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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE EUROPEAN CENTRAL BANK

on the 2023 Draft Budgetary Plans: Overall Assessment

Executive summary

This Communication summarises the Commission's assessment of the 2023 Draft Budgetary Plans submitted by euro area Member States as well as Croatia, and the overall budgetary situation in the euro area, including the aggregate fiscal stance, as required by Regulation (EU) No 473/2013.

The Commission's assessment considers the macroeconomic shock related to Russia's invasion of Ukraine, as well as its long-term implications for the EU's energy security needs and the continued application of the general escape clause of the Stability and Growth Pact in 2023. The assessment is based on the fiscal policy recommendations adopted by the Council on 12 July 2022. This guidance can be summarised as follows. For 2023, Member States with high debt should ensure a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth. Member States with low/medium debt should ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance. In both cases, the assessment of compliance with the fiscal guidance should take into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. All Member States were asked to stand ready to adjust current spending to the evolving situation. They were also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility (RRF) and other Union funds.

The 2023 Draft Budgetary Plans and the assessment of the fiscal stance for the euro area can be summarised as follows:

1. According to the Commission 2022 autumn forecast, economic growth is projected to attain a meagre, but still positive, 0.3% in the euro area in 2023, amid high inflation and the normalisation of fiscal and monetary policies. The Draft Budgetary Plans tend to have more favourable macroeconomic scenarios.
2. In 2022, government deficits have continued declining substantially from the peaks reached in 2020 (7% of GDP in the euro area), due to the strong economic recovery and the phasing out of COVID-19 temporary emergency measures. Nonetheless, in 2022, deficits are set to be above the 2019 pre-pandemic levels in all euro area Member States (3.5% of GDP for the euro area). This results from residual pandemic-related temporary measures, recovery measures, other non-temporary expansionary measures and from the new measures adopted to mitigate the impact of high energy prices. The net budgetary cost of the latter is estimated at 1.3% of GDP. Only less than 30% of these measures are targeted. Roughly two-thirds of the energy measures are price measures, which may reduce incentives to lower energy consumption and increase energy efficiency. The deficit is expected to stay above 3% of GDP in ten euro area Member States in 2022.
3. In 2023, while the Draft Budgetary Plans point to a further deficit decrease in the euro area, to 3.2% of GDP, the Commission forecast projects an increase to 3.7%. This difference also reflects a timing issue, as some Plans were prepared well before the Commission forecast.
4. The net budgetary cost of energy measures for 2023 is currently forecast at 0.9% of GDP in the euro area. This projection is largely driven by the significant full-year policy packages that were announced by a few large Member States. At the same time, some Member States have not yet announced any energy measures for 2023 or their measures have been announced as expiring in early 2023. If the already announced energy measures were to be kept in place for the full year, their net cost could increase by approximately 1% of GDP.
5. The debt-to-GDP ratio is expected to continue declining in the euro area to around 92% in 2023 (against 99% in 2020), according to both the Draft Budgetary Plans and the

Commission forecast. In the near term, the high nominal growth that results from the high inflation is supporting the decline in the debt ratio. The interest-growth differential becomes more favourable, especially in high-debt Member States, as higher interest rates feed into higher interest expenditure only gradually due to the long maturity of public debts. In 2023, six euro area Member States are projected to continue to have a debt ratio above 100% of GDP (Belgium, Greece, Spain, France, Italy and Portugal), with a further increase projected only for Belgium.

6. The euro area fiscal stance is projected to remain clearly expansionary in 2022, by around 2¼% of GDP, following an expansionary policy in 2020 (¼ % of GDP) and 2021 (1¼% of GDP). The fiscal stance is measured as the change in net primary expenditure relative to medium-term potential growth. It includes all energy-related measures that have been announced by the euro area Member States but excludes COVID-19 temporary emergency measures. Most of this expansionary stance (close to 2 pps of GDP) is due to the increase in net primary current expenditure, two-thirds of which reflecting the above-mentioned measures to mitigate the impact of high energy prices.
7. Further support to the recovery and the green and digital transitions is expected in 2022 from nationally financed investment and expenditure financed by RRF grants and other EU funds (around ¼ pps of GDP).
8. For 2023, the euro area fiscal stance is projected to be broadly neutral, following a cumulative fiscal expansion of 3¾% of GDP in the 2020-2022 period. Net primary current expenditure is set to provide a slightly contractionary contribution to the euro area fiscal stance in 2023, due to the lower net impact of energy-related measures compared to 2022.
9. Nationally financed investment and expenditure financed by RRF grants and other EU funds are set to provide further support to the euro area growth in 2023 (by ¼ pps of GDP), contributing to the green and digital transitions and energy security.
10. The projected 2023 euro area fiscal stance, as well as the underlying developments of net primary current expenditure and of investment are broadly in line with the Council recommendations of 12 July 2022 and the Eurogroup statement on the fiscal policy response to high energy prices and inflationary pressures of 3 October2022. The latter statement called for refraining from policies that would add to the inflationary pressures. However, given the uncertainty regarding the development of energy prices and the absence of information on the possible prolongation of energy measures into 2023 for most Member States, there is a risk that the fiscal stance may eventually turn more expansionary than currently projected

The Commission Opinions on the 2023 Draft Budgetary Plans focus on the consistency with the Council Recommendations of 12 July 2022. The Commission is not publishing an Opinion on the no-policy change 2023 Draft Budgetary Plan for Italy that was submitted by the outgoing government on 10 October. Instead, the Commission will publish in due course an opinion on the updated Draft Budgetary Plan for 2023 that the new government is expected to submit shortly. The following is a summary of the Commission Opinions, which are based on the Commission 2022 autumn forecast:

High-debt Member States (Belgium, France, Greece, Portugal and Spain)

- For France, Greece and Spain, the growth of nationally financed primary current expenditure is projected to be below the medium-term potential output growth, taking into account temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine, as recommended by the Council. That is not the case for Belgium, where the growth of nationally financed current expenditure exceeds potential growth, taking into account temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. For Portugal, the growth of nationally financed current expenditure is projected to be close to the

medium-term potential output growth, assuming the planned reduction in measures in response to high energy prices, including in temporary and targeted support to vulnerable households and firms.

- All Member States plan to finance public investment for the green and digital transitions and for energy security, including by making use of the RRF and other EU funds, as recommended by the Council. Total public investment as a percentage of GDP is set to either increase or remain stable in 2023 with respect to 2022 in all Member States but France and Greece. Belgium, France, Greece, Portugal and Spain plan to preserve nationally financed investment, as it is projected to increase or remain stable from 2022 to 2023. The contribution of expenditure financed by RRF grants and EU funds to the overall fiscal stance is expansionary or neutral in all Member States, except in France and Greece.
- Overall, the Commission is of the Opinion that the Draft Budgetary Plans for France, Greece and Spain are in line with the fiscal guidance contained in the Council Recommendation of 12 July 2022, while that of Belgium is partly in line with the Recommendation, and that of Portugal risks being only partly in line with the Recommendation.

Low/medium debt Member States (Austria, Croatia, Cyprus, Estonia, Finland, Germany, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Slovenia and Slovakia)

- The overall fiscal policy stance in 2023 varies across Member States:
    - Contractionary (between +0.5% and +2.3% of GDP – by convention, a negative sign indicates an expansionary stance): Latvia, Ireland, Cyprus and Malta
    - Broadly neutral (between -0.1% and -0.2% of GDP): Croatia, Austria and Finland
    - Expansionary (between -0.4% and -2.6% of GDP): Lithuania, Germany, Estonia, Luxembourg, the Netherlands, Slovenia and Slovakia
- The contribution of their nationally financed current expenditure (net of new revenue measures) to the overall fiscal stance in 2023 also varies across Member States:
    - Contractionary (between +0.4 and +1.7 percentage points): Croatia, Latvia, Ireland, Cyprus and Malta
    - Broadly neutral (around zero percentage points): Finland and the Netherlands
    - Expansionary (between -0.3% and -1.7 percentage points): Austria, Lithuania, Germany, Estonia, Luxembourg, Slovenia and Slovakia. In all cases, this is not the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.
- All Member States plan to finance public investment for the green and digital transitions and for energy security, including by making use of the RRF and other EU funds, as recommended by the Council. Total public investment as a percentage of GDP is set to either increase or remain stable in 2023 with respect to 2022 in all low/medium debt Member States. All Member States are planning to preserve nationally financed investment, with the exception of Cyprus, Latvia and Malta where it is projected to decrease from 2022 to 2023. The contribution of expenditure financed by RRF grants and EU funds to the overall fiscal stance is expansionary or neutral in all Member States, except Germany.
- Overall, the Commission is of the Opinion that the Draft Budgetary Plans for Croatia, Cyprus, Finland, Ireland, Latvia and Malta are in line with the fiscal guidance contained in the Council Recommendation of 12 July 2022. The Draft Budgetary Plans of Austria, Lithuania, Germany, Estonia, Luxembourg, the Netherlands, Slovenia and Slovakia are partly in line with the Recommendation.

While Member States rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish.

I. Introduction

Coordination of national budgetary policies is an important part of the economic governance framework in the Economic and Monetary Union.[1] To enable this coordination, euro area Member States submit their Draft Budgetary Plans for the following year to the Commission and to the Eurogroup by mid-October. Those plans summarise the draft budgets that governments intend to submit to national parliaments. The Commission provides an Opinion on each plan, assessing whether the plan is compliant with the Member State's obligations under the Stability and Growth Pact. The Commission's Opinions provide policy advice to national governments and inform national parliaments with a view to helping the adoption of budgets compliant with EU fiscal rules and Council recommendations. Croatia will become a euro area Member States on 1 January 2023 and has decided, on a voluntary basis, to submit its Draft Budgetary Plan for 2023. Croatia's plan is thus included in this Communication and the Commission provided an Opinion on it. The outgoing governments of Italy and Latvia submitted Draft Budgetary Plans based on unchanged policies; therefore, the 2023 budgetary figures for these countries presented in this Communication do not represent policy targets. The Commission also provides an overall assessment of the budgetary situation and prospects for the euro area as a whole.

The Commission's assessment is anchored by the fiscal recommendations adopted by the Council on 12 July 2022. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply-chain disturbances have warranted the extension through 2023 of the general escape clause of the Stability and Growth Pact, which was activated by the Commission and the Council in March 2020.[2] In this context, the Council fiscal recommendations were formulated in qualitative terms with a quantitative underpinning, with some important differentiations based on Member States' public debt challenges.

For 2023, the Council recommendations focus on the overall direction and composition of the fiscal stance, including expenditure funded by the Recovery and Resilience Facility (RRF) and other EU funds. COVID-19 temporary emergency measures are excluded from the fiscal stance. The Council recommended that Member States with high debt (Belgium, Greece, Spain, France, Italy and Portugal) should ensure a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output. Member States with low/medium debt were recommended to ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance. In both cases, the recommendations called for taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. All Member States should stand ready to adjust current spending to the

[1] As set out in Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

[2] In the Communication to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final, the Commission set out its view that given the expected severe economic downturn resulting from the COVID-19 outbreak the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. On 23 May 2022, the Commission extended the activation of the General Escape Clause of the Stability and Growth Pact through 2023.

evolving situation. All Member States were also recommended to expand public investment for the green and digital transitions, and for energy security, taking into account the REPowerEU initiative, including by making use of the RRF and other Union funds.

For the period beyond 2023, all Member States were recommended to pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. High-debt Member States were also recommended to ensure credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms.

The objective of this Communication is twofold. First, it provides an aggregate picture of budgetary policy at the euro area level, building on a cross-country assessment of the 2023 Draft Budgetary Plans. Second, it provides an overview of the Draft Budgetary Plans at country level and explains the Commission's approach to assessing them, with a particular focus on the budgetary measures to mitigate the impact of high energy prices taken, or credibly announced, by governments, and on the quality of energy measures.

