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

on the 2022 Draft Budgetary Plans: Overall Assessment

Executive summary

This Communication summarises the Commission's assessment of the 2022 Draft Budgetary Plans submitted by euro area Member States, 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 takes into account the ongoing economic recovery from the COVID-19 crisis and the continued application of the general escape clause of the Stability and Growth Pact in 2022, while it is expected to be deactivated as of 2023. The assessment is based on the fiscal policy recommendations adopted by the Council on 18 June 2021. That guidance can be summarized as follows. For 2022, Member States with low/medium debt should pursue or maintain a supportive fiscal stance, while Member States with high debt should use the Recovery and Resilience Facility (RRF) to finance additional investment in support of the recovery, while pursuing a prudent fiscal policy. All Member States should preserve nationally financed investment. With a view to maximising support to the recovery without pre-empting future fiscal trajectories and creating a permanent burden on public finances, the growth of nationally financed current expenditure should be kept under control, and be limited by Member States with high debt.

The 2022 Draft Budgetary Plans, including the assessment of the fiscal stance for the euro area as a whole, can be summarised as follows:

1. The re-opening of euro area economies is fueling a strong recovery across Member States and sectors. Real GDP growth is projected to reach 5% in 2021 following a rebound in private consumption and investment. Economic activity is expected to continue growing swiftly at 4.3% in 2022, while the pace of the recovery is uneven across countries. Uncertainty and risks remain high and are tilted toward the downside, with new and mounting supply-side headwinds to the economic outlook.

2. Member States are unwinding the temporary emergency measures and increasingly focusing support measures on sustaining the recovery. Together with the operation of the automatic stabilisers, this helps the aggregate euro-area fiscal position, which is set to improve significantly in 2022. The Draft Budgetary Plans point to an aggregate headline deficit of 4.1% of GDP and a debt-to-GDP ratio of around 96% in 2022, broadly in line with the Commission 2021 autumn forecast. Materialisation of risks to the forecast could aggravate economic and fiscal outcomes in 2022 compared to the estimates in the Draft Budgetary Plans.

3. Member States pivot from crisis-related measures towards measures sustaining the recovery. Member States have taken sizeable fiscal measures in response to the pandemic and in support of the recovery (5.2% of GDP in 2021 and 2.8% of GDP in 2022). Temporary emergency measures are projected to be mostly phased out in 2022 (3.7% of GDP in 2021, 0.4% of GDP in 2022). By contrast, recovery support measures are set to rise (1.5% of GDP in 2021, 2.3% of GDP in 2022), which is increasingly related to measures financed by the EU. RRF non-repayable financial support or "grants" will in 2022 fund 24% of total recovery support measures. Member States also provided ample liquidity support to households and businesses in the form of guarantees or suspension of tax and social security contributions. Such measures do not generally have an impact on the headline deficit, except in case of standardised guarantees.

4. The absorption of RRF grants is expected to be frontloaded. According to the Commission 2021 autumn forecast and the Draft Budgetary Plans, Member States are expected to spend over 40% of the total amount of allocated RRF grants, pending the decision to disburse following the fulfilment of the milestones and targets. Most (over 70%) of the RRF grants over the 2020-2022 period will be geared towards funding private and public investment, with the remainder being channelled mostly towards current expenditure, planned to fund

measures to support the recovery, improve resilience and foster the green and digital transitions.

5. Nationally financed investment is planned to be preserved or broadly preserved in 2022 in all Member States, as recommended by the Council. The projected increase in the share of public investment in GDP is driven by both EU and national funding sources. Most Member States have reported RRF-funded measures in their 2022 DBPs. The spending profile of RRF grants over 2020-2022 across euro area Member States shows some degree of heterogeneity. High-debt Member States are planning to use most RRF grants to fund additional investment as recommended by the Council.
6. The euro area fiscal stance is projected to be expansionary over the 2020-2022 period. Individual fiscal stances are planned to remain supportive in almost all Member States in 2022, once corrected for the phasing out of temporary emergency measures. As recommended by the Council, the large majority of low/medium debt Member States plan a fiscal expansion.
7. The positive contribution coming from public investment and other capital spending financed by both the national and EU budgets is important, but the main driver of the fiscal expansion in 2021 and 2022 is nationally financed net current primary expenditure. In several Member States including some high-debt ones, the projected supportive fiscal stance is set to be driven by higher nationally financed current spending, or by unfunded tax cuts. In some cases, this is expected to have a sizable impact on the underlying fiscal position. In about a quarter of Member States the supportive fiscal stance is expected to be driven by investment, both nationally and EU financed.

The Commission Opinions on the 2022 Draft Budgetary Plans focus on the consistency with the Council Recommendations of 18 June 2021. The following is a summary of the Commission Opinions, which are based on the Commission 2021 autumn forecast:

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

- As recommended by the Council, all Member States use the RRF to finance additional investment in support of the recovery.
- As recommended by the Council, all Member States preserve nationally financed investment.
- Italy has been recommended by the Council to limit the growth of nationally financed current expenditure. This is not projected to be sufficiently ensured, as the growth of nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a sizeable contribution to Italy's overall supportive fiscal stance. In order to contribute to the pursuit of a prudent fiscal policy, the Commission invites Italy to take the necessary measures within the national budgetary process to limit the growth of nationally financed current expenditure.
- For Belgium, France, Greece, Italy and Spain, given the level of their government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supporting budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term.

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

- As recommended by the Council, all Member States, with the exception of Slovakia and Malta, pursue a supportive fiscal stance, including the impulse provided by the RRF. Slovakia's restrictive fiscal stance occurs against the background of high output growth and emerging capacity constraints. Malta's neutral stance reflects mainly very high

estimated potential growth, while public investment reaches a historically high level. This is broadly as recommended by the Council.

- All Member States plan to use the RRF to support their recovery, while the Netherlands has not yet submitted its Recovery and Resilience Plan.
- As recommended by the Council, all Member States preserve or broadly preserve nationally financed investment.
- Latvia and Lithuania have been recommended by the Council to control the growth of nationally financed current expenditure. This is not projected to be sufficiently ensured, as the growth of nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a sizeable contribution to their overall supportive fiscal stance.

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.[2] Those plans summarise the draft budgets that governments plan to submit to national parliaments. The Commission provides an Opinion on each plan assessing whether it is compliant with 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 facilitating the adoption of budgets compliant with EU fiscal rules. 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 recommendations on the updated stability programmes adopted by the Council on 18 June 2021. This year, in the context of the COVID-19 pandemic, the fiscal recommendations are qualitative and do not include numerical budgetary requirements. This reflects the continued application in 2022 of the general escape clause of the Stability and Growth Pact, which was activated by the Commission and the Council in March 2020.[3] Based on current projections, the general escape clause is expected to be deactivated from 2023.

For 2022, the recommendations focused on the overall direction and composition of the fiscal stance, including expenditure funded by the RRF and other EU funds. Temporary emergency measures were netted out. The Council recommended that Member States with low/medium debt pursue or maintain a supportive fiscal stance, while Member States with high debt should pursue a prudent fiscal policy and use the RRF to finance additional investment in support of the recovery. All Member States were recommended to preserve nationally financed investment. With a view to maximising support to the recovery without pre-empting future fiscal trajectories and creating a permanent burden on public finances ensure fiscal sustainability, the growth of nationally financed current expenditure should be kept under control, and be limited for Member States with high debt.

For the medium term, all Member States were recommended to achieve prudent fiscal positions and ensure fiscal sustainability, while enhancing investment to boost growth potential. Those

[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] Almost all euro area Member States submitted their 2022 Draft Budgetary Plans by 15 October 2021, as required by Regulation (EU) No 473/2013. Italy submitted its plan on 20 October. France submitted an updated plan on 22 October. The Commission Opinion is based on the assessment of the updated plan. The Commission did not adopt an Opinion on the Draft Budgetary Plan submitted by Portugal, as the draft budget on which Portugal's plan was based was in the meantime rejected by its parliament. In its letter of 15 November 2021, the Commission invited the Portuguese authorities to submit a Draft Budgetary Plan in due course, and as soon as a government presents to the Portuguese parliament a new draft law on the State Budget for 2022. The submission should take place at least one month before the new Draft Budget Law is planned to be adopted by the national parliament.

[3] 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.

recommendations also aimed to ensure that the composition of national fiscal policy is conducive to a sustainable recovery consistent with the green and digital transitions.[4]

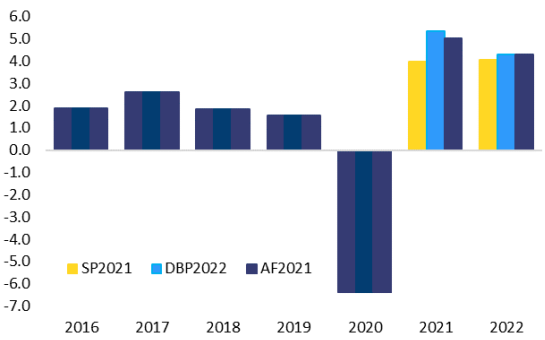
The objective of this Communication is twofold. First, it provides an aggregate picture of budgetary policy at euro area level, building on a cross-country assessment of the Draft Budgetary Plans. This exercise mirrors the cross-country assessment of Stability Programmes conducted in the spring. Second, it provides an overview of the Draft Budgetary Plans at country level and explains the Commission's approach to assessing them, in particular the fiscal measures taken to support a sustainable recovery for the Union from the COVID-19 crisis.

II. Main euro area findings

Economic outlook

The re-opening of euro area economies is fuelling a strong recovery across Member States and sectors. The improving health situation and the easing of the lockdown measures led to a strong rebound in economic activity in the euro area in the second quarter of 2021, which further accelerated in the third quarter. The Commission 2021 autumn forecast expects real GDP growth to reach 5.0% for the year as a whole (following a contraction of 6.4% in 2020). The euro area economy will reach its pre-pandemic level in quarterly terms by the end of the year, although remaining below its pre-crisis trend level, which is now forecast to be reached in 2023. The recovery is being fuelled by the rebound in private consumption and investment. The acceleration in private consumption is due to the increase in household disposable income and the decline in the savings rate towards historical levels, while investment growth is being driven by favourable financing conditions for the corporate sector, the impulse given by the RRF and strong activity in the construction sector. The significant acceleration in exports is providing a boost to economic activity, especially the manufacturing sector. However, the recovery is expected to be uneven across countries and sectors. Twelve euro-area Member States are

Graph 2.1 **Euro area: real GDP growth, 2016-2022 (%)**



Sources: 2022 Draft Budgetary Plans (DBP), European Commission 2021 autumn forecast (AF), and 2021 Stability Programmes (SP).

