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An Assessment of the Euro Area Fiscal Stance since the Pandemic

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Abstract

This Economic Brief analyses the euro area fiscal stance since 2020, i.e. the impulse that national budgets and the EU budget have been providing to the euro area economy since the pandemic. Overall, the euro area fiscal stance was highly supportive in 2020-2023, during the COVID-19 and the energy crises, while it is forecast to turn contractionary in 2024 and, under unchanged policies, neutral in 2025. The fiscal stance estimates are based on the Commission 2024 spring forecast. For 2025, in an alternative to the no-policy-change forecast, illustrative results are also presented, assuming that Member States will follow a fiscal adjustment needed to keep their public debt on a sustainable path and bring or keep deficit below the reference value, as defined in the context of the new EU fiscal framework. Under this 'normative approach', the euro area fiscal stance would be contractionary in 2025, ranging from around ¼ % to around ½ % of GDP. Such a contractionary fiscal stance is considered to be broadly appropriate, from a debt sustainability standpoint but also with a view to supporting monetary policy in lowering inflation. The fiscal stance factors in the impulse from the EU budget, which currently includes the Recovery and Resilience Facility, created in the wake of the pandemic to support the recovery of the EU economy through high quality spending and reforms.

JEL Classification: E61, E62, H50.

Keywords: Fiscal policy coordination, fiscal rules, fiscal stance, inflation, business cycles, automatic stabilisers, fiscal forecast, sovereign debt sustainability, euro area.

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INTRODUCTION

The appreciation of the role of discretionary fiscal policy has evolved over recent years. Traditional economic literature[1] suggests that the discretionary stabilisation of the economic cycle should be left to monetary policy, and that fiscal policy should instead pursue spending programmes and tax policies to provide public goods and enhance the welfare of citizens, while keeping public debt on a sustainable trajectory in the medium term.[2] Under such an approach, a neutral fiscal policy provides for a countercyclical effect thanks to the work of automatic stabilisers, which reduce/increase headline budget balances in periods of cyclical downswings/upswings. However, as the stabilisation role of monetary policy became constrained when interest rates reached the effective lower bound, like in the euro area in the wake of the sovereign debt crisis, discussions took place about a possible stronger role for fiscal policy in the stabilisation of the economic cycle. Moreover, monetary policy takes time to impact the economy and, in the case of exceptionally large shocks, discretionary fiscal policy is quicker and more effective in supporting public and private spending. For these reasons, fiscal policy has taken on a role of greater importance in recent years, when it has become increasingly clear that fiscal and monetary policy need to work together in case of large shocks, although preserving sound fiscal positions and building buffers remains key to ensure that fiscal policy could continue to play such a role if needed.

This Economic Brief covers the fiscal stance in the euro area over 2020-2025. It analyses the 2020-2023 period, when expansionary discretionary fiscal policies were implemented to stabilise the economy during two large shocks, namely the COVID-19 pandemic and the energy crisis, and discusses the scenarios for the 2024-2025 period. In the absence of large fiscal policy instruments at the central level, the euro area aggregate fiscal stance is mainly a mechanical concept, resulting from the weighted average of the individual country stances, though since 2021 the EU budget has been contributing to economic recovery through public investment and other growth-enhancing spending financed by RRF grants.

This Economic Brief analyses the euro area fiscal stance based on developments in primary expenditure in euro area Member States – also financed by RRF grants and other EU funds – relative to 10-year average potential output growth. The fiscal stance methodology used by the Commission services is explained at the beginning of this paper. The Economic Brief continues by outlining the economic growth and inflation outlook for the euro area. An analysis of the euro area fiscal stance and its main components since 2020 is then provided, followed by a more granular picture of the fiscal stance at country level. This is centred on developments in primary expenditure, with specific attention to net primary current expenditure, which nets out discretionary revenue measures. Finally, while fiscal stance estimates are based on the no-policy-change Commission forecast, for 2025 two alternative illustrative results are also presented, taking into account Member States' fiscal adjustment needs in the context of the new EU fiscal framework.