Table 1: Summary of assessment of the 2023 Draft Budgetary Plans' consistency with the Council Recommendations

	Overall fiscal stance	Contribution of nationally financed primary current expenditure to the fiscal stance Taking into account targeted energy and refugee related costs: no change in conclusion	Growth of nationally financed primary current expenditure below medium-term potential output growth Taking into account targeted energy and refugee related costs: no change in conclusion	Public investment for the green and digital transitions, and for energy security	Overall Assessment	Preservation of nationally financed investment	Contribution of expenditure financed by RRF grants and EU funds
Low/medium debt Member States							
Austria	✓	×	*	✓	×	✓	✓
Croatia	✓	✓	*	✓	✓	✓	✓
Cyprus	✓	✓	*	✓	✓	×	✓
Estonia	×	×	*	✓	×	✓	✓
Finland	✓	✓	*	✓	✓	✓	✓
Germany	×	×	*	✓	×	✓	×
Ireland	✓	✓	*	✓	✓	✓	✓
Latvia	✓	✓	*	✓	✓	×	✓
Lithuania	×	×	*	✓	×	✓	✓
Luxembour	×	×	*	✓	×	✓	✓
Malta	✓	✓	*	✓	✓	×	✓
Netherlands	×	✓	*	✓	×	✓	✓
Slovenia	×	×	*	✓	×	✓	✓
Slovakia	×	×	*	✓	×	✓	✓
High-debt Member States							
Belgium	*	*	×	✓	×	✓	✓
France	*	*	✓	✓	✓	✓	×
Greece	*	*	✓	✓	✓	✓	×
Portugal	*	*	×[1]	✓	×	✓	✓
Spain	*	*	✓	✓	✓	✓	✓

* Only the elements relevant for Member States' consistency with the Council Recommendations were included in this table. For low/medium debt Member States the Recommendation does not concern the growth of nationally financed primary current expenditure below medium-term potential output growth, while for high debt Member States the Recommendation does not refer to the overall fiscal stance nor the contribution of nationally financed primary current expenditure to the fiscal stance.

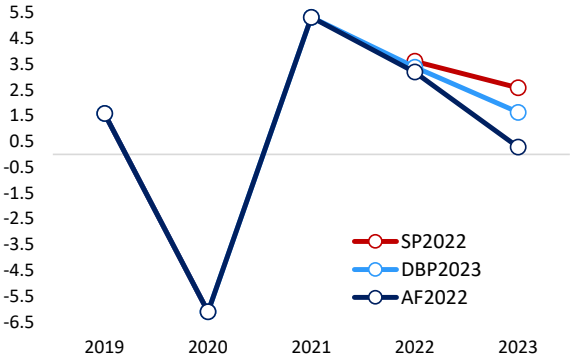
[1] For Portugal, the growth of nationally financed current expenditure is projected to be close to the medium-term potential output growth, assuming the planned reduction in measures in response to high energy prices, including in temporary and targeted support to vulnerable households and firms.

II. Main euro area findings

Economic outlook

The euro area economy has continued its strong post-pandemic recovery in 2022, but economic activity is set to decelerate sharply in 2023, amid high inflation. In quarterly terms, the euro area real GDP reached its pre-pandemic level (last quarter of 2019) already in the third quarter of 2021, thanks to the improved health situation and effective policy support at national and EU level. Economic activity remained resilient up to the third quarter of 2022, despite significant headwinds. The fallout of Russia's war of aggression against Ukraine, with the cut of natural gas supply by Russia to Europe, added to the pre-existing bottlenecks and disruptions in global supply chains. Skyrocketing energy prices have led the euro area HICP inflation to exceptionally high levels (10.6% in October 2022) and to rising inflation differentials among Member States due to different national energy mixes and uneven fiscal policy measures. Despite high inflation, private consumption has continued to recover in the first three quarters of 2022, thanks to the reopening of all contact services, the pent-up demand related to the historically high savings accumulated in 2020 and 2021 and governments' support to mitigate the impact of high energy prices. Nonetheless, the energy price shock is significantly affecting the terms of trade of the euro area economy and, in turn, households' real disposable incomes and firms' real profits. This is forecast to translate into lower private consumption and investment in the coming quarters. Investment had already started to slow down due to high uncertainty and less favourable financing conditions, while the recovery of foreign tourism has supported exports. Available indicators point to an ongoing loss of momentum, and the Commission 2022 autumn forecast pencils a technical recession, with two negative readings of real GDP in the last quarter of 2022 and the first quarter of 2023. In 2022 as a whole, the euro area economy is forecast to grow by 3.2%, following the 5.3% rebound recorded in 2021. As a result, in 2022, the annual real GDP level is expected to be more than 2 pps above the 2019 pre-pandemic level.

Graph 2.1 **Euro area: real GDP growth, 2019-2023 (%)**



Note: France did not submit the 2022 Stability Programmes, so it is not included in the aggregate euro area SP2022 figures.
Sources: 2023 Draft Budgetary Plans (DBP 2023), European Commission 2022 autumn forecast (AF2022), and 2022 Stability Programmes (SP2022)

The macroeconomic projections underlying the Draft Budgetary Plans and the Commission 2022 autumn forecast are close for 2022 but differ significantly for 2023. The projections for euro area real GDP growth at 3.4% in 2022 in the Draft Budgetary Plans are only slightly more favourable than in the Commission 2022 autumn forecast (Graph 2.1 and Annex Table IV.1). For 2023, while the Commission forecast expects the euro area economy to broadly stagnate, with a growth of only by 0.3%, the Draft Budgetary Plans still project economic activity to continue to show solid growth, albeit at a much lower pace (1.6%)

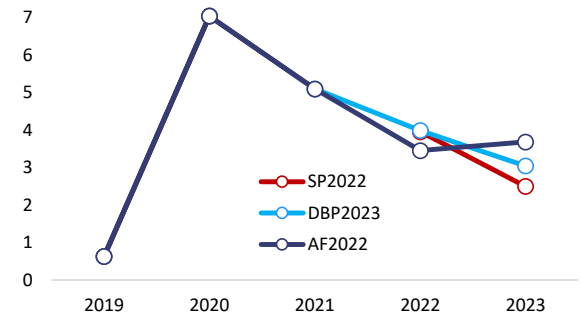
than in 2022. The 2022 Stability Programmes were even more optimistic, with economic growth projected at 2.6% in 2023.

Risks for economic growth in 2023 are tilted to the downside, due to high inflationary pressures, energy supply constraints and tightening financing conditions. Geopolitical tensions, and especially Russia's war of aggression against Ukraine, imply high uncertainty for the euro area economy. Gas supply should be sufficient for the coming winter, but lasting energy security and accelerating the green transition will require further investment. Inflation could become more entrenched and weigh on the recovery, while rising borrowing costs could amplify pre-existing financial vulnerabilities in the corporate sector, with a potential impact on growth. Furthermore, potential inconsistency between fiscal and monetary policy objectives could have adverse consequences. Finally, risks stemming from the global economy remain important.

Fiscal outlook

The Draft Budgetary Plans project a further decline in the euro area deficit in 2023, whereas the Commission forecast expects a mild increase (Graph 2.2 and Annex Table IV.2). After falling from 7% of GDP in 2020 to 5.1% in 2021, the euro area deficit is projected to decline again in 2022 by both the Draft Budgetary Plans and the Commission forecast (to 3.9% and 3.5% of GDP, respectively). The 2022 deficit would however remain well above the 2019 pre-pandemic level in the euro area (0.6% of GDP), also due to additional non-temporary current expenditure adopted after the pandemic. For 2023, the Draft Budgetary Plans point to a further 0.7 pps of GDP deficit reduction in the euro area, to 3.2%. However, this deficit projection is more favourable than the Commission forecast, which instead projects a 0.2 pps of GDP deficit increase next year, to 3.7%. This mild increase is driven by automatic fiscal stabilisers in the face of the expected economic slowdown, higher interest expenditure and revenue shortfalls due to a less tax-rich composition of growth.[3] These deficit-increasing factors are set to more than offset the lower net budgetary costs of the energy-related measures - conditional on the discontinuation of part of the energy-related measures in the course of the 2023 being confirmed (from 1.3% of GDP in 2022 to 0.9% in 2023) - and the complete phasing out of COVID-19 temporary emergency measures (estimated at 0.9% of GDP in 2022 – Annex Table IV.4). The majority of euro area

Graph 2.2 **Euro area: headline deficit, 2019-2023 (% of GDP)**



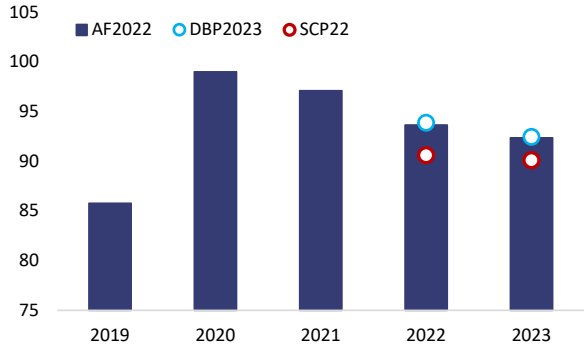
Note: The aggregate euro area SP2022 figures does not include data for France, given that France did not submit a Stability Programme in 2022.
Sources: 2023 Draft Budgetary Plans (DBP 2023), European Commission 2022 autumn forecast (AF2022), and 2022 Stability Programmes (SP2022)

[3] Revenue windfalls (shortfalls) are estimated through the increase (decrease) in the revenue-to-GDP ratio that is not explained by discretionary measures or transfers from the EU budget. For the euro area, the Commission 2022 autumn forecast estimates revenue windfalls of ¾% of GDP in 2021, and ½% in 2022. Revenue shortfalls of around ¾% of GDP are projected for 2023.

Member States plan a lower deficit in 2023 compared to 2022. Declines above 1 pp of GDP are planned in Greece (by 2.1 pps, to 2.1%), Germany (by 1.6 pps, to 2%), and Spain (by 1.1 pps, to 3.9%). The higher projections in the Commission forecast also reflect a timing issue, as some Draft Budgetary Plans were prepared well before the Commission 2022 autumn forecast. Ten euro area Member States project a deficit above 3% of GDP in 2023, including four high-debt Member States (Belgium, Spain, France and Italy).

The Draft Budgetary Plans and the Commission forecast both point to a decline in the debt-to-GDP ratio in 2022 and 2023 (Graph 2.3 and Annex Table IV.3). The Draft Budgetary Plans project the debt ratio[4] to reach 94% of GDP in 2022 (down from 97% in 2021) and decrease further in 2023, to around 92%.[5] This projection is essentially the same as in the Commission 2022 autumn forecast. The primary deficit will continue to weigh on debt dynamics in the euro area in 2023 (Graph 2.4).

Graph 2.3 **Euro area: public debt, 2019-2023 (% of GDP)**



Note: France did not submit the 2022 Stability Programmes, so it is not included in the aggregate euro area SP2022 figures.
Sources: 2023 Draft Budgetary Plans (DBP 2023), European Commission 2022 autumn forecast (AF2022), and 2022 Stability Programmes (SP2022)

Due to the high inflation, the interest rate-growth differential is set to remain favourable in 2023, contributing to decreasing debt. The high inflation surprise (measured with the GDP deflator) is increasing the denominator of the debt-to-GDP ratio, whereas higher interest rates are affecting the numerator through higher interest expenditure only gradually, due to the rather long maturity of public debts in the euro area.[6] This debt-decreasing 'snow-ball'[7] effect is particularly strong in high-debt Member States. In 2023, significant declines in the debt-to-GDP ratio are forecast in Greece, Portugal, Cyprus and Ireland, countries that are also expected to show primary surpluses. Six Member States are projected to have a debt ratio above 100% of GDP in 2023 (Belgium, Greece, Spain, France, Italy and Portugal), with the debt ratio projected to increase only in the case of Belgium.

The debt projections for the upcoming years are subject to heightened uncertainty. Stochastic simulations, which apply a large range of macroeconomic shocks around the central scenario, suggest that the euro area debt-to-GDP ratio is likely to lie between 87% and 98% of GDP in 2023, and between 80% and 102% of GDP in 2027 (Annex III). On the one hand,

[4] These debt data are not consolidated for intergovernmental loans.

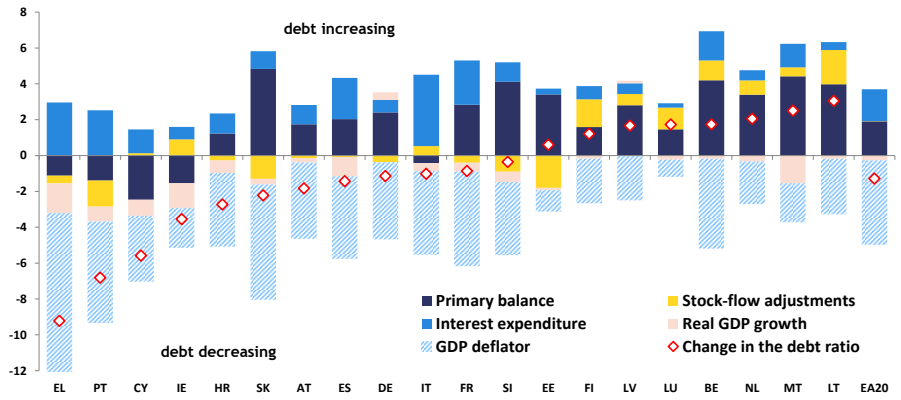
[5] The Member States with projected increases in their debt ratios in 2023 are Belgium, Estonia, Latvia, Lithuania, Luxembourg, Malta and Finland. Most Member States that had the highest pre-crisis debt ratios project their debt ratio declining in 2023.

