EU INDEPENDENT
FISCAL INSTITUTIONS

EUROPEAN FISCAL MONITOR

July 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

The short-term outlook for public finances:

- While 2022 began with continued economic recovery from the Covid-19 crisis, **Russia's invasion of Ukraine has contributed to a rapid re-evaluation of the economic outlook and risks**. Inflation has increased sharply and the downside risks to activity have increased.
- **This European Fiscal Monitor largely focusses on the situation at the time of the Stability and Convergence Programme updates in April.** However, the outlook has deteriorated in the subsequent months in a way that had not been anticipated.
- Prior to these recent developments, **budget balances were set to improve as pandemic-related measures were phased out**. General government deficits were expected to exceed 3 % GDP on average in 2022.

The medium-term outlook for public finances:

- **In the medium term, growth was expected to recover to a steady pace with the public finances progressively improving.** Public deficits in most countries would have been at or below the 3 % reference value in 2025 with surpluses ranging from 1-3 % in some countries. With interest rates remaining at a low level, this would have set debt-to-GDP ratios on a downward trajectory.
- **Some of the national independent fiscal institutions (IFIs) that assessed national stability and convergence programmes (SCPs) raised concerns about medium-term fiscal plans**, notably the potential for pro-cyclicality, insufficient medium-term consolidation efforts, and insufficient or unattainable medium-term targets.

The impact of rising inflation on public finances:

- Given the rapid increases in energy and food prices, **new discretionary fiscal measures to date to alleviate the impact of higher inflation amount to an average of 1 % of GDP in 2022**.
- In general, national IFIs that have expressed an opinion on the **fiscal response to inflation hikes that deem it appropriate and achievable**. Nevertheless, some IFIs expressed concern over the size of the fiscal stimulus and how it is being targeted.
- Overall, most IFIs assessed that inflation will slow down in the years ahead, but **concerns were raised as to the potential fiscal risks.**

The impact on IFI activities:

- **The current uncertain economic conditions have a large impact on the activities of national IFIs.** The main challenges that national IFIs face in executing their tasks include: i) high uncertainty concerning the war in Ukraine, ii) a lack of government transparency over new measures taken, and iii) insufficient resources.

Foreword

The recovery from Covid-19 and Russia's invasion of Ukraine are having a huge impact on the European economy, taking inflation to the highest rate in over a generation in many EU countries. This impact was not fully clear at the time that EU governments produced their Stability/Convergence Programmes in April. The future path of inflation and overall economic activity remains highly uncertain.

EU governments have taken measures to reduce the impact of higher energy and food prices on households and businesses, amounting to around 1 % of GDP. These measures are mostly temporary for now. Many IFIs have raised concerns that these measures are not being adequately targeted, which leads to a poor trade-off between their economic and budgetary cost, and how much help they provide to the most vulnerable households.

Looking ahead, the impact of higher imports prices and inflation on the public finances is complex and runs through a range of channels on spending, revenue and interest costs. Governments will need to strike a delicate balance between supporting the economy and vulnerable households and ensuring that they do not inadvertently contribute to second-round effects on inflation.

While the strong recovery from Covid-19 and low interest costs would have provided a favourable background to reductions in the debt ratio, this picture is now more complicated. IFIs continue to raise concerns about long-term fiscal pressures and budgetary planning.

Progress on reforms to the EU governance framework and returning towards a rules-based framework would help to anchor the public finances, alongside the need to address short-term issues. National IFIs are playing a useful role in evaluating the impact of recent developments on the public finances and enhancing their role within the EU framework could lead to better outcomes in the future.

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, Beatriz Pozo and Danai Ellina. 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

While 2022 began with the continued economic recovery from the Covid-19 crisis, Russia's invasion of Ukraine has contributed to a sharp increase in global energy and food prices. Combined with ongoing supply-side pressures, this has led to a rapid re-evaluation of the economic outlook and associated risks, a shift in monetary policy stance, significant corrections in financial markets, and new measures by governments to manage the increases in the cost-of-living.

EU governments and independent fiscal institutions assessed the state of the economy based around the April Stability and Convergence Programme updates. These assessments form the basis of this edition of the European Fiscal Monitor but it should be recognised that inflationary pressures now appear stronger than originally anticipated in May with larger downside risks to economic activity.

This EFM provides an overview of the activities of 30 national IFIs, and the fiscal measures adopted in response to rising inflation in 25 EU Member States and the United Kingdom. The monitor is based on a survey of IFIs carried out in the period from April to June 2022, mostly covering the information linked to spring 2022 forecasts[1]. The information obtained for each country is based on an assessment by the national IFI or by the national government, depending on the specific mandate of the IFI[2].

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] European Network of EU IFIs (2022), Survey of European Independent Fiscal Institutions, July 2022.

[2] For this reason, projections may not be fully comparable. Please see the Survey of European Independent Fiscal Institutions, July 2022 for more information about the cut-off date and source of projections.

2 The short-term outlook for public finances

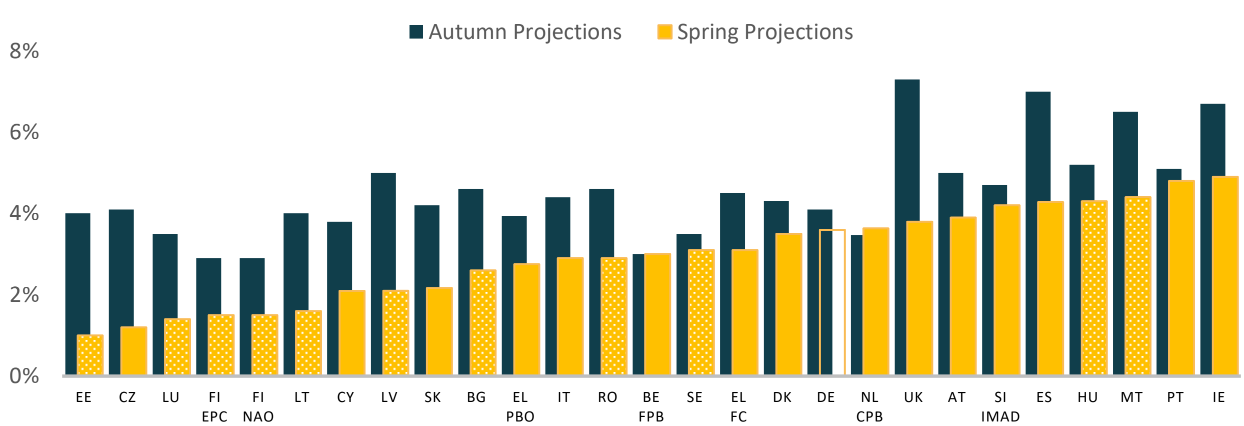
Real GDP growth, the general government balance and gross public debt are key indicators used by national IFIs to assess the short-term outlook for public finances. IFIs produce or assess these projections regularly in the context of the budget assessment or endorsement.

This European Fiscal Monitor uses projections developed around the April Stability Programme and Convergence (SCP) updates, either official projections endorsed by the IFIs or those produced by the IFIs themselves either as the official forecasts or as a benchmark for endorsement. These forecasts were generally developed shortly after the Russian military invasion of Ukraine. The size of the increases in energy and food prices were not fully apparent at that point, while inflation globally has generally caused increasing surprise in the subsequent months. There have also been large shifts in both interest rates and financial markets since April.

2.1 Economic growth

In most countries, economic growth projections had already been revised downwards in the spring SCPs following the start of the war in Ukraine (see Figure 1)[3]. According to the government or IFI forecasts disclosed with the 2022 SCPs, average economic growth in the 25 countries[4] was expected to be 3 % in 2022. This is one percentage point lower than was expected at the time of the previous EFM (published in January) but still boosted by the ongoing recovery from Covid-19. Further upward revisions to inflation projections and downward revisions to real economic growth are now likely given the scale of price pressures, continued uncertainty and ongoing financial developments.

Figure 1. Projections of real GDP growth in 2022 in autumn 2021 and spring 2022 (%)



[3] However, since the spring of the current year, the consensus forecast of real GDP growth has stabilised for the euro area or even improved for a number of countries.

[4] Projections were unavailable for Croatia and France. There were no official forecasts conducted in France due to the presidential elections.

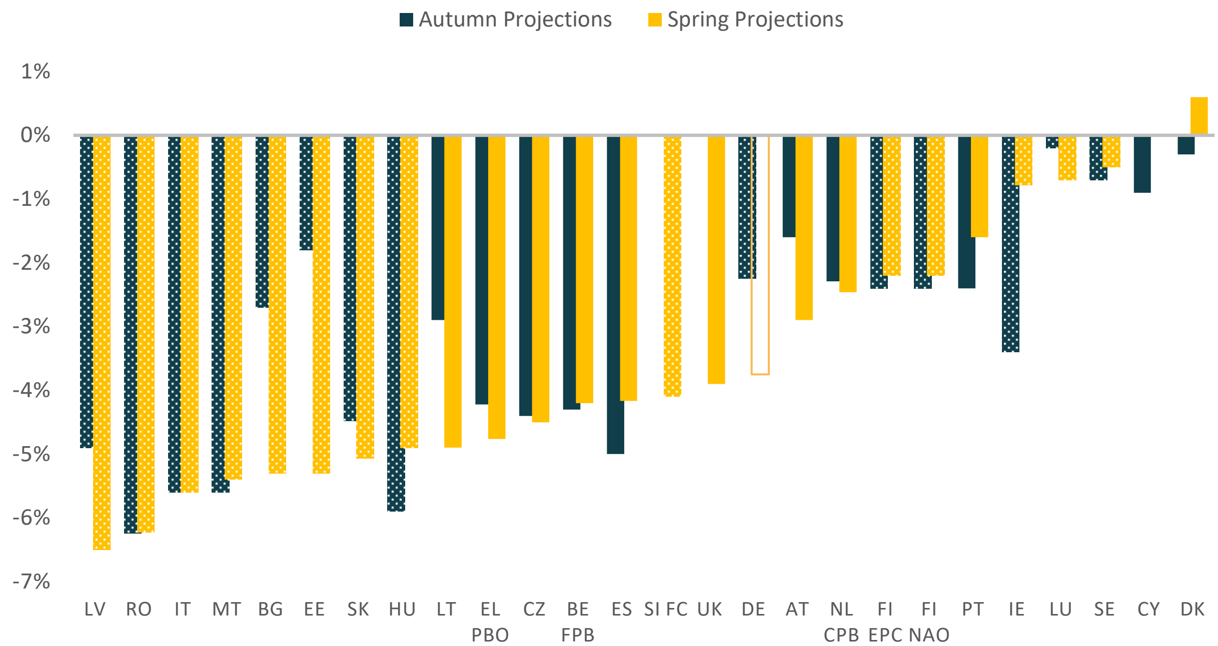
Note: The figure above shows the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. Produced projections (officially or internally) are fully shaded, assessed projections (with or without endorsement) are dotted and projections obtained from SCPs (DE) are empty. The autumn projections are those from the previous EFM. The figures for Ireland relate to Modified GNI rather than GDP. The autumn projections for Cyprus, Denmark and the United Kingdom have been obtained from the projections in the EFM published in June 2021 rather than January 2022. The spring projection for Germany has been obtained from the German Stability Programme (2022).
Source: The Network of EU Independent Fiscal Institutions (2022).

2.2 Public finances

The public deficit in 16 out of 25 countries was expected to exceed the 3 % reference value in 2022 projections (see Figure 2). Latvia (-7 % of GDP), Romania (-6 %) and Italy (-6 %) were projected to have the largest public deficits followed by 13 other countries with a public deficit of 3 % or higher.[5] Most of the remaining countries are expected to have public deficits ranging between 0 % and 2 %. Cyprus (0 %) is the only country projected to have a balanced budget, while Denmark (1 %) is the only country where the general government balance is projected to be positive. In 11 countries[6], public deficits were expected to be smaller than previous projections, despite the deteriorating growth outlook.

[5] BE, BG, CZ, DE, EE, EL, ES, HU, LT, MT, SI, SK, UK.
[6] AT, BG, CZ, DE, EE, EL, LT, LU, LV, NL, SK.

