EU INDEPENDENT
FISCAL INSTITUTIONS

EUROPEAN FISCAL MONITOR

January 2022

The Network of Independent Fiscal Institutions, Place du Congrès 1, 1000, Brussels
Tel: +32 (0) 2 229 39 87, www.euifis.eu, secretariat@euifis.eu

Executive summary

Review of fiscal and budgetary actions in 2021

- **In the second year of the COVID-19 pandemic, European economies experienced a strong recovery.** The most recent forecast by national Independent Fiscal Institutions (IFIs) in autumn 2021 anticipates real gross domestic product (GDP) to have grown by about 5% on average in 2021.

- **The COVID-19 pandemic continued to have a substantial effect on public budgets in European economies in 2021.** General government deficits were expected to narrow compared to 2020, but nevertheless be large at an average of 6% of GDP in 2021.

- **While ongoing support measures were appropriate, national IFIs remained concerned** about the adoption of non-COVID-related measures and significant structural increases in government expenditures, which were not offset by additional revenues.

Outlook for public finances in 2022

- **European economies are expected to continue their recovery in 2022, albeit at a slower pace.** According to the national IFIs' autumn 2021 forecasts, they are projected to grow by about 4% on average.

- **COVID-19-related fiscal measures and automatic stabilisers are expected to have a much smaller impact on government deficits in 2022** than in the previous two fiscal years. General government deficits are expected to narrow to an average of 3% of GDP in 2022.

- Some national IFIs have **raised concerns about 2022 budgets,** notably regarding the lack of agility in 2022 budgets to mitigate high uncertainty related to the COVID-19 pandemic, the abolition of national expenditure ceilings and the absence of comprehensive medium-term budget strategies.

Impact of COVID-19 fiscal response on public deficits

- The 25 European countries covered in this report have introduced over 1 000 budgetary measures to counter the effects of the pandemic. The total size of the **fiscal measures amounted to 5% of GDP in 2020 and 4% in 2021, and is projected to reach 1% in 2022.** The fiscal stimulus might increase further in 2022 if new measures are adopted or current support measures are extended.

- In general, national IFIs deem the **fiscal response to COVID-19 appropriate.** Nevertheless, they have several concerns over the impact of the adopted fiscal stimulus on GDP and the distribution of benefits, potential mistargeting of the fiscal stimulus and implementation difficulties.

National escape clauses

- **Governments of most EU Member States that have an escape clause have these activated until the end of 2022,** even though in many Member States pre-pandemic output levels were already reached in 2021.

- **National IFIs are supportive overall of the prolongation of national escape clauses in 2022 due to the high uncertainty related to the pandemic's development,** but emphasise the need to return to a rules-based framework and to plan for the medium term.

Impact on IFI activities

- **The COVID-19 crisis continues to have a large impact on the activities of national IFIs.** The main challenges that national IFIs face in executing their tasks include: i) a high level of uncertainty about the pandemic and political decisions; ii) lack of government transparency; iii) lack of clarity on fiscal measures and escape clauses; and iv) insufficient resources.

Foreword

The spread of the Omicron variant this winter has again disrupted Europe's economy and the lives of its citizens, putting pressure on health systems and requiring continuation of some government financial support measures. However, 2021 was a year of strong economic recovery, supported by the widespread roll-out of Covid vaccines and the welcome large-scale fiscal support since the start of the pandemic.

Looking ahead, while there are on-going risks from Covid-19 and pressures on supply-chains and prices, the recovery is expected to continue, albeit at a slower pace. This would allow the scale of fiscal supports and stimulus to be reduced further. The public finances will improve with general government deficits expected to narrow to an average of 3% of GDP in 2022. The implementation of the EU-funded Recovery and Resilience Facility (RRF) should support growth. Nonetheless, there are many uncertainties around the outlook. The European Commission is expected to issue a fiscal guidance for 2023. Not only for governments this is of importance for drafting the 2023-budget, but also for IFIs to be able to execute their mandate.

Furthermore, It is now time for countries to begin to address medium-term fiscal challenges. Government debt will be significantly higher exiting the Covid-19 crisis than before, while the global interest rate cycle is turning. Governments will face significant spending pressures due to higher inflation and post-Covid-19 structural changes.

Many IFIs remain concerned about the lack of comprehensive medium-term budget strategies and well-developed plans to address long-term fiscal pressures such as ageing and climate changes. Governments must ensure that they have credible post-pandemic plans to deliver social and climate objectives within the context of medium-term economic and budgetary stability.

Fiscal frameworks at both EU and national level adjusted for the exceptional circumstances of the pandemic. However, there is a need to return to sound fiscal institutions and rules-based approaches. The European Commission should use its upcoming fiscal guidance to set out a framework for ending the escape clause and how the EU fiscal rules will be applied parameters in 2023.

The EU Fiscal and Economic Governance Review is an important opportunity to enhance the budgetary rules. In a recent paper (Network of EU IFIs, 2021), the EU IFI Network assessed that enhancing the role of national IFIs would help to improve fiscal sustainability and economic outcomes. The capacity of IFIs to develop an independent and objective assessment of the public finances at national level needs to be better used. Ensuring that EU IFIs have comprehensive mandates, setting minimum standards at the EU level for their resources and governance, and better integrating the assessment of national IFIs in decisions at the EU level would all support a sustainable recovery.

Richard van Zwol
Chair of the Network of EU Independent Fiscal Institutions and State Council at the Netherlands Council of State

Sebastian Barnes
Deputy Chair of the Network of EU Independent Fiscal Institutions and Chair at the Irish Fiscal Advisory Council

Table of Contents

Authors

This report was prepared by the Secretariat of the Network of EU Independent Fiscal Institutions comprising Inna Oliinyk, Willem Pieter de Groen and Beatriz Pozo. It was reviewed by the Editorial Board of the Network and members of the Network. The report is based on survey responses from the members of the Network.

The analysis and views expressed do not necessarily represent the positions of individual members of the Network.

1 Introduction

As the EU enters the third year of the COVID-19 pandemic, the future macroeconomic outlook remains unusually uncertain due to the emergence of new variants. A strong economic recovery was reported in 2021 (5% on average), which is expected to continue in 2022 but at a slightly slower pace (4% on average).

The fiscal stance in most countries remained very supportive throughout 2021, as governments continued with large-scale measures to support the economy. In the 25 countries[1] covered by this European Fiscal Monitor (EFM), policy measures cost on average about 5% of GDP in 2020 and 4% of GDP in 2021.

With the economy recovering strongly, many governments have started to gradually phase out COVID-related fiscal measures. COVID-19-related fiscal stimulus announced within 2022 budgets[2] is expected to cost about 1% of GDP. This figure might increase, however, should the epidemiological situation deteriorate.

Many questions remain about the deactivation of national escape clauses. Following the decision to prolong the EU general escape clause throughout 2022, national escape clauses have also been prolonged in most EU Member States that have a national escape clause. Nevertheless, many countries already reached their pre-pandemic output levels in 2021. National IFIs in these countries are concerned about the risks of excessive long-term public spending if governments are not subject to a rules-based framework without a compelling rationale[3].

This EFM provides an overview of the activities of 29 national IFIs, and the fiscal measures adopted in response to COVID-19 in 24 EU Member States and the United Kingdom. The monitor is based on a survey of IFIs carried out in December 2021, mostly covering the information linked to autumn 2021 forecasts[4]. The information obtained for each country is based on the assessment by the national IFI or by the national government, depending on the mandate of the IFI[5].

National IFIs are independently mandated by national governments to: i) monitor compliance with national and EU fiscal rules; ii) produce or endorse macroeconomic and in several cases budgetary forecasts; and/or iii) advise national governments on fiscal policies. This puts them in a good position to assess public finances at national level.

[1] AT, BE, BG, CZ, DE, EE, EL, ES, FI, FR, HR, HU, IE, IT, LT, LU, LV, MT, NL, PT, RO, SE, SI, SK, UK.
[2] Adopted or presented to the Parliament.
[3] See also: European Network of EU IFIs (2021), EU Fiscal and Economic Governance Review: Contribution from the Network of Independent EU Fiscal Institutions, September 2021.
[4] European Network of EU IFIs (2022), Survey of European Independent Fiscal Institutions, January 2022.
[5] For this reason, projects may not be fully comparable. Please see the Survey of European Independent Fiscal Institutions, January 2022 for more information about the cut-off date and source of projections.

2 Review of fiscal and budgetary actions in 2021

2.1 Development of key indicators

Almost all national IFIs[6] assess the soundness of macroeconomic and fiscal projections underlying official budgets. Depending on their mandate, IFIs either produce official projections, endorse the projections prepared by the government or assess the government's projections. Some IFIs also produce their own forecasts to endorse or assess the official projections.

The majority of forecasts were most recently updated in autumn 2021, when the national budgets for 2022 were being prepared. According to the latest figures provided by the national IFIs[7] for 24 EU Member States and the UK, all of the economies experienced a strong economic recovery in 2021. The average increase in GDP was around 5%, but the growth ranged between 3% and 9%. Estonia, Croatia, Greece and Romania are estimated to have had the largest increases in GDP, ranging between 7% and 9%. In turn, the smallest increases were estimated in Czechia, Germany and Finland, at about 3%.

Fiscal responses to COVID-19 (see Chapter 4) and automatic stabilisers had a very large impact on government balances in 2021. According to figures reported by the national IFIs, the average public deficit was about 6% of GDP in 2021. The largest public deficit was reported in Malta, reaching 11% of GDP in 2021. In six other countries[8], anticipated public deficits were around 8% or more. In contrast, Estonia, Luxembourg and Sweden reported the smallest public deficits, ranging between 1% and 3% of GDP.

While government debt ratios generally improved strongly in 2021, this reflected recovery in GDP, as well as low interest rates, which outweighed the continued large-scale borrowing. At the end of 2021, at least 14 countries[9] had government debt levels above the 60% debt ceiling. Additionally, in six countries[10] public debt was above 100% of GDP. Greece recorded the highest debt-to-GDP ratio[11], with a level above 200% of GDP.

2.2 Assessment by IFIs

According to the national IFIs, most governments (14 out 18 countries)[12] implemented appropriate fiscal stances for economic and budgetary stability in 2021 given the ongoing impact of the COVID-19 pandemic. The expansionary fiscal policy has a countercyclical role and helps to mitigate the economic consequences of the pandemic.

Additionally, according to the national IFIs, most governments (14 out of 20 countries)[13] implemented appropriate fiscal and budgetary actions in 2021. According to these national IFIs, large-scale COVID-19-related contingencies were necessary to provide appropriate temporary supports.

[6] For the Netherlands this is fulfilled by the Bureau for Economic Policy Analysis (CPB) for the Council of State.
[7] Produced, endorsed or assessed, as per the mandate.
[8] EL, ES, FR, IT, LV, RO.
[9] AT, BE, DE, EL, ES, FI, FR, HR, HU, IE, IT, MT, PT, SK.
[10] BE, ES, FR, IE, IT, PT.
[11] According to the Greek Parliamentary Budget Office.
[12] National IFIs in seven surveyed countries did not report a view as this is outside their mandate, or for other reasons.
[13] National IFIs in five countries did not report a view as this is outside their mandate, or for other reasons.

Nevertheless, in six countries, at least one of the national IFIs deemed the fiscal and budgetary actions to be too expansionary. This was mostly due to the size and structural nature of the additional long-term government expenditures, which were not compensated by new structural long-term revenues. Moreover, measures were often included that were not COVID-19 related.

While national IFIs were broadly supportive of the fiscal and budgetary actions of the governments in their countries in 2021, the majority (17 out of 29 surveyed IFIs) raised one or more concerns about fiscal policy (see Figure 1). Most of these IFIs (13 out of 17) were concerned about lack of government transparency. According to the national IFIs, enhanced transparency on economic and financial information is required to ensure effective monitoring of the fiscal policy. IFIs were also concerned about the lack of information on plans for state-owned enterprises and insufficient communication about adjustments of non-COVID expenditures.

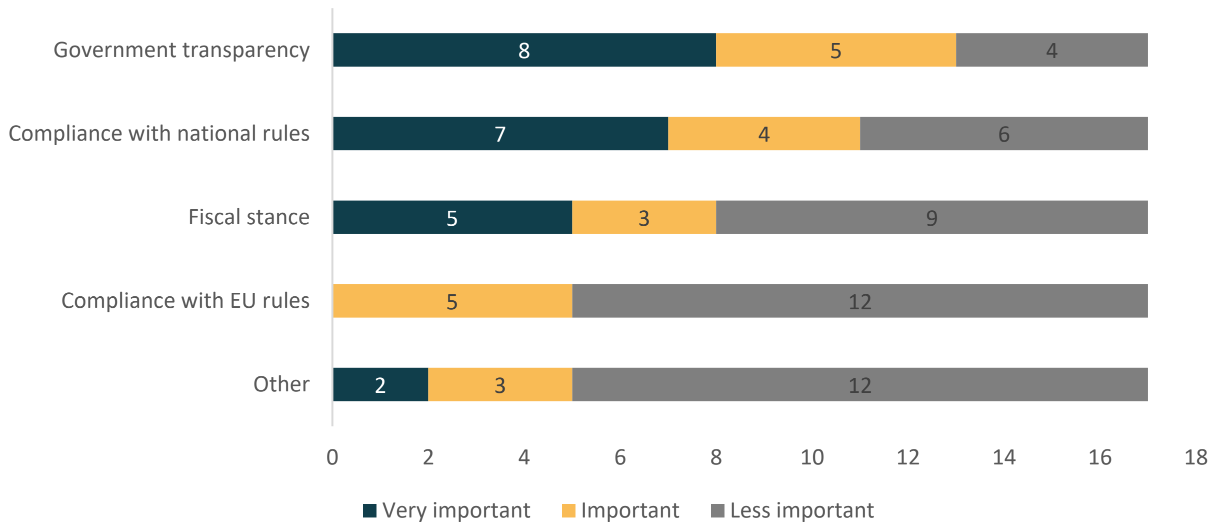
Future compliance with national fiscal rules remained an important issue for the majority of national IFIs that expressed a concern (11 out of 17). This concern is growing as the economy is recovering quickly, and as national escape clauses will be deactivated in due time (see Chapter 5). As it stands, many national governments might find themselves in breach of the national fiscal legislation when the national escape clauses are deactivated.

