EUROPEAN
COMMISSION

Brussels, 2.6.2021
COM(2021) 529 final

REPORT FROM THE COMMISSION

Belgium, Bulgaria, Czechia, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Slovenia, Slovakia, Finland and Sweden

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

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1. INTRODUCTION

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

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause[1] of the Stability and Growth Pact.[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97, and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn in the euro area or the Union as a whole. In its Communication, the Commission set out its view that, given the severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.

The general escape clause does not suspend the procedures of the Stability and Growth Pact. However, its activation has granted Member States budgetary flexibility to deal with the current crisis, by allowing for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, provided this does not endanger fiscal sustainability in the medium term. For the corrective arm of the Pact, the Council may decide, on a recommendation from the Commission, to adopt revised fiscal trajectories. The general escape clause allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

On 20 July 2020, as part of the country-specific recommendations[3] under the European Semester, the Council recommended Member States to take all necessary measures to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. Member States were also recommended to, when economic conditions allowed, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring

[1] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[2] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[3] Council Recommendations of 20 July 2020 (2020/C 282/01 to 2020/C 282/27), OJ C 282, 26.8.2020, p. 1-182.

debt sustainability, while enhancing investment. Similarly, the Council Recommendation on the economic policy of the euro area indicates that fiscal policies should remain supportive in all euro area Member States throughout 2021.[4]

On 17 September 2020, the Commission's Annual Sustainable Growth Strategy[5] called upon Member States to continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

On 19 February 2021, Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility came into force.[6] The implementation of reforms and investment under the Facility will contribute to the economic recovery and provide financial support to strengthen economic resilience and the economy's growth potential. It will also help Member States' public finances return to more favourable positions in the near term, and it will contribute to strengthening their sustainability in the medium and long term. On 3 March 2021, the Commission adopted a Communication providing further policy orientations to facilitate the coordination of fiscal policies and the preparation of Member States' Stability and Convergence Programmes.[7]

The Commission Communication of 2 June 2021 on economic policy coordination[8] indicates that the general escape clause of the Stability and Growth Pact will continue to be applied in 2022 and is expected to be deactivated as of 2023. Member States' fiscal policies should become more differentiated in 2022 as economic activity gradually normalises in the second half of 2021. Fiscal policies should take into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. As the recovery takes hold, fiscal policy should prioritise higher public and private investment, supporting the transition towards a green and digital economy.

According to data validated by Eurostat on 22 April 2021[9], the 2020 general government deficit exceeded the 3% of GDP Treaty reference value in 25 Member States: **Belgium, Bulgaria, Czechia, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Slovenia, Slovakia, Finland** and **Sweden**.[10] Moreover, the Commission's

[4] Pending final adoption by the Council, after endorsement by the European Council. The text agreed by the Eurogroup on 16 December 2020 is available at: https://data.consilium.europa.eu/doc/document/ST-14356-2020-INIT/en/pdf

[5] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[6] OJ L57, 18.2.2021, p.17.

[7] Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

[8] Communication from the Commission on Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy, Brussels, 2.6.2021, COM(2021)500 final.

[9] Eurostat *Euro Indicators* 48/2021 of 22 April 2021.

[10] Romania's general government deficit also exceeded 3% of GDP in 2020 and is under the excessive deficit procedure. Thus, it is not covered in this report. On 26 May 2021, the Commission recommended the Council to adopt a recommendation for Romania under Article 126(7) of the Treaty, with a view to bring the excessive deficit situation to an end.

2021 spring forecast[11] (hereafter Commission's forecast) indicates that, in 2021, the government deficits will remain above the reference value in all these Member States, but **Luxembourg**. The observed deficit for 2020 provides *prima facie* evidence of the existence, in those Member States, of an excessive deficit as defined by Article 126 of the Treaty. The Commission shall take into account all relevant factors as appropriate.

According to data validated by Eurostat, the general government deficit for **Denmark** was below 3% of GDP in 2020 and based on the Commission's forecast it is projected to remain below that reference value. However, according to its 2021 Convergence Programme, **Denmark** plans a general government deficit of 3.3% of GDP in 2021, also exceeding the Treaty deficit reference value. The planned deficit for 2021 provides *prima facie* evidence of the existence of an excessive deficit in Denmark, as defined by Article 126 of the Treaty. The Commission shall take into account all relevant factors as appropriate.

In **Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia, Slovakia** and **Finland**, the general government gross debt exceeded the 60% of GDP reference value at the end of 2020. Moreover, the data for 2020 imply that **Belgium, Greece, Croatia, Italy, Cyprus, Hungary, Austria, Portugal** and **Slovenia** did not respect the debt reduction benchmark – or, in the case of **Spain** and **France**, the transitional debt rule.[12] **Germany**, **Slovakia** and **Finland** breached the Treaty reference value of 60% of GDP in 2020, having recorded a debt ratio of below 60% of GDP in 2019. The observed general government debt in 2020 provides *prima facie* evidence of the existence, in those 14 Member States, of an excessive deficit as defined by Article 126 of the Treaty. The Commission shall take into account all relevant factors.

Against this background, the Commission has prepared this report in accordance with Article 126(3) of the Treaty, which analyses Member States' compliance with the deficit and debt criteria of the Treaty. It takes into account all relevant factors, including due consideration of the severe economic downturn resulting from the COVID-19 pandemic and the Council Recommendations of 20 July 2020.

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11 The source for the figures provided in this report is the Commission's 2021 spring forecast, unless stated otherwise.

12 Applicable during the transition period of three years from the correction of the excessive deficit, for excessive deficit procedures that were ongoing in November 2011.

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

	Actual deficit not exceeding 3% of GDP in 2020	Projected and planned deficits not exceeding 3% of GDP in 2021	Debt ratio not exceeding 60% of GDP in 2020
Belgium	✗	✗	✗
Bulgaria	✗	✗	✓
Czechia	✗	✗	✓
Denmark	✓	✗	✓
Germany	✗	✗	✗
Estonia	✗	✗	✓
Ireland	✗	✗	✓
Greece	✗	✗	✗
Spain	✗	✗	✗
France	✗	✗	✗
Croatia	✗	✗	✗
Italy	✗	✗	✗
Cyprus	✗	✗	✗
Latvia	✗	✗	✓
Lithuania	✗	✗	✓
Luxembourg	✗	✓	✓
Hungary	✗	✗	✗
Malta	✗	✗	✓
Netherlands	✗	✗	✓
Austria	✗	✗	✗
Poland	✗	✗	✓
Portugal	✗	✗	✗
Slovenia	✗	✗	✗
Slovakia	✗	✗	✗
Finland	✗	✗	✗
Sweden	✗	✗	✓

Source: Commission 2021 spring forecast and 2021 Stability and Convergence Programmes

2. DEFICIT CRITERION

For all Member States, the deficit in excess over the Treaty reference value in 2020 was exceptional, as it resulted from a severe economic downturn in the EU as a whole. Real GDP in 2020 contracted in all EU Member States but Ireland. For the EU as a whole, the contraction in economic activity was of 6.1% (6.6% for the euro area). The deficit increases were driven by the budgetary cost of measures taken by these Member States to tackle the COVID-19 pandemic, and the operation of the automatic stabilisers. On the basis of the latest data validated by Eurostat, fiscal support for the EU as a whole in 2020 – including discretionary fiscal measures and automatic stabilisers, as measured by the change in the primary balance – is estimated at 6.6% of GDP (6.8% for the euro area).

In 2020, based on data validated by Eurostat, the general government deficit was <u>*above*</u> and <u>*not close*</u> to the Treaty reference value of 3% of GDP in 23 Member States (Table 2) – *i.e.* in **Belgium, Czechia, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria,**

Poland, Portugal, Slovenia, Slovakia and **Finland.** At the same time, in **Bulgaria** and **Sweden** the general government deficit was *above* but *close* to 3% of GDP.

