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## **REPORT FROM THE COMMISSION**

**Austria, 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 (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<sup>1</sup>, 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 several 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<sup>2</sup> and Council Directive (EU) 2024/1265<sup>3</sup>. Together, these three acts reform 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 19 June 2024, in the context of the European Semester 2024 Spring Package. In that report<sup>4</sup>, the Commission concluded with its intention to propose the opening of excessive deficit procedures for seven Member States: Belgium, France, Italy, Hungary, Malta, Poland and Slovakia due to non-compliance with the deficit criterion. Subsequently, upon a Commission recommendation, the Council decided on the existence of excessive deficits in those Member States<sup>5,6</sup>. The report of 19 June 2024 also discussed the cases of Czechia, Estonia, Spain, Slovenia and Finland, but the Commission did not recommend excessive deficit procedures for those Member States. However the Commission stated its intention to monitor the budgetary developments and to reassess the situation in autumn for some Member States.

The present report examines in detail the situation of those Member States for which the reporting of government deficit and debt levels under Council Regulation (EU) No 479/2009,

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<sup>1</sup> 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>).

<sup>2</sup> 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>).

<sup>3</sup> 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>).

<sup>4</sup> COM(2024) 598 final.

<sup>5</sup> OJ L, 1.8.2024, ELI: FR: <https://eur-lex.europa.eu/eli/dec/2024/2122/oj> HU: <https://eur-lex.europa.eu/eli/dec/2024/2123/oj> IT: <https://eur-lex.europa.eu/eli/dec/2024/2124/oj> BE: <https://eur-lex.europa.eu/eli/dec/2024/2125/oj> MT: <https://eur-lex.europa.eu/eli/dec/2024/2128/oj> SK: <https://eur-lex.europa.eu/eli/dec/2024/2129/oj> PL: <https://eur-lex.europa.eu/eli/dec/2024/2133/oj>.

<sup>6</sup> Romania is also in a situation of excessive deficit (Council Decision (EU) 2020/509 of 3 April 2020 <http://data.europa.eu/eli/dec/2020/509/oj>). In July, the Council decided that no effective action has been taken in response to the Council Recommendation of 18 June 2021 (Council Decision (EU) 2024/2130 of 26 July 2024, ELI: <http://data.europa.eu/eli/dec/2024/2130/oj>).

and the European Commission Autumn 2024 Forecast<sup>7</sup>, indicate relevant changes compared to the figures that were available in spring.

### *The deficit and debt criteria*

The **deficit criterion** is fulfilled if the *actual* general government deficit for the previous year (2023) and *planned* deficit for the current year (2024) 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, unless 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 approaching the reference value at a satisfactory pace if the Member State concerned respects its net expenditure<sup>8</sup> path as set by the Council under Articles 17 or 19 of Regulation (EU) 2024/1263. Since the Council has not yet set a net expenditure path for any Member State, the debt criterion cannot be fully assessed at this stage<sup>9</sup>.

### *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 2023 deficit ratio provided by Eurostat,<sup>10</sup> or the planned deficit ratio for 2024, as reported by Member States to Eurostat in the context of the Autumn 2024 notification<sup>11</sup>, exceeds 3% of GDP and for which relevant changes are registered compared to the figures available in spring.<sup>12</sup> Moreover, the assessment of compliance with the deficit criterion also considers the European Commission Autumn 2024 Forecast<sup>13</sup>. 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.

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<sup>7</sup> European Commission Autumn 2024 Forecast (*European Economy Institutional Paper* 296, November 2024).

<sup>8</sup> 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.

<sup>9</sup> Figures on general government debt-to-GDP ratio are presented in section 3.

<sup>10</sup> See Eurostat Euro indicators of 22 October 2024 (<https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-22102024-AP>), according to Article 14 of Council Regulation (EC) No 479/2009.

<sup>11</sup> The complete set of tables reported to Eurostat by Member States is available at: <https://ec.europa.eu/eurostat/web/government-finance-statistics/excessive-deficit-procedure/edp-notification-tables>.

<sup>12</sup> Member States currently under excessive deficit procedure are not concerned by the present report.

<sup>13</sup> Unless stated otherwise, the source for the figures for 2024, 2025 and 2026 provided in this report is the European Commission Autumn 2024 Forecast.