Figure 2. Projections for general government balances in 2022 in autumn 2021 and spring 2022 (% of GDP)

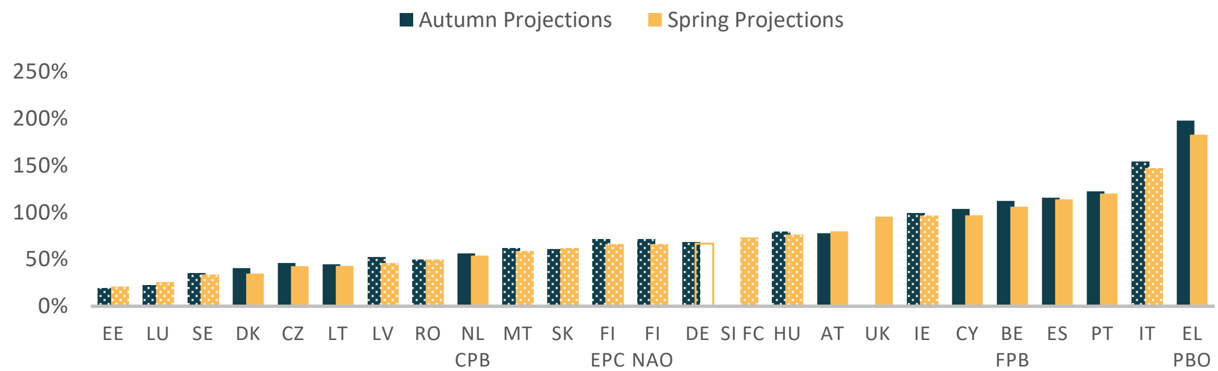


Note: The figures above show the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. Produced projections (officially or internally) are fully shaded, assessed projections (with or without endorsement) are dotted and projections obtained from SCPs (DE) are empty. The autumn projections are those from the previous EFM. The autumn projections for Cyprus and Denmark have been obtained from the projections in the EFM published in June 2021 rather than January 2022. The spring projection for Germany has been obtained from the German Stability Programme (2022). The figures for Ireland relate to Modified GNI rather than GDP.
Source: The Network of EU Independent Fiscal Institutions (2022).

Given the recovery and lower pandemic-related spending, public debt levels were projected to be about two percentage points lower than envisaged in the previous EFM (see Figure 3), helped also by higher-than-expected inflation. In 18 out of 24 countries the national IFIs[7] report the projected public debt in 2022 to be lower than envisaged. The debt levels of 14 out of 24 countries were projected[8] to be above the 60 % debt reference value in 2022, similar to the previous projections.

[7] BE, CY, CZ, DE, DK, EL, ES, FI, HU, IE, IT, LT, LV, MT, NL, PT,RO, SE.
[8] AT, BE, CY, DE, EL, ES, FI, HU, IE, IT, PT, SK, SI, UK.

Figure 3. Projections of gross public debt in 2022 in autumn 2021 and spring 2022 (% of GDP)



Note: The figures above show the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. Produced projections (officially or internally) are fully shaded, assessed projections (with or without endorsement) are dotted and projections obtained from SCPs (DE) are empty. The autumn projections are those from the previous EFM. The figures for Ireland relate to Modified GNI rather than GDP. The autumn projections for Cyprus and Denmark have been obtained from the projections in the EFM published in June 2021 rather than January 2022. The spring projection for Germany has been obtained from the German Stability Programme (2022).
Source: The Network of EU Independent Fiscal Institutions (2022).

2.3 IFIs' assessment of the fiscal stance

Based on the April SCPs, national IFIs with fiscal competences consider the adopted fiscal stance as appropriate (eight national IFIs) or too expansionary (eight national IFIs) for economic and budgetary stability in 2022. Public finances in most countries were set to remain expansionary in 2022. This was deemed reasonable in many countries as the fiscal position would be counter-cyclical given the expected development that economic output would be below potential. In other countries, the sharp recovery after Covid-19, in combination with the expansionary measures, risked overheating the economy.

3 The medium-term outlook for public finances

Real GDP growth, the general government balance and gross public debt on the Maastricht basis are also key indicators used by national IFIs to assess the medium-term outlook for public finances. IFIs produce or assess projections as part of the assessment of governments' medium-term budgetary plans. In the EU, SCPs set out the medium-term path for public finances.

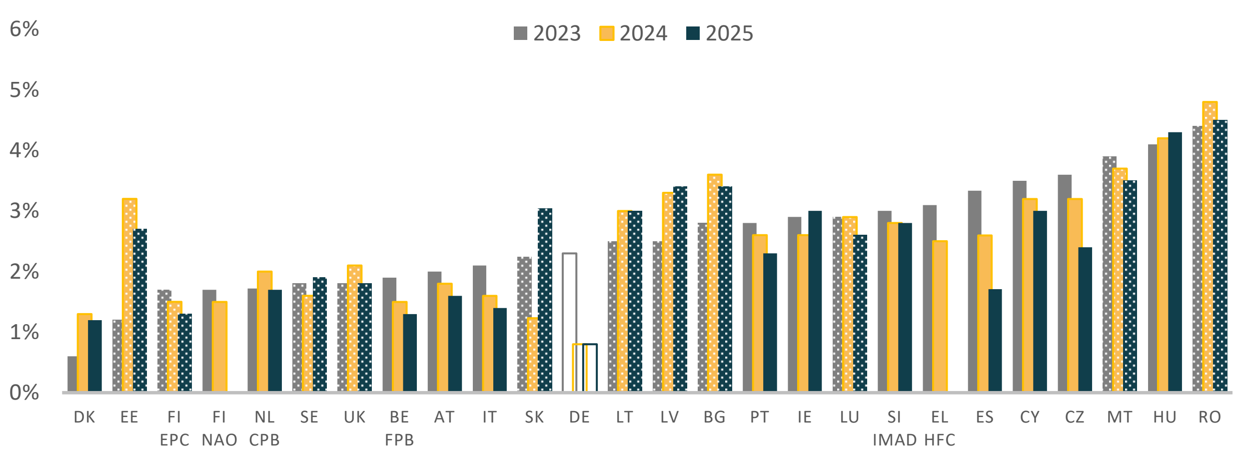
While medium-term projections made in the Stability and Convergence Programme updates may be less sensitive to developments in the short run, recent developments in energy and food, together with the pick-up in global inflation, raise questions about inflation and growth that could impact medium-term outcomes for the economy and public finances.

3.1 Economic growth

In most countries, steady growth was expected (see Figure 4). With real GDP anticipated to grow by an average of 3 % between 2022 and 2025, this is one percentage point lower than the previous EFM's projections.

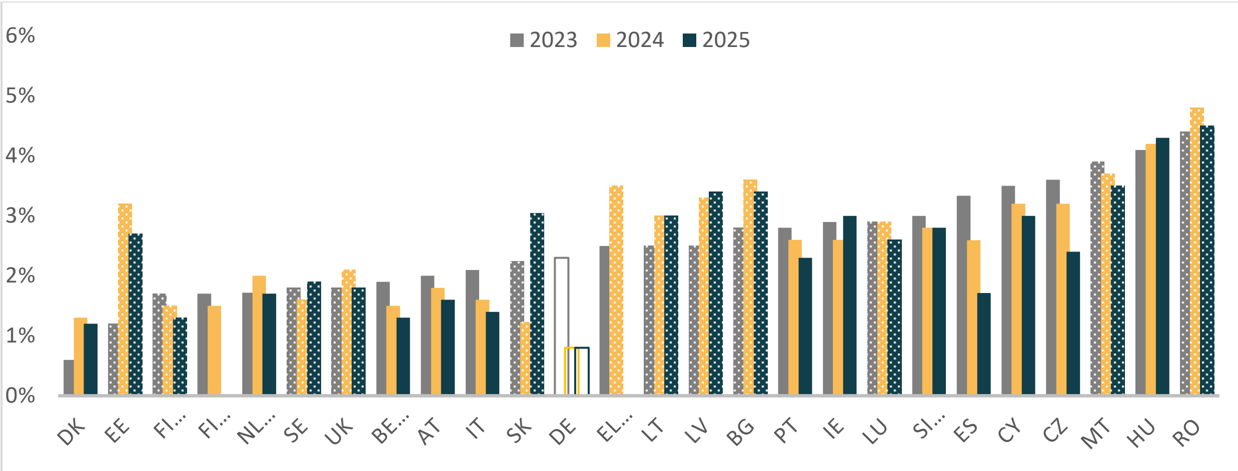
In 2025, 25 countries are expected to achieve an average economic growth of 2 %. In total, 12 countries[9] were expected to grow by 1 %-2 % between 2022 and 2025, while nine countries[10] were expected to grow by 3 % in the same time period. Malta (4 %), Hungary (4 %) and Romania (5 %) were projected to record the highest growth in 2025.

Figure 4. Real GDP growth projected in spring 2022 (%)



[9] AT, BE, CZ, DE, DK, ES, FI, IT, NL, PT, SE, UK.

[10] BG, CY, EE, IE, LT, LU, LV, SI, SK.



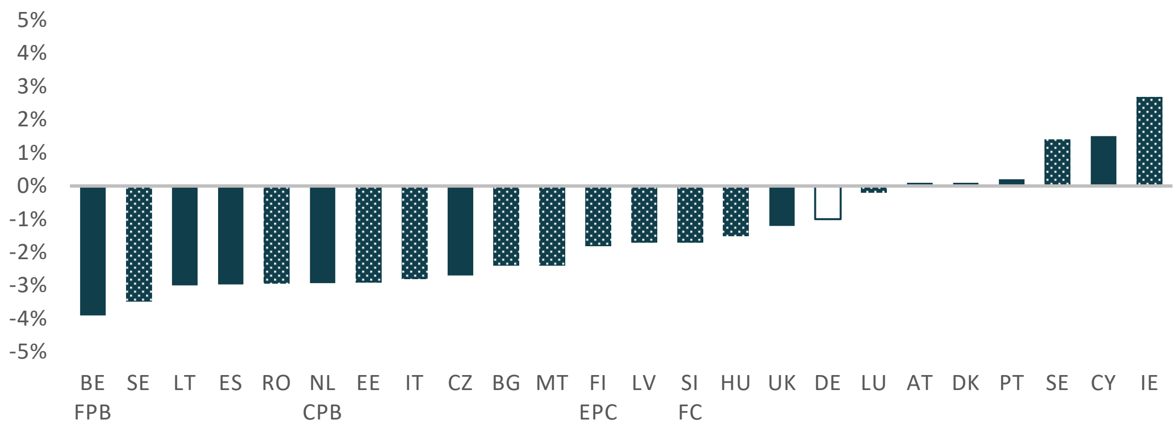
Note: The figures show the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. Produced projections (officially or internally) are fully shaded, assessed projections (with or without endorsement) are dotted and projections obtained from SCPs (DE) are empty. The unweighted average is computed on real GDP projections for 2022-25. The projections for Germany have been obtained from the German Stability Programme (2022). The figures for Ireland relate to Modified GNI rather than GDP.
Source: The Network of EU Independent Fiscal Institutions (2022).

3.2 Public finances

Government deficits are in most countries projected[11] to be below the 3 % reference value by 2025 (see Figure 5). Although most countries planned to implement fiscal consolidation and GDP growth rates are set to recover, Belgium (4 % of GDP), Sweden (3 %), Lithuania (3 %) and Spain (3 %) were projected to have deficits above the 3 % public deficit reference value in 2025, even before recent developments. Romania, the Netherlands, Estonia, Italy and Czech Republic are projected to have deficits close to the reference value in 2025. Most of the remaining countries are expected to have lower public deficits (between 0.0 % and 2.4 % of GDP). In turn, the projections suggest that Austria (0 %), Denmark (0 %), Portugal (0 %), Sweden (1 %), Cyprus (2 %) and Ireland (3 %) would have surpluses by 2025.

[11] SCPs require projections to be made under a no-policy-change assumption.

Figure 5. The general government balance projected for 2025 in spring 2022 (% of GDP)



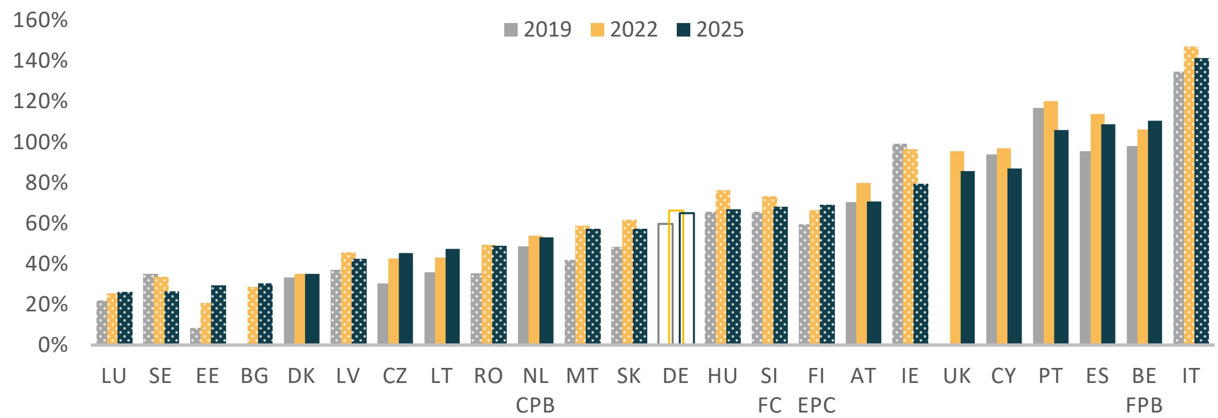
Note: The figures show the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. Produced projections (officially or internally) are fully shaded, assessed projections (with or without endorsement) are dotted and projections obtained from SCPs (DE) are empty. The figures for Ireland relate to Modified GNI rather than GDP. The latest projection for Germany has been obtained from the German Stability Programme (2022).
Source: The Network of EU Independent Fiscal Institutions (2022).

