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# COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN CENTRAL BANK

## Assessment of Member States' fiscal policies and prospects for the euro area and the EU as a whole for 2026 and 2027

{SWD(2026) 1050 final}

## INTRODUCTION

**Today's Autumn Package of fiscal surveillance documents is presented against the backdrop of an increasingly complex geopolitical and economic environment, mounting fiscal headwinds, and low, yet resilient, economic growth.** Trade restrictions and global imbalances, Russia's continued war of aggression against Ukraine, and the recent conflicts in the Middle East are keeping geopolitical and economic uncertainty elevated. Inflation is rising again, notably due to higher energy prices. The legacy of recent crises has significantly curtailed fiscal space in the EU, while demands on public finances continue to rise. Financial conditions have tightened, following a marked increase in long-term interest rates since July 2026, with spreads raising for some Member States. Rising sovereign yields are adding to debt-servicing costs, in particular in some Member States with high public debt, although in a gradual manner, reflecting the relatively long average maturity of government debts. At the same time, economic activity in 2026 exceeded expectations in the first half of the year. A continued momentum in the third quarter suggests a smaller-than-anticipated negative impact of the conflicts in the Middle East and of the global rise in energy prices on the European economy so far. Real GDP is forecast to grow by 1.4% in 2026 in the EU (and 1.2% in the euro area), above the projections set out in the Commission Spring 2026 forecast. In 2027, real GDP growth is forecast at 1.4% in the EU (and 1.2% in the euro area).[1]

**This Communication takes stock of fiscal developments in 2026 and the outlook for 2027 and assesses Member States' compliance with the EU fiscal rules.** Section I provides an overview of the fiscal situation and outlook in the euro area and the EU as a whole, drawing on the 2027 Draft Budgetary Plans (DBPs) that have been submitted by the euro area Member States, and on the Commission Autumn 2026 Forecast. It also examines the overall fiscal stance for the euro area and calls for prudence in the conduct of fiscal policy in the current context. Section I is supported by Annexes I and II. Section II presents the Commission's assessment of Member States' compliance with the ceilings for net expenditure as recommended by the Council. For Member States in the excessive deficit procedure (EDP), this includes the assessment of effective action. For euro area Member States that have submitted their DBP, the Commission has adopted opinions on each of those DBPs. For the two countries covered in the Commission's report under Article 126(3) TFEU, which analyses compliance with the deficit and debt criteria, this section also summarises the main findings of the report. Annexes I and III provide the underlying data.

**In spring 2026, the scope of the flexibility provided by the National Escape Clause (NEC) for defence has been broadened to include expenditure that aims at strengthening energy security.** In response to the conflicts in the Middle East and renewed pressure on energy prices, the Commission announced on 3 June 2026 that Member States would have the opportunity to request a broadening in the scope of the NEC for defence expenditure to include measures that strengthen the structural resilience of the European energy system and accelerate the transition away from fossil fuels (hereafter, 'energy security measures').[2] On 18 August 2026, the Commission published a notice with further guidance to Member States on the scope and

[1] The Commission published the Autumn 2026 Forecast on 17 November 2026 and the European Macroeconomic Report (SWD(2026) 958) on 24 November 2026.

[2] Communication from the Commission on the 2026 European Semester – Spring Package (COM(2026)200 final)

design of the additional flexibility for energy security measures. [3] So far, Greece and Portugal requested the broadening of the scope of NEC, while Italy requested the activation of NEC for the first time, covering both defence spending and energy security measures.[4]

## I. FISCAL DEVELOPMENTS IN THE EURO AREA AND THE EU, INCLUDING THE EURO AREA FISCAL STANCE

### *(i) Overview of the fiscal outlook in the euro area and the EU*

**The aggregate general government deficit is expected to increase markedly in 2026 and broadly stabilise in 2027 in the euro area and the EU.** According to the Commission Autumn 2026 Forecast, the aggregate deficit is projected to increase from 3.0% of GDP in 2025 to 3.5% in 2026 and 3.6% in 2027 in the euro area (Annex I). In the EU as a whole, the deficit is projected to increase from 3.1% of GDP in 2025 to 3.6% in 2026 and 3.7% 2027.

**The debt-to-GDP ratio is forecast to continue growing in both the euro area and the EU.** In the euro area, after declining for several years, the government debt ratio resumed increasing, to 88.6% of GDP at end-2025, and is expected to steadily increase to 89.6% of GDP in 2026 and 90.5% of GDP in 2027 (Annex I). The same trend is expected at the EU level: after increasing from 82.6% of GDP in 2025 to 83.9% of GDP in 2026, the debt is expected to continue rising in 2027, when it is forecast to reach 84.7% of GDP.[5] More than half of Member States are expected to record debt ratios in excess of 60% of GDP, as two additional Member States are estimated to surpass this threshold in 2026. In 2026 and 2027, four Member States are expected to have debt ratios in excess of 100%.

**This increase in the debt ratios is driven mainly by primary deficits.** In addition, the stock-flow adjustment, i.e. the financial transactions and timing mismatches that explain differences between deficit and debt developments, has been debt-increasing.[6] On the other hand, the interest-growth rate differential ("snowball effect") remains debt-decreasing on aggregate – this means that the average implicit interest rate on government debt has been below the nominal GDP growth rate – but by much less so than in previous years, as interest rates

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3 Commission Notice – Guidance to Member States on Broadening the Scope of the National Escape Clause for Energy Security, (OJ C, C/2026/4514, 18.8.2026, ELI: http://data.europa.eu/eli/C/2026/4514/oj).

4 For Greece and Italy, the Council has adopted the corresponding recommendations on 9 October and 9 November, respectively. The Council Recommendation allowing Portugal to deviate from the maximum growth rates of net expenditure is expected to be adopted by the Council on 11 December. For the purpose of the Commission's assessment of compliance set out in Section II, the Commission also applies the flexibility for Portugal, assuming the timely adoption by the Council.

5 In line with Eurostat's press release, euro area and EU aggregates for general government balance and debt are based exclusively on the Member States' balances and debt. For debt, whereas Eurostat publishes the consolidated figures (corrected for intergovernmental loans, including those made through the European Financial Stability Facility), the projections in the forecast years 2026 and 2027 are published on a non-consolidated basis. To ensure consistency in the time series, the historical data used in this Communication are also on a non-consolidated basis. For 2025, this implies an aggregate debt-to-GDP ratio that is somewhat higher than the consolidated general government debt ratio published by Eurostat in its news release of 21 October 2026 (by 1.3 pps. in the euro area and by 1.1 pps. in the EU).

6 Stock-flow adjustments capture debt-increasing or debt-reducing operations that do not pass through the deficit, such as changes in government cash holdings, loans granted/repaid, acquisitions or sales of financial assets, privatisation receipts, valuation effects, and statistical reclassifications. It also includes prepayments of investment funds by the EU budget, or the subsequent clearance. They can also arise from the prefinancing of contracts for military equipment to be delivered later.

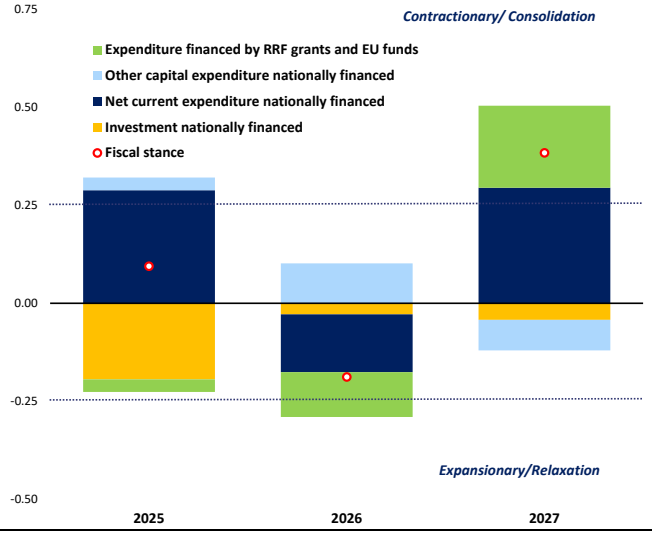
increase. If interest rates remain high, this effect will become debt-increasing and further contribute to a worsening of debt dynamics going forward.[7]

### *(ii) Assessment of the euro area fiscal stance and its composition*

**The euro area fiscal stance is projected to be broadly neutral in 2026 and mildly contractionary in 2027.**[8] In 2026, the net expenditure paths recommended by the Council would entail a mildly contractionary contribution to the euro area fiscal stance. However, this is offset by the use of flexibility allowed under the national escape clauses for defence. Moreover, the Recovery and Resilience Facility (RRF) and other EU funds continue to support the euro area economy. As a result, the overall fiscal stance in 2026 will remain within the broadly neutral range. In 2027, the fiscal stance is projected to turn mildly contractionary, as the RRF ends and fiscal adjustment projected in several Member States restrains nationally financed net current expenditure, despite the increase in defence and energy security spending.

**Public investment is projected to remain at relatively high levels in the euro area in 2027.** Public investment in the euro area is expected to rise further in 2026, including through the RRF, reaching 3.8% of GDP. In 2027, higher defence investment and increase in the use of other EU funds are expected to largely offset the effect induced by the expiry of the RRF. As a result, euro area public investment will remain stable and well above the pre-COVID level (it stood at 3.0% of GDP on average in 2011-19). This high level of public investment is supporting growth prospects and EU priorities, including stronger defence capabilities.

**Graph 1. The euro area fiscal stance and components 2025-2027 (% of GDP)**

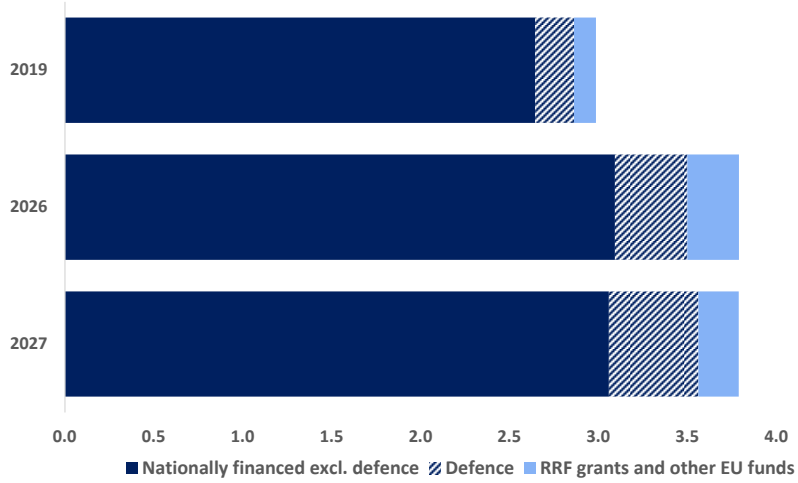



Source: Commission Autumn 2026 Forecast

7 The snowball effect in 2027 is projected to be debt increasing for Italy and France (0.4% and 0.1% of GDP respectively).

8 The fiscal stance measures the short-term impulse to the economy from discretionary fiscal policy. The fiscal stance is considered broadly neutral at a value within the -0.25% / +0.25% of GDP range, while it is considered expansionary (-) or contractionary (+) outside this range. The definition of the fiscal stance and its components is provided in Box 2 of Fiscal Statistical Tables (SWD(2026) 1050 final, Brussels 24.11.2026.

**Graph 2. Euro area public investment 2026-2027 vs 2019 (% GDP)**




Source: Commission Autumn 2026 Forecast

**The euro area fiscal stance appears appropriate from a macroeconomic perspective in both 2026 and 2027.** A broadly neutral stance in 2026, supported by higher defence expenditure, RRF grants and EU funds, continues to bolster the resilience of the euro area economic growth, in the context of strong headwinds on the economic activity from the conflict in the Middle East and the related surge in energy prices, as well as tighter financing conditions. At the same time, these positive contributions to the stance are counterbalanced by cuts in nationally-financed spending (other than defence), which avoids fuelling inflation. In 2027, a mildly contractionary fiscal stance, in particular in high-debt euro area Member States (i.e. countries with debt above 60% of GDP), is consistent with consolidation needs. This should help limit the risks of indirect and second-round effects on euro area inflation, as economic growth is projected to remain close to potential with the assumption of declining energy prices.

**The geographical breakdown of the fiscal stance largely reflects the adjustment needs of the Member States.** Most high-debt euro area countries are expected to have contractionary or broadly neutral nationally financed fiscal stances in 2026 and 2027 (see Annex II). Importantly, as shown in Section II of this communication, in the majority of high-debt countries, the fiscal effort is expected to be broadly in line with the net expenditure paths recommended by the Council when taking into account the flexibility provided by the national escape clause.[9]

***(iii) The current context calls for prudence in the conduct of fiscal policy***

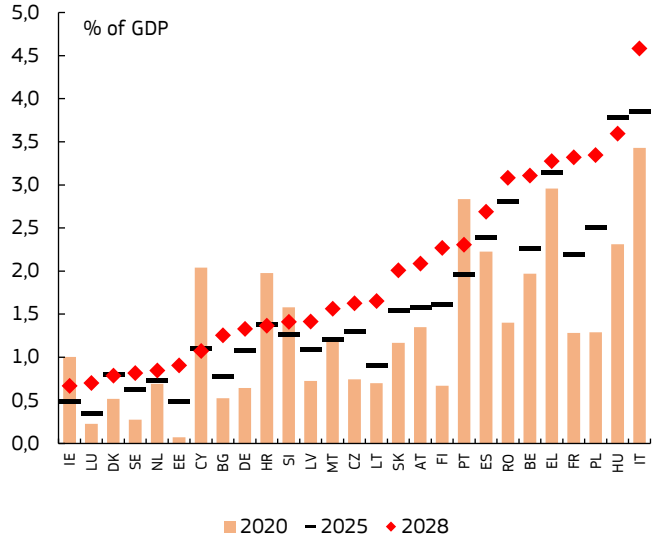
**Rising debt servicing costs and the renewed upward trend in debt call for prudent fiscal policies.** The recent rise in global yields has affected also the euro area, and some high-debt/deficit countries have, in addition, seen risk premia on their sovereign bonds increase and experienced downgrades in credit ratings. Higher interest rates, together with large gross financing needs over the next few years stemming from high deficits and maturing debt, are

9 In the euro area, 15 Member States have requested the activation of the national escape clause of the Stability and Growth Pact, which gives additional budgetary flexibility that aims at facilitating the transition towards higher defence spending by 2028. Three Member States (Greece, Italy and Portugal) have also requested to benefit from the broadening of the scope of the NEC to energy security measures.

lifting interest expenditure in the euro area as a whole and, for several of its Member States, towards the highest levels for more than a decade. Higher borrowing costs are increasingly weighing on government interest expenditure over time (Box 1). With interest rates expected to remain at elevated levels, Member States should act with fiscal prudence and follow credible fiscal paths.

**Box 1: Government interest expenditure: recent developments and sensitivity to higher borrowing costs**

**Graph A: Interest expenditure across Member States (2020-2025-2028)**




**Source: Commission 2026 Autumn Forecast**

Government interest expenditure reflects both the level of public debt and the cost of servicing it. Following a prolonged period of exceptionally low interest rates, the increase in borrowing costs since 2022 has gradually fed through to interest expenditure. More recently, long-term sovereign bond yields have risen further.[10] Country-specific developments in perceived sovereign credit risk have also contributed to differences in yield developments across euro area Member States. The pace at which these developments translate into higher interest expenditure and higher government's gross financing needs depends on the debt level, the debt maturity profile and any new deficits that may arise. As a result, interest expenditure is evolving differently across Member States, with several experiencing an increase since 2020 and further increases projected for 2028 (Graph A).

The Commission Forecast incorporates the expected evolution of interest rates in line with the external assumptions underpinning its projections[11]. Against this baseline, interest expenditure may evolve differently if the yields at the time of new issuances are lower or higher than assumed.

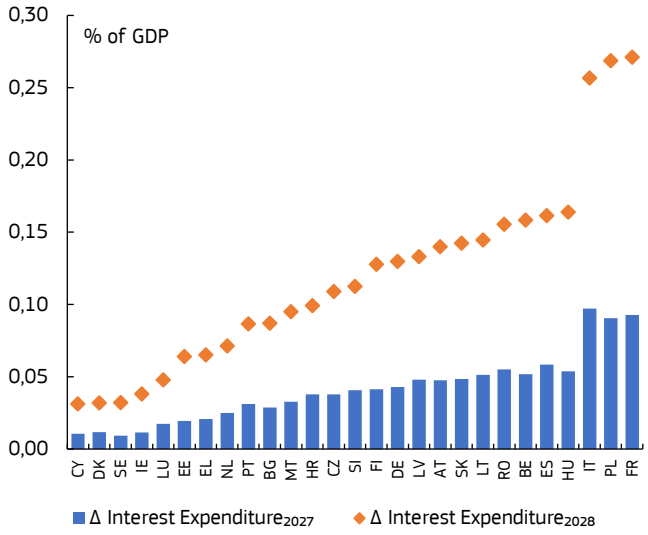
To illustrate the sensitivity of public finances to higher borrowing costs, Graph B presents - over the Commission's Autumn 2026 forecast horizon - the outcome of a stylised stress-test scenario in which market yields on medium- and long-term government debt are assumed to be 100 basis points higher than projected in the Commission forecast. The scenario takes into account the general government balance (deficit/surplus) and the stock-flow adjustment (SFA) as projected in the Commission forecast, as well as principal repayments on

[10] For a discussion on the main drivers of recent yield developments, see 'What is driving the recent surge in long-term interest rates?', Box 1.4.1 in the European Commission's Autumn 2026 Economic Forecast.

[11] For a detailed explanation of the technical and ad hoc assumptions underlying the European Commission's Forecast see "Technical elements and general assumptions behind the forecast", Box 1.4.1in the European Commission's Autumn 2026 Economic Forecast.

government debt in 2027 and 2028[12]. To simplify, it assumes no active debt management operations that would alter the composition of government debt across short-, medium- and long-term maturities. Finally, the scenario does not account for the effects of higher market interest rates on economic activity and related implications for the government deficit.

**Graph B: Scenario - Estimated additional interest expenditure following a 100 basis points increase in market interest rates, 2027 and 2028**




**Source: Commission calculations**

The results indicate that the budgetary impact in 2027 would be relatively limited, at below or around 0.1% of GDP for all Member States, because the higher rates initially apply only to newly issued debt. However, the additional interest burden becomes more pronounced over time as governments continue to issue and refinance debt at higher rates in order to meet their financing needs, while previously issued debt continues to generate interest costs. For 2028, the additional interest expenditure is thus estimated to increase across countries, approaching 0.3% of GDP for the Member States with larger gross financing needs.

The scenario highlights the importance of distinguishing between temporary increases in borrowing costs and more persistent increases when assessing fiscal developments[13]. Under the EU fiscal framework, interest expenditure is excluded from the net expenditure indicator. Therefore, increases in the interest burden do not directly affect compliance with the recommended net expenditure path and hence do not require additional fiscal adjustment in the short run to ensure compliance. However, a sustained increase in interest rates will still have a material impact on public finances by increasing both deficit and debt. All other things equal, this would increase the adjustment needs for the next vintages of the medium-term fiscal structural plans.

12 For the purposes of this exercise, the 100-basis point shock is applied to gross financing needs, defined as the sum of the general government deficit (adjusted for the stock-flow adjustment), as projected in the Commission Autumn 2026 Forecast, and the principal repayments of medium- and long-term government debt falling due in the years concerned. New debt issuance is assumed to be linearly distributed within each year.

13 The European Commission's Debt Sustainability Monitor (DSM) explicitly takes this distinction into account by considering two adverse scenarios: a permanently higher differential between market interest rates and economic growth (adverse r-g scenario), and a temporary (1-year) increase in market interest rates (financial stress scenario). The latter illustrates how even a temporary shock can have persistent effects on interest expenditure over time, while the former highlights the implications of a sustained deterioration in financing conditions and growth for debt dynamics.

**Fiscal prudence is particularly needed in Member States where high debt levels continue to increase and more generally in Member States with high sustainability risks.** In most Member States, a sustained fiscal adjustment over the medium term is still needed to correct excessive deficits and/or put debt on a downward path. As a minimum, Member States should comply with the recommended net expenditure path, after taking into account the national escape clause for defence and energy security, in line with the medium-term orientation of the reformed EU framework, in order to maintain investor confidence and keep refinancing costs under control.[14,15] This is not yet the case for all Member States for 2026 and for 2027, including some of those with larger fiscal challenges, with some of them also in excessive deficit procedure (Table 1). Moreover, Member States with high debt levels and fiscal sustainability risks are invited to overachieve the minimum requirements for compliance with the net expenditure path, by ensuring that net expenditure not covered by flexibility remains below the recommended maximum path. This would speed up the adjustment and lead to an effective debt reduction. In addition, Member States that benefit from the flexibility provided by the national escape clause should use it cautiously, reflecting their fiscal situation, and already plan a gradual transition out of it to sustain the higher level of defence spending after 2028, when this flexibility ends.

**Table 1: Compliance with the net expenditure growth ceilings and fiscal risks in the medium term: a synoptic overview**

| | **Fiscal risks in the medium term*** | | |
|---|---|---|---|
| **Compliance with NEG ceilings** | *High* | *Medium* | *Low* |
| **2026** | | | |
| *Projected compliance* | **AT**, **BE**, DE, EL, **FI**, **FR**, **IT**, **PL**, **RO**, **SK** | CZ, EE, LV | DK |
| *At risk of non-compliance* | | NL | IE |
| *At risk of material non-compliance* | ES, **HU** | **BG**, HR, CY, LT, PT, SI | LU, MT, SE |
| **2027** | | | |
| *Projected compliance* | **AT**, **BE**, EL, **FR**, **PL**, **SK**, IT | EE, LV | DK, SE, IE |
| *At risk of non-compliance* | DE, **FI, RO** | CZ | |
| *At risk of material non-compliance* | ES | HR, CY, LT, NL, PT, SI | LU, MT |

* According to the assessment in the Debt Sustainability Monitor 2025.[16] Notes: As explained in the detailed assessment of compliance presented in Section II, some Member States that are non-compliant with the recommended net expenditure path face no procedural consequences. Cyprus, Portugal (in 2026 and 2027) and Ireland (in 2026) are deemed compliant with their obligations under the Stability and Growth Pact, irrespective of their projected risk of (material) non-compliance with the net expenditure growth ceiling, on account of their surplus or 'close to balance' budgetary positions. Hungary and Bulgaria are not assessed for 2027. NEG stands for net expenditure growth. The assessment takes into account flexibility under the national escape clause as appropriate. Member States in EDP are marked in bold font.

14 Fiscal requirements under the EU fiscal framework rely on the Commission's Debt Sustainability Analysis, which remains robust to higher interest rates because it already includes two adverse scenarios for interest rate developments: one with a persistently wider gap between interest rates and GDP growth, and another with a temporary increase in interest rates (see European Commission, DG ECFIN, Debt Sustainability Monitor 2023, European Economy, Institutional Paper 271, Brussels, March 2024).

15 This is also the advice given by the International Monetary Fund in its Global Financial Stability Report, October 2026, Washington, DC

16 European Commission, DG ECFIN, Debt Sustainability Monitor 2025, European Economy, Institutional Paper 332, Brussels, February 2026.

## II. ASSESSMENT OF COMPLIANCE WITH THE EU FISCAL FRAMEWORK

**The Commission's assessments of compliance for 2026 and 2027 aims to ensure that the Union's fiscal policy guidance can be appropriately reflected in the national budgetary preparations and implementation.** The present assessment is based on the Commission Autumn 2026 Forecast and takes into account i) information provided by euro area Member States in their Draft Budgetary Plans for 2027 as submitted to the Eurogroup and the Commission[17], ii) information included in the reports on action taken by Member States in an excessive deficit procedure (EDP)[18], and iii) information included in the national budgets of all Member States. The assessment is based on the comparison of net expenditure growth as projected by the Commission Autumn 2026 Forecast with the maximum growth rates of net expenditure as recommended by the Council. Where relevant, the assessment takes into account the flexibility provided by the national escape clause for defence and energy security. For euro area Member States, the Commission provides this assessment in its Opinion on the Draft Budgetary Plans, which also considers the broader budgetary situation of a Member State, including the general government deficit, public debt, interest rate developments and whether the Member States is subject to an EDP.[19]

For Member States subject to an EDP, the assessment of compliance entails the assessment of effective action. Box 2 outlines the Commission's approach to the assessment of compliance in greater detail.

[17] Belgium, Latvia and Spain have not submitted a Draft Budgetary Plan for 2027. This is due to ongoing budgetary negotiations in the case of Belgium, recent parliamentary elections and the formation of a new government in the case of Latvia, and an election being called in Spain. Given the continuous and close technical exchanges between Commission staff and the national counterparts, delays in the submission of a DBP do not materially deprive the Commission of information for its assessments and surveillance. However, the Commission acknowledges that delays in the submission and approval of budgets may lead to inefficiencies and is detrimental to transparency, in particular if the absence of budgets adopted by national parliament extends in time. According to the Regulation agreed by the co-legislators on 26 October 2026, which amends Regulation (EU) No 473/2013, "Where the government of a Member State is not in a position to prepare a draft budget law for adoption by its national parliament, the submission of a draft budgetary plan based on unchanged policies should not be required. Instead, that requirement should be replaced by a technical exchange, whereby the Member State concerned provides the Commission with information on its macroeconomic and budgetary situation, which will be taken into account by the Commission in its forecasts."

[18] An overview of ongoing excessive deficit procedures, as well as documentation on closed procedures is available here. Council recommendations under Article 126(7) on the correction of excessive deficits require Member States to report on action taken in response to the recommendation on a six-monthly basis. For euro area countries in EDP, the Draft Budgetary Plan can serve as the report on effective action.

[19] In accordance with Article 7(2) of Regulation (EU) No 473/2013, the Commission has sent letters to Bulgaria, Finland, Croatia, Lithuania, Luxembourg, Malta and the Netherlands with preliminary observations on their Draft Budgetary Plans and asking for clarifications regarding the compliance with the relevant Council recommendation. The Commission has taken the Member States' replies into account in its assessment. The Commission letters and Member States' replies are publicly available at: https://economy-finance.ec.europa.eu/economic-governance-framework/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries_en.

**Box 2. How the Commission carries out the assessment of compliance**

**Under the EU fiscal framework, the growth of net expenditure is the single operational indicator to monitor Member States' compliance with Council recommendations.**[20] As part of their medium-term plans, Member States commit to maximum growth rates of net expenditure expressed in annual and cumulative terms.[21] Once endorsed by the Council, these maximum growth rates (or ceilings) become the benchmarks for the assessments of compliance during the lifetime of the plans. For Member States subject to an EDP, the corrective net expenditure path established by the Council is the benchmark for compliance and may not coincide with a previously submitted medium-term plan. Ten Member States are currently subject to an EDP: Austria, Belgium, Bulgaria, Finland, France, Hungary, Italy, Poland, Romania and Slovakia.

**A Member State is assessed to be compliant when net expenditure is projected to grow within the ceilings recommended by the Council.** Where expenditure growth is higher than recommended (i.e., when there is a positive deviation), the Commission considers the size of the deviation in relation to the thresholds of 0.3% of GDP in annual terms and 0.6% of GDP in cumulative terms.[22] A positive deviation remaining below these thresholds is characterised by the Commission as a risk of non-compliance, while a deviation above either threshold entails a risk of material non-compliance. In autumn, the assessment of compliance focuses on both 2026 and 2027 for Member States currently subject to an EDP, while for the other Member States the focus is on 2027. The assessment of compliance also takes into account the overall budgetary position of a Member State: this means that Member States with a budgetary position in surplus or close to balance (i.e. a deficit not exceeding 0.5% of GDP) are deemed compliant with their obligations vis-à-vis the Stability and Growth Pact, irrespective of any deviation in net expenditure compared to the Council recommendation.

**For Member States in EDP, positive deviations could lead to a stepping up of the procedure.** In case of a positive deviation, an overall assessment considers the size of the deviation as well as mitigating and aggravating relevant factors.[23] However, in case a deviation exceeds either of the above-mentioned thresholds, there is a strong presumption of non-effective action. In the absence of outturn data for 2026, a stepping-up of the procedure should be considered if the assessment of compliance pointed to a particularly serious case of non-compliance.[24] In all other cases, the EDP is kept in abeyance. For Member States not in EDP that register a debt above 60% of GDP and a deficit above 0.5% of GDP (i.e., government position not close to balance or in surplus), positive deviations in excess of either of the above-mentioned thresholds would trigger the preparation of a Report under Article

20 A step-by-step derivation of the net expenditure indicator and of the Commission's control account, which records deviations of net expenditure from the ceilings recommended by the Council taking into account the flexibility provided by the national escape clause, is provided by the Fiscal Statistical Tables, which provide background data relevant for the assessment of the budgetary policies of the Member States, SWD(2026) 1050 final, Brussels 24.11.2026.

21 In case Member States commit to a package of reforms and investments that supports debt sustainability, growth and common EU priorities, they can obtain an extension of the fiscal adjustment period from four to up to seven years. To date, eight Member States have been granted an extension of their adjustment period to seven years: Austria, Belgium, Germany, France, Italy, Finland, Spain and Romania.

22 Article 2(2) of the amended Regulation (EC) No 1467/97.

23 In the case of Bulgaria and Hungary, the assessment of aggravating and mitigating factors is carried out in the Commission recommendation for a Council decision establishing no effective action under Article 126(8).

24 Stepping up the procedure means that the Commission recommends to the Council to adopt a decision establishing no effective action under Article 126(8).

126(3) TFEU when confirmed by outturn data. In this case, the report would assess compliance with the debt criterion and could lead to a debt-based EDP and a corrective net expenditure path. The Commission highlights possible procedural steps in the event that non-compliance materialises, such as the opening of a debt-based EDP or the stepping up of an ongoing EDP, in its Opinions on Draft Budgetary Plans for 2027.