Based on the Commission's forecast, **Denmark's** general government deficit is expected at 2.1% of GDP in 2021. However, according to its 2021 Convergence Programme, **Denmark** plans a general government deficit of 3.3% of GDP in 2021, which is *above* but *close* to 3% of GDP.[13]

The deficit in excess over the Treaty reference value is expected to be *temporary* in the case of **Bulgaria, Denmark, Germany, Ireland, Cyprus, Latvia, Luxembourg, the Netherlands, Austria, Poland, Finland** and **Sweden**, with the general government deficit projected to fall below 3% of GDP in 2022 (already in 2021 in the case of **Luxembourg**) based on the Commission's forecast. These projections are surrounded by an exceptionally high degree of uncertainty.

In sum, the analysis suggests that the deficit criterion as defined by the Treaty and Regulation (EC) No 1467/97 is fulfilled by **Bulgaria, Denmark** and **Sweden**, while it is not fulfilled by 23 Member States before the consideration of the relevant factors as appropriate: **Belgium, Czechia, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Slovenia, Slovakia** and **Finland**.

[13] The difference between the general government deficit planned in the Stability Programme of Denmark (-3.3% of GDP) and expected by the Commission's 2021 spring forecast (-2.1% of GDP) is mainly driven by the fact that the Commission expects a better macroeconomic outlook, led by stronger domestic demand, which contributes to higher tax revenues, and more optimistic assumptions about the pension yield tax (*i.e.* closer to the observed yield in 2019 and 2020).

Table 2: General government balance
Percentage of GDP

	2017	2018	2019	2020	2021	2022
Belgium	-0.7	-0.8	-1.9	-9.4	-7.6	-4.9
Bulgaria	1.2	2.0	2.1	-3.4	-3.2	-1.9
Czechia	1.5	0.9	0.3	-6.2	-8.5	-5.4
Denmark	1.8	0.7	3.8	-1.1	-2.1	-1.4
Germany	1.4	1.8	1.5	-4.2	-7.5	-2.5
Estonia	-0.7	-0.6	0.1	-4.9	-5.6	-3.3
Ireland	-0.3	0.1	0.5	-5.0	-5.0	-2.9
Greece	0.6	0.9	1.1	-9.7	-10.0	-3.2
Spain	-3.0	-2.5	-2.9	-11.0	-7.6	-5.2
France	-3.0	-2.3	-3.1	-9.2	-8.5	-4.7
Croatia	0.8	0.2	0.3	-7.4	-4.6	-3.2
Italy	-2.4	-2.2	-1.6	-9.5	-11.7	-5.8
Cyprus	1.9	-3.5	1.5	-5.7	-5.1	-2.0
Latvia	-0.8	-0.8	-0.6	-4.5	-7.3	-2.0
Lithuania	0.5	0.6	0.5	-7.4	-8.2	-6.0
Luxembourg	1.3	3.0	2.4	-4.1	-0.3	-0.1
Hungary	-2.4	-2.1	-2.1	-8.1	-6.8	-4.5
Malta	3.2	1.9	0.4	-10.1	-11.8	-5.5
Netherlands	1.3	1.4	1.8	-4.3	-5.0	-1.8
Austria	-0.8	0.2	0.6	-8.9	-7.6	-3.0
Poland	-1.5	-0.2	-0.7	-7.0	-4.3	-2.3
Portugal	-3.0	-0.3	0.1	-5.7	-4.7	-3.4
Slovenia	-0.1	0.7	0.4	-8.4	-8.5	-4.7
Slovakia	-1.0	-1.0	-1.3	-6.2	-6.5	-4.1
Finland	-0.7	-0.9	-0.9	-5.4	-4.6	-2.1
Sweden	1.4	0.8	0.6	-3.1	-3.3	-0.5

Source: Commission 2021 spring forecast

3. DEBT CRITERION

In 2020, the general government gross debt ratio increased in all Member States, and it exceeded the 60% of GDP Treaty reference value in 14 of them: **Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia, Slovakia** and **Finland** (Table 3). That increase stemmed from the sizeable contraction of nominal GDP and from the large amount of debt issued to finance exceptionally large deficits. In 2019, **Belgium, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal** and **Slovenia** already had general government gross debt above 60% of GDP.

Data show that in 2020 the debt reduction benchmark was not complied with in **Belgium, Greece, Croatia, Italy, Cyprus, Hungary, Austria, Portugal** and **Slovenia** (Table 4). The debt reduction benchmark is computed over a three-year horizon that can be forward-looking (t-1 to t+1), backward-looking (t-3 to t-1) and adjusted for the cycle. If in any of the years the debt ratio is below 60% of GDP, the benchmark cannot be meaningfully computed. This is the case when Member States cross the reference value from below to above 60% of GDP, notably in the case of **Germany, Slovakia** and **Finland**. Since for **Slovakia** the debt-to-GDP ratio is projected to fall below the Treaty threshold reference value in 2021, it is considered to comply with the debt criterion. For **Germany** and **Finland**, the debt ratio is projected to remain above 60% of GDP over the forecast horizon and they are thereby not considered to comply with the debt criterion. Moreover, **Spain** and **France**, which are subject to the transitional debt rule, did not make sufficient progress towards meeting the debt reduction benchmark in 2020, as the change in their structural balance was below their required minimum linear structural adjustment (Table 5).

The analysis thus suggests that, among the Member States with general government debts exceeding 60% of GDP at the end of 2020, the debt criterion is fulfilled by **Slovakia**, while it is not fulfilled, before the consideration of the relevant factors, by **Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia** and **Finland**.

Table 3: General government debt
Percentage of GDP

	2017	2018	2019	2020	2021	2022
Belgium	102.0	99.8	98.1	114.1	115.3	115.5
Bulgaria	25.3	22.3	20.2	25.0	24.5	24.0
Czechia	34.2	32.1	30.3	38.1	44.3	47.1
Denmark	35.9	34.0	33.3	42.2	40.2	38.8
Germany	65.1	61.8	59.7	69.8	73.1	72.2
Estonia	9.1	8.2	8.4	18.2	21.3	24.0
Ireland	67.0	63.0	57.4	59.5	61.4	59.7
Greece	179.2	186.2	180.5	205.6	208.8	201.5
Spain	98.6	97.4	95.5	120.0	119.6	116.9
France	98.3	98.0	97.6	115.7	117.4	116.4
Croatia	77.6	74.3	72.8	88.7	85.6	82.9
Italy	134.1	134.4	134.6	155.8	159.8	156.6
Cyprus	93.5	99.2	94.0	118.2	112.2	106.6
Latvia	39.0	37.1	37.0	43.5	47.3	46.4
Lithuania	39.1	33.7	35.9	47.3	51.9	54.1
Luxembourg	22.3	21.0	22.0	24.9	27.0	26.8
Hungary	72.2	69.1	65.5	80.4	78.6	77.1
Malta	48.5	44.8	42.0	54.3	64.7	65.5
Netherlands	56.9	52.4	48.7	54.5	58.0	56.8
Austria	78.5	74.0	70.5	83.9	87.2	85.0
Poland	50.6	48.8	45.6	57.5	57.1	55.1
Portugal	126.1	121.5	116.8	133.6	127.2	122.3
Slovenia	74.1	70.3	65.6	80.8	79.0	76.7
Slovakia	51.5	49.6	48.2	60.6	59.5	59.0
Finland	61.2	59.7	59.5	69.2	71.0	70.1
Sweden	40.7	38.9	35.0	39.9	40.8	39.4