[1] "(…) unpleasant monetarist arithmetic of Sargent and Wallace (1981); the ineffectiveness of fiscal policy (Ricardian equivalence) and the deep scepticism about fiscal fine tuning (tax smoothing) of Barro (1974, 1979); the costs of discretionary policy from Kydland and Prescott (1977), Calvo (1978) and Barro and Gordon (1983); the benefits of an independent conservative central banker from Rogoff (1985); as well as a generalised turn in the academic profession, viewing financial markets as able to self-regulate and deliver an efficient allocation of resources" (Buti and Corsetti, 2024, p. 3).

[2] This thinking was fully reflected in the Maastricht Treaty, where price stability in the euro area was designated as the goal of an independent monetary policy under the responsibility of the ECB, while fiscal policy remained under the responsibility of Member States. Horizontal fiscal policy coordination and surveillance was introduced via the Stability and Growth Pact (SGP).

FISCAL STANCE DEFINITION

The fiscal stance is measured by Commission services as the net expenditure developments relative to medium-term potential output growth. This differential is expressed as a percentage of GDP, also to ensure comparability with the measure expressed in terms of change in structural (primary) balance. The Commission services compute the fiscal stance using discretionary fiscal effort (Carnot and de Castro, 2015). This largely corresponds to the impulse stemming from the policy action under the government's control, which is defined as follows:

$$Fiscal\ stance_t = \frac{E_t - \Delta RM_t - (1 + Pot_t) * (1 + \pi_t) * E_{t-1}}{Y_t}$$

where Pot indicates the 10-year average potential growth; π is inflation measured by the GDP deflator; ΔRM_t stands for the incremental budgetary impact of permanent discretionary revenue measures; Y_t is nominal GDP and E_t is the primary expenditure aggregate computed as follows:

$$E_t = G_t - I_t - U_t - \ one_{offs}{}_t^G$$

Where G_t is general government total expenditure, including expenditure financed by RRF grants and EU funds; U_t the cost of (cyclical) unemployment benefits; I_t is interest expenditure; $one_{offs}{}_t^G$ is one-off government expenditure measures.[3] This measure of the fiscal stance departs from the conventional measure of the fiscal stance (or fiscal impulse) used by other institutions, which generally refer to the change in the cyclically adjusted (or structural) primary balance[4] (ECB, 2016, European Fiscal Board, 2020). The fiscal stance based on net expenditure developments overcomes the criticisms of the change in the structural primary balance as a measure of the fiscal effort, as the latter includes "*non-policy factors that may be correlated with other developments affecting economic activity* (and)…*may reflect deliberate policy responses to other developments affecting the economic outlook*" (Guajardo et al., 2011). It is also more convincing than the 'narrative approach' (see for instance Alesina and Ardagna, 2010; Guajardo et al., 2011), which looks only at new fiscal measures while neglecting the relevance of past discretionary policy on today's fiscal stance. The approach proposed in this paper combines features of the bottom-up approach on the revenue side – identifying fiscal measures that affects the revenue-to-GDP ratio, with a top-down approach on the expenditure side, which compare the primary expenditure growth that results from past and new discretionary policies with (10-year average) potential output growth.

This fiscal stance definition is consistent with the new fiscal governance framework. The methodology used to estimate the fiscal stance is based on the single operational indicator that is now used in the revised EU fiscal rules. The net expenditure indicator considers budgetary items that are largely under governments' control and are not affected by the economic cycle, i.e. primary expenditure (and main components) developments relative to potential output growth, net of cyclical unemployment benefits and discretionary revenue measures.

There are other channels by which the general government budget interacts with the economy beyond the fiscal stance. They include: i) the channel of automatic stabilisers, i.e. the growth of net expenditure in line with medium-term potential output growth that "automatically"

[3] For more details on the classification of one-off measures see: Report on Public Finances in EMU 2015 (europa.eu).

[4] See for a survey of the top-down approaches to compute the fiscal stance IMF(1995) while for a brief overview of the top-down and bottom-up approaches European Fiscal Board(2020).

provides buffers to domestic demand irrespective of cyclical developments on the revenue side;[5] ii) revenue windfalls / shortfalls that is the increase / decrease in the revenue-to-GDP ratio which is not explained by discretionary measures or transfers from the EU budget; and iii) the channel of the cost of servicing public debt.