Around half of national IFIs with competences on fiscal stance deemed the fiscal stance adopted by their governments to be appropriate for economic and budgetary stability in 2021. The other half raised concerns about their governments' adopted fiscal stance (8 out of 17). The national IFIs called for more demanding budgetary targets in an effort to return to sound public finances in 2022.

Non-compliance with EU fiscal rules, traditionally a key concern, became less important for national IFIs (5 out of 17), mostly due to greater clarity on the prolongation of the general escape clause and ongoing Economic Governance Review.

Moreover, five national IFIs raised other concerns about fiscal policy in 2021. These covered the issue of the structural nature of some COVID-19-related measures, as well as calling for the need to plan for the consolidation path and return to the medium-term objectives.

Figure 1. IFIs' concerns about fiscal policy in their country in 2021 (number of respondents indicating one or more concerns)



Note: The IFIs were asked 'Did your IFI raise any concerns about the fiscal policy in your country in 2021?', to which 17 out of 29 respondents replied positively.
Source: The Network of EU Independent Fiscal Institutions (2022).

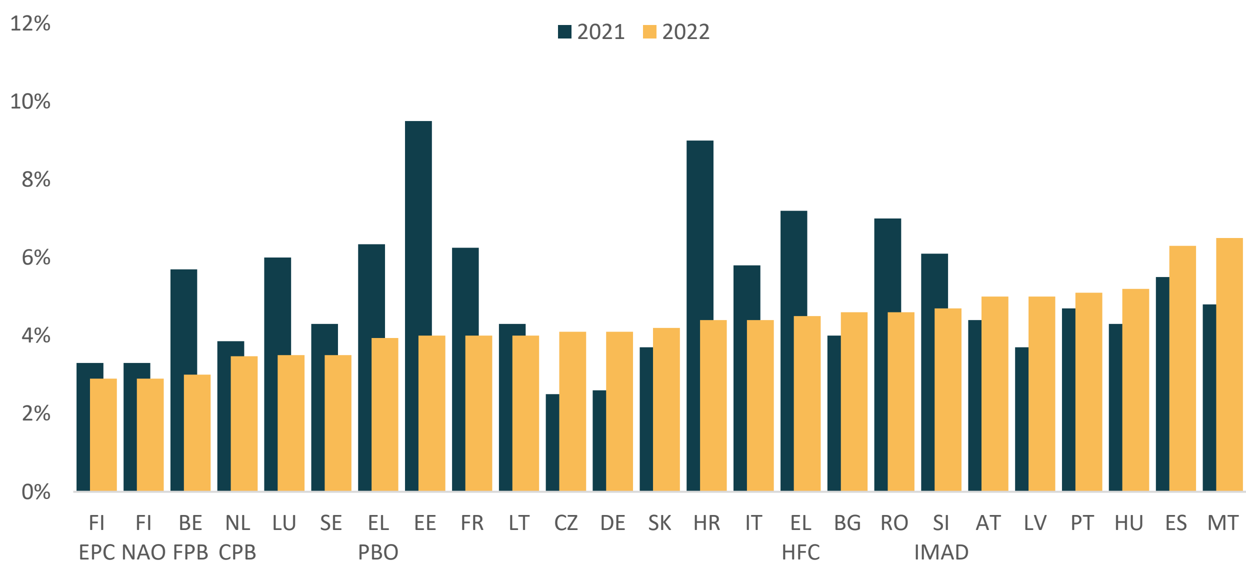
3 Outlook for public finances in 2022

Real GDP growth, general government balance and gross public debt on a Maastricht basis are key indicators used by national IFIs to assess the outlook for public finances. IFIs produce or assess these projections in the context of budget endorsement or assessment.

3.1 Economic growth

In most countries, real GDP growth in 2022 is expected to remain strong due to the recovery (see Figure 2). According to the most recent official forecasts, average real GDP in the 24 countries covered is expected to slow from 5% in 2021 to an average of around 4% in 2022. In 13 of the 24 countries, the output growth in 2022 is expected to be smaller than in 2021. The highest growth is projected for Ireland (7%), Malta (7%) and Spain (6%), followed by seven countries[14] with an expected economic growth of 5%. The expected real GDP growth for the remaining countries ranges between 3% and 4%.

Figure 2. Projected real GDP growth (%)



Note: The figure above shows the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs, in line with their mandates. The figures for Ireland relate to GNI rather than GDP.
Source: The Network of EU Independent Fiscal Institutions (2022).

3.2 Public balances

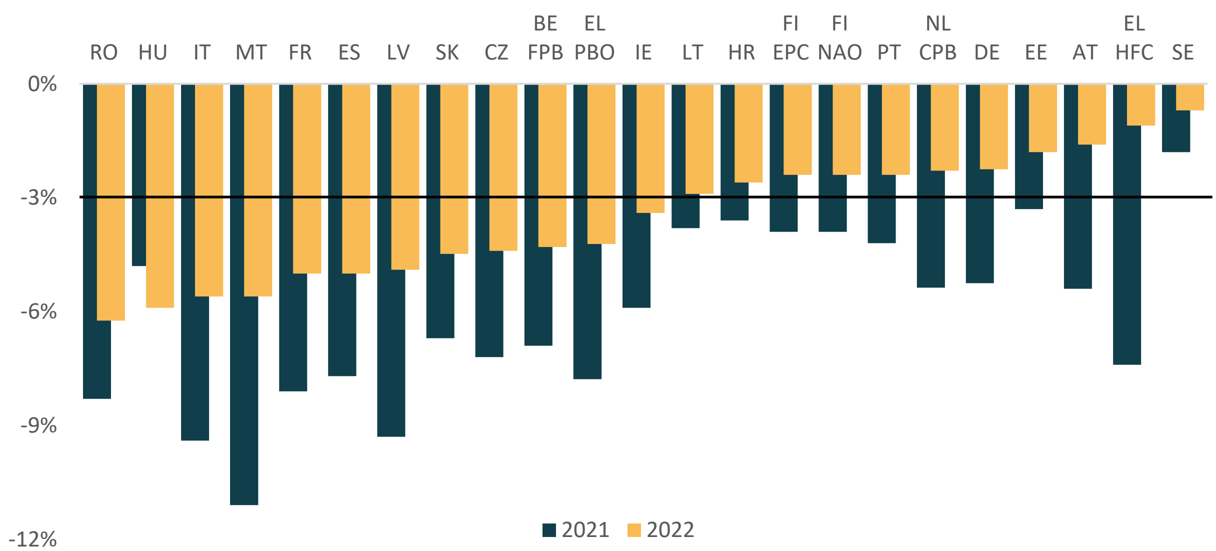
As the economy is recovering, governments are starting to gradually scale down planned fiscal supports (see Figure 3). This will lead to a projected reduction in public deficits.

In 12 out of 22 reporting countries, national governments are expected to report a deficit as in 2021. However, the national IFIs in nearly all countries (excl. Hungary) expect the public deficit to decrease in 2022. The average public deficit is anticipated to decrease from 6% of GDP in 2021 to 3% of GDP in 2022.

[14] AT, BG, EL, HU, LV, PT, SI.

In 12 EU Member States[15], public deficits are expected to exceed the 3% public deficit ceiling in the Maastricht Treaty. Romania (6% of GDP), followed by Hungary, Italy and Malta (around 6% of GDP), are projected to have the largest public deficit in 2022. In France, Spain and Latvia, the public deficit is expected to be around 5%. Most countries are expected to have public deficits ranging between 2% and 4% of GDP. According to the latest projections, Greece, Sweden and Luxembourg are the only three countries for which one national IFI forecasts public deficits around or below 1% of GDP.

Figure 3. Projected general government balance (% of GDP)



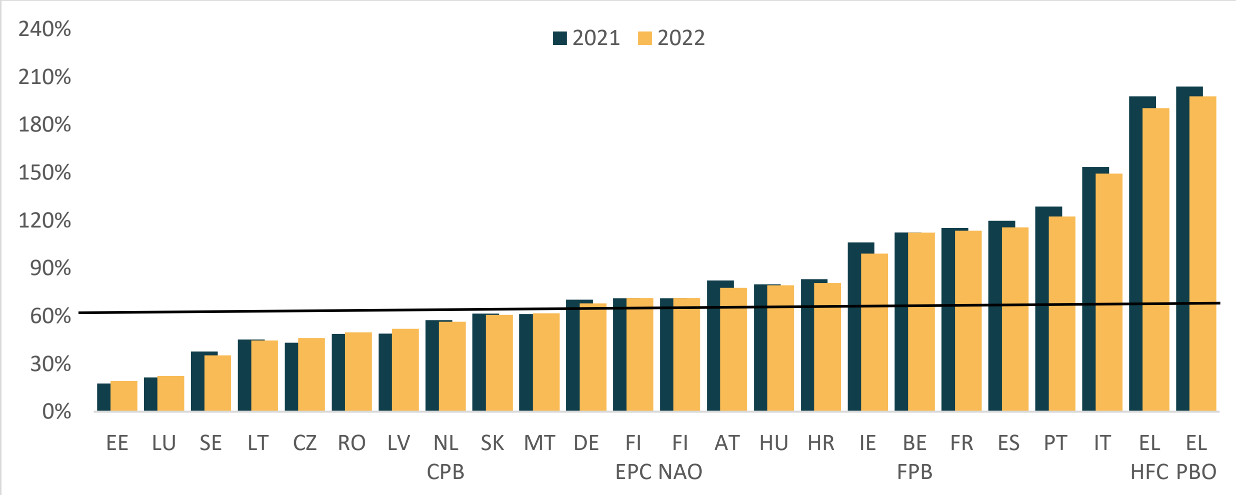
Note: The figure above shows the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. The figures for Ireland relate to GNI rather than GDP.
Source: The Network of EU Independent Fiscal Institutions (2022).

3.3 Public debt

The economic rebound, higher inflation and a gradual phase-out of COVID-19 support measures are expected to reduce the increase in public debt, or even reduce the public debt-to-GDP ratio in 2022 (see Figure 4). According to the national IFIs, the public debt-to-GDP ratio has improved in 14 surveyed Member States[16]. The largest decreases in the debt-to-GDP ratio are expected in Greece (-8% of GDP), Ireland (-7% of GDP) and Portugal (-6% of GDP). In the other 11 countries seeing an improvement in public debt-to-GDP ratio, the debt level is expected to decrease by between 1% and 5% of GDP. In the remaining countries, the debt level is expected to increase or remain stable. The largest increases in the debt-to-GDP ratio are expected in Czechia (+3% of GDP) and Latvia (+3% of GDP), but starting from relatively low levels.

[15] BE, CZ, EL, ES, FR, HU, IE, IT, MT, LV, RO, SK.
[16] AT, BE, DE, EL, ES, FR, HU, HR, IE, LT, NL, PT, SE, SK.

Figure 4. Projected gross public debt on Maastricht basis (% of GDP)



Note: The figure above shows the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs, in line with their mandates. The figures for Ireland relate to GNI rather than GDP.
Source: The Network of EU Independent Fiscal Institutions (2021).

3.4 Assessment by IFIs

Most national IFIs have assessed the budgets[17] covering the 2022 fiscal year and believe them to be broadly satisfactory. The large majority of budgets adopted or presented to the national parliaments are considered realistic, consistent with the current macroeconomic conditions and generally effective in reducing the economic downturn.

Nevertheless, many national IFIs raised concerns about the composition of public finances, planning for long-term fiscal sustainability and institutional aspects. These mostly relate to: i) a permanent increase in public expenditures that are not COVID-related measures; ii) public expenditures exceeding national ceilings for 2022; iii) budgets lacking the agility to mitigate high uncertainty; and iv) the absence of a comprehensive national medium-term strategy.

Almost all national IFIs raised concerns about the high level of non-COVID-related permanent public expenditure. This is problematic because permanent measures increase the expenditure side of the structural balance, unlike COVID-related measures, which are of a temporary nature and are not considered in the calculation. These countries have a higher risk of non-compliance with the national fiscal rules when reactivated. However, governments have not yet considered the additional sources of permanent revenue to offset the increase in permanent expenditure.

[17] At the end of 2021, 17 out of 29 IFIs had completed their assessment of the 2022 budget. Five more IFIs will complete the assessment later this year. The remaining seven national IFIs do not have a mandate, or do not plan to assess the budget.

4 Impact of COVID-19 fiscal response on public deficits

4.1 Fiscal response across countries

The 22 countries covered in this section of the report have introduced over a thousand budgetary measures to counter the effects of the pandemic in the period between 2020 and 2022, in addition to allowing automatic stabilisers to work. The main objectives of the measures adopted in 2020 were to reduce the immediate economic impact of the crisis and to avoid funding shortages of non-financial corporations. However, as the crisis continued, many measures were extended into 2021, and new measures were added targeting national healthcare sectors to ensure a timely vaccine rollout. With the continuation of the crisis as a result of new variants of the virus, some governments have extended certain fiscal support measures into 2022.

The total size of the fiscal response adopted to date is significant in terms of GDP (see Figure 5). On average, the budgetary impact of the adopted fiscal stimulus amounted to 5% of GDP in 2020. The budgetary impact of the adopted fiscal stimulus in 2021 only slightly decreased to around 4% of GDP on average. In only six Member States[18] was the budgetary impact of the fiscal stimulus higher in 2021 than in 2020.

Due to encouraging economic projections and high vaccination rates, most countries started to gradually phase out COVID-related fiscal supports in 2021. According to the national IFIs, at least 14 out of 22 reporting countries[19] have already earmarked some COVID-related stimulus in 2022[20]. The budgetary impact of measures announced for 2022 is much smaller (only about 1% of GDP on average in the 14 countries with measures earmarked) than in the previous two years. Nevertheless, the budgetary impact might still increase if governments need to provide further fiscal stimulus in these countries, as well as in countries where the IFIs do not yet have any indication about the impact of the COVID-related stimulus.