Based on the data published by Eurostat on 22 October 2024 (see Table 1), the report assesses compliance with the deficit criterion in **Austria** and **Finland**. Specifically, Austria and Finland plan their government deficits to exceed 3% of GDP in 2024. These planned deficits for 2024 are therefore *prima facie* evidence of the existence of excessive deficits in those two Member States.

This report does not elaborate on the Member States already discussed in detail in the 19 June 2024 report under article 126(3), for which the Commission and the Council did not conclude on the existence of excessive deficits, and for which there have not been changes in autumn compared to the figures available in spring that would justify a reassessment of the situation. These Member States are Czechia<sup>14</sup>, Estonia<sup>15</sup>, Spain<sup>16</sup> and Slovenia<sup>17</sup>. The Commission Communication of 26 November 2024<sup>18</sup> provides a more detailed update on these Member States.

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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<sup>14</sup> Based on the autumn notification and on the European Commission Autumn 2024 Forecast, there are no changes compared to the situation in spring that would justify a detailed discussion of Czechia in the present report.

<sup>15</sup> Based on the autumn notification and on the European Commission Autumn 2024 Forecast, the budgetary situation of Estonia has improved compared to spring. Therefore, a detailed discussion of Estonia in the present report does not seem justified.

<sup>16</sup> Based on the autumn notification and the European Commission Autumn 2024 Forecast, the conclusion reached in spring for Spain remains valid. Therefore, a detailed discussion of Spain in the present report does not seem justified.

<sup>17</sup> Based on the autumn notification and on the European Commission Autumn 2024 Forecast, the budgetary situation has improved compared to spring. Therefore, a detailed discussion of Slovenia in the present report does not seem justified.

<sup>18</sup> Communication from the Commission to the European Parliament, the Council and the European Central Bank “2025 European Semester: bringing the new economic governance framework to life” (COM (2024) 705 final of 26.11.2024).

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

	<b>Actual deficit not exceeding (✓) / exceeding (✗) 3% of GDP in 2023</b>	<b>Planned deficit not exceeding (✓) / exceeding (✗) 3% of GDP in 2024</b>	<b>Debt ratio not exceeding (✓) / exceeding (✗) 60% of GDP at end-2023</b>
<i>Member States assessed in this report</i>			
<b>Austria</b>	✓	✗	✗
<b>Finland</b>	✓	✗	✗
<i>Member States not considered in this report</i>			
Belgium*	✗	✗	✗
Bulgaria	✓	✓	✓
Czechia***	✗	✓	✓
Denmark	✓	✓	✓
Germany	✓	✓	✗
Estonia***	✓	✓	✓
Ireland	✓	✓	✓
Greece	✓	✓	✗
Spain***	✗	✓	✗
France*	✗	–§	✗
Croatia	✓	✓	✗
Italy*	✗	✗	✗
Cyprus	✓	✓	✗
Latvia	✓	✓	✓
Lithuania	✓	✓	✓
Luxembourg	✓	✓	✓
Hungary*	✗	✗	✗
Malta*	✗	✗	✓
Netherlands	✓	✓	✓
Poland*	✗	✗	✓
Portugal	✓	✓	✗
Romania**	✗	✗	✓
Slovenia***	✓	✓	✗
Slovakia*	✗	✗	✓
Sweden	✓	✓	✓

Source: Eurostat (press release 22 October 2024 and autumn 2024 fiscal notification). (\*) In excessive deficit procedure since July 2024. (\*\*) In excessive deficit procedure since April 2020. (\*\*\*) Not in excessive deficit and not discussed in this report since there have been no changes compared to the information available for the report of 19 June 2024 that would justify a reassessment of the situation. §France did not submit a planned deficit for 2024 to Eurostat in the context of the autumn 2024 fiscal notification.

## 2. GENERAL GOVERNMENT BALANCE

**Austria** registered a government deficit of 2.6% of GDP in 2023, whereas in **Finland** it amounted to 3.0% of GDP (see Table 2).

Both Member States plan deficits for 2024 exceeding 3% of GDP<sup>19</sup>. Specifically, for Austria, the planned deficit for 2024 amounts to 3.3% of GDP, and therefore it is above but close to the reference value. However, the European Commission Autumn 2024 Forecast projects the deficit at 3.6% of GDP, therefore above and not close to the reference value. The main differences between both sets of projections reflect a combination of higher government expenditure linked to social spending and lower government revenues in the Commission's forecast.

