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REPORT FROM THE COMMISSION

Bulgaria, Germany, Estonia, Latvia, Slovenia

**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 procedure¹, which is part of the Stability and Growth Pact.

In accordance with Article 126(3) TFEU, the purpose of this report by the Commission is to identify the Member States for which compliance with the deficit criterion and/or the debt criterion has to be examined and to provide this assessment.²

The **deficit criterion** is fulfilled if the *actual* general government deficit for the previous year (2025) and *planned* deficit for the current year (2026) do not exceed the 3% of GDP reference value. If either does, the Commission examines whether the deficit ratio has declined substantially and continuously, and comes close to the reference value. The Commission also examines whether the deficit in excess over the reference value is exceptional and temporary, and remains close to the reference value. 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 based on the deficit criterion, if either *i)* the government debt does not exceed 60% of GDP, or *ii)* if the debt exceeds 60% of GDP, the deficit is close to 3% of GDP and the excess over it is temporary.

The **debt criterion** is fulfilled if the general government gross debt at the end of the previous year (2025) does not exceed the 60% of GDP reference value. If it does, the Commission examines whether the debt ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace. In Regulation (EC) No 1467/97, the latter is operationalised, for a Member State with a debt ratio exceeding 60% of GDP, through the respect of the maximum net expenditure³ growth rates recommended by the Council,⁴ with upward and downward deviations tracked in a control account.⁵ If general government debt exceeds 60% of GDP, the

¹ OJ L 209, 2.8.1997 (ELI: <http://data.europa.eu/eli/reg/1997/1467/2024-04-30>) as last amended by Council Regulation (EU) 2024/1264 of 29 April 2024 (OJ L, 2024/1264, 30.4.2024). The report also takes into account the “Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes”, adopted by the Economic and Financial Committee on 1 December 2025, available at: https://economy-finance.ec.europa.eu/economic-governance-framework/stability-and-growth-pact/legal-basis-stability-and-growth-pact_en.

² Member States subject to a Council Decision establishing an excessive deficit under Article 126(6) TFEU are not concerned by this report. The following Member States are in excessive deficit procedure: since April 2020: Romania; since July 2024: Belgium, France, Hungary, Italy, Malta, Poland, Slovakia; since June 2025: Austria and since January 2026: Finland.

³ Article 2(2) of Regulation (EU) 2024/1263 defines 'net expenditure' as 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-off and other temporary measures.

⁴ In accordance with Articles 17, 19 or 20 of 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>).

⁵ The control account set up by the Commission in accordance with Article 22(2) of Regulation (EU) 2024/1263 records deviations of the observed net expenditure in a Member State from the recommended maximum net expenditure growth rates set by the Council. Upward deviations from the recommended net expenditure path are registered as debits, after taking into account escape clauses that may have been activated.

fiscal position is not ‘close to balance or in surplus’⁶ and the debits in the Member State’s control account exceed 0.3% of GDP annually or 0.6% of GDP cumulatively, the Commission should prepare a report. In that report, 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 based on the debt criterion for all concerned Member States.

The report is structured as follows. Section 2 identifies the Member States for which compliance with the deficit criterion must be examined (**Bulgaria, Germany, Estonia, Latvia and Slovenia**) and provides this assessment before the consideration of relevant factors. Section 3 establishes that there are no Member States for which compliance with the debt criterion must be examined. Section 4 reviews relevant factors. The final section formulates the overall conclusions on compliance with the deficit and debt criteria. The format of this report – covering all concerned Member States together, 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.

2. DEFICIT CRITERION

For the assessment of the deficit criterion, this report concerns those Member States (not currently in excessive deficit) for which the *actual* 2025 deficit ratio provided by Eurostat⁷ or the *planned* deficit ratio for 2026 reported to Eurostat in the spring 2026 fiscal notification⁸ exceeds the reference value of 3% of GDP, or both. In the absence of data reported to Eurostat on the planned deficit for 2026, the source is the Member State’s 2026 Annual Progress Report⁹. This is the case for Slovenia. Bulgaria did not report a planned deficit for 2026, neither to Eurostat, nor in its 2026 Annual Progress Report. In view of the Commission Spring 2026 Forecast¹⁰ showing a 2026 deficit for Bulgaria well above the reference value, this report also provides an assessment of this projected deficit for 2026.

The general government deficit in Bulgaria exceeded the 3% of GDP reference value in 2025, while Germany, Estonia, Latvia and Slovenia had government deficits below the 3% of GDP reference value in 2025, but plan deficits for 2026 exceeding 3% of GDP (see Table 1). Therefore, this report assesses compliance with the deficit criterion in **Bulgaria, Germany, Estonia, Latvia and Slovenia**. For each of these Member States, the following paragraphs analyse the deficits in excess of the reference value in terms of closeness, temporariness and exceptionality. For this, the assessment considers the Commission Spring 2026 Forecast, with a cut-off date of 4 May 2026 (Table 1).

In **Bulgaria**, the government deficit in 2025 stood at 3.5% of GDP. The Commission Spring 2026 Forecast projects the 2026 deficit at 4.1% of GDP. The deficits in 2025 and 2026 are assessed as above and not close to the reference value. Based on the Commission Spring 2026 Forecast, the government deficit in Bulgaria is also projected to continue exceeding the

⁶ A fiscal position ‘close to balance or in surplus’ is defined as a general government deficit not exceeding 0.5% of GDP, according to recital 14 in Council Regulation (EU) 2024/1264.

⁷ See Eurostat Euro indicators of 22 April 2026 <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-22042026-AP>, in accordance with Article 14 of Council Regulation (EC) No 479/2009.

⁸ 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>. Planned figures are reported by Member States to Eurostat, based on their most recent official forecasts, taking account of budgetary decisions and economic developments and prospects.

⁹ The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en

¹⁰ European Commission Spring 2026 Forecast (European Economy Institutional Paper 341, May 2026).

reference value in 2027. Therefore, the deficits in excess of the reference value are assessed to be not temporary. On 8 July 2025, the Council adopted a Recommendation¹¹ under Article 26 of Regulation 2024/1263 (national escape clause) for Bulgaria¹². This Recommendation allows Bulgaria to temporarily deviate from the maximum growth rates of net expenditure as set by the Council to accommodate the increase in defence spending¹³, by up to 1.5% of GDP over the period 2025 to 2028 compared to the reference year 2024. The Recommendation documented the exceptional circumstances outside the control of the government with a major impact on public finances underpinning the increase in defence spending. The deficit in excess of the reference value in 2025 is fully explained by an increase in defence spending since the reference year¹⁴, while this is not the case for the projected deficit in excess of the reference value for 2026. Overall, while the deficit in excess of the reference value in 2025 is assessed as exceptional, the deficit in excess of the reference value in 2026 is assessed as not exceptional.

For **Germany**, the planned deficit for 2026 is 4.2% of GDP. The Commission Spring 2026 Forecast projects the deficit at 3.7%. The planned deficit in 2026 is therefore assessed as above and not close to the reference value. Based on the Commission Spring 2026 Forecast, the government deficit in Germany is projected to continue exceeding the reference value in 2027. Therefore, the planned deficit in excess of the reference value is assessed to be not temporary. On 10 October 2025, the Council adopted a Recommendation¹⁵ under Article 26 of Regulation 2024/1263 (national escape clause) for Germany. This Recommendation allows Germany to temporarily deviate from the maximum growth rates of net expenditure as set by the Council to accommodate the increase in defence spending, by up to 1.5% of GDP over the period 2025 to 2028 compared to the reference year 2021. The Recommendation documented the exceptional circumstances outside the control of the government with a major impact on public finances underpinning the increase in defence spending. The deficit in excess of the reference value in 2026 is fully explained by an increase in defence spending since the reference year¹⁶. In view of this, the planned deficit in excess of the reference value in 2026 is assessed as exceptional.