Looking at the total budgetary impact of the COVID-related fiscal measures adopted between 2020 and 2022, there are substantial differences across countries. Overall, Hungary has the largest relative amount of fiscal measures[21] in place (about 24% of GDP). Greece (19%), Ireland (18%), UK (18%), Latvia (15%), Italy (11%) and Austria (11%) are the six other countries that have spent more than 10% of GDP.

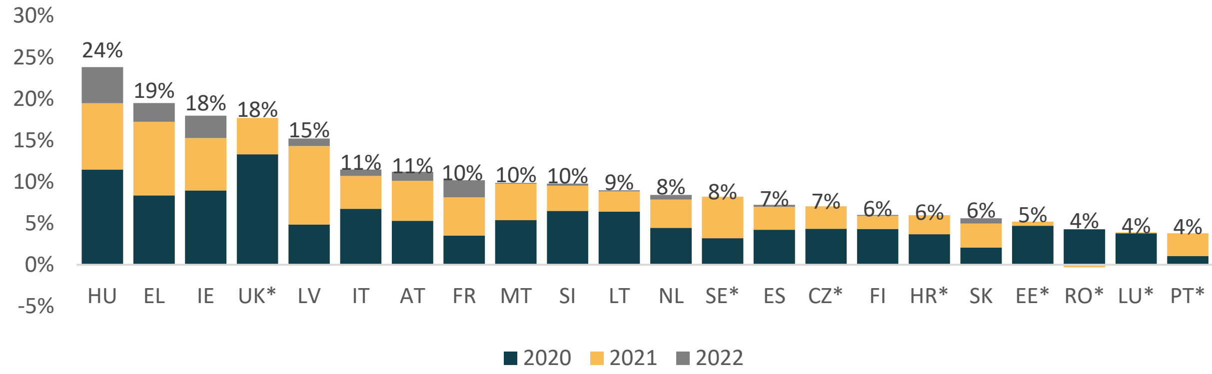
[18] EL, FR, LV, PT, SE, SK.

[19] AT, EL, ES, FI, FR, HU, IE, IT, LT, LV, MT, NL, SI, SK.

[20] In the remaining countries, no new measures have been announced for 2022, or the data is not available.

[21] Measures with direct budgetary impact (spending and revenue measures) and indirect budgetary impact (loans, guarantees and tax deferrals).

Figure 5. Size of COVID-19-related fiscal measures by country and year (% of GDP)



Note: The figure above shows the total size of fiscal stimulus adopted in 2020, 2021 and 2022. Fiscal stimulus is measured as a first-round effect in general government (ESA2010) terms. The figures for Ireland relate to GNI rather than GDP. * For Croatia, Czechia, Estonia, Luxembourg, Portugal, Romania, Sweden and the UK, no data is available on fiscal stimulus in 2022.
Source: The Network of EU Independent Fiscal Institutions (2022).

4.2 Fiscal response by instrument and beneficiaries

Most of the adopted fiscal measures with an impact on public deficit consist of public spending measures (about 8% of GDP) and foregone revenues (1%) (see Figure 6). Mixed measures that combine both public expenditure and foregone revenues have negligent costs (0.2%).

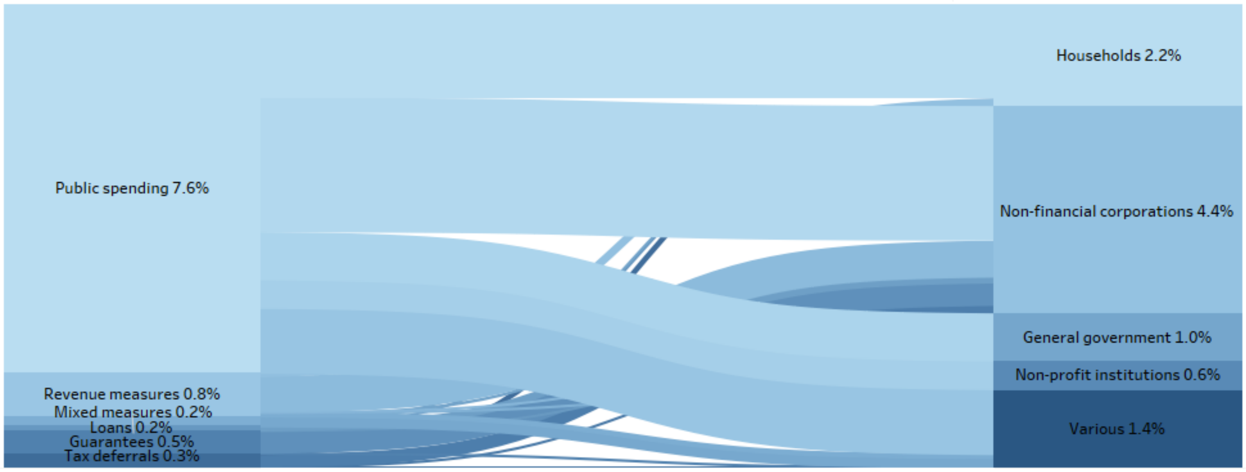
Liquidity measures have also had a relatively small impact on public deficits. Despite large notional values, guarantees (0.5% of GDP) and loans (0.2%) have had a limited impact on public deficits. Tax deferrals have also had a negligible impact on public deficits (0.3%).

Non-financial corporations are the largest direct beneficiaries of the fiscal measures, benefiting from support measures with a size equivalent to about 4% of GDP. Although most of these measures aim to provide subsidies and grants to companies severely hit by the COVID-19 crisis, some may indirectly benefit households[22].

Households are the second largest group of beneficiaries, receiving about 2% of GDP via the COVID-19 measures. Some of the other measures target general governments (1.0%), non-profit institutions serving households (0.6%) and financial institutions (less than 0.1%). There are also substantial measures targeting two or more groups of beneficiaries (about 1.4% of GDP).

[22] In several countries, employment support measures target companies and self-employed, despite households being the ultimate beneficiaries.

Figure 6. Average cumulative size of fiscal measures by main instrument and beneficiaries (% of GDP)



Note: Fiscal measures are measured as a first-round effect in general government (ESA2010) terms. The figures for Ireland relate to GNI rather than GDP.
Source: The Network of EU Independent Fiscal Institutions (2022).

4.3 Assessment by IFIs

Most national IFIs (18 out of 22 IFIs reporting on COVID measures[23]) consider the fiscal response to COVID-19 to have been appropriate. The fiscal stimulus adopted in 2020 aimed to prevent scarring by providing support for businesses in the form of direct financial assistance, loans and guarantees. IFIs also welcomed extensive stimulus provided by national governments in 2021. According to the IFIs, fast recovery during the course of 2021 could have been partially due to well-targeted and well-implemented stimulus, which allowed firms to stand ready. The response envisaged for the 2022 budget is somewhat modest. Most IFIs have not taken a view on recent decisions to phase out some of the measures, but recent public health developments may necessitate a further extension of these schemes.

Nevertheless, national IFIs expressed some concerns related to specific aspects of the measures, including: i) lack of consideration given to the impact on GDP and distribution of benefits when designing measures; ii) excessive disproportionate funding of certain industries, which could contribute to their overheating; iii) potential harm to future productivity due to reduced creative destruction[24]; and iv) implementation difficulties.

National IFIs in four countries deemed the fiscal response to COVID-19 excessive because of the magnitude of the fiscal stimulus, the surge in permanent public spending and abolition of national expenditure ceilings.

Importantly, almost all national IFIs are concerned about substantial measures that are not COVID-19 related, but were adopted as part of the ad hoc spending and revenue measures in response to COVID-19. According to the IFIs, governments should refrain from adopting (permanent) measures that are not related to the pandemic as part of their response to COVID-19, as these influence the national structural budgets.

[23] Seven national IFIs did not report a view.
[24] The cleansing of the least productive firms in the economy in the competitive process. This risk is positively related to the generosity of the support and the length of the support period.

5 National escape clauses

5.1 Prolongation of national escape clauses

The adoption of large-scale COVID-related fiscal stimulus was largely possible due to the activation of EU-level and national escape clauses. These clauses effectively suspend the application of numerical benchmarks (e.g. spending limits).

The EU general escape clause will be deactivated taking into account the overall situation, and in particular once the European Commission assesses that Member States have reached their pre-COVID GDP levels, which based on the current indications will be in 2023 (EC, 2021).

National escape clauses have been prolonged into 2022 in 19 of the 23 reporting countries[25], following the EU general escape clause prolongation. Slovakia is the only exception, where the national escape clause was deactivated in June 2021 and in Czechia the national government has used other legislative provisions to allow for increased spending, instead of the national escape clause. Additionally, the legal frameworks in two countries[26] do not envisage any formal escape clauses.

The setup and functioning of national escape clauses differ substantially across countries. Only six countries'[27] national escape clauses follow the EU general escape clause closely. This effectively means that activation/prolongation/deactivation is automatic and does not require any procedures at national level. In turn, in 15 countries[28], the functioning of the national escape clause is not closely related to that of the EU general escape clause, nor does it require additional procedures. In these cases, the activation/prolongation/deactivation of the national escape clause most often depends on numerical benchmarks (e.g. decline in real GDP) or the existence of exceptional circumstances as assessed by the national IFI.

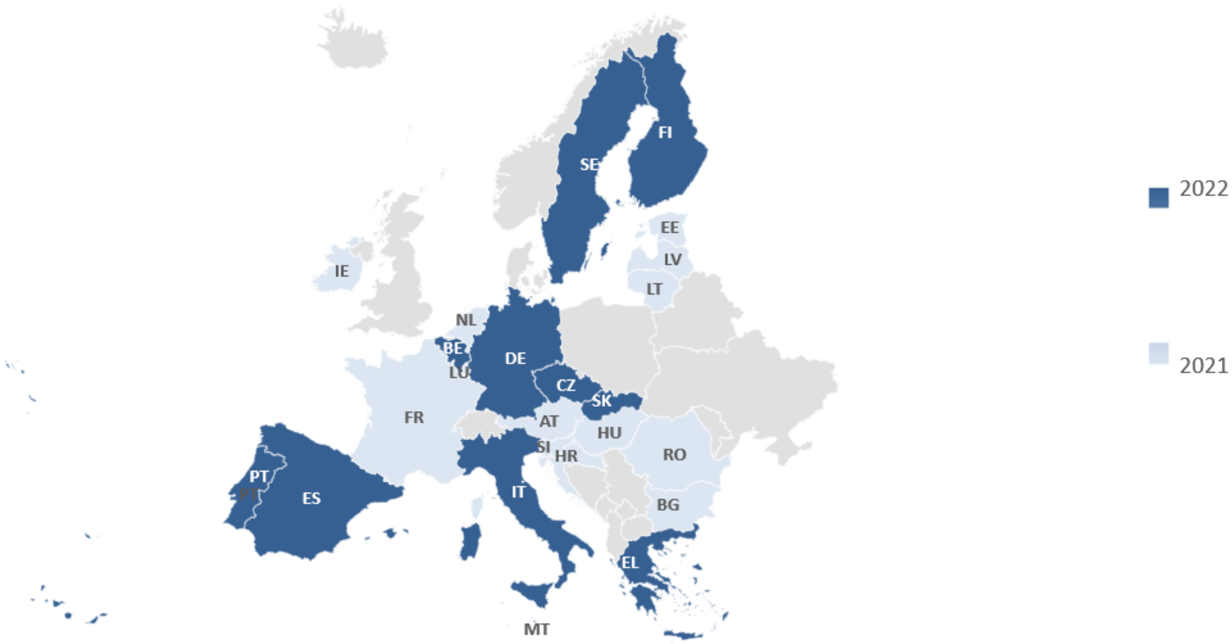
There is large heterogeneity in terms of economic recovery across the EU Member States. Many countries already reached their pre-pandemic output levels in 2021, while others are set to reach them in 2022 (see Figure 7). According to the national IFIs[29], 13 EU Member States[30] reached their pre-pandemic levels in 2021. Moreover, at least one national IFI in 11 EU Member States[31] expects their economy to reach pre-pandemic levels in 2022.

The fast pace of the economic recovery is so far only explained to a limited extent by NextGenerationEU. The disbursement of the EU's EUR 807 billion[32] economic recovery package to support EU Member States impacted by COVID-19 has only advanced materially in a few countries, and the amounts differ significantly.

[25] AT, BG, CZ, DE, EE, EL. ES, FI, FR, HR, HU, IE, IT, LT, LV, LU, RO, MT, NL, PT, SE, SI, SK.
[26] NL, SE.
[27] AT, EE, EL, FI, LU, RO.
[28] BG, CZ, DE, ES, FR, HR, HU, IE, IT, LT, LV, MT, PT, SI, SK.
[29] Data based on IFIs' or official government projections.
[30] AT, BG, EE, FR, HR, HU, IE, LT, LU, LV, NL, RO, SI.
[31] BE, CZ, DE, EL, ES, FI, IT, MT, PT, SE, SK.
[32] The total amount is EUR 750 billion expressed in 2018 prices, which is equivalent to EUR 807 billion according to the European Commission's Autumn 2020 Economic Forecast.

Nevertheless, national IFIs in Czechia, Spain and Greece estimate that economies will reach their pre-pandemic levels one year earlier thanks to the funds.

Figure 7. Year by which EU economies are expected to reach their pre-pandemic output levels



Note: The IFIs were asked 'By when is the economy projected to recover to pre-COVID levels?', to which 27 IFIs from 24 countries replied. Where two responses were received from IFIs in relation to the same country, the earliest expected year is indicated. Luxembourg and Malta (not visible on the map) are set to reach their pre-pandemic levels in 2021 and 2022 respectively.
Source: The Network of EU Independent Fiscal Institutions (2022).

5.2 Assessment by IFIs

In 10 EU Member States with a national escape clause[33], governments are required or recommended to seek the national IFIs' opinion on the activation/prolongation/deactivation of the clause. The national IFIs from these countries consider that the exceptional circumstances resulting from the COVID-19 pandemic still exist in 2022 and that uncertainty remains high, despite strong economic recovery in 2021. They therefore judge the prolongation of the national escape clause appropriate for 2022.