[6] The average maturity in the euro area is currently 8.1 years (data for September 2022, source: Government finance statistics, ECB).

[7] The so-called 'snowball effect' captures the impact of interest expenditure on the annual accumulation of debt, as well as the impact of real GDP growth and inflation (GDP deflator) on the debt ratio.

several factors weigh on fiscal sustainability. In particular, the high inflationary environment is expected to negatively affect long-term public debt dynamics. In the short term, debt-to-GDP ratios are projected to fall because of the higher nominal GDP growth. In the longer term, the increase in interest rates will eventually feed into the debt dynamics. Against the background of uncertain growth prospects, this risks being detrimental to long-term debt developments, pointing to the importance of implementing reforms and investment to relaunch growth potential and pursuing responsible fiscal policies. In addition, contingent liabilities arising from the provision of public guarantees, including those granted in the context of the COVID-19 pandemic, could adversely affect public debt and deficits if called.[8] Overall, the recourse to guaranteed loans has been heterogeneous across Member States with some countries displaying already important amounts of the state guaranteed loans before the pandemic outbreak (Box 1). On the other hand, several factors mitigate fiscal sustainability risks. These factors include the lengthening of government debt maturities in recent years (see footnote 6), stable financing sources and EU initiatives such as the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) and, more importantly, Next Generation EU and the Recovery and Resilience Facility (RRF) by financing investments and growth-enhancing reforms. Moreover, large shares of government debt, in the range of 10% to 35% for most euro area countries[9], are held by the European System of Central Banks.

Graph 2.4 **Decomposition of the change in the debt ratio, 2023 (pps of GDP)**



Source: European Commission 2022 autumn forecast

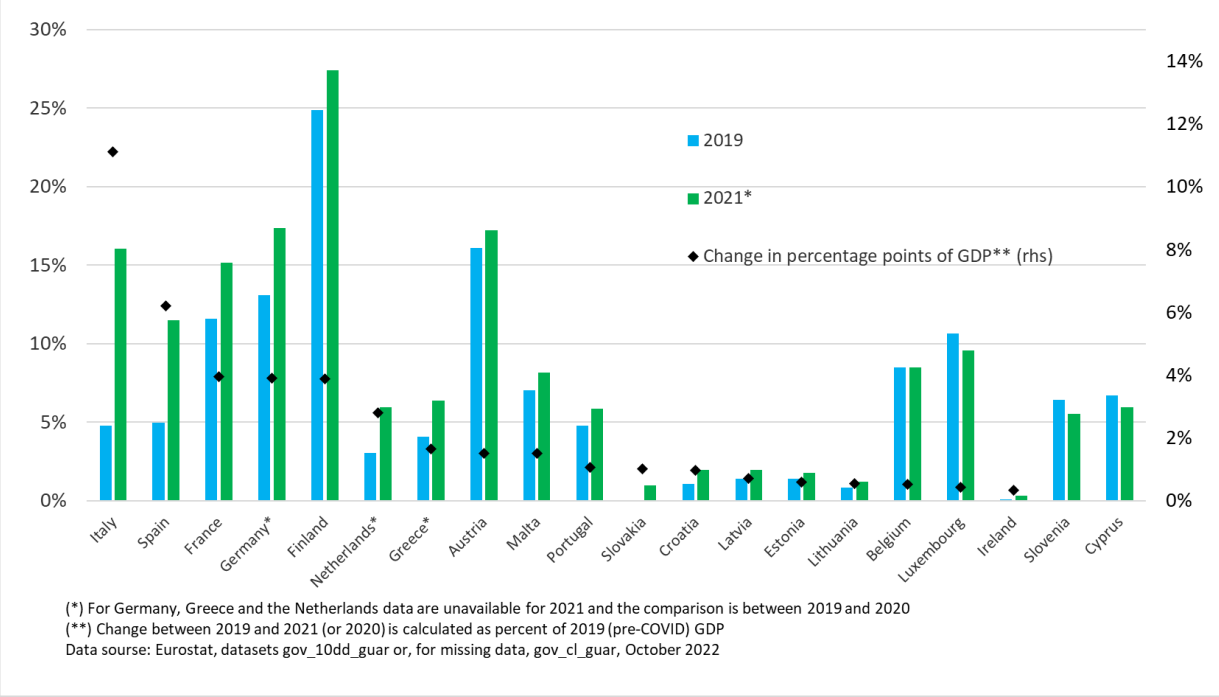
[8] Contingent liabilities would in general be reflected in public debt and deficits only if called except in case of standardised guarantees. In some cases, governments issued standardised guarantees in response to the COVID-19 crisis and for such guarantees an estimated deficit impact is recorded from the outset in line with ESA 2010 rules.

[9] Data for 2021, source: Government finance statistics, ECB.

Box 1. Guarantees in the 2023 Draft Budgetary Plans

Government guarantees and other forms of liquidity support, notably tax deferrals and loans, constituted an important part of support measures in response to the COVID-19 crisis. The reporting in the Draft Budgetary Plans highlights that most of these short-term measures have now expired; furthermore, the amount of actually issued guarantees typically remained lower (and often substantially lower) than the initially announced maximum size of the guarantee schemes. The cumulative issuance of guarantees linked to COVID-19 since 2020 is considerably lower than during the global financial crisis. Nevertheless, the issuance of guarantees in 2020 and 2021, whether directly linked to the COVID-19 crisis or not, has visibly affected the level of outstanding contingent liabilities in some euro area Member States, particularly in Italy, Spain, France, Germany and Finland (see graph B1.1).

Graph B1.1 Euro area: Stock of government guarantees, 2019-2021 (% of GDP)



(*) For Germany, Greece and the Netherlands data are unavailable for 2021 and the comparison is between 2019 and 2020
(**) Change between 2019 and 2021 (or 2020) is calculated as percent of 2019 (pre-COVID) GDP
Data sourse: Eurostat, datasets gov_10dd_guar or, for missing data, gov_cl_guar, October 2022

There are currently no indications in the Draft Budgetary Plans of widespread liquidity measures triggered by the energy crisis and the Russian war of aggression against Ukraine. Nevertheless, some Member States have reported such measures in their plans: for example, Finland has decided to issue guarantees, loans and similar arrangements for the energy sector, Slovenia plans to issue guarantees to support state-owned companies operating on international energy markets and Luxembourg has decided to put in place a loan guarantee scheme to mitigate adverse repercussions of energy prices on companies.

Fiscal response to the economic repercussions of Russia's military aggression against Ukraine

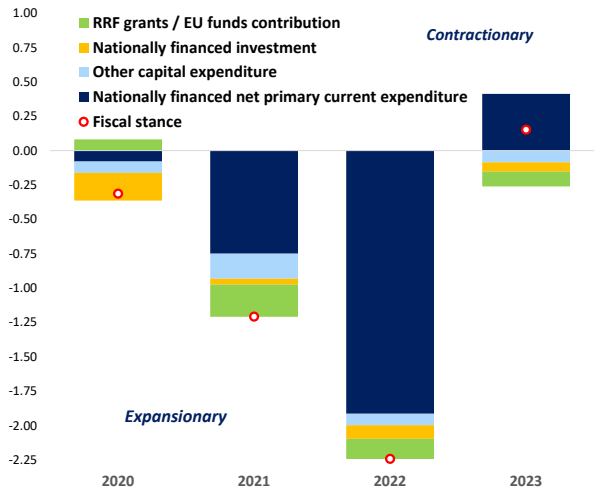
Member States have taken sizeable fiscal measures in response to the Russian invasion of Ukraine and the ensuing energy crisis in 2022. Member States have deployed a range of policies to mitigate the direct economic and social impact of skyrocketing energy prices on households and firms. In this context a key policy objective is to protect low-income households and to shield energy intensive industries from this sudden price volatility. The Commission forecast estimates the net budgetary cost of new discretionary measures to mitigate the short-term economic and social impact of high energy prices at 1.3% of GDP in the euro area (Annex Table IV.5). Most of these measures have been announced as temporary. Nevertheless, while around one-third (or 0.4% of GDP in the euro area) of these measures are targeted (for more details on how these measures are defined see section III, chapter Assessment of measures to households and firms most vulnerable to energy price hikes) at households and firms most vulnerable to energy prices hikes, two-thirds of them (or 0.9% of GDP in the euro area, net of revenues on windfall profits by energy companies) are not considered to be well targeted. In 2022, the budgetary cost of sheltering and integrating people fleeing Ukraine, following Russia's war of aggression, is estimated at 0.1% of GDP in the euro area as a whole, with differences across Member States.

The projected gradual roll-back of energy related measures in 2023 is based on the measures announced in the Draft Budgetary Plans and subject to uncertainty linked to developments in energy prices, while the budgetary cost of sheltering refugees from Ukraine should continue to be rather limited. In 2023, according to the Commission forecast, the net budgetary cost of energy-related measures is forecast to decrease to 0.9% GDP in the euro area, as some Member States have adopted (or announced) measures only for some months of next year or no measures at all. Thus, the extension or adoption of new energy-related measures would likely increase the net budgetary costs of these measures in 2023, despite additional taxes levied on the extra profits of energy companies, by an additional 1% of GDP in the euro area, reaching close to 2% of GDP in 2023 (for more details see section III, chapter Assessment of measures to households and firms most vulnerable to energy price hikes). The budgetary cost of sheltering and integrating people fleeing Ukraine, following Russia's war of aggression, is estimated to remain at 0.1% of GDP in the euro area.

Assessment of the euro area fiscal stance [10]

The euro area fiscal stance has been very expansionary in 2022. Based on the Commission 2022 autumn forecast, the euro area fiscal stance has continued to be expansionary in 2022, by around 2¼% of GDP, after expansions of 1¼% and ¼% of GDP recorded in 2021 and 2020, respectively (Graph 2.5). The fiscal stance includes the impulse from both the national and EU budgets, but it excludes COVID-19 temporary emergency measures. [11] All energy-related measures are included in the fiscal stance. However, in line with the Council recommendations of 12 July 2022, this Communication takes into account in its assessment temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.

Graph 2.5 **Euro area fiscal stance and components, 2020-2023 (% of GDP)**



Source: European Commission 2022 autumn forecast

Overall, in 2022, the development in net primary current spending appears to have been strongly expansionary. Nationally financed net primary current expenditure is expected to contribute significantly to the expansionary stance in 2022, by close to 2 pps of GDP. Around two-thirds of the expansionary contribution is related to measures taken by governments to mitigate the impact of high energy prices on households and firms. Those measures appear, to a large extent, broad-based, not targeted to vulnerable groups. The remainder one-third is related to the increase in underlying net current spending, especially social transfers, at a rate above medium-term potential growth. This expansionary trend has contributed to supporting domestic demand while adding to inflationary pressures and weighing on the fiscal position of several Member States, including high-debt Member States. Further expansionary contributions (around ¼ pps of GDP) are expected in 2022 from nationally financed investment and spending paid for by the Recovery and Resilience Facility and other EU funds.

Following three years of fiscal expansion, the fiscal stance for 2023 is currently projected to be broadly neutral, conditional on the planned roll-back of energy-related measures.

[10] The fiscal stance measures the short-term impulse to the economy from discretionary fiscal policy. In line with the approach used since the Council recommendations on the 2021 Stability Programmes, this Communication assesses the fiscal stance by looking at the annual increase in net primary expenditure relative to 10-year potential growth. For more details see Box: Indicators used in the assessment of the 2023 Draft Budgetary Plans in the Statistical Annex.

[11] COVID-19 temporary emergency measures mainly consist of transfers necessary to keep afloat households and firms hit by the pandemic. These measures are excluded from the fiscal stance because their direct impact on economic growth is assumed to be limited at the time of disbursement, due to the pandemic-related restraints on economic activity (e.g., widespread lockdowns, travel restrictions, etc.). The historically high households' saving rates in 2020 and 2021 and the resilient private consumption in 2022 corroborate this assumption. If COVID-19 temporary emergency measures had not been excluded, the euro area fiscal stance would have appeared strongly expansionary in 2020 (by around 3.5% of GDP) and would have remained similarly expansionary in 2021 (by 1¼%), while it would have appeared broadly neutral in 2022 and contractionary in 2023 (by around 1%).

The Commission forecast, which incorporates information provided in the Draft Budgetary Plans, indicates that the euro area fiscal stance would become broadly neutral in 2023. This stance should be considered in the context of a cumulative expansion of 3¾% of GDP in the 2020-2022 post-pandemic period. Moreover, this neutral fiscal stance assumes a partial roll-back of energy-related measures relative to 2022, which is subject to uncertainty (for more details see section III, chapter Assessment of measures to households and firms most vulnerable to energy price hikes).

Nationally financed investment and expenditure financed by the RRF grants and other EU funds are set to expand further in 2023. This additional increase in growth-enhancing spending (by around ¼% of GDP) will contribute to reducing reliance on imported fossil-fuel energy, in particular from Russia. Moreover, the expected fiscal support for public and private investments as well as productivity-enhancing reforms will have a positive impact on potential growth and thus on fiscal sustainability in the medium term.

Net primary current spending would provide a slightly contractionary contribution in 2023. The lower estimated net impact of energy-related measures in the euro area largely explains this contractionary contribution of around ½ pps of GDP. However, this assessment may be revised if existing measures were prolonged or further support deployed in the case of persistently high energy prices.

The projected euro area fiscal stance, as well as the underlying development of net primary current expenditure and investment, appear to be consistent with the fiscal recommendation for 2023. Overall, planned fiscal policies for 2023 are currently not expected to contribute to inflationary pressures on the demand side and would enhance the supply side of the euro area economy, complementing the ongoing normalisation of monetary policy by the ECB.

Monetary Policy Stance

Monetary policy normalisation is implying a rapid increase in policy rates amid unprecedentedly high inflation. Historically high inflation, which reached 10.7% in the euro area in October 2022, has prompted a rapid increase in policy rates, which have risen by 2 pps since July. The normalisation of policy rates started shortly after the end of net asset purchases by the Eurosystem at the beginning of July. Going forward, policy rates are expected to edge up further (Graph 2.6). At the same time, maturing securities acquired under the Pandemic Emergency Purchase Programme should continue to be reinvested until year-end 2024, while the principles governing the unwinding of the Asset Purchase Programme should be announced at the December ECB meeting. At its October meeting, the ECB also decided to provide banks with incentives for an early repayment of funding obtained under the Targeted Longer-Term Refinancing Operations programme, with a view to draining excess liquidity from the financial system.

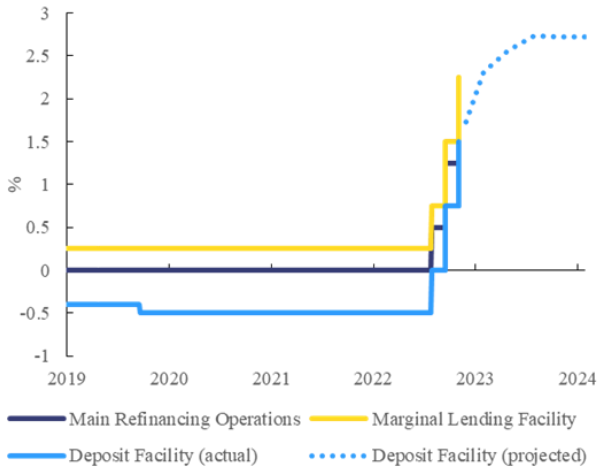
While inflation entails temporarily low real rates, nominal financial conditions have tightened significantly. Market-based financial conditions have tightened, as have the credit standards of euro area banks. A composite measure of financing costs[12] shows a strong upward

[12] I.e., the composite credit cost indicator (CCCI) calculated by the Commission services, which is a synthetic measure of the external financing costs for the euro area corporate sector and households. The CCCI of

trend since the end of last year for households and, particularly, for non-financial corporations. The normalisation of monetary policy has come along with increased sovereign bond yields as well as a widening in the spreads between the interest rates paid by the less indebted and the more indebted euro area Member States. While high inflation means that shorter-term real rates are currently negative, real financial conditions are expected to tighten in the future due to an easing of inflation and the progressive pass-through of higher policy rates to commercial lending rates.

In a context of high and persistent inflation, it is crucial to maintain a consistent monetary-fiscal policy mix. In 2020-2021, very accommodative monetary policy contributed to expand the fiscal space of Member States, which was used to counter the negative effects of the COVID-19 pandemic. Conversely, fiscal policy contributed to the smooth transmission of monetary policy through the extension of guarantees on bank lending. The ongoing monetary policy normalisation is now reducing fiscal space in a context of high and persistent inflation. This calls for a judicious use of fiscal policy measures, which should be targeted to vulnerable households and companies, while maintaining the price signal and avoiding fanning inflationary dynamics.

Graph 2.6 **ECB policy rates**



Note: Deposit facility rate projections based on forward €STER OIS rates.
Source: Bloomberg, own calculations

non-financial corporations includes the costs of credit provided by both banks and financial markets. The CCCI of households includes the cost of bank loans granted for consumption, house purchase and other purposes.

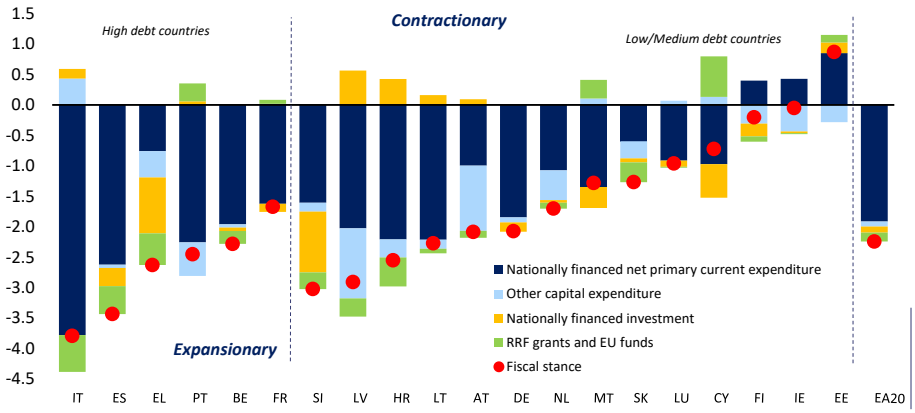
III. Overview of the Draft Budgetary Plans

Assessment of Member States' fiscal stance

Fiscal stance in 2022

In 2022, an expansionary fiscal stance is projected in almost all euro area Member States, including high-debt Member States for which the Council recommended a prudent fiscal policy (Graph 3.1). Estonia is the only country with an estimated contractionary stance this year, based on the Commission 2022 autumn forecast, while Finland and Ireland display a broadly neutral stance. For Estonia, the exceptional - and partly unanticipated - increase in the GDP deflator that is forecast for 2022 (14.3%) is one of the reasons behind the contractionary outcome, as some government expenditure (e.g. social transfers or public sector wages) may reflect high inflation with one-year delay. Very strong GDP deflator increases (above 10%) are also projected for Lithuania (16.5%) and Latvia (11.0%), while the forecast for the GDP deflator inflation in the euro area aggregate is 4.6%. A supportive fiscal stance for 2022 was recommended by the Council on 18 June 2021 only to low/medium-debt Member States. All high-debt Member States, which were recommended to implement a prudent fiscal policy and preserve nationally financed investment, show a very expansionary stance this year, with net primary current expenditure being the main driver in most cases.[13] In spring 2023, the Commission will assess, based on the outturn data for 2022, compliance with the fiscal country-specific recommendations addressed to the Member States by the Council.

Graph 3.1 **Fiscal stance and components of euro area Member States, 2022 (% of GDP)**



Source: European Commission 2022 autumn forecast

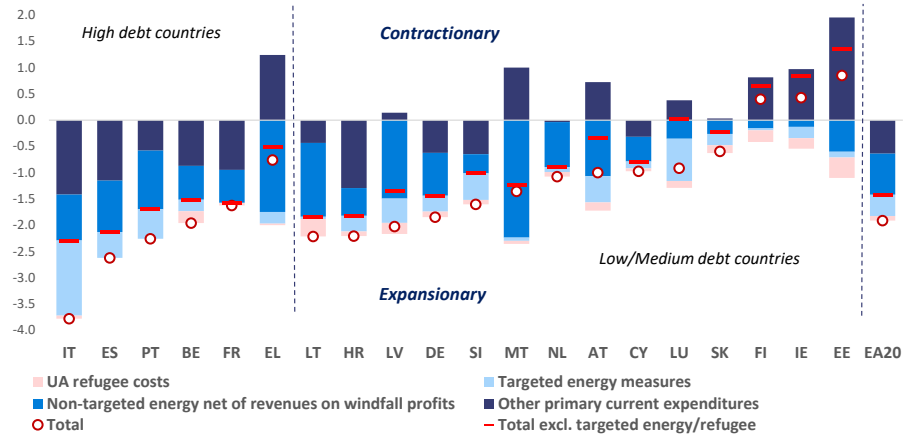
Capital expenditure has been supported by both national and EU funding in the majority of Member States. The Council recommendations of 18 June 2021 invited all Member States to preserve nationally financed investment in 2022, and to use the Recovery and Resilience Facility to support the recovery. Nationally financed investment is set to have been preserved

[13] The Council recommended Italy and Portugal to limit the growth of nationally financed current expenditure in 2022, while Bulgaria, Croatia, Latvia, Lithuania were recommended to keep it under control. These Member States were projected at the time (in spring 2021) to register in 2022 a significant supportive contribution from such expenditure to the fiscal stance (more than 0.5 pps of GDP).

in most euro area Member States. Italy, Latvia, Croatia, Lithuania, and Estonia are the exception, with an expected decline of more than 0.1 pp of GDP in this fiscal stance component in 2022. However, the absorption of RRF grants is planned to increase for those Member States. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is estimated to have increased or broadly stabilised in all euro area countries this year, except for Portugal, Malta and Cyprus due to lower spending related to other EU funds (Graph 3.1).

In 2022, energy-related measures have been the main but not sole driver behind the expansionary developments in net primary current spending in most Member States (Graph 3.2). In most euro area Member States, the growth of nationally financed primary current expenditure (net of discretionary revenue measures) is projected to have exceeded the rate of medium-term potential growth. Only in Finland, Ireland, and Estonia would this contribution have been (slightly) contractionary. During 2022, all euro area governments have taken measures to mitigate the impact of high energy prices. However, in most cases, those measures have not been targeted at households and firms most vulnerable to energy prices hikes. Moreover, most high-debt Member States and several low/medium-debt countries have expanded net current spending not related to energy measures in 2022 (see dark blue bar in Graph 3.2), mainly because of significant increases in underlying social transfers and, in Belgium and Italy, in public sector wages. As a result, even after taking account of the targeted energy-related measures and the support to people fleeing Ukraine, the contribution of this component would remain significantly expansionary (above 0.5 pps of GDP), in all high-debt Member States and in several low/medium-debt countries, as shown in Graph 3.2.

Graph 3.2 **Nationally financed net primary current expenditure: contribution to fiscal stance and drivers, 2022 (pps of GDP)**

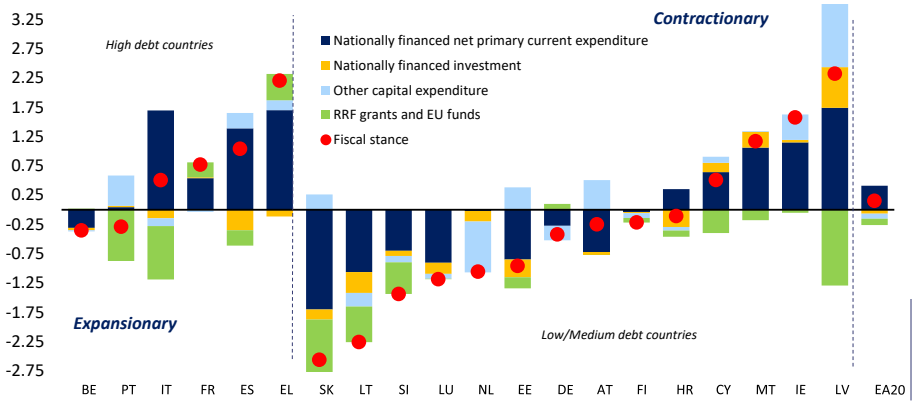


Source: European Commission 2022 autumn forecast

Fiscal stance in 2023

In 2023, the fiscal stance is forecast to differ across Member States (Graph 3.3). Based on the Commission 2022 autumn forecast, which incorporates information provided in the Draft Budgetary Plans, the fiscal stance in 2023 is projected to be (slightly) expansionary in half of the euro area Member States and broadly neutral or contractionary in the other half. This is largely explained by some governments having already announced energy-related measures for the entire year 2023, while others have included in their Plans those measures only for the first months of 2023 or no measures at all. The resulting broadly neutral fiscal stance for the euro area aggregate in 2023 is therefore subject to uncertainty and may eventually turn out more expansionary than currently projected.