For **Estonia**, the planned deficit for 2026 reported to Eurostat is 4.5% of GDP, which was revised to 4.3% of GDP in its 2026 Annual Progress Report. The Commission Spring 2026 Forecast projects the deficit ratio at 4.5% of GDP. The planned deficit in 2026 is therefore assessed as above and not close to the reference value. Based on the Commission Spring 2026 Forecast, the government deficit in Estonia is projected to continue exceeding the reference

¹¹ Council Recommendation of 8 July 2025 allowing Bulgaria to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3961, 20.8.2025, ELI: <http://data.europa.eu/eli/C/2025/3961/oj>).

¹² 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 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.

¹³ The defence spending relevant to the assessment of compliance is the nationally financed defence expenditure as defined in the Classification of the functions of government (COFOG 02).

¹⁴ According to the Commission Spring 2026 Forecast, defence spending in Bulgaria was at 1.9% in 2025 and projected to remain at that level in 2026. This is an increase by 0.6 pps. of GDP compared to 2024.

¹⁵ Council Recommendation of 10 October 2025 endorsing the national medium-term fiscal-structural plan of Germany and allowing Germany to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/5635, ELI: <http://data.europa.eu/eli/C/2025/5635/oj>).

¹⁶ According to the Commission Spring 2026 Forecast, defence spending in Germany is projected at 1.9% in 2026. This is an increase by 0.8 pps. of GDP compared to 2021.

value in 2027. Therefore, the planned deficit in excess of the reference value is assessed to be not temporary. On 8 July 2025, the Council adopted a Recommendation¹⁷ under Article 26 of Regulation 2024/1263 (national escape clause) for Estonia. This Recommendation allows Estonia to temporarily deviate from the maximum growth rates of net expenditure as set by the Council to accommodate the increase in defence spending, by up to 1.5% of GDP over the period 2025 to 2028 compared to the reference year 2021. The Recommendation documented the exceptional circumstances outside the control of the government with a major impact on public finances underpinning the increase in defence spending. The deficit in excess of the reference value in 2026 is fully explained by an increase in defence spending (capped at 1.5% of GDP in line with the maximum flexibility under the national escape clause) since the reference year¹⁸. In view of this, the planned excess over the reference value in 2026 is assessed as exceptional. Note that the projected large increase in the deficit in Estonia from 2025 to 2026 is only partially related to the increase in defence spending in 2026. Most of the increase in defence spending in Estonia took place in previous years.

For **Latvia**, the planned deficit for 2026 reported to Eurostat is 3.3% of GDP, which was revised to 3.0% of GDP in its 2026 Annual Progress Report. The Commission Spring 2026 Forecast projects the deficit at 3.3% of GDP. The planned deficit in 2026 is therefore assessed as above but close to the reference value. Based on the Commission Spring 2026 Forecast, the government deficit in Latvia is projected to continue exceeding the reference value in 2027. Therefore, the planned deficit in excess of the reference value is assessed to be not temporary. On 8 July 2025, the Council adopted a Recommendation¹⁹ under Article 26 of Regulation 2024/1263 (national escape clause) for Latvia. This Recommendation allows Latvia to temporarily deviate from the maximum growth rates of net expenditure as set by the Council to accommodate the increase in defence spending, by up to 1.5% of GDP over the period 2025 to 2028 compared to the reference year 2021. The Recommendation documented the exceptional circumstances outside the control of the government with a major impact on public finances underpinning the increase in defence spending. The deficit in excess of the reference value in 2026 is fully explained by an increase in defence spending (capped at 1.5% of GDP in line with the maximum flexibility under the national escape clause) since the reference year²⁰. In view of this, the planned excess over the reference value in 2026 is assessed as exceptional.

For **Slovenia**, the planned deficit for 2026 is 3.4% of GDP. The Commission Spring 2026 Forecast projects the deficit at 3.3%. The planned deficit in 2026 is therefore assessed as above but close to the reference value. Based on the Commission Spring 2026 Forecast, the government deficit in Slovenia is projected to continue exceeding the reference value in 2027. Therefore, the planned deficit in excess of the reference value is assessed to be not temporary. On 8 July 2025, the Council adopted a Recommendation²¹ under Article 26 of Regulation 2024/1263 (national escape clause) for Slovenia. This Recommendation allowed Slovenia to

¹⁷ Council Recommendation of 8 July 2025 allowing Estonia to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3964, 20.8.2025, ELI: <http://data.europa.eu/eli/C/2025/3964/oj>).

¹⁸ According to the Commission Spring 2026 Forecast, defence spending in Estonia is projected at 4.6% in 2026. This is an increase by 2.5 pps. of GDP compared to 2021.

¹⁹ Council Recommendation of 8 July 2025 allowing Latvia to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3970, 20.8.2025, ELI: <http://data.europa.eu/eli/C/2025/3970/oj>).

²⁰ According to the Commission Spring 2026 Forecast, defence spending in Latvia is projected at 4.1% in 2026. This is an increase by 1.7 pps. of GDP compared to 2021.

²¹ Council Recommendation of 8 July 2025 allowing Slovenia to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3973, 20.8.2025, ELI: <http://data.europa.eu/eli/C/2025/3973/oj>).

temporarily deviate from the maximum growth rates of net expenditure as set by the Council to accommodate the increase in defence spending, by up to 1.5% of GDP over the period 2025 to 2028 compared to the reference year 2021. The Recommendation documented the exceptional circumstances outside the control of the government with a major impact on public finances underpinning the increase in defence spending. The deficit in excess of the reference value in 2026 is fully explained by an increase in defence spending since to the reference year²². In view of this, the planned excess over the reference value in 2026 is assessed as exceptional.

In sum, this analysis – of whether the deficit remains close to the reference value as well as whether the deficit in excess is exceptional and temporary – suggests that the deficit criterion is not fulfilled, before the consideration of the relevant factors, by **Bulgaria, Germany, Estonia, Latvia and Slovenia**.

²² According to the Commission Spring 2026 Forecast, defence spending in Slovenia is projected at 1.6% in 2026. This is an increase by 0.5 pps. of GDP compared to 2021.

Table 1 - General government balance

Percentage of GDP	Data provided by Eurostat	April 2026 EDP notification	Commission Spring 2026 Forecast	
	2025	2026	2026	2027
<i>Member States for which compliance with the deficit criterion has to be further discussed</i>				
Bulgaria	-3.5	– ^a	-4.1	-4.3
Germany	-2.7	-4.2	-3.7	-4.1
Estonia	-2.0	-4.5	-4.5	-4.8
Latvia	-2.5	-3.3	-3.3	-4.3
Slovenia	-2.5	-3.4^a	-3.3	-3.5
<i>Member States for which compliance with the deficit criterion is not discussed in this report</i>				
Czechia	-2.1	-2.6	-2.8	-2.9
Denmark	2.9	0.7	0.9	0.5
Ireland	1.8	1.0	1.4	1.2
Greece	1.7	-0.2	0.8	0.6
Spain	-2.4	-2.1	-2.4	-2.0
Croatia	-3.0	-2.9	-2.9	-2.7
Cyprus	3.4	1.8	2.1	2.5
Lithuania	-1.8	-2.7	-2.2	-2.7
Luxembourg	-2.0	-1.2	-1.2	-1.5
Netherlands	-1.6	-2.5	-2.5	-1.9
Portugal	0.7	0.1	-0.1	-0.4
Sweden	-1.3	-2.6	-2.8	-2.5

Source: Eurostat (data for 2025), April 2026 EDP notification and Commission Spring 2026 Forecast (data for 2026 and 2027).

Note: **Bold** indicates that a deficit figure exceeds the reference value of 3% of GDP. The following Member States are in excessive deficit procedure and therefore not covered in the table: since April 2020: Romania; since July 2024: Belgium, France, Hungary, Italy, Malta, Poland, Slovakia; since June 2025: Austria and since January 2026: Finland. (a) In the absence of data reported to Eurostat on the planned deficit for 2026 (in the context of the April 2026 EDP notification), the source is the Member State's 2026 Annual Progress Report. This is the case for Slovenia. Bulgaria reported a planned deficit for 2026 neither to Eurostat nor in its 2026 Annual Progress Report.

