EUROPEAN
COMMISSION

Strasbourg, 26.11.2024
COM(2024) 724 final

Recommendation for a

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Portugal

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Article 17 thereof,

Having regard to the recommendation from the Commission,

Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance[1], together with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure[2], and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States[3] are the core elements of the reformed EU economic governance framework. The framework aims at ensuring public debt sustainability and sustainable and inclusive growth through reforms and investments. It promotes national ownership and has a medium-term focus, combined with an effective and coherent enforcement of the rules.

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: i) ensuring 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, and ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment to a net expenditure[4]

[1] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

[2] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj).

[3] Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

[4] Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union

path, which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Regulation (EU) 2024/1263.

(4) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

(5) Upon a recommendation from the Commission, the Council is to then adopt a recommendation to set the net expenditure path of the Member State concerned and, where applicable, endorses the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF PORTUGAL

(6) On 11 October 2024, Portugal submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission in view of the reasons provided by Portugal.

Process prior to the submission of the plan

(7) On 21 June 2024 the Commission sent, according to Article 9 of Regulation (EU) 2024/1263, the reference trajectory[5] to Portugal. The Commission published the reference trajectory on 11 October 2024[6]. The reference trajectory is risk-based and ensures that, by the end of the fiscal adjustment period and in the absence of further budgetary measures beyond the adjustment period, general government debt is on a plausibly downward trajectory or stays at prudent levels over the medium term, and the general government deficit is brought below 3% of GDP over the adjustment

programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

5 Prior guidance transmitted to the Member States and Economic and Financial Committee includes trajectories without and with an extension of the adjustment period (covering 4 and 7 years, respectively). It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission Spring 2024 Forecast and its medium-term extension up to 2033, and long-term GDP growth and ageing costs are in line with the joint Commission-Council *2024 Ageing Report* (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

6 https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#portugal

period and maintained below that reference value over the medium term. The medium term is defined as the ten-year period after the end of the adjustment period. In accordance with Articles 7 and 8 of Regulation (EU) 2024/1263, the reference trajectory is also consistent with the debt sustainability safeguard and the deficit resilience safeguard. The reference trajectory of Portugal sets out that, based on the Commission's assumptions and assuming a 4-year adjustment period, net expenditure should not grow by more than the values provided in Table 1. This corresponds to average net expenditure growth of 3.6% over the adjustment period (2025-2028).

Table 1: Reference trajectory provided by the Commission to Portugal on 21 June 2024

	2025	2026	2027	2028	Average 2025-2028
Maximum net expenditure growth (annual, %)	4.1	3.6	3.4	3.3	3.6

Source: Commission's calculations.

(8) In line with Article 12 of Regulation (EU) 2024/1263, Portugal and the Commission engaged in a technical dialogue from July to October 2024. The dialogue centred on the net expenditure path envisaged by Portugal and its underlying assumptions (in particular on potential growth estimates), the exception to the no-backloading safeguard, as well as the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union in fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(9) According to the information provided by Portugal in its plan, a consultation process with relevant national stakeholders (including social partners) prior to submission as foreseen in Article 11(3) of Regulation (EU) 2024/1263 did not take place, in line with the transitional provisions foreseen in Article 36(1), point (c), of Regulation (EU) 2024/1263.

(10) The national Fiscal Council ('*Conselho das Finanças Públicas*') delivered an opinion on the macroeconomic forecast and the macroeconomic assumptions underpinning the multi-annual net expenditure path. The Fiscal Council concluded that the projections for economic growth and the GDP deflator appear plausible but expressed reservations on potential growth and output gap estimates, related to their plausibility in view of the plan's overall macroeconomic scenario.

(11) The plan was presented to the national parliament on 11 October 2024.

Other related processes

(12) On 15 October 2024, Portugal submitted its Draft Budgetary Plan for the year 2025. The Commission adopted an opinion on this Draft Budgetary Plan on [26 November 2024][7].