Graph 3.3 **Fiscal stance and components of euro area Member States, 2023 (% of GDP)**

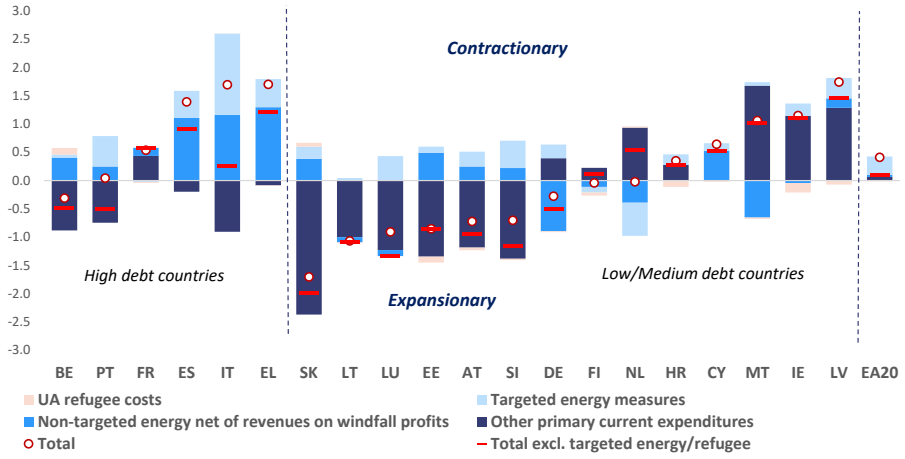


Source: European Commission 2022 autumn forecast

The projected decline in energy-related measures shape planned developments in net primary current expenditure in 2023, while other current expenditure continues increasing in around half of the countries (Graph 3.4). Among high-debt Member States, in 2023, the projected decline in energy-related measures drives the contractionary contribution of net primary current spending in Spain, Italy and Greece, and the broadly neutral contribution of this component in Portugal. The decline instead does not change the overall expansionary contribution of net primary current spending expected in Belgium. Taking into account only the targeted energy-related measures and the support to people fleeing Ukraine, net primary current expenditure would increase above medium-term potential output growth, providing an expansionary contribution to the fiscal stance, in both Belgium and Portugal (Graph 3.4). Net primary current spending excluding energy related measures is projected to grow at a rate above medium-term potential growth in all high-debt Member States but France (see dark blue bar in Graph 3.4), mainly related to significant increases in underlying social transfers. As for low/medium-debt countries, only Finland and the Netherlands are projected to have a broadly neutral contribution to the fiscal stance of net primary current expenditure. Taking into account the targeted energy-related measures and the support to people fleeing Ukraine, this contribution would remain broadly neutral only in Finland. Slovakia, Lithuania, Luxembourg, Estonia, and Austria are expected to have a sizeable expansionary contribution (more than 0.5 pps of GDP) of net primary current spending in 2023. This could fuel further inflationary pressures in those countries. The expansionary contribution of this component is expected to be smaller (¼ pps of GDP) in Germany. A contractionary contribution to the fiscal stance of

net primary current spending is projected in Malta, Ireland and Latvia, and, to a lesser extent, in Croatia and Cyprus. This appears justified by the evolving economic situation, in particular the high inflation.

Graph 3.4 **Nationally financed net primary current expenditure: contribution to fiscal stance and drivers, 2023 (pps of GDP)**



Source: European Commission 2022 autumn forecast

Nationally financed investment as well as investment financed via RRF or other EU funds is set to stabilise or expand in most euro area Member States in 2023. Based on the Commission 2022 autumn forecast, the contribution of nationally financed investment is set to be neutral or positive in all Member States with the exceptions of Cyprus, Malta and Latvia (Graph 3.3).[14] At the same time, the absorption of RRF and other EU funds helps to preserve or increase overall public investment in 2023 also in Cyprus, Malta and Latvia. Looking at developments relative to the pre-pandemic 2019 levels, in 2023 all euro area countries are expected to preserve or increase nationally financed investment, with the exception of Croatia and Latvia (Graph 3.6).

Overall public investment developments

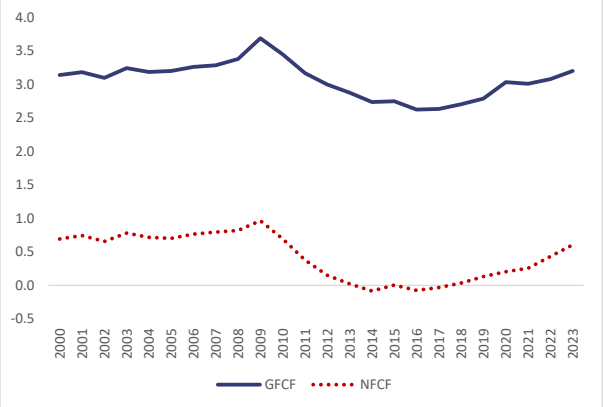
Public investment in the euro area is projected to continue increasing. In contrast with previous macroeconomic shocks, public investment remained robust during the COVID-19 pandemic and the current energy crisis. Public investment-to GDP ratio in the euro area increased from 2.8% in 2019 to 3% in 2020 and 2021. It is projected to have increased to 3.1% in 2022 and further to 3.2% in 2023 (Graph 3.5).[15]

[14] Note however that the public investment-to-GDP ratio in Latvia is well above the euro area average.

[15] These figures refer to gross fixed capital formation, whereas, after considering the consumption of fixed capital, net fixed capital formation of the general government sector in the euro area would increase from 0.1% of GDP in 2019 to 0.6% in 2023 (Graph 3.5).

Public investment is expected to increase in 2023 in most euro area Member States (Graph 3.6)**.** The Council recommendation of 12 July 2022 invited all Member States to "*…expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds*". The Commission's assessment is based on the evolution of total gross fixed capital formation, while taking into account projects aiming to achieve the green and digital transitions and to increase energy security. In 2023, total public investment is set to increase by more than 0.1 pp of GDP relative to 2022 in 12 euro area Member States (Cyprus, Spain, Portugal, Italy, Lithuania, Netherlands, Luxembourg, Slovakia, Croatia, Latvia, Estonia and Slovenia), to remain broadly stable in seven Member States (Ireland, Germany, Belgium, Austria, France, Malta and Finland). Public investment is forecast to decline only in Greece in 2023 due to lower EU-financed investment but remaining above 4% of GDP after the significant increase projected for 2022.

Graph 3.5 **Euro area: gross and net public investment, 1995-2023 (% of GDP)**



Source: European Commission 2022 autumn forecast

A substantial part of the increase in public investment between 2019 and 2023 is supported by EU financing. RRF grants will fund investment projects and productivity-enhancing reforms without giving rise to higher deficits and debt in national budgets.[16] The RRF-financed public investments will cover part of substantial investment needs for the green and digital transition, and to strengthen energy security. In some Member States, RRF grants also support investments by households and firms for the green and digital transition, like the digitalisation of the public administration, the digitalisation of schools and SMEs, or projects related to digital literacy, cybersecurity and 5G connectivity.

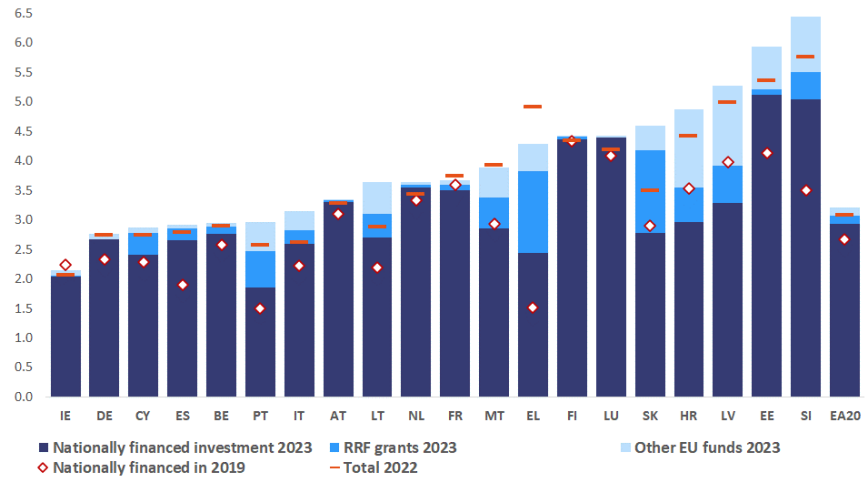
Many euro area Member States plan investments to support the green transition and to increase energy security and efficiency in 2023. A number of Draft Budgetary Plans include projects related to improving the energy efficiency of buildings (Belgium, Croatia, Estonia, France, Greece, Lithuania and Spain). Other areas include investments in sustainable mobility, in particular in rail networks (Belgium, Estonia, Italy and Slovenia); the decarbonisation of energy-intensive industries (Austria and Portugal); hydrogen (Italy and the Netherlands); support to households to move towards more sustainable energy systems (Austria); and solar panels (Greece and Spain).

The Draft Budgetary Plans also incorporate public investments supporting the digital transition. Projects focus on the digitalisation of the public administration in a number of Member States (Belgium, Croatia, Cyprus, France and Italy). The digitalisation of schools (Ireland and Portugal) and SMEs (Greece, France and Slovenia) are also important areas of investment in 2023. Projects also concern training and improving the digital literacy of students

[16] Expenditure funded by loans from the RRF are included in nationally financed expenditure.

(France and the Netherlands); cybersecurity and 5G connectivity (Spain); gigabit infrastructure (Slovenia); as well as digital diagnostics and equipment in hospitals (Croatia).

Graph 3.6 **Public investment, 2019, 2022 and 2023 (% of GDP)**



Source: European Commission 2022 autumn forecast

Assessment of measures to mitigate the impact of high energy prices on households and firms

The fiscal projections are impacted by a series of budgetary measures aimed at mitigating the impact of high energy prices on households and firms. The net budgetary cost of these measures is estimated, by the Commission services, at 1.3% of GDP in 2022 and 0.9% in 2023 for the euro area as a whole (Annex Table IV.5). For the purposes of this estimation, *'energy measures*' are defined as: (1) measures that have a direct impact on the marginal cost of energy consumption for households and/or firms (‘*price measures’*); (2a) measures that provide temporary income support to households (hence, permanent increases in wages and salaries, pensions or other social benefits are not considered here as they are not expected to be reversed when energy prices decrease again); (2b) measures that provide compensation to firms (other than price measures) in energy-intensive industries (both ‘*income measures’*); and (3) revenues from (new taxes or levies on) windfall profits by energy companies.[17]

Most of the adopted measures are not sufficiently targeted to the most vulnerable households and firms. Targeted measures are measures from which only the most vulnerable strata of the population will benefit, involve a degree of means-testing and are selective on the basis of the income or specific social needs. Typical examples of such measures are: top-ups to minimum income allowances or to lower pensions, lump-sum discounts deducted from the energy bill for low-income households, or a reduced price per kWh of energy for low-income

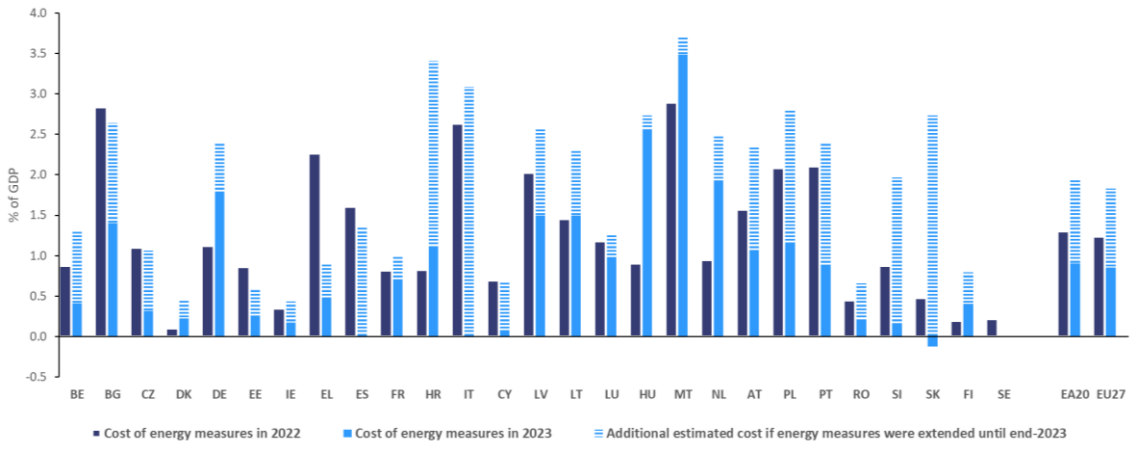
[17] Revenue from (taxes or levies on) windfall profits form a special category as this is does not constitute a support measure, but rather a source of funding. This particular type of revenue is included in the estimates given the very direct link with increased energy prices, and because many Member States are already using or are contemplating the use of this revenue source to fund support measures.

households. Conversely, untargeted measures are broad-based measures that apply to the majority of the population without (much) differentiation based on income or specific needs. For 2023, around 90% of the budgetary impact is due to the measures that are not targeted.

