

Net Primary Expenditure Path

National medium-term fiscal-structural plans (MTPs) are at the center of the reformed EU economic governance framework, as established under Regulation (EU) 2024/1263. MTPs are designed to ensure that, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3% of GDP over the medium term (defined as ten years following the end of the adjustment period). To achieve these objectives, each plan must present a medium-term commitment to a net primary expenditure (NPE) path covering a fiscal adjustment period of four years, which may be extended by up to three additional years.

During the adjustment period, the NPE path – expressed as an annual expenditure growth rate – is derived using structural indicators. These include potential GDP growth, GDP deflator, and changes in the structural primary balance (SPB), which reflects the underlying fiscal policy stance.

Formula to calculate the net primary expenditure path

$$NPE\ path_t = (1 + Pot_t)(1 + \pi_t) - \frac{SPB_t - SPB_{t-1}}{NPE_{base\ year} / GDP_{base\ year} * 100} - 1$$

with t = year t of the adjustment period

$NPE_{base\ year}$ = observed net primary expenditure for the base year*

Pot_t = potential economic growth for year t

π_t = GDP deflator for year t

SPB_t = structural primary balance for year t

* calculated based on the factsheet « Net Primary Expenditure Indicator and Control Account ».

To assess the medium-term sustainability of public finances and to ensure that the proposed NPE path aligns with the EU's debt and deficit requirements (as outlined above), the structural indicators (potential GDP, GDP deflator, SPB) are projected over a ten-year period following the end of the adjustment period. These projections are based on assumptions used in the European Commission's Debt Sustainability Analysis (DSA). From the final year of the adjustment period onward, the SPB is held constant, while age-related expenditures are allowed to evolve in line with demographic trends.