7 Commission Opinion on the Draft Budgetary Plan of Portugal, 26.11.2024, C(2024)9063 final.

(13) On 21 October 2024, the Council addressed to Portugal a series of country-specific recommendations (CSRs) in the context of the European Semester[8].

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

(14) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Context: macroeconomic and fiscal situation and outlook

(15) Economic activity in Portugal grew by 2.5% in 2023, driven by domestic demand and exports of services. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 1.7% in 2024, mainly on the back of private and public consumption. In 2025, real GDP is set to increase by 1.9%, as investments are expected to accelerate. In 2026, real GDP is expected to increase by 2.1%, further supported by investments as well as private and public consumption. Over the forecast horizon (i.e. 2024-2026), potential GDP growth in Portugal is expected to decrease from 2.5% in 2023 to 1.9% in 2026, driven by a lower labour contribution reflecting the forecast decrease in the working-age population. The unemployment rate stood at 6.5% in 2023 and is projected by the Commission to amount to 6.4% in 2024, 6.3% in 2025, and 6.2% in 2026. Inflation (GDP deflator) is projected to decrease from 6.9% in 2023 to 3.8% in 2024, and to reach 2.5% in 2025, and 2.2% in 2026.

(16) Regarding fiscal developments, in 2023 Portugal's general government surplus amounted to 1.2% of GDP. According to the European Commission Autumn 2024 Forecast, it is set to reach 0.6% of GDP in 2024 and to decline further to 0.4% of GDP in 2025 and, on a no-policy change basis, to 0.3% in 2026. The European Commission Autumn 2024 Forecast includes Portugal's draft budget for 2025 that the government proposed to the national parliament in October. General government debt was 97.9% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, the debt ratio is expected to decline to 95.7% of GDP at end-2024. It is projected to decline further to 92.9% of GDP at end-2025 and 90.5% at end-2026. The fiscal forecast by the Commission does not consider the policy commitments in the medium-term plans as such until they are underpinned by credibly announced and sufficiently specified concrete policy measures.

Net expenditure path and main macroeconomic assumptions in the plan

(17) Portugal's national medium-term fiscal-structural plan covers the period 2025-2028 and presents a fiscal adjustment over four years.

(18) The plan contains all information required by Article 13 of Regulation (EU) 2024/1263.

(19) The plan commits to the net expenditure path indicated in Table 2, corresponding to average net expenditure growth of 3.6% over the years 2025-2028. The average net expenditure growth reported in the plan over the adjustment period (2025-2028) is broadly in line with[9] the reference trajectory transmitted by the Commission on 21

[8] Council Recommendation on economic, budgetary, employment and structural policies of Portugal, not yet published.

[9] The difference is not visible due to rounding.

June 2024. The plan assumes potential GDP growth to gradually decrease from 2.4% in 2024 to 1.6% by 2028. In addition, the plan expects the growth rate of the GDP deflator to decrease from 3.1% in 2024 to 2.6% in 2025 and to 2.0% thereafter until 2028.

Table 2: Net expenditure path and main assumptions in Portugal's plan

	2024	2025	2026	2027	2028	Average over the period of validity of the plan 2025-2028
Net expenditure growth (annual, %)	11.8	5.0	5.1	1.2	3.3	3.6
Net expenditure growth (cumulative, from base year 2023, %)	11.8	17.4	23.4	24.8	28.9	n.a.
Potential GDP growth (%)	2.4	2.1	2.0	1.7	1.6	1.8
Inflation (GDP deflator growth) (%)	3.1	2.6	2.0	2.0	2.0	2.2

Source: Medium-term fiscal-structural plan of Portugal and Commission calculations.

Implications of the plan's net expenditure commitments for general government debt

(20) If the net expenditure path committed to in the plan and the underlying assumptions materialise, general government debt would, according to the plan, gradually decrease from 95.9% in 2024 to 83.2% of GDP at the end of the adjustment period (2028), as per the following table. After the adjustment, over the medium term, the debt ratio is projected to steadily decline according to the plan, to 64.8% by 2038.

Table 3: General government debt and balance developments in Portugal's plan

	2023	2024	2025	2026	2027	2028	2038
Government debt (% of GDP)	97.9	95.9	93.3	90.4	87.2	83.2	64.8
Government balance (% of GDP)	1.2	0.4	0.3	0.1	1.1	1.3	-1.2

Source: Medium-term fiscal-structural plan of Portugal.

Thus, according to the plan, the general government debt ratio would remain on a downward path by the end of the adjustment period (2028). This is plausible as, based on the plan's assumptions, debt is projected to decline over the ten years following the adjustment period under all deterministic stress tests of the Commission's Debt Sustainability Analysis, and the stochastic projections indicate that debt would decline with a sufficiently high probability. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for debt as set out in Articles 6, point (a), and 16(2) of Regulation (EU) 2024/1263.

Implications of the plan's net expenditure commitments for the general government balance

(21) Based on the plan's net expenditure path and assumptions, the general government surplus would increase from 0.3% of GDP in 2025 to 1.3% of GDP in 2028. Thus, according to the plan, the general government balance would not exceed the 3% of GDP reference value at the end of the adjustment period (2028). In addition, in the ten years following the adjustment period (i.e. until 2038), the government deficit would not exceed 3% of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the requirement for the deficit as set out in Articles 6, point (b), and 16(2) of Regulation (EU) 2024/1263.

Time profile of the fiscal adjustment

(22) The time profile of the fiscal adjustment, measured as the change in the structural primary balance, as described in the plan, is backloaded, compared to the linear path referred to as a rule under Article 6, point (e), of Regulation (EU) 2024/1263. According to the plan, this fiscal adjustment profile is driven by the impact on expenditure of projects financed by Recovery and Resilience Facility loans. Table 4 shows the structural primary balance developments according to the plan. The decrease in 2025 and 2026 in the structural primary surplus, and the increase in 2027, are mainly explained by this type of expenditure (estimated to increase by 0.2 and 0.6 percentage points of GDP in 2025 and 2026, respectively). Without taking into account the expenditure related to projects financed by Recovery and Resilience Facility loans, the fiscal adjustment would remain broadly linear over the adjustment period (2025 to 2028). Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the no-backloading safeguard clause set out in Article 6, point (c), and the transitional provision in Article 36(1), point (e), of Regulation (EU) 2024/1263.

Table 4: Structural primary balance developments in Portugal's plan

	2023	2024	2025	2026	2027	2028
Structural primary balance (% of GDP)	3.2	2.3	2.1	1.7	2.8	2.9
Change in structural primary balance (pps.)	n.a.	-0.9	-0.1	-0.5	1.1	0.1

Source: Medium-term fiscal-structural plan of Portugal

Consistency of the plan with the deficit resilience safeguard

(23) If the plan's assumptions and commitments materialise, the structural deficit would remain below 1.5% of GDP throughout the adjustment period. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the common resilience margin referred to in Article 8(1) of Regulation (EU) 2024/1263 will continue to be respected, and therefore the additional improvement in the structural primary balance referred to in Article 8(2) of Regulation (EU) 2024/1263 is not required.

Consistency of the plan with the debt sustainability safeguard

(24) In accordance with Article 7 of Regulation (EU) 2024/1263, as general government debt will be above 90% of GDP in 2025 and 2026 according to the plan, the debt ratio is required to decline by at least 1 percentage point on average per year until it falls below 90%, after which it should decline by 0.5 percentage points on average. This average decline is calculated over the period 2024-2028 and amounts to 3.0 percentage points. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the net expenditure path put forward in the plan is consistent with the debt sustainability safeguard.