For the period 2020-2023, the annual profile of the fiscal stance does not include COVID-19 temporary emergency measures. The Commission's indicator excludes the COVID-19 temporary emergency measures, which are not considered one-offs. In the euro area, the budgetary cost of COVID-19 temporary emergency measures is estimated at 3.3% of GDP in both 2020 and 2021 and 0.7% in 2022. These pandemic-related measures were phased out in 2023, therefore their inclusion in the indicator would only affect the annual profile of the fiscal stance in 2020-2023 but not the cumulative fiscal stance over that period.[6] Governments implemented those measures to keep households, workers and firms afloat. They are not included in the net expenditure aggregate used to measure the fiscal stance:

$$E_t = G_t - I_t - U_t - \text{ COVID19} - \; one_{offs}{}_t^G$$

In fact, the introduction and subsequent withdrawal of COVID-19 temporary emergency measures distorted the picture of fiscal policy's impact on the economy. Specifically, the timing of their expansionary/contractionary impact on the economy did not necessarily correspond to the years in which they were introduced/removed. Pandemic restrictions rendered it impossible to produce and spend in various economic sectors during the pandemic, notably contact services, which led to a dramatic increase in the euro area household savings rate in 2020-2021. Moreover, short-time work schemes constituted a significant part of expenditure on emergency measures. By supporting firms to retain employees, these schemes ensured much lower cyclical unemployment benefits were paid, which would also have been excluded from the net expenditure aggregate calculated for the fiscal stance. By contrast, the measures introduced to alleviate the impact of the energy price shock on households and firms (Table A1) are included in the fiscal stance as their impact on aggregate demand was immediate.

ECONOMIC OUTLOOK

Euro area economic activity is set to accelerate in 2025.[7] Based on the Commission 2024 spring forecast, after just 0.4% growth in 2023, real GDP is expected to increase by 0.8% in 2024 and 1.4% in 2025, based on unchanged policies (Graph 1). The first quarter of 2024 already witnessed a broad-based return to growth in the euro area, after five quarters of stagnation. The conditions for a slow but stable expansion of economic activity in the euro area over the forecast horizon appear to be in place. Private consumption would be boosted by rising real compensation, which is set to recover after the contraction seen in 2022-2023 when high inflation outpaced wage increases following the energy price shock related to Russia's war of aggression against Ukraine. Moreover, employment growth is set to continue, although at more moderate rates than immediately after the pandemic, and the unemployment rate continues to hover around the current record-low rate of 6.5%. Investment is set to

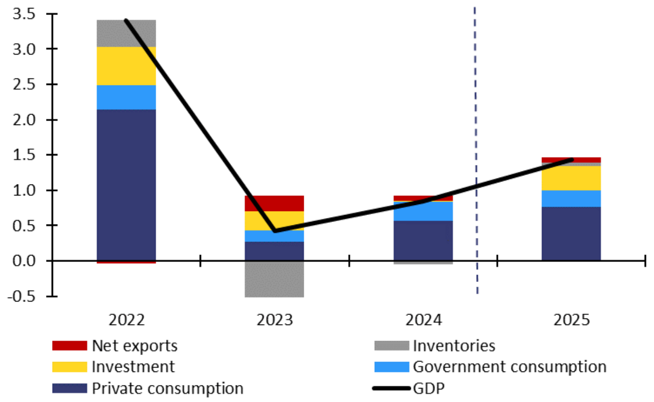
[5] The impact of automatic stabilisers is proportional to the size of the general government sector and the generosity of unemployment benefits, with permanent spending trends that should not be derailed by cyclical fluctuations in tax revenues.

[6] Given their temporariness, the impact of COVID-19 emergency measures on the cumulative 2020-2023 fiscal stance is in fact zero whether they are excluded from or included in the indicator. Nonetheless, their overall impact (more than 7% of GDP) directly affected the euro area debt level. Arguably, their impact on the debt-to-GDP ratio was much smaller - if any given the possible counterfactual of a protracted recession - thanks to their support to a quick economic recovery, which increased both tax revenues (i.e. reducing the numerator) and the nominal GDP level (i.e. the denominator).