Public debt is projected to have increased eight percentage points on average between 2019 and 2022, in large part due to the pandemic. Gross public debt increased in 20 out of 24 countries[12]. This increase is mostly due to the large pandemic-related fiscal stimulus. Sweden (-2 percentage points) and Ireland (-3 percentage points) are the only countries where public debt decreased during this period[13].

In the medium term, public debt levels were set to decrease from 2022 levels by three percentage points (see Figure 6) as growth recovered, deficits narrowed and interest costs remained low. More specifically, national IFIs in 17 out of 24 countries[14] project no change or a decrease in the public debt-to-GDP ratio up to 2025. The largest decreases in debt levels were projected in Ireland (17 percentage points), Portugal (14 percentage points), the United Kingdom (10 percentage points) and Cyprus (10 percentage points). In turn, debt levels are projected to increase in seven out of 24 countries[15] by up to nine percentage points.

Figure 6. Gross public debt on the Maastricht basis projected in spring 2022 (% of GDP)

[12] AT, BE, CY, CZ, DE, DK, EE, ES, FI, HU, IT, LT, LU, LV, MT, NL, PT, RO, SI, SK.
[13] For Bulgaria and the United Kingdom there were no pre-Covid figures provided.
[14] AT, CY, DE, DK, ES, HU, IE, IT, LV, MT, NL, PT, RO, SE, SI, SK, UK.
[15] BE, BG, CZ, EE, FI, LT, LU.



Note: The figures show the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. Produced projections (officially or internally) are fully shaded, assessed projections (with or without endorsement) are dotted and projections obtained from SCPs (DE) are empty. The latest projection for Germany has been obtained from the German Stability Programme (2022). The figures for Ireland relate to Modified GNI rather than GDP.
Source: The Network of EU Independent Fiscal Institutions (2022)

3.3 Assessment by the IFIs

In general, the 13 national IFIs that assessed the medium-term (three to five years) fiscal planning in Stability/Convergence Programmes (SCPs)[16], of which most considered the underlying macroeconomic forecasts to be reasonable or attainable with current macroeconomic conditions. However, many IFIs warned that macroeconomic forecasts are plausible only when assuming that certain conditions (governments comply with fiscal rules, reactivation of fiscal rules, etc.) are met. The IFIs emphasised that uncertainty remained significant and the risks of a new evolution of the pandemic on top of the current price hikes could impact the economic outlook. Moreover, two national IFIs[17] found the projections already to be implausible due to an overestimation of revenues, too low expenditures and failing to cover the measures of their new government.

There are six national IFIs[18] that have assessed the long-term sustainability (more than five years) of public finances in the fiscal plans. Most of them consider long-term fiscal plans reasonable. The Dutch and Spanish IFIs did not make standard assessments of the long-term plans given too many large uncertainties. In addition, four national IFIs[19] indicated that they will assess long-term sustainability in the future.

Despite the extraordinary situation created by the pandemic and war in Ukraine, most national IFIs that responded to the survey considered the fiscal stance in the 2022 SCP to be appropriate or did not raise any further comments. Nevertheless, many national IFIs have indicated that the assessment was complicated by the high degree of uncertainty. In total, nine national IFIs[20] deemed the 2022 SCPs too expansionary.

[16] AT, BG, CY, DK, EE, EL PBO, ES, FI EPC, IE, IT, LT, NL RVS, SI FC.
[17] LT, SI FC.
[18] AT, DK, ES, IE, IT, NL RVS.
[19] CY, EL HFC, FI EPC, LU.
[20] BG, DK, FI EPC, FI NAO, LT, NL CPB, SE, SK.

These mostly relate to the potential for pro-cyclicality, insufficient medium-term consolidation efforts, and insufficient or unattainable medium-term targets.

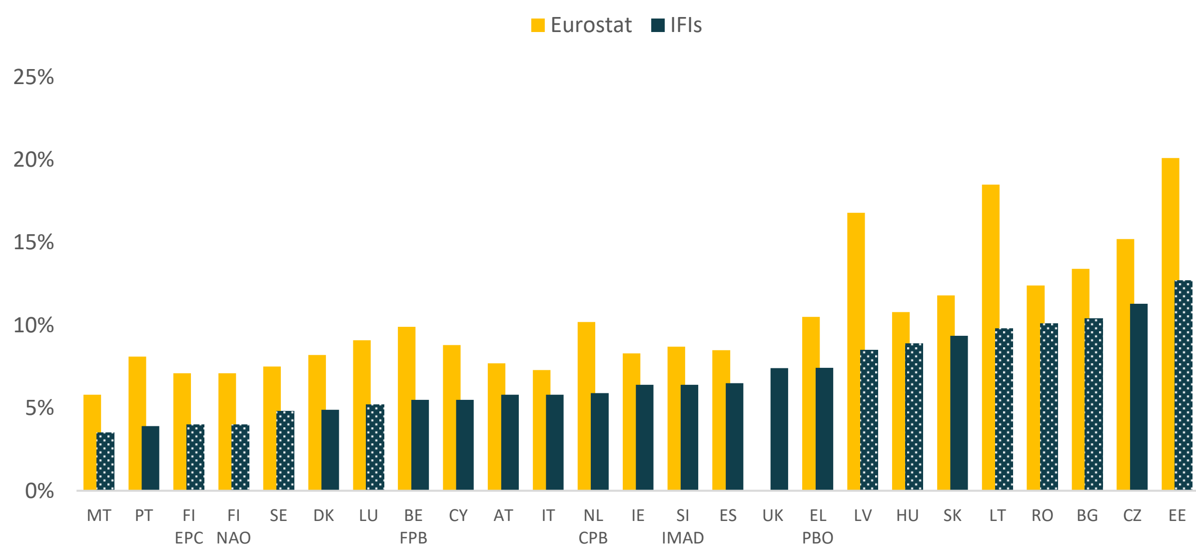
4 The impact of rising inflation on public finances

4.1 Inflation across EU countries

After several decades of low inflation, the EU is now facing high inflationary pressures. This is in part due to the growing price of imported goods stemming from global supply-chain disruptions and soaring energy and food costs.

National IFIs expected inflation in the EU to be well above the targets of monetary policy authorities (such as the ECB's 2 % medium-term inflation target) in 2022 (See Figure 7). In spring 2022, during the assessment/endorsement of the national Stability and Convergence Programmes, IFIs expected consumer prices in the EU to increase by an average of 7 % in 2022, with the highest inflation rate in central and eastern European countries most exposed to gas supply changes. However, year-on-year inflation outturns in recent months have outpaced these projections due to higher than anticipated increases in food and energy prices, together with stronger and more broad-based domestic price pressures.

Figure 7. Annual Inflation in 2022 projected in spring 2022 compared to latest monthly outturn (%)



Note: The figures show the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. The numbers correspond to the projections. Produced projections (officially or internally) are fully shaded, assessed projections (with or without endorsement) are dotted and projections obtained from SCPs (DE) are empty. Inflation is indicated through the national or harmonised consumer prices index used within the 2022 Stability and Convergence Programmes. The Eurostat figures show annual rate of change of harmonised consumer prices index as of May 2022.
Source: The Network of EU Independent Fiscal Institutions (2022)

Risks around inflation remain high, from further changes in food and energy prices, but also the strength of wider second-round effects. A key uncertainty is how wages will respond and the measures governments will take to address the 'cost-of-living crisis', which could directly impact inflation or add to demand pressures.

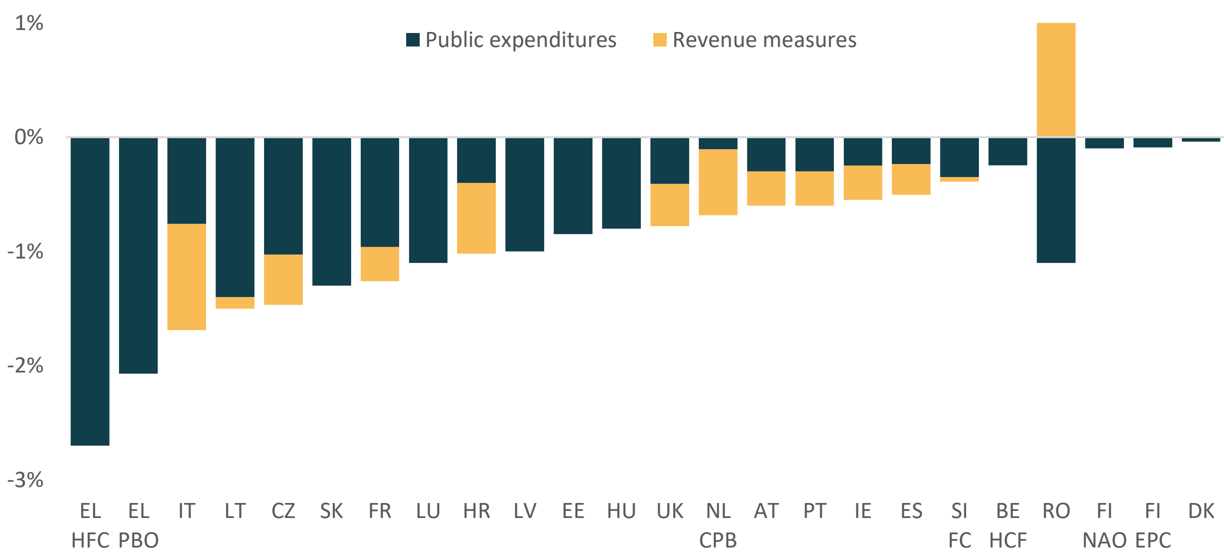
At the same time, monetary policy has shifted very quickly in Europe and globally. Central banks have raised interest rates in most countries. In the euro area, the ECB has signalled its intention to raise interest rates and end its asset purchase programme. This has contributed to a substantial increase in euro area benchmark bond yields to the highest level since 2014 and a widening of bond spreads across countries, although the high average maturity of debt in most countries will dampen any impact on interest costs.

4.2 The fiscal response to rising inflation

Nearly all countries have adopted discretionary fiscal measures to mitigate the impact of inflation on households and, to a lesser extent, businesses. In total, in 22 out of 24 countries[21], governments have adopted discretionary measures to shield the population and businesses from rising inflation. According to IFIs' estimations, additional discretionary measures undertaken to mid-June will cost, on average, about 1 % of GDP (see Figure 8). This figure could further increase if other new measures are adopted.

Greece is estimated to have the highest cost of additional discretionary measures in 2022 (about 2 to 3 % of GDP). It is followed by Italy and Lithuania which have adopted fiscal measures with a deficit impact of about 2 % of GDP. According to the latest projections, the impact of adopted measures on the deficit ranges from less than 0.1 % to 1.5 % of GDP in the remaining countries.

Figure 8. The size of adopted inflation-related fiscal measures (% of GDP)



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

Most adopted expenditure measures are short term (up to one year) and support both households and businesses. They comprise different kinds of direct and indirect subsidies to offset higher energy costs for households and (smaller) businesses as well as other transfers. These measures are financed with new debt or budget reallocations.

[21] AT, BE, CY, CZ, DK, EE, EL, EL, ES, FI, FI, FR, HR, HU, IE, IT, LT, LU, MT, NL, NL, PT, RO, SK, UK.

Moreover, 13 out of 22 countries[22] that adopted fiscal measures have adopted revenue measures. Similarly, to public expenditures, most of these measures are short-term and funded through new debt issuance. Most countries that adopted revenue measures have reduced or cancelled certain energy-related taxes and excise duties. Some governments have also reduced VAT charges on electricity, fuel or energy-saving materials. Moreover, in Romania, the national government has adopted a revenue-increasing measure, charging 80 % tax on additional income from the sale of electricity.

Some countries' governments have opted for regulatory interventions to limit energy costs, including price caps for energy, fuel and other not-energy related products.

Many governments have further initiated measures to stimulate energy efficiency measures and the production of energy through renewable energy sources.

Direct price indexation can play an important role in how government spending adjusts to inflation and 16 out of 26 surveyed national IFIs[23] report that their countries have automatic indexation in some form defined by legislation or by-laws. This implies a relatively direct impact of inflation on the public finances.

4.3 Fiscal risks related to adopted measures

Many national IFIs are concerned about potential fiscal risks stemming from persistently high inflation. Inflation poses potential risks to public finances in the short-, medium- and long-term. In total, 22 national IFIs[24] consider that persistent inflation of more than 2 % over the medium-term carries fiscal risks in their country in both the short and/or long-term. The remaining six surveyed national IFIs[25] saw no risks to public finances stemming from inflation at the time of survey preparation.