Most of the adopted measures distort the price signal and reduce incentives to contain energy consumption and increase energy efficiency. The income measures, as defined above, provide temporary support to households or firms, in the form of transfers or subsidies, without affecting the marginal cost of energy consumption. Price measures have an impact on the marginal cost of energy consumption, and therefore reduce incentives to lower energy consumption and to increase energy efficiency. For 2023, around two-thirds of the budgetary impact is due to the measures that distort the price signal.

If energy prices remain high in 2023, the ultimate budgetary costs are likely to exceed estimates based on the currently announced measures. These costs differ across Member States, reflecting country-specific factors such as the design of their national policy packages and energy mix. Importantly, in their Draft Budgetary Plans, some Member States had not yet announced which energy measures they plan for 2023. To estimate the budgetary cost of the energy measures for 2023 the Commission services considered when the measures announced or decided by the government enter into force and their announced expiry date. In several Member States, energy measures are planned to expire in the course of 2023 (some as early as the end of the first quarter of the year).[18] Yet, if energy prices remain high, Member States may decide to prolong existing measures or to implement new ones. As a result, for the euro area as a whole and for a number of Member States, the budgetary cost of energy measures in 2023 may be underestimated.

Graph 3.7 **Budgetary cost of energy measures in 2022-2023 (% of GDP)**



Source: European Commission 2022 autumn forecast

[18] The current projection for the budgetary cost of measures related to the high energy prices is largely driven by a few large Member States that have already announced significant full-year policy packages.

The Commission services have estimated the potential additional budgetary cost of energy measures if the existing measures were to be extended throughout 2023. This is necessarily a highly stylised exercise, using the autumn forecast as a starting point, and disregarding the impact that the extension of energy measures could have on economic activity and inflation. This exercise indicates that, if energy measures had to be kept in place for the full year 2023, their cost could increase by an additional 1% of GDP in the euro area, reaching close to 2% of GDP in 2023, significantly higher than in 2022 (Graph 3.7).[19] The picture differs across Member States, depending on the specificities of the measures known to date (in force, adopted or announced), including their generosity and stated expiry dates. This exercise illustrates how energy measures may impact fiscal developments and raises attention to the importance of Member States adopting measures that are fiscally affordable, targeted to the most vulnerable and providing incentives to reduce energy consumption.

[19] For some specific Member States, this estimate also assumes the effective use of budgetary appropriations currently foreseen by some governments to finance additional energy measures in 2023, the details of which have not yet been specified. Its budgetary impact has already been reflected in the projections for the general government deficit and debt in 2023 underlying this autumn forecast, but not in the overall budgetary cost of energy measures in that year.

Commission assessment of the 2023 Draft Budgetary Plans

Most euro area Member States submitted their Draft Budgetary Plans by 15 October, in line with Article 6 of Regulation (EU) No 473/2013.[20] The Draft Budgetary Plans of Italy and Latvia were submitted by the outgoing governments on the basis of unchanged policies in view of their political cycle (elections on 25 September and 1 October, respectively). Therefore, the figures shown for the 2023 government deficit and other fiscal variables in those two Draft Budgetary Plans do not represent policy targets. In the case of Italy, the Commission is not publishing an Opinion on the no-policy change 2023 Draft Budgetary Plan that was submitted by the outgoing government on 10 October. Instead, the Commission will publish in due course an opinion on the updated Draft Budgetary Plan for 2023 that the new government is expected to submit shortly. Latvia is invited to submit to the Commission and to the Eurogroup an updated Draft Budgetary Plan as soon as possible, and at least one month before the draft budget law is planned to be adopted by the national parliament.

This was the first time the Commission has assessed a Draft Budgetary Plan of Croatia. Since Croatia will join the euro area in a matter of weeks, on 1 January 2023, the Commission welcomes the decision by Croatia to have transmitted its Draft Budgetary Plan as if it was already a euro area member.

The Commission assessed the consistency of the 2023 Draft Budgetary Plans with the Council Recommendations of 12 July 2022. The Council recommended that Member States' fiscal policy should take into account continued temporary and targeted support to households most vulnerable to energy price hikes and to people fleeing Ukraine. In addition, the Council recommended Member States to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the RRF and other Union funds. Member States should also stand ready to adjust current spending to the evolving situation. Moreover, the Council Recommendations distinguished the Member States on the basis of their fiscal space as illustrated by their debt levels:

- **High debt Member States** were recommended to ensure prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth. For the period beyond 2023, high debt Member States were recommended to pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms.
- **Low and medium-term debt Member States** should ensure that in 2023 the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance. For the period beyond 2023, they should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.

[20] In accordance with Article 6(3)(d) of Regulation 473/2013, Greece, Ireland and the Netherlands provided in their DBPs quantitative estimates on the distributional effects of the planned budgetary measures. Malta presented distributional analysis of the measures already implemented with the aim of cushioning the impact of high inflation.

The following is a summary of the Commission Opinions.[21] The Opinions are based on the Commission 2022 autumn forecast including the information incorporated in the Draft Budgetary Plans:

High-debt Member States (Belgium, France, Greece, Portugal and Spain)

- For France, Greece and Spain, the growth of nationally financed primary current expenditure is projected to be below the medium-term potential output growth, taking into account temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine, as recommended by the Council. That is not the case for Belgium, where the growth of nationally financed current expenditure exceeds potential growth, taking into account temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. For Portugal, the growth of nationally financed current expenditure is projected to be close to the medium-term potential output growth, assuming the planned reduction in measures in response to high energy prices, including in temporary and targeted support to vulnerable households and firms.
- All Member States plan to finance public investment for the green and digital transitions and for energy security, including by making use of the RRF and other EU funds, as recommended by the Council. Total public investment as a percentage of GDP is set to either increase or remain stable in 2023 with respect to 2022 in all Member States but France and Greece. Belgium, France, Greece, Portugal and Spain plan to preserve nationally financed investment, as it is projected to increase or remain stable from 2022 to 2023. The contribution of expenditure financed by RRF grants and EU funds to the overall fiscal stance is expansionary or neutral in all Member States, except in France and Greece.
- Overall, the Commission is of the Opinion that the Draft Budgetary Plans for France, Greece and Spain are in line with the fiscal guidance contained in the Council Recommendation of 12 July 2022, while that of Belgium is partly in line with the Recommendation, and that of Portugal risks being only partly in line with the Recommendation.

Low/medium debt Member States (Austria, Croatia, Cyprus, Estonia, Finland, Germany, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Slovenia and Slovakia)

- The overall fiscal policy stance in 2023 varies across Member States:
    - Contractionary (between +0.5% and +2.3% of GDP)[22]: Latvia, Ireland, Cyprus and Malta
    - Broadly neutral (between -0.1% and -0.2% of GDP): Croatia, Austria and Finland

[21] The Opinions are accompanied by a Statistical Annex, including the necessary information to assess Member States' plans.

[22] A negative (positive) sign corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term potential, indicating an expansionary (contractionary) fiscal policy.

    - Expansionary (between -0.4% and -2.6% of GDP): Lithuania, Germany, Estonia, Luxembourg, the Netherlands, Slovenia and Slovakia

- The contribution of their nationally financed current expenditure (net of new revenue measures) to the overall fiscal stance in 2023 also varies across Member States:
    - Contractionary (between +0.4 and +1.7 percentage points): Croatia, Latvia, Ireland, Cyprus and Malta
    - Broadly neutral (around zero percentage points): Finland and the Netherlands
    - Expansionary (between -0.3% and -1.7 percentage points): Austria, Lithuania, Germany, Estonia, Luxembourg, Slovenia and Slovakia. In all cases, this is not the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.[23]
- All Member States plan to finance public investment for the green and digital transitions and for energy security, including by making use of the RRF and other EU funds, as recommended by the Council. Total public investment as a percentage of GDP is set to either increase or remain stable in 2023 with respect to 2022 in all low/medium debt Member States. All Member States are planning to preserve nationally financed investment, with the exception of Cyprus, Latvia and Malta where it is projected to decrease from 2022 to 2023. The contribution of expenditure financed by RRF grants and EU funds to the overall fiscal stance is expansionary or neutral in all Member States, except Germany.
- Overall, the Commission is of the Opinion that the Draft Budgetary Plans for Croatia, Cyprus, Finland, Ireland, Latvia and Malta are in line with the fiscal guidance contained in the Council Recommendation of 12 July 2022. The Draft Budgetary Plans of Austria, Lithuania, Germany, Estonia, Luxembourg, the Netherlands, Slovenia and Slovakia are partly in line with the Recommendation.

While Member States rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish.

The Commission invites Belgium, Portugal, Austria, Lithuania, Germany, Estonia, Luxembourg, the Netherlands, Slovenia and Slovakia to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the Recommendations adopted by the Council on 12 July 2022.

The Draft Budgetary Plans generally include measures that go in the direction of strengthening the quality and composition of public finances and contributing to a sustainable and inclusive recovery. This includes growth-enhancing investment, in particular

[23] In the cases of Slovakia and Slovenia, the energy support measures in Draft Budgetary Plans are not sufficiently specified. Hence, the expansionary stance cannot at this stage be considered the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine.

supporting the green and digital transition as well as energy security. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

ANNEX I: Country-specific assessment of 2022 Draft Budgetary Plans

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Austria**, the overall fiscal policy stance is estimated to be broadly neutral. This includes an expansionary contribution to the overall fiscal stance from nationally financed current expenditure. This expansionary contribution is not the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Austria plans to finance additional investment through the RRF and other EU funds and it also preserves nationally-financed investment. It plans to finance public investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Austria is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Austria to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While Austria rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Austria has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Belgium**, the growth of nationally-financed current expenditure is not projected to be below the medium-term potential output growth. This is not the result of temporary and targeted support to households and firms most vulnerable to energy prices and the cost to assist people fleeing Ukraine. Therefore, the growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Belgium plans to finance additional investment through the RRF and other EU funds and it also preserves nationally-financed investment. It plans to finance public investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Belgium is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Belgium to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While Belgium rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable

households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Belgium has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Croatia**, the overall fiscal policy stance is estimated to be broadly neutral. This includes a contractionary contribution to the overall fiscal stance from nationally financed current expenditure. Overall, given the evolving situation, in particular the expansionary fiscal stance in 2022 and the high inflationary pressures, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Croatia plans to finance additional investment through RRF and other EU funds, and it also preserves nationally financed investment. It plans to finance public investment and investment grants for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Croatia is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. While Croatia rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Cyprus**, the overall fiscal policy stance is estimated to be contractionary. This includes a contractionary contribution to the overall fiscal stance from nationally-financed current expenditure. Overall, given the evolving situation, in particular the expansionary fiscal stance in 2022 and the high inflationary pressures, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Cyprus plans to finance additional investment through the RRF and other EU funds, while it does not preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Cyprus is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Estonia**, the overall fiscal policy stance is estimated to be expansionary. This includes an expansionary contribution to the overall fiscal stance from

nationally-financed current expenditure. This expansionary contribution is not the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the growth of nationally-financed primary current expenditure is not in line with the recommendation of the Council. Estonia plans to finance additional investment through the RRF and other EU funds, and it also plans to preserve nationally-financed investment. It plans to finance public investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Estonia is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Estonia to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While Estonia rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally-financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Finland**, the overall fiscal policy stance is estimated to be broadly neutral. This includes an equally neutral contribution to the overall fiscal stance from nationally financed current expenditure. Overall, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Finland plans to finance additional investment through the RRF and other EU funds, and it also preserves nationally financed investment. The country plans to finance public investment for the green transition, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Finland is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. While Finland rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Finland has not yet made progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **France**, the growth of nationally financed current expenditure is

projected to be below the medium-term potential output growth. Therefore, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. France plans to finance additional investment through the Recovery and Resilience Facility and other EU funds and it also preserves nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for France is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. While France rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that France has not yet made progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Germany**, the overall fiscal policy stance is estimated to be expansionary in a situation of high inflation. This includes an expansionary contribution to the overall fiscal stance from nationally financed current expenditure. This expansionary contribution is not the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Germany plans to finance additional investment through the RRF and other EU funds and it also preserves nationally financed investment. It plans to finance investment grants and various other measures including tax incentives for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Germany is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Germany to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While Germany rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Germany has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific

recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Greece**, the growth of nationally-financed current expenditure is projected to be below the medium-term potential output growth. Therefore, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Greece plans to finance additional investment through the RRF and other EU funds and it plans to preserve nationally-financed investment. It plans to finance public investment for the green and digital transitions. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Greece is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. While Greece rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Greece has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Ireland**, the overall fiscal policy stance is estimated to be contractionary. This includes a contractionary contribution to the overall fiscal stance from nationally financed current expenditure. Overall, given the evolving situation, in particular the expansionary fiscal stance in 2022 and the high inflationary pressures, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Ireland plans to finance additional investment through the RRF and other EU funds and it also preserves nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Ireland is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. While Ireland rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Ireland has not yet made progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country

Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Latvia**, the overall fiscal policy stance is estimated to be contractionary. This included a contractionary contribution to the overall fiscal stance from nationally-financed current expenditure. Overall, given the evolving situation, in particular the expansionary fiscal stance in 2022 and the high inflationary pressures, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Latvia plans to finance additional investment through the RRF and other EU funds, while it does not preserve nationally financed investment. It plans to finance public investment for the green and digital transitions. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Latvia, which is based on a no-policy-change assumption, is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. While Latvia rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Latvia has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023. As soon as a new government takes office, and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament, Latvia is invited to submit to the Commission and to the Eurogroup an updated Draft Budgetary Plan.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Lithuania**, the overall fiscal policy stance is estimated to be expansionary, in a situation of high inflation. This includes an expansionary contribution to the overall fiscal stance from nationally financed current expenditure. This expansionary contribution is not the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Lithuania plans to finance additional investment through the RRF and other EU funds and it also preserves nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Lithuania is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Lithuania to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While Lithuania rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would

contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Lithuania has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Luxembourg**, the overall fiscal policy stance is estimated to be expansionary in a situation of high inflation. This includes an expansionary contribution to the overall fiscal stance from nationally financed current expenditure. This expansionary contribution is not the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Luxembourg plans to finance additional investment through the RRF and other EU funds and it also preserves nationally financed investment. It plans to finance public investment for the green and digital transitions. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Luxembourg is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Luxembourg to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While Luxembourg rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Luxembourg has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Malta**, the overall fiscal policy stance is estimated to be contractionary. This includes a contractionary contribution to the overall fiscal stance from nationally financed current expenditure. Overall, given the evolving situation, in particular the expansionary fiscal stance in 2022 and the high inflationary pressures, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Malta plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, while it does not preserve nationally financed investment. It plans to finance public

investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Malta is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. While Malta rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of the **Netherlands**, the overall fiscal policy stance is estimated to be expansionary in a situation of high inflation. This expansionary fiscal stance is not the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the expansionary fiscal stance is not in line with the recommendation of the Council. The Netherlands plans to finance additional investment through the RRF and other EU funds and it plans to preserve nationally-financed investment. It plans to finance investment for the green and digital transitions, including through dedicated funds. Overall, the Commission is of the opinion that the Draft Budgetary Plan for the Netherlands is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites the Netherlands to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While the Netherlands rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that the Netherlands has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Portugal**, the growth of nationally financed current expenditure is projected to be close to the medium-term potential output growth, assuming the planned reduction in measures in response to high energy prices, including in temporary and targeted support to vulnerable households and firms. Therefore, the growth of nationally financed primary current expenditure risks not being in line with the recommendation of the Council. Portugal plans to finance additional investment through the RRF and other EU funds and it also

preserves nationally financed investment. The country plans to finance public investment in the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Portugal risks being only partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Portugal to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While Portugal rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Portugal has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Slovakia**, the overall fiscal policy stance is estimated to be expansionary in a situation of high inflation. This includes an expansionary contribution to the overall fiscal stance from nationally financed current expenditure, also reflecting the above-mentioned sizeable budgetary appropriations for government support to mitigate the impact of high energy prices that were not sufficiently specified in the Draft Budgetary Plan. The expansionary stance cannot at this stage be considered the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Slovakia plans to finance additional investment through the RRF and other EU funds and it also preserves nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Slovakia is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Slovakia to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While Slovakia rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Slovakia has not yet made progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the

2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Slovenia**, the overall fiscal policy stance is estimated to be expansionary in a situation of high inflation. This includes an expansionary contribution to the overall fiscal stance from nationally financed current expenditure. This expansionary contribution reflects the above-mentioned sizeable budgetary appropriations for government support to mitigate the impact of high energy prices for companies. As a result of the lack of sufficient specification of these measures in the Draft Budgetary Plan, the expansionary stance cannot at this stage be considered the result of temporary and targeted support to households and firms most vulnerable to energy price hikes and the cost to assist people fleeing Ukraine. Overall, the growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Slovenia plans to finance additional investment through the RRF and other EU funds, and it also preserves nationally financed investment. Slovenia is planning to finance public investment for the green and digital transitions (including by making use of the Recovery and Resilience Facility and other EU funds). Overall, the Commission is of the opinion that the Draft Budgetary Plan for Slovenia is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Slovenia to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022. While Slovenia rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. The Commission is also of the opinion that Slovenia has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan of **Spain**, the growth of nationally-financed current expenditure is projected to be below the medium-term potential output growth. Therefore, the growth of nationally financed primary current expenditure is in line with the recommendation of the Council. Spain plans to finance additional investment through the RRF and other EU funds, and it also preserves nationally-financed investment. It plans to finance public investment for the green and digital transitions, and for energy security. Overall, the Commission is of the opinion that the Draft Budgetary Plan for Spain is in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. While Spain deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member

States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

ANNEX II: The methodology and assumptions underpinning the Commission 2022 autumn forecast

According to Article 7(4) of Regulation (EU) No 473/2013, "the methodology and assumptions of the most recent economic forecasts of the Commission services for each Member State, including estimates of the impact of aggregated budgetary measures on economic growth, shall be annexed to the overall assessment". The assumptions underlying the Commission 2022 autumn forecast, which is produced independently by Commission staff, are explained in the forecast document itself.[24]

Budgetary data up to 2021 are based on data notified by Member States to the Commission before 1 October 2022 and validated by Eurostat on 21 October 2022. Eurostat has made no amendments to, and has no reservations on, the data reported by Member States during the autumn 2022 notification round.

For the forecast, measures in support of financial stability have been recorded in line with the Eurostat Decision of 15 July 2009.[25] Unless reported otherwise by the Member State concerned, capital injections known in sufficient detail have been included in the forecast as financial transactions, i.e. increasing the debt, but not the deficit. State guarantees on bank liabilities and deposits are not included as government expenditure, unless there is evidence that they have been called on at the time the forecast was finalised. However, loans granted to banks by the government, or by other entities classified in the government sector, usually add to government debt.

For 2023, budgets adopted or presented to national parliaments and all other measures known in sufficient detail are taken into consideration. All the information included in the Draft Budgetary Plans submitted by mid-October is reflected in the autumn forecast. For 2024, the 'no-policy-change' assumption used in the forecasts implies the extrapolation of revenue and expenditure trends and the inclusion of measures that are known in sufficient detail.

European aggregates for general government debt in the forecast years 2022-2024 are published on a non-consolidated basis (i.e. not corrected for intergovernmental loans). To ensure consistency in the time series, historical data are also published on the same basis. General government debt projections for individual Member States in 2022-24 include the impact of guarantees to the European Financial Stability Facility, bilateral loans to other Member States, and the participation in the capital of the European Stability Mechanism as planned on the cut-off date of the forecast.[26]

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[24] Methodological assumptions underlying the Commission 2022 autumn economic forecast, available at: https://economy-finance.ec.europa.eu/system/files/2022-11/ip187_en_0.pdf

[25] Available at: http://ec.europa.eu/eurostat/documents/1015035/2041337/FT-Eurostat-Decision-9-July-20093--final-.pdf.

[26] In line with the Eurostat decision of 27 January 2011 on the statistical recording of operations undertaken by the EFSF, available at: http://ec.europa.eu/eurostat/documents/2995521/5034386/2-27012011-AP-EN.PDF.

ANNEX III: Debt sustainability analysis and sensitivity analysis

This Annex presents a sensitivity analysis of public debt developments to possible macroeconomic shocks, as required by Article 7 of Regulation (EU) No 473/2013. Stochastic debt projections are used to assess the possible impact on public debt dynamics of risks to nominal GDP growth, financial market developments and fiscal shocks affecting the government budgetary position ([27]).

The stochastic projections account for macroeconomic uncertainty around two 'central' debt projection scenarios in 2023-2027: the Commission 2022 autumn forecast scenario and the 2023 draft budgetary plans' (DBP) scenario. In both cases, the usual 'no-fiscal policy change' assumption is made beyond the forecast horizon ([28]).

Shocks are applied to the macroeconomic conditions assumed in the central scenario to obtain the distribution of possible debt paths (the 'cone' in the fan charts shown in Graph III.1). The cone corresponds to a wide set of possible macroeconomic conditions, with up to 2000 shocks simulated on growth, interest rates and the primary balance. The size and correlation of these shocks reflect historical volatility and relationships between these variables ([29]). Therefore, the fan charts provide probabilistic information on euro area debt dynamics, taking into account the possible occurrence of shocks to growth, interest rates and the primary balance of a magnitude and correlation mirroring the past developments.

Each fan chart reports the projected debt path under the central scenario as a dashed line. The median outcome of the simulations is shown as a solid black line. The cone covers 80% of all possible debt paths, while the paths derived from the 20% least likely shocks are not shown. The differently shaded areas within the cone represent different portions of the overall distribution of possible debt paths.

For 2023, the simulations suggest that, with an 80% probability, the euro area debt ratio will be between 87% and 98% of GDP under the Commission scenario and under the DBP scenario. By 2027, there would be a 50% probability of a debt ratio higher than around 90% of GDP under the Commission scenario and under the DBP scenario as well.

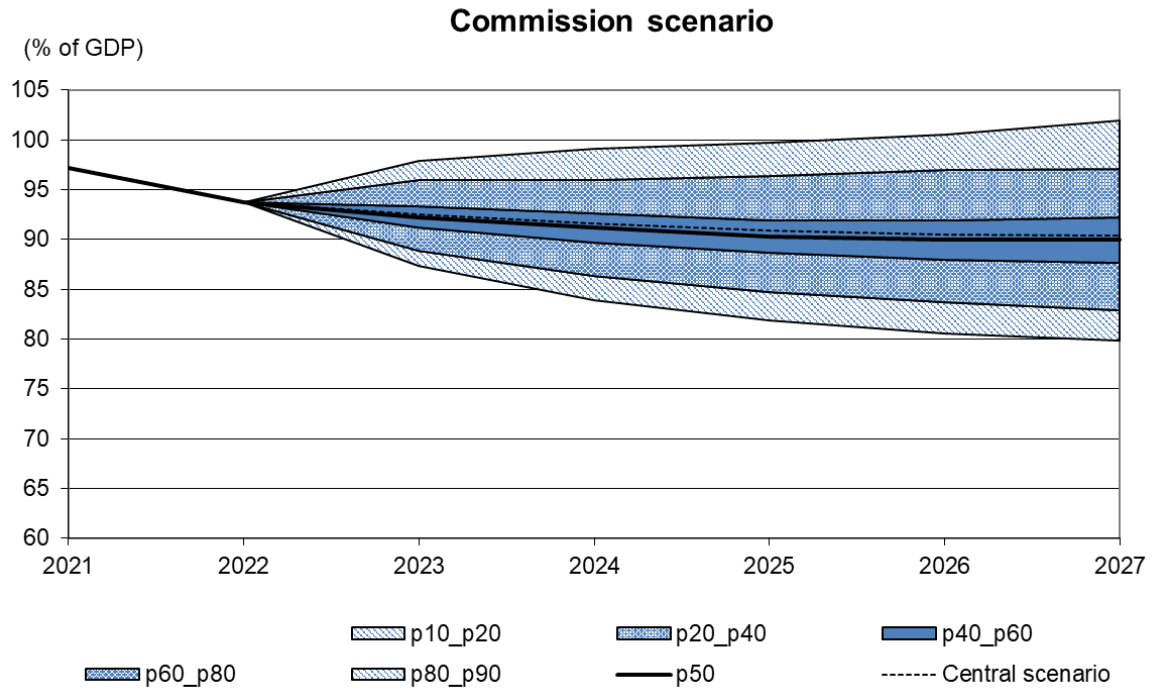
Additional risks surround these projections. As the size and correlation of the shocks reflect the variables' historical behaviour, the methodology does not capture real-time uncertainty, in particular related to the output gap assessment. This uncertainty suggests an additional source of risks on future debt paths that is not reflected in this analysis. Another source of uncertainty relates to the realisation of contingent liabilities, as the fan charts only capture risks that materialised in the past through a deterioration of the primary balance.