For Finland, the planned deficit for 2024 amounts to 3.7% of GDP (the same value is projected in the European Commission Autumn 2024 Forecast), and therefore it is above and not close to the reference value.

According to the European Commission Autumn 2024 Forecast, the government deficit for Austria is projected to continue exceeding 3% of GDP in 2025 and in 2026. As usual, the Commission forecasts have been prepared on the basis of the current policies. In the case of Austria, this means that the forecast does not consider a budget for 2025, the latter having been delayed by the Austrian electoral cycle. Since for Austria the breach of the 3% reference value is projected to continue over the forecast horizon to 2026, the deficit in excess is expected to be not temporary.

Differently, the government deficit in Finland is presently projected not to exceed the reference value in 2025 and 2026, and therefore the deficit in excess is expected to be temporary.

In both Member States, the planned deficit in excess over the reference value has been impacted by the unfavourable macroeconomic conditions, that is a prolonged and sizeable recession in 2023 and 2024.

In Austria, real GDP decreased by 1.0% in 2023 and is forecast to further decrease by 0.6% in 2024. Furthermore, Austria has to bear the budgetary impact of recent floods.

In Finland, real GDP decreased by 1.2% in 2023 and is forecast to further decrease by 0.3% in 2024.<sup>20</sup> In addition, in Finland the worsening security environment due to the Russia's war of aggression against Ukraine has a bearing on the economy with repercussion to public finances.

Based on the above, 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 by these two Member States (**Austria** and **Finland**) before the consideration of the relevant factors.

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<sup>19</sup> As reported to Eurostat in the context of the autumn 2024 fiscal notification.

<sup>20</sup> In the Report under 126(3) of June 2024, the situation of Finland was considered non exceptional. At that time the expectation was of a stagnation of real economic activity in 2024; this has now been revised to a negative growth rate of 0.3% in 2024, or cumulative -1.5% in 2023-2024.

**Table 2 - General government balance**

Percentage of GDP					Autumn fiscal notification	European Commission Autumn 2024 Forecast		
2020	2021	2022	2023		2024	2024	2025	2026
<i>Member States assessed in this report</i>								
<b>Austria</b>	-8.2	-5.7	-3.3	-2.6	-3.3	-3.6	-3.7	-3.5
<b>Finland</b>	-5.5	-2.7	-0.2	-3.0	-3.7	-3.7	-3.0	-2.5
<i>Member States not considered in this report</i>								
Belgium*	-9.0	-5.4	-3.6	-4.2	-4.5	-4.6	-4.9	-5.3
Bulgaria	-3.8	-3.9	-2.9	-2.0	-3.0	-2.6	-2.8	-2.8
Czechia***	-5.6	-5.0	-3.1	-3.8	-2.8	-2.5	-2.3	-1.9
Denmark	0.4	4.1	3.4	3.3	1.9	2.3	1.5	0.9
Germany	-4.4	-3.2	-2.1	-2.6	-2.4	-2.2	-2.0	-1.8
Estonia***	-5.4	-2.6	-1.1	-2.8	-3.0	-3.0	-3.0	-3.0
Ireland	-4.9	-1.4	1.7	1.5	4.5	4.4	1.4	1.3
Greece	-9.6	-6.9	-2.5	-1.3	-1.2	-0.6	-0.1	0.2
Spain***	-9.9	-6.7	-4.6	-3.5	-3.0	-3.0	-2.6	-2.7
France*	-8.9	-6.6	-4.7	-5.5	-\$	-6.2	-5.3	-5.4
Croatia	-7.2	-2.6	0.1	-0.9	-2.6	-2.1	-2.1	-1.9
Italy*	-9.4	-8.9	-8.1	-7.2	-3.8	-3.8	-3.4	-2.9
Cyprus	-5.6	-1.6	2.6	2.0	3.7	3.5	2.7	2.7
Latvia	-4.1	-7.2	-4.9	-2.4	-2.9	-2.8	-3.2	-3.2
Lithuania	-6.3	-1.1	-0.7	-0.7	-2.9	-2.0	-2.4	-2.6
Luxembourg	-3.1	1.0	0.2	-0.7	-1.2	-0.6	-0.8	-0.6
Hungary*	-7.5	-7.1	-6.2	-6.7	-4.5	-5.4	-4.6	-4.1
Malta*	-8.7	-7.0	-5.2	-4.5	-4.0	-4.0	-3.5	-3.1
Netherlands	-3.6	-2.2	0.0	-0.4	-1.6	-0.2	-1.9	-2.4
Poland*	-6.9	-1.7	-3.4	-5.3	-5.7	-5.8	-5.6	-5.3
Portugal	-5.8	-2.8	-0.3	1.2	0.3	0.6	0.4	0.3
Romania**	-9.2	-7.1	-6.4	-6.5	-7.0	-8.0	-7.9	-7.9
Slovenia***	-7.7	-4.6	-3.0	-2.6	-2.9	-2.4	-2.1	-2.1
Slovakia*	-5.3	-5.1	-1.7	-5.2	-5.9	-5.8	-4.7	-4.1
Sweden	-3.2	-0.1	1.0	-0.6	-1.7	-1.9	-1.4	-0.3

Source: Eurostat (data from 2020 to 2023, and 2024 fiscal notification) and European Commission Autumn 2024 Forecast (data for 2024, 2025 and 2026). (\*) In excessive deficit procedure since July 2024. (\*\*) In excessive deficit procedure since April 2020. (\*\*\*) Not in excessive deficit and not discussed in this report since there have been no relevant changes compared to the information available for the report of 19 June 2024. §France did not submit a planned deficit for 2024 to Eurostat in the context of the autumn 2024 fiscal notification.



### 3. GENERAL GOVERNMENT DEBT

In both Austria and Finland, the general government gross debt at end-2023 exceeded 60% of GDP, and in both cases the government debt-to-GDP ratio in 2023 increased compared to the previous year. Moreover, based on the European Commission Autumn 2024 Forecast, the debt-to-GDP ratio is projected to increase for both Member States up to 2026.

**Table 3 – General government debt**

Percentage of GDP					Autumn fiscal notification	European Commission Autumn 2024 Forecast		
2020	2021	2022	2023		2024	2024	2025	2026
<i>Member States assessed in this report</i>								
<b>Austria</b>	83.2	82.4	78.4	78.6	79.3	79.5	80.8	81.8
<b>Finland</b>	75.4	73.2	74.0	77.1	81.7	82.6	84.7	85.3
<i>Member States not considered in this report</i>								
Belgium	111.2	108.4	102.6	103.1	103.4	103.4	105.1	107.2
Bulgaria	24.4	23.8	22.5	22.9	24.9	24.5	23.1	24.5
Czechia***	36.9	40.7	42.5	42.4	44.1	43.4	44.4	44.8
Denmark	46.3	40.5	34.1	33.6	32.8	31.0	29.3	28.3
Germany	68.0	68.1	65.0	62.9	63.4	63.0	63.2	62.8
Estonia***	19.1	18.4	19.1	20.2	23.3	23.2	24.2	25.5
Ireland	57.0	52.6	43.1	43.3	41.4	41.6	38.3	36.8
Greece	209.4	197.3	177.0	163.9	153.6	153.1	146.8	142.7
Spain***	119.3	115.7	109.5	105.1	102.3	102.3	101.3	101.1
France	114.8	112.7	111.2	109.9	-	112.7	115.3	117.1
Croatia	86.5	78.2	68.5	61.8	58.9	57.3	56.0	56.0
Italy	154.3	145.7	138.3	134.8	135.8	136.6	138.2	139.3
Cyprus	113.6	96.5	81.0	73.6	65.2	66.4	61.4	56.7
Latvia	44.0	45.9	44.4	45.0	45.2	48.1	50.3	51.6
Lithuania	45.9	43.3	38.1	37.3	39.4	38.3	41.0	44.6
Luxembourg	24.5	24.4	24.6	25.5	27.5	27.5	27.6	27.5
Hungary	78.7	76.2	73.8	73.4	73.2	74.5	74.5	73.8
Malta	48.7	49.6	49.4	47.4	49.2	49.8	50.4	50.2
Netherlands	53.3	50.4	48.3	45.1	44.2	43.3	44.3	46.6
Poland	56.6	53.0	48.8	49.7	54.6	54.7	58.9	62.4
Portugal	134.1	123.9	111.2	97.9	94.5	95.7	92.9	90.5
Romania	46.6	48.3	47.9	48.9	51.3	52.2	56.1	59.7
Slovenia***	80.2	74.8	72.7	68.4	67.4	67.1	64.4	63.1
Slovakia	58.4	60.2	57.7	56.1	58.6	58.9	59.8	61.8
Sweden	40.1	36.7	33.6	31.5	33.0	32.8	32.7	31.7

*Source:* Eurostat (data from 2020 to 2023 and 2024 fiscal notification) and European Commission Autumn 2024 Forecast (data for 2024, 2025 and 2026). (\*) In excessive deficit procedure since July 2024. (\*\*) In excessive deficit procedure since 2020. (\*\*\*) Not in excessive deficit and not discussed in this report since there have been no relevant

#### 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.

More specifically, 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 shall be considered as a key aggravating factor.