In the short-term, inflation can raise revenues by increasing the value of the tax base in nominal terms. However, it can also raise salaries in the public sector, as well as increase the prices of goods and services purchased by public administrations. More importantly, the large increase in energy and food prices creates pressures for the government to pursue measures to alleviate their impact on households' cost-of-living. With lower income and vulnerable households more exposed to higher energy and food prices due to the large share of their income they spend on these items, this creates additional spending pressures for the government to maintain the living standards of those supported by the tax and welfare system.

Higher inflation could impact growth and the public finances, either through higher uncertainty or lower real incomes. The tightening of monetary policy could also slow growth in the economy. Fiscal policy could also affect the demand response, including the second-round effects on wages and prices.

For the long-term, unexpected inflation is likely to reduce the debt-to-GDP ratios due to an increase in the GDP deflator but higher interest rates are likely to reduce this effect on debt dynamics. IFIs are concerned about the impact on the cost of borrowing and future debt service.

[22] AT, CZ, ES, FR, HR, IE, IT, LT, NL, PT, RO, SI, SK, UK.
[23] AT, BE, CY, EE, ES, FI EPC, FI NAO, FR, IT, LU, MT, NL CPB, RO, SI FC, SK, UK.
[24] BE, CY, CZ, EE, EL HFC, EL PBO, ES, FI NAO, FR, HR, IE, IT, LT, LU, LV, MT, NL CPB, PT, RO, SI FC, SK, UK.
[25] AT, BG, DK, FI EPC, HU, SE.

4.4 Assessment by the IFIs

Overall, national IFIs expressed some concerns about the discretionary measures used to offset inflation hikes. In total, nine out of 30[26] national IFIs surveyed raised concerns about discretionary measures adopted to offset inflation[27]. The main worries of most of them concerned poorly targeted measures to offset rising prices.

Around half of the national IFIs surveyed stated that their governments did not factor in continued higher inflation in their medium-term plans in the 2022 Stability/Convergence Programme[28], while 11 out of 30 IFIs surveyed[29] indicated that their government had considered higher inflation in the medium-term. After the outbreak of the war in Ukraine, some governments adjusted the Stability Programmes on Spring Forecasts to reflect higher inflation projections. For example, the Slovakian government's fiscal outlook included expenditure reserves designated to compensate the impact of higher inflation. Similarly, some national IFIs adjusted their scenario analyses to reflect the possible impact of inflation hikes due to increasing oil and gas prices, interest rate shocks and export demand shocks on real GDP, deficits and other macroeconomic variables. In turn, some national IFIs, such as in Malta, did not consider continued increases in inflation in the baseline scenario forecasts but conducted a risk assessment simulation instead.

Some national IFIs raised concerns over the treatment of inflation in the SCPs by governments[30]. According to at least three national IFIs, the uncertainty surrounding the prices of commodities was insufficiently considered, as well as whether the upward pressure on prices will go beyond government forecasts. The Italian national IFI endorsed the Stability Programme's forecasts, while stressing the importance of risks associated with the war in Ukraine and the evolution of the pandemic.

Overall, whereas some national IFIs expressed concerns about the discretionary measures taken by their governments to address inflation hikes, they are less concerned about the treatment of inflation in the SCPs. The responses from governments on the adjustment of medium-term inflation forecasts were mixed, with some governments adapting their budget forecasts, while others flagged the risks associated with the inflation surge but left the projections as they were.

[26] CY, DK, EL PBO, IE, IT, LT, NL CPB, NL RVS, SK.
[27] For the United Kingdom, Romania, France and Finland (EPC), this question was not applicable to their IFI since it is either beyond their mandate or for other reasons.
[28] BG, CY, DK, ES, FI EPC, EL PBO, IT, LU, NL CPB, RO, SE.
[29] AT, BE HCF, CZ, EE, FI NAO, EL HFC, IE, LT, LV, MT, SK.
[30] EE, IE, IT, LV.

5 The impact on IFI activities

Covid-19 and the sharp rise in inflation have affected the activities of national IFIs. Most national IFIs (21 out of 30)[31] are facing 'important' or 'very important' challenges in executing their tasks in 2022 (see Figure 9). The four main challenges cited by the national IFIs are outlined below.

First, uncertainty about the pandemic, the rise in inflation, the slowdown of the economy, and global supply shocks complicate the endorsement/assessment of the macroeconomic and budgetary projections. The war in Ukraine has been identified as a main source of uncertainty by 13 out of 19 respondents[32]. The uncertainty mainly relates to evaluating fiscal rules, forecasts and the fiscal stance of the government, as well as a highly uncertain environment with regard to government decisions and inflation.

Second, access to data has been a significant challenge for seven national IFIs[33]. New and recent data are crucial for national IFIs to assess the expected and actual budgetary impact. For example, Covid-19-related fiscal measures and the consistency of the budgetary forecasts against the macroeconomic scenario and underlying policy measures. Better data-sharing arrangements are required to improve the exchange of information between IFIs and national governments in these countries.

Third, a lack of clarity about adopted measures from national and/or EU authorities formed an important obstacle to the work of 12 national IFIs[34]. National IFIs state that changes in national fiscal policies as a result of Covid-19 developments and the geopolitical tensions, presidential elections in France and uncertainty on the future fiscal framework contributed to the lack clarity from national and EU authorities. National IFIs also note that there is insufficient transparency on the costings of major measures over the medium-term, national budget rules, and assumed costs of Covid-19 schemes beyond their expiration date.

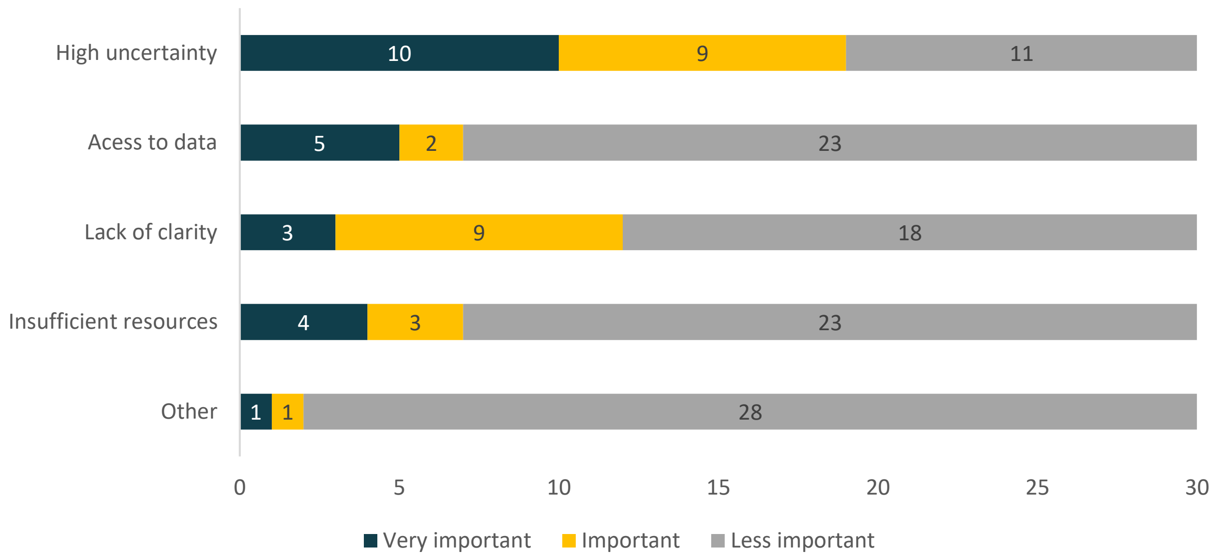
Fourth, insufficient resources have formed a significant challenge for seven national IFIs.[35] The resources available to IFIs differ widely and an increased workload has raised the pressure on all of them, but especially on those whose resources were already limited before Covid-19. Some constraints included a lack of human resources and delays in recruitment processes due to legal restrictions.

National IFIs also indicated further obstacles, including operational challenges with setting up the national IFIs in Croatia and organisational challenges caused by the shift to teleworking in Portugal.

While the EU's 'general escape clause' has been important to manage the consequences of the Covid-19 pandemic, its extension into 2023 considering the geopolitical tensions reduces emphasis on the fiscal rules. The role of many national IFIs in monitoring the public finances could be limited, thereby increasing the possibility that governments will undertake policies that negatively impact fiscal sustainability. Finally, being able to define a medium-term strategy has become more challenging for the national IFIs.

[31] AT, BE, CY, CZ, ES, FI, FR, HR, HU, IE, IT, LT, LU, MT, NL CPB, NL RvS, PT, RO, SI FC, SI IMAD, SK, UK.
[32] BE, CZ, ES, FI, IT, LT, LU, MT, NL CPB, NL RvS, PT, SI IMAD, SK.
[33] Important: ES, LT; Very important: CY, IE, LU, SI FC, RO.
[34] Important: CY, ES, FR, LT, LU, NL CPB, NL RvS, SI, PT; Very important: AT, SI FC, RO.
[35] Important: IE, LT, SI IMAD; Very important: BE, CY, HR, RO.

Figure 9. Challenges faced by IFIs in the execution of their work in 2022 (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 2022?', to which 20 out of 29 respondents replied positively.
Source: The Network of EU Independent Fiscal Institutions (2022).

Annex - Country factsheets

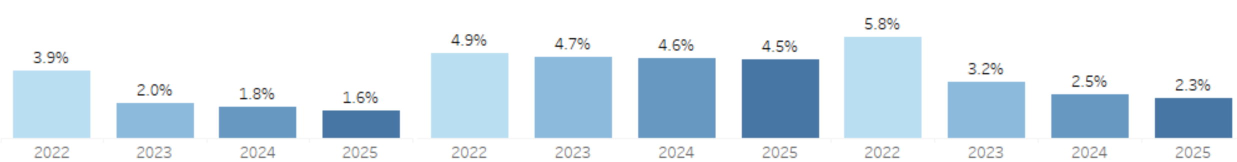
NOTE

Country factsheets provide a concise and comprehensive overview of the key fiscal indicators and fiscal response to the high inflation levels, 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 2022 and 2026, ii) projected unemployment rates between 2022 and 2026, iii) projected inflation between 2022 and 2026, iv) general government deficit and gross public debt on the Maastricht basis between 2022 and 2026, v) the size of the adopted fiscal stimulus in response (expenditures and revenues) to the high inflation.

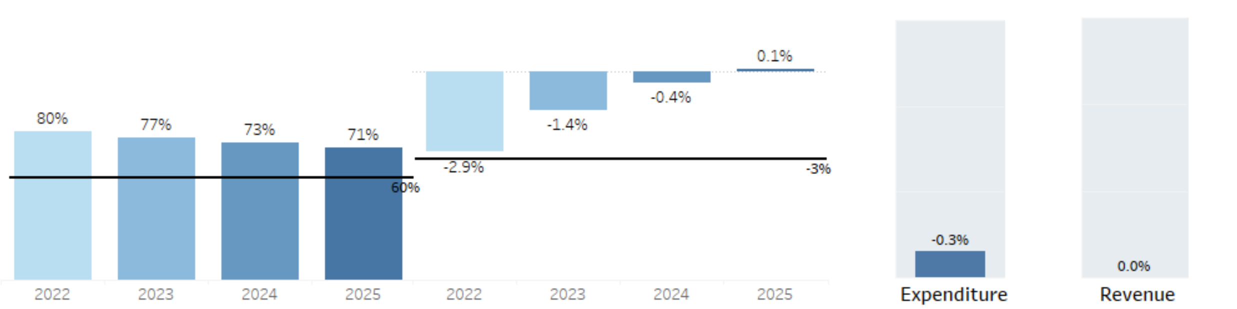
Austria

Fiskalrat

Real GDP growth (%) | Unemployment (%) | Inflation (% of GDP)



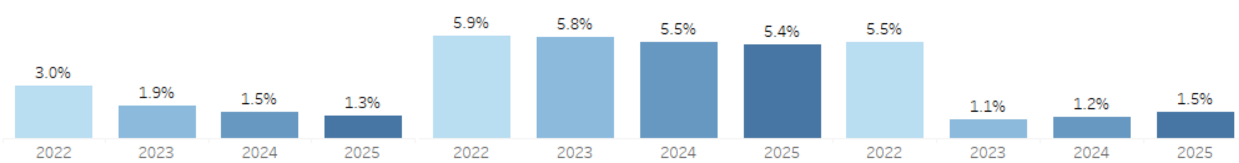
Gross public debt (% of GDP) | General government balance (% of GDP) | Inflation-related measures (% of GDP)



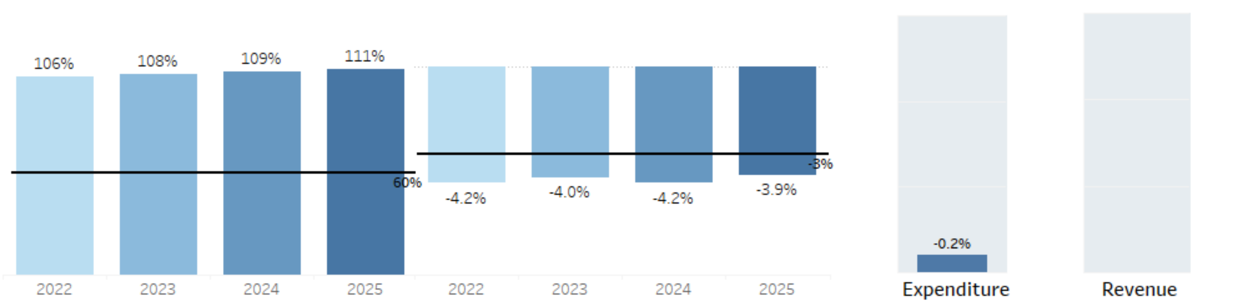
Belgium

Federal Planning Bureau / High Council of Finances

Real GDP growth (%) | **Unemployment (%)** | **Inflation (% of GDP)**



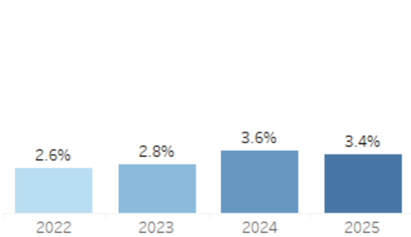
Gross public debt (% of GDP) | **General government balance (% of GDP)** | **Inflation-related measures (% of GDP)**



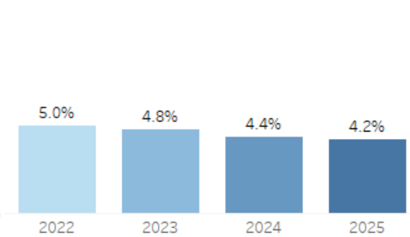
Bulgaria

Bulgarian Fiscal council

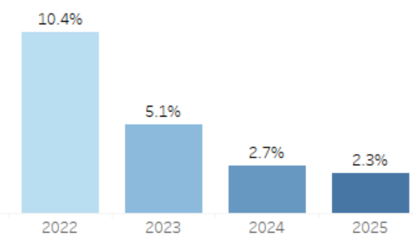
Real GDP growth
(%)



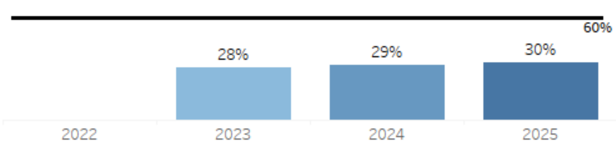
Unemployment
(%)



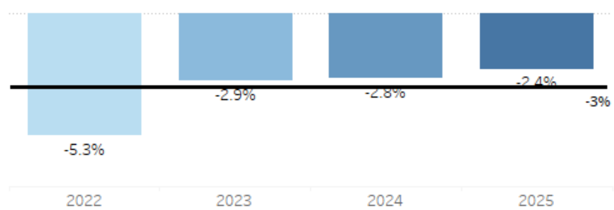
Inflation
(% of GDP)



Gross public debt
(% of GDP)



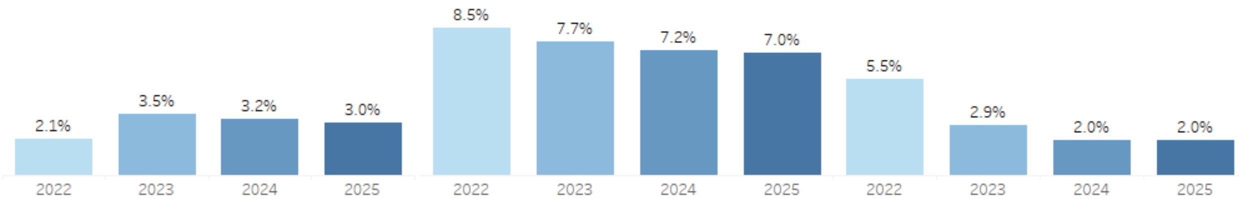
General government balance
(% of GDP)



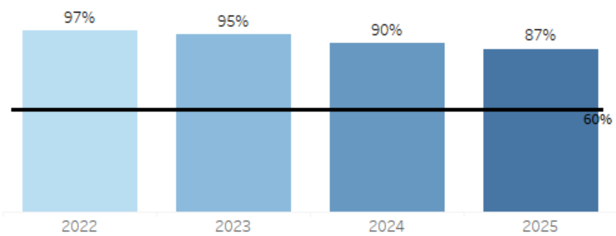
Cyprus

Cyprus Fiscal Council

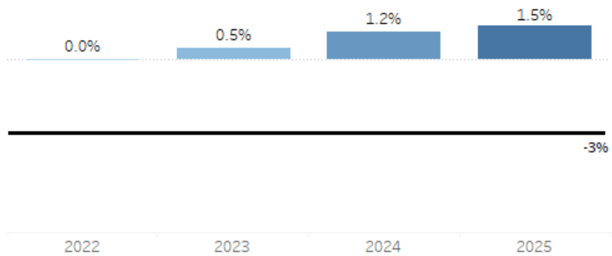
Real GDP growth (%) | **Unemployment (%)** | **Inflation (% of GDP)**

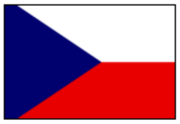


Gross public debt (% of GDP)



General government balance (% of GDP)

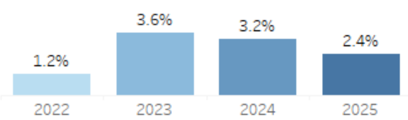




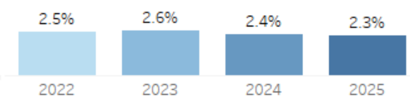
Czech republic

National Fiscal Council

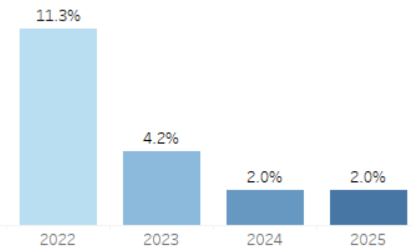
Real GDP growth
(%)



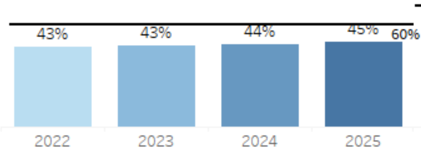
Unemployment
(%)



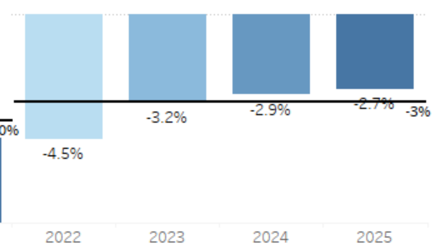
Inflation
(% of GDP)



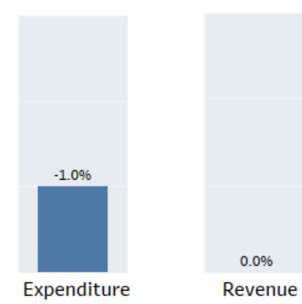
Gross public debt
(% of GDP)



General government balance
(% of GDP)



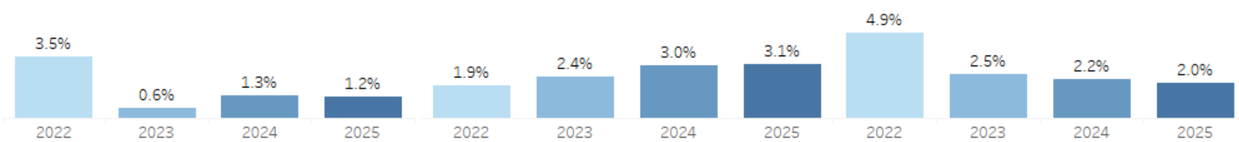
Inflation-related measures
(% of GDP)



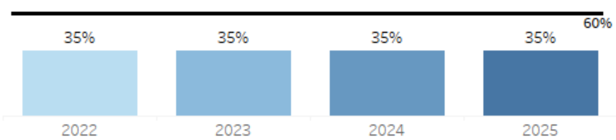
Denmark

Danish Economic Council

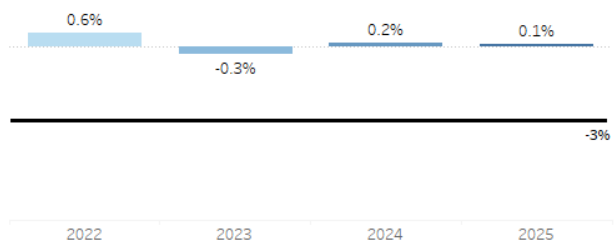
Real GDP growth (%) | **Unemployment** (%) | **Inflation** (% of GDP)



Gross public debt (% of GDP)



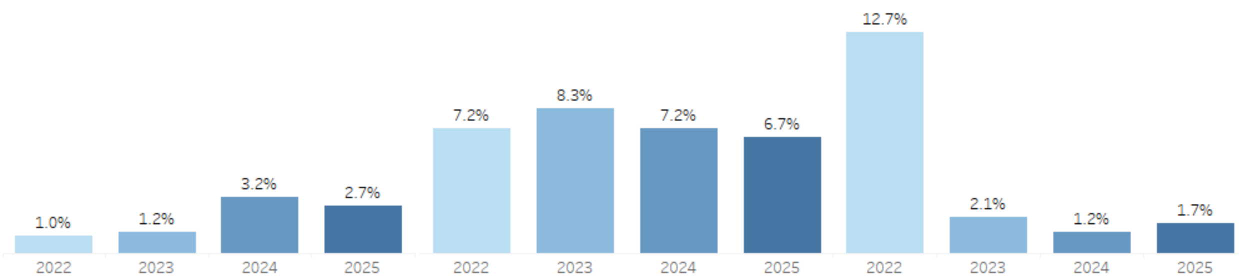
General government balance (% of GDP)



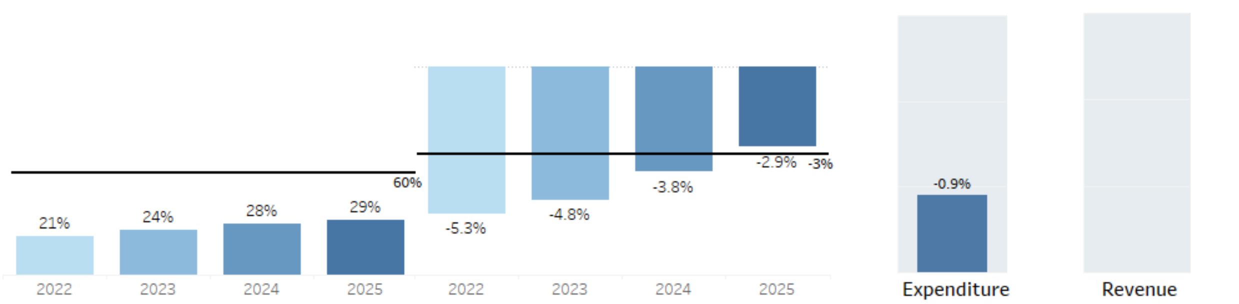
Estonia

Estonian Fiscal Council

Real GDP growth (%) | **Unemployment (%)** | **Inflation (% of GDP)**



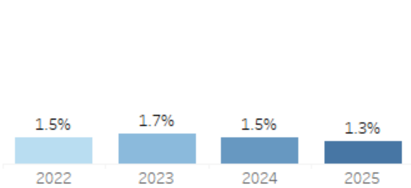
Gross public debt (% of GDP) | **General government balance (% of GDP)** | **Inflation-related measures (% of GDP)**



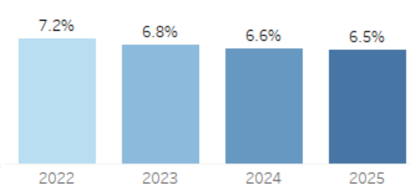
Finland

Economic Policy Council

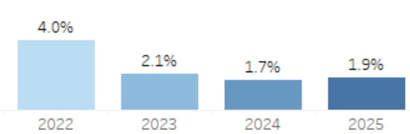
Real GDP growth
(%)



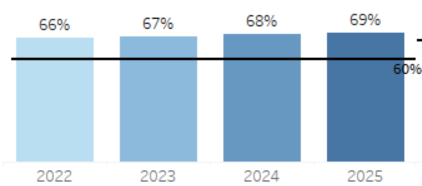
Unemployment
(%)



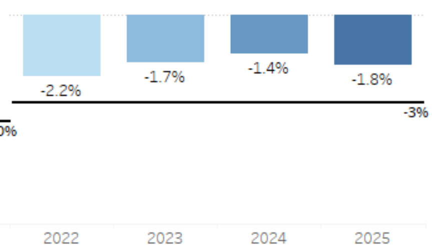
Inflation
(% of GDP)



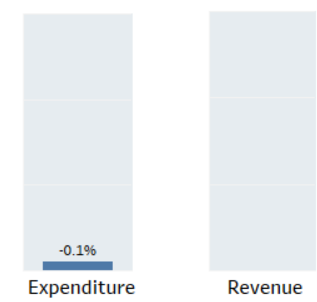
Gross public debt
(% of GDP)



General government balance
(% of GDP)



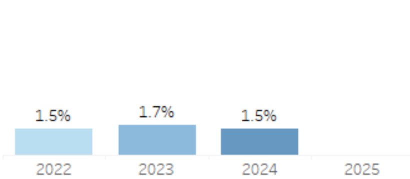
Inflation-related measures
(% of GDP)



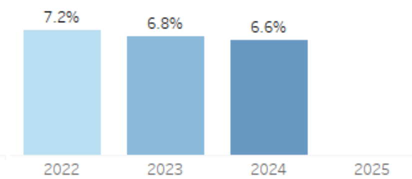
Finland

National Audit Office

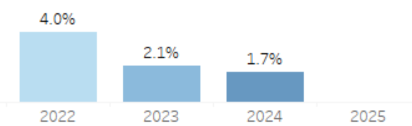
Real GDP growth (%)



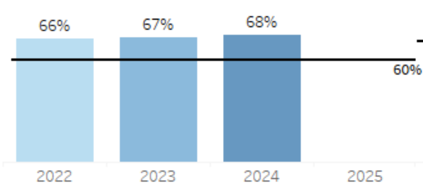
Unemployment (%)



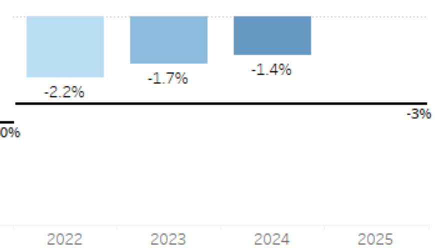
Inflation (% of GDP)



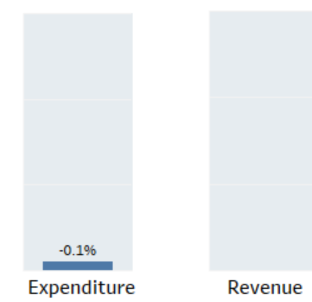
Gross public debt (% of GDP)



General government balance (% of GDP)



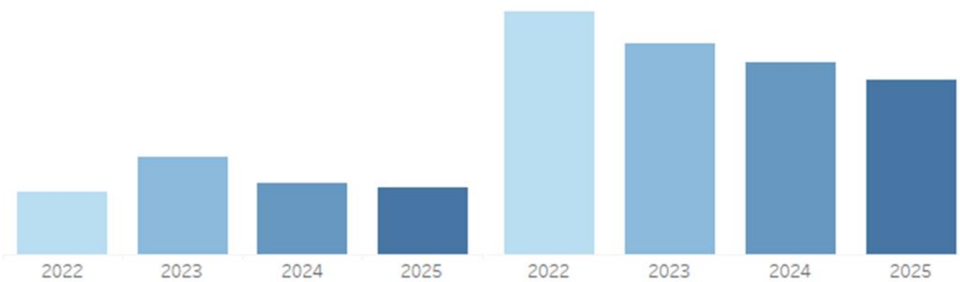
Inflation-related measures (% of GDP)



Greece

Hellenic Fiscal Council

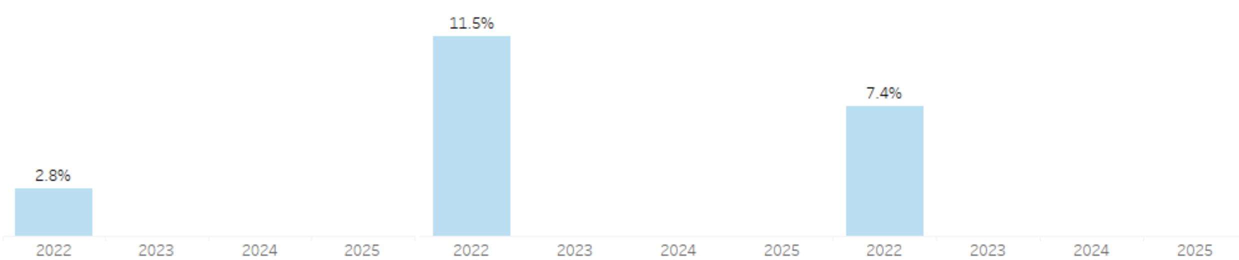
Real GDP growth (%) **Unemployment (%)**



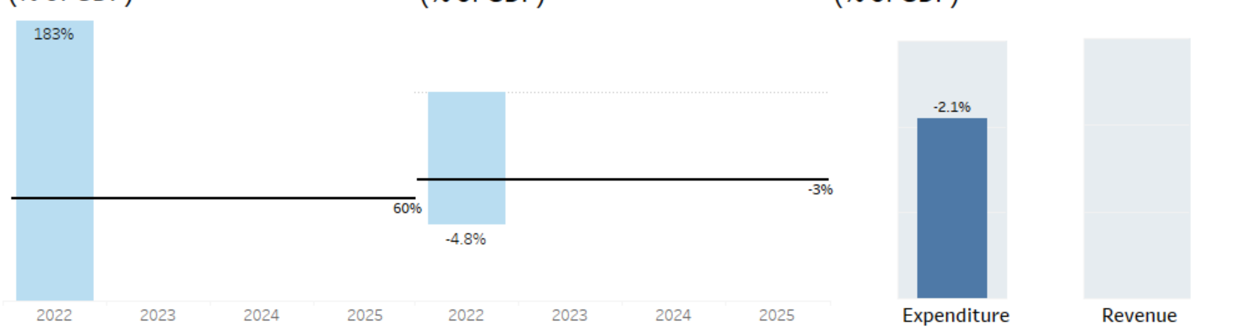
Greece

Parliamentary Budget Office

Real GDP growth (%) **Unemployment (%)** **Inflation (% of GDP)**

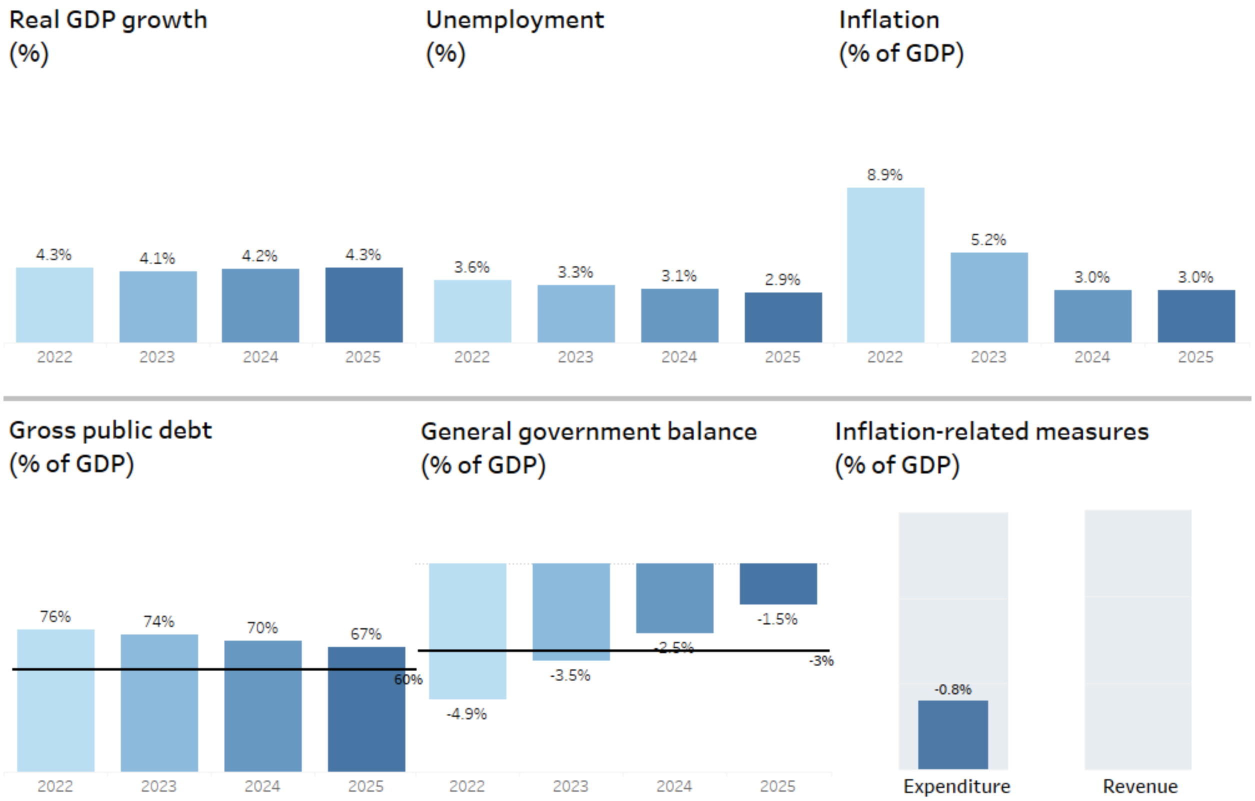


Gross public debt (% of GDP) **General government balance (% of GDP)** **Inflation-related measures (% of GDP)**



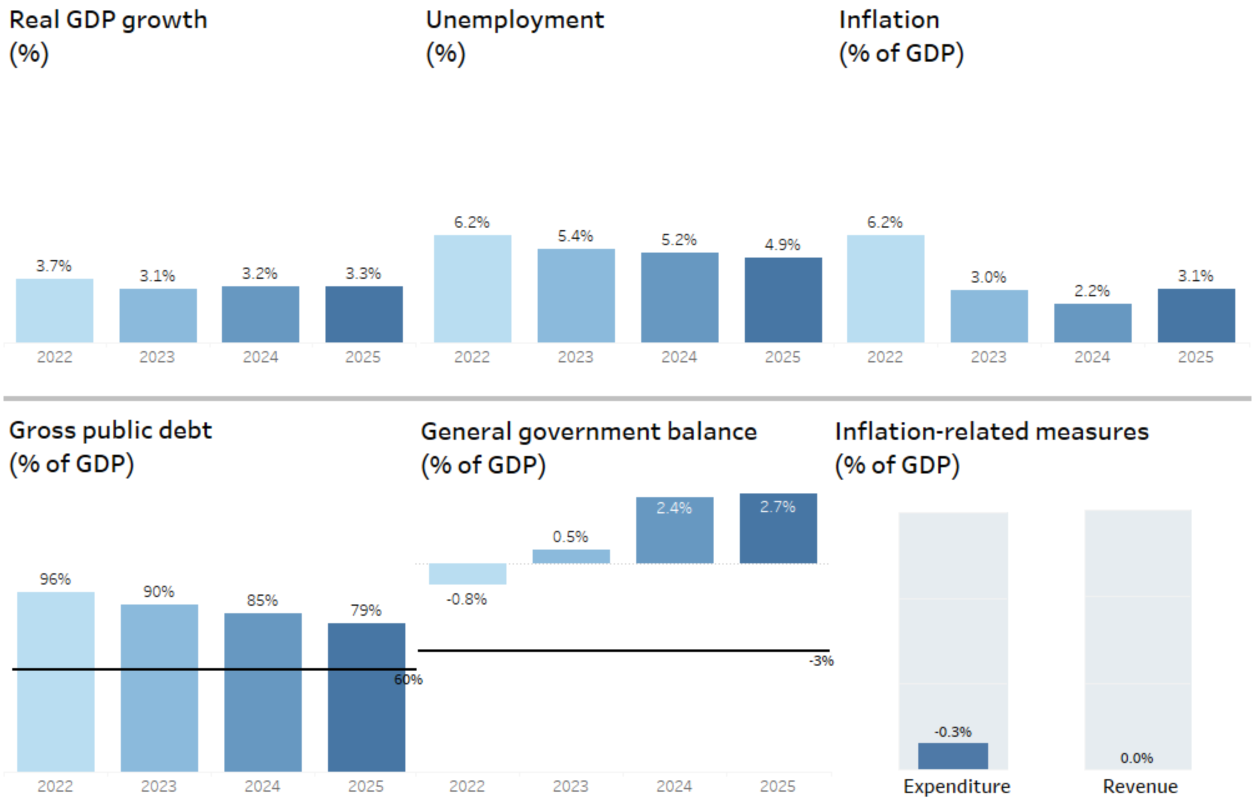
Hungary

Fiscal Council of Hungary



Ireland

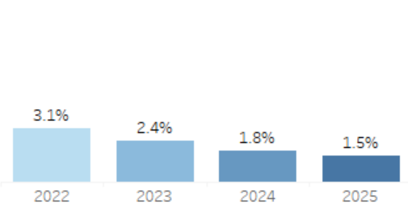
Irish Fiscal Advisory Council



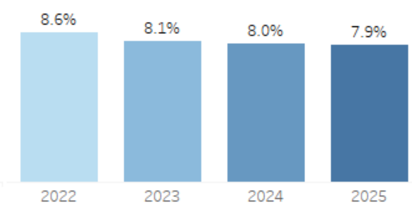
Italy

Parliamentary Budget Office

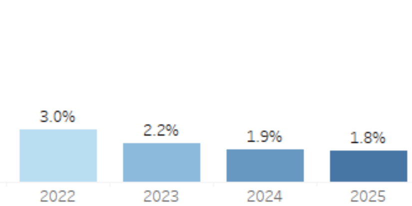
Real GDP growth
(%)