In 11 other EU Member States with a national escape clause[34], where the opinion of IFIs on the clause is neither required nor recommended, some seven IFIs have raised concerns about its prolongation. According to these IFIs, the national escape clause in these countries was prolonged largely following the EU-wide decision, whereas it is not justified based on the strong economic recovery.

[33] CZ, ES, FR, HR, IE, IT, LT, MT, SI, SK.

[34] AT, BG, DE, EE, EL, FI, HU, LU, LV, PT, RO.

6 Impact on IFI activities

COVID-19 is still affecting the activities of national IFIs. Most (19 out of 29 surveyed national IFIs)[35] faced (very) important challenges in executing their tasks in 2021 (see Figure 8). The four main challenges cited by the national IFIs are outlined below:

First, uncertainty about the magnitude, scope and duration of the pandemic situation remains an important concern for 17 national IFIs[36]. Uncertainty about the pandemic substantially complicates the production and assessment of macroeconomic and budgetary projections. Most national IFIs have addressed this uncertainty by including multiple scenarios alongside their baseline forecasts.

Second, access to data has been a significant challenge for 10 national IFIs[37]. Most national IFIs cite a lack of transparent and detailed information about the COVID-19-related measures as a challenge. Additionally, data required for mandatory reports is also often not readily available to the IFIs, which hampers their ability to carry out the tasks within their mandate. Better data-sharing arrangements are required to improve the exchange of information between IFIs and national governments.

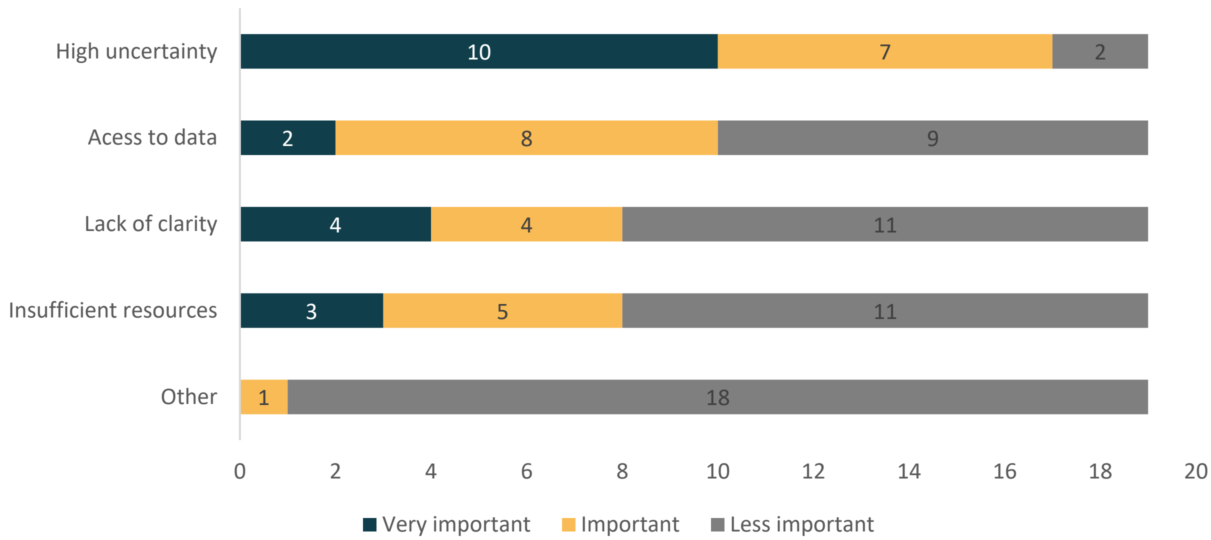
Third, lack of clarity from the national and/or EU authorities has formed an important obstacle to the work of eight IFIs[38]. National IFIs note that there is a lack clarity related to governments' medium-term fiscal strategies, as well as COVID-related legislative changes and costs. Most IFIs also note that EU authorities lack clarity, in particular regarding the process and timeline of general escape clause deactivation.

Fourth, insufficient resources have been a significant challenge for eight national IFIs[39]. This figure is almost twice as high as that indicated in the previous EFM of June 2021 (4 out of 21 national IFIs)[40]. The resources available to IFIs differ widely, and an increased workload has raised the pressure on all of them, but especially on those whose resources were already limited before the COVID-19 outbreak.

Only one national IFI[41] indicated additional challenges, including lack of governmental cooperation on the projects commissioned to the IFI, appointments of their heads, and organisational challenges caused by the shift to teleworking.

[35] AT, BG, CZ, DE, ES, FR, HR, IE, IT, LT, LU, MT, NL CPB, NL RVS, PT, RO, SI IMAD, SI SFC, SK.
[36] Important: BG, HR, IE, LT, MT, NL CPB, NL RVS; very important: AT, CZ, DE, ES, IT, PT, RO, SI IMAD, SI SFC, SK.
[37] Important: DE, ES, FR, IE, LT, LU, RO, SK; very important: BG, PT.
[38] Important: DE, LT, PT, RO; very important: BG, CZ, ES, SI SFC.
[39] Important: FR, LT, LU, SI SFC, SK; very important: HR, IE, RO.
[40] European Network of EU IFIs (2021), European Fiscal Monitor (June 2021).
[41] Important: PT.

Figure 8. Challenges faced by IFIs in the execution of their work in 2021 (number of respondents indicating one or more challenges)

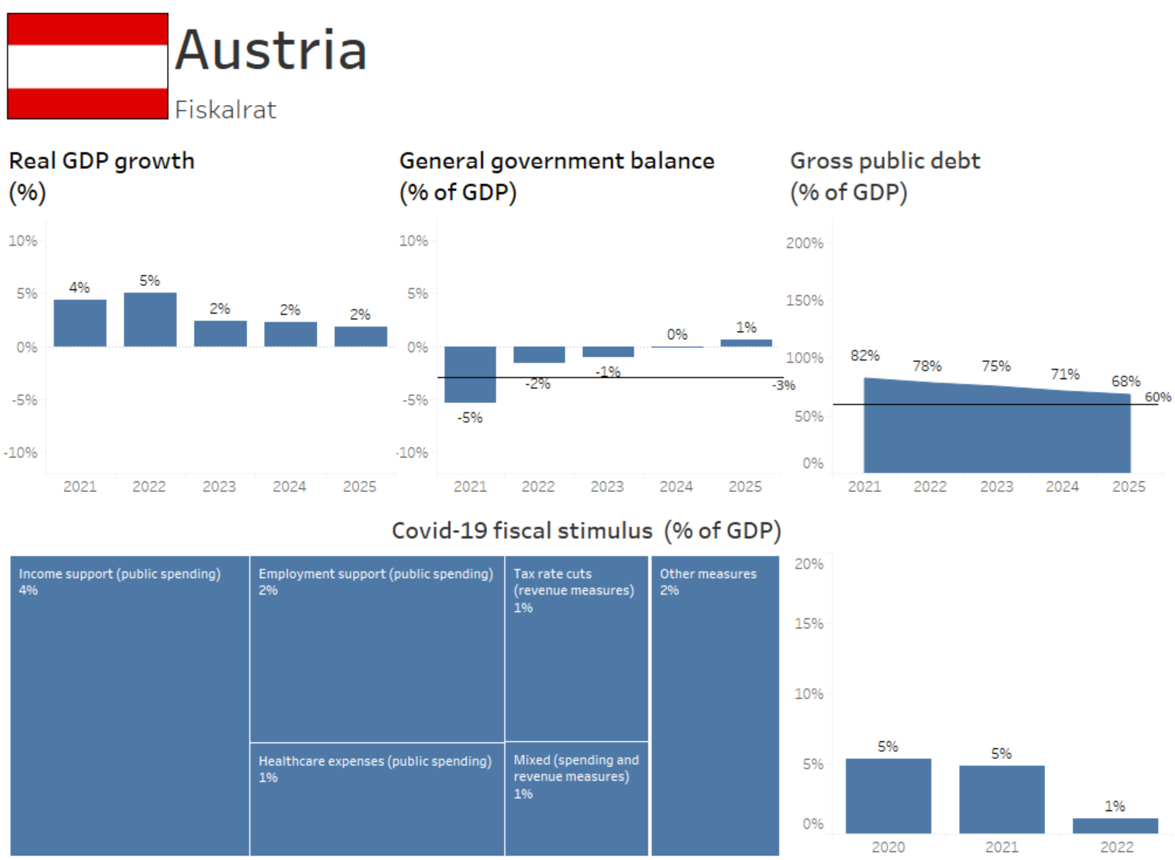


Note: The IFIs were asked 'Did you face any important challenges in the execution of your work in 2021?', to which 19 out of 29 respondents replied positively.
Source: The Network of EU Independent Fiscal Institutions (2022).

Annex - Country factsheets

NOTE

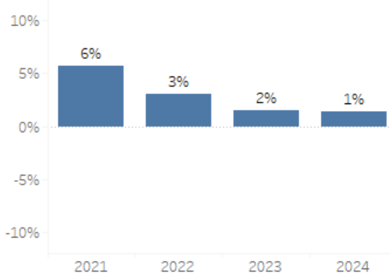
Country factsheets provide a concise and comprehensive overview of the key fiscal indicators and fiscal response to the COVID-19 pandemic, based on information provided by national IFIs. Key macroeconomic indicators were produced (officially or internally) or assessed (with or without endorsement) by the IFIs in line with their mandates. The factsheets show: i) projected real GDP growth between 2021 and 2025; ii) general government deficit and gross public debt on Maastricht basis between 2021 and 2025; iii) the size of the adopted fiscal stimulus in response to COVID-19 in 2020-2022; and iv) the total size of fiscal stimulus adopted in response to COVID-19 in 2020, 2021 and 2022, expressed as a percentage of GDP in the respective year. Only significant measures (costing more than 0.05% of GDP) are included.



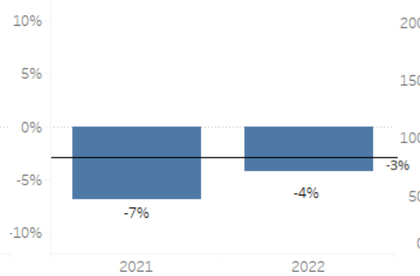
Belgium

Federal Planning Bureau

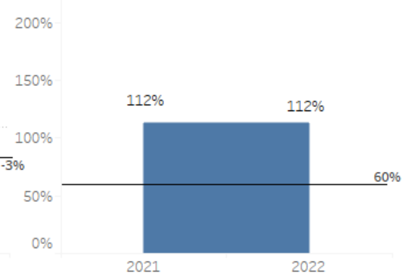
Real GDP growth (%)



General government balance (% of GDP)



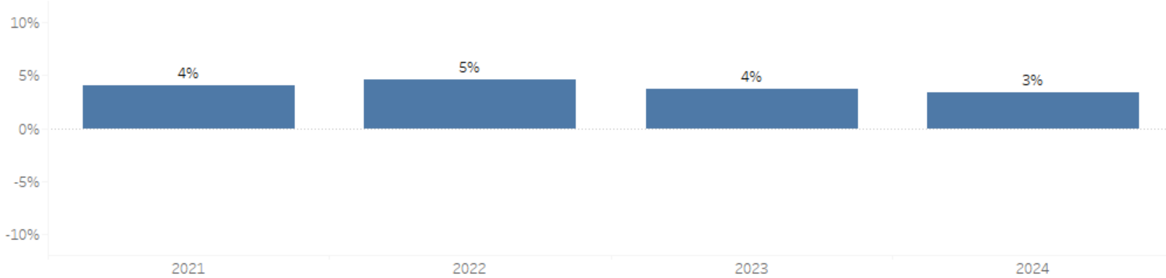
Gross public debt (% of GDP)



Bulgaria

Bulgarian Fiscal Council

Real GDP growth (%)

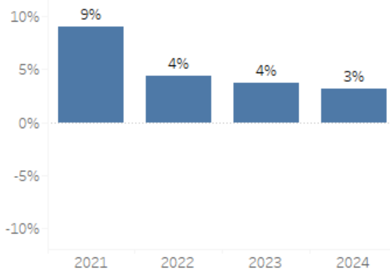


Covid-19 fiscal stimulus (% of GDP)

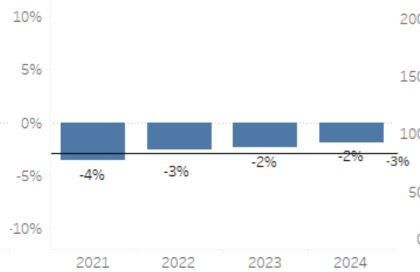
Croatia

Fiscal Policy Commission

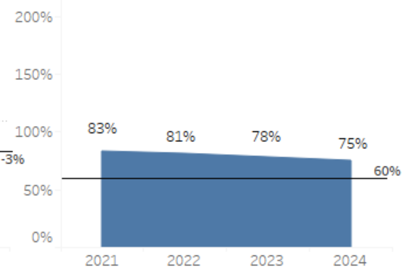
Real GDP growth (%)



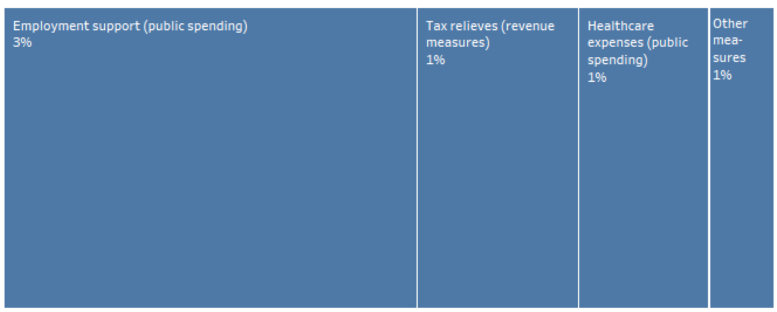
General government balance (% of GDP)