As regards the assessment of compliance with the deficit criterion, Article 2(4) of Council Regulation (EC) 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, but 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**.

For both Member States considered in this report, the debt-to-GDP ratio exceeds the 60% of GDP reference value. Moreover, neither in Austria nor in Finland the double condition is met.

For Austria, the planned deficit-to-GDP ratio for 2024 is not close to 3% and the excess over the reference value is not temporary. Differently, for Finland, the planned deficit for 2024 is not close to 3% of GDP, but the excess over the reference value is temporary, as the deficit is forecast by the Commission not to exceed 3% of GDP over the forecast horizon, as from 2025.

As a result, for both Austria and Finland relevant factors **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 (paragraphs 5 and 6 of Article 126 TFEU). However, according to established practice and in line with Article 2(4) of Council Regulation (EC) 1467/97, the relevant factors are still discussed in the present report for each of the two Member States.

#### 4.1. CROSS-COUNTRY RELEVANT FACTORS

The EU economy was faced with a series of formidable shocks in recent years. The COVID-19 crisis gave rise to global supply-side disruptions as demand increased vigorously during the strong post-pandemic rebound. 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, 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. automatic indexation mechanisms, increased expenditure for defence and border safety.

Economic activity in the EU broadly stagnated in 2023, with GDP growth slowing down to 0.4% in 2023 amid weak domestic demand and little support from the external environment. In the first quarter of 2024, the EU economy resumed growing. The expansion continued at subdued yet steady pace throughout the second and third quarters, amidst further abating inflationary pressures. The conditions for a mild acceleration of domestic demand appear in place, despite heightened uncertainty. Mounting risks associated to climate change also weigh on the outlook. Within an increasingly challenging geopolitical context, the conflict in the Middle East added to downside risks for the EU and global economy. Meanwhile, inflation has continued declining, decreasing from 9.2% in 2022 to 6.4% in 2023. According to the European Commission Autumn 2024 Forecast, EU real GDP growth is projected at 0.9% in 2024, and the disinflation process is set to be even sharper compared to 2023, with headline inflation falling to 2.6% in 2024.

The fall in the EU government deficit came to a halt in 2023 as economic activity weakened. After a sizeable reduction in 2021 and 2022 from very high levels in 2020, the general government deficit of the EU aggregate increased marginally to 3.5% of GDP in 2023. In 2024, it is set to reducing to 3.1% of GDP.

At the end of 2023, the EU government debt-to-GDP ratio stood at 82.1% (from 83.9% at the end of 2022), around 9 pps. lower than the 91.2% peak recorded at the end of 2020. However, it remains around 3 pps. above the pre-COVID-19 level. According to the European Commission Autumn 2024 Forecast, the debt ratio is projected at 82.4% of GDP in 2024.

After a sizeable expansion (around 3% of GDP) in 2020-23, the fiscal stance<sup>21</sup> in 2024 is projected to be contractionary, close to ½% of GDP. The contractionary stance this year is driven by the phase-out of large subsidies to support private investment and somewhat lower expenditure financed by the EU budget (also due to the end of MFF 2014-2020 spending), whereas public investment financed by national budgets continues to provide an expansionary contribution.

#### **4.2. COUNTRY-SPECIFIC RELEVANT FACTORS**

This section provides an assessment of country-specific relevant factors for each of the two Member States 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 definitions with respect to the Classification of the Functions of Government (COFOG) for defence purposes. However, COFOG data become available with a time lag and they are currently only available until 2022. Additional information and preliminary estimates on expenditure and/or investment in defence for 2023 and 2024 as presented in the country-specific sections have been provided by Member States, including in the context of the EDP notifications of October 2024.

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 European Commission Autumn 2024 Forecast.

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<sup>21</sup> 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.