[4] In the Recommendations on the updated stability programmes adopted on 18 June 2021, the Council recommended all Member States to: "Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all."

expected to return to pre-pandemic quarterly levels of output by the end of 2021, in five[5] the gap is set to close in the course of 2022 and in one[6] at the beginning of 2023. In terms of sectoral activity, contact-intensive service sectors benefited strongly from the easing of health related restrictions in the second quarter of 2021, but the value-added in those sectors remained substantially below pre-pandemic levels. In contrast, the manufacturing sector is recovering fast but is being held back by bottlenecks and disruptions in global supply chains such as shortages of raw materials and intermediary components, notably semiconductors. For 2021, macroeconomic projections in the DBPs are on aggregate more optimistic than in the Commission 2021 autumn forecast, as the aggregate euro area GDP growth is projected to be 5.4%[7] in the DBPs compared to 5% in the Commission forecast (Graph 2.1 and Annex Table IV.1). In 2022, economic activity is expected to continue growing swiftly at 4.3%. There is no difference in the aggregate 2022 euro-area GDP growth projections. Both the Commission 2021 autumn forecast and the DBPs expect significantly higher growth in 2021 (at 5% and 5.4% respectively) compared to the 2021 Stability Programmes (where growth was estimated at 4%) and slightly higher growth in 2022.

Uncertainty and risks remain high and are tilted towards the downside with new and mounting supply-side headwinds to the economic outlook. The evolution of the pandemic both within and outside the euro area remains a key source of uncertainty. Within the euro area the progress in vaccination rollout has led to a significant decrease in the number of severe cases and deaths, decreasing the stringency of government-mandated restrictions. As a result the impact of the pandemic on economic activity has weakened significantly. Outside the euro area (and the EU in general) the picture is mixed, with emerging countries in particular being vulnerable to new lockdowns given low vaccination rates. Disruptions to economic acitivity in these regions can negatively affect euro area economies given the global integration of their production chains. The pandemic is also contributing to an exacerbation of supply-side bottlenecks which are holding back economic activity in the euro area and which could have further negative effects if they were to worsen. An additional downside risk factor is given by persistent inflationary pressures brought on by high energy prices and labour market shortages in some sectors.

Fiscal outlook

The aggregate euro area headline deficit is expected to fall in 2022 mainly driven by the unwinding of the emergency support measures and the operation of the automatic stabilisers (Graph 2.2 and Annex Table IV.2**).** The Draft Budgetary Plans point to an aggregate headline deficit of 4.1% of GDP in 2022, down from an expected 7.5% of GDP in 2021 (up from 7.2% of GDP in 2020). These deficit projections are slightly higher than in the Commission 2021 autumn forecast (7.1% of GDP in 2021 and 3.9% of GDP in 2022), but mark a significant decrease compared to the 2021 Stability Programmes, which had projected an

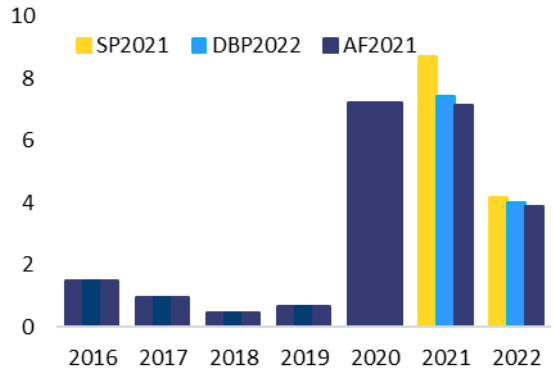
[5] These Member States are: Germany, Greece, Italy and Malta.

[6] Spain

[7] The more optimistic projections on aggregate for GDP growth for 2021 in the DBPs compared to the Commission 2021 autumn forecast are due to more optimistic projections in some large euro area Member States rather than to a general trend. The difference in projections in these Member States are generally due to a timing issue as the DBPs were prepared before the release of additional data on GDP which was integrated into the Commission 2021 Autumn Forecast.

aggregate deficit of 6.8% of GDP in 2022 (down from 8.7% of GDP in 2021). The expected improvement in the aggregate deficit in 2022 is mostly driven by the unwinding of the emergency support measures and the operation of the automatic stabilisers, as the economic recovery continues. All euro-area Member States plan a markedly lower deficit in 2022 compared to 2021. The largest falls of more than 4 pps. of GDP are planned in Greece (to 3.7% of GDP in 2022), Latvia (to 4.8%) and Malta (to 5.6%). In total, eleven Member States plan a deficit above 3% of GDP in 2022.

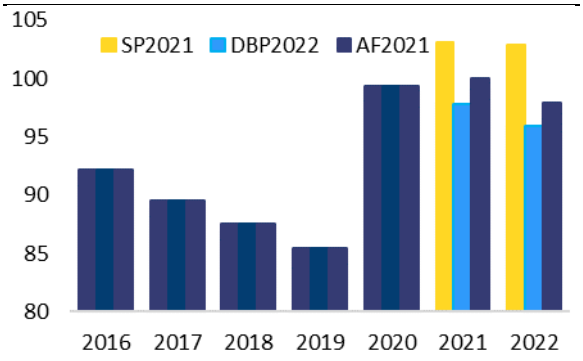
Graph 2.2 **Euro area: headline deficit, 2016-2022 (% of GDP)**



Sources: 2021 Draft Budgetary Plans (DBP), European Commission 2021 autumn forecast, and 2021 Stability Programmes (SP).

The aggregate euro area debt-to-GDP ratio is projected to decrease slightly in 2022 thanks to a favourable interest rate-growth differential (Graph 2.3 and Annex Table IV.3). The Draft Budgetary Plans project the debt ratio to reach 98% of GDP in 2021 (down from 99% in 2020), and decrease again in 2022 to around 96%.[8] This projection is lower than the Commission 2021 autumn forecast (100.0% of GDP in 2021 and 97.9% of GDP in 2022). Overall, the primary deficit will continue to weigh on debt dynamics in 2022, while the interest rate-growth differential will support the reduction in the debt ratio (Graph 2.4).

Graph 2.3 **Euro area: public debt, 2016-2022 (% of GDP)**



Sources: 2021 Draft Budgetary Plans (DBP), European Commission 2021 autumn forecast, and 2021 Stability Programmes (SP).

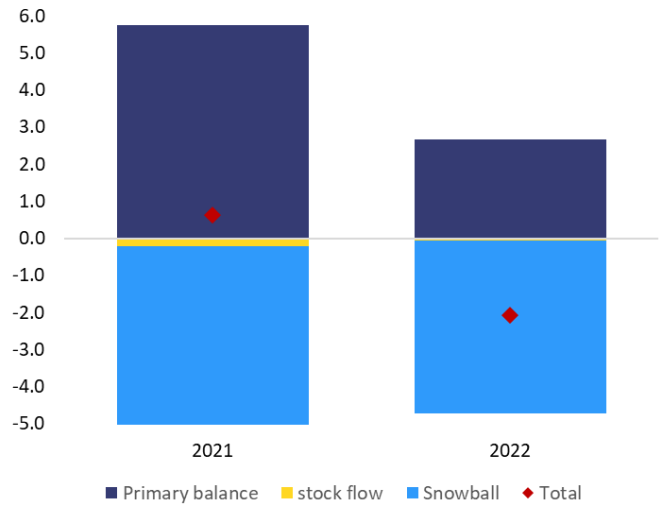
The debt projections for the coming years are subject to considerable uncertainty. Stochastic simulations, which apply a large range of macroeconomic shocks around the central scenario, suggest that the euro area debt-to-GDP ratio is likely to lie between 89% and 107% of GDP in 2022, and between 79% and 112% of GDP in 2026 (Annex III). The ratio is likely to decline slowly over the medium term, as the impact of the COVID-19 crisis on public finances gradually unwinds. Contingent liabilities arising from the provision of public guarantees to sustain economic activity and sectors particularly hit by the pandemic would in general be reflected in public debt and deficits only if called, except in case of standardised guarantees[9]. The contingent liabilities accumulated during the COVID-19 crisis show large differences across Member

[8] The only Member States with projected increases in their debt ratios in 2022 are Belgium, Estonia, Latvia and Malta. Most Member States that had the highest pre-crisis debt ratios plan improvement in 2022.

[9] In some cases, governments issued standardised guarantees in response to the COVID-19 crisis; for such guarantees, an estimated deficit impact is recorded from the outset in line with ESA 2010 rules. While high uncertainty remains, this mitigates the potential impact of the guarantees for future deficits. This was particularly the case for Italy, where the stock of guarantees increased most in 2020: as the guarantees issued in 2020 in response to the COVID-19 crisis were predominantly standardised, losses associated with the expected future guarantee calls (0.7% of GDP) were already reflected in the deficit of 2020.

States (Box 1). Debt ratios will also rise further if interest rates increase. On the other hand, several factors mitigate fiscal sustainability risks. These factors include the lengthening of debt maturities in recent years[10], stable financing sources, historically low borrowing costs[11], 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). Moreover, large shares of government debt, in the range of 15% to 30% for most euro area countries[12], are held by the European System of Central Banks.

Graph 2.4 **Euro area: decomposition of the change in the debt ratio, 2021-2022 (pps. of GDP)**



Note: The snowball effect refers to the net impact of interest rates, inflation and real GDP growth (that is, the interest rate-growth differential) on the debt dynamics.
Source: European Commission 2021 autumn forecast.

Box 1. Guarantees in the 2022 Draft Budgetary Plans

In addition to the measures with a direct budgetary impact, Member States have provided ample liquidity support to the economy in response to the COVID-19 crisis, mostly in the form of public guarantees. These measures have facilitated the continued provision of credit to the economy by the banking sector and an efficient pass-through of favourable financing conditions to all economic sectors, as well as alleviated temporary liquidity constraints. Some Member States have highlighted in their DBPs the efficiency of such measures for preserving confidence and thereby limiting the impact of the crisis on employment.