[7] See for a more extensive analysis COM(2024).

benefit from a gradual easing of credit conditions and further deployment of the Recovery and Resilience Facility. Thanks to the expected improvement in global trade, exports and imports are both forecast to start increasing again in 2024 and accelerating further in 2025. As a result of the acceleration of economic activity, the negative output gap of the euro area is estimated to be nearly closed in 2025.

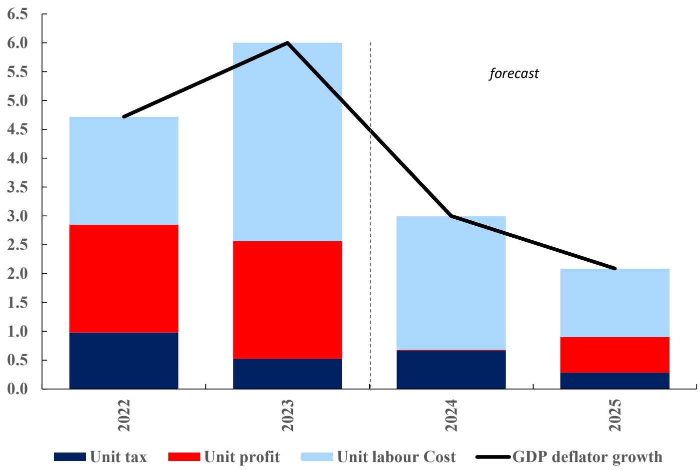
Graph 1: **Euro area real GDP (annual % change) and demand component contributions**



Source: European Commission Spring forecast 2024.

Inflation is forecast to fall close to the 2% ECB target. Headline inflation and core inflation are both expected to decline to just above the ECB target in 2025. The increase in import prices is expected to be rather modest in 2024 and 2025. On the domestic side, in 2024, the impact of a continued rise in unit labour costs would be partly offset by stable unit profits. In 2025, pressures from unit labour costs and unit profits are both expected to be broadly consistent with the 2% ECB inflation target (Graph 2).[8]

Graph 2: **Euro area GDP deflator (annual % change) and component contributions**



Source: European Commission Spring forecast 2024.

The balance of risks surrounding the economic outlook for the euro area is tilted towards more adverse outcomes. Global policy uncertainty weighs on the economic outlook. This is mainly

[8] The change in GDP deflator corresponds to inflationary pressure from domestic production components – that is changes in labour costs and profit margins for each unit produced (i.e. also considering changes in productivity) – as well as changes in indirect taxes on each unit produced. The change in GDP deflator is largely reflected in core HICP inflation.

related to Russia's protracted war of aggression against Ukraine and the conflict in the Middle East. Internally, the more restrictive fiscal stance that some Member States will pursue to put their public debt and deficits on a declining path could affect domestic demand in 2025.

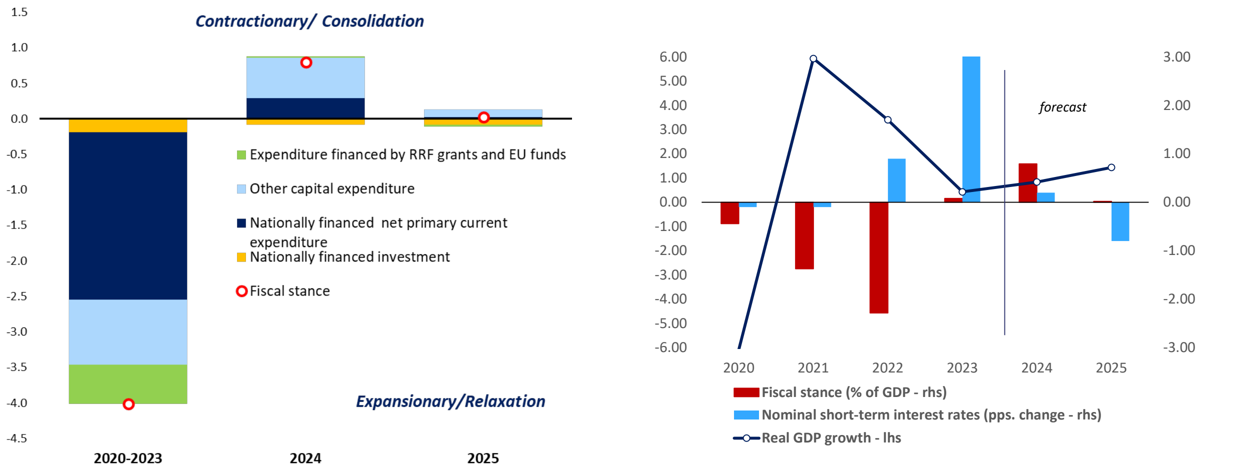
EURO AREA FISCAL STANCE IN 2020-2023 AND ESTIMATES FOR 2024

