**Speech by the President of the Fiscal Council, at the 28th meeting of the Finance Committee, 22 April 2025**

For the first time, the Fiscal Council is providing an assessment of the Annual Progress Report, as required by the Fiscal Rule Act, which was amended this year. Although this task is similar to the assessment under the old legislation, which also required the Fiscal Council to assess the compliance of the previous year's budget implementation with the fiscal rules, there is one important distinction. The Annual Progress Report you are considering applies to one of the building blocks of the Medium-Term Fiscal and Structural Plan. It was drawn up by the Government last autumn and, as the name suggests, covers more than just one year.

From a fiscal policy planning and management perspective, it is essential not only to consider the current or the next year, but also to recognise the long-term impact of our decisions and actions, extending five or ten years into the future. It is within this context that the assessment I am presenting today should be interpreted. Although the Government document under review primarily refers to 2024 and, to some extent, 2025, we wish to emphasise that fiscal policy must remain anchored in the goal of ensuring long-term fiscal sustainability.

Our main conclusion is that fiscal trends in 2024 complied with the renewed fiscal rules and thus contributed to medium-term fiscal sustainability. The general government deficit was lower than the 2023 deficit. At -0.9% of GDP, it was well below the Government's autumn projections and consistent with the Fiscal Council's expectations. By the end of last year, general government debt amounted to 67% of GDP, continuing its post-COVID downward trajectory. Net expenditure growth, the core operational indicator of fiscal policy in the revised EU economic governance framework, was approximately 5%, which was below the commitments set out in the Medium-Term Fiscal and Structural Framework.

However, the Fiscal Council's projections—prepared in light of the aforementioned importance of a medium-term outlook, and based on current policies and adopted legislation—indicate a worsening of the Government’s fiscal position in the coming years. The general government deficit is projected to hover around -2% of GDP over the medium-term, excluding the planned increase in defence spending, which will put a pressure on public finances, or the potential impact of ongoing environmental shocks.

We estimate that the anticipated deterioration in public finances is not expected to jeopardise fiscal sustainability over the course of the current Medium-Term Fiscal and Structural Plan. The lower deficit in 2024 provides for a more favourable starting point and has created additional room for fiscal policy. However, we caution that the anticipated worsening of public finances in the second half of the Plan period could pose a challenge to maintaining medium-term fiscal sustainability.

I would therefore like to take this opportunity to urge the Government to draw up and adopt budget documents and reforms in the autumn that address the various risks and fiscal challenges, thereby ensuring fiscal sustainability. At the same time, such efforts could help avoid the need for excessive adjustments to public finances in the future. This could inevitably have a negative impact on economic growth and the population's welfare.