3. DEBT CRITERION

For the assessment of the **debt criterion**, this report should discuss those Member States (not currently in excessive deficit) where:

- the *actual* general government gross debt ratio-to-GDP, as provided by Eurostat,²³ exceeded the reference value of 60% of GDP at the end of 2025,
- *and* the *actual* deficit in 2025, as also provided by Eurostat, exceeded 0.5% of GDP, which corresponds to a budgetary position that cannot be considered as ‘close to balance or in surplus’
- *and*, based on the Commission’s calculations²⁴, the control account for 2025 shows a debit exceeding the threshold of 0.3% of GDP annually and/or the threshold of 0.6% of GDP cumulatively.

The corresponding data are shown in Table 2. At end of 2025, the general government gross debt ratio *exceeded* the reference value in Germany, Greece, Spain, Portugal and Slovenia.

Greece and **Portugal** have budgetary surpluses. Therefore, this report does not further consider the debt criterion for these two Member States, as it is considered to be fulfilled.

Based on the Commission’s calculations, for **Germany**, the control account for 2025 recorded credits, in annual and cumulative terms. Therefore, this report does not further consider the debt criterion for Germany, as it is considered to be fulfilled.

For **Spain** and **Slovenia**, the control accounts in 2025 recorded deviations that exceed the annual threshold, based on the Commission’s calculations (their debits remained below the threshold in cumulative terms). However, Slovenia benefits from the national escape clause to accommodate higher defence expenditure during the period 2025-2028²⁵. Meanwhile, on 22 May 2026, the Commission recommended the Council to activate the national escape clause for Spain, following a positive assessment of Spain's request of 13 April 2026, to accommodate the increase in defence expenditure during the period 2025-2028²⁶. Taking into account the national escape clause for Slovenia and assuming that the Council will activate the national escape clause for Spain, the *augmented* control accounts²⁷ recorded either a credit (Spain) or a debit within the 0.6% of GDP threshold (Slovenia). Therefore, this report does not further consider the debt criterion for these two Member States, as it is considered to be fulfilled.

In sum, there are no Member States for which compliance with the debt criterion has to be further examined in this report.

²³ See Eurostat Euro indicators of 22 April 2026 <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-22042026-ap>

²⁴ Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States, SWD(2026)200 final, Brussels 3.6.2026.

²⁵ Council Recommendation of 8 July 2025 allowing Slovenia to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3973, 20.8.2025, ELI: <http://data.europa.eu/eli/C/2025/3973/oj>).

²⁶ Commission Recommendation for a Council Recommendation allowing Spain to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (activation of the national escape clause), 22.5.2026, COM(2026)262 final.

²⁷ For Member States benefitting from the national escape clause to accommodate higher defence spending, actual deviations from the maximum growth rates of net expenditure set by the Council that are allowed under the national escape clause are not to be recorded as debits in their control account. The *augmented* control account excludes the deviations due to increases in defence spending that benefit from flexibility under the national escape clause, and the remaining deviation is assessed against the threshold of 0.6% of GDP cumulatively.

Table 2 – Identification of Member States for further assessment of the debt criterion

Percentage of GDP	General government debt at end-2025	General government balance in 2025	Recorded deviations ¹ of net expenditure growth in 2025 in the control account ²		
			Annual deviation	Cumulated deviation	Cumulated deviation (augmented control account ³)
Member States with debt ratio exceeding 60% of GDP for which compliance with the debt criterion is not to be discussed in this report					
Germany ⁴	63.5	-2.7	-0.3	-0.3	-0.7
Greece ⁴	146.1	1.7	-0.3	-1.3	-1.5
Spain ⁴	100.7	-2.4	0.4	0.1	-0.1
Portugal ⁴	89.7	0.7	0.2	0.4	0.4
Slovenia ⁴	65.7	-2.5	1.4	0.5	0.3
Member States with debt ratio below 60% of GDP					
Bulgaria ⁴	29.9	-3.5	2.1	2.1	1.4
Czechia ⁴	44.3	-2.1	0.2	-1.4	-1.7
Denmark ⁴	27.9	2.9	1.0	-0.6	-1.6
Estonia ⁴	24.1	-2.0	-2.0	-1.4	-2.9
Ireland	32.9	1.8	0.3 ⁵	-0.1 ⁵	n.a. ⁶
Croatia ⁴	56.3	-3.0	1.8	1.4	0.9
Cyprus	55.0	3.4	1.3	1.0	n.a. ⁶
Latvia ⁴	46.9	-2.5	-0.4	-1.9	-2.6
Lithuania ⁴	39.5	-1.8	1.5	1.5	0.3
Luxembourg	26.5	-2.0	1.3	0.6	n.a. ⁶
Netherlands	44.4	-1.6	1.5 ⁵	1.0 ⁵	n.a. ⁶
Sweden	35.1	-1.3	-0.9	-1.1	n.a. ⁶

Source: Eurostat and Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States, SWD(2026)200 final, Brussels 3.6.2026.

Note: **Bold** figures denote that the relevant condition for examination of compliance with the debt criterion in the present report as described in Section 3 is met. The following Member States are in excessive deficit procedure and are therefore not covered in the table: since April 2020: Romania; since July 2024: Belgium, France, Hungary, Italy, Malta, Poland, Slovakia; since June 2025: Austria and since January 2026: Finland. ⁽¹⁾ A positive deviation indicates net expenditure growth *exceeding* the Member State's Council recommendation. ⁽²⁾ See the Fiscal Statistical Tables (SWD(2026)200 final) for a detailed explanation of the control account and the augmented control account. ⁽³⁾ The augmented control account excludes the deviations due to increases in defence expenditure that benefit from flexibility under the national escape clause. ⁽⁴⁾ Member State benefitting from flexibility provided by the national escape clause. This is assumed to extend to Spain, for which the Commission on 22 May 2026 recommended to the Council to activate the national escape clause on defence. ⁽⁵⁾ For Ireland and the Netherlands, deviations based on the maximum annual and cumulative net expenditure growth rates established by the Member State's Council Recommendations of 21 January 2025, which remain valid for the year 2025. ⁽⁶⁾ Not applicable for Member States for which the national escape clause has neither been activated nor recommended by the Commission to be activated.

4. RELEVANT FACTORS WHEN ASSESSING COMPLIANCE WITH THE DEFICIT AND DEBT CRITERIA

Article 126(3) TFEU 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 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 developments in 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 developments 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 progress in 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 [...], and the overall quality of public finances, in particular the effectiveness of national budgetary frameworks;” and*
- 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 also provides that “*any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and 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. Favourable cyclical economic, budgetary and financial developments shall not be considered as mitigating factors, while unfavourable developments may be considered as mitigating factors.

In line with the spirit of the new governance framework, the Commission considers that deviations from the maximum recommended growth rates (point b) above), especially when exceeding at least one of the thresholds (of 0.3% and 0.6% of GDP in annual and cumulative terms, respectively), constitute a particularly important relevant factor.

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 based on the **deficit criterion** (i.e. under Articles 126(5) and 126(6) TFEU) only when:

- a) the government debt-to-GDP ratio does not exceed the reference value, *or*
- b) if the government debt-to-GDP ratio exceeds the 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.

By contrast, relevant factors should *always* be taken into account in the steps leading to the decision on the existence of an excessive deficit based on the **debt criterion** (*i.e.* under Articles 126(5) and 126(6) TFEU) for all concerned Member States.

Considering the Member States covered by this report's examination of the deficit criterion, the 2025 debt-to-GDP ratio, as shown in Table 2, does not exceed the reference value in **Bulgaria, Estonia and Latvia**. Therefore, for these Member States, 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 based on the deficit criterion.

For **Germany and Slovenia**, the 2025 debt-to-GDP ratio exceeds the 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 based on the deficit criterion.

In line with established practice, the relevant factors are, however, presented below even for the Member States where they 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 on the basis of the deficit criterion. It should be noted in this regard that Article 2(6) of Regulation (EC) No 1467/97 states that, if the Council decides that an excessive deficit exists in a Member State under Article 126(6) TFEU, the relevant factors referred to in Article 126(3) TFEU shall be taken into account in the subsequent steps under the excessive deficit procedure²⁸, for all concerned Member States.

While the country-specific sections below 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 details on the macroeconomic and fiscal outlook can be found in the Commission Spring 2026 Forecast²⁹.