Table 4 - Public investment

Percentage of GDP					European Commission Autumn 2024 Forecast		
	2020	2021	2022	2023	2024	2025	2026
<i>Member States assessed in this report</i>							
<b>Austria</b>	3.3	3.6	3.5	3.7	3.7	3.8	3.8
<b>Finland</b>	4.9	4.2	4.1	4.0	4.3	4.8	4.6
<i>Member States not considered in this report</i>							
Belgium	2.8	2.8	2.7	2.8	3.1	2.9	2.9
Bulgaria	3.3	2.7	2.3	3.8	3.3	3.6	3.4
Czechia	4.7	4.6	4.5	4.9	4.7	4.9	4.6
Denmark	3.6	3.2	3.0	3.1	3.2	3.3	3.3
Germany	3.0	2.9	2.8	2.8	3.0	3.0	3.0
Estonia	5.8	5.8	5.4	6.6	7.3	8.1	8.5
Ireland	2.3	2.0	2.0	2.3	2.5	2.9	3.0
Greece	3.1	3.6	3.7	3.9	4.9	4.5	3.9
Spain	2.6	2.7	2.7	3.0	3.0	3.1	3.2
France	4.2	4.1	4.2	4.3	4.3	4.2	4.1
Croatia	5.6	4.8	4.0	5.6	5.7	5.9	5.8
Italy	2.6	2.8	2.6	3.2	3.5	3.8	3.7
Cyprus	2.9	2.7	2.4	3.1	2.9	2.9	2.7
Latvia	5.9	5.6	4.5	5.6	5.3	6.2	6.1
Lithuania	4.5	3.2	3.2	4.2	3.9	4.1	3.7
Luxembourg	4.7	4.1	4.2	4.7	4.7	4.9	4.7
Hungary	6.4	6.2	5.3	5.1	4.4	4.8	5.0
Malta	3.7	3.7	3.2	3.5	4.1	3.8	3.8
Netherlands	3.6	3.4	3.2	3.1	3.1	3.1	3.2
Poland	4.4	4.1	3.8	5.1	5.0	5.0	5.2
Portugal	2.3	2.6	2.4	2.6	3.1	3.2	3.5
Romania	4.4	4.1	4.4	5.4	5.7	6.1	6.6
Slovenia	4.1	4.7	5.5	5.2	5.2	5.1	5.1
Slovakia	3.4	3.0	3.1	3.6	3.7	4.6	4.2
Sweden	5.4	5.0	5.1	5.2	5.4	5.4	5.6

Source: Eurostat and European Commission Autumn 2024 Forecast.

#### 4.2.1.AUSTRIA

**Medium-term macroeconomic position.** In 2023, rising energy costs, high inflation and worsening financing conditions weighed on private consumption and drove down investments. As a result, real GDP decreased by 1%. The contraction in 2024 is set to be mainly driven by a decline in investments and exports. Moreover, the weakness of private consumption continues to hold back growth. The construction sector – after many years of strong growth – has experienced a precipitous decline in 2023 and 2024. However, going forward, private consumption is expected to gain strength due to significant increases in real wages. Investments and exports are projected to recover thanks to declining interest rates and energy costs and stronger external demand from Austria's neighbouring countries.

**Medium-term budgetary position, including investment.** The general government deficit stood at 2.6% of GDP in 2023. In the European Commission Autumn 2024 Forecast, it is projected to amount to 3.6% in 2024, 3.7% in 2025 and 3.5% in 2026. Government investment stood at 3.6% of GDP in 2021 and at 3.5% in 2022, and increased slightly to 3.7% in 2023. It is projected to remain at 3.7% of GDP in 2024 and to marginally increase to 3.8% in 2025 and 2026, being larger than the government deficit since 2022.

The fiscal stance in Austria was neutral in 2023. In the same year, the net nationally financed primary current expenditure provided an expansionary contribution to the fiscal stance by 0.4% of GDP. According to the European Commission Autumn 2024 Forecast, in 2024, the fiscal stance is projected to be expansionary by 0.6% of GDP, with a contribution from the net nationally financed primary current expenditure expansionary by 0.6% of GDP, before turning contractionary by 0.2% of GDP in 2025, when the net nationally financed primary current expenditure is projected to contribute by 0.1% of GDP.