With the easing of containment measures and the ensuing recovery, the take-up of public guarantees related to the COVID-19 crisis is expected to have reached its peak, as many guarantee schemes have already expired or are expiring by the end of 2021. This is confirmed by information provided in the DBPs, which often expect that the level of contingent liabilities will start declining from 2022, also reflecting the expected economic recovery. The information provided in the DBPs also highlights that, for some schemes, the actual take-up, reflected in government's actual contingent liabilities, remained modest compared to their initially announced maximum size.

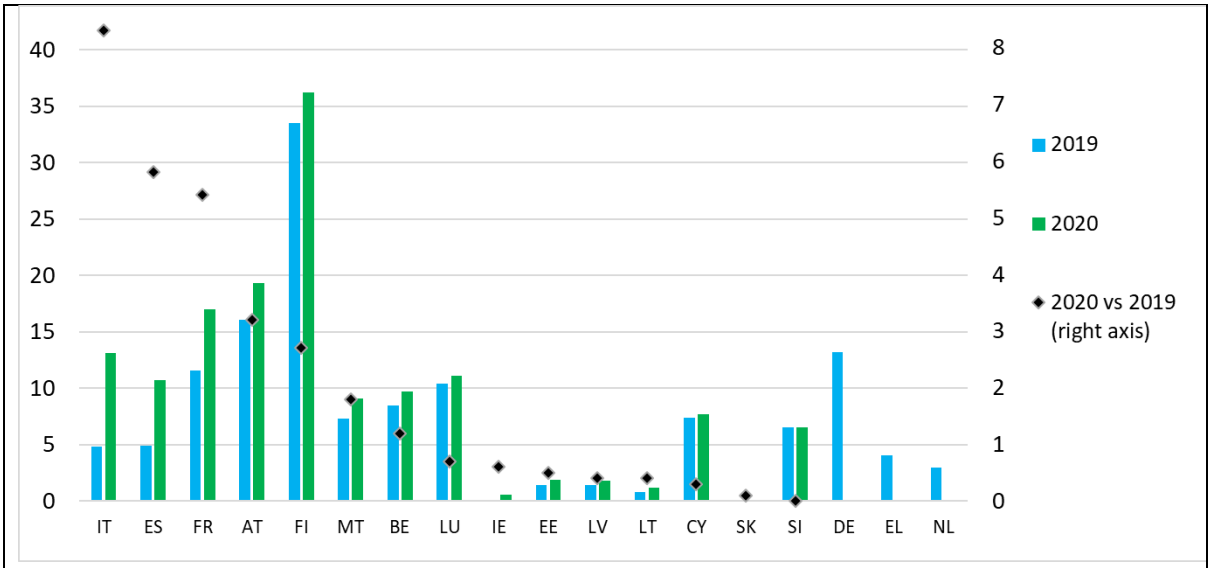
Based on the existing evidence, the increase in the stock of government guarantees has so far remained moderate in most cases (see graph B1.1) and overall lower than during the Great Financial Crisis. It is worth noting that the mere amount of the guarantees that have been taken up does not correlate with their probabiliy to be called , since this is driven by other aspects, in particular the solvency of the firms that benefitted from the guarantees.

Graph B1.1 Euro area: Stock of government guarantees, 2019 and 2020 (% of GDP)

[10] The average maturity in the euro area is currently 7.9 years (calculated as a simple average of maturities in euro area Member States).

[11] The implicit interest rate stood at 1.5% in 2020 for the euro area as a whole.

[12] 2020 data, source: Government finance statistics, ECB.

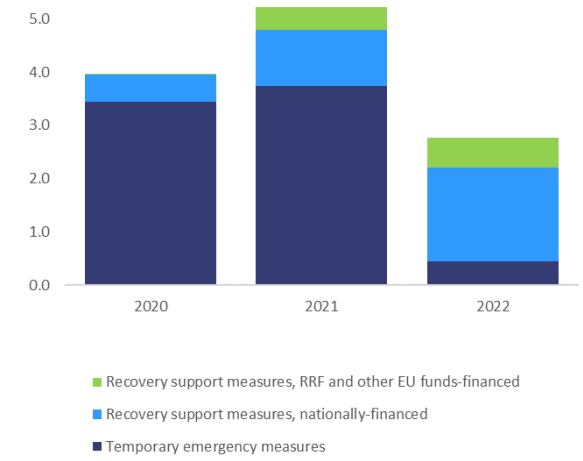


Source: Eurostat (gov_10dd_guar and gov_cl_guar); data are not available for 2020 for Germany, Greece and Netherlands

Fiscal response to the COVID-19 pandemic: from emergency to recovery

Member States have maintained sizeable fiscal measures in response to the worsening pandemic evolution in the beginning of 2021. According to the Commission's estimates, temporary emergency measures[13] have amounted to 3.4% of GDP in 2020, around 85% of total discretionary fiscal measures taken in that year (Graph 2.5). Other measures of a more general recovery-supporting nature (either temporary or permanent), such as extra public works or indirect tax cuts, are estimated to have amounted to 0.5% of GDP in 2020.[14] The cost of temporary emergency measures is set to increase in 2021 to 3.7% of GDP. The increase in temporary emergency measures is mainly due to the adoption of new or extended measures in response to the need for new restrictions to economic activity in the first part of the year. The cost of recovery support measures (financed by both national sources and the EU) is forecast to increase in 2021 to 1.5% of GDP, including EU-financed measures equivalent to 0.4% of GDP.

Graph 2.5 **Euro area: Temporary emergency measures and recovery support measures, 2020-2022 (% of GDP)**



Note: The chart shows the cost in 2022 of measures adopted from 2020 onwards. For the definition of temporary emergency measures see Box 2. For the definition of recovery support measures see footnote 12.
Sources: 2022 Draft Budgetary Plans and European Commission 2021 autumn forecast.

Temporary emergency measures are projected to be mostly phased out in 2022 as Member States pivot towards measures sustaining the recovery. In 2022, according to the Commission forecast, temporary emergency measures would amount to less than 0.5% of GDP, while recovery support measures are estimated at 2.3% of GDP. Those recovery support measures would make up around 85% of total discretionary fiscal measures in 2022, a reverse situation to the one in 2020. This confirms the pivot towards recovery support is materialising. A growing part of that recovery support is related to measures financed by the EU, especially RRF grants, which in 2022 will fund 24% of total recovery support measures, or 0.5% of GDP. Some emergency measures may be extended in case of a worsening of the pandemic evolution, however. In addition, Member States may adopt or extend measures to counteract economic and social impact of the recent abrupt increase in energy prices.

[13] The reason for distinguishing the emergency measures is that the appropriateness of their deployment should be gauged not in connection with the state of the economy but the state of public health and the restrictions it demands. For the definition of temporary emergency measures see Box 2.

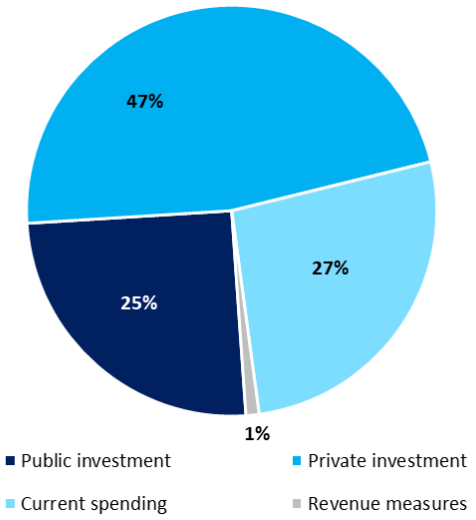
[14] Recovery support measures are fiscal measures introduced since March 2020 to ensure a sustainable recovery following the COVID-19 pandemic. Those measures can be either temporary or permanent; some may be funded by RRF grants. When those measures affect the budgetary balance beyond 2022, they are considered to be permanent. Those measures can take the form of public investment, capital transfers, current expenditure or revenue measures (tax cuts). On the composition of the fiscal support measures, Member States should follow the Council's recommendation of 18 June to ensure a sustainable and sustained recovery.

Trends in RRF-financed expenditure

The absorption of RRF grants (non-repayable financial support) is projected by the 2021 Commission autumn forecast and the 2022 Draft Budgetary Plans to be frontloaded with most grants geared towards funding private and public investment[15].

The RRF provides financial support for Member States for investment and reforms through grants as well as loans. This section only examines trends relative to RRF grants as they are "above the line" budget items. In contrast, RRF loans are "below the line" financing items similar to other loans contracted by the sovereign on international financial markets to finance itself[16]. Based on the Commission 2021 autumn forecast, the aggregate spending profile of RRF grants is frontloaded, with 42% of the total amount of allocated RRF grants to euro area Member States being spent by the end of 2022, pending the decision to disburse following the fulfilment of the milestones and targets, and around 67% by the end of 2023. In terms of GDP, RRF-funded expenditure in 2022 is estimated at over 0.5% of GDP and 0.5% in 2023. A similar profile emerges from the DBPs, with around 44% of the total amount of allocated RRF grants to euro area Member States being spent by the end of 2022, pending the decision to disburse following the fulfilment of the milestones and targets, and around 65% by the end of 2023. Disbursements to Member States under the RRF began in the summer of 2021 in the form of pre-financing (amounting to over EUR 34 bn in RRF grants so far) following the approval of the first Recovery and Resilience Plans (RRPs). Euro area Member States are estimated to have spent around 17% of the total RRF grants in 2021 which is equivalent to around 0.4% of euro area GDP. Around 72% of RRF grants over the 2020-2022 period would be geared towards supporting investment, both public and private (around 47% would support private investment through capital transfers, while around 25% would fund

Graph 2.6 **Expenditure financed by RRF grants, 2020-2022 (% of total costs)**



Source: European Commission 2021 autumn forecast.