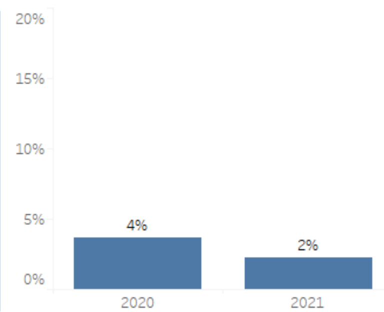


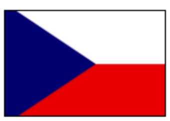
Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)



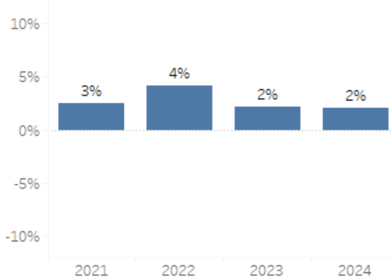




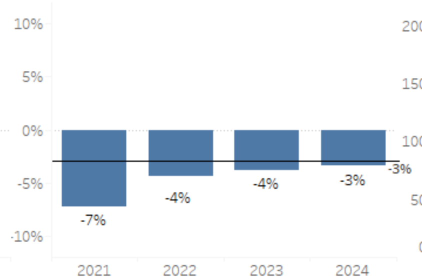
Czech republic

National Fiscal Council

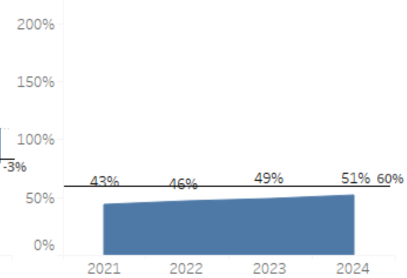
Real GDP growth (%)



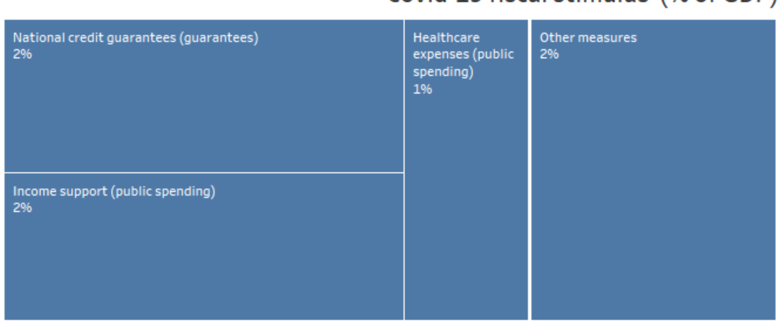
General government balance (% of GDP)

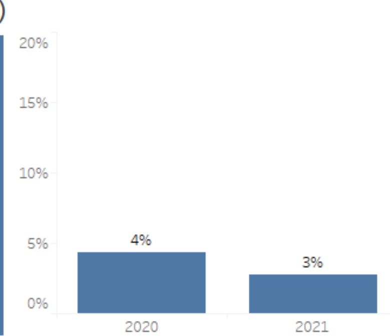


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

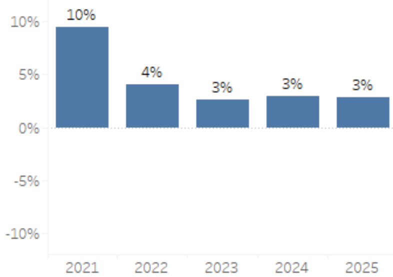




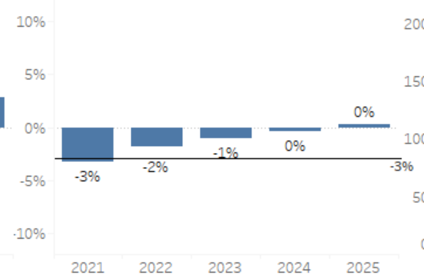
Estonia

Estonian Fiscal Council

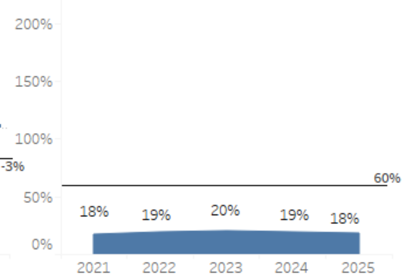
Real GDP growth (%)



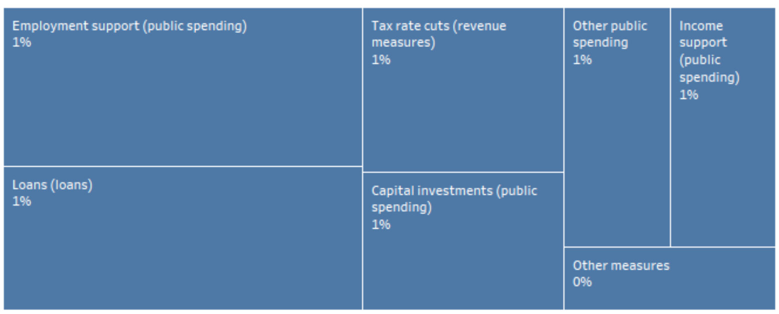
General government balance (% of GDP)

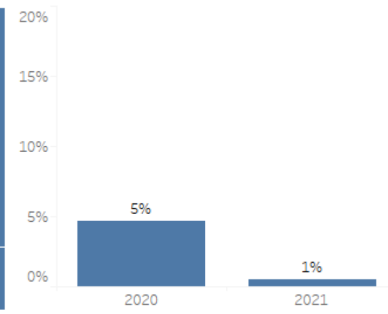


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

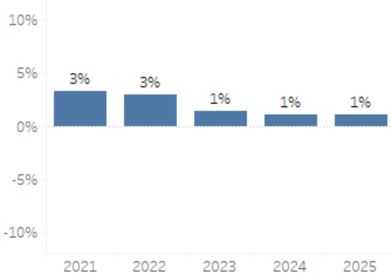




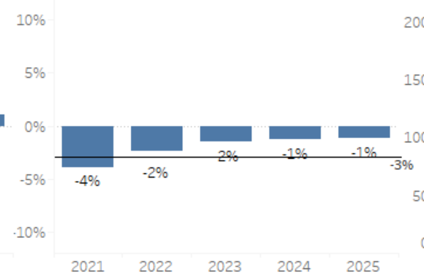
Finland

Economic Policy Council

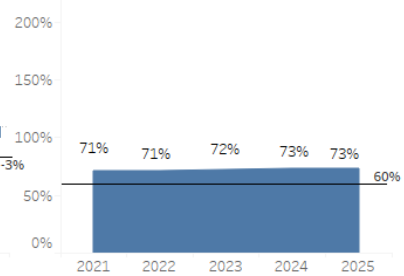
Real GDP growth (%)



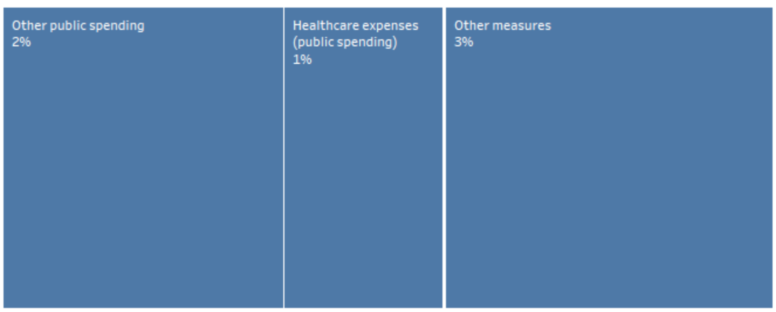
General government balance (% of GDP)

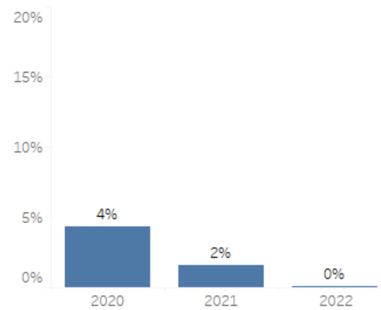


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

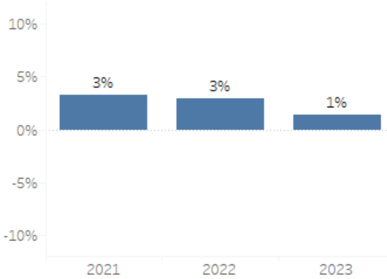




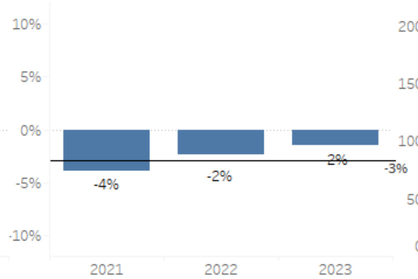
Finland

National Audit Office

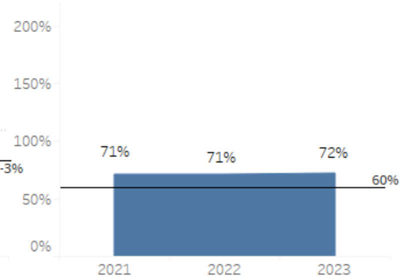
Real GDP growth (%)



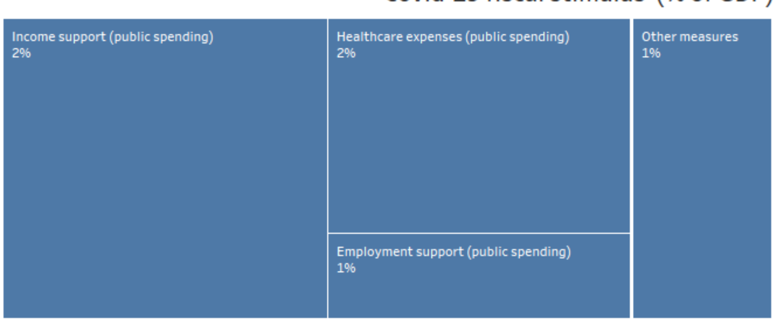
General government balance (% of GDP)

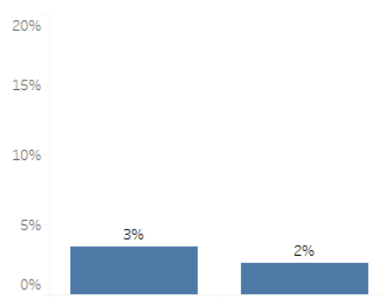


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

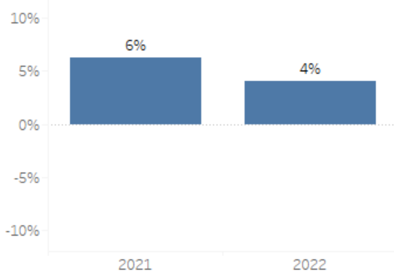




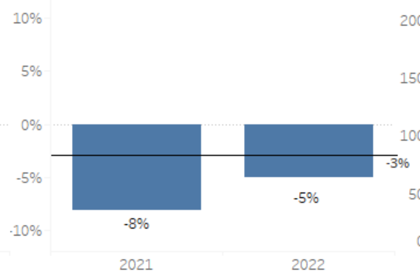
France

High Council of Public Finances

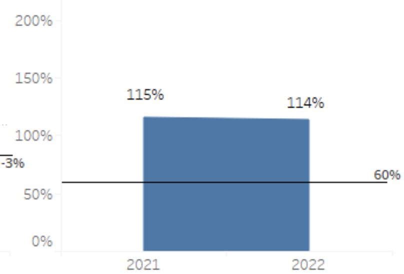
Real GDP growth (%)



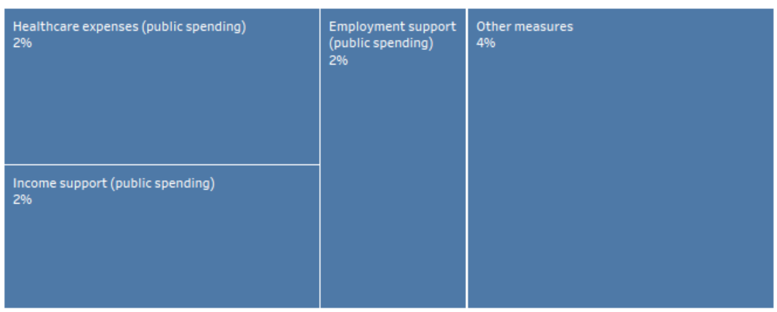
General government balance (% of GDP)

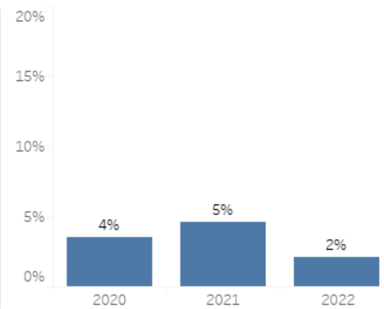


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

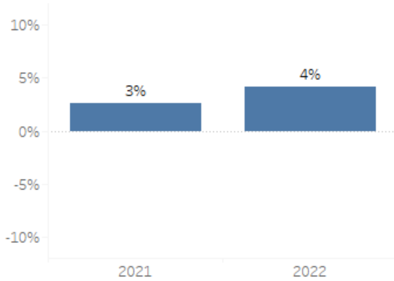




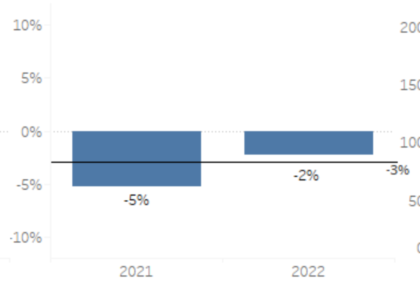
Germany

Advisory Board to the Stability Council

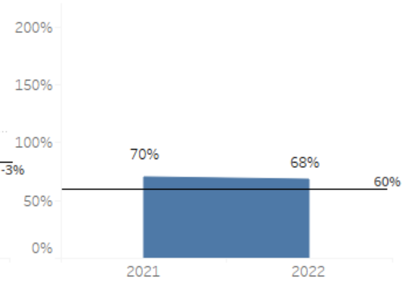
Real GDP growth (%)



General government balance (% of GDP)



