Net Primary Expenditure Indicator and Control Account

Under the new EU economic governance framework (Regulation (EU) 2024/1263), the single operational indicator is based on net primary expenditure (NPE). NPE represents total government expenditure excluding the following items: discretionary revenue measures (DRM), government interest expenditure, cyclical elements of unemployment benefit expenditure, national expenditure on co-financing of programmes funded by the Union, expenditure on programmes of the Union fully matched by Union revenue and one-off and other temporary revenue and expenditure items.

Box 1 – Formula to calculate the observed NPE growth in t+1 for year t

$$Observed\ NPE\ growth_t = \frac{NPE_t/GDP_t}{NPE_{t-1}\ before\ DRM/GDP_{t-1}} * (1 + g_t) - 1$$

with $g_t = GDP_t/GDP_{t-1} - 1$ = nominal growth rate for year t.

The European Commission sets up a control account for each Member State to track the annual and cumulative gap – whether positive or negative – between the observed NPE growth in year t+1 and the recommended NPE growth path established by the EU Council. The monitoring thresholds are defined as 0.3% of GDP annually and 0.6% of GDP cumulatively.

Box 2 – Formula to calculate the gap recorded in the control account (% of GDP) for year t

$$Annual\ Gap = (Observed\ NPE\ Growth_t - NPE\ path_t) * NPE_{t-1}\ before\ DRM/GDP_t$$

$$Cumulative\ Gap = \frac{Sum\ of\ annual\ gap\ in\ €\ million}{Nominal\ GDP\ of\ latest\ year}$$

Illustrative example:

Calculation	Variable	Expressed in	Explanations
a	**Total expenditure**	mio €	ESA Code : TE
b	EU funded expenditure	mio €	ESA Code : D.7EU + D.9EU
c	Interest expenditure	mio €	ESA Code : D.41
d	National co-financing of EU programmes	mio €	
e	Cyclical unemployment expenditure	mio €	Related to economic fluctuations
f	One-offs expenditure (levels, excl. EU funded)	mio €	
g = a-b-c-d-e-f	**Net primary expenditure before DRMs**	mio €	
h	Nominal GDP	mio €	
i=g/h	**Net primary expenditure before DRMs**	% of GDP	NPE before DRM/GDP
j	Discretionary revenue measures	% of GDP	Tax or revenues changes decided by the government
k = i-j	**NPE after DRMs**	% of GDP	NPE/GDP (with DRM deduction)
l	Nominal GDP growth	%	g_t
m= [(k/i_{t-1})*(1+l)-1]*100	**Observed NPE growth**	%	Formula from Box 1
n	Recommended NPE growth / NPE path set by the EU Council	%	
o = (m-n)*g_{t-1}	Annual gap	mio €	
p = o/h	**Annual gap**	% of GDP	Formula from Box 2

<u>References</u>: National Accounts (ESA), Eurostat, ECFIN and Ministry of Finance.