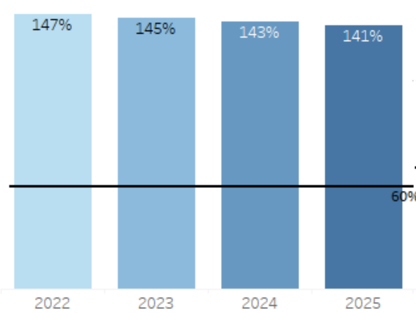
Unemployment
(%)



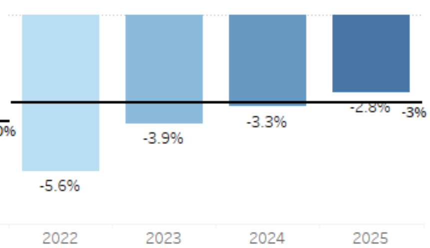
Inflation
(% of GDP)



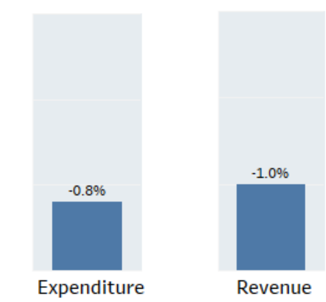
Gross public debt
(% of GDP)



General government balance
(% of GDP)



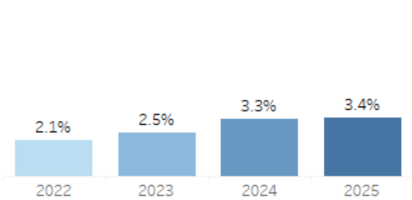
Inflation-related measures
(% of GDP)



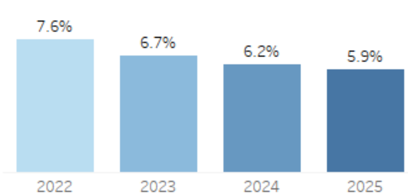
Latvia

Fiscal Discipline Council

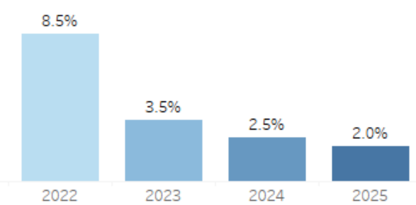
Real GDP growth
(%)



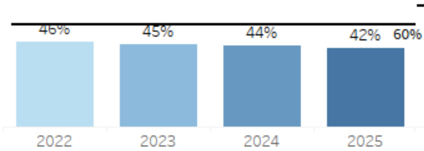
Unemployment
(%)



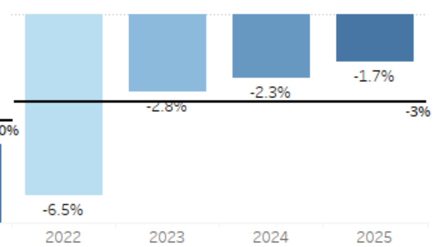
Inflation
(% of GDP)



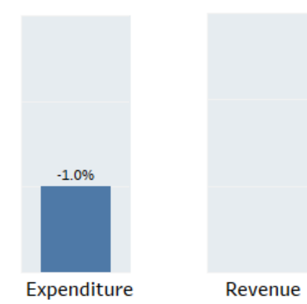
Gross public debt
(% of GDP)



General government balance
(% of GDP)



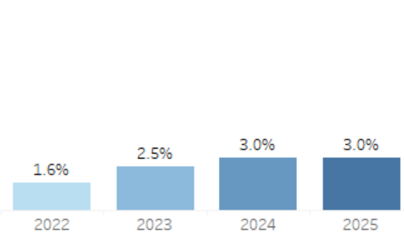
Inflation-related measures
(% of GDP)



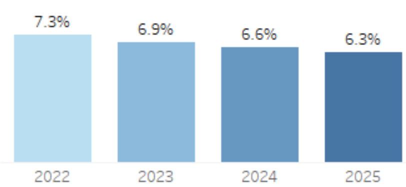
Lithuania

National Audit Office

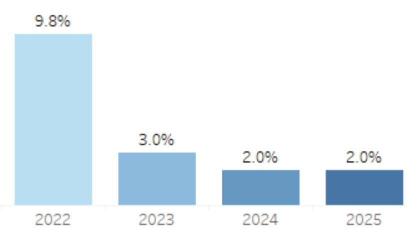
Real GDP growth (%)



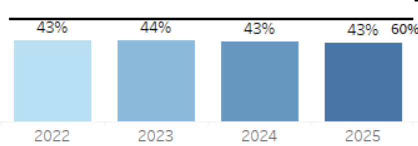
Unemployment (%)



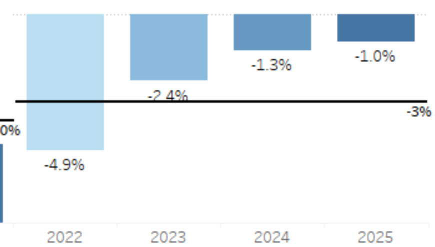
Inflation (% of GDP)



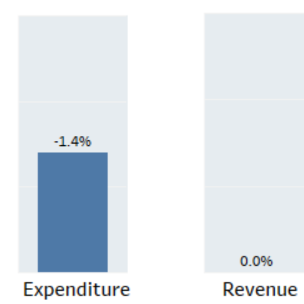
Gross public debt (% of GDP)



General government balance (% of GDP)



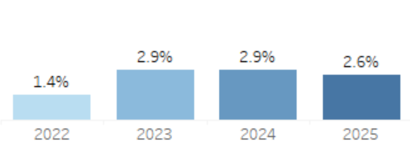
Inflation-related measures (% of GDP)



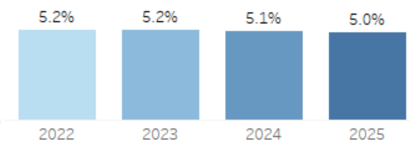
Luxembourg

National Council of Public Finances

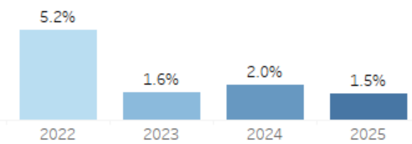
Real GDP growth
(%)



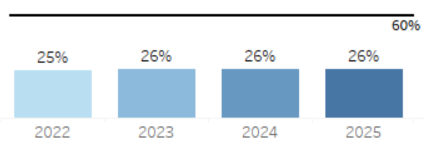
Unemployment
(%)



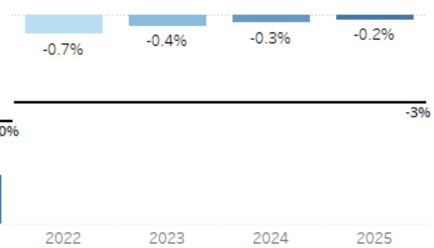
Inflation
(% of GDP)



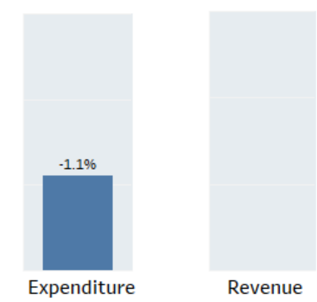
Gross public debt
(% of GDP)



General government balance
(% of GDP)



Inflation-related measures
(% of GDP)



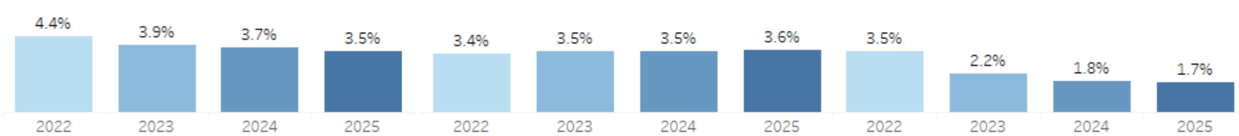
Malta

Malta Fiscal Advisory Council

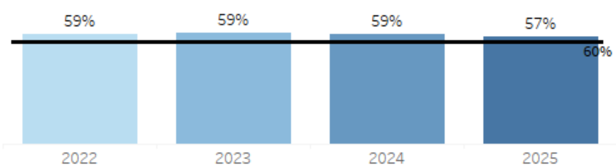
Real GDP growth (%)

Unemployment (%)

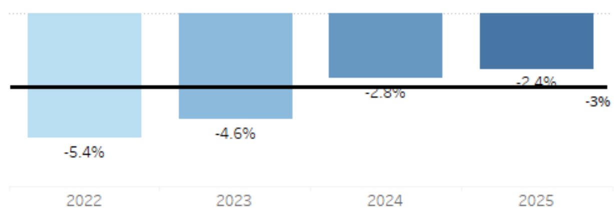
Inflation (% of GDP)



Gross public debt (% of GDP)



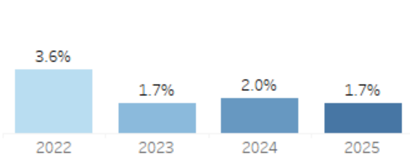
General government balance (% of GDP)



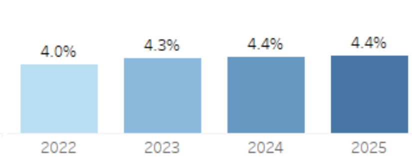
Netherlands

CPB Bureau for Economic Policy Analysis / Dutch Council of State

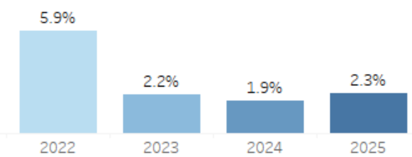
Real GDP growth
(%)



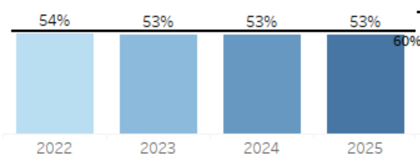
Unemployment
(%)



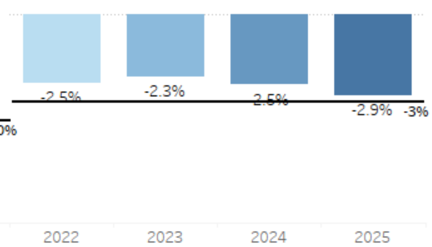
Inflation
(% of GDP)



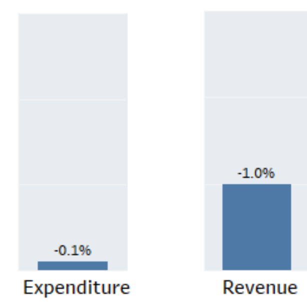
Gross public debt
(% of GDP)



General government balance
(% of GDP)



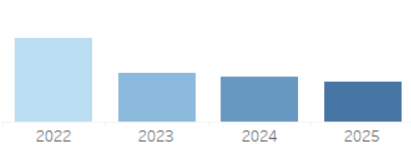
Inflation-related measures
(% of GDP)



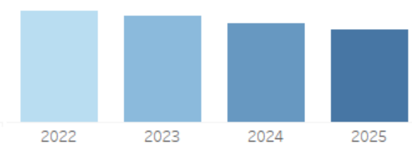
Portugal

Portuguese Public Finance Council

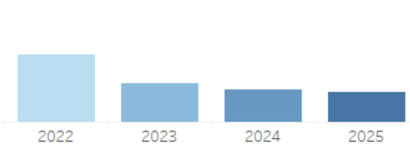
Real GDP growth
(%)



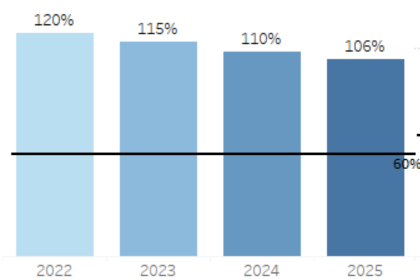
Unemployment
(%)



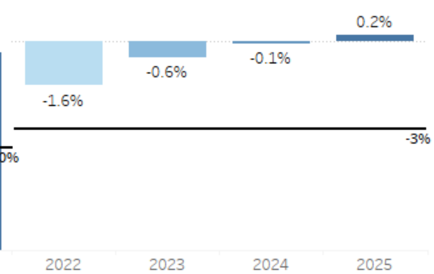
Inflation
(% of GDP)