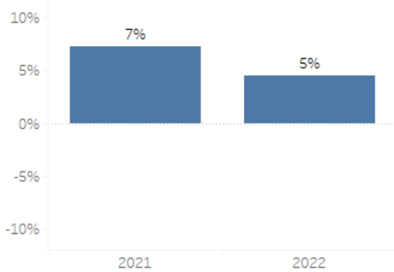
Gross public debt (% of GDP)



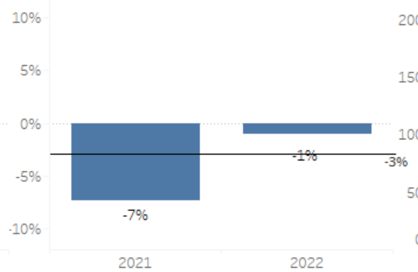
Greece

Hellenic Fiscal Council

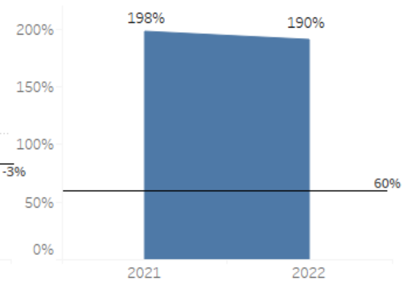
Real GDP growth (%)



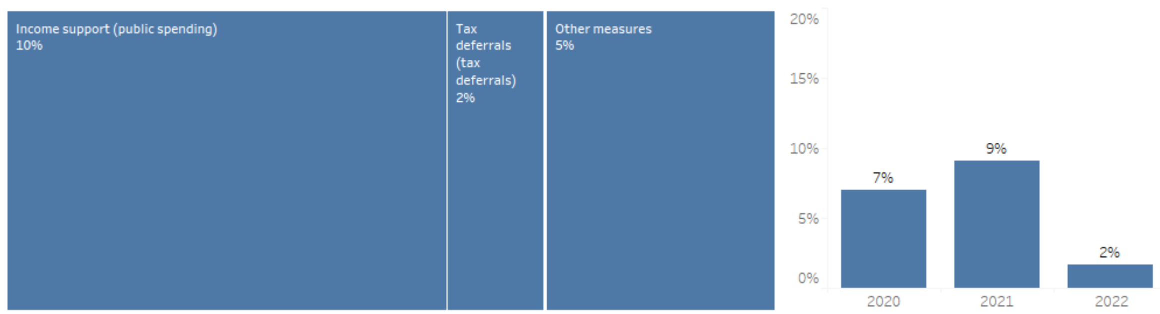
General government balance (% of GDP)



Gross public debt (% of GDP)



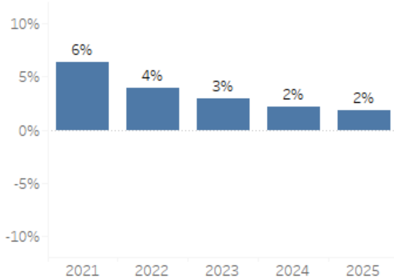
Covid-19 fiscal stimulus (% of GDP)



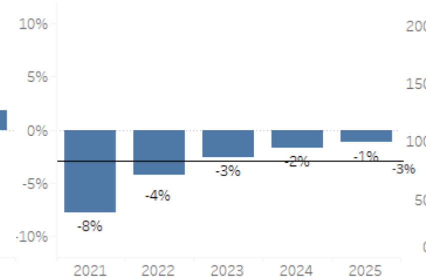
Greece

Parliamentary Budget Office

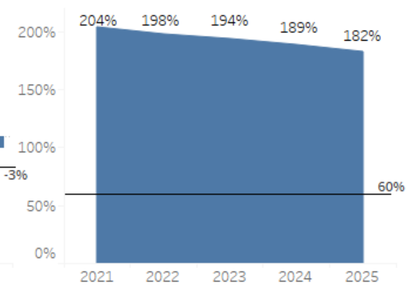
Real GDP growth (%)



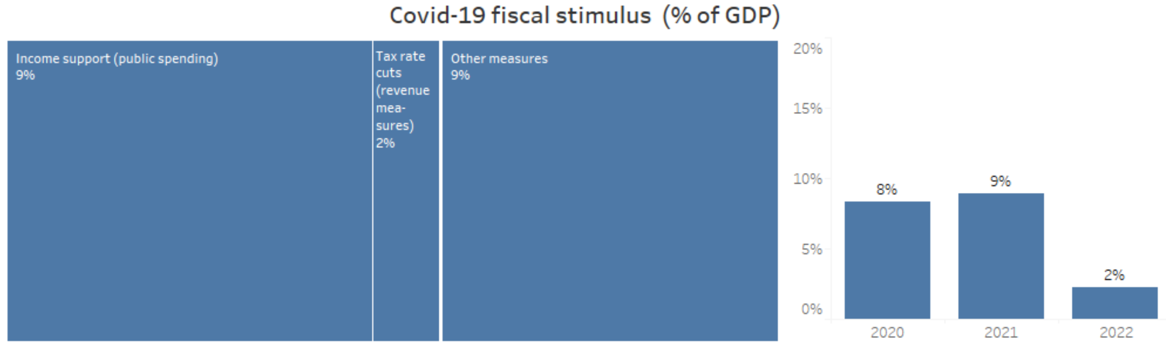
General government balance (% of GDP)



Gross public debt (% of GDP)



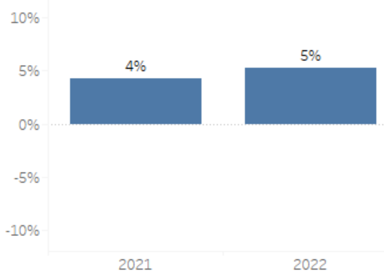
Covid-19 fiscal stimulus (% of GDP)



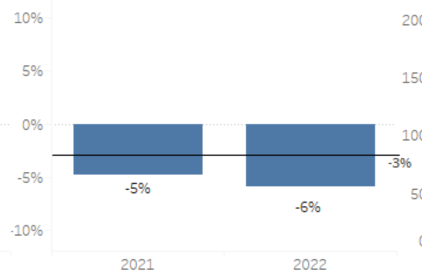
Hungary

Fiscal Council of Hungary

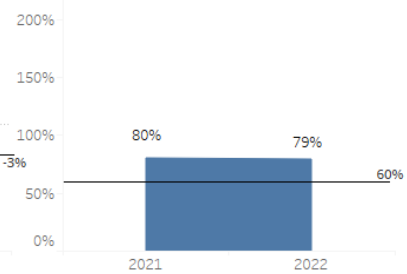
Real GDP growth (%)



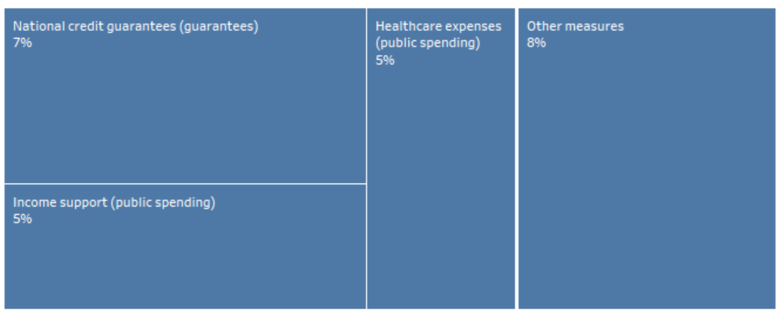
General government balance (% of GDP)

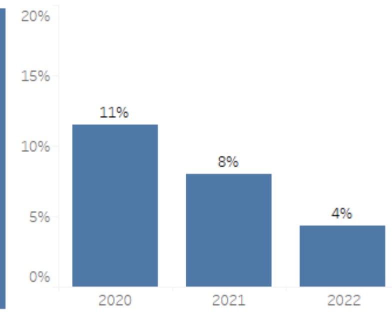


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

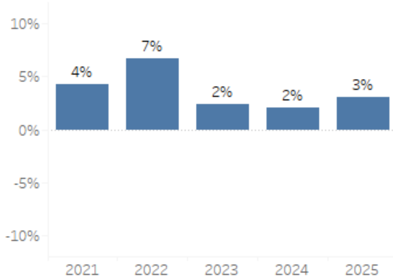




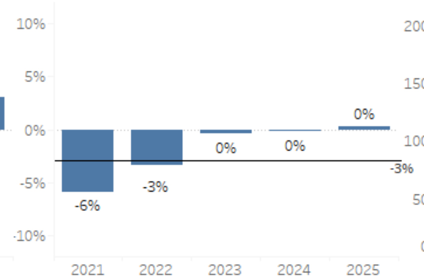
Ireland

Irish Fiscal Advisory Council

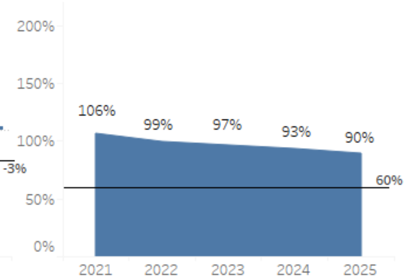
Real GNI growth (%)



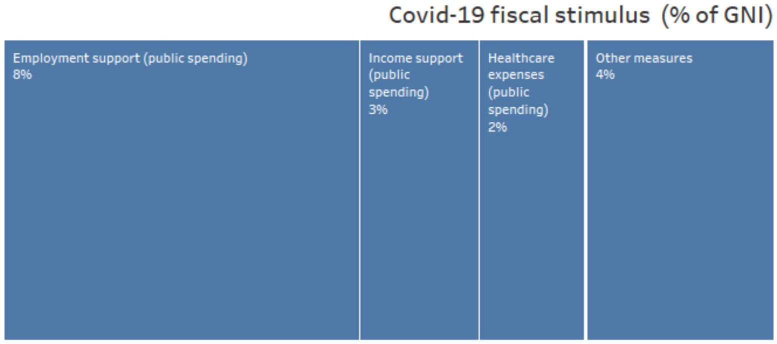
General government balance (% of GNI)

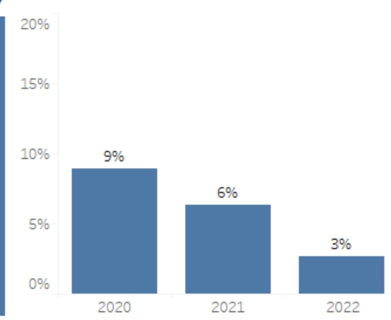


Gross public debt (% of GNI)



Covid-19 fiscal stimulus (% of GNI)

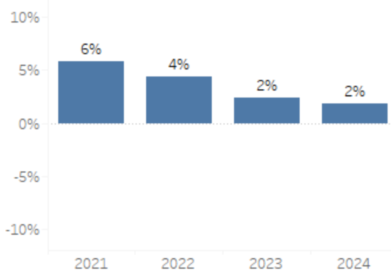




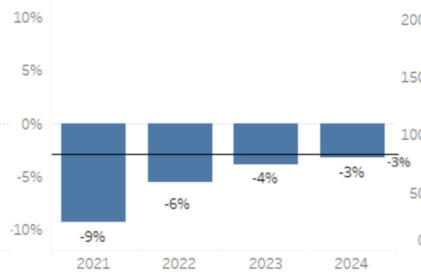
Italy

Parliamentary Budget Office

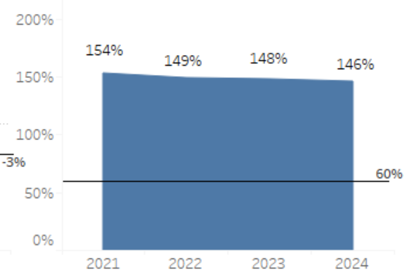
Real GDP growth (%)



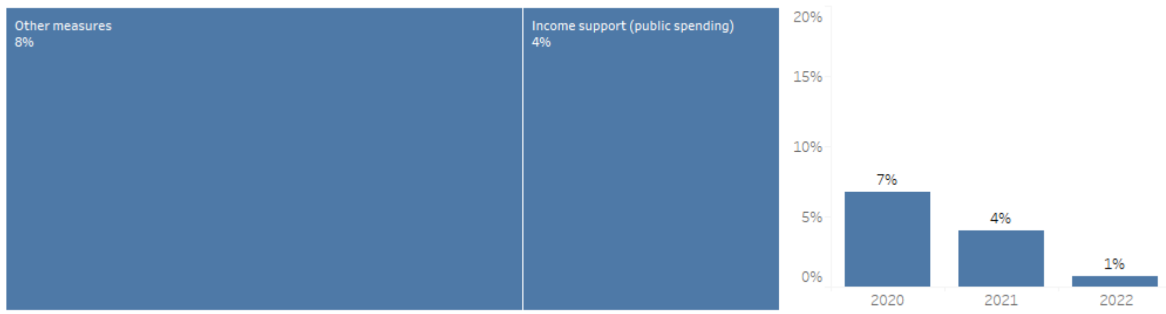
General government balance (% of GDP)



Gross public debt (% of GDP)



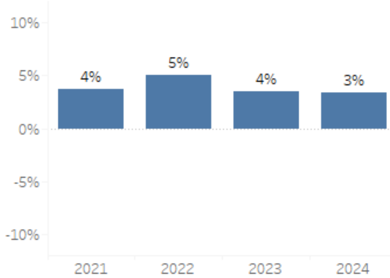
Covid-19 fiscal stimulus (% of GDP)



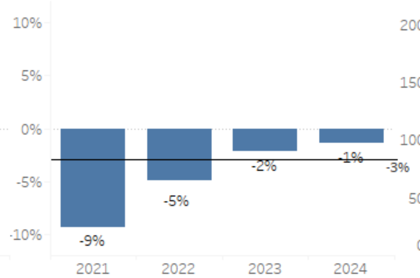
Latvia

Fiscal Discipline Council

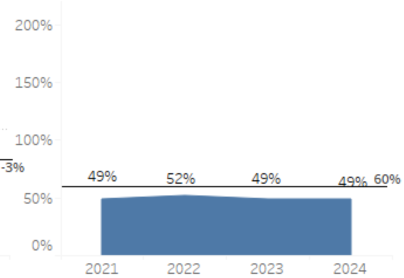
Real GDP growth (%)