Source: Commission 2021 spring forecast

Table 4: Gap to the debt reduction benchmark[1]

	2017	2018	2019	2020	2021	2022
Belgium	0.0	0.0	0.0	8.0	6.2	2.9
Germany	-6.0	-6.1	Debt < 60%	n.a.[2]	2.0	1.5
Greece	Transitional debt rule			16.1	7.4	5.6
Croatia	-3.4	-4.5	-3.0	2.5	0.2	-3.7
Italy	6.3	6.9	7.3	12.2	9.6	4.3
Cyprus	Transitional debt rule		-0.8	2.8	-1.6	-2.1
Hungary	-5.3	-3.7	-5.3	3.6	-0.1	-2.5
Austria	-6.0	-5.8	-6.0	5.4	2.6	-0.2
Portugal	Transitional debt rule			2.6	-0.6	-6.1
Slovenia	Transitional debt rule		-7.2	2.8	0.9	-2.6
Slovakia	Debt < 60%			n.a.[2]	Debt < 60%	
Finland	-0.9	Debt < 60%		n.a.[2]	0.6	-0.1

Source: Commission 2021 spring forecast

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

[2] The debt reduction benchmark is not pertinent in cases where a Member State debt was below 60% of GDP in 2019 and above that reference level in 2020 as neither the backward- nor the forward-looking benchmark can be meaningfully computed.

Table 5: Compliance with the transitional debt rule

		Required Minimum Linear Structural Adjustment (MLSA)[3]				Change in structural balance				Gap to the debt reduction benchmark[4]	
	2017	**2018**	**2019**	**2020**	**2021**	**2018**	**2019**	**2020**	**2021**	**2021**	**2022**
Spain	EDP[1]	EDP[1]	0.1	0.7	1.8	EDP[1]	-0.9	-0.5	-0.7	n.r.[2]	0.3
France	EDP[1]	1.0	1.6	3.6	n.r.[2]	-0.1	-0.3	-1.3	n.r.[2]	7.3	3.4

Source: Commission 2021 spring forecast

[1] Under excessive deficit procedure

[2] Spain corrected its excessive deficit in 2018 and is therefore still in the transition period until 2021, i.e. it is not assessed on the basis of the debt reduction benchmark, but according to the minimum linear structural adjustment. On the other hand, France corrected its excessive deficit in 2017 and is therefore subject to the debt reduction benchmark as from 2021.

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

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

4. RELEVANT FACTORS

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

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

Hence, in addition to the budgetary impact of the COVID-19 pandemic, country-specific relevant factors are considered. Those include the medium-term economic position, the medium-term budgetary position (including public investment), the medium-term debt position and any other relevant factors put forward by Member States.

As specified in Article 2(4) of Regulation (EC) No 1467/97, as regards compliance with the deficit criterion, if the government debt-to-GDP ratio does not exceed the 60% reference value, or if it does but a double condition is met – *i.e.* that the deficit remains close to the reference value and that its excess over the reference value is temporary –, those relevant factors can be taken into account in the steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion.

Of the 26 Member States considered in this report and exceeding in 2020, or planning to exceed in 2021, the 3% of GDP deficit reference value of the Treaty, the debt ratio at end-2020 did not exceed the 60% reference value in the case of 12 Member States: **Bulgaria, Czechia, Denmark, Estonia, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland** and **Sweden**.

In the remaining 14 Member States exceeding the 3% of GDP deficit reference value of the Treaty – *i.e.* **Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia, Slovakia** and **Finland** – the debt ratio exceeded the 60% reference value of the Treaty and the double condition necessary for relevant factors to be taken into account has not been met. The deficit did not remain *close to* the reference value in all these Member States, with the excess over 3% of GDP ranging between 1.2 and 8% of GDP. Except in **Germany, Cyprus, Austria** and **Finland**, the excess over the reference value is expected not to be *temporary* either. Therefore, for these 14 Member States, relevant factors cannot be taken into account in the steps leading to the decision on the existence of an excessive deficit on the basis of the deficit criterion.

Concerning the apparent breach of the debt criterion in the same 14 Member States, Article 2(4) of Regulation (EC) No 1467/97 provides that relevant factors shall always be taken into account when assessing compliance on the basis of the debt criterion irrespective of the size of the breach.

Moreover, Article 2(6) of Regulation (EC) No 1467/97 states that if the Council decides that an excessive deficit exists in a Member State, the relevant factors referred to in Article 126(3) of the Treaty shall be taken into account in the subsequent steps under the excessive deficit procedure.

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

4.1. BUDGETARY IMPACT OF THE COVID-19 PANDEMIC

In the current situation, a key factor to take into consideration for all the Member States covered in this report is the economic and budgetary impact of the COVID-19 pandemic, which has created an extraordinary degree of uncertainty for the macroeconomic and budgetary outlook. The pandemic and the related severe economic downturn have led to the activation of the general escape clause of the Stability and Growth Pact and to the Council Recommendations of 20 July 2020 for all Member States to take all necessary measures to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery.

In particular, the outbreak of the COVID-19 pandemic has caused an unprecedented global public health crisis, which entailed a sharp decline in economic activity only partially cushioned by the effect of automatic stabilisers. Member States have faced an imperative of addressing the public health emergency, supporting households and corporates, and providing more general support to their economies. Significant liquidity support measures and state guarantees have also been adopted by the Member States. These liquidity support measures, in particular public guarantees in support of credit flows, do not have a direct budgetary impact unless and until they are called.

The forceful policy response at the national and at the EU level cushioned the impact of the crisis on Europe's economic and social fabric. Member States took crisis-related discretionary fiscal measures estimated at close to 4% of GDP in 2020 on top of already sizeable automatic stabilisers, estimated at close to 3% of GDP. Based on the latest data, fiscal support in the Union in 2020 (measured by the annual change in the primary balance) is estimated at 6.6% of GDP (and at 6.8% of GDP in the euro area). Together, the fiscal support and liquidity measures implemented by Member States are estimated to have cushioned the contraction in economic activity in 2020.[14]

The sharp increase in government deficits and public debt described in Sections 2 and 3 reflected the need to support the economy in exceptionally challenging circumstances, in line with the Council Recommendation of 20 July 2020. This is taken into account in the Commission assessment.

4.2 COUNTRY-SPECIFIC RELEVANT FACTORS

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

While the country-specific sections include key information on the medium-term macroeconomic position, for instance on the contributions to growth (private consumption, public consumption, investment and net exports) in 2021, more detail on the macroeconomic developments can be found in the Commission's 2021 spring forecast. Further information

[14] The updated Commission estimates point to 4.5 percentage points based on the simulation analysis presented in Pfeiffer, P., Roeger W. and in 't Veld, J. (2020), 'The COVID-19 pandemic in the EU: Macroeconomic transmission and economic policy response', *European Economy-Discussion Paper* 127, July 2020.

regarding the budgetary measures and the debt sustainability analysis discussed for each Member State hereunder is included in the Commission recommendations for Council Recommendations on the 2021 Stability or Convergence Programmes and the accompanying statistical annex. The debt sustainability analysis has been updated[15], compared to the 2020 Debt Sustainability Monitor[16] (published in February 2021), to reflect both the Commission's forecast and the latest estimates for the costs of ageing from the 2021 Ageing Report.[17]

In 2021, the general government deficit for the EU and euro area as a whole is set to increase further to 7.5% of GDP and 8% respectively (up by around ½ and ¾ of a percentage point of GDP, respectively). The increase in the deficit is mainly due to the adoption of new or extended emergency measures to support economic activity at the time of new necessary restrictions in the first half of the year.