²⁸ But not for a decision under Article 126(12) to abrogate decisions under the excessive deficit procedure.

²⁹ For further information regarding the fiscal outlook, see also the 2026 Country Reports, as well as the Fiscal Statistical Tables SWD(2026)200 published by the Commission on 3 June 2026.

4.1. Bulgaria

For Bulgaria, relevant factors can be considered by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit.

Medium-term macroeconomic position. Real GDP increased by 3.4% in 2024. Real GDP increased further by 3.1% in 2025, mainly driven by strong domestic demand. Economic growth is projected at 2.5% in 2026 and 2.2% in 2027. Growth in 2026 is projected to be mainly driven by continued growth in domestic demand components. HICP inflation increased from 2.6% in 2024 to 3.5% in 2025 and is projected at 4.2% in 2026 and 2.6% in 2027, mainly driven by high food (in 2025) and energy prices (in 2026), and persistent services inflation.

Medium-term budgetary position, including investment. Bulgaria's general government deficit increased from 3.0% of GDP in 2024 to 3.5% in 2025, which mainly reflects the increases in public sector salaries, notably in the areas of defence and security, increases in social spending, including automatic pensions indexations, and investment grants in the Bulgarian Energy Holding. Government investment stood at 3.2% of GDP in 2024 (of which 2.8% of GDP is nationally financed) and increased to 4.5% in 2025 (of which 3.1% of GDP is nationally financed). Based on Commission estimates, the fiscal stance³⁰, which includes both nationally and EU financed expenditure, was expansionary, by 2.3% of GDP, in 2025. Growth in nationally financed primary expenditure (net of discretionary revenue measures) in 2025 provided an expansionary contribution to the fiscal stance, amounting to 0.7% of GDP.

The Commission Spring 2026 Forecast projects a general government deficit of 4.1% of GDP in 2026 and 4.3% in 2027. The increases in 2026 and in 2027 mainly reflect the continued structural increases in public sector wages and social benefits in the absence of compensatory measures. Government investment is projected to decrease to 4.4% of GDP in 2026 (of which 2.1% of GDP is nationally financed) and then 4.0% in 2027 (of which 2.8% of GDP is nationally financed). Based on Commission estimates, the fiscal stance is projected to be expansionary, by 1.0% of GDP, in 2026. Growth in nationally financed primary expenditure in 2026 is projected to provide an expansionary contribution to the fiscal stance, amounting to 0.3% of GDP.

Based on the Commission's calculations³¹, net expenditure in Bulgaria grew by 12.3% in 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate³², corresponding to a deviation of 2.1% of GDP in annual terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause³³, the cumulative deviation of net expenditure reduces to 1.4% of GDP.

In 2026, net expenditure in Bulgaria is projected to grow by 5.5%, and 18.5% cumulatively over 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended

³⁰ 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.

³¹ Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States, SWD(2026)200 final, Brussels 3.6.2026.

³² Council Recommendation of 20 June 2025 endorsing the medium-term fiscal-structural plan of Bulgaria, OJ C, C/2025/3700, 20.08.2025. ELI: <http://data.europa.eu/eli/C/2025/3700/oj>.

³³ Council Recommendation of 8 July 2025 allowing Bulgaria to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), OJ C, C/2025/3961, 20.8.2025, ELI: <http://data.europa.eu/eli/C/2025/3961/oj>.

maximum growth rate, corresponding to a deviation of 0.2% of GDP in annual terms. When considering 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 2.2% of GDP in cumulative terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause, considering 2025 and 2026 together, the projected cumulative deviation of net expenditure reduces to 1.6% of GDP.

As mentioned above, the Commission regards deviations from the maximum recommended net expenditure growth (after considering the national escape clause) above the threshold as a particularly important relevant factor.

Debt challenges and medium-term debt position. Government debt in Bulgaria increased from 23.8% of GDP at the end of 2024 to 29.9% of GDP at the end of 2025. The debt-to-GDP ratio is projected to increase further to 32.3% of GDP at the end of 2026 and 35.5% at the end of 2027.

Overall, the debt sustainability analysis indicates medium risks over the medium term.³⁴ The debt ratio in the baseline of the sustainability analysis under unchanged policies is projected to increase steadily, and the debt trajectory is sensitive to adverse macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a medium likelihood that the debt ratio in 2030 will be higher than in 2025.

Other factors need to be taken into account for an overall assessment of debt sustainability. Risk-increasing factors are related to (i) the slightly increasing share of government debt held by non-residents and (ii) the share of non-performing loans in the Bulgarian banking sector that remains above the euro area average in a context of a high level of capitalization of the banking sector. Risk-mitigating factors are related to (i) the low share of short-term government debt and (ii) the small amount of general government contingent liabilities.

Implementation of reforms and investment. Structural reforms and investments under the Recovery and Resilience Facility (RRF) are expected to have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the RRP is underway and the final milestones and targets must be completed to ensure a full disbursement of the allocated RRF financing. This requires a final focused effort to ensure the deadline of 31 August 2026 for milestone and target completion is met.

National budgetary framework. Bulgaria has a complex system of national fiscal rules in place. Several rules target the same budgetary aggregates but the fact that they are expressed according to different accounting standards (accrual and cash-based) may create conflicting messages. The strength of its medium-term budgetary framework is in line with the EU average. While the Fiscal Council of Bulgaria has so far had a relatively narrow mandate, its role is about to be broadened following euro accession and the transposition into national legislation of the Budgetary Frameworks Directive EU/2024/1265. Finally, reforms are underway to improve the planning, selection and budgeting of nationally funded public investments (see Annex 2 of the 2026 Country Report for Bulgaria).

Increase in government investment in defence. Based on data collected by Eurostat, nationally financed government expenditure on defence³⁵ in Bulgaria amounted to 1.9% of

³⁴ Debt Sustainability Monitor 2025 (European Economy Institutional Paper 332, February 2026) based on the Commission Autumn 2025 Forecast.

³⁵ Nationally-financed defence expenditure as defined in the International Classification of the Functions of Government (COFOG) in the framework of the European System of National Accounts (ESA2010).

GDP in 2025. Of this, government investment in defence represented 0.5% of GDP in 2025, which was 0.4 percentage point higher than in 2024.

The Commission Spring 2026 Forecast projects government expenditure on defence in Bulgaria to amount to 1.9% of GDP in 2026 and 2.2% of GDP in 2027. Of this, government investment in defence is projected to represent 0.4% of GDP in 2026, which would be 0.1 percentage point lower than in 2025, and projected to then increase in 2027 by 0.3 percentage point to 0.7%.

Other factors put forward by the Member State. On 7 May 2026, Bulgaria put forward additional factors not mentioned above. Bulgaria notably refers to the delayed adoption of the budget for 2025 in view of the political situation and to lower-than-expected revenues in 2025. The latter reflected adverse external developments (although domestic developments remained supportive of fiscal performance) as well as delays in the implementation of planned measures to improve revenue collection and reduce the shadow economy.

4.2. Germany

For Germany, relevant factors cannot be considered by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit.

Medium-term macroeconomic position. Real GDP decreased by 0.5% in 2024 and then increased by 0.2% in 2025, mainly driven by a strong positive growth contribution of private consumption which was offset by a strong negative growth contribution by net exports. Economic growth is projected at 0.6% in 2026 and 0.9% in 2027. Growth in 2026 is projected to be mainly driven by domestic demand, as public spending (including public investment) ramps up and private consumption grows despite current geopolitical tensions and the inflation shock, as confidence is expected to improve again over time. HICP inflation decreased from 2.5% in 2024 to 2.3% in 2025 and is projected at 2.9% in 2026 and 2.7% in 2027, mainly driven by strong energy inflation in 2026 resulting from the conflict in the Middle East and subsequent normalisation in 2027.

Medium-term budgetary position, including investment. Germany's general government deficit stood at 2.7% of GDP in 2024 and 2025. Government investment stood at 3.1% of GDP in 2024 (of which 2.9% of GDP is nationally financed) and increased slightly to 3.3% in 2025 (of which 3.1% of GDP is nationally financed). Based on Commission estimates, the fiscal stance, which includes both nationally and EU financed expenditure, was broadly neutral in 2025. Growth in nationally financed primary expenditure (net of discretionary revenue measures) in 2025 provided a broadly neutral contribution to the fiscal stance.