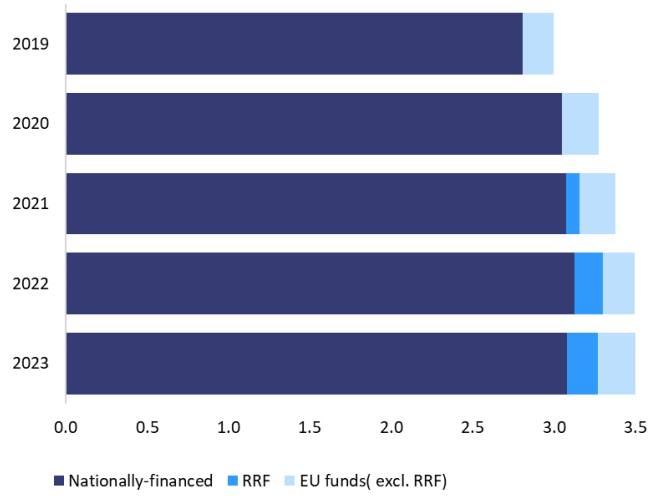
[15] This Communication as well as the DBP Opinions use the national accounts definition of investment, while the RRF uses a broader concept of investment. The RRF Regulation defines investment as capital formation in areas such as fixed capital, human capital, and natural capital. This would also cover for instance intangible assets such as data, intellectual property and skills. Fixed capital is broadly equivalent to the concept of 'gross fixed capital formation' used in national accounts (e.g. infrastructure, buildings, but also some intangibles such as R&D, patents or software). Human capital is accumulated by means of spending on health, social protection, education, training and skilling, etc. Natural capital is enhanced by actions aiming at increasing the share of renewable natural resources, protecting or restoring the environment (e.g. emission reduction, land rehabilitation, reforestation), or by mitigating/adapting to climate change.

[16] Unlike expenditure financed by RRF loans, expenditure financed by RRF grants is offset by matching revenue and is therefore not directly visible in the general government balance.

public investment through gross fixed capital formation) based on the Commission 2021 autumn forecast. The remainder of the RRF grants would be channeled towards current expenditure (around 27%) and tax cuts (around 1%) used by Member States to fund other measures to support the recovery, improve resilience and foster the green and digital transitions. Similar trends emerge from the Member States' DBPs: around 74% of the RRF grants over the 2020-2022 period will be channeled towards investment expenditure, with a near-equal allocation between public investment (around 38%) and private investment (around 36%). The remainder of the grants are expected to be allocated largely towards current expenditure (around 25%) and tax cuts (around 1%) used by Member States to fund other measures to support the recovery, improve resilience and foster the green and digital transitions.

The projected increase in the share of public investment in GDP is driven by both EU and national funding sources. The Commission 2021 autumn forecast projects an increase in the euro area aggregate public investment-to-GDP ratio from 2.8% in 2019 to around 3.2% in 2022 as a result of higher funding from EU and national sources. A significant part of the increased EU funding is due to the use of RRF grants. At the same time, nationally financed investment is projected to be broadly preserved in 2022 as all Member States are expected to keep the share of nationally financed investment in GDP to at least a similar level as in 2021.

Graph 2.7 **Public investment in the euro area, 2019-2023 (% of GDP)**



Source: European Commission 2021 autumn forecast.

Assessment of the euro area fiscal stance

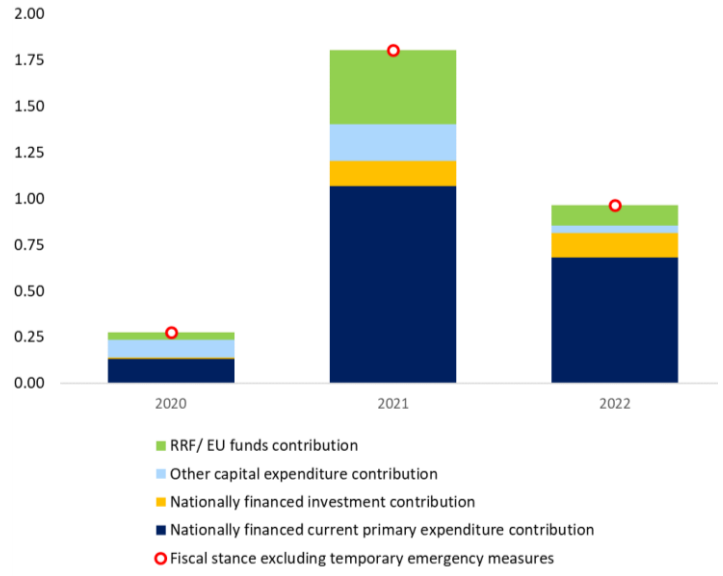
The fiscal stance indicator for 2020-2022 was adjusted to take into account the special circumstances brought about by the pandemic. The fiscal stance measures the short-term impulse to the economy from discretionary fiscal policy. In line with the approach used in Spring[17], this Communication computes the fiscal stance by looking at the annual increase in net expenditure relative to 10-year potential growth (for more details see Box: Indicators used in the assessment of the 2022 Draft Budgetary Plans in the Statistical Annex). Following the Council recommendations on the 2021 Stability Programmes, the net expenditure aggregate used to compute the overall fiscal stance was adjusted to include expenditure financed by RRF

[17] Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: "Economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy", 2 June 2021. Please see link: com-2021-500_en.pdf (europa.eu)

grants and other EU funds and to exclude the temporary emergency measures related to the COVID-19 crisis (Box 2 provides a detailed overview of these changes). In addition to the contribution from EU-financed expenditure, this Communication identifies the contributions to the overall fiscal stance from different nationally financed expenditure aggregates: i) investment; ii) other capital expenditure; and iii) current primary expenditure (net of discretionary revenue measures).

The aggregate euro area fiscal stance will remain expansionary in 2021. In 2020, the fiscal stance is estimated to have been slightly expansionary (¼ % of GDP)[18], as the lockdowns needed to limit the spread of the pandemic affected the ability of governments to spend on normal activities. In 2021, the fiscal expansion is projected to be sizeable at 1¾% of GDP driven largely by nationally financed net current primary expenditure, which is expected to provide an expansionary contribution of slightly more than 1% of GDP. Other positive contributions are expected to come from public investment and other capital spending financed by both the national and EU budgets. The substantial expansionary contribution of nearly ½% of GDP from the EU budget mainly reflects the implementation of Member States' RRPs.

Graph 2.8 **Euro area: fiscal stance, 2020-2022 (% of GDP)**



Note: The graph shows the discretionary fiscal impulse adjusted to take into account the special circumstances of the COVID-19 pandemic.
Source: European Commission 2021 autumn forecast.

Fiscal policy in the euro area is projected to remain supportive in 2022 to sustain the recovery. As the economic recovery gathers pace, euro area Member States are expected to shift their policies from temporary emergency measures (set to expire for the most part in 2022) to recovery support measures, which are necessary to reduce the output losses and to foster the green and digital transition of our economies. Based on the Commission 2021 autumn forecast, which incorporates the 2022 DBPs, a further fiscal expansion of nearly 1% of GDP is expected for 2022.

[18] The COVID-19 pandemic poses specific challenges to the assessment of the underlying fiscal position, not least the need to take into account the phasing-out of temporary emergency measures. In particular, the implementation and subsequent phasing-out of sizeable temporary emergency measures in 2022 blurs the reading of underlying fiscal developments. The phasing out of these measures should not be considered as restrictive fiscal policy when economic activity and hours worked return to normal levels. Excluding them from the analysis will help to avoid misleading inferences on the evolution of demand support since the start of the pandemic. For consistency and comparison purposes, the fiscal stance indicator also for 2020 has been adjusted to exclude the temporary emergency measures taken as a response to the COVID-19 crisis. Given that in 2020 most of the fiscal impulse was provided by these temporary emergency measures, the modified metric used in this note points only to a slightly expansionary fiscal stance for 2020. When including the temporary emergency measures, the euro area fiscal stance would be expansionary by 3¾% in 2020 and 2.0% in 2021 and contractionary by 2.0% in 2022.

EU-financed expenditure and nationally financed capital expenditure will continue to support the recovery and potential growth in 2022, with an overall additional spending of ¼% of GDP (with EU- financed spending accounting for 0.1% of GDP). As the implementation of the RRPs accelerates, the spending financed by the EU is projected to increase further in 2022, adding to the expansionary fiscal stance. Nationally financed investment is also projected to further increase next year. The expected fiscal support to finance public and private investments will have a positive impact on potential growth and thus on fiscal sustainability.

A large part of the fiscal support in 2022 is geared towards higher nationally financed current spending or lower tax revenue (¾% of GDP). In some cases, these projections imply a sizeable impact on the underlying fiscal position, also in some high-debt Member States.

While the aggregate euro area fiscal stance is supportive in 2022, its composition could be improved. In the 2021 CSRs, Member States were recommended to implement different types of fiscal strategies based on the level of their public debt. Member States with low debt should pursue a supportive fiscal stance, including the impulse provided by the RRF. Member States with high debt should use the RRF to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Member States should preserve nationally financed investment. At the same time, the growth of nationally financed current expenditure should be kept under control, and be limited for Member States with high debt. As shown in Section III below, all Member States are complying with the recommendations to use the RRF to finance additional investment in support of the recovery and all Member States, preserve or broadly preserve their nationally financed investment. However, a further increase in nationally financed current expenditure above potential growth is expected in 2022 in several Member States, including some with high debt-sustainability risks. This projected increase in current expenditure above potential growth follows similar trends in 2020 and 2021, suggesting an increasing weight of permanent current expenditure or unfunded tax cuts. The composition of the 2022 fiscal stance could therefore be improved by shifting the fiscal support towards investment to the possible extent. These elements would promote investment and lead to an improvement in medium-term fiscal sustainability. Moreover, for high-debt Member States, limiting the growth of current expenditure will help to pursue a prudent fiscal policy, as recommended by the Council.

Box 2. Fiscal stance indicators used in the COVID-19 pandemic

Traditionally, the fiscal stance indicates the short-term impact of discretionary fiscal policy on the economy and is defined as a measure of the year-on-year change in the general government's budgetary position. However, in view of the exceptional circumstances triggered by the COVID-19 pandemic, the presence of sizeable transfers from the EU budget (such as those from the RRF or other EU grants), and the significant uncertainty surrounding the output gap estimates, conventional indicators such as the change in the structural budget balance or the 'expenditure benchmark' are not deemed suitable to measure the fiscal stance in the current context.

In particular, the change in the structural budget balance does not capture the additional fiscal impulse provided by the EU, as the related national expenditure is exactly offset by corresponding revenue from the EU. The economy may therefore experience a significant impulse from the EU, without being visible in the headline or structural budget balance. Likewise, the 'expenditure benchmark' excludes the impact of EU funded expenditure and therefore also does not capture the overall fiscal stance.

Moreover, since 2020 government balances have also been considerably impacted by the introduction and subsequent phasing-out of crisis-related temporary emergency measures. Such measures generally aim at supporting health systems and compensating workers and firms for pandemic-induced income losses. They are by nature temporary, with an expiry date in 2023 or earlier, but their impact is contingent on the development of the health situation. While useful in the initial phase of the crisis, these measures are likely to be less efficient to support the recovery when the health related emergency gradually wanes.

For those reasons, the Commission uses a measure of fiscal stance that is based on the change in primary expenditure (net of discretionary revenue measures), relative to the 10-year average potential GDP growth rate. The expenditure aggregate includes nationally financed expenditure as well as expenditure financed by the RRF and other EU grants, and therefore measures the impulse by the national budget as well as the EU. At the same time, taking into account the exceptional circumstances created by the impact of the COVID-19 pandemic, it excludes the impact of crisis-related temporary emergency measures. The difference between the change in net primary expenditure (as defined above) relative to the 10-year average potential GDP growth can then be interpreted as a measure for the overall fiscal stance.

In line with the 2 June 2021 Council Recommendations, the Commission's assessment also pays particular attention to the evolution of subcomponents of the overall fiscal stance separately, notably expenditure financed by RRF grants and other EU funds, nationally financed investment and nationally financed primary current expenditure.

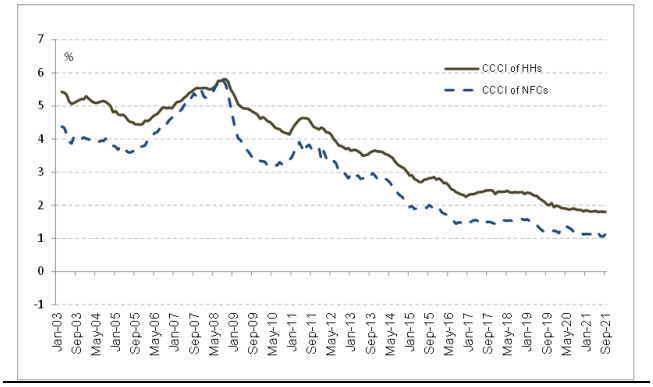
Monetary Policy Stance

The ECB's accommodative monetary policy stance since the beginning of the pandemic has contributed to the preservation of favourable financing conditions across the euro area. While long-term market interest rates have picked up since September, composite credit costs (CCCI)[19] of euro area firms and households have remained at historically low levels so far (graph 2.9). By preserving favourable financing conditions, the ECB's monetary policy measures[20] also contributed to a more effective transmission of fiscal impluses to the entire euro-area economy during the pandemic. At the same time, a supportive fiscal stance also supported the ECB monetary policy transmission. This strong complementarity between fiscal and monetary policies in the euro area has created space for both policies to operate in tandem and effectively mitigated the economic damages of the pandemic. Looking ahead, financing

[19] The composite credit cost indicator (CCCI) is a synthetic measure of the external financing costs for the euro area corporate sector and households. The CCCI of non-financial corporations includes the costs of credit provided by both banks and financial markets (i.e. through bonds). The CCCI of households includes the costs on three types of bank loans granted to households, i.e. for consumption, house purchase and other purposes.

[20] The ECB has deployed a range of monetary policy easing measures to mitigate the adverse economic effects of the COVID-19 pandemic. These measures consisted of sizeable additional asset purchases under the asset purchase programme and in particular under the pandemic emergency purchase programme, ample liquidity provision at very favourable conditions to euro area banks in particular through the third series of targeted longer-term refinancing operations (TLTRO III), and a relaxation of collateral requirements in its liquidity-provision operations with euro area banks.

Graph 2.9 **Composite credit cost indicators (CCCIs) of non-financial corporations and households in the euro area**



Source: ECB, Bloomberg, Datastream, DG ECFIN calculations.

conditions should remain favourable, with market-implied forward rates suggesting only a very gradual increase in both short-term and long-term interest rates in 2022. At its latest monetary

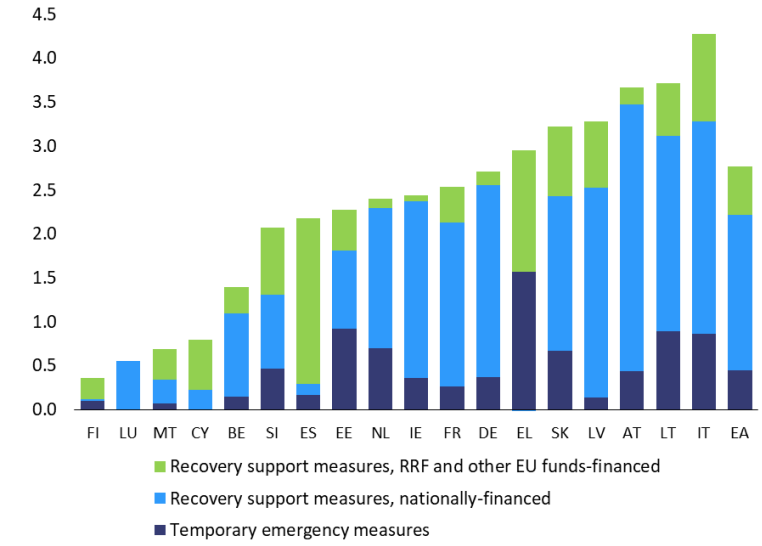
policy meeting in October, the ECB Governing Council judged that its current monetary policy measures remained crucial to helping the economy shift to a sustained recovery and, ultimately, to bringing inflation over the medium term to its 2% target. The ECB Governing Council also considered that targeted and coordinated fiscal support should continue to complement monetary policy.

III. Overview of the Draft Budgetary Plans

Fiscal response to the COVID-19 pandemic across Member States: from emergency to recovery

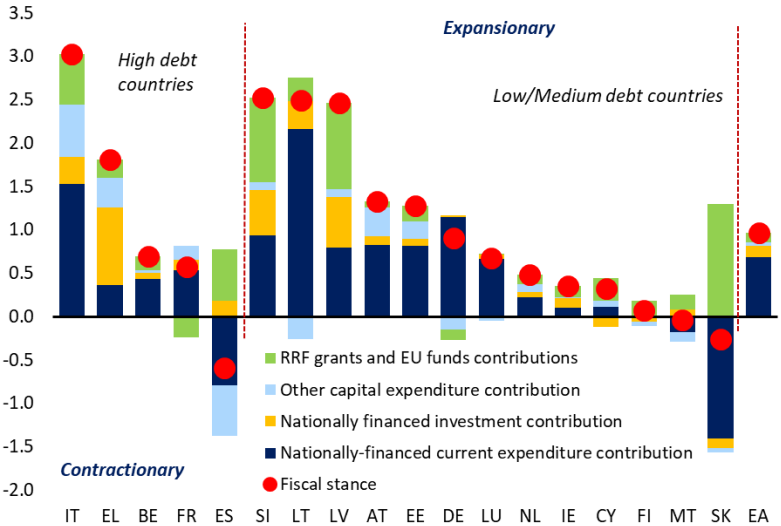
Most countries are expected to phase out temporary emergency measures and pivot towards recovery support in 2022 (Graph 3.1). The cost of recovery support measures, in part financed by the RRF and other EU funds, is expected to exceed 3% of GDP in 2022 in Italy, Latvia and Austria, and be over 2% in another seven Member States. Four Member States are expected to finance at least 1% of GDP of recovery support measures by the EU funds. The highest costs of temporary emergency measures in 2022 are projected in Estonia, the Netherlands, Greece, Slovakia, Lithuania and Italy. The withdrawal of the last temporary emergency measures is expected to take place in 2023.

Graph 3.1 **Temporary emergency measures and recovery support measures, 2022 (% of GDP)**



Note: The chart shows the cost in 2022 of measures adopted from 2020 onwards. For the definition of temporary emergency measures see Box 2. For the definition of recovery support measures see footnote 12.
Source: European Commission 2021 autumn forecast.

Graph 3.2 **Fiscal stance of the euro area Member States in 2022 (% of GDP)**



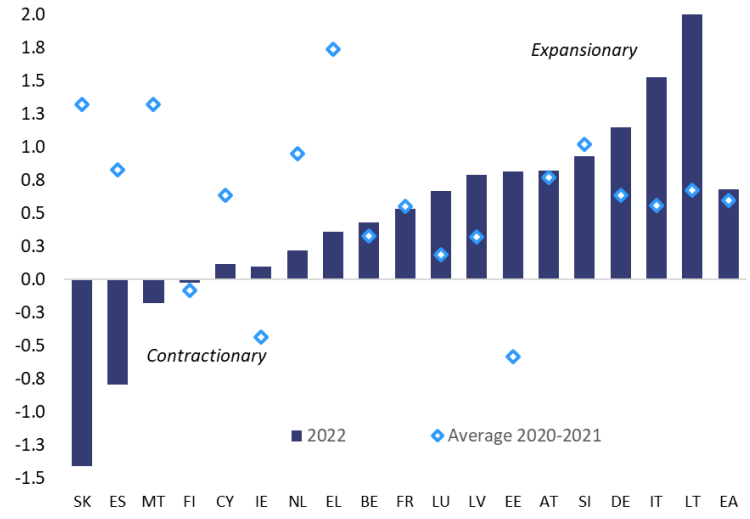
Note: The graph shows the fiscal stance and its components excluding COVID-19 temporary emergency measures based on the Commission forecast only as DBP data on COVID-19 temporary emergency measures are not available.
Source: European Commission 2021 autumn forecast..

The fiscal stance is expected to remain supportive in almost all Member States in 2022 (Graph 3.2). According to the Commission 2021 autumn forecast, 17 Member States are projected to provide a neutral or supportive fiscal stance, in some cases at high levels with an expansion of 1% of GDP or more. As indicated in the recommendations addressed to them in spring, a large majority of the low/medium debt Member States are projected to pursue a supportive fiscal stance in 2022. The only exception is Slovakia, for which a contractionary stance of 0.3% of GDP is forecast to take place against solid output growth in 2022. A neutral stance is projected for Malta,

reflecting mainly very high estimated potential growth. Most high debt Member States plan a fiscal expansion (Belgium, Greece, France and Italy). Member States with high debt had received a recommendation to use the RRF to finance additional investment in support of the recovery while pursuing a prudent fiscal policy.

In several countries, the projected supportive fiscal stance reflects higher nationally financed current spending or tax cuts, whereas in about a third it reflects higher investment (Graph 3.2). In most Member States, the growth of nationally financed current expenditure (net of new revenue measures) in 2022 is projected to exceed the rate of medium-term potential growth, implying a positive contribution to the overall fiscal stance (Box 2 provides a detailed overview of the metrics of fiscal stance). In fact, the growth of nationally financed current expenditure is set to be the main driver of the supportive fiscal stance in ten Member States. Only in Spain, Malta and Slovakia the nationally financed current expenditure is expected to provide a contractionary contribution to the fiscal stance, as non-temporary current expenditure is set to decelerate after the sizable increase recorded in 2020-2021 (Graph 3.3). In Greece, Ireland, Latvia and Slovenia the supportive fiscal stance in 2022 is expected to be driven by investment, both nationally and EU financed (Graph 3.2).

Graph 3.3 **Growth of nationally financed current expenditure, average 2020-2021 and 2022 (% of GDP; in excess of medium-term potential growth)**



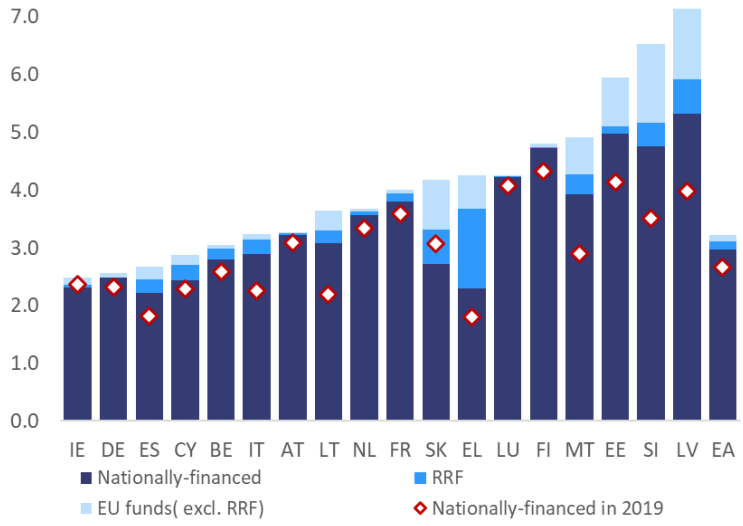
Note: This expenditure aggregate is defined in primary terms and net of discretionary revenues. Temporary emergency measures are excluded.
Source: European Commission 2021 autumn forecast.

The growth in nationally financed current expenditure exceeds the medium-term potential growth rate in 2022 in all Member States, except for Spain, Malta and Slovakia (Graph 3.3). In Italy, the impact of the increase in nationally financed current expenditure on the underlying fiscal position amounts to 1.5% of GDP. Italy has a high level of debt and had received a recommendation to limit the growth of nationally financed current expenditure and to use the RRF to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. The impact of the increase in nationally financed current expenditure on the underlying fiscal position amounts to 0.8% of GDP in Latvia and 2.2% of GDP in Lithuania. Latvia and Lithuania, both with a low/medium debt level, had received a recommendation to keep the growth of nationally financed current expenditure under control.

All Member States are expected to preserve or broadly preserve their nationally financed investment expenditure in 2022, (Graph 3.4). On the basis of the Commission 2021 autumn forecast, the growth in nationally financed investment exceeds potential growth in Belgium, Estonia, Ireland, Greece, Spain, France, Italy, Lithuania, Latvia, Malta, the Netherlands,

Austria and Slovenia, contributing to a supportive fiscal stance. It is broadly in line with potential growth in Germany, Luxembourg, Finland, Cyprus and Slovakia, where nationally financed investment remain broadly stable.

Graph 3.4 **Public investment, 2019-2022 (%of GDP)**



Note: The Netherlands did not include any RRF projections in their Draft Budgetary Plan in the absence of an RRP. [For the Netherlands, the Commission 2021 autumn forecast assumed the RRP would be submitted in 2022 and a linear extrapolation was made for the RRF amounts.]

Source: European Commission 2021 autumn forecast.

RRF-financed expenditure

Most Member States have reported RRF-funded measures in their 2022 DBPs[21]. Many Member States have also reported on RRF-funded measures well beyond 2022, even though this was optional. Ireland and Lithuania did not report the breakdown of RRF-funded total capital expenditure. Moreover, the Netherlands did not include any impact of the RRF in its DBP in the absence of an RRP.

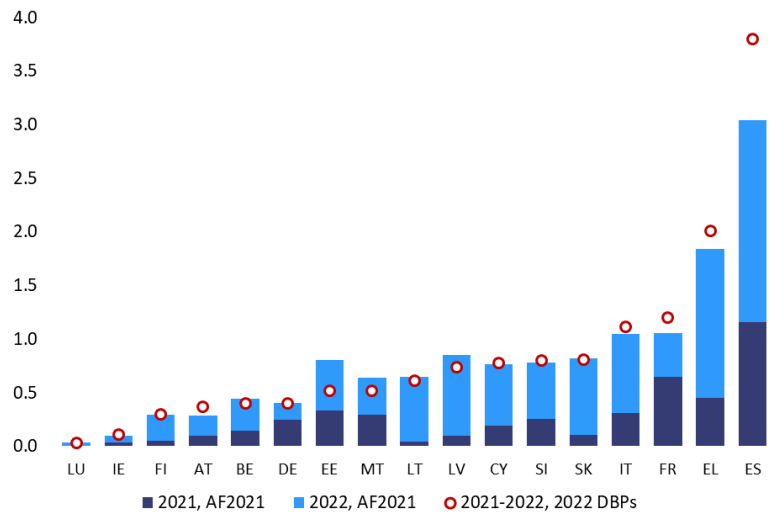
There is some degree of heterogeneity in the spending profile of RRF grants over 2020-2022 across euro area Member States. Based on the Commision 2021 autumn forecast, a small number of Member States (Austria, Germany, France, Cyprus, Spain, Luxembourg, Malta and Italy) plan to use RRF grants to retroactively finance expenditure in 2020[22]. In 2021, the expenditure as a share of GDP financed by RRF grants is projected to remain limited in most Member States, the only exceptions being France, Spain, Estonia and Greece where the share of expenditure in GDP is already expected to be significant. In 2022, the expenditure financed by RRF grants is projected to increase substantially in many Member States. It is in particular expected to be above 1% of GDP for Greece and Spain and above 0.7% for Italy, Latvia and Slovakia. In contrast, it is expected to remain below 0.2% of GDP in Ireland, Luxembourg, Germany and Austria. This reflects the size of grant allocations in the RRF as well as the timing of disbursements linked to the planned completion of milestones and targets.

[21] Overall, the completeness of reporting has improved compared to the 2021 Stability and Convergence Programmes. However, a number of problems remain in the reporting of some Member States such as incorrect applications of accounting rules concerning RRF-related transactions or components not adding up to totals.

[22] According to Regulation (EU) 2021/241 establishing the RRF, measures started from 1 February 2020 onwards shall be eligible for financing from the RRF provided that they comply with the requirements set out in this Regulation. Moreover, in line with Eurostat's guidance, the general neutrality rule of the EU grants recording exceptionally does not apply to the eligible expenditure incurred in 2020. The corresponding revenue is to be recorded at a time of the approval of the RRP by the Council, i.e., in most cases in 2021.

High-debt Member States are using most RRF grants to finance additional investment, as recommended in the 2021 CSRs. According to the Commission 2021 autumn forecast, the high-debt Member States (Belgium, Greece, Spain, France, Italy) having received a Council recommendation to use the RRF to finance additional investment to support the recovery, are complying with the recommendation. One Member State (Greece) has allocated the full amount of its RRF grants in 2022 towards financing public investment. The other Member States (Belgium, Spain, France, Italy) have allocated over 60% of their RRF grants in 2022 towards the financing of private and public investment.

Graph 3.5 **Expenditure financed by RRF grants, 2021 and 2022 (% of GDP)**



Note: The Netherlands did not include any impact of the RRF in its Draft Budgetary Plan in the absence of an RRP. To allow for comparison between the DBPs and the Commission 2021 autumn forecast, the GDP projections provided by the Commission 2021 autumn forecast were used when expressing in % of GDP. Some differences between the DBPs and the Commission 2021 autumn forecast could be due to the provision of rounded data in the DBPs.
Sources: Member States' 2022 Draft Budgetary Plans, European Commission 2021 Autumn Forecast.

Commission assessment of the 2022 Draft Budgetary Plans

The Commission Opinions on the 2022 Draft Budgetary Plans focus on the consistency of the latter with the Council Recommendations of 18 June 2021. The Council recommended that Member States with low debt should pursue a supportive fiscal stance, including the impulse provided by the RRF. Member States with high debt should use the RRF to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. All Member States should preserve nationally financed investment. At the same time, as the growth of nationally financed current expenditure should be kept under control, and be limited for Member States with high debt, there was a recommendation to that effect to those Member States where it was considered to be an issue based on the Commission's 2021 spring forecast. This will allow fiscal measures to create space for investment and maximise support to the recovery without pre-empting future fiscal trajectories and creating a permanent burden on public finances, in order to preserve prudent fiscal policies.

The Council also recommended Member States to pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget. The quality of budgetary measures should ensure a sustainable and inclusive recovery. Sustainable and growth-enhancing investment should be prioritised, in particular investment supporting the green and digital transition. Fiscal-structural reforms will help to provide financing for public policy priorities and contribute to the long-term sustainability of public

finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

Almost all euro-area Member States submitted their Draft Budgetary Plans by 15 October, in line with Article 6 of Regulation (EU) No 473/2013. The only exception was Italy, which submitted its Plan on 20 October. France submitted an update of the Draft Budgetary Plan on 22 October. In the case of the Netherlands, the Draft Budgetary Plan was submitted by the outgoing government. 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, the authorities are invited to submit to the Commission and the Eurogroup an updated Plan. The Commission did not adopt an Opinion on the Draft Budgetary Plan submitted by Portugal, as the budget was rejected by its parliament in the meantime. On 15 November, the Commission sent a letter inviting the Portuguese authorities to submit a new Draft Budgetary Plan to the Commission and the Eurogroup, in due course, and as soon as a government presents to the Portuguese parliament a new draft law on the State Budget for 2022. The submission should take place at least one month before the new Draft Budget Law is planned to be adopted by the national parliament.

The following is a summary of the Commission Opinions[23], which are based on the Commission 2021 autumn forecast:

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

- As recommended by the Council, all Member States use the RRF to finance additional investment in support of the recovery.
- As recommended by the Council, all Member States preserve nationally financed investment.
- **Italy** has been recommended by the Council to limit the growth of nationally financed current expenditure. This is not projected to be sufficiently ensured, as the growth of nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a sizeable contribution to Italy's overall supportive fiscal stance. In order to contribute to the pursuit of a prudent fiscal policy, the Commission invites Italy to take the necessary measures within the national budgetary process to limit the growth of nationally financed current expenditure.
- For **Belgium**, **France**, **Greece**, **Italy** and **Spain**, given the level of their government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supporting budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term.

[23] The usual Staff Working Documents accompanying the Commission Opinions on the Draft Budgetary Plans are not published this year, taking into account the qualitative recommendations adopted by the Council and the continued departure from the normal budgetary requirements following the activation of the general escape clause of the Stability and Growth Pact. The Opinions are accompanied by a Statistical Annex, including the necessary information to assess Member States' plans.

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

- As recommended by the Council, all Member States, with the exception of **Slovakia** and **Malta**, pursue a supportive fiscal stance, including the impulse provided by the RRF. Slovakia's restrictive fiscal stance occurs against the background of high output growth and emerging capacity constraints. Malta's neutral stance reflects mainly very high estimated potential growth, while public investment reaches a historically high level. This is broadly as recommended by the Council.
- All Member States plan to use the RRF to support their recovery, while the Netherlands has not yet submitted its Recovery and Resilience Plan.
- As recommended by the Council, all Member States preserve or broadly preserve nationally financed investment.
- **Latvia** and **Lithuania** have been recommended by the Council to control the growth of nationally financed current expenditure. This is not projected to be sufficiently ensured, as the growth of nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a sizeable contribution to their overall supportive fiscal stance.

Overall, the Draft Budgetary Plans include measures that go in the direction of strengthening the composition of public finances and contributing to a sustainable and inclusive recovery, including through growth-enhancing investment, notably supporting the green and digital transition. A complete assessment of the fiscal-structural reforms implemented by Member States will be done in the context of the assessment of the implementation of the Recovery and Resilience Plans and the 2022 Country Report.

Taking into account the strength of their recovery, Member States are invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

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

In 2022, based on the Commission's forecast and including the information incorporated in **Austria**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Austria plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Austria plans to preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. Taking into account the strength of the recovery, Austria is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Belgium**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive. As recommended by the Council, Belgium plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Belgium also plans to preserve nationally financed investment. Given the level of Belgium's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supportive budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. The measures announced in the Draft Budgetary Plan are in line with the recommendation, while small in size. Taking into account the strength of the recovery, Belgium is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Cyprus**' Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Cyprus plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. Broadly as recommended by the Council, Cyprus plans to almost preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. Investments and reforms funded by the Recovery and Resilience Facility are expected to fulfil these objectives and contribute to support the long-term sustainability of public finances. Taking into account the strength of the recovery, Cyprus is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Estonia**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Estonia plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the

Council, Estonia plans to preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. Some of the measures included in the Draft Budgetary Plan relate to information technology and green investments and are thus expected to contribute to addressing the recommendation. Taking into account the strength of the recovery, Estonia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Finland**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Finland plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Finland plans to preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. Measures related to the implementation of the government programme and of the Recovery and Resilience Plan contained in Finland's Draft Budgetary Plan contribute to fulfilling this Council recommendation. Taking into account the strength of the recovery, Finland is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **France**'s updated Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive. As recommended by the Council, France plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, France also plans to preserve nationally financed investment. Given the level of France's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supportive budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. In this regard, measures contained in the French Draft Budgetary Plan contribute to fulfilling the Council recommendation of ensuring a sustainable and inclusive recovery, while prioritising the green and digital transition, as well as the adequacy and sustainability of health and social protection systems for all. Taking into account the strength of the recovery, France is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Germany**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Germany plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Germany plans to preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital

transition. These objectives are fulfilled by the measures underpinning the Draft Budgetary Plan. Taking into account the strength of the recovery, Germany is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Greece**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive. As recommended by the Council, Greece plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Greece also plans to preserve nationally financed investment. Given the level of Greece's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supportive budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. Most of the emergency support measures will be phased out in 2021 and the ones that are included in the 2022 Draft Budgetary Plan aim at stimulating aggregate demand and employment, which will support a sustainable and inclusive recovery. Furthermore, the investments and reforms funded by the Recovery and Resilience Facility will contribute significantly to the green and digital transition. Finally, undergoing fiscal structural reforms such as the spending reviews, the performance budgeting reform, the completion of functional classification and the development of a green budgeting framework are expected to improve the efficiency of public finances. Taking into account the strength of the recovery, Greece is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Ireland**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Ireland plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Ireland plans to preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. Measures included in the National Development Plan, such as residential retrofit and the National Broadband Plan, are in line with supporting the green and digital transition. Taking into account the strength of the recovery, Ireland is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Italy**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive. As recommended by the Council, Italy plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Italy also plans to preserve nationally financed investment. At the same time, Italy does not plan to sufficiently limit the growth of nationally financed current expenditure. In order to contribute to the pursuit of a prudent fiscal policy, the Commission invites Italy to take the necessary

measures within the national budgetary process to limit the growth of nationally financed current expenditure. Given the level of Italy's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supportive budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. In this regard, measures contained in the Italian Draft Budgetary Plan contribute to fulfilling the Council recommendation of ensuring a sustainable and inclusive recovery, while prioritising the green and digital transition. Taking into account the strength of the recovery, Italy is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Latvia**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Latvia plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Latvia plans to preserve nationally financed investment. At the same time, Latvia does not sufficiently keep under control the growth of nationally financed current expenditure. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. The measures included in Latvia's Recovery and Resilience plan and which are part of the Draft Budgetary Plan are aimed at addressing the investment needs of the green and digital transitions. Taking into account the strength of the recovery, Latvia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Lithuania**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Lithuania plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Lithuania plans to preserve nationally financed investment. At the same time, Lithuania does not sufficiently keep under control the growth of nationally financed current expenditure. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. Measures included in Lithuania's Recovery and Resilience Plan and Lithuania's Draft Budgetary Plan are set to contribute to fulfilling this recommendation. Taking into account the strength of the recovery, Lithuania is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Luxembourg**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Luxembourg plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Luxembourg plans to preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary

measures, including through growth-enhancing investment, notably supporting the green and digital transition. In this regard, measures contained in the Luxembourg Draft Budgetary Plan contribute to fulfilling the Council recommendation of ensuring a sustainable and inclusive recovery, while prioritising the green and digital transition, as well as the adequacy and sustainability of health and social protection systems for all. Taking into account the strength of the recovery, Luxembourg is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Malta**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be neutral in a context of very high estimated potential growth, while public investment reaches a historically high level, broadly as recommended by the Council. Malta plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Malta also plans to preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. The increase in public investment planned in the Draft Budgetary Plan of Malta is expected to support the green and digital transition and increase growth potential, while the increase in pension entitlements, although limited, may increase the pressure on the sustainability of the pension system. Taking into account the strength of the recovery, Malta is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in the **Netherlands**' Draft Budgetary Plan, the fiscal stance, including the assumed impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. The Netherlands is assumed to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, the Netherlands plans to preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. Measures included in the Netherlands' Draft Budgetary Plan are set to contribute to fulfilling this recommendation. Taking into account the strength of the recovery, the Netherlands is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances. 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, the authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan.

In 2022, based on the Commission's forecast and including the information incorporated in **Slovakia**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be contractionary in a context of high output growth and emerging capacity constraints in 2022, broadly as recommended by the Council. Slovakia plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. Broadly as recommended by the Council, Slovakia plans to almost preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. The measures announced in the Draft Budgetary Plan are in line with the

recommendation, while small in size. Taking into account the strength of the recovery, Slovakia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Slovenia**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive, as recommended by the Council. Slovenia plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Slovenia plans to preserve nationally financed investment. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. While most of the measures are addressing the Council Recommendation, the adopted tax reform may put a strain on the sustainable and inclusive recovery. Taking into account the strength of the recovery, Slovenia is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

In 2022, based on the Commission's forecast and including the information incorporated in **Spain**'s Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be contractionary. As recommended by the Council, Spain plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Spain also plans to preserve nationally financed investment. Given the level of Spain's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supportive budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term. The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. In this regard, the Draft Budgetary Plan contains detailed measures that go in that direction and foster the digital transition, increasing connectivity and reinforcing cybersecurity through different action plans as the Plan for Connectivity and Digital Infrastructures for Society. The green transition is also covered by the new Law on Climate Change and Energy Transition and the National Hydrological Plan 2021-2027. There will also be increased public support for R&D and knowledge transfer through the Spanish Research Agency and Red Cervera, among other actions. Taking into account the strength of the recovery, Spain is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

ANNEX II: The methodology and assumptions underpinning the Commission 2021 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 2021 autumn forecast, which is produced independently by Commission staff, are explained in the forecast document itself.[24]

Budgetary data up to 2020 are based on data notified by Member States to the Commission before 1 October 2021 and validated by Eurostat on 21 October 2021. Eurostat has made no amendments to the data reported by Member States during the autumn 2021 notification round. Eurostat withdrew its earlier reservation on the quality of the data reported by Luxembourg for the year 2020. The Luxembourgish statistical authorities have provided the missing information on the tax revenue deferred in the context of the COVID-19 pandemic.

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 2022, budgets adopted or presented to national parliaments and all other measures known in sufficient detail are taken into consideration. In particular, all the information included in the Draft Budgetary Plans submitted by mid-October is reflected in the autumn forecast. For 2023, 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 2021-2023 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 2021-23 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]

According to the Commission 2021 autumn forecast, the budgetary measures reported in the Draft Budgetary Plans for 2022 are deficit-increasing on aggregate (impact of around -0.3% of

[24] Methodological assumptions underlying the Commission 2021 autumn economic forecast, available at: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2021-economic-forecast_en

[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.