Based on the Commission's forecast, in 2021 the general government deficit ratio is expected to fall (in some cases only marginally) in half of the 26 Member States covered in this report – *i.e.* **Belgium, Bulgaria, Ireland, Spain, France, Croatia, Cyprus, Luxembourg, Hungary, Austria, Poland, Portugal** and **Finland** –, due to the rebound in economic activity and the gradual phasing out of temporary emergency measures. However, only **Denmark** and **Luxembourg** are projected to run a deficit of less than 3% of GDP.

In 2022, the average budget deficits are forecast to fall to around 3¾% of GDP in both the EU and the euro area. The economic recovery and the unwinding of much of the discretionary policy support activated to combat the effects of the crisis are both forecast to drive the reduction in the budget deficit in 2022.

While in **Bulgaria, Denmark, Spain, Croatia, Cyprus, Hungary, Poland, Portugal, Slovenia and Slovakia** the debt ratio is expected to decrease in 2021, the aggregate debt-to-GDP ratio is projected to rise further, with a new peak of around 95% and 103% in the EU and the euro area, respectively, before decreasing slightly in 2022. Most Member States are still expected to record debt ratios above 60% of GDP in 2021.

Following the entry into force of the Recovery and Resilience Facility on 19 February 2021, Member States have submitted, or are preparing to submit, their Recovery and Resilience Plans to the Commission. The Commission's forecast therefore includes the impact of those plans in its budgetary and macroeconomic projections. However, at the time of the cut-off date of the forecast (30 April 2021), details of some plans were still under discussion in a number of Member States. Working assumptions have been used for the preparation of the Commission forecasts, as follows:

- Time profile of expenditure: by default the forecast assumes linear absorption of the full grant allocation over the facility's lifetime, starting from the second half of 2021 and ending in 2026. This results in an absorption of 1/11 of the entire Recovery and Resilience Facility grant allocation in 2021 and 2/11 in 2022.

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15 The debt sustainability analysis does not take into account longer-term growth impact of the reforms and investments financed by the Recovery and Resilience Facility, which may mitigate sustainability risks.

16 Debt Sustainability Monitor 2020 (February 2021), *European Economy-Institutional Papers* 143.

17 The 2021 Ageing Report: Economic and budgetary projections for the EU Member States (2019-2070) (May 2021), *European Economy-Institutional Papers* 148.

- Composition of expenditure: by default the forecast assumes that expenditure to be financed by the facility is split between gross fixed capital formation (*i.e.* public investment) and capital transfers (which would predominantly support private investment).
- The above assumptions only cover the absorption of the grant allocation of the Recovery and Resilience Facility.

For Member States where there was sufficiently detailed and credible information available on the (draft) Recovery and Resilience Plans at the cut-off date of the forecast, the forecast deviates from the default assumptions.[18]

Table 6: Public investment
Percentage of GDP

	2017	2018	2019	2020	2021	2022
Belgium	2.4	2.6	2.7	2.8	3.0	2.9
Bulgaria	2.3	3.1	3.4	4.5	4.2	4.2
Czechia	3.3	4.1	4.4	4.9	5.2	5.3
Denmark	3.4	3.4	3.2	3.6	3.7	3.7
Germany	2.2	2.4	2.5	2.7	2.8	2.8
Estonia	5.7	5.3	5.0	5.7	6.3	6.2
Ireland	1.8	2.1	2.4	2.7	2.9	3.0
Greece	4.5	3.2	2.5	3.0	4.9	5.8
Spain	2.0	2.2	2.1	2.5	2.5	2.4
France	3.3	3.4	3.7	3.8	3.9	3.9
Croatia	2.8	3.5	4.3	5.6	6.3	7.4
Italy	2.2	2.1	2.3	2.7	2.9	3.2
Cyprus	2.7	4.9	2.6	2.9	3.5	3.5
Latvia	4.6	5.6	5.0	5.7	6.2	6.1
Lithuania	3.2	3.2	3.1	4.1	3.9	3.9
Luxembourg	4.1	3.9	4.0	5.0	4.3	4.2
Hungary	4.5	5.8	6.2	6.4	6.4	6.6
Malta	2.4	3.3	3.9	4.5	5.6	5.3
Netherlands	3.4	3.4	3.4	3.4	3.9	3.7
Austria	3.1	3.1	3.1	3.4	3.6	3.5
Poland	3.8	4.7	4.3	4.4	4.7	4.9
Portugal	1.8	1.8	1.9	2.2	2.5	3.2
Slovenia	3.1	3.7	3.8	4.2	5.8	5.8
Slovakia	3.4	3.7	3.6	3.5	3.8	3.7
Finland	4.1	4.3	4.4	4.6	4.6	4.3
Sweden	4.6	4.9	4.9	5.1	5.0	5.0

Source: Commission 2021 spring forecast

18 More information in the 2021 Spring Economic Forecast: https://ec.europa.eu/info/sites/default/files/economy-finance/ip149_en.pdf

4.2.1 BELGIUM

Medium-term macroeconomic position: After a contraction of 6.3% in 2020, the economy is set to grow by 4.5% in 2021 and by 3.7% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 9.4% of GDP in 2020 to 7.6% of GDP in 2021, and then to 4.9% of GDP in 2022. Government investment is estimated to increase from 2.8% of GDP in 2020 to 3% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 7.5% and 6% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

Medium-term debt position: The general government debt stood at 99.8% at end-2018 and at 98.1% at end-2019, before rising to 114.1% of GDP at end-2020. It is then projected to increase from 115.3% of GDP at end-2021 to 115.5% of GDP at end-2022. The debt sustainability analysis confirms the high risks in the medium term. According to the baseline 10-year projection, the general government debt ratio would stabilise, and start declining over the second half of the period, although remaining at a high level. The debt trajectory is sensitive to macroeconomic shocks. When taking into account a large range of possible temporary shocks to macroeconomic variables (through stochastic projections), it is probable that the debt ratio could be higher in 2025 than in 2020. Concerning other factors relevant for an overall assessment of debt sustainability, the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investors' base), and historically low borrowing costs supported by the Eurosystem's interventions, contribute to mitigate the risks. In addition, the implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability. Moreover, gross financing needs are projected to decline. Risk-increasing factors are related to contingent liability risks stemming from the private sector, including via the possible materialisation of state guarantees granted to firms and self-employed during the COVID-19 crisis, even though this risk currently remains limited due to relatively low take-up so far.

Other factors put forward by the Member State: On 30 April 2021, Belgium provided additional relevant factors, namely that from 21 December 2018 to 1 October 2020, Belgium had, at federal level, several caretaking governments, and the commitment of the incoming government to pursue important structural reforms in order to enhance the composition of public expenditure and the sustainability of public finances. Reform plans mentioned in the letter concern the pension and tax systems, implementing spending reviews, and raising the level of public investment.

4.2.2 BULGARIA

Medium-term macroeconomic position: After a 4.2% contraction in 2020, the economy is set to grow by 3.5% in 2021 and by 4.7% in 2022. Growth in 2021 is mainly driven by investment and private consumption. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 3.4% of GDP in 2020 to 3.2% of GDP in 2021, and then to 1.9% of GDP in 2022. Government investment is estimated to decrease from 4.5% of GDP in 2020 to 4.2% in 2021, being larger than the government deficit in 2020 and 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 5.6% and 5.1% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures.

Medium-term debt position: The general government debt stood at 22.3% at end-2018 and at 20.2% at end-2019, before rising to 25% of GDP at end-2020. It is then projected to decrease from 24.5% of GDP at end-2021 to 24% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Bulgaria on 29 April 2021.

4.2.3 CZECHIA

Medium-term macroeconomic position: After a 5.6% contraction in 2020, the economy is set to grow by 3.4% in 2021 and by 4.4% in 2022. Growth in 2021 is mainly driven by investment and net exports. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 6.2% of GDP in 2020 to 8.5% of GDP in 2021, and then fall to 5.4% of GDP in 2022. Government investment is estimated to increase from 4.9% of GDP in 2020 to 5.2% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 6.4% and 8.7% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 2% of GDP.

Medium-term debt position: The general government debt stood at 32.1% at end-2018 and at 30.3% at end-2019, before rising to 38.1% of GDP at end-2020. It is then projected to increase from 44.3% of GDP at end-2021 to 47.1% of GDP at end-2022. Overall, the debt sustainability analysis indicates medium risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience

Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: On 30 April 2021, Czechia provided additional relevant factors. The authorities consider the state of Czech public finances ahead of the pandemic, including fiscal buffers and low public debt, as relevant mitigating factors. In accordance with the amendments of the Act on Budgetary Responsibility Rules, consolidation of public finances will start in 2022, with a minimum fiscal effort of 0.5 percentage points per year.

4.2.4 DENMARK

Medium-term macroeconomic position: After a 2.7% contraction in 2020, the economy is set to grow by 2.9% in 2021 and by 3.5% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 1.1% of GDP in 2020 to 2.1% of GDP in 2021, and then fall to 1.4% of GDP in 2022. Government investment is estimated to increase from 3.6% of GDP in 2020 to 3.7% in 2021, being larger than the government deficit in 2020 and 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 5.2% and 5.8% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures.

Medium-term debt position: The general government debt stood at 34% at end-2018 and at 33.3% at end-2019, before rising to 42.2% of GDP at end-2020. It is then projected to decrease from 40.2% of GDP at end-2021 to 38.8% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Denmark on 12 May 2021.

4.2.5 GERMANY

Medium-term macroeconomic position: After a 4.9% contraction in 2020, the economy is set to grow by 3.4% in 2021 and by 4.1% in 2022. Growth in 2021 is mainly driven by net exports and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 4.2% of GDP in 2020 to 7.5% of GDP in 2021, and then fall to 2.5% of GDP in 2022. Government investment is estimated to increase from 2.7% of GDP in

2020 to 2.8% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 5.9% and 9.2% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

Germany is experiencing imbalances in the sense of the Macroeconomic Imbalance Procedure. The current account surplus persists at high levels reflecting a subdued level of investment relative to savings and has cross-border relevance. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

Medium-term debt position: The general government debt stood at 61.8% at end-2018 and at 59.7% at end-2019, before rising to 69.8% of GDP at end-2020. It is then projected to decrease from 73.1% of GDP at end-2021 to 72.2% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: On 3 May 2021, Germany provided additional relevant factors, namely that the planned budget assumes a complete execution of all the support measures.

4.2.6 ESTONIA

Medium-term macroeconomic position: After a 2.9% contraction in 2020, the economy is set to grow by 2.8% in 2021 and by 5% in 2022. Growth in 2021 is mainly driven by private consumption and net exports. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 4.9% of GDP in 2020 to 5.6% of GDP in 2021, and then fall to 3.3% of GDP in 2022. Government investment is estimated to increase from 5.7% of GDP in 2020 to 6.3% in 2021, being larger than the government deficit in 2020 and 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 5% and 5.6% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

Medium-term debt position: The general government debt stood at 8.2% at end-2018 and at 8.4% at end-2019, before rising to 18.2% of GDP at end-2020. It is then projected to increase from 21.3% of GDP at end-2021 to 24% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Estonia on 29 April 2021.

4.2.7 IRELAND

Medium-term macroeconomic position: This is the only Member State in the EU in which the economy did not contract in 2020, with GDP just decelerating to a 3.4% growth rate. The economy is set to grow further by 4.6% in 2021 and by 5% in 2022. Growth in 2021 is mainly driven by investment and private consumption. However, annual 'modified domestic demand'[19], a measure that better reflects the underlying domestic economy, indicates a contraction by 5.4% in 2020. According to this measure, the economy is set to grow by 4.3% in 2021 and by 7% in 2022, and economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to remain stable at 5% of GDP in 2021, and then fall to 2.9% of GDP in 2022. Government investment is estimated to increase from 2.7% of GDP in 2020 to 2.9% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 5.7% of GDP in both years, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

Ireland is experiencing imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to large private and government debts and net external liabilities remain. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

Medium-term debt position: The general government debt stood at 63% at end-2018 and at 57.4% at end-2019, before rising to 59.5% of GDP at end-2020. It is then projected to decrease from 61.4% of GDP at end-2021 to 59.7% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Ireland on 30 April 2021.

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[19] Modified domestic demand is a measure of domestic activity that excludes globalisation effects such as trade in intellectual property and trade in aircraft by leasing companies and is an important indicator of underlying demand.

4.2.8 GREECE

Medium-term macroeconomic position: After an 8.2% contraction in 2020, the economy is set to grow by 4.1% in 2021 and by 6% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 9.7% of GDP in 2020 to 10% of GDP in 2021, and then fall to 3.2% of GDP in 2022. Government investment is estimated to increase from 3% of GDP in 2020 to 4.9% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 11.3% and 11.7% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021, and announced for 2022, are temporary or matched by offsetting measures.

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

Medium-term debt position: The general government debt stood at 186.2% at end-2018 and at 180.5% at end-2019, before rising to 205.6% of GDP at end-2020. It is then projected to decrease from 208.8% of GDP at end-2021 to 201.5% of GDP at end-2022. Greece is under enhanced surveillance.[20] The debt sustainability analysis confirms the high risks in the medium term. According to the baseline 10-year projection, the general government debt ratio would decline over the period, although remaining at a high level. In particular, the debt trajectory is sensitive to macroeconomic shocks over the medium term. When taking into account a large range of possible temporary shocks to macroeconomic variables (through stochastic projections), it is probable that the debt ratio could be higher in 2025 than in 2020. In addition, the debt sustainability analysis presented in the 10th enhanced surveillance report shows increased sustainability risks under alternative scenarios.[21] Concerning other factors relevant for an overall assessment of debt sustainability, the composition and maturity profile of government debt mitigates debt vulnerabilities, while additional risks could emerge from contingent liabilities. A large share of debt is financed at low rates with long maturities, which, along with the high cash reserves of the Greek general government, effectively cushion the impact of short-term fluctuations in financing costs. The debt sustainability analysis presented in the 10th enhanced surveillance report does not take into account the long-term growth impact of the reforms and investments presented in the Recovery and Resilience Plan, which may further mitigate sustainability risks. By contrast, there are risks stemming from the uncertainty related to contingent liabilities vis-à-vis the private sector,

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[20] Commission Implementing Decision (EU) 2021/271 of 17 February 2021 on the prolongation of enhanced surveillance for Greece (OJ L61, 22.02.2021, p. 3).

[21] Communication from the Commission – Enhanced Surveillance update – Greece, Brussels, 2.6.2021, COM(2021) 528 final.

including the state guarantees granted to firms and self-employed during the pandemic or in the context of the Hercules scheme.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Greece on 29 April 2021.

4.2.9 SPAIN

Medium-term macroeconomic position: After a 10.8% contraction in 2020, the economy is set to grow by 5.9% in 2021 and by 6.8% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 11% of GDP in 2020 to 7.6% of GDP in 2021, and then to 5.2% of GDP in 2022. Government investment is estimated to remain stable at 2.5% of GDP in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 8.1% and 4.8% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

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

Medium-term debt position: The general government debt stood at 97.4% at end-2018 and at 95.5% at end-2019, before rising to 120% of GDP at end-2020. It is then projected to decrease from 119.6% of GDP at end-2021 to 116.9% of GDP at end-2022. The debt sustainability analysis confirms the high risks in the medium term. According to the baseline 10-year projection, the general government debt ratio would stabilise, and slightly decline over the second half of the period, although remaining at a high level. The debt trajectory is sensitive to macroeconomic shocks. When taking into account a large range of possible temporary shocks to macroeconomic variables (through stochastic projections), it is probable that the debt ratio could be higher in 2025 than in 2020. Concerning other factors relevant for an overall assessment of debt sustainability, the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investors' base), and historically low borrowing costs supported by the Eurosystem's interventions, contribute to mitigate the risks. In addition, the implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability. Moreover, gross financing needs are projected to decline. Risk-increasing factors are related to contingent liability risks stemming from the private sector, including via the possible materialisation of state guarantees granted to firms and self-employed during the COVID-19 crisis.

Other factors put forward by the Member State: On 30 April 2021, Spain provided additional relevant factors, namely i) that as of the statistical year 2020, SAREB, the asset management company, is classified in general government adding around 1 percentage point to the deficit ratio and 3 percentage points to the debt ratio in 2020; and ii) that Spain has also implemented revenue measures, in particular, new taxes on financial transactions, certain digital services and single-use plastics, which are expected to strengthen public finances in the medium term.

4.2.10 FRANCE

Medium-term macroeconomic position: After an 8.1% contraction in 2020, the economy is set to grow by 5.7% in 2021 and by 4.2% in 2022. Growth in 2021 is mainly driven by investment and private consumption. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 9.2% of GDP in 2020 to 8.5% of GDP in 2021, and then to 4.7% of GDP in 2022. Government investment is estimated to increase from 3.8% of GDP in 2020 to 3.9% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 6.2% and 5.7% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021, and announced for 2022, do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

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

Medium-term debt position: The general government debt stood at 98% at end-2018 and at 97.6% at end-2019, before rising to 115.7% of GDP at end-2020. It is then projected to decrease from 117.4% of GDP at end-2021 to 116.4% of GDP at end-2022. The debt sustainability analysis confirms the high risks in the medium term. According to the baseline 10-year projection, the general government debt ratio would stabilise, and slightly decline over the second half of the period, although remaining at a high level. The debt trajectory is sensitive to macroeconomic shocks. When taking into account a large range of possible temporary shocks to macroeconomic variables (through stochastic projections), it is probable that the debt ratio could be higher in 2025 than in 2020. Concerning other factors relevant for an overall assessment of debt sustainability, the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investors' base), and historically low borrowing costs supported by the Eurosystem's interventions, contribute to mitigate the risks. In addition, the implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability. Moreover, gross financing needs are projected to decline. Risk-increasing factors are related to contingent liability risks stemming from the private sector, including via the possible materialisation of state guarantees granted to firms and self-employed during the COVID-19 crisis.

Other factors put forward by the Member State: On 30 April 2021, France provided additional relevant factors, namely the containment in the increase of general government expenditure in recent years, which is estimated at an average increase in real terms of 0.7% between 2017 and 2019.

4.2.11 CROATIA

Medium-term macroeconomic position: After an 8% contraction in 2020, the economy is set to grow by 5% in 2021 and by 6.1% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 7.4% of GDP in 2020 to 4.6% of GDP in 2021, and then to 3.2% of GDP in 2022. Government investment is estimated to increase from 5.6% of GDP in 2020 to 6.3% in 2021, with the latter being larger than the government deficit in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 8.1% and 5.3% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

Croatia is experiencing imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to government, private and external debts, in a context of low potential growth. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

Medium-term debt position: The general government debt stood at 74.3% at end-2018 and at 72.8% at end-2019, before rising to 88.7% of GDP at end-2020. It is then projected to decrease from 85.6% of GDP at end-2021 to 82.9% of GDP at end-2022. Overall, the debt sustainability analysis indicates medium risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Croatia on 30 April 2021.

4.2.12 ITALY

Medium-term macroeconomic position: After an 8.9% contraction in 2020, the economy is set to grow by 4.2% in 2021 and by 4.4% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is not forecast to return to its annual pre-crisis level in 2022, with the level of GDP in 2022 still projected to be 0.9% lower than in 2019.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 9.5% of GDP in 2020 to 11.7% of GDP in 2021, and then fall to 5.8% of GDP in 2022. Government investment is estimated to increase from 2.7% of GDP in

2020 to 2.9% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 8% and 10.2% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

Italy is experiencing excessive imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to high government debt and protracted weak productivity dynamics, which have cross-border relevance in a context of labour market and banking sector fragilities. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

Medium-term debt position: The general government debt stood at 134.4% at end-2018 and at 134.6% at end-2019, before rising to 155.8% of GDP at end-2020. It is then projected to decrease from 159.8% of GDP at end-2021 to 156.6% of GDP at end-2022. The debt sustainability analysis confirms the high risks in the medium term. According to the baseline 10-year projection, the general government debt ratio would stabilise over the next five years, and decline over the second half of the period, although remaining at a high level. The debt trajectory is sensitive to macroeconomic shocks. When taking into account a large range of possible temporary shocks to macroeconomic variables (through stochastic projections), it is probable that the debt ratio could be higher in 2025 than in 2020. Concerning other factors relevant for an overall assessment of debt sustainability, the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investors' base), and historically low borrowing costs supported by the Eurosystem's interventions, contribute to mitigate the risks. In addition, the implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability. Moreover, gross financing needs are projected to decline. Risk-increasing factors are related to contingent liability risks stemming from the private sector, including via the possible materialisation of state guarantees granted to firms during the COVID-19 crisis.

Other factors put forward by the Member State: On 30 April 2021, Italy provided additional relevant factors, namely that the substantial assets held by the general government and their role for its overall creditworthiness, the comparatively low stock of contingent liabilities even after the increase caused by the COVID-19 crisis, and that the stock of debt held by the market can be expected to be substantially lower than the overall level of debt in the coming years.

4.2.13 CYPRUS

Medium-term macroeconomic position: After a 5.1% contraction in 2020, the economy is set to grow by 3.1% in 2021 and by 3.8% in 2022. Growth in 2021 is mainly driven by private consumption and net exports. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 5.7% of GDP in 2020 to 5.1% of GDP in 2021, and then to 2% of GDP in 2022. Government investment is estimated to increase from 2.9% of GDP in 2020 to 3.5% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 7.6% and 6.8% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

Cyprus is experiencing excessive imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to high stocks of external, government, and private debt, and still high non-performing loans, alongside a substantial current account deficit. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

Medium-term debt position: The general government debt stood at 99.2% at end-2018 and at 94% at end-2019, before rising to 118.2% of GDP at end-2020. It is then projected to decrease from 112.2% of GDP at end-2021 to 106.6% of GDP at end-2022. Overall, the debt sustainability analysis indicates medium risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Cyprus on 29 April 2021.

4.2.14 LATVIA

Medium-term macroeconomic position: After a 3.6% contraction in 2020, the economy is set to grow by 3.5% in 2021 and by 6% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 4.5% of GDP in 2020 to 7.3% of GDP in 2021, and then fall to 2% of GDP in 2022. Government investment is estimated to increase from 5.7% of GDP in 2020 to 6.2% in 2021, with the first being larger than the government deficit in 2020. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 4% and 6.8% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

Medium-term debt position: The general government debt stood at 37.1% at end-2018 and at 37% at end-2019, before rising to 43.5% of GDP at end-2020. It is then projected to decrease from 47.3% of GDP at end-2021 to 46.4% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Latvia on 30 April 2021.

4.2.15 LITHUANIA

Medium-term macroeconomic position: After a 0.9% contraction in 2020, the economy is set to grow by 2.9% in 2021 and by 3.9% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 7.4% of GDP in 2020 to 8.2% of GDP in 2021, and then fall to 6% of GDP in 2022. Government investment is estimated to decrease from 4.1% of GDP in 2020 to 3.9% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 8% and 9% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

Medium-term debt position: The general government debt stood at 33.7% at end-2018 and at 35.9% at end-2019, before rising to 47.3% of GDP at end-2020. It is then projected to increase from 51.9% of GDP at end-2021 to 54.1% of GDP at end-2022. Overall, the debt sustainability analysis indicates medium risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Lithuania on 30 April 2021.

4.2.16 LUXEMBOURG

Medium-term macroeconomic position: After a 1.3% contraction in 2020, the economy is set to grow by 4.5% in 2021 and by 3.3% in 2022. Growth in 2021 is mainly driven by private consumption and net exports. Economic activity is forecast to return to its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 4.1% of GDP in 2020 to 0.3% of GDP in 2021, and then to 0.1% of

GDP in 2022. Government investment is estimated to decrease from 5% of GDP in 2020 to 4.3% in 2021, being larger than the government deficit in 2020 and 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 6.5% and 2.7% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

Medium-term debt position: The general government debt stood at 21% at end-2018 and at 22% at end-2019, before rising to 24.9% of GDP at end-2020. It is then projected to decrease from 27% of GDP at end-2021 to 26.8% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Luxembourg on 30 April 2021.

4.2.17 HUNGARY

Medium-term macroeconomic position: After a 5% contraction in 2020, the economy is set to grow by 5% in 2021 and by 5.5% in 2022. Growth in 2021 is mainly driven by investment and private consumption. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 8.1% of GDP in 2020 to 6.8% of GDP in 2021, and then to 4.5% of GDP in 2022. Government investment is estimated to remain stable at 6.4% of GDP in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 5.9% and 4.5% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 2% of GDP.

Medium-term debt position: The general government debt stood at 69.1% at end-2018 and at 65.5% at end-2019, before rising to 80.4% of GDP at end-2020. It is then projected to decrease from 78.6% of GDP at end-2021 to 77.1% of GDP at end-2022. Overall, the debt sustainability analysis indicates medium risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Hungary on 30 April 2021.

4.2.18 MALTA

Medium-term macroeconomic position: After a 7% contraction in 2020, the economy is set to grow by 4.6% in 2021 and by 6.1% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 10.1% of GDP in 2020 to 11.8% of GDP in 2021, and then fall to 5.5% of GDP in 2022. Government investment is estimated to increase from 4.5% of GDP in 2020 to 5.6% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 10.6% and 12.1% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

Medium-term debt position: The general government debt stood at 44.8% at end-2018 and at 42% at end-2019, before rising to 54.3% of GDP at end-2020. It is then projected to increase from 64.7% of GDP at end-2021 to 65.5% of GDP at end-2022. Overall, the debt sustainability analysis indicates medium risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Malta on 10 May 2021.

4.2.19 THE NETHERLANDS

Medium-term macroeconomic position: After a 3.7% contraction in 2020, the economy is set to grow by 2.3% in 2021 and by 3.6% in 2022. Growth in 2021 is mainly driven by public consumption and net exports. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 4.3% of GDP in 2020 to 5% of GDP in 2021, and then fall to 1.8% of GDP in 2022. Government investment is estimated to increase from 3.4% of GDP in 2020 to 3.9% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 6.1% and 6.9% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

The Netherlands is experiencing imbalances in the sense of the Macroeconomic Imbalance Procedure. Private debt and the current account surplus remain high, and have cross-border relevance. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

Medium-term debt position: The general government debt stood at 52.4% at end-2018 and at 48.7% at end-2019, before rising to 54.5% of GDP at end-2020. It is then projected to decrease from 58% of GDP at end-2021 to 56.8% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by the Netherlands on 4 May 2021.

4.2.20 AUSTRIA

Medium-term macroeconomic position: After a 6.6% contraction in 2020, the economy is set to grow by 3.4% in 2021 and by 4.3% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 8.9% of GDP in 2020 to 7.6% of GDP in 2021, and then to 3% of GDP in 2022. Government investment is estimated to increase from 3.4% of GDP in 2020 to 3.6% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 9.6% and 8.4% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission’s forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

Medium-term debt position: The general government debt stood at 74% at end-2018 and at 70.5% at end-2019, before rising to 83.9% of GDP at end-2020. It is then projected to decrease from 87.2% of GDP at end-2021 to 85% of GDP at end-2022. Overall, the debt sustainability analysis indicates medium risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Austria on 28 April 2021.

4.2.21 POLAND

Medium-term macroeconomic position: After a 2.7% contraction in 2020, the economy is set to grow by 4% in 2021 and by 5.4% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 7% of GDP in 2020 to 4.3% of GDP in 2021, and then to 2.3% of GDP in 2022. Government investment is estimated to increase from 4.4% of GDP in 2020 to 4.7% in 2021, with the latter being larger than the government deficit in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 6.4% and 3.7% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures.

Medium-term debt position: The general government debt stood at 48.8% at end-2018 and at 45.6% at end-2019, before rising to 57.5% of GDP at end-2020. It is then projected to decrease from 57.1% of GDP at end-2021 to 55.1% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: On 30 April 2021, Poland provided additional relevant factors, namely that the increase in the debt-to-GDP ratio was driven not only by the deficit but also by an issuance of bonds by the Polish Development Fund in the framework of the policy response.

4.2.22 PORTUGAL

Medium-term macroeconomic position: After a 7.6% contraction in 2020, the economy is set to grow by 3.9% in 2021 and by 5.1% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 5.7% of GDP in 2020 to 4.7% of GDP in 2021, and then to 3.4% of GDP in 2022. Government investment is estimated to increase from 2.2% of GDP in 2020 to 2.5% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 6% and 5.1% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission’s forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

Portugal is experiencing imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to large stocks of net external liabilities, private and government debt, and non-performing loans remain high, against a backdrop of low productivity growth. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

Medium-term debt position: The general government debt stood at 121.5% at end-2018 and at 116.8% at end-2019, before rising to 133.6% of GDP at end-2020. It is then projected to decrease from 127.2% of GDP at end-2021 to 122.3% of GDP at end-2022. The debt sustainability analysis confirms the high risks in the medium term. According to the baseline 10-year projection, the general government debt ratio would decline over the projection period, although remaining at a high level. The debt trajectory is sensitive to macroeconomic shocks. When taking into account a large range of possible temporary shocks to macroeconomic variables (through stochastic projections), it is probable that the debt ratio could be higher in 2025 than in 2020. Concerning other factors relevant for an overall assessment of debt sustainability, the lengthening of debt maturity in recent years, relatively stable financing sources (with a diversified and large investors' base), the gradual smoothening of the public debt redemption profile and historically low borrowing costs supported by the Eurosystem's interventions, contribute to mitigate the risks. In addition, the implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability. Moreover, the treasury reported an accumulation of currency and deposits by 4.7% of GDP in 2020, while gross financing needs are projected to decline. Risk-increasing factors are related to contingent liability risks stemming from some public corporations and the private sector, including via the possible materialisation of state guarantees granted to firms during the COVID-19 crisis.

Other factors put forward by the Member State: On 30 April 2021, Portugal provided additional relevant factors. In their letter, the Portuguese authorities stressed the positive evolution of Portugal's budgetary position in the years running up to the outbreak of the COVID-19 pandemic, with the general government balance having achieved a surplus in 2019 and the general government debt-to-GDP ratio having remained on a steady downward path over the period 2016-2019. Among other considerations, the Portuguese authorities also referred to the asymmetric nature of the impacts stemming from the crisis in view of country-specific features. For Portugal, this particularly relates to its large hospitality sector, which was strongly affected by disruptions in foreign tourism.

