Moreover, since 2021, defence expenditure in Finland has increased from 1.2% of GDP to 1.5% in 2024, and is projected to be 2.1% and 2.0% of GDP in 2025 and 2026, respectively, based on the Commission's forecasts. Without this increase in defence expenditure, the deficits in 2025 and 2026 are projected by the Commission to be below the reference value without additional policy measures. Not to initiate an excessive deficit procedure for Finland in view of the excess over 3% of GDP in 2025 and 2026 being due to additional defence expenditure is in accordance with Article 2(5) of Regulation (EU) No 1467/97, which establishes that if the national escape clause is activated, the Commission and the Council may decide not to reach a conclusion regarding the existence of an excessive deficit.

Austria has so far not requested the activation of the national escape clause and its defence expenditure since 2021 has been stable and relatively low.

In the light of this assessment the Commission is of the view that there is no case to open an excessive deficit procedure for Finland.

In the light of this report, and after considering the opinion of the Economic and Financial Committee as established under Article 126(4) TFEU, the Commission will consider proposing to open an excessive deficit procedure for Austria by proposing to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit.