Back to austerity, full steam ahead: the numbers

Negotiators from the European Parliament, the Council and the Commission have reached a compromise on the new budgetary rules that will come into force in 2025. Parliament will vote definitively on this compromise on 22 April. If it passes, the text will become the new rule for coordinating national budgets in the European Union.

The growth of real public expenditures is the decisive indicator for assessing the respect of the rule under the new regulation. It determines the purchasing power and the transfer capacity of the public administrations and social security.

Based on public data, indication by Commissioner Gentiloni on the underlying long term projection and building up on most recent calculation by the in general well-informed Brussels think tank Bruegel we publish the limits that the new rules will impose to the growth of real public expenditures of each member-state breaching the Treaty reference values of 3% of GDP for the deficit or 60 % for the debt to GDP ratio and "recommended" to the others. The annexed tables provide data based on the European Commission's autumn forecasts. These forecasts will be revised in May. This may impact at the margin the adjustment needs. To our best knowledge these numbers have not yet been published.

Table B, first column, shows that in three countries, France, Italy and Slovakia, reductions in net real public spending will be required year after year for at least 7 years. In Spain, Romania and Belgium, spending will have to stagnate. It will only be allowed to increase by around 1% or less per year in a very large number of countries, including Germany (disregarding the national constitutional provision "debt brake" that may impose stricter constraints), Greece, Lavtia, Czech Republic, Bulgaria, Portugal. In only 7 countries could real net public spending increase by more than 2%.

Table A provides an indication of the gap between the required budget balance in 2025 and the autumn forecast. Table B shows the amount of net expenditure savings in % and in millions of euros that would be required to close this gap. Five countries - France, Italy, Spain, the Netherlands and Romania - together need to make savings of around 34 billion euros compared with the autumn forecast. Recent revision of the public accounts notably in France suggest that even more expenditure cuts would be needed. To these savings must be added those that Germany must make following the ruling of the Constitutional Court and which were not anticipated in the autumn forecast. It takes a healthy dose of optimism on the part of the Eurogroup to claim that by following the new rules, fiscal policy in the eurozone will have only a "slightly restrictive effect, which is also appropriate because the conditions for a recovery in 2025 are in place".

Table B compares the limits to real expenditure with their actual variation over the last decade, the lost decade for investment. Disregarding four countries Ireland, Greece, Cyprus and Portugal with severe expenditure cuts during last decade because of the adjustment programs following the euro crisis, only the Netherlands, Slovenia, Sweden, Denmark and Croatia could see their real spending increase faster over the next 7 years than it did between 2010 and 2019. This at a time of increasing demand for public goods from climate to defense.

***Source and method**:*
To calculate the limits imposed on changes in net expenditure in % per year, we build upon the adjustment requirements calculated by Bruegel on the assumption that all countries require an adjustment period of 7 years (P.23 of the Bruegel document, last column of table 4). The budgetary data have been extracted from the AMECO database, chapters 16, 17 and 18 (autumn 2023 edition). Growth rates of the production potential have been taken from the Ageing Report , P. 64 (averaging the years 2022-2040).

By definition, the maximum % change in net expenditure is equal to medium-term potential GDP growth in % per annum minus the adjustment requirement for the budget balance in % of GDP divided by the share of expenditure in GDP, i.e. the required change in the balance in euros divided by net expenditure in euros (see Vade Me Cum of the Stability Pact Box 1.10, P. 30) . It should be noted that the exclusion of co-financing introduced at Parliament's request does not reduce the adjustment effort required, but merely places it on a slightly narrower base.

Table A	Debt as a % of GDP 2024	Budget balance as % of GDP 2024		Primary structural budget balance (excluding interest) as % of potential GDP			
				Level in 2024	Variation 2024- 2025 (Forecast Autumn 23)	Minimum annual adjustment required over 7 years (2024-2031)	Public structural expenditure excluding interest as a % of GDP in 2024
Belgium	106,4	-4,9		-2,4	0,0	0,6	53,0
Bulgaria	24,3	-3,0		-2,7	-0,4	0,3	40,1
Czech Republic	45,5	-2,4		-0,1	0,0	0,1	41,7
Denmark	28,4	1,8		2,9	-0,8	-0,6	46,4
Germany	63,6	-1,6		-0,2	0,1	0,1	46,7
Estonia	20,5	-2,4		0,0	-1,8	-0,3	40,3
Ireland	41,4	0,6		0,8	0,6	-0,2	21,7
Greece	151,9	-0,9		2,0	-0,3	0,1	45,2
Spain	106,5	-3,2		-1,0	-0,2	0,5	44,5
France	109,5	-4,4		-2,4	0,2	0,6	54,1
Croatia	58,8	-1,8		-1,2	0,2	0,1	45,9
Italy	140,6	-4,4		-0,9	0,3	0,6	47,6
Cyprus	71,5	2,1		3,4	-0,1	-0,5	40,4
Latvia	42,3	-3,1		-1,7	-0,1	0,2	40,7
Lithuania	38,3	-2,3		-0,5	0,1	0,0	37,6
Luxembourg	28,7	-2,1		-0,6	1,1	0,1	44,4
Hungary	71,7	-4,3		1,0	-0,2	0,3	41,6
Malta	55,8	-4,6		-2,7	0,5	0,4	37,0
Netherlands	46,6	-1,8		-0,5	-0,2	0,1	42,9
Austria	75,6	-2,4		-0,7	0,0	0,3	49,7
Poland	54,4	-4,6		-1,8	0,5	0,4	44,9
Portugal	100,3	0,1		2,1	-0,1	0,0	42,6
Romania	48,9	-5,3		-3,0	0,1	0,7	36,8
Slovenia	68,4	-3,3		-1,1	-0,7	0,4	46,6
Slovakia	59,9	-6,5		-5,1	-0,2	1,0	44,0
Finland	76,9	-3,2		-1,0	-0,2	0,2	52,5
Sweden	30,1	-0,7		1,5	0,2	-0,5	46,5

Yellow shading: countries with an improvement of the structural primary balance forecasted for 2025 smaller than the requirement under the new rules.

Table B	Real primary structural public spending (net of interest and cyclical expenditures at constant prices)					p.m. Long-term GDP growth projections
	Maximum average annual variation required (% p.a.) 2024-2031	Expected change in 2025 (% p.a.) (Commission's Autumn 2023 forecast) 2024-2025	Savings (+) required compared to Autumn 2023 forcast in Million euros 2024 2025	p.m. Average annual variation (%) over 2010-2019		Period: 2022-2040
Belgium	0,2	0,2	144	1,4		1,3
Bulgaria	1,1	5,5	1.016	2,2		1,7
Czech Republic	1,1	1,0	-110	1,9		1,4
Denmark	2,6	2,0	-884	0,5		1,3
Germany	0,8	0,5	-4.298	1,3		1,0
Estonia	2,3	3,8	165	3,4		1,7
Ireland	4,1	0,3	-3.777	-4,6		3,5
Greece	0,7	1,0	271	-2,2		0,8
Spain	0,0	1,4	7.560	0,0		1,1
France	-0,2	0,7	11.546	1,3		0,9
Croatia	1,6	2,5	261	1,0		1,9
Italy	-0,5	0,5	8.627	0,0		0,8
Cyprus	3,2	1,2	-195	0,6		2,0
Latvia	0,9	3,3	288	1,3		1,5
Lithuania	1,8	1,5	-45	1,8		1,8
Luxembourg	1,9	-0,4	-675	2,7		2,0
Hungary	1,4	1,1	-155	2,8		2,1
Malta	2,6	1,8	-46	5,3		3,6
Netherlands	1,0	2,3	4.835	0,2		1,2
Austria	0,8	0,5	-591	0,9		1,4
Poland	1,4	1,3	-139	2,9		2,3
Portugal	1,0	1,3	333	-1,6		1,0
Romania	0,3	2,8	1.830	3,1		2,2
Slovenia	1,3	-0,3	-370	0,3		2,2
Slovakia	-0,6	1,1	765	2,2		1,6
Finland	0,9	1,4	707	0,9		1,2
Sweden	2,7	0,6	-4.372	2,0		1,7

Numbers in red: Required saving of real public expenditures (price 2024) compared to Autumn forecast

Yellow shading: Countries with a limit to real expenditures growth equal to the average 2010-19 or smaller