The Commission Spring 2026 Forecast projects a general government deficit of 3.7% of GDP in 2026 and 4.1% in 2027. The increase in 2026 and 2027 mainly reflects an increase in infrastructure and defence-related spending and revenue-decreasing tax relief measures. Government investment is projected to increase to 3.5% and 3.7% of GDP in 2026 and 2027, respectively, of which 3.3% of GDP and 3.6% of GDP is nationally financed. Based on Commission estimates, the fiscal stance is projected to be expansionary, by 1.3% of GDP, in 2026. Growth in nationally financed primary expenditure in 2026 is projected to provide an expansionary contribution to the fiscal stance, amounting to 1.3% of GDP.

Based on the Commission's calculations³⁶, net expenditure in Germany grew by 3.8% in 2025. Net expenditure growth in 2025 is below the recommended maximum growth rate.³⁷

In 2026, net expenditure in Germany is projected to grow by 5.6%, and 9.7% cumulatively over 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 0.5% of GDP in annual terms. When considering 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate corresponding to a deviation of 0.3% of GDP in cumulative terms. However, the projected deviation is within the flexibility of the national escape clause based on current projections for defence spending.

Debt challenges and medium-term debt position. Government debt in Germany increased from 62.2% of GDP at the end of 2024 to 63.5% of GDP at the end of 2025. The debt-to-GDP

³⁶ Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States, SWD(2026)200 final, Brussels 3.6.2026.

³⁷ Council Recommendation of 10 October 2025 endorsing the medium-term fiscal-structural plan of Germany and allowing Germany to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), OJ C, C/2025/5635, 22.10.2025, ELI: <http://data.europa.eu/eli/C/2025/5635/oj>.

ratio is projected to increase further to 65.8% of GDP at the end of 2026 and 68.0% at the end of 2027.

Overall, the debt sustainability analysis indicates high risks over the medium term.³⁸ The debt ratio in the baseline of the sustainability analysis under unchanged policies is projected to increase steadily, and the debt trajectory is sensitive to adverse 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 2030 will be higher than in 2025.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors include a potential additional debt uptake (beyond the one included in the DSA baseline) allowed by (i) the reform of the debt brake and (ii) the creation of the special fund for infrastructure and climate neutrality. 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, a low share of public debt held in foreign currency, and Germany's positive net international investment position.

As mentioned above, the presence of substantial public debt challenges is a key aggravating relevant factor.

Implementation of reforms and investment. The Council recommendation on 10 October 2025 endorsing the medium-term plan of Germany specifies the set of reforms and investments underpinning the extension of the adjustment period, along with a timeline for their implementation. Taking into account the information provided by Germany in its April 2026 Annual Progress Report, the Commission finds that the implementation of the key steps of these reforms and investments that were due by 30 April 2026 seems to be broadly on track. The Commission considers that, overall, Germany has complied with its commitments in a satisfactory manner.

In addition, structural reforms and investments under the Recovery and Resilience Facility (RRF) are expected to have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the RRP is underway and the final milestones and targets must be completed to ensure a full disbursement of the allocated RRF financing. This requires a final focused effort to ensure the deadline of 31 August 2026 for milestone and target completion is met.

National budgetary framework. The German fiscal framework is based on a number of fiscal rules at different levels of government. In 2024, the strength of Germany's fiscal rules was close to the EU average level, as measured by data collected in the Fiscal Governance Database of the European Commission. In 2025, some exceptions were introduced affecting the so-called debt brake. Spending reviews are an established practice in Germany, but the country could benefit from further institutionalisation of the review processes. Germany lags behind the EU average when it comes to accrual accounting, which can improve transparency over a public body's financial position and performance, and can also support sustainability and intergenerational equity. The German independent fiscal institution (the Advisory Board to the Stability Council) is very small and has a narrow mandate.

Increase in government investment in defence. Based on data collected by Eurostat, nationally financed government expenditure on defence in Germany amounted to 1.5% of GDP

³⁸ Debt Sustainability Monitor 2025 (European Economy Institutional Paper 332, February 2026) based on the Commission Autumn 2025 Forecast.

in 2025. Of this, government investment in defence represented 0.3% of GDP in 2025, which was 0.1 percentage point higher than in 2024.

The Commission Spring 2026 Forecast projects government expenditure on defence in Germany to amount to 1.9% of GDP in 2026 and 2.2% of GDP in 2027. Of this, government investment in defence is projected to represent 0.4% of GDP in 2026, which is 0.1 percentage point higher than in 2025, and projected to then increase to 0.5% in 2027.

Other factors put forward by the Member State. On 11 May 2026, Germany put forward additional factors not entirely covered above. Germany drew attention to the adoption of growth-enhancing reforms and explicitly mentioned improved investment depreciation rules, as well as bureaucracy reduction, faster planning and permitting procedures, and labour supply reforms. Those measures are also included in the Commission Spring 2026 Forecast. Germany also mentioned upcoming reforms on cutting red tape and reducing labour taxes and stated that a major public health insurance reform had been approved. In terms of fiscal impact, this package of measures can be considered ambiguous. The measures could have a growth-enhancing impact, which would be fiscally beneficial. However, the tax-related measures will also reduce revenues.

4.3. Estonia

For Estonia, relevant factors can be considered by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit.

Medium-term macroeconomic position. Real GDP fell by 0.1% in 2024 to then increase by 0.6% in 2025, driven by domestic demand, notably investment, government consumption and accumulation of inventories. Economic growth is projected at 1.6% in 2026 and 1.7% in 2027. Growth in 2026 is projected to be mainly driven by private and public consumption and public investment, while net exports are set to weigh on growth, particularly as defence equipment is largely imported. HICP inflation increased from 3.7% of GDP in 2024 to 4.8% in 2025 and is projected at 4.4% in 2026 and 2.9% in 2027, mainly driven by higher prices of energy, food and services in 2026 and prices of services and food in 2027.

Medium-term budgetary position, including investment. Estonia's general government deficit increased from 1.1% of GDP in 2024 to 2.0% in 2025, which mainly reflects stronger expenditure dynamics, in particular public investment on large infrastructure projects, such as Rail Baltica. Government investment stood at 6.2% of GDP (of which 5.4% of GDP is nationally financed) in 2024 and increased to 6.7% in 2025 (of which 5.7% of GDP is nationally financed). Based on Commission estimates, the fiscal stance, which includes both nationally and EU financed expenditure, was contractionary, by 0.5% of GDP, in 2025. Growth in nationally financed primary expenditure (net of discretionary revenue measures) in 2025 provided a contractionary contribution to the fiscal stance, amounting to 1.2% of GDP.

The Commission Spring 2026 Forecast projects a general government deficit of 4.5% of GDP in 2026 and 4.8% in 2027. The increase in 2026 mainly reflects a decrease in revenue in particular due to the personal income tax reform (transition to a universal tax-exemption system) and an increase in expenditure mainly on the back of defence spending reaching 5% of GDP, and of investment projects such as Rail Baltica. Government investment is projected to increase to 7.9% of GDP in 2026 (of which 7.0% of GDP is nationally financed) and then decrease to 7.2% in 2027 (of which 6.9% of GDP is nationally financed). Based on Commission estimates, the fiscal stance is projected to be expansionary, by 2.8% of GDP, in 2026. Growth in nationally financed primary expenditure in 2026 is projected to provide an expansionary contribution to the fiscal stance, amounting to 3.0% of GDP.

Based on the Commission's calculations³⁹, net expenditure in Estonia grew by 2.0% over 2025 and 5.7% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is below the recommended maximum growth rate⁴⁰. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also below the recommended maximum growth rate.

In 2026, net expenditure in Estonia is projected to grow by 12.0%, and 18.4% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 2.8% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a

³⁹ Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States, SWD(2026)200 final, Brussels 3.6.2026.