**Debt challenges and medium-term debt position.** Government debt decreased from 83.2% of GDP at the end of 2020 to 82.4% at the end of 2021, and then further to 78.4% in 2022. In 2023 it marginally increased to 78.6% of GDP. The debt-to-GDP ratio is projected to increase further to 79.5% of GDP at the end of 2024, 80.8% in 2025 and 81.8% at the end of 2026.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise continuously to about 98% of GDP in 2035<sup>22</sup>. 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 are related 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. While the capitalisation of Austrian banks has improved in recent years, the largest banks still have lower capital buffers than their euro area peers. 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, if fully implemented, 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. However, timely completion requires increased efforts.

**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, which are 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 2022. Of this, government investment in defence represented 0.1% of GDP in 2022, remaining unchanged compared to 2019. According to the information provided by the Austrian authorities, total defence expenditure is assumed to increase by 0.14% of GDP in 2024, while the authorities did not provide a breakdown between investment and other expenditure.

**Other factors put forward by the Member State.** On 30 October 2024, Austria provided additional relevant factors not mentioned above, namely the impact of substantial floods in September 2024. Austria estimated the damage caused by the floods at around 0.5% of GDP, with direct fiscal impact of around 0.1% of GDP in 2024 (included in the planned deficit) and a similar amount in 2025. Furthermore, the Austrian authorities put forward that the two consecutive years of recession currently being experienced by Austria warrant the activation of the national escape clause under the new EU fiscal rules.

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<sup>22</sup> This is based on a no-fiscal-policy-change assumption keeping the structural primary balance unchanged at its 2025 level.



#### 4.2.2. FINLAND

**Medium-term macroeconomic position.** Real GDP contracted by 1.2% in 2023 as increases in prices and interest rates weighed on consumption and, particularly, on investment. Output is projected to decline further in 2024 (by 0.3%) and then to increase again in 2025 and 2026 as domestic and external demand are projected to pick up (by 1.5% and 1.6% respectively). The decrease in GDP in 2024 is set to be mainly driven by a prolonged contraction of the construction sector and a decline in exports of goods.

**Medium-term budgetary position, including investment.** The government deficit decreased from 2.7% of GDP in 2021 to 0.2% in 2022, before rising to 3.0% in 2023. It is projected to be 3.7% in 2024, 3.0% in 2025 and 2.5% in 2026. Government investment stood at 4.2% of GDP in 2021 and 4.1% in 2022, and declined slightly further to 4.0% in 2023. It is projected to increase to 4.3% of GDP in 2024 and to 4.8% in 2025, before marginally declining to 4.6% in 2026, being larger than the government deficit from 2021.

In 2023, the fiscal stance in Finland was expansionary by 1.7% of GDP. In the same year, the net nationally financed primary current expenditure provided an expansionary contribution to the fiscal stance by 1.6% of GDP. According to the European Commission Autumn 2024 Forecast, in 2024, the fiscal stance is projected to be expansionary by 0.7% of GDP, with a contribution from the net nationally financed net primary current expenditure expansionary by 0.6% of GDP. Finally, the fiscal stance is set to be contractionary by 0.7% of GDP in 2025, when the net nationally financed primary current expenditure is projected to contribute by 1.2% of GDP.

On 10 October 2024, Finland submitted its first medium-term fiscal-structural plan, in accordance with Regulation (EU) 2024/1263. The Commission has assessed that plan and is adopting a Recommendation for a Council Recommendation setting the net expenditure for Finland and endorsing the set of reform and investment commitments underpinning an extension of the adjustment period on the same day as this Report<sup>23</sup>.

**Debt challenges and medium-term debt position.** Government debt decreased from 75.4% of GDP at the end of 2020 to 73.2% at the end of 2021, and then gradually increased, standing at 74.0% of GDP at the end of 2022 and at 77.1% of GDP at the end of 2023. The debt-to-GDP ratio is projected to further increase to 82.6% at the end of 2024, 84.7% in 2025 up to 85.3% at the end of 2026.

Overall, the debt sustainability analysis indicates high risks over the medium term. According to the baseline 10-year projection, the general government debt ratio would rise continuously to about 97% of GDP in 2035<sup>24</sup>. 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 are related to the recent increase in interest rates, the share of short-term government debt and risks from the real estate and the housing markets. On the other hand, risk-mitigating factors include the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investor base) and the very large share of debt denominated in euro. In addition, structural reforms and investments under the RRF, if fully implemented, 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, however timely completion requires increased efforts.