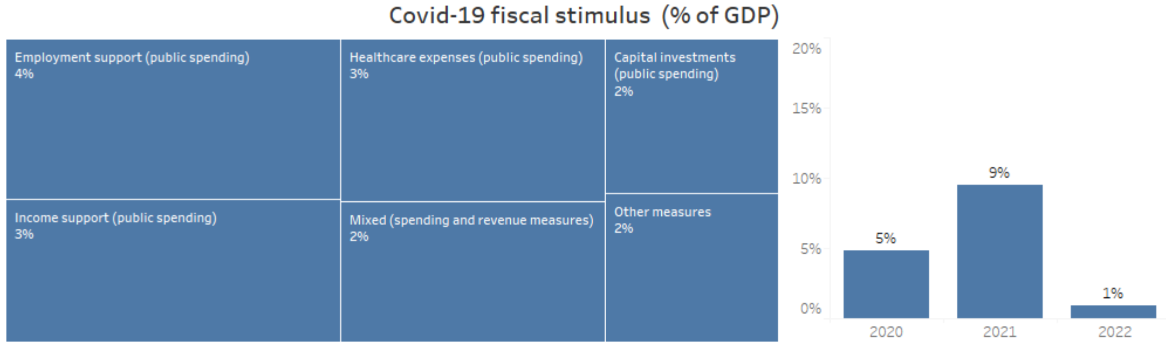
General government balance (% of GDP)



Gross public debt (% of GDP)



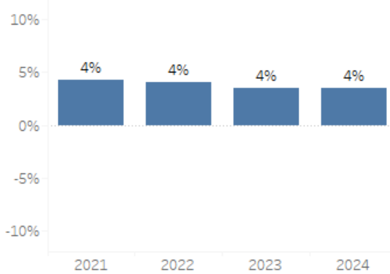
Covid-19 fiscal stimulus (% of GDP)



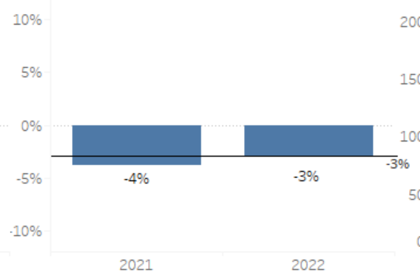
Lithuania

National Audit Office

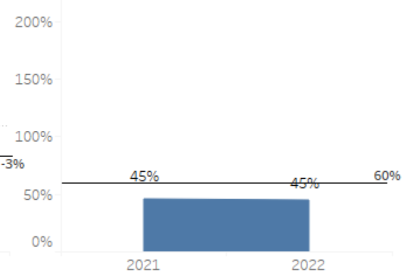
Real GDP growth (%)



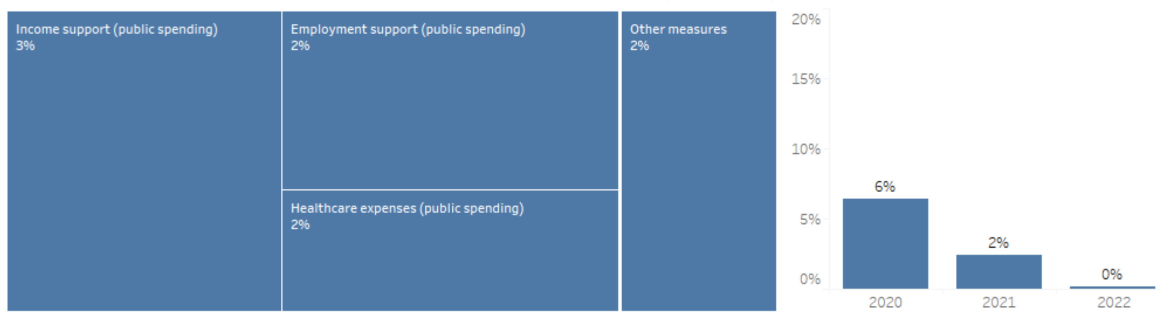
General government balance (% of GDP)



Gross public debt (% of GDP)



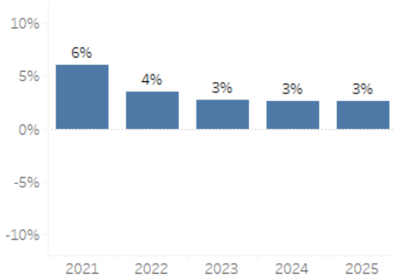
Covid-19 fiscal stimulus (% of GDP)



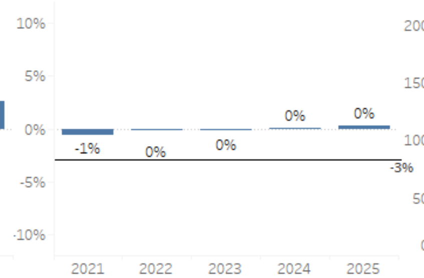
Luxembourg

National Council of Public Finances

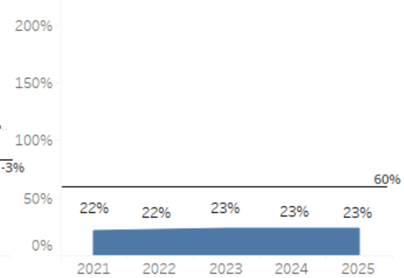
Real GDP growth (%)



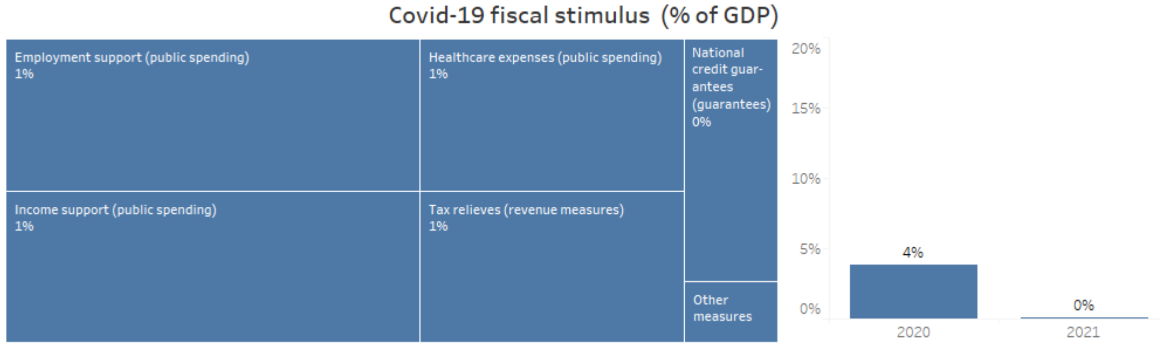
General government balance (% of GDP)



Gross public debt (% of GDP)



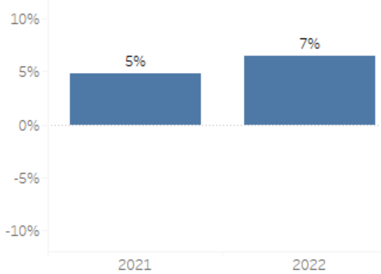
Covid-19 fiscal stimulus (% of GDP)



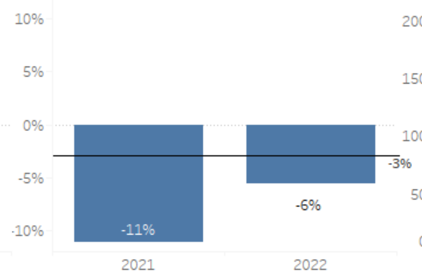
Malta

Malta Fiscal Advisory Council

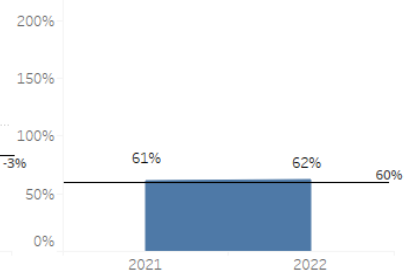
Real GDP growth (%)



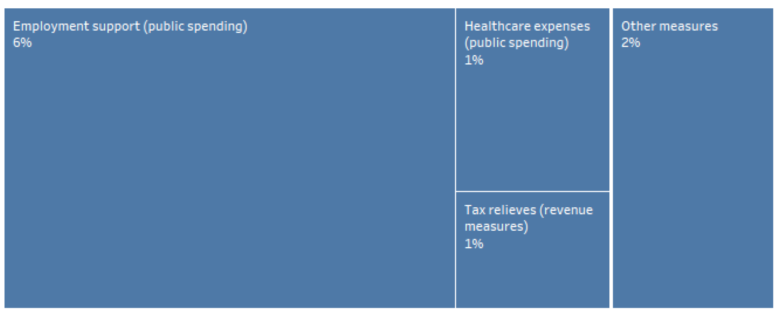
General government balance (% of GDP)

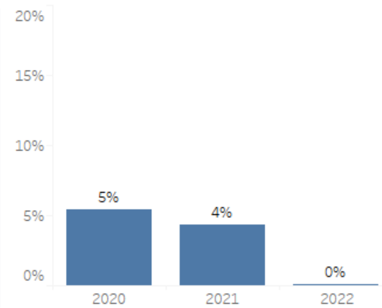


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

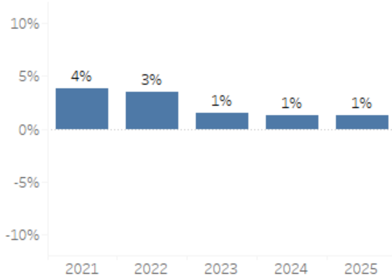




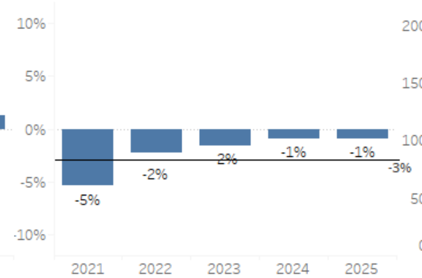
Netherlands

CPB Netherlands Bureau for Economic Policy Analysis

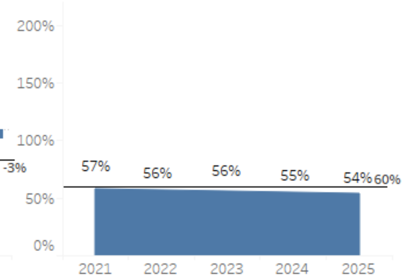
Real GDP growth (%)



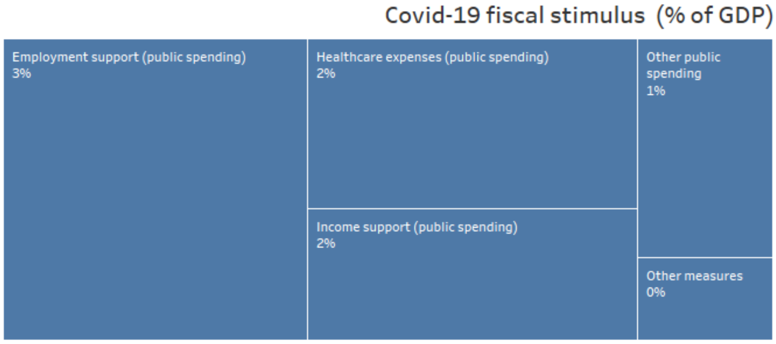
General government balance (% of GDP)

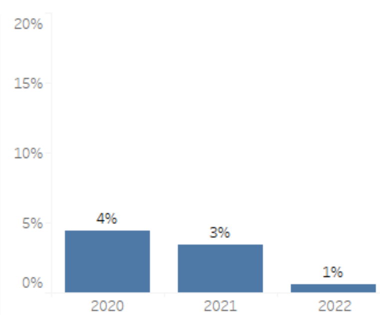


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

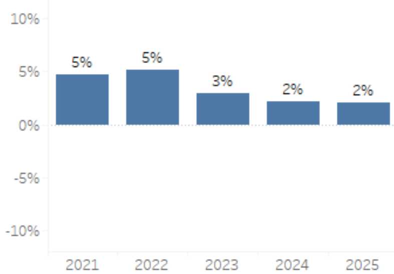




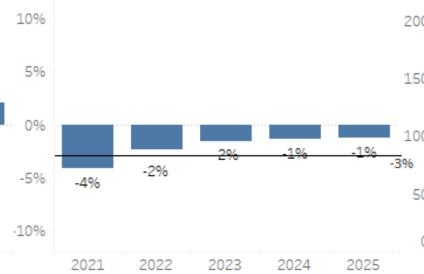
Portugal

Portuguese Public Finance Council

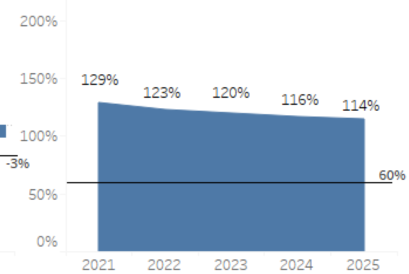
Real GDP growth (%)



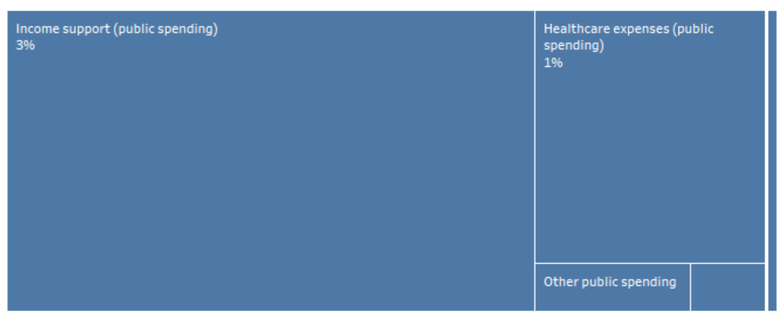
General government balance (% of GDP)