The euro area fiscal stance was significantly expansionary during 2020-2023 (Graph 3a). The cumulative fiscal expansion of 4% of GDP - on top of the temporary support from COVID-19 emergency measures - was firstly a response to the dramatic halt to economic activity caused by the pandemic (2020-2021) and then to the energy price shock (2022-2023) following Russia's war of aggression against Ukraine. During that period, the general escape clause of the Stability and Growth Pact (SGP) was activated and thus the normal fiscal requirements of the SGP did not apply. Therefore, together with an accommodative monetary policy - considering both interest rates and the expansion of the ECB balance sheet - fiscal policy supported macroeconomic stabilisation in the euro area during a period of extraordinary crisis and uncertainty (Graph 3b). However, that large fiscal expansion has led to a worsening in the underlying fiscal position compared with the 2019 pre-pandemic level also in high-debt Member States. These Member States have been recommended to limit the growth of net expenditure in order to ensure that the general government debt is put on a plausibly downward trajectory over the medium term.

Graph 3: **Euro area fiscal stance and short-term interest rates**

a) EA fiscal stance (% of GDP)

b) EA fiscal stance and interest rates



Note: in panel a) the fiscal stance for 2020-2023 is cumulative; in panel b) the fiscal stance profile in 2020-2023 does not include the temporary impact of COVID-19 emergency measures.
Source: European Commission 2024 spring forecast.

Net primary *current* expenditure was the main driver of this expansionary fiscal stance, but growth-enhancing spending financed by the EU budget also contributed (Graph 3a). The expansionary impact of net primary current expenditure[9] in the euro area was 2.4% of GDP in 2023

[9] This current expenditure aggregate is based on current expenditure financed by national budgets, net of interest expenditure and discretionary revenue measures.

compared to 2019. This expansion was largely due to non-temporary measures which have permanently increased the structural primary deficit, while energy support measures, which were generally untargeted and often not providing incentives to save energy, only accounted for 1% of GDP of this cumulative expansion in net current spending (see Graph 4b).[10] Other capital transfers from national budgets also provided a sizable expansionary contribution in that period (0.9% of GDP).[11] Remarkable for a crisis period was the expansionary contribution provided by public investment financed by national budgets (0.2% of GDP) and by investment and other growth-enhancing expenditure financed by the RRF and other EU funds (0.6% of GDP).[12]

Fiscal policy is set to turn contractionary in the euro area in 2024, as subsidies to private investments and energy support measures are phased out (Graph 3a). The contractionary stance in 2024 – estimated at ¾ % of GDP – can be considered appropriate given the need to start improving the sustainability of public debt in some Member States as economic growth resumes (Graph 3b). This contractionary stance is also contributing to taming euro area inflation, thus supporting monetary policy. The reduction in other capital transfers - by more than ½ % of GDP, largely related to the discontinuation of sizeable subsides for housing renovation in Italy - is the main driver of the 2024 contractionary stance of the euro area. The phase-out of energy support measures is also contractionary, by around ¾ % of GDP. At the same time, there would be a ½ % of GDP expansionary contribution from net current spending other than energy support measures (including some tax cuts, see Graph 5b). Therefore, a large part of the savings from the phase-out of those temporary measures is not projected to reduce deficits in the euro area, with a likely permanent impact on level of net expenditure, as also shown by the overall neutral fiscal stance projected for the euro area in 2025, under unchanged policies. Importantly, contrary to the fiscal adjustment that occurred in the euro area in the wake of the 2010 sovereign debt crisis, the fiscal contraction projected for 2024 is not due to government cuts in public investment, while the RRF continues to support investment and other growth-enhancing spending.