**The assessment of compliance takes into account the flexibility granted by the national escape clause for defence and energy security for Member States, where relevant.** For the 19 Member States for which the Council has activated the national escape clause, the assessment of compliance includes a check whether an upward deviation from the recommended maximum growth of net expenditure in cumulative terms is explained by a corresponding increase in defence expenditure compared to a reference year, of up to 1.5% of GDP over the period 2025 to 2028. If a deviation can be fully explained by a projected increase in defence expenditure compared to the reference year, the Member State is considered to be compliant. For Member States that have requested a broadening of their national escape clause to energy security, the additional flexibility for eligible energy security measures, with a budgetary cost of up to 0.3% of GDP annually and up to 0.6% of GDP for the period 2026-2028, is also considered.

### *(i) Assessment of compliance for Member States in EDP*

Six Member States in EDP are projected to be **compliant** with the recommended maximum growth of net expenditure.

- For **Italy**, net expenditure in 2026 is projected to grow within the corrective net expenditure path. As a result, the EDP is held in abeyance. According to the Commission Autumn 2026 Forecast, net expenditure in 2027 is projected to be above the ceiling recommended by the Council (in annual terms). However, the projected deviation is expected to be within the flexibility provided by the national escape clause.[25] Furthermore, according to the Commission Autumn 2026 Forecast, Italy's general government deficit for 2026 is projected at 2.9% of GDP, and hence below the reference value. Moreover, the deficit is expected to remain below 3% in 2027 and 2028, taking into account the activation of the national escape clause.[26] In view of this, the Commission may abrogate the EDP for Italy in spring 2027, provided that outturn data confirm a general government deficit below 3% of GDP in 2026 and projections based on the Commission Spring 2027 Forecast indicate that the deficit will remain below 3% in 2027 and 2028, when taking into account the national escape clause.
- For **Austria** and **France**, net expenditure in 2026 and 2027 is projected to grow within their corrective net expenditure paths.[27] Austria and France are therefore projected to

[25] The assessment for 2027 considers the Council Recommendation of 21 January 2025 endorsing the national medium-term fiscal-structural plan of Italy (OJ C, C/2025/651, 10.2.2025, ELI: http://data.europa.eu/eli/C/2025/651/oj).

[26] According to the Commission 2026 Autumn Forecast, the general government deficit of Italy is projected at 3.5% and 3.2% of GDP in 2027 and 2028, respectively. However, after taking into account the flexibility provided by the national escape clause, the deficit is projected at 2.9% and 2.5% of GDP in 2027 and 2028, respectively.

[27] The Commission 2026 Autumn Forecast for Austria reflects the policy measures included in the DBP submitted on 10 June 2026 as well as in Austria's report on action taken submitted on 15 October 2026. The Commission adopted its Opinion on the Austrian DBP on 6 July 2026.

be compliant with the respective Council recommendations. As a result, in both cases, the EDP is held in abeyance. For France, this assessment is surrounded by considerable uncertainty in view of the ongoing parliamentary discussions on the budget.

- For **Belgium** and **Poland**, net expenditure in 2026 is projected to grow within their corrective net expenditure paths. For Poland, this takes into account the flexibility provided by the national escape clause. For both Belgium and Poland, net expenditure growth in 2027 is projected to be above those paths. However, for both Member States, the projected deviation is expected to be within the flexibility provided by the national escape clause. Belgium and Poland are therefore projected to be compliant with the respective Council recommendations. As a result, in both cases, the EDP is held in abeyance.

- For **Slovakia**, net expenditure in 2026 and 2027 (in annual terms) is projected to be above the corrective net expenditure path. However, the projected deviation is expected to be within the flexibility provided by the national escape clause. Slovakia is therefore projected to be compliant with the respective Council recommendation. As a result, the EDP is held in abeyance. At the same time, Slovakia's general government deficit is projected to increase from 4.4% in 2026 to 5.0% of GDP in 2027. It is therefore likely that Slovakia will not correct the excessive deficit by 2027, which is the final year of the existing corrective path recommended by the Council. Therefore, the Commission intends to recommend, in the course of 2027, a new Council recommendation under Article 126(7) TFEU setting a new corrective net expenditure path for subsequent years.

Two Member States in EDP are projected to be **at risk of non-compliance** with the recommended maximum growth of net expenditure.

- For **Finland**, net expenditure in 2026 and 2027 (in annual terms) is projected to be above the corrective net expenditure path. In 2026, the projected deviation is expected to be within the flexibility provided by the national escape clause. However, in 2027, there is still a deviation after taking into account the flexibility provided by the national escape clause, although below 0.6% of GDP, beyond which there would be a strong presumption of no effective action. While the EDP is held in abeyance at this stage, Finland is projected to be at risk of non-compliance with the respective Council recommendation in 2027 and may therefore fall short of delivering effective action, which could require a stepping up of the EDP at a later stage. Finland is invited to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2027 is in line with the relevant Council Recommendation.

- For **Romania**, net expenditure in 2026 is projected to grow within the corrective net expenditure path. In 2027, net expenditure (in annual terms) is projected to be above the corrective expenditure path and the deviation exceeds 0.3% of GDP. At the same time, net expenditure (in cumulative terms) is projected to grow within the corrective net expenditure path. While the EDP is held in abeyance at this stage, Romania is projected to be at risk of non-compliance with the respective Council recommendation in 2027 and may therefore fall short of delivering effective action, which could require a stepping up of the EDP at a later stage. Romania is invited to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2027 is in line with the relevant Council Recommendation.

Two Member States in EDP are **materially non-compliant** with the recommended maximum growth of net expenditure.

- For **Bulgaria**, net expenditure in 2026 is projected to grow well above the corrective net expenditure path. The projected deviation is estimated at 2.3% of GDP, after taking into account the flexibility provided by the national escape clause. Based on the size of the projected deviation in 2026 and the persistently high government deficits (the deficit increased from 3.0% of GDP in 2024 to 4.0% in 2025, and is projected to increase to 5.0% in 2026, based on Commission Autumn 2026 Forecast), the Commission considers that Bulgaria has not taken effective action in response to the corrective net expenditure path that the Council adopted in July 2026.[28] Therefore, the Commission is today recommending to the Council to adopt a decision under Article 126(8) TFEU that establishes no effective action. Following such decision by the Council, the Commission will recommend to the Council to impose a fine according to Article 6 of Regulation (EU) No 1173/2011, as amended.[29] Furthermore, the Commission will recommend a Council decision under Article 126(9) TFEU giving notice to Bulgaria to take measures to remedy the situation of excessive deficit and setting a new corrective net expenditure path. By spring 2027, the Commission will assess how Bulgaria is responding to the new corrective path to be decided by the Council. Consequently, the Commission invites Bulgaria to strictly implement the 2027 budget and to ensure that fiscal policy in 2027 achieves a durable correction of the excessive deficit, while safeguarding fiscal and macroeconomic stability, and maintaining continued full access to EU funding.
- For **Hungary**, net expenditure in 2026 is projected to grow well above the corrective net expenditure path.[30] The projected deviation is estimated at 3.1% of GDP, after taking into account the flexibility provided by the national escape clause. Based on the size of the projected deviation in 2026 and the persistently high government deficits (the deficit decreased from 5.1% of GDP in 2024 to 4.7% in 2025, but is projected to increase to 7.3% in 2026, based on the Commission Autumn 2026 Forecast), the Commission considers that Hungary has not taken effective action in response to the corrective net expenditure path that the Council adopted on 16 January 2025. Therefore, the Commission is today recommending the Council to adopt a decision under Article 126(8) TFEU that establishes no effective action. Following such decision by the Council, the Commission will recommend to the Council to establish a new corrective path under Article 126(7) TFEU. By spring 2027, the Commission will assess how Hungary is responding to the new corrective path to be decided by the Council.

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28 As the EDP was opened mid-2026, the corrective net expenditure path implied an adjustment of the primary structural adjustment that was half of the benchmark of 0.5% of GDP for Member States in excessive deficit.

29 On 26 October 2026, the co-legislators agreed on the amendment of Regulation (EU) No 1173/2011, which will reduce the amount of fines to be imposed in case of decisions taken under Article 126(8) TFEU. In view of the upcoming adoption and entry into force of that amending Regulation, any recommendation by the Commission under Article 6 of Regulation (EU) No 1173/2011, following the adoption of this Decision under Article 126(8) TFEU, should be made only once the amendment of Regulation (EU) No 1173/2011 enters into force and at latest by January 2027.

30 To date, Hungary has not submitted a report on action taken due by 30 October 2026 in response to the Council recommendation of 18 February 2025 with a view to bringing an end to the situation of an excessive deficit.

Consequently, the Commission invites Hungary to ensure that fiscal policy in 2027 achieves a durable correction of the excessive deficit, while safeguarding fiscal and macroeconomic stability, and maintaining continued full access to EU funding.

***(ii) Assessment of compliance for the other Member States***

Six Member States are projected to be **compliant** with the recommended maximum growth of net expenditure in 2027.

- For **Ireland** and **Sweden**, net expenditure in 2027 is projected to grow within the ceilings recommended by the Council.
- For **Denmark**, **Estonia**, **Greece**, and **Latvia,** net expenditure in 2027 (in either annual or cumulative terms) is projected to be above the ceilings recommended by the Council. However, the projected deviation is expected to be within the flexibility provided by the national escape clause.

Two Member States are deemed to be **compliant** with the budgetary policy obligations of the Stability and Growth Pact, thanks to a budgetary position close to balance or in surplus, although net expenditure is projected to be above the recommended maximum growth of net expenditure.

- The budgetary positions of **Cyprus** and **Portugal** are projected to be in surplus (Cyprus) or close to balance (Portugal), thus contributing to a reduction in the government debt-to-GDP ratio. At the same time, the Commission notes that for 2027 **Cyprus** and **Portugal**[31] are projected to be at risk of materially exceeding the recommended maximum growth of net expenditure.

Two Member States are projected to be **at risk of non-compliance** with the recommended maximum growth of net expenditure.

- For **Germany**, net expenditure growth in 2027 (in annual terms) is projected to be above the ceiling recommended by the Council. However, after taking into account the flexibility provided by the national escape clause, the projected cumulative deviation in 2027 is below 0.6% of GDP. Germany is therefore projected to be at risk of non-compliance with the recommended maximum growth of net expenditure and invited to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2027 is in line with the Council Recommendation.
- For **Czechia**, net expenditure in 2027 (in annual terms) is projected to grow within the ceiling recommended by the Council. However, in 2027, given a large deviation in 2026, there is still a deviation (in cumulative terms), after taking into account the flexibility provided by the national escape clause, although below 0.6% of GDP. Czechia is therefore projected to be at risk of non-compliance with the recommended maximum growth of net expenditure and invited to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2027 is in line with the Council Recommendation.

Seven Member States are projected to be **at risk of material non-compliance** with the recommended maximum growth of net expenditure.

[31] For Portugal, this assessment takes into account the flexibility provided by the national escape clause.

- For **Spain** and **Slovenia**, net expenditure growth in 2027 is projected to be above the ceilings recommended by the Council and well above 0.6% of GDP after taking into account the flexibility provided by the national escape clause. Spain and Slovenia are therefore projected to be at risk of material non-compliance with the recommended maximum growth of net expenditure in 2027 and are invited to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2027 is in line with the Council Recommendation. Moreover, net expenditure growth in 2026 is projected to be above the ceilings recommended by the Council and above 0.6% of GDP after taking into account the flexibility provided by the national escape clause. As the 2026 debt for Spain and Slovenia is projected to be above 60% of GDP and their 2026 general government positions are projected to be in deficit (i.e., not 'close to balance'), a confirmation of these deviations in 2026 by outturn data would warrant an assessment of the debt criterion in the context of a Report under Article 126(3).
- For **Croatia**, **Luxembourg, Malta** and **the Netherlands**, net expenditure growth in 2027 (in cumulative terms) is projected to be above the ceilings recommended by the Council and exceed 0.6% of GDP. For Croatia, the projected deviation takes into account the flexibility provided by the national escape clause. Croatia, Luxembourg, Malta and the Netherlands are therefore projected to be at risk of material non-compliance with the recommended maximum growth of net expenditure in 2027 and are invited to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2027 is in line with the Council Recommendation. All four countries register deficit and debt ratios below the reference values. This means that, according to the European fiscal rules, their net expenditure growing in excess of the maximum growth rates recommended by the Council does not trigger any other procedure. At the same time, exceeding the net expenditure path recommended by the Council means that the objectives for the deficit and debt developments established in the medium-term plans would not be achieved.
- For **Lithuania**, net expenditure growth in 2027 (in annual terms) is projected to be above the ceiling recommended by the Council. Additionally, given the large projected deviation in 2026, after taking into account the flexibility provided by the national escape clause, the projected deviation in 2027 (in cumulative terms) is well above 0.6% of GDP. Lithuania is therefore projected to be at risk of material non-compliance with the recommended maximum growth of net expenditure in 2027 and is invited to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2027 is in line with the Council Recommendation.

### *(iii) Conclusions and next steps*

Member States are invited to take into account, in the process of adopting and implementing their budget laws, the Commission assessments in this communication and in the Opinions on the Draft Budgetary Plans.

Twelve Member States are assessed to be compliant with their respective Council recommendations and two Member States are deemed to be compliant with the budgetary policy obligations of the Stability and Growth Pact, thanks to a budgetary position close to balance or in surplus. In turn, the Member States projected to be at risk of (material) non-

compliance are invited to take the necessary measures within their national budgetary process to ensure that fiscal policy in 2027 is in line with the Council Recommendation. In particular, for Finland and Romania this is important to avoid a stepping up of the excessive deficit procedure at a later stage.

In the case of Bulgaria and Hungary, the Commission is of the view that the response to their respective Council Recommendations under Article 126(7) TFEU has been insufficient and constitutes a particularly serious case of non-compliance with the Council recommendation, warranting a stepping-up of the excessive deficit procedure at the current juncture. Therefore, the Commission is today recommending to the Council to adopt a decision under Article 126(8) TFEU that establishes no effective action. Following the Council decision, the Commission will recommend to the Council to establish a new corrective path.

In light of the report under Article 126(3) TFEU, and pending the opinion of the Economic and Financial Committee under Article 126(4) thereon, the Commission does at this stage not consider proposing to open further excessive deficit procedures.

Overall, rising debt servicing costs and the renewed upward trend in debt call for prudent fiscal policies and credible fiscal planning. Member States with high debt levels and fiscal sustainability risks are invited to overachieve the minimum requirements for compliance with the net expenditure path, by ensuring that net expenditure not covered by flexibility remains below the recommended maximum path. This would speed up the adjustment and lead to an effective debt reduction. In addition, Member States that benefit from the flexibility provided by the national escape clause should use it cautiously, reflecting their fiscal situation, and already plan a gradual transition out of it to sustain the higher level of defence spending after 2028, when this flexibility ends.

The Commission stands ready to engage with all Member States and to support their efforts to ensure compliance with the fiscal rules.

The Commission will provide an updated assessment of compliance in spring 2027. This will be based on outturn data for 2026, the Commission Spring 2027 Forecast and the Annual Progress Reports which must be submitted by Member States by 30 April 2027.[32] Moreover, the assessment in spring will also monitor the implementation of reforms and investments underpinning the extension of their fiscal adjustment periods, which concerns Austria, Belgium, Germany, France, Italy, Finland, Spain and Romania.

[32] For countries in EDP, the spring 2027 report on action taken in response to the Council recommendation under Article 126(7) on the correction of the excessive deficit can be subsumed under the Annual Progress Report.

# ANNEX I: GENERAL GOVERNMENT BALANCE, DEBT AND REAL GDP GROWTH

## General government balance, debt and GDP growth

| | General government balance (% GDP) | | | General government debt (%GDP) | | | GDP (real growth rate) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2025 | 2026 | 2027 | 2025 | 2026 | 2027 | 2025 | 2026 | 2027 |
| **Member States under the excessive deficit procedure** | | | | | | | | | |
| BE | -5.2 | -5.2 | -5.5 | 108.1 | 111.2 | 113.4 | 0.9 | 0.7 | 0.8 |
| BG | -4.0 | -5.0 | -4.0 | 29.9 | 33.0 | 35.0 | 3.0 | 2.7 | 2.1 |
| FR | -5.1 | -5.5 | -5.4 | 115.7 | 119.2 | 122.1 | 0.8 | 0.4 | 0.6 |
| IT | -3.1 | -2.9 | -3.5 | 136.7 | 137.9 | 138.8 | 0.6 | 1.0 | 0.7 |
| HU | -4.7 | -7.3 | -5.2 | 74.4 | 77.3 | 77.7 | 0.7 | 1.8 | 2.8 |
| AT | -4.1 | -4.0 | -3.6 | 80.7 | 82.4 | 83.0 | 0.7 | 0.8 | 1.2 |
| PL | -7.2 | -7.1 | -7.1 | 59.6 | 67.7 | 70.1 | 3.8 | 3.5 | 2.7 |
| RO | -7.8 | -6.0 | -5.8 | 58.9 | 60.7 | 62.6 | 0.8 | -0.3 | 1.8 |
| SK | -4.4 | -4.4 | -5.0 | 60.5 | 63.4 | 66.3 | 0.9 | 0.8 | 1.6 |
| FI | -3.8 | -4.0 | -4.5 | 88.4 | 89.8 | 91.0 | 0.8 | 1.6 | 1.6 |
| **Other Member States** | | | | | | | | | |
| CZ | -2.2 | -2.7 | -3.3 | 44.2 | 45.9 | 47.5 | 2.6 | 1.8 | 2.5 |
| DK | 2.9 | 1.1 | 0.5 | 27.2 | 26.2 | 25.7 | 3.5 | 4.5 | 2.0 |
| DE | -2.9 | -4.1 | -4.4 | 62.8 | 64.3 | 66.3 | 0.2 | 1.3 | 1.0 |
| EE | -2.0 | -4.4 | -3.9 | 24.0 | 26.2 | 28.4 | 1.3 | 2.2 | 2.1 |
| IE | 1.8 | 1.4 | 1.4 | 34.8 | 33.5 | 32.2 | 8.0 | -0.4 | 3.9 |
| EL | 2.0 | 0.9 | 0.7 | 145.4 | 135.7 | 130.7 | 2.1 | 1.8 | 1.5 |
| ES | -2.4 | -2.6 | -2.2 | 100.5 | 99.2 | 97.9 | 2.6 | 2.6 | 2.1 |
| HR | -3.0 | -2.8 | -2.8 | 55.7 | 55.7 | 55.5 | 3.5 | 2.1 | 2.4 |
| CY | 3.6 | 2.9 | 3.2 | 52.3 | 46.3 | 40.6 | 4.8 | 3.4 | 3.0 |
| LV | -2.5 | -2.9 | -4.4 | 46.2 | 46.8 | 50.9 | 2.2 | 2.6 | 1.8 |
| LT | -1.8 | -3.5 | -4.3 | 39.3 | 43.8 | 48.5 | 3.0 | 2.7 | 2.2 |
| LU | -1.8 | -1.1 | -1.0 | 26.0 | 29.3 | 29.6 | 1.4 | 1.3 | 1.8 |
| MT | -2.1 | -2.8 | -2.8 | 46.3 | 46.7 | 47.0 | 4.7 | 3.9 | 3.5 |
| NL | -1.6 | -2.5 | -2.1 | 44.7 | 46.1 | 46.5 | 1.6 | 1.8 | 1.5 |
| PT | 0.7 | 0.1 | -0.1 | 89.2 | 86.5 | 83.2 | 1.9 | 2.3 | 1.9 |
| SI | -2.5 | -2.9 | -4.5 | 65.1 | 64.5 | 64.8 | 1.5 | 3.9 | 2.9 |
| SE | -1.6 | -2.1 | -1.4 | 35.1 | 35.5 | 35.3 | 1.4 | 2.8 | 2.2 |
| **EU** | **-3.1** | **-3.6** | **-3.7** | **82.6** | **83.9** | **84.7** | **1.4** | **1.4** | **1.4** |
| **EA** | **-3.0** | **-3.5** | **-3.6** | **88.6** | **89.6** | **90.5** | **1.2** | **1.2** | **1.2** |