Macroeconomic assumptions of the plan

(25) The plan is based on a set of assumptions which differs from the Commission's assumptions transmitted to Portugal on 21 June 2024. In particular, the plan uses different assumptions for six variables, namely: the starting position (i.e. the structural primary balance in 2024), potential GDP growth, GDP deflator growth, real GDP growth, the nominal implicit interest rate, and the stock-flow adjustment. Moreover, the fiscal adjustment is backloaded. An assessment of the differences in assumptions is provided below. The differences in assumptions with the most significant impact on average net expenditure growth are listed below, together with an assessment of each difference considered in isolation.

- The plan assumes the potential GDP growth to be slightly higher, by an average of 0.1 percentage point over the adjustment period (until 2028). After the end of the adjustment period, i.e. from 2028, the potential growth series converges towards the Commission's prior guidance. This contributes to higher average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. Overall, this difference until 2028 results from the updated potential GDP series, performed by Portugal and based on the EU commonly agreed methodology. It is deemed plausible as it is explained by Portugal's short-term macroeconomic projections in the medium-term fiscal-structural plan, which are slightly more favourable than in the prior guidance but in line with the European Commission Autumn 2024 Forecast, by a slight upward real GDP growth revision for 2022-2023 and by the update of Eurostat population projections. Consequently, this assumption is deemed to be duly justified.

- The plan assumes a time profile of the fiscal adjustment, measured as the change in the structural primary balance, that is backloaded to 2027 and 2028, compared with the Commission's assumption of a linear adjustment. This contributes to lower average net expenditure growth over the adjustment period in the plan than according to the Commission's assumptions. This difference is driven by the projected impact on expenditure of projects financed by Recovery and Resilience Facility loans, expected to increase to 1.0% of GDP in 2026, compared to a 0.1% of GDP in 2024. Backloading the fiscal adjustment is in line with Article 6(c) and the transitional provision in Article 36(e) of Regulation (EU) 2024/1263. Consequently, this assumption is deemed to be duly justified.

The remaining differences do not have a significant impact on average net expenditure growth compared to the Commission's assumptions. Overall, all the differences in assumptions taken together lead to an average net expenditure growth in the plan that is broadly in line with the reference trajectory. The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with the net expenditure path.

Fiscal strategy of the plan

(26) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered through both expenditure restraint and discretionary revenue increases. While the plan presents revenue-decreasing fiscal policy measures, such as the planned update of the youth personal income tax regime, these are expected to be compensated with the unwinding of emergency energy measures in 2025, such as the unfreezing of the carbon rate under the fuel tax and the phase-out of projects financed by Recovery and Resilience Facility loans in 2027. The specification of the policy measures to be adopted is to be confirmed or adjusted and quantified in the annual budgets. There are risks to the implementation of the indicative fiscal strategy in the plan, which stem from risks linked to increasing spending pressures on public wages and social transfers. In addition, the Draft Budgetary Plan for 2025 specifies the policy measures through which the net expenditure commitment for 2025 will be achieved[10].

[10] See Commission Opinion on the Draft Budgetary Plan of Portugal, 26.11.2024, C(2024)9063 final.

Reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(27) The plan describes policy intentions concerning reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSR, and to address the common priorities of the EU. The plan's reforms and investments are based on an existing government strategy document ('*Grandes Opções 2024-2028*'). The plan presents more than 60 reforms and investments, of which 27 are classified as being financially supported by the Recovery and Resilience Facility and cohesion policy funds.

(28) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan includes the development and implementation of a Water Strategic Plan and the development of specific programmes to promote water use efficiency (2024 CSR on water efficiency); measures on the improvement of waste management and promotion of circular economy (CSR 2022 and 2023 on circular economy); the investment in high-speed mobile internet networks for low-density territories and a National Digital Strategy (CSR 2019 on improving digital literacy); the construction of railway infrastructure (rail and TGV) (CSR 2020 and 2019 on rail infrastructure); and strengthening programmes to support energy efficiency investments in buildings, notably in residential buildings as included in the recovery and resilience plan (RRP; CSR 2023 and 2022 on energy efficiency in buildings). Regarding this common priority, Portugal also includes increasing data interconnections between tax and social security authorities, registries and notaries, which intend to address CSR 2024, 2023 and 2022 on the efficiency of the tax and social protection systems.