⁴⁰ Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Estonia, OJ C, C/2025/655, 10.02.2025. ELI: <http://data.europa.eu/eli/C/2025/655/oj>.

deviation of 1.5% of GDP in cumulative terms. However, the projected deviation is within the flexibility of the national escape clause based on current projections for defence spending.

Debt challenges and medium-term debt position. Government debt increased from 23.5% of GDP at the end of 2024 to 24.1% of GDP at the end of 2025. The debt-to-GDP ratio is projected to increase further to 26.9% of GDP at the end of 2026 and 30.5% at the end of 2027.

Overall, the debt sustainability analysis indicates medium risks over the medium term.⁴¹ The debt ratio in the baseline of the sustainability analysis under unchanged policies is projected to increase steadily and the debt trajectory is sensitive to adverse 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 2030 will be higher than in 2025.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, the large share of government debt held by non-residents can constitute a risk-increasing factor. On the other hand, risk-mitigating factors include (i) the modest contingent liabilities and (ii) the fact that the overall still low government debt is fully denominated in euro.

Implementation of reforms and investment. Structural reforms and investments under the Recovery and Resilience Facility (RRF) are expected to have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the RRP is underway and the final milestones and targets must be completed to ensure a full disbursement of the allocated RRF financing. This requires a final focused effort to ensure the deadline of 31 August 2026 for milestone and target completion is met.

National budgetary framework. The national fiscal framework underwent a comprehensive reform in 2014, when the Estonian Fiscal Council was established. The cornerstone of the national fiscal framework is the structural balance rule. It was amended in 2017 and 2024, with the latter amendment allowing higher structural deficits up to 1% of GDP, as long as the debt level does not exceed 30% of GDP and long-term fiscal sustainability risks are low. The Estonian Fiscal Council endorses the macroeconomic and fiscal forecasts and assesses both ex ante and ex post compliance with the general government structural balance rule.

Increase in government investment in defence. Based on data collected by Eurostat, nationally financed government expenditure on defence in Estonia amounted to 3.9% of GDP in 2025. Of this, government investment in defence represented 1.6% of GDP in 2025, remaining unchanged compared to 2024.

The Commission Spring 2026 Forecast projects government expenditure on defence in Estonia to amount to 4.6% of GDP in 2026 and 4.9% of GDP in 2027. Of this, government investment in defence is projected to represent 1.9% of GDP in 2026, which is 0.3 percentage point higher than in 2025, and projected to then decrease in 2027 by 0.5 percentage point to 1.4%.

Other factors put forward by the Member State. The analysis presented in the previous sections already covers the key factors put forward by Estonia on 11 May 2026.

⁴¹ Debt Sustainability Monitor 2025 (European Economy Institutional Paper 332, February 2026) based on the Commission Autumn 2025 Forecast.

4.4. Latvia

For Latvia, relevant factors can be considered by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit.

Medium-term macroeconomic position. Real GDP remained flat in 2024 and increased by 2.1% in 2025, mainly driven by a surge in private and public investments, a recovery in private consumption and supportive public consumption. Economic growth is projected at 1.4% in 2026 and 1.6% in 2027. Growth in 2026 is projected to be mainly driven by private consumption and investments. HICP inflation increased from 1.3% in 2024 to 3.8% in 2025 and is projected at 3.6% in 2026 and 2.2% in 2027, mainly driven by high energy inflation in 2026 and prices of food and services in 2027.

Medium-term budgetary position, including investment. Latvia's general government deficit increased from 1.8% of GDP in 2024 to 2.5% in 2025, which mainly reflects the adverse fiscal impact of the personal income tax reform and a reduction in property income, affected by lower dividend payments from state-owned enterprises and lower interest revenue. Government investment stood at 6.3% of GDP in 2024 and in 2025 (of which 5.5% of GDP and 4.4% of GDP is nationally financed, respectively). Based on Commission estimates, the fiscal stance, which includes both nationally and EU financed expenditure, was expansionary, by 1.1% of GDP, in 2025. Growth in nationally financed primary expenditure (net of discretionary revenue measures) in 2025 provided a broadly neutral contribution to the fiscal stance.

The Commission Spring 2026 Forecast projects a general government deficit of 3.3% of GDP in 2026 and 4.3% in 2027. The increase in 2026 mainly reflects higher investment (including in defence), increasing interest costs, and continued growth in social transfers, largely due to pension and benefit indexation outpacing economic growth, and a rising number of pension recipients. Government investment is projected to increase to 7.2% of GDP in 2026 (of which 5.1% of GDP is nationally financed) and then to decrease to 6.7% in 2027 (of which 5.3% of GDP is nationally financed). Based on Commission estimates, the fiscal stance is projected to be expansionary, by 1.5% of GDP, in 2026. Growth in nationally financed primary expenditure in 2026 is projected to provide an expansionary contribution to the fiscal stance, amounting to 1.1% of GDP.

Based on the Commission's calculations⁴², net expenditure in Latvia grew by 5.0% in 2025 and 10.2% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is below the recommended maximum growth rate⁴³. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also below the recommended maximum growth rate.

In 2026, net expenditure in Latvia is projected to grow by 6.7%, and 17.5% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 1.2% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is below the recommended maximum growth rate⁴⁴.

⁴² Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States, SWD(2026)200 final, Brussels 3.6.2026.

⁴³ Council Recommendation of 21 January 2025 endorsing the medium-term fiscal-structural plan of Latvia, OJ C, C/2025/652, 10.02.2025. ELI: <http://data.europa.eu/eli/C/2025/652/oj>.

⁴⁴ As Latvia benefits from flexibility under the National Escape Clause, the assessment of compliance focusses on the latter comparison.

Debt challenges and medium-term debt position. Government debt in Latvia increased from 46.2% of GDP at the end of 2024 to 46.9% of GDP at the end of 2025. The debt-to-GDP ratio is projected to increase further to 48.8% of GDP at the end of 2026 and 53.8% at the end of 2027.

Overall, the debt sustainability analysis indicates medium risks over the medium term.⁴⁵ The debt ratio in the baseline of the sustainability analysis under unchanged policies is projected to rise continuously and the debt trajectory is sensitive to adverse 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 2030 will be higher than in 2025.

Other factors need to be taken into account for an overall assessment of debt sustainability. On the one hand, risk-increasing factors include (i) the relatively large share of public debt held by non-residents and (ii) the negative net international investment position, while being on a clear improving path for several years. On the other hand, risk-mitigating factors include (i) the low share of short-term debt in total debt and (ii) the fact that debt is largely denominated in euro.

Implementation of reforms and investment. Structural reforms and investments under the Recovery and Resilience Facility (RRF) are expected to have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the RRP is underway and the final milestones and targets must be completed to ensure a full disbursement of the allocated RRF financing. This requires a final focused effort to ensure the deadline of 31 August 2026 for milestone and target completion is met.

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. In 2024, the structural balance rule was amended, allowing higher structural deficits of up to 1% of GDP as of 2025, with further amendments to accommodate defence expenditure foreseen after the expiration of the national escape clause. 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 data collected by Eurostat, nationally financed government expenditure on defence in Latvia amounted to 3.2% of GDP in 2025. Of this, government investment in defence represented 1.1% of GDP in 2025, which was 0.2 percentage point higher than in 2024.

The Commission Spring 2026 Forecast projects government expenditure on defence in Latvia to amount to 4.1% of GDP in 2026 and 5.5% of GDP in 2027. Of this, government investment in defence is projected to represent 1.8% of GDP in 2026, which is 0.7 percentage point higher than in 2025, and projected to then increase in 2027 by 0.4 percentage point to 2.2%.

Other factors put forward by the Member State. The analysis presented in the previous sections already covers the key factors put forward by Latvia on 11 May 2026.

⁴⁵ Debt Sustainability Monitor 2025 (European Economy Institutional Paper 332, February 2026) based on the Commission Autumn 2025 Forecast.

4.5. Slovenia

For Slovenia, relevant factors cannot be considered by the Council and the Commission in the steps leading to the decision on the existence of an excessive deficit.