GDP), driven broadly equaly by expenditure-increasing and revenue-decreasing measures. Overall, the mechanical impact on GDP growth in the short-term is projected to be positive.

It is important to be prudent in interpreting that estimate:

- Regulation (EU) No 473/2013 aims at evaluating the effect of the measures taken in the Draft Budgetary Plans. Measures taken and having entered into force before the Draft Budgetary Plans are not included in the assessment even if they can have an additional impact on the public finance projections for 2022.
- The impact of reported measures is expressed against a baseline at unchanged policy. The fiscal policy orientation of that baseline is not necessarily neutral. For example, the trend increase of some expenditure items could be above or below potential growth, there might be an additional impact of earlier measures in the baseline or measures taken earlier might cease in 2022.

The budgetary projections of some Member States include measures that are expected to be financed under Next Generation EU/ RRF. The Commission 2021 autumn forecast records these measures as deficit-increasing, though they may eventually be financed by RRF. As a result, projected deficits of those Member States might be overestimated.

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 2022-2026: the Commission 2021 autumn forecast scenario and the 2022 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 2022, the simulations suggest that, with an 80% probability, the euro area debt ratio will be between 89% and 107% of GDP under the Commission scenario, and between 90% and 108% of GDP under the DBP scenario. By 2026, there would be a 50% probability of a debt ratio higher than around 95% of GDP under the Commission scenario and 99% of GDP under the DBP scenario.

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. Output gaps tend to be revised downwards, in the direction of lower potential output than assumed in the real time. 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.

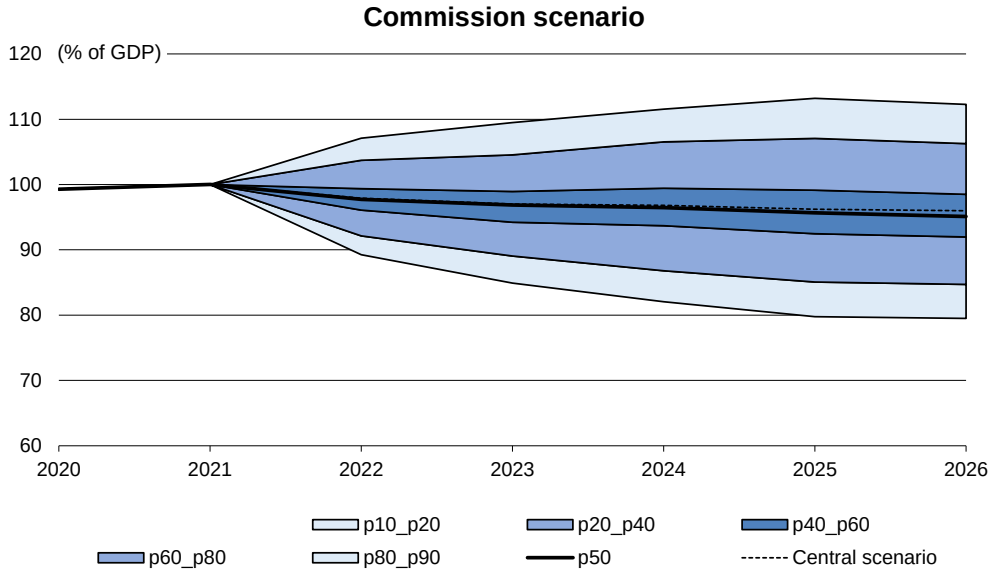
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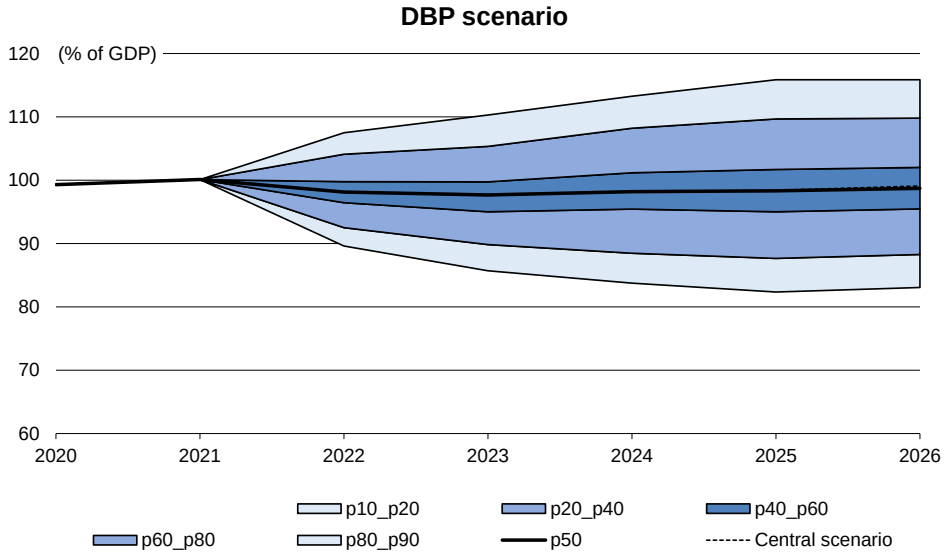
[27] The methodology for stochastic public debt projections used here is presented in the European Commission's Debt Sustainability Monitor 2019, Annex A7, and in Berti K. (2013), "Stochastic public debt projections using the historical variance-covariance matrix approach for EU countries", European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

[28] The Commission 2021 autumn forecast incorporates fiscal policy measures that were adopted or at least credibility announced and information that was available as of 25 October 2021. Beyond 2023 (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) and the Commission 2021 autumn forecast (COM)

	2021			2022		
Country	SP	DBP	COM	SP	DBP	COM
BE	4.1	5.7	6.0	3.5	3.0	2.6
DE	3	3.5	2.7	2.6	3.6	4.6
EE	2.5	9.5	9.0	4.8	4.0	3.7
IE	4.5	15.6	14.6	5.0	5.0	5.1
EL	3.6	6.1	7.1	6.2	4.5	5.2
ES	6.5	6.5	4.6	7.0	7.0	5.5
FR	5.0	6.3	6.5	4.0	4.0	3.8
IT	4.5	6.0	6.2	4.8	4.7	4.3
CY	3.6	5.5	5.4	3.8	4.0	4.2
LV	3.0	3.7	4.7	4.5	5.0	5.0
LT	2.6	4.3	5.0	3.2	4.0	3.6
LU	4.0	6.0	5.8	4.0	3.5	3.7
MT	3.8	4.8	5.0	6.8	6.5	6.2
NL	2.2	3.9	4.0	3.5	3.5	3.3
AT	1.5	4.4	4.4	4.7	4.8	4.9
SI	4.6	0.0	6.4	4.4	4.7	4.2
SK	3.3	3.7	3.8	6.3	4.2	5.3
FI	2.6	3.3	3.4	2.5	2.9	2.8
EA	4.0	5.4	5.0	4.1	4.3	4.3

Table IV.2: Headline balance (% of GDP) according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission 2021 autumn forecast (COM)

	2021			2022		
Country	SP	DBP	COM	SP	DBP	COM
BE	-7.7	-8.1	-7.8	-4.5	-4.9	-5.1
DE	-9	-7 ¼	-6.5	-3	-3 ¼	-2.5
EE	-6.0	-3.3	-3.1	-3.8	-2.2	-2.5
IE	-4.7	-3.1	-3.2	-2.8	-1.8	-1.7
EL	-9.9	-9.9	-9.9	-2.9	-3.7	-3.9
ES	-8.4	-8.4	-8.1	-5.0	-5.0	-5.2
FR	-9.0	-8.1	-8.1	-5.3	-5.0	-5.3
IT	-11.8	-9.4	-9.4	-5.9	-5.6	-5.8
CY	-4.7	-5.0	-4.9	-0.9	-1.1	-1.4
LV	-9.3	-9.3	-9.5	-2.7	-4.8	-4.2
LT	-8.1	-4.4	-4.1	-6.0	-3.1	-3.1
LU	-2.0	-0.6	-0.2	-1.3	-0.2	0.2
MT	-12.0	-11.1	-11.1	-5.6	-5.6	-5.8
NL	-5.9	-6.0	-5.3	-1.7	-2.4	-2.1
AT	-8.4	-6.0	-5.9	-4.3	-2.3	-2.3
SI	-8.6	-7.5	-7.2	-5.7	-5.4	-5.2
SK	-9.9	-7.9	-7.3	-5.1	-4.9	-4.2
FI	-4.7	-3.9	-3.8	-2.9	-2.4	-2.4
EA	-8.7	-7.4	-7.1	-4.2	-4.0	-3.9

Table IV.3: Debt-to-GDP ratio (% of GDP) according to the Stability Programmes (SP), the Draft Budgetary Plans (DBP) and the Commission 2021 autumn forecast (COM)

	2021			2022		
Country	SP	DBP	COM	SP	DBP	COM
BE	116.3	113.9	112.7	116.0	114.3	113.1
DE	74 1/2	72 ¼	71.4	74.0	71 ¼	69.2
EE	21.4	17.7	18.4	24.6	19.7	20.4
IE	62.2	55.2	55.6	60.2	51.9	52.3
EL	204.8	197.9	202.9	189.5	190.4	196.9
ES	119.5	119.5	120.6	115.1	115.1	118.2
FR	117.8	115.3	114.6	116.3	113.5	113.7
IT	159.8	153.5	154.4	156.3	149.4	151.4
CY	111.9	107.7	104.1	103.9	100.9	97.6
LV	48.9	48.8	48.2	50.3	51.7	50.7
LT	52.1	46.0	45.3	54.2	45.6	44.1
LU	26.9	25.8	25.9	28.0	26.6	25.6
MT	65.0	61.3	61.4	65.8	61.8	62.4
NL	58.6	57.8	57.5	56.9	57.7	56.8
AT	89.6	82.8	82.9	88.1	79.1	79.4
SI	80.4	78.5	77.7	79.6	77.5	76.4
SK	64.1	61.5	61.8	65.5	61.5	60.0
FI	71.6	71.2	71.2	72.4	71.3	71.2
EA	103.1	97.8	100.0	102.8	95.9	97.9