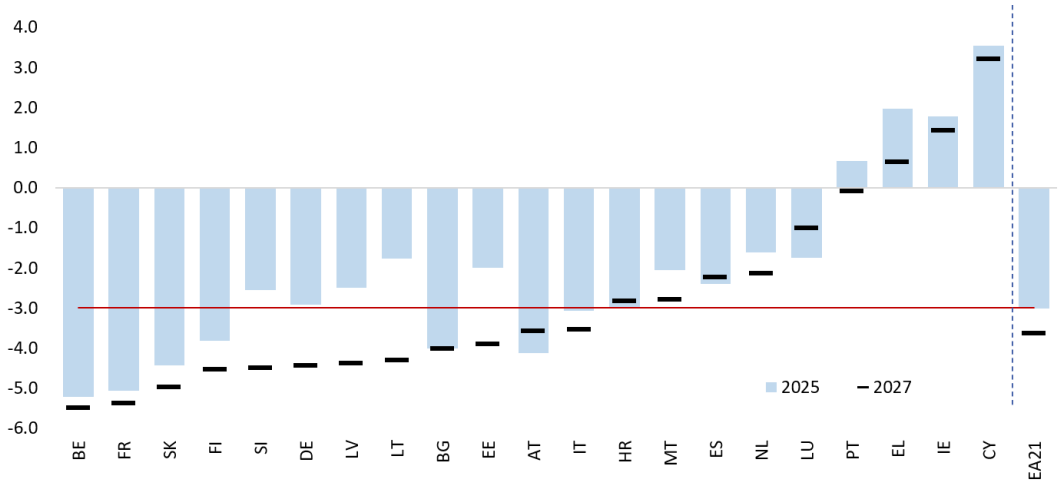
Source: Commission Autumn 2026 Forecast

## ANNEX II: OVERALL EURO AREA FISCAL SITUATION AND FISCAL STANCE

### *(i) Government deficit and its drivers in 2026 and 2027*

**The general government deficit of the euro area as a whole is expected to rise in 2026 and 2027, with more than half of Member States showing a deficit above 3% of GDP**. The euro area deficit is expected to increase from 3.0% of GDP in 2025 to 3.5% in 2026 and 3.6% in 2027. In 2027, twelve euro area Member States are expected to have a deficit of more than 3% of GDP, including nine with a deficit above 4.0%. By contrast, four euro area countries are projected to have a 2027 budgetary position close to balance or in surplus (see Graph 1).

**Graph 1. Euro area Member States' general government balance, 2027 vs 2025 (% of GDP)**




Source: Commission Autumn 2026 Forecast

**Higher defence and interest spending drive the increase in the euro area deficit in 2026 and 2027.** After rising by 0.5 pps. in 2025, the expenditure-to-GDP ratio in the euro area is projected to increase further in 2026, by 0.6 pps. This mainly reflects higher defence spending (from 1.5% to 1.7% of GDP) and higher interest expenditure (from 1.9% to 2.1% of GDP). Spending financed by RRF grants, which does not affect the deficit, is also expected to increase in 2026, the final year of the facility. At the same time, the revenue-to-GDP ratio is set to rise by 0.1 pps., as higher revenue from the EU budget and revenue-increasing discretionary measures (i.e., tax hikes) are partly offset by some revenue shortfalls.[33] In 2027, the expenditure ratio is projected to stabilise as RRF-financed spending is phased out, while nationally financed expenditure continues to rise. Defence spending is projected to increase by 0.2 pps. (to 1.9% of GDP). Euro area interest expenditure is also set to increase further (to 2.2% of GDP). The revenue ratio is projected to decline in 2027, by 0.2 pps., as lower revenue from the EU budget and further revenue shortfalls more than offset the revenue-increasing discretionary measures.

**Defence spending is rising in most euro area countries.** Since Russia began its war of aggression against Ukraine in February 2022, strengthening defence capabilities has become an urgent priority in Europe. The majority of euro area Member States have requested the activation of the national escape clause and have been allowed to deviate from the net expenditure path recommended by the Council in the period 2025-2028, with a cap of 1.5% of

[33] Revenue windfalls (shortfalls) are increases (decreases) in the revenue-to-GDP ratio that are not explained by discretionary measures or transfers from the EU budget.

GDP (see footnote 9). Since 2021, within the euro area, the largest increases in defence spending as a share of GDP have been recorded in the Baltic countries (see Table 1).

**Table 1: Defence expenditure in euro area Member States, 2021-2027 (COFOG definition; % of GDP)**

| | 2021 | 2022 | 2023 | 2024 | *2025* | *2026* | *2027* | *2027 vs 2021* |
|---|---|---|---|---|---|---|---|---|
| AT | 0.6 | 0.6 | 0.6 | 0.7 | *0.7* | *0.9* | *0.9* | **0.3** |
| BE | 0.9 | 1.0 | 0.9 | 1.2 | *1.4* | *1.6* | *1.8* | **1.0** |
| BG | 1.5 | 1.5 | 1.5 | 1.3 | *1.9* | *1.9* | *2.5* | **1.0** |
| CY | 1.7 | 1.5 | 1.8 | 1.7 | *1.7* | *1.7* | *2.0* | **0.3** |
| DE | 1.1 | 1.1 | 1.2 | 1.3 | *1.5* | *1.9* | *2.3* | **1.2** |
| EE | 2.0 | 2.2 | 3.1 | 4.0 | *4.2* | *5.0* | *5.4* | **3.3** |
| EL | 2.8 | 2.6 | 2.3 | 2.2 | *2.4* | *2.6* | *2.6* | **-0.2** |
| ES | 0.9 | 1.1 | 0.9 | 0.9 | *1.0* | *1.2* | *1.4* | **0.4** |
| FI | 1.2 | 1.2 | 1.4 | 1.6 | *1.7* | *2.5* | *2.5* | **1.3** |
| FR | 1.7 | 1.8 | 1.8 | 1.8 | *1.9* | *2.1* | *2.2* | **0.5** |
| HR | 1.0 | 1.0 | 1.3 | 1.4 | *1.4* | *1.5* | *1.5* | **0.5** |
| IE | 0.2 | 0.2 | 0.2 | 0.1 | *0.2* | *0.2* | *0.2* | **0.0** |
| IT | 1.4 | 1.2 | 1.2 | 1.3 | *1.3* | *1.3* | *1.6* | **0.3** |
| LT | 1.4 | 1.6 | 2.1 | 2.5 | *2.7* | *3.7* | *4.1* | **2.7** |
| LU | 0.4 | 0.5 | 0.5 | 0.7 | *1.0* | *1.1* | *1.2* | **0.8** |
| LV | 2.5 | 2.4 | 2.6 | 2.7 | *3.3* | *4.0* | *5.5* | **3.0** |
| MT | 0.5 | 0.5 | 0.4 | 0.5 | *0.5* | *0.5* | *0.6* | **0.0** |
| NL | 1.3 | 1.3 | 1.4 | 1.6 | *2.1* | *2.2* | *2.3* | **1.1** |
| PT | 0.8 | 0.8 | 0.7 | 0.9 | *0.8* | *1.0* | *1.1* | **0.2** |
| SI | 1.1 | 1.1 | 1.2 | 1.4 | *1.3* | *1.7* | *2.5* | **1.4** |
| SK | 1.4 | 1.0 | 1.2 | 1.4 | *2.0* | *2.0* | *1.7* | **0.3** |
| **EA21** | **1.2** | **1.2** | **1.3** | **1.4** | ***1.5*** | ***1.7*** | ***1.9*** | **0.7** |

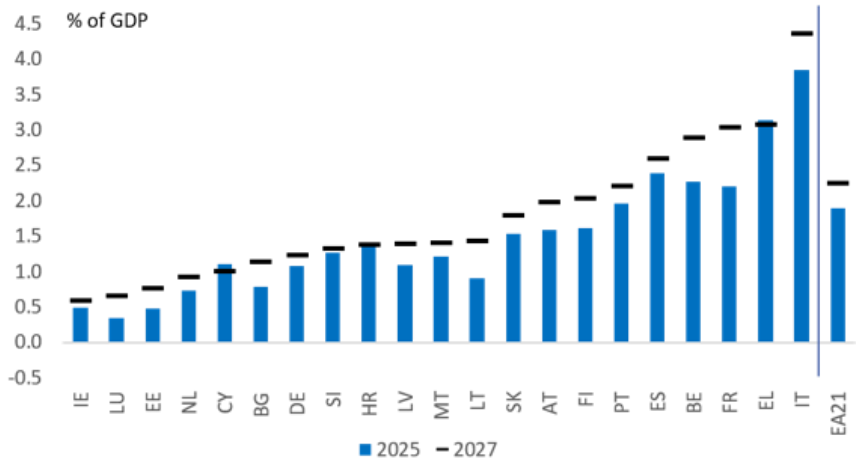
Note: where available, data has been updated relative to the latest Eurostat release of COFOG data
Source: Commission Autumn 2026 Forecast

**The recent surge in global yields and higher risk premia on sovereign bonds affect government debt servicing costs.** The increase in the implicit interest rate on government debt is however expected to be gradual in the euro area (from 2.2% in 2025 to 2.5% in 2027), thanks to the relatively long maturity of Member States' government debt (around 8.5 years on average). Between 2025 and 2027, an overall increase in interest expenditure of 0.5% of GDP or more is projected for four euro area Member States (France, Belgium, Lithuania and Italy) – see Graph 2.[34]

**In 2027, public investment will remain at relatively high levels in euro area Member States.** Euro area countries are projected to spend more on overall public investment than they did prior to the pandemic, also due to the recent rise in defence investment (see Graph 3). Seven countries stand out with an increase above 1.5% of GDP in overall public investment since 2019 (Greece, Lithuania, Slovenia, Estonia, Italy, Croatia and Latvia).

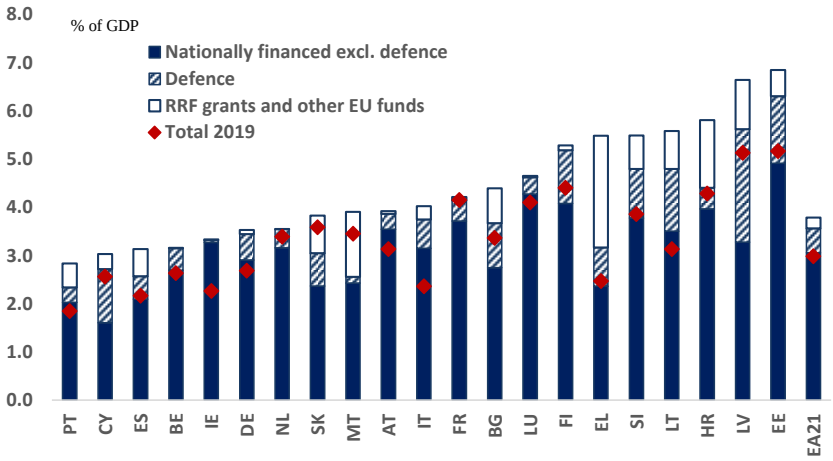
[34] For Lithuania the large increase in interest expenditure, from a relatively low level, also reflects the sizeable projected rise in the debt-to-GDP ratio (from 39.3% at-end 2025 to 48.5% at end-2027).

**Graph 2. Interest expenditure across euro area Member States, 2027 vs 2025**




Source: Commission Autumn 2026 Forecast

**Graph 3. Components of euro area Member States' public investment (2027)**




Source: Commission Autumn 2026 Forecast

### *(ii) Government debt in 2026 and 2027*

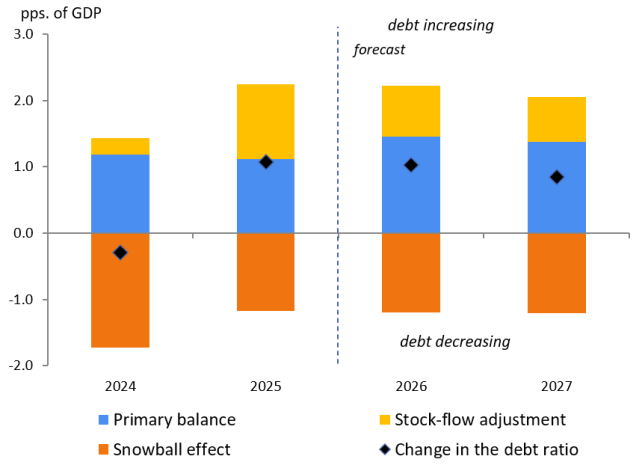
**The aggregate debt-to-GDP ratio is projected to continue rising in 2026 and 2027 in the euro area**. The public debt-to-GDP ratio, which had declined by more than 10 pps. between 2020 and 2024, rose by around 1 pp. in 2025, reaching 88.6%. It is expected to increase by a further 2 pps. over 2026-27, to 90.5% (Graph 4(a)). This upward trajectory is driven by high primary deficits and the stock-flow adjustment, which is expected to remain debt-increasing in 2026-27, albeit to a lesser extent than in 2025. In addition, the interest-growth rate differential (snowball effect) is projected to be less favourable than in 2024 as the cost of servicing debts increases.

**In 2027, the debt ratio is also projected to rise in the majority of euro area Member States.** Sizeable increases in the debt-to-GDP ratio of more than 4 pps. are forecast for Latvia and

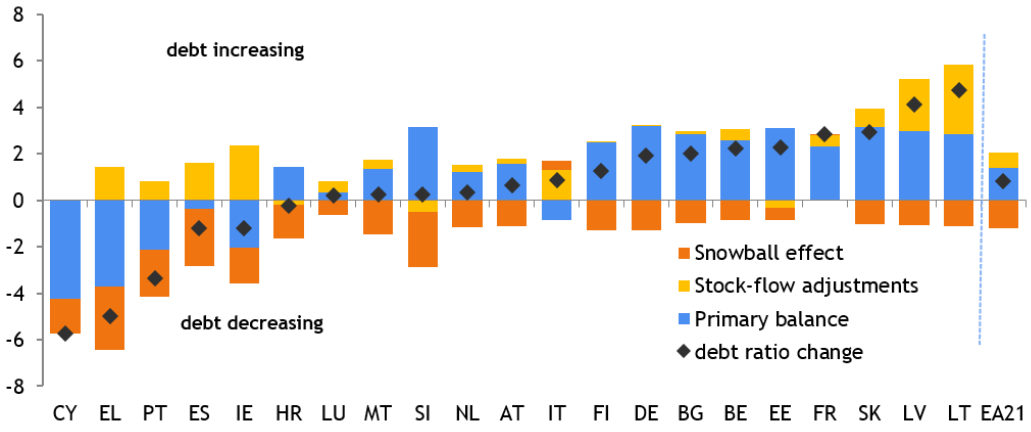
Lithuania, also due to large stock-flow adjustments[35] (Graph 4(b)), while increases of more than 2 pps. are projected in Slovakia, France, Estonia, Belgium and Bulgaria. By contrast, the debt ratio will continue declining significantly in Cyprus, Greece and Portugal thanks to their sizeable primary surpluses. The snowball effect is expected to be marginally debt-increasing in Italy and France, even though Italy is expected to register a small primary surplus. In 2026 and 2027, four Member States (Italy, Greece, France and Belgium) are set to have debt ratios above 100%.

**Graph 4. Drivers of the change in the debt-to-GDP ratio**

**(a) euro area (2024-2027)**




**(b) euro area Member States (2027)**




Source: Commission Autumn 2026 Forecast

### *(iii) The fiscal stance in euro area countries in 2026 and 2027*

**The euro area fiscal stance is expected to be broadly neutral in 2026**. Nationally financed net current expenditure[36] and investment other than defence provide a contractionary contribution to the fiscal stance in 2026. This is counterbalanced by a moderate expansionary

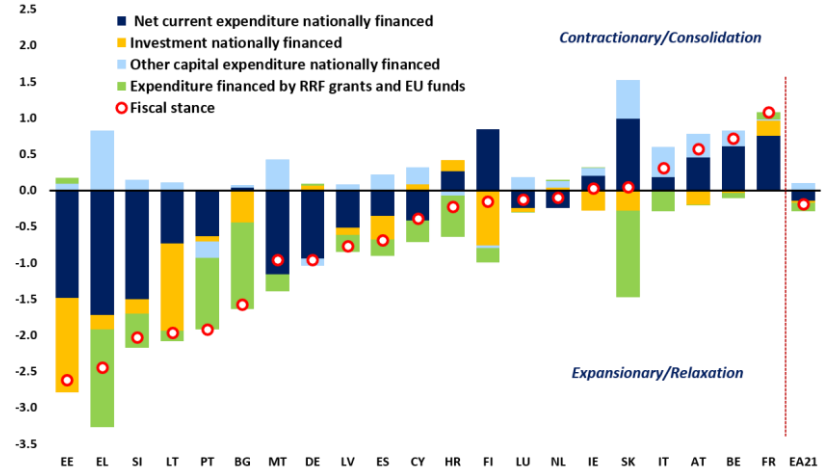
35 For Lithuania the sizeable debt-increasing stock-flow adjustment reflects the pre-financing of defence expenditure and financial asset accumulation by social security funds. For Latvia it reflects the pre-financing of bond redemptions in early 2028 and of defence expenditure. Both countries have debt levels below 60% of GDP.

36 Current expenditure net of i) interest expenditure; ii) discretionary revenue measures; iii) expenditure on programmes of the Union fully matched by current revenue from Union funds; iv) cyclical elements of unemployment benefit expenditure; and v) one-offs and other temporary measures.

impulse, stemming from increasing defence spending and, to a lesser extent, measures to mitigate the impact of high energy prices.[37] Growth-enhancing expenditure financed by the RRF is also increasing further in the final year of the facility. As a result, the overall fiscal stance in 2026 remains within the broadly neutral range.

**The fiscal stances vary significantly across euro area countries in 2026**. Eleven Member States are projected to have implemented expansionary fiscal policies this year, six broadly neutral and four contractionary (see Graph 5). The biggest fiscal expansion is projected in Estonia (more than 2.5% of GDP), also due to higher defence spending. Greece, Slovenia, Lithuania, Portugal and Bulgaria are also expected to have run large fiscal expansions (1.5% of GDP or more), supported by the absorption of RRF grants. The largest contractionary stance (more than 1% of GDP) is expected in France. Significant contractions in net current expenditure (0.5% of GDP or more) are also projected in Slovakia, Finland, France and Belgium. In most Member States, nationally financed investment and expenditure financed by RRF grants and other EU funds are expected to provide high-quality fiscal support to the economy.

**Graph 5. Fiscal stance and components of euro area Member States, 2026**




Source: Commission Autumn 2026 Forecast

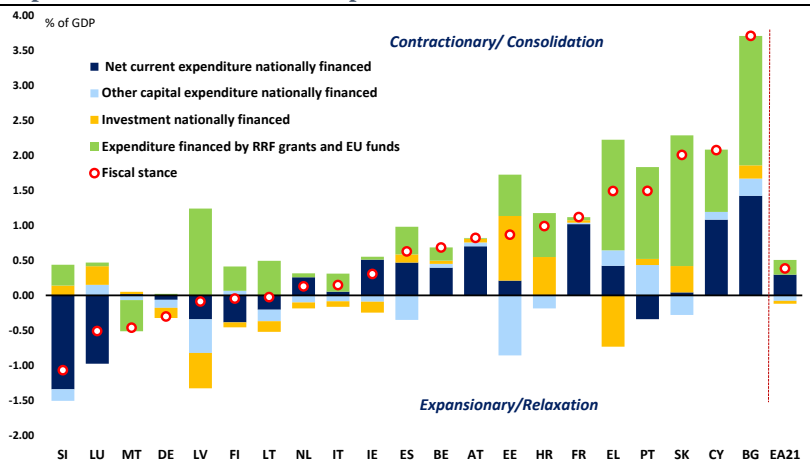
**The euro area fiscal stance is expected to become mildly contractionary in 2027.** The end of the RRF will reduce expenditure financed from the EU budget. Moreover, nationally financed net current expenditure is projected to be contractionary because the draft budgetary plans of several Member States point to restrained fiscal policy in 2027, even though defence spending is expected to increase further. At the same time, nationally financed investment will be preserved, with a positive impact on the composition of public finances.

**The fiscal stance is set to be contractionary in most Member States in 2027.** Twelve euro area Member States are projected to run a contractionary fiscal stance in 2027, mostly due to the end of the RRF, which particularly affects countries that in previous years benefitted from the largest support as a share of GDP (see Graph 6). Bulgaria, Cyprus, Slovakia, Greece and Portugal are set to have contractionary stances of 1.5% of GDP or more. In the case of Bulgaria and Cyprus policies financed by the national budgets are also projected to be restrictive. The fiscal stance is expected to be expansionary in Slovenia, Luxembourg, Malta and Germany.

[37] The net budgetary cost of these energy-related measures is estimated at around 0.1% of GDP in 2026.

Nationally financed investment is projected to be preserved or increased in about half of Member States, as defence investment continues to rise and some energy security measures are implemented, while it is projected to be significantly contractionary in Estonia, Croatia, Slovakia and Luxembourg. By contrast, net *current* expenditure is projected to provide a contractionary contribution in most Member States, pointing to some consolidation effort despite the further increase expected in current spending on defence. Other capital expenditure is set to be significantly expansionary in Estonia and Latvia.[38]

**Graph 6. Fiscal stance and components of euro area Member States, 2027**




Source: Commission Autumn 2026 Forecast

### *(iv) Appropriateness of the fiscal stance and the policy mix*

The appropriateness of the fiscal stance can be looked at from three different angles.

**The fiscal stance in 2026 and 2027 is appropriate from a macroeconomic viewpoint, especially in view of inflationary pressures.** The broadly neutral fiscal stance in 2026 has not conflicted with the ECB's monetary policy tightening in response to the rise in inflation following the energy supply shock related to the conflict in the Middle East. At the same time, a broadly neutral stance still supports the resilience of the euro area economy, which this year has faced significant headwinds. In 2027, the mildly contractionary fiscal stance should help limit the risks of indirect and second-round effects on euro area inflation, as actual GDP growth is projected to remain close to potential on the assumption of declining energy prices [39].

**Secondly, while public investment is preserved and defence spending is increasing, there is substantial scope to further improve the spending composition of public finances.** As the RRF investment period expires in 2026, nationally financed investment is expected to be preserved, providing support for potential growth in the medium term, in line with the objectives of the reformed EU fiscal framework. Net current expenditure is expected to be mildly expansionary in 2026 due to higher defence spending, but is set to be restrained in 2027 reflecting the need to consolidate in several Member States. Furthermore, the fiscal stance in 2027 appears compatible with the need to ramp up defence spending and the activation of the national escape clause for several euro area Member States, while consolidating the non-

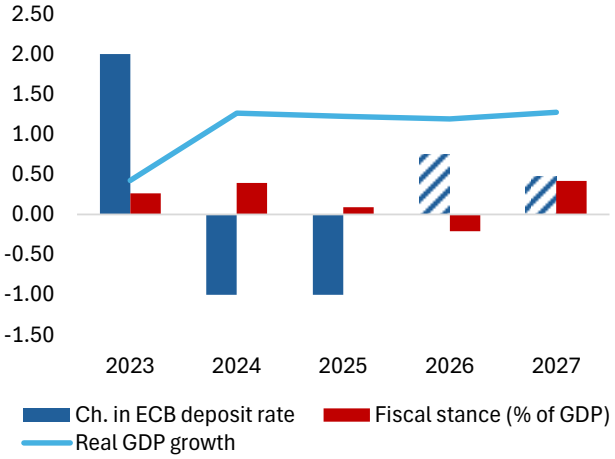
38 Other capital expenditure mainly consists of capital transfers to support investment of the private sector, and in some cases, the build-up of military inventories (e.g. Latvia).

39 The medium-term potential GDP growth for 2027 in the euro area is estimated at 1.3%.

defence spending. However, there is still substantial scope to improve the composition of public finances in the euro area, as shown by recent analysis by Commission staff.[40]

**In terms of geographical breakdown, the euro area fiscal stance for 2026 and 2027 appears to be broadly consistent with the need to preserve fiscal sustainability in Member States with high-debt challenges.** Most Member States with a high-debt ratio (above 60% of GDP) are set to restrain net current expenditure financed by the national budgets in both 2026 and 2027. This appears consistent with the need to preserve fiscal sustainability, also considering the recent increase in sovereign bond yields.[41] In other high-debt Member States, the fiscal stance in 2026 is expansionary and it is largely driven by the projected acceleration in RRF absorption in the final year of the facility and, where relevant, the use of the flexibility under the national escape clause for higher defence spending.

**Graph 7. Monetary policy stance and fiscal policy stance in the euro area**




Source: Commission Autumn 2026 Forecast and ECB.
Note: The monetary policy stance is measured as the overall change of the ECB deposit facility rate in the year. The change in the ECB deposit rate in 2026 and 2027 is based on market expectations at the cut-off date of the forecast (the ECB raised interest rates by 25 basis points in June and September 2026; financial markets price in additional hikes of 25 basis points in 2026 and of around 40 basis points in 2027).

**All in all, the policy mix seems to be broadly appropriate, with fiscal policy being coherent with the effort of the ECB in bringing inflation back to the medium-term target of 2%.** As shown in Graph 7, the euro area fiscal stance will avoid fuelling inflation in 2026 by being broadly neutral. In 2027, it will be mildly restrictive to accompany the expected further tightening of monetary policy, conducive to a slowdown of inflation.

40 See for instance Part II in the Report on Public Finances in EMU 2026, which looks at the efficiency of individual types of expenditure and the composition of spending.

41 What matters for fiscal sustainability is the nationally financed part of the fiscal stance (i.e. without the impact of EU funding), which should be mildly contractionary in Member States with high fiscal challenges based on the net expenditure path recommended by the Council, before considering the flexibility for higher defence spending and energy security measures under the national escape clause.

## ANNEX III: ANNUAL AND CUMULATED DEVIATIONS OF NET EXPENDITURE GROWTH IN 2026 AND 2027 VIS-À-VIS THE RECOMMENDATIONS

### Annual and cumulated deviations (% GDP)

| | Annual deviation | | Cumulated deviation | | Cumulated deviation taking into account flexibiliy from NEC on defence and energy security | |
|---|---|---|---|---|---|---|
| | 2026 (A) | 2027 (B) | 2026 (C) | 2027 (D) | 2026 (E) | 2027 (F) |
| **Member States under the excessive deficit procedure** | | | | | | |
| BE | -0.2 | 0.3 | -0.1 | 0.2 | -0.8 | -0.7 |
| BG | 2.3 | -0.3 | 2.3 | 1.8 | 2.3 | 1.2 |
| FR | 0.0 | 0.0 | -0.3 | -0.3 | - | - |
| IT | -0.1 | 0.6 | 0.0 | 0.6 | 0.0 | 0.0 |
| HU | 3.0 | -1.2 | 4.2 | 2.8 | 3.1 | 1.7 |
| AT | -0.1 | -0.1 | -0.3 | -0.3 | -0.6 | -0.7 |
| PL | -0.4 | 0.1 | 0.8 | 0.9 | -0.7 | -0.6 |
| RO | -0.2 | 0.4 | -0.7 | -0.2 | - | - |
| SK | 0.8 | 1.2 | -1.1 | 0.2 | -1.6 | -0.2 |
| FI | 1.1 | 1.3 | 0.3 | 1.6 | -1.0 | 0.3 |
| **Other Member States** | | | | | | |
| CZ | 1.8* | -0.1 | 0.6* | 0.2 | 0.0* | 0.2 |
| DK | 0.6 | 0.1 | 0.0 | 0.1 | -1.1 | -1.3 |
| DE | 0.5 | 1.1 | 0.4 | 1.5 | -0.3 | 0.3 |
| EE | 2.5 | 0.0 | 1.4 | 1.3 | -0.1 | -0.2 |
| IE | 0.1 | 0.0 | -0.3 | -0.3 | - | - |
| EL | 1.6 | 0.3 | 0.0 | 0.3 | -0.4 | -0.3 |
| ES | 1.1 | 0.6 | 1.2 | 1.8 | 0.9 | 1.3 |
| HR | 0.7 | 0.7 | 1.8 | 2.4 | 1.4 | 2.0 |
| CY | 1.1 | -0.5 | 1.7 | 1.2 | - | - |
| LV | 1.0 | 2.1 | -0.7 | 1.5 | -2.1 | 0.0 |
| LT | 2.9 | 1.3 | 4.2 | 5.2 | 2.7 | 3.7 |
| LU | 0.6 | 0.9 | 0.8 | 1.6 | - | - |
| MT | 1.4 | 0.2 | 3.7 | 3.7 | - | - |
| NL | 0.2 | 0.5 | 0.2 | 0.7 | - | - |
| PT | 1.1 | 1.2 | 1.1 | 2.2 | 1.0 | 2.0 |
| SI | 2.2 | 1.8 | 2.4 | 4.1 | 1.9 | 2.7 |
| SE | 0.8 | -0.6 | -0.3 | -0.8 | - | - |

** Deviations compared to the Council recommendation of 21 may 2025, endorsing Czechia's previous medium-term plan.*

*Notes:*
*A positive (negative) deviation indicates net expenditure growth exceeding (remaining below) the maxima recommended by the Council.*
*The Commission assessment of compliance with the net expenditure growth is based on exact figures. In this table, the figures have been rounded to one decimal for presentation purposes.*

Source : Commission Autumn 2026 Forecast and Commission calculations