**National budgetary framework.** The National Audit Office of Finland (NAOF) is a national body in charge of ensuring that state funds are used cost-effectively and in line with laws and regulations. NAOF is involved in the Parliament's General Government Fiscal Plan, part of the domestic medium-term budgetary framework, and reports on government compliance with national and European fiscal rules twice a year but is not involved in the triggering of escape clauses. In case of deviation, the Ministry of Finance must make public the corrective measures it takes. The NAOF also assesses the government macroeconomic and budgetary forecasts.

**Increase in government investment in defence.** Based on COFOG data published by Eurostat, total general government expenditure in defence amounted to 1.3% of GDP in 2022. Of this, government investment in defence represented 0.3% of GDP in 2022, which was 0.1 percentage point higher than in 2019. According to estimates provided by Finland, defence-related investment would increase by about 0.5% of GDP in 2024, reflecting substantial defence-related investment as well as replacement investment into defence material due to the assistance to Ukraine; however, according to Finland, statistical recording of this expenditure is still open and part of these investments, while comparable to defence, is likely to be included in another COFOG division (notably "Public order and safety"). According to the information provided by Finland, defence investments would increase further by 0.4% of GDP in 2025.

**Other factors put forward by the Member State.** On 30 October 2024, Finland provided additional relevant factors not mentioned above, namely the additional fiscal consolidation measures decided by the government in spring 2024 amounting to 1% of GDP. In addition, the authorities explained that the level of unemployment insurance contributions was lowered by EUR 1.4 billion or 0.5% of GDP as of 2024 because according to the forecast the Employment Fund's cyclical buffer fund would have otherwise exceeded its limit determined by the legislation. Finally, referring to the impact of the Russian war of aggression against Ukraine, the Finnish authorities confirmed their intention to request the activation of the national escape clause under the new EU fiscal rules.

## 5. CONCLUSIONS

**Austria** had a government deficit not exceeding the 3% of GDP reference value in 2023, but in the context of the autumn 2024 fiscal notification reported to Eurostat a planned deficit above but close to 3% of GDP for 2024. According to the European Commission Autumn 2024 Forecast the 2024 deficit is projected above and not close to 3% of GDP.

**Finland** had a government deficit not exceeding the reference value in 2023, but in the context of the autumn 2024 fiscal notification reported to Eurostat a planned deficit above and not close to 3% of GDP in 2024; the Commission's forecast likewise projects a deficit above and not close to 3% of GDP for 2024.

According to the Commission's Autumn 2024 Forecast, the government deficit in **Austria** is projected to clearly exceed 3% of GDP over the forecast horizon, until 2026. As usual, the Commission forecasts have been prepared on the basis of the current policies. For Austria, the forecast does not consider a budget for 2025 since the latter has been delayed by the Austrian

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<sup>23</sup> Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Finland, 26.11.2024, COM(2024) 715 final.

<sup>24</sup> This is based on a no-fiscal-policy-change assumption keeping the structural primary balance unchanged at its 2025 level.

electoral cycle. On this basis, the deficit in excess of the reference value is assessed to be not temporary for Austria.

For **Finland**, the Commission's forecast indicates that the government deficit in 2025 (and 2026) is not likely to exceed the reference value, and therefore the excess deficit is assessed as temporary.

For both Member States, the planned deficit in excess over the reference value has been impacted by unfavourable macroeconomic conditions: in both cases, real GDP contracted significantly in 2023 and 2024, and the planned deficit in excess over the reference value could therefore be considered as exceptional.

In sum, this analysis suggests that the deficit criterion is not fulfilled by the two Member States before the consideration of the relevant factors.

In both Member States, government debt exceeds the 60% of GDP reference value while the double condition necessary for relevant factors to be taken into account (closeness and temporariness) is not met. Therefore, for the two 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).

In the light of this assessment, 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. In the exchange leading to this report, the Austrian authorities recalled that negotiations are currently ongoing to form a government. The authorities expressed their intention to take the necessary action to bring the deficit below 3% in 2025 without having to open an excessive deficit procedure. This would require a package of corrective measures, in time for the ECOFIN meeting of January 2025. The Commission stands ready to assess such a package as soon as related measures are formally agreed by the government and sufficiently detailed.

For **Finland**, according to the European Commission Autumn 2024 Forecast, the deficit is projected not to exceed the reference value already as from 2025 without additional policy measures. Therefore, initiating an excessive deficit procedure for Finland would not, at this stage, serve a useful purpose.

The Commission will continuously monitor budgetary developments carefully and re-assess the situation in these and other Member States in spring 2025.