4.2.23 SLOVENIA

Medium-term macroeconomic position: After a 5.5% contraction in 2020, the economy is set to grow by 4.9% in 2021 and by 5.1% in 2022. Growth in 2021 is mainly driven by private consumption and investment. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 8.4% of GDP in 2020 to 8.5% of GDP in 2021, and then fall to 4.7% of GDP in 2022. Government investment is estimated to increase from 4.2% of GDP in 2020 to 5.8% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 9% and 9.1% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are mostly temporary or matched by offsetting measures.

Medium-term debt position: The general government debt stood at 70.3% at end-2018 and at 65.6% at end-2019, before rising to 80.8% of GDP at end-2020. It is then projected to decrease from 79% of GDP at end-2021 to 76.7% of GDP at end-2022. Overall, the debt sustainability analysis indicates medium risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Slovenia on 30 April 2021.

4.2.24 SLOVAKIA

Medium-term macroeconomic position: After a 4.8% contraction in 2020, the economy is set to grow by 4.8% in 2021 and by 5.2% in 2022. Growth in 2021 is mainly driven by investment and net exports. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 6.2% of GDP in 2020 to 6.5% of GDP in 2021, and then fall to 4.1% of GDP in 2022. Government investment is estimated to increase from 3.5% of GDP in 2020 to 3.8% in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 4.8% and 5.2% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021 do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission’s forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

Medium-term debt position: The general government debt stood at 49.6% at end-2018 and at 48.2% at end-2019, before rising to 60.6% of GDP at end-2020. It is then projected to decrease from 59.5% of GDP at end-2021 to 59% of GDP at end-2022. Overall, the debt sustainability analysis indicates medium risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: The analysis presented in the previous sections already covers the key factors put forward by Slovakia on 28 April 2021.

4.2.25 FINLAND

Medium-term macroeconomic position: After a 2.8% contraction in 2020, the economy is set to grow by 2.7% in 2021 and by 2.8% in 2022. Growth in 2021 is mainly driven by domestic demand, notably public and private consumption. Economic activity is forecast to return to its annual 2019 level in 2022.

Medium-term budgetary position, including investment: The general government deficit is expected to fall from 5.4% of GDP in 2020 to 4.6% of GDP in 2021, and then to 2.1% of GDP in 2022. Government investment is estimated to remain stable at 4.6% of GDP in 2021, being almost equal to the government deficit in 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 4.6% and 4% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 are temporary or matched by offsetting measures.

Medium-term debt position: The general government debt stood at 59.7% at end-2018 and at 59.5% at end-2019, before rising to 69.2% of GDP at end-2020. It is then projected to decrease from 71% of GDP at end-2021 to 70.1% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: On 30 April 2021, Finland provided additional relevant factors, namely its commitment to decide on necessary structural measures to manage long-term debt sustainability challenges, outlined *inter alia* in the recently adopted sustainability roadmap until 2030. The government also recalled that it can use its strong net asset position to promote growth and thereby the long-term sustainability of the economy.

4.2.26 SWEDEN

Medium-term macroeconomic position: After a 2.8% contraction in 2020, the economy is set to grow by 4.4% in 2021 and by 3.3% in 2022. Growth in 2021 is mainly driven by domestic demand, notably public and private consumption. Economic activity is forecast to return to its annual 2019 level in 2021.

Medium-term budgetary position, including investment: The general government deficit is expected to increase from 3.1% of GDP in 2020 to 3.3% of GDP in 2021, and then fall to 0.5% of GDP in 2022. Government investment is estimated to decrease from 5.1% of GDP in 2020 to 5.0% in 2021, being larger than the government deficit in 2020 and 2021. Nationally financed fiscal support in 2020 and 2021 – as measured by the change in the primary balance compared with the pre-crisis level (2019) – is estimated at 3.8% and 4% of GDP respectively, including discretionary budgetary measures and the operation of the automatic stabilisers. The measures taken in 2020 and 2021 have been in line with the Council Recommendation of 20 July 2020. Some of the discretionary measures adopted by the government in 2020 and 2021, and announced for 2022, do not appear to be temporary or matched by offsetting measures. Beyond the horizon of the Commission's forecast, in 2023, the remaining impact of those non-temporary measures is preliminarily estimated at around 1% of GDP.

Sweden is experiencing imbalances in the sense of the Macroeconomic Imbalance Procedure. Vulnerabilities relate to high and rising household debt and overvaluation risks in the housing market remain. Looking forward, the Recovery and Resilience Plan provides an opportunity to address imbalances, investment and reforms needs.

Medium-term debt position: The general government debt stood at 38.9% at end-2018 and at 35% at end-2019, before rising to 39.9% of GDP at end-2020. It is then projected to decrease from 40.8% of GDP at end-2021 to 39.4% of GDP at end-2022. Overall, the debt sustainability analysis indicates low risks over the medium term. The implementation of reforms and investments under the Next Generation EU, notably the Recovery and Resilience Facility, is expected to have a substantial positive and long-lasting impact on GDP growth in the coming years, which, *ceteris paribus*, should contribute to strengthening debt sustainability.

Other factors put forward by the Member State: On 29 April 2021, Sweden informed the Commission that it will not provide additional relevant factors.

5. CONCLUSIONS

The severe economic downturn resulting from the COVID-19 pandemic led to a steep rise in general government deficits and debt in all Member States in 2020. In this context, the general escape clause of the Stability and Growth Pact was activated and Member States have been encouraged to pursue a supportive fiscal stance to fight the pandemic, while safeguarding fiscal sustainability in the medium term.

In 23 out of the 26 Member States, the government deficit in 2020 was *above* and *not close* to the 3% of GDP Treaty reference value – *i.e.* in **Belgium, Czechia, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Slovenia, Slovakia** and **Finland.**

At the same time, in **Bulgaria** and **Sweden** the general government deficit was *above* but *close* to 3% of GDP.

According to its 2021 Convergence Programme, **Denmark** plans a general government deficit of 3.3% of GDP in 2021, which is *above* but *close* to 3% of GDP.

The excess over the Treaty reference value for the 26 EU Member States is considered to be *exceptional* as defined by the Treaty. However, with the exception of **Bulgaria, Denmark, Germany, Ireland, Cyprus, Latvia, Luxembourg, the Netherlands, Austria, Poland, Finland** and **Sweden**, the excess over the Treaty reference value is not expected to be *temporary*.

Overall, taking into account all relevant factors as appropriate[22], the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is fulfilled by

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

Bulgaria, Denmark and **Sweden.** The deficit criterion is not fulfilled by 23 Member States: **Belgium, Czechia, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Slovenia, Slovakia** and **Finland**.[23]

General government gross debt exceeded the 60% of GDP reference value at end-2020 in **Belgium, Germany, Greece, Spain, France, Croatia, Italy, Cyprus, Hungary, Austria, Portugal, Slovenia, Slovakia** and **Finland**. Data show that in 2020 the debt reduction benchmark was not complied with in **Belgium, Greece, Croatia, Italy, Cyprus, Hungary, Austria, Portugal** and **Slovenia**. The debt reduction benchmark cannot be meaningfully computed in the case of **Germany, Slovakia** and **Finland**. However, since for **Slovakia** the debt-to-GDP ratio is projected to fall below the Treaty threshold reference value in 2021, it is considered to comply with the debt criterion. Moreover, **Spain** and **France**, which are subject to the transitional debt rule, did not make sufficient progress towards meeting the debt reduction benchmark in 2020.

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

[23] Romania is under an excessive deficit procedure and therefore has not been discussed in this report.