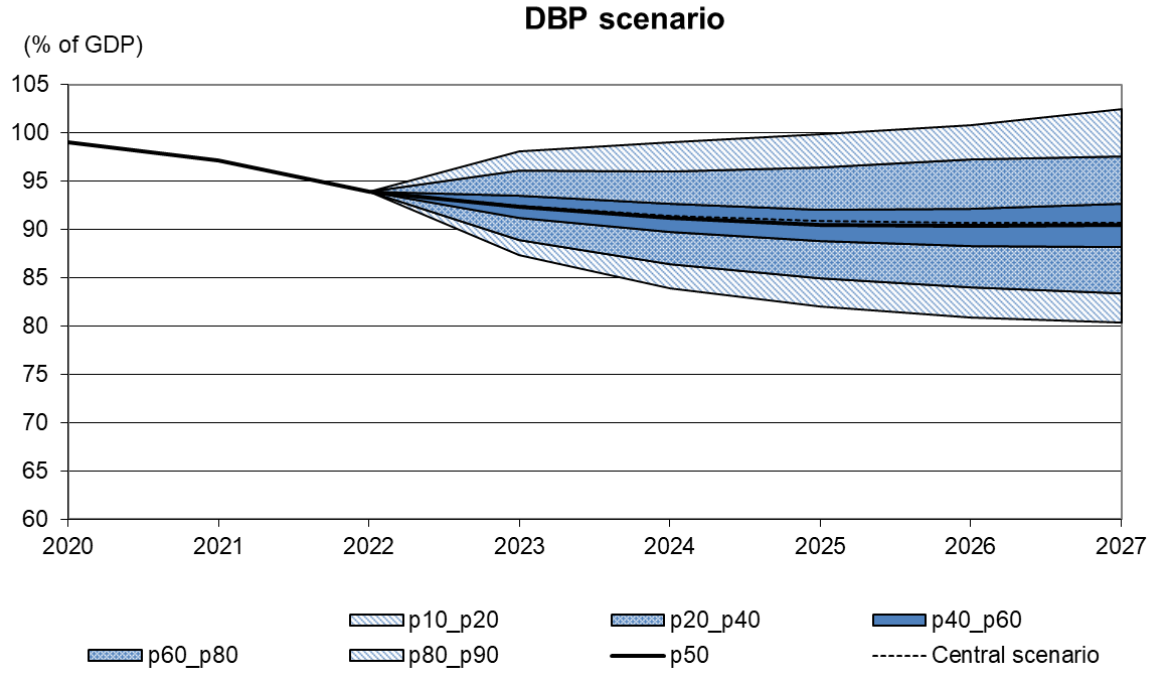
[27] The methodology for stochastic public debt projections used here is presented in the European Commission's Debt Sustainability Monitor 2019, Annex A7, and in Berti K. (2013), "Stochastic public debt projections using the historical variance-covariance matrix approach for EU countries", European Economy Economic Paper No. 480.

[28] The Commission 2022 autumn forecast incorporates fiscal policy measures that were adopted or at least credibility announced and information that was available as of 31 October 2022. Beyond 2024 (the last forecast year), the structural primary balance is only modified by the projected (net) costs of ageing.

[29] Shocks are assumed to follow a joint normal distribution.

Graph III.1: Fan charts from stochastic public debt projections around the Commission's forecast scenario and the Draft Budgetary Plans' forecast scenario; euro area





ANNEX IV: Tables

Table IV.1: Real GDP growth (%) according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) for 2023 and the Commission 2022 autumn forecast (COM)

	2022			2023		
Country	SP	DBP	COM	SP	DBP	COM
BE	3.0	2.6	2.8	1.9	0.5	0.2
DE	4	2.2	1.6	2.3	2.5	-0.6
EE	-1.0	1.0	-0.1	1.2	0.5	0.7
IE	6.4	10.0	7.9	4.4	4.7	3.2
EL	3.1	5.3	6.0	4.8	2.1	1.0
ES	4.3	4.4	4.5	3.5	2.1	1.0
FR		2.7	2.6		1.0	0.4
HR	3.0	5.7	6.0	4.4	0.7	1.0
IT	3.1	3.3	3.8	2.4	0.6	0.3
CY	2.7	5.7	5.6	3.8	3.0	1.0
LV	2.1	2.8	1.9	2.5	1.0	-0.3
LT	1.6	1.6	2.5	2.5	1.4	0.5
LU	1.4	2.5	1.5	2.9	2.0	1.0
MT	4.4	6.0	5.7	3.9	3.5	2.8
NL	3.6	4.6	4.6	1.7	1.5	0.6
AT	3.9	4.8	4.6	2.0	0.2	0.3
PT	5.0	6.5	6.6	3.3	1.3	0.7
SI	4.2	5.0	6.2	3.0	1.4	0.8
SK	2.1	1.9	1.9	5.3	0.6	0.5
FI	1.5	1.7	2.3	1.7	0.5	0.2
EA	3.6	3.4	3.2	2.6	1.6	0.3

Note: France did not submit the 2022 Stability Programmes, so it is not included in the aggregate euro area SP2022 figures.

Table IV.2: Headline balance (% of GDP) in the 2022 Stability Programmes (SP), the 2023 Draft Budgetary Plans (DBP) and the Commission 2022 autumn forecast (COM)

	2022			2023		
Country	SP	DBP	COM	SP	DBP	COM
BE	-5.2	-5.2	-5.2	-3.6	-5.8	-5.8
DE	-4	-3 ½	-2.3	-2	-2.0	-3.1
EE	-5.3	-2.7	-2.3	-4.8	-3.9	-3.7
IE	-0.4	0.2	0.2	0.2	1.1	0.8
EL	-4.4	-4.2	-4.1	-1.4	-2.1	-1.8
ES	-5.0	-5.0	-4.6	-3.9	-3.9	-4.3
FR		-5.0	-5.0		-5.0	-5.3
HR	-2.8	-1.5	-1.6	-1.6	-2.3	-2.4
IT	-5.6	-5.1	-5.1	-3.9	-3.4	-3.6
CY	0.0	1.2	1.1	0.4	1.7	1.1
LV	-6.5	-7.0	-7.1	-2.8	-3.3	-3.4
LT	-4.9	-2.0	-1.9	-2.4	-4.9	-4.4
LU	-0.7	-0.4	-0.1	-0.4	-2.2	-1.7
MT	-5.4	-5.8	-6.0	-4.6	-5.5	-5.7
NL	-2.5	-0.9	-1.1	-2.3	-3.0	-4.0
AT	-3.1	-3.5	-3.4	-1.5	-2.9	-2.8
PT	-1.9	-1.9	-1.9	-0.7	-0.9	-1.1
SI	-4.1	-3.8	-3.6	-3.0	-5.0	-5.2
SK	-5.1	-5.0	-4.2	-2.4	-6.4	-5.8
FI	-2.2	-1.4	-1.4	-1.7	-2.2	-2.3
EA	-4.0	-3.9	-3.5	-2.5	-3.2	-3.7

Note: France did not submit the 2022 Stability Programmes, so it is not included in the aggregate euro area SP2022 figures.

Table IV.3: Debt-to-GDP ratio (% of GDP) in the 2022 Stability Programmes (SP), the 2023 Draft Budgetary Plans (DBP) and the Commission 2022 autumn forecast (COM)

	2022			2023		
Country	SP	DBP	COM	SP	DBP	COM
BE	108.0	105.3	106.2	108.8	108.2	107.9
DE	67	67 ¾	67.4	74	66 ¾	66.3
EE	20.7	18.8	18.7	24.1	19.8	19.3
IE	50.1	45.2	44.7	46.3	41.1	41.2
EL	180.2	169.1	171.1	168.6	161.6	161.9
ES	115.2	115.2	114.0	112.4	112.4	112.5
FR	n.a.	111.5	111.7	n.a.	111.2	110.8
HR	76.2	71.3	70.0	71.7	69.0	67.2
IT	147.0	145.4	144.6	145.2	143.2	143.6
CY	93.9	89.3	89.6	88.2	83.3	84.0
LV	45.7	42.0	42.4	45.2	43.0	44.0
LT	43.3	39.1	38.0	43.7	43.0	41.0
LU	25.4	24.6	24.3	25.8	26.3	26.0
MT	58.6	57.0	57.4	59.4	59.1	59.9
NL	53.1	49.8	50.3	52.7	49.5	52.4
AT	80.0	78.3	78.5	77.1	76.7	76.6
PT	120.8	115.0	115.9	115.4	110.8	109.1
SI	73.3	71.5	69.9	71.5	71.0	69.6
SK	61.6	59.8	59.6	58.0	59.0	57.4
FI	66.2	71.2	70.7	66.9	72.7	72.0
EA	90.6	93.9	93.6	90.1	92.5	92.3

Note: France did not submit the 2022 Stability Programmes, so it is not included in the aggregate euro area SP2022 figures.

Table IV.4: COVID-19 temporary emergency measures (levels as % of GDP)

	2020	2021	2022	2023
AT	4.7	4.4	1.0	0.0
BE	4.5	3.0	0.5	0.0
CY	3.5	2.9	0.3	0.0
DE	2.6	4.2	1.4	0.0
EE	1.1	1.4	0.0	0.0
EL	7.6	7.2	1.8	0.0
ES	3.2	3.1	0.4	0.0
FI	2.8	1.7	0.2	0.0
FR	3.3	2.5	0.5	0.0
HR	3.6	1.8	0.4	0.0
IE	3.3	2.5	0.5	0.0
IT	4.4	3.4	1.1	0.0
LT	3.9	2.8	1.0	0.0
LU	2.3	0.8	0.1	0.0
LV	2.7	5.0	1.3	0.0
MT	6.0	4.9	1.8	0.0
NL	3.0	2.2	0.6	0.0
PT	2.3	2.2	0.9	0.0
SI	4.9	4.1	0.8	0.0
SK	2.3	3.5	1.0	0.0
EA	3.3	3.3	0.9	0.0

Source: Commission 2022 autumn forecast

Table IV.5: Budgetary cost of energy measures in 2022-2023 (levels as % of GDP)

	1. Targeted support measures		2. Untargeted support measures		3. Revenues from (taxes on) windfall profits of energy companies		4. Total impact of energy measures = 1 + 2 - 3	
	2022	2023	2022	2023	2022	2023	2022	2023
AT	0.5	0.2	1.1	0.8	0.0	0.0	1.6	1.1
BE	0.2	0.2	0.7	0.5	0.1	0.2	0.9	0.4
CY	0.2	0.0	0.5	0.0	0.0	0.0	0.7	0.1
DE	0.3	0.1	0.8	1.7	0.0	0.0	1.1	1.8
EE	0.1	0.0	0.8	0.3	0.0	0.0	0.9	0.3
EL	0.4	-0.1	5.1	5.9	3.2	5.3	2.3	0.5
ES	0.5	0.0	1.1	0.2	0.0	0.1	1.6	0.0
FI	0.0	0.1	0.2	0.3	0.0	0.0	0.2	0.4
FR	0.2	0.2	1.3	1.8	0.7	1.3	0.8	0.7
HR	0.3	0.1	0.5	1.0	0.0	0.0	0.8	1.1
IE	0.2	0.0	0.1	0.2	0.0	0.0	0.3	0.2
IT	1.5	0.0	1.5	0.0	0.4	0.0	2.6	0.0
LT	0.0	0.0	1.4	1.5	0.0	0.0	1.5	1.5
LU	0.8	0.4	0.4	0.6	0.0	0.0	1.2	1.0
LV	0.5	0.1	1.5	1.3	0.0	0.0	2.0	1.5
MT	0.1	0.0	2.8	3.5	0.0	0.0	2.9	3.5
NL	0.1	0.7	0.9	1.2	0.0	0.0	1.0	1.9
PT	0.6	0.0	1.5	0.9	0.0	0.0	2.1	0.9
SI	0.5	0.0	0.4	0.1	0.0	0.0	0.9	0.2
SK	0.2	0.0	0.3	0.0	0.0	0.1	0.5	-0.1
EA	0.5	0.1	1.1	1.1	0.2	0.4	1.3	0.9

Source: Commission 2022 autumn forecast