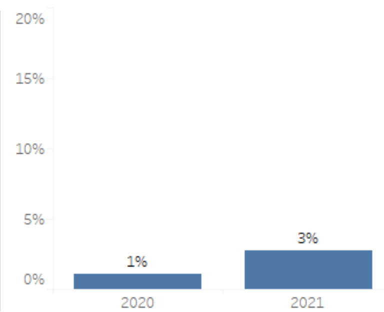


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

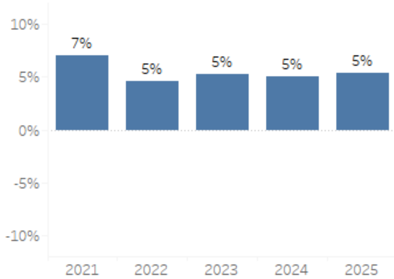




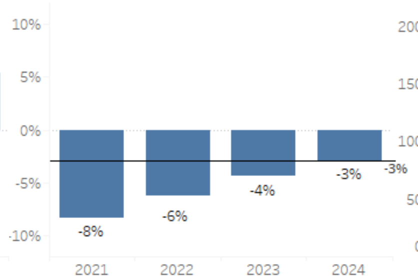
Romania

Romanian Fiscal Council

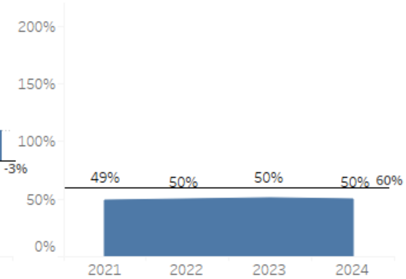
Real GDP growth (%)



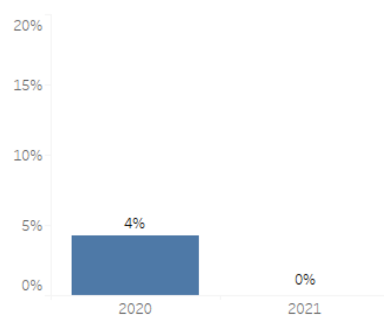
General government balance (% of GDP)



Gross public debt (% of GDP)



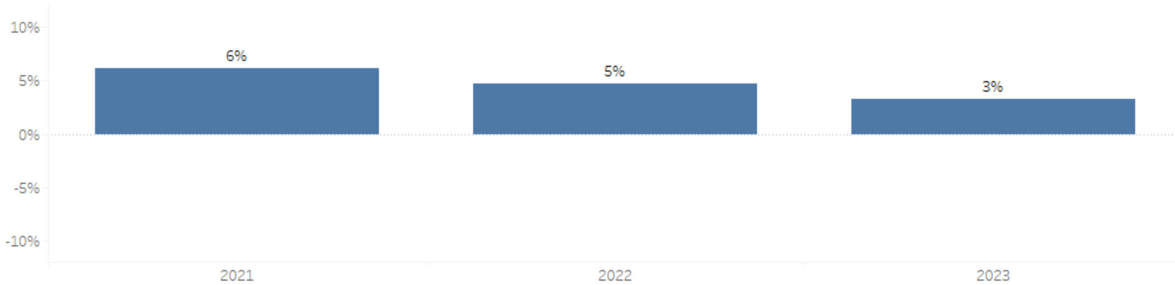
Covid-19 fiscal stimulus (% of GDP)



Slovenia

Institute of Macroeconomic Analysis and Development

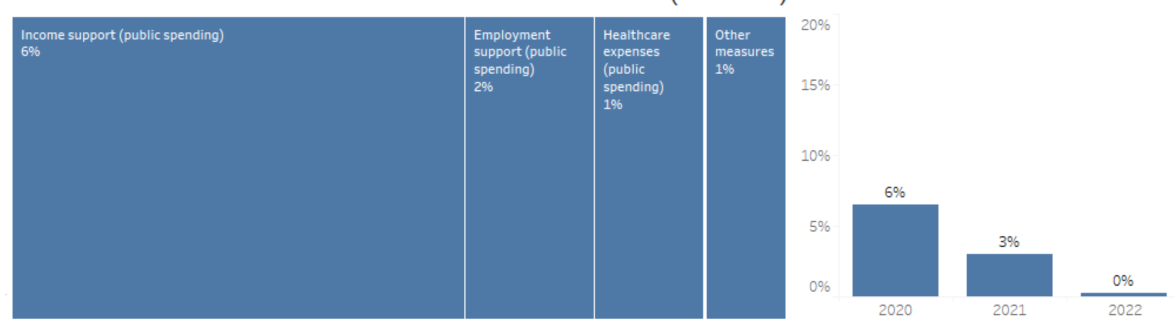
Real GDP growth (%)



Slovenia

Slovenian Fiscal Council

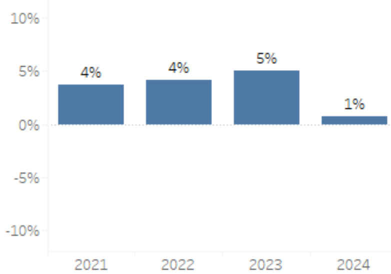
Covid-19 fiscal stimulus (% of GDP)



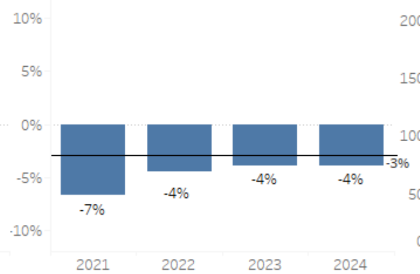
Slovakia

Council for Budget Responsibility

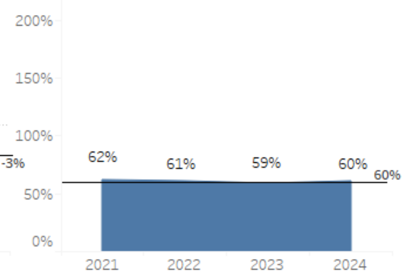
Real GDP growth (%)



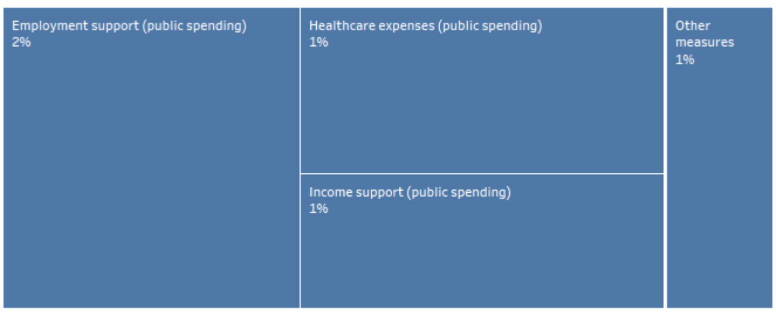
General government balance (% of GDP)

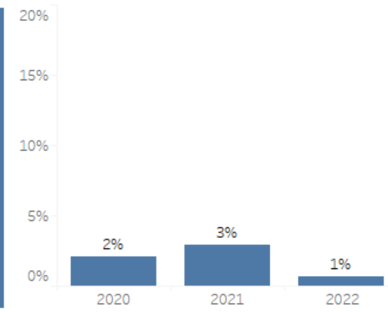


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

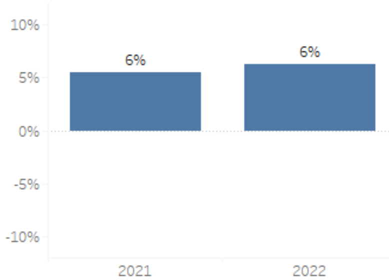




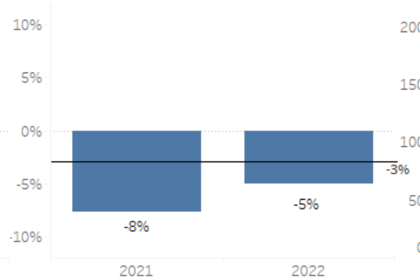
Spain

Independent Authority for Fiscal Responsibility

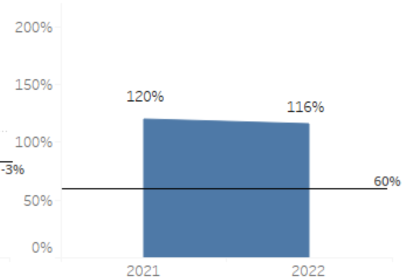
Real GDP growth (%)



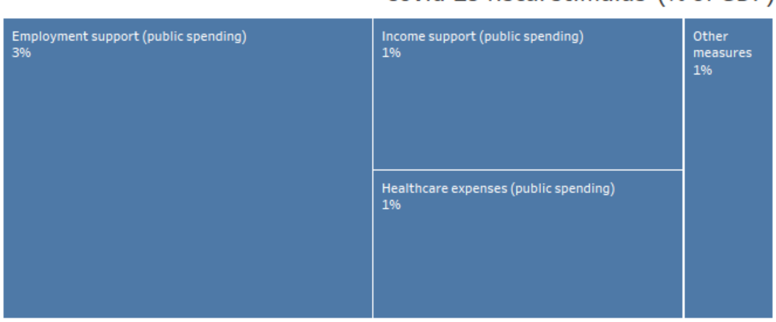
General government balance (% of GDP)

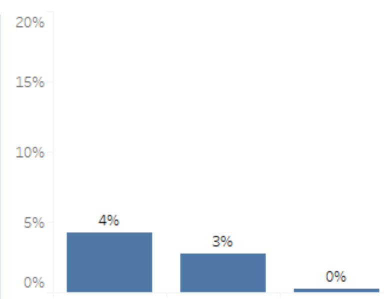


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

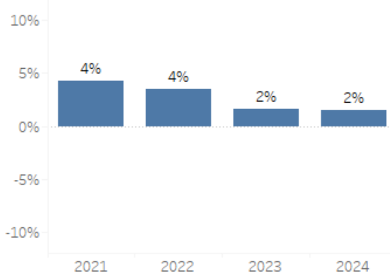




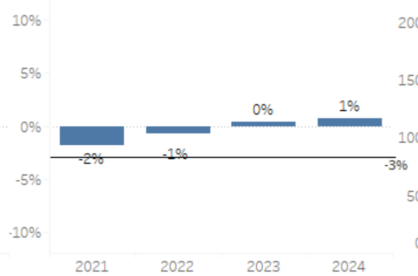
Sweden

Swedish Fiscal Policy Council

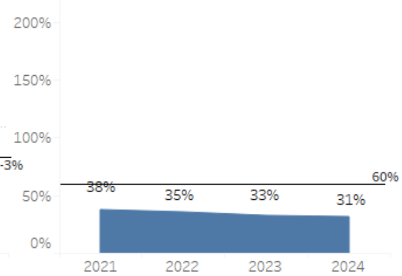
Real GDP growth (%)



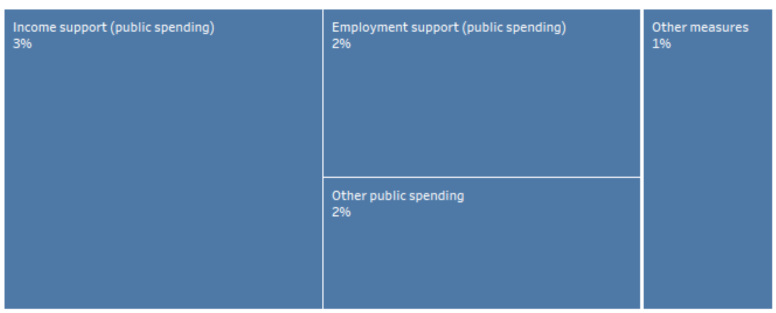
General government balance (% of GDP)

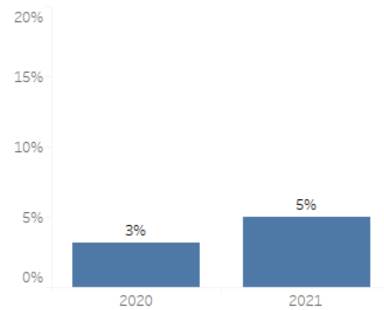


Gross public debt (% of GDP)



Covid-19 fiscal stimulus (% of GDP)

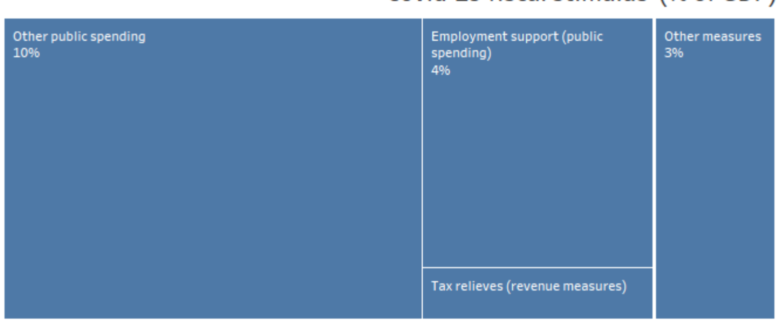


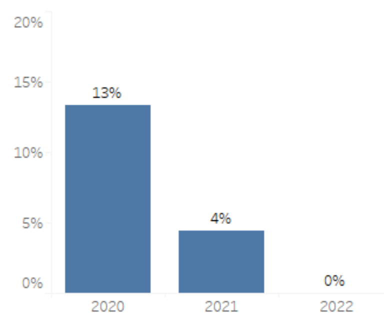


United Kingdom

Office for Budget Responsibility

Covid-19 fiscal stimulus (% of GDP)





The Network of EU Independent Fiscal Institutions

The Network is composed of 32 Independent Fiscal Institutions representing 26 EU countries and the United Kingdom. It is a voluntary and inclusive institution, open to all independent fiscal oversight bodies operating in the European Union. It provides a platform to exchange views and expertise, and to pool resources in areas of common concern. The Network supports efforts to review and reinforce the EU fiscal framework, seeking to better exploit the synergies between rules and institutions, as well as between different levels of administration, whilst respecting the principle of subsidiarity and enhancing local ownership and accountability.

For further information, visit: www.euifis.eu

EU INDEPENDENT
FISCAL INSTITUTIONS