MEMBER STATES' FISCAL STANCE IN 2020-2023 AND ESTIMATES FOR 2024

Almost all euro area Member States implemented expansionary fiscal policies in 2020-2023 (Graph 4a)**.** Contrary to the qualitative fiscal guidance provided by the Commission and the Council during the activation of the general escape clause to ensure that expansionary net current spending was temporary over 2020-2023, most countries implemented a large cumulative expansion of persistent net current expenditure (see Graph 4b, dark blue bar). Only in some countries was the expansionary contribution of net current expenditure explained by the (temporary) impact of energy support measures still implemented in 2023 and the budgetary costs to offer protection to displaced persons from Ukraine (see Graph 4b, light blue and red bars). In line with the fiscal guidance provided at EU level, public investment financed by national budgets was overall expansionary or (broadly) neutral in all Member States in that period, with the only exceptions being Latvia and Finland. RRF grants and other EU funds also contributed to the expansionary stance fiscal of most euro area Member States.[13] Other capital

[10] See Table A1 in annex for more details on energy support measures in 2021-2025.

[11] This increase was mainly due to subsidies for private investments, including to accelerate the green transition (e.g. housing renovations in Italy, the so-called Superbonus 110%) and to deal with the fallouts in the energy sector following Russia's war of aggression against Ukraine (e.g. Uniper bailout in Germany).

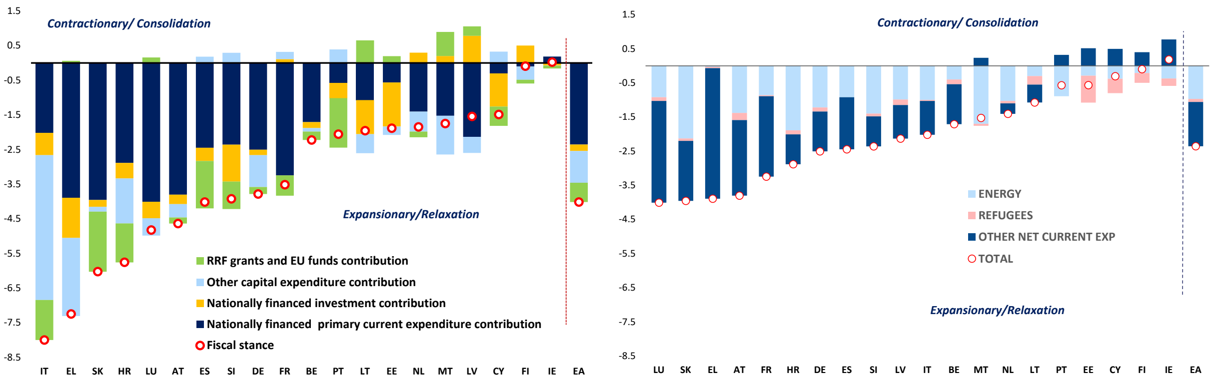
[12] See Graph A1 in annex for more details on public investment development since 2019.

[13] See Graph A2 in Annex for more details on the level of expenditure financed by RRF grants across euro area Member States in 2021-2024.

expenditure, by which national budgets financed private investments, was a sizeable component of the expansionary stance in Italy, Greece, Croatia, Germany and Malta.