Medium-term macroeconomic position. Real GDP increased by 1.7% in 2024. Real GDP increased further by 1.1% in 2025, mainly driven by domestic demand. Economic growth is projected at 1.9% in 2026 and 2.3% in 2027. Growth in 2026 is projected to be mainly driven by private and public consumption. HICP inflation increased from 2.0% in 2024 to 2.5% in 2025 and is projected at 3.5% in 2026 and 2.5% in 2027, mainly driven by rising global energy and food prices.

Medium-term budgetary position, including investment. Slovenia's general government deficit increased from 0.9% of GDP in 2024 to 2.5% in 2025, which mainly reflects weaker-than-expected revenue growth and a rise in current expenditures and record-high public investments. Government investment stood at 5.1% of GDP in 2024 (of which 4.7% of GDP is nationally financed) and increased to 5.6% in 2025 (of which 5.0% of GDP is nationally financed). Based on Commission estimates, the fiscal stance, which includes both nationally and EU financed expenditure, was expansionary, by 1.6% of GDP, in 2025. Growth in nationally financed primary expenditure (net of discretionary revenue measures) in 2025 provided an expansionary contribution to the fiscal stance, amounting to 1.3% of GDP.

The Commission Spring 2026 Forecast projects a general government deficit of 3.3%⁴⁶ of GDP in 2026 and 3.5% in 2027. The increase in 2026 mainly reflects increase in current expenditures driven by government intermediate consumption, social benefits and public wages. The increase of the deficit in 2027 mainly reflects the expiry of EU transfers from RRF grants against a sustained high level of public investments. Government investment is projected decrease slightly to 5.5% of GDP in 2026 (of which 4.4% of GDP is nationally financed) and then to decrease to 5.1% in 2027 (of which 4.6% of GDP is nationally financed). Based on Commission estimates, the fiscal stance is projected to be expansionary, by 1.3% of GDP, in 2026. Growth in nationally financed primary expenditure in 2026 is projected to provide an expansionary contribution to the fiscal stance, amounting to 0.7% of GDP.

On 11 May 2026, after the cut-off date of the Commission Spring 2026 Forecast, additional deficit-increasing measures were adopted by the National Assembly, in the area of personal income tax, social contributions, taxes on products and social transfers, which, based on currently available information, are estimated by the Commission to have a total budgetary cost between 0.5% and 1.0% of GDP in 2026. Most of these measures are expected to be not temporary and they would increase the deficit in 2026 and beyond. The impact of these additional measures is only considered in this report when explicitly mentioned, and only in qualitative terms.

Based on the Commission's calculations⁴⁷, net expenditure in Slovenia grew by 8.8% in 2025 and 13.2% cumulatively over 2024 and 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate⁴⁸, corresponding to a deviation of 1.4% of GDP in annual terms. When considering 2024 and 2025 together, the cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a

⁴⁶ Based on policy measures known at the cut-off date of 4 May 2026 in the Commission Spring 2026 Forecast.

⁴⁷ Fiscal Statistical Tables providing background data relevant for the assessment of the budgetary policies of the Member States, SWD(2026)200 final, Brussels 3.6.2026.

⁴⁸ Council Recommendation of 8 July 2025 endorsing the medium-term fiscal-structural plan of Slovenia, OJ C, C/2025/3973, 20.8.2025, ELI: <http://data.europa.eu/eli/C/2025/3973/oj>.

deviation of 0.5% of GDP in cumulative terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause⁴⁹, considering 2024 and 2025 together, the cumulative deviation of net expenditure amounts to marginally above 0.3% of GDP.

In 2026, net expenditure in Slovenia is projected to grow by 7.2%, and 21.3% cumulatively over 2024, 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 1.2% of GDP in annual terms. When considering 2024, 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 1.7% of GDP in cumulative terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause, considering 2024, 2025 and 2026 together, the projected cumulative deviation of net expenditure reduces to 1.2% of GDP.

As mentioned above, the Commission regards deviations from the maximum recommended net expenditure growth (after considering the national escape clause) above the threshold as a particularly important relevant factor.

Debt challenges and medium-term debt position. Government debt in Slovenia decreased from 66.4% of GDP at the end of 2024 to 65.7% of GDP at the end of 2025. The debt-to-GDP ratio is projected to decrease further to 64.9% of GDP at the end of 2026 to then increase to 65.1% at the end of 2027.

Overall, the debt sustainability analysis indicates medium risks over the medium term.⁵⁰ The debt ratio in the baseline of the sustainability analysis under unchanged policies is projected to decrease slightly until 2027 before increasing again over the medium term, reaching around 75% of GDP in 2036. The debt trajectory is sensitive to adverse macroeconomic shocks. According to the stochastic projections, which simulate a large range of possible temporary shocks to macroeconomic variables, there is a medium likelihood that the debt ratio in 2030 will be higher than in 2025.

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 large share of government debt held by non-residents. On the other hand, risk-mitigating factors include (i) the stabilisation of debt maturity at high levels in recent years and (ii) the high cash buffer.

Implementation of reforms and investment. Structural reforms and investments under the Recovery and Resilience Facility (RRF) are expected to have a positive impact on GDP growth in the coming years. The implementation of reforms and investments included in the RRP is underway and the final milestones and targets must be completed to ensure a full disbursement of the allocated RRF financing. This requires a final focused effort to ensure the deadline of 31 August 2026 for milestone and target completion is met.

National budgetary framework. The Slovenian Fiscal Council is one of Slovenia's two independent fiscal institutions and focuses on the monitoring of compliance with fiscal rules and assessing the fiscal forecast of the government (see Annex 2 of the 2026 Country Report on Slovenia). Slovenia adopted a comprehensive new national framework in 2025, including the Fiscal Rules Act and amendments to the Public Finance Act. National fiscal rules require

⁴⁹ Council Recommendation of 8 July 2025 allowing Slovenia to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), OJ C, C/2025/3973, 20.8.2025, ELI: <http://data.europa.eu/eli/C/2025/3973/oj>.

⁵⁰ Debt Sustainability Monitor 2025 (European Economy Institutional Paper 332, February 2025) based on the Commission Autumn 2025 Forecast.

the net expenditure path to follow the national medium-term fiscal-structural plan, to achieve respect of the reference values of 3% and 60% for the deficit and debt ratio respectively, and to remain below these values in the medium term. The medium-term fiscal-structural plan plays a central role in the revised medium-term budgetary framework.

Increase in government investment in defence. Based on data collected by Eurostat, nationally financed government expenditure on defence in Slovenia amounted to 1.3% of GDP in 2025. Of this, government investment in defence represented 0.3% of GDP in 2025, which was 0.1 percentage point lower than in 2024.

The Commission Spring 2026 Forecast projects government expenditure on defence in Slovenia to amount to 1.6% of GDP in 2026 and 1.8% of GDP in 2027. Of this, government investment in defence is projected to represent 0.3% of GDP in 2026, remaining unchanged compared to 2025, and projected to then increase in 2027 by 0.2 percentage point to 0.5%.

Other factors put forward by the Member State. On 12 May 2026, Slovenia put forward additional factors not mentioned above. Slovenia highlighted cost saving measures that were adopted to create additional fiscal buffers, while the impact of the structural reforms implemented is associated with higher costs in the short-term but positive effects on the mid- to long-term fiscal sustainability. Those measures that were specified in sufficient detail by the cut-off date were reflected in the Commission Spring 2026 Forecast and thus taken into account in the preceding analysis. Slovenia also mentioned that further deficit decreasing measures intended to create additional fiscal buffers were being compiled by the outgoing government: these were not reflected in the Commission Spring 2026 Forecast as they had not been credibly announced with sufficient detail by the cut-off date of the forecast. It should however be noted that the Slovenia did not mention the additional deficit-increasing measures adopted on 11 May by the National Assembly, nor their likely impact. Slovenia also mentions that several statistical issues are having an impact on public finance statistics⁵¹. These issues have been reflected in the Commission Spring 2026 Forecast and in the calculation of the above deviations from the recommended net expenditure path.

⁵¹ Namely, the reclassification of two units in 2025 (Šoštanj Thermal Power Plant and Velenje Coal Mine) and the change in the service model by the Company for the management of public passenger transport (DUJPP) in 2026.