(29) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes an increase in the national minimum wage (CSR 2020 and 2019 on the labour market and social protection) and a measure to guarantee the universal and free access to childcare and pre-school (CSR 2020 and 2019 and 2019 on the effectiveness and adequacy of social protection); actions related to labour market policies, including upskilling and reskilling programs as included in the RRP (CSR 2020 and 2019 on skills and education); the creation of an investment line for start-ups and venture capital through the creation of a fund for hybrid equity investments (CSR 2020 on innovation); a reform on insolvency regimes to speed up the processing and judicial decisions also included in the RRP (CSR 2019 on increasing the efficiency of insolvency and recovery proceedings); a reform on company reporting related to state compensation (CSR 2019 on State owned enterprises); a multi-annual investment plan for the national health service and a plan for physical activity and sport (CSR 2020 on healthcare); and the simplification of the tax regime associated with corporate restructuring and merger operations (CSR 2024 on improving the effectiveness of the tax system). The plan does not include measures to address the medium-term fiscal sustainability of Portugal's pension system (CSR 2024 on fiscal-structural reforms).

(30) Concerning the common priority of energy security, the plan includes a reform to streamline the licensing of renewable energy projects (Mission Structure for the Licensing of Renewable Energy Projects - EMER 2030) that is also part of the REPowerEU chapter in the RRP (CSR 2023 and 2022 on simplifying and digitalising permitting for the deployment of renewable energy); measures to ensure a more integrated, coordinated and efficient planning of energy networks; and a national

strategy for the knowledge, identification and sustainable exploitation of critical and strategic raw materials. The plan does not include measures to address the strengthening of the electricity transmission and distribution grid (CSR 2024 on renewable energy, energy infrastructure and networks).

(31) Concerning the common priority of defence capabilities, the plan includes the strengthening of capabilities in the defence industry by reinforcing investment in re-equipment, materials and modernisation of military installations; and reviewing the procedures for specific public procurement in defence areas.

(32) The plan also provides information on the consistency and, where appropriate, complementarity, with the cohesion policy funds and Portugal's RRP. Portugal includes links between reforms and investments within the national strategic challenges, the RRP and the partnership agreement, including linking where appropriate, the relevant cohesion policy programmes, RRP measures and the European Pillar of Social Rights.

(33) The plan aims to contribute to meet the public investment needs of Portugal related to the common priorities of the EU. For the common priority on fair green and digital transition, Portugal identifies the need for an interconnected infrastructure network plan to improve water-use efficiency, measures for restoration and nature conservation, the need for a national pact for the forest and more resilience measures in coastal areas to adapt to the impacts of climate change, and the necessity to invest in digitalization and technological innovation. For the common priority on social and economic resilience, Portugal identifies the need for more support measures for victims of domestic violence and human trafficking. For energy security, Portugal identifies the need for continued efforts on diversifying the energy mix and reducing dependence on fossil fuels and better management of geological resources and critical raw materials. Finally, for strengthening defence capabilities, Portugal identifies funding and investment gaps in the military and the need for improving the attractiveness of military careers.

Conclusion of the Commission's assessment

(34) Overall, the Commission is of the view that Portugal's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION

(35) In accordance with Article 17 of Regulation (EU) 2024/1263, the net expenditure path as set in the plan should be recommended by the Council to Portugal.

HEREBY RECOMMENDS that Portugal

1. Ensure that net expenditure growth does not exceed the maxima established in Annex I to this Recommendation.

In addition, the Council invites Portugal to ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations, and addressing the common priorities of the Union.

ANNEX I
Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)
Portugal

Years		2025	2026	2027	2028
Growth rates (%)	Annual	5.0	5.1	1.2	3.3
	Cumulative (*)	17.4	23.4	24.8	28.9

(*) The cumulative growth rates are calculated by reference to the base year of 2023.

Done at Strasbourg,

For the Council
The President