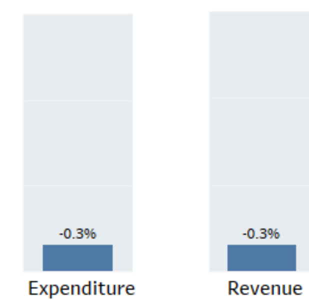
Gross public debt
(% of GDP)



General government balance
(% of GDP)



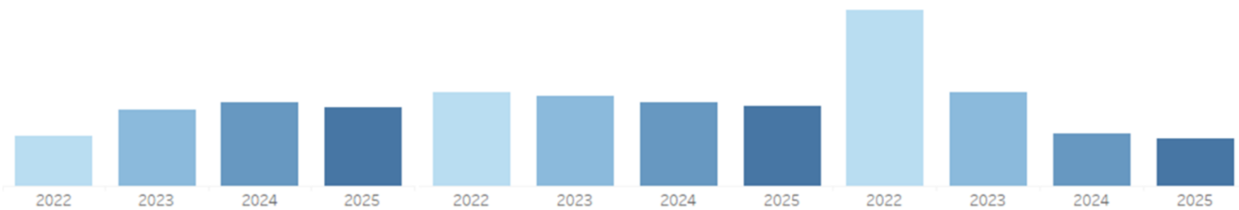
Inflation-related measures
(% of GDP)



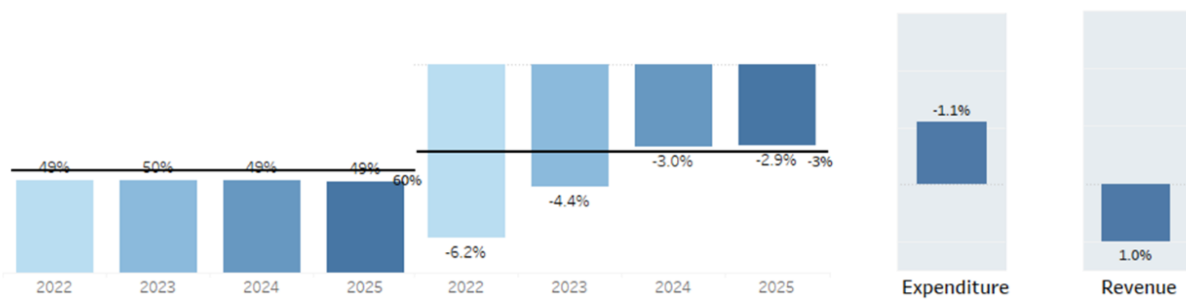
Romania

Romanian Fiscal Council

Real GDP growth (%) | **Unemployment** (%) | **Inflation** (% of GDP)



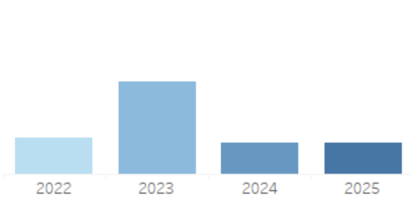
Gross public debt (% of GDP) | **General government balance** (% of GDP) | **Inflation-related measures** (% of GDP)



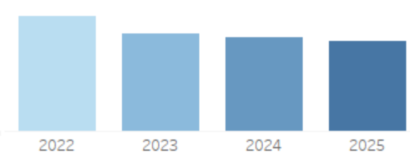
Slovakia

Council for Budget Responsibility

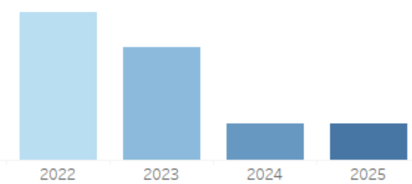
Real GDP growth
(%)



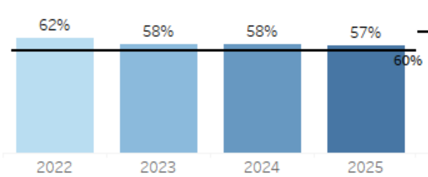
Unemployment
(%)



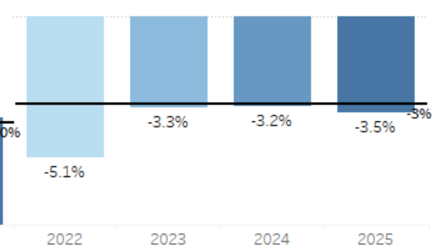
Inflation
(% of GDP)



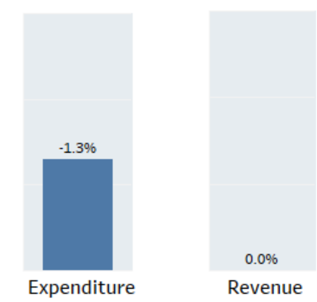
Gross public debt
(% of GDP)



General government balance
(% of GDP)



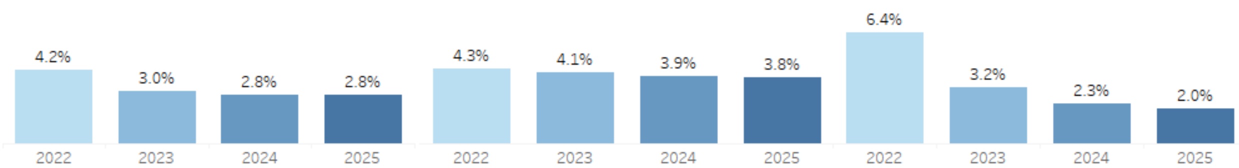
Inflation-related measures
(% of GDP)



Slovenia

Institute of Macroeconomic Analysis and Development

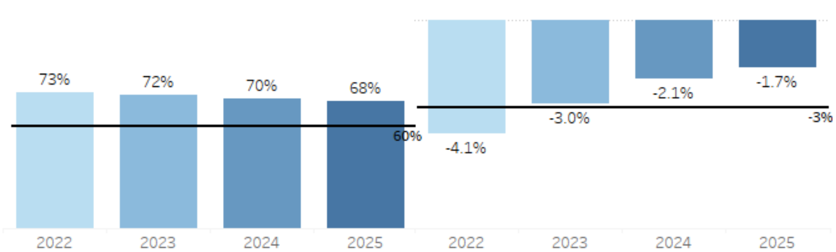
Real GDP growth (%) | **Unemployment (%)** | **Inflation (% of GDP)**



Slovenia

Slovenian Fiscal Council

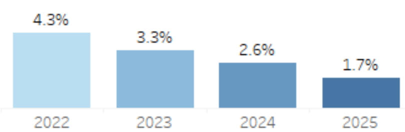
Gross public debt (% of GDP) | **General government balance (% of GDP)**



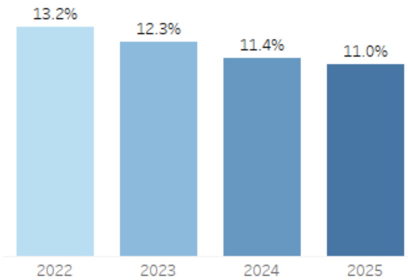
Spain

Independent Authority for Fiscal Responsibility

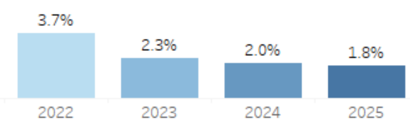
Real GDP growth (%)



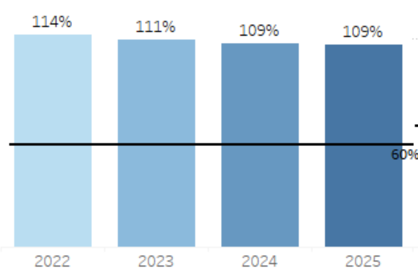
Unemployment (%)



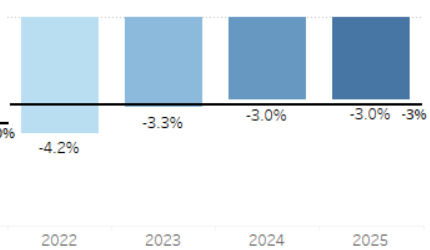
Inflation (% of GDP)



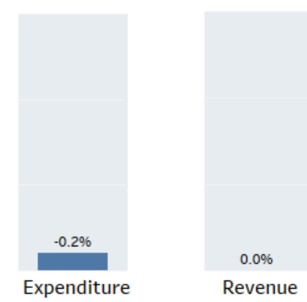
Gross public debt (% of GDP)



General government balance (% of GDP)



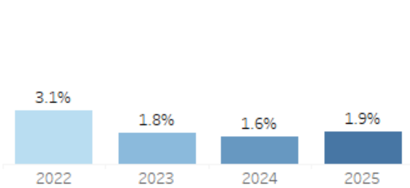
Inflation-related measures (% of GDP)



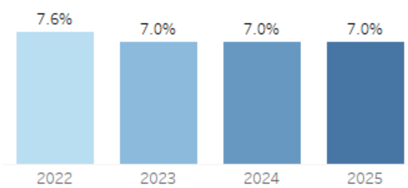
Sweden

Swedish Fiscal Policy Council

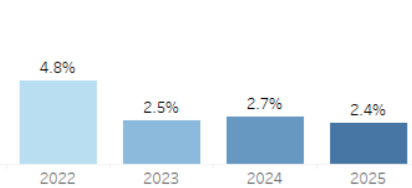
Real GDP growth (%)



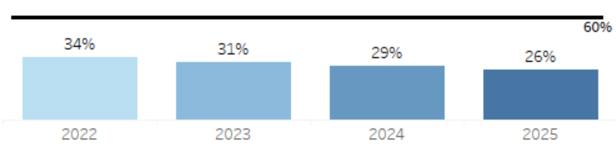
Unemployment (%)



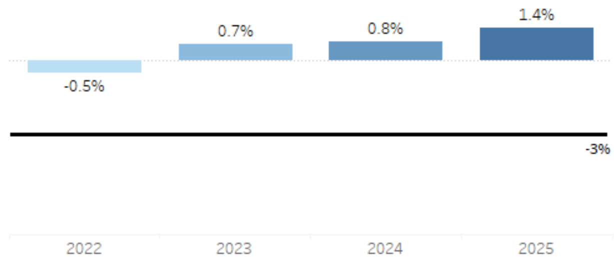
Inflation (% of GDP)



Gross public debt (% of GDP)



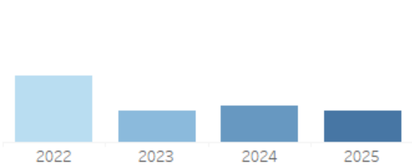
General government balance (% of GDP)



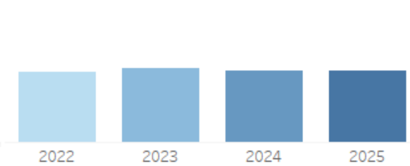
United Kingdom

Office for Budget Responsibility

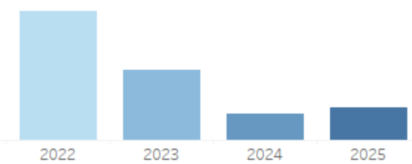
Real GDP growth
(%)



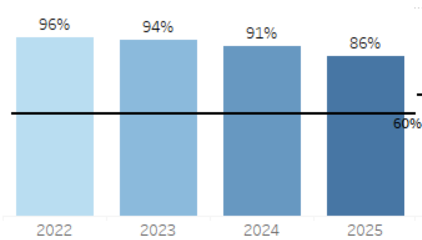
Unemployment
(%)



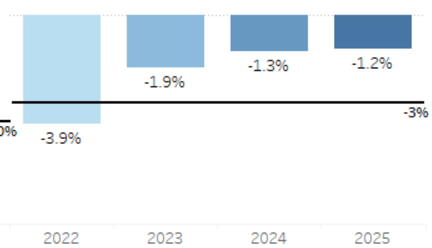
Inflation
(% of GDP)



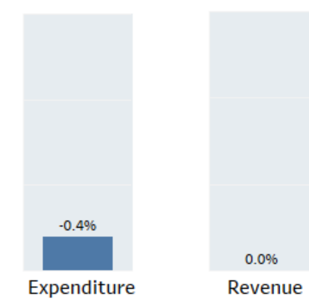
Gross public debt
(% of GDP)



General government balance
(% of GDP)



Inflation-related measures
(% of GDP)



The Network of EU Independent Fiscal Institutions

The Network is composed of 32 independent fiscal institutions representing 26 EU countries and the UK. It is a voluntary and inclusive organisation, open to all independent fiscal oversight bodies operating in the EU. It provides a platform to exchange views and expertise and to pool resources in areas of common concern. The Network supports the 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 the website: www.euifis.eu.

EU INDEPENDENT
FISCAL INSTITUTIONS