Graph 4: **Cumulative fiscal stance in euro area Member States in 2020-2023 (% of GDP)**

a) Fiscal stance and components (% of GDP) b) Drivers of net current expenditure

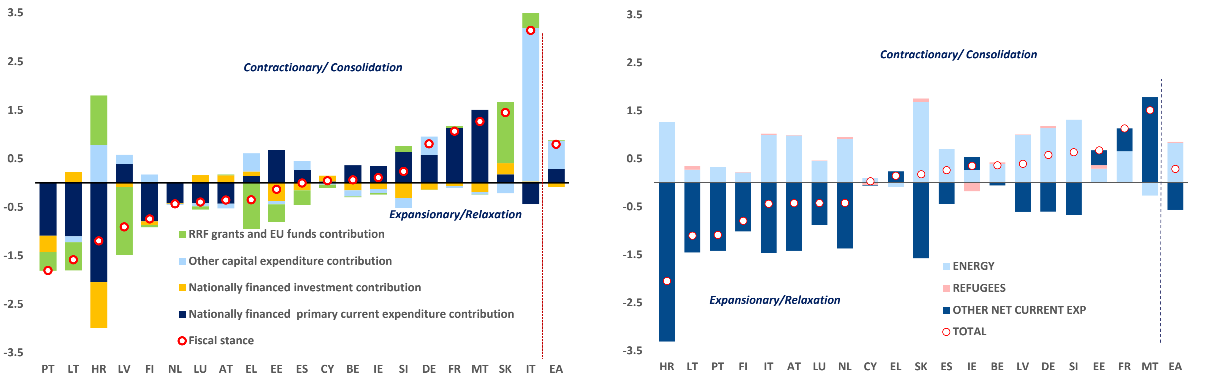


Source: European Commission 2024 spring forecast.

At the country level, fiscal stances are expected to be heterogenous in 2024. The fiscal stance is set to range from contractionary by more than 3% of GDP in Italy, to expansionary by 1¾ % of GDP in Portugal (Graph 5a). The divergent fiscal stances across Member States are largely due to differences in the contribution of net current expenditure, which remains expansionary in some and contractionary in others.[14] This is partially linked to developments in measures to mitigate the impact of high energy prices, where the phase-out pace varies across Member States (Graph 5b). In the majority of euro area countries, nationally financed investment is set to be preserved or expanded also in 2024. Other capital expenditure is projected to provide a large contractionary contribution in Italy, as subsidies for housing renovation are phased out. Expenditure financed by RRF grants and other EU funds is expected to provide a neutral or expansionary contribution to the fiscal stance in most countries. However, it is set to be largely contractionary in Croatia and Slovakia as those countries benefited from sizeable inflows of EU funds in 2023, which was the last year to spend funds provided by the 2014-2020 Multiannual Financial Framework (MFF).

Graph 5: **Fiscal stance in euro area Member States in 2024 (% of GDP)**

a) Fiscal stance and components b) Drivers of net current expenditure



Source: European Commission 2024 spring forecast.

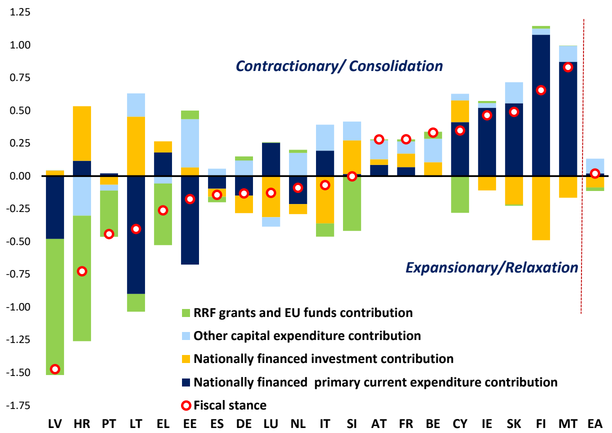
[14] National fiscal rules may imply stricter requirements than under the EU fiscal rules, e.g. in Germany.

2025 FISCAL STANCE PROJECTION WITH UNCHANGED POLICIES

Under a no-policy-change assumption, the euro area fiscal stance is expected to be broadly neutral in 2025. According to the Commission spring 2024 forecast, net current expenditure and other capital expenditure financed by national budgets would both increase slightly less than potential growth also due to the further phase-out of energy support measures and subsidies to private investment (Graph 3a). Public investment financed by national budgets would instead continue to be marginally expansionary in 2025 while expenditure financed by RRF grants and other EU funds would be neutral because its level would remain broadly stable.