5. CONCLUSIONS

Based on the preceding analysis, the conclusions on compliance with the deficit criterion for the different countries covered by the report, after considering relevant factors as appropriate, are as follows.

5.1. Bulgaria

The government deficit in **Bulgaria** exceeded the reference value of 3% of GDP in 2025 and, while Bulgaria has not reported a planned deficit for 2026, the Commission projects the deficit in 2026 at 4.1%. Both deficits in excess of the reference value are assessed as above and not close to the reference value. They are assessed as not temporary – based on the Commission forecast – with the deficit in excess in 2025 as exceptional, but not exceptional in 2026.

For Bulgaria, relevant factors can be taken into account in the assessment of compliance with the deficit criterion, as government debt was below 60% of GDP in 2025. The relevant factors examined in this report for Bulgaria are assessed as, on balance, aggravating. Overall, taking into account all relevant factors as appropriate and, in particular, as the deficit is increasing to well above 3% of GDP in 2026, the deficit criterion is assessed as not fulfilled in Bulgaria.

On 8 July 2025, the Council activated the national escape clause to facilitate an increase in defence expenditure during the period 2025-2028 for Bulgaria. Defence expenditure increased from 1.3% of GDP in 2024 to 1.9% in 2025, and is projected to be 1.9% of GDP also in 2026, based on the Commission Spring 2026 Forecast. Without this increase in defence expenditure since the reference year 2024, the deficit in 2025 would be 2.9% of GDP, below the 3% of GDP reference value. However, in 2026, the deficit without the increase in defence expenditure, as projected by the Commission amounts to 3.5% of GDP, thus exceeding the reference value.

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 Bulgaria by recommending to the Council to adopt a Decision under Article 126(6) TFEU establishing the existence of an excessive deficit as well as a Recommendation under Article 126(7) TFEU with a view to correcting the excessive deficit.

5.2. Germany

Germany had a government deficit not exceeding the reference value in 2025 but has reported a planned deficit above and not close to 3% of GDP in 2026; the Commission forecast likewise projects a deficit assessed as above and not close to 3% of GDP in 2026. Germany's planned deficit in excess of the reference value is assessed as not temporary – based on the Commission forecast – but as exceptional.

For Germany, relevant factors cannot be taken into account in the assessment of compliance with the deficit criterion, as government debt was above 60% of GDP in 2025 and the double condition (*i.e.* that the deficit remains close to the reference value and that the excess over the reference value is temporary) is not met. Therefore, the deficit criterion is assessed as not fulfilled in Germany.

On 10 October 2025, the Council activated the national escape clause to facilitate an increase in defence expenditure during the period 2025-2028 for Germany. Defence expenditure increased from 1.1% of GDP in 2021 to 1.5% in 2025 and is projected to be 1.9% of GDP in 2026, based on the Commission Spring 2026 Forecast. Without this increase in defence

expenditure since 2021, the deficit in 2026 projected by the Commission would be 2.9% of GDP, thus not exceeding the reference value.⁵² Not to reach a conclusion on the existence of an excessive deficit in Germany at this stage is therefore in accordance with Article 2(5) of Regulation (EU) No 1467/97.

In light of this assessment, the Commission is of the view that there is no case to open an excessive deficit procedure for Germany. Fiscal developments in Germany will be reassessed in autumn 2026.

5.3. *Estonia*

Estonia had a government deficit not exceeding the reference value in 2025 but has reported a planned deficit above and not close to 3% of GDP in 2026; the Commission forecast likewise projects a deficit assessed as above and not close to 3% of GDP in 2026. Estonia's planned deficit in excess of the reference value is assessed as not temporary – based on the Commission forecast – but as exceptional.

For Estonia, relevant factors can be taken into account in the assessment of compliance with the deficit criterion, as government debt was below 60% of GDP in 2025. The relevant factors examined in this report for Estonia are assessed as, on balance, presenting a mixed picture. Overall, taking into account all relevant factors as appropriate, the deficit criterion is assessed as not fulfilled in Estonia.

On 8 July 2025, the Council activated the national escape clause to facilitate an increase in defence expenditure during the period 2025-2028 for Estonia. Defence expenditure increased from 2.0% of GDP in 2021 to 3.9% in 2025, and is projected to be 4.6% of GDP in 2026, based on the Commission Spring 2026 Forecast. Without this increase in defence expenditure since the reference year 2021 – capped at 1.5% of GDP in line with the maximum flexibility under the national escape clause – the deficit in 2026 as projected by the Commission would be 3.0% of GDP, thus not exceeding the reference value.⁵³ Not to reach a conclusion on the existence of an excessive deficit in Estonia at this stage is therefore in accordance with Article 2(5) of Regulation (EU) No 1467/97.

In light of this assessment, the Commission is of the view that there is no case to open an excessive deficit procedure for Estonia. Fiscal developments in Estonia will be reassessed in autumn 2026.

5.4. *Latvia*

Latvia had a government deficit not exceeding the reference value in 2025 but has reported a planned deficit above but close to 3% of GDP in 2026; the Commission forecast likewise projects a deficit assessed as above but close to 3% of GDP in 2026. Latvia's planned deficit

⁵² In line with the Commission Communication of 19 March 2025, C(2025) 2000 final, if the national escape clause for defence spending is activated, the Commission and Council may decide not to reach a conclusion regarding the existence of an excessive deficit in case of an excess of the deficit exceeding 3% of GDP, when this is due to an increase in defence expenditure.

⁵³ The projected large increase in the deficit in Estonia from 2025 to 2026 is only partially related by the increase in defence spending in 2026. Most of the increase in defence spending in Estonia took place in previous years.

in excess of the reference value is assessed as not temporary – based on the Commission forecast – but as exceptional.

For Latvia, relevant factors can be taken into account in the assessment of compliance with the deficit criterion, as government debt was below 60% of GDP in 2025. The relevant factors examined in this report for Latvia are assessed as, on balance, mitigating.

The relevant factors considered for Latvia are assessed as sufficiently mitigating to conclude that, overall, the deficit criterion is assessed as fulfilled. Fiscal developments in Latvia will be reassessed in autumn 2026.

5.5. *Slovenia*

Slovenia had a government deficit not exceeding the reference value in 2025 but has reported a planned deficit above but close to 3% of GDP in 2026; the Commission forecast likewise projects a deficit assessed as above but close to 3% of GDP in 2026. Slovenia's planned deficit in excess of the reference value is assessed as not temporary – based on the Commission forecast – but as exceptional.

For Slovenia, relevant factors cannot be taken into account in the assessment of compliance with the deficit criterion, as government debt was above 60% of GDP in 2025 and the double condition (*i.e.* that the deficit remains close to the reference value and that the excess over the reference value is temporary) is not met. Therefore, the deficit criterion is assessed as not fulfilled in Slovenia.

On 8 July 2025, the Council activated the national escape clause to facilitate an increase in defence expenditure during the period 2025-2028 for Slovenia. In Slovenia, defence expenditure increased from 1.1% of GDP in 2021 to 1.3% in 2025 and is projected to be 1.6% of GDP in 2026, based on the Commission Spring 2026 Forecast. Without this increase in defence expenditure since the reference year 2021, the deficit in 2026 projected by the Commission would be 2.8% of GDP.

After the cut-off of the Commission Spring 2026 Forecast, Slovenia adopted a number of measures that, therefore, are not considered in the data discussed above. In particular, deficit-increasing measures in the areas of personal income tax, consumption taxes, social contributions and pensions were adopted by the National Assembly on 11 May (amounting to between 0.5% and 1% of GDP). The Commission understands that a number of savings measures are also being prepared. Therefore, there is at this stage uncertainty about the fiscal outlook for 2026, including on the projected deficit in excess of 3% of GDP, and on the extent to which such an excess is related to the increase in defence expenditure.

In light of this assessment, the Commission is of the view that there is no case to open an excessive deficit procedure for Slovenia at this stage. Fiscal developments in Slovenia will be reassessed in autumn 2026. If sufficient corrective measures are not taken in a credible and timely manner, this may lead to the opening of the excessive deficit procedure for Slovenia in autumn.