At Member State level, the no-policy-change fiscal stance projections for 2025 range from a contractionary stance of ¾ % of GDP to an expansionary stance of 1½ %. The direction of the fiscal stance would be evenly distributed across euro area countries, with expansionary, broadly neutral and restrictive positions each in one third of Member States. Net current expenditure financed by national budgets would be the main driver of the contractionary fiscal stance for five Member States and the significantly expansionary stance in three (Graph 6). The contribution of investment financed by national budgets would be expansionary or (broadly) neutral in most countries. In a third of Member States, spending financed by RRF grants and other EU funds would provide an expansionary contribution in 2025.

Graph 6: **Fiscal stance and components in 2025, based on unchanged policies (% of GDP)**



Source: European Commission 2024 spring forecast.

EURO AREA FISCAL STANCE IN 2025 BASED ON A 'NORMATIVE APPROACH'

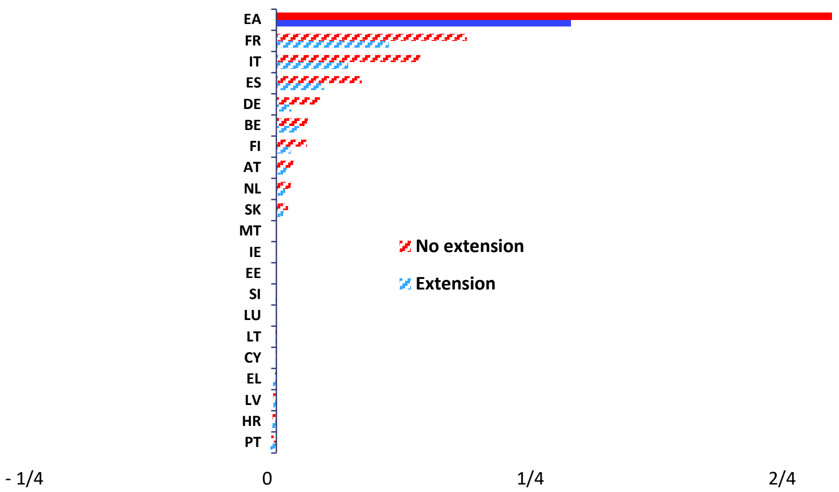
Member States' projected fiscal efforts under the revised economic governance framework can provide useful insight on the possible euro area fiscal stance in 2025. The previous section showed the expected euro area fiscal stance in 2025 under unchanged policies. Under the new framework, however, Member States' fiscal policies should strengthen public debt sustainability and promote sustainable and inclusive growth.[15] On 21 June 2024, the Commission provided 'reference

[15] For further details see: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/new-economic-governance-framework_en

trajectories' to Member States with a government deficit above 3% of GDP or public debt above 60% of GDP, and 'technical information' to the other Member States that asked for it. In their plans, Member States with fiscal adjustment needs may choose to implement this adjustment over four years or they may opt for a more gradual adjustment (i.e. a higher net expenditure path) over up to seven years if they commit to implementing reforms and investments that fulfil the criteria indicated in the new legislation.

Under a 'normative approach', the euro area fiscal stance may be expected to be contractionary in 2025, ranging from around ¼ % to around ½ % of GDP. Illustrative calculations can be used to estimate the possible range of the euro area fiscal stance in 2025 assuming that Member States will follow a fiscal adjustment needed to keep their public debt on a sustainable path and bring or keep deficit below the reference value, as defined in the context of the new EU fiscal framework. In fact, Member States will set out their own net expenditure paths in their medium-term fiscal-structural plans - to be submitted by 20 September - and then the Commission and the Council are expected to assess them in autumn 2024. Depending on the length of the adjustment period chosen by Member States, a range for the euro area fiscal stance is estimated based on two scenarios: whether all Member States with adjustment needs opt for four- or alternatively seven-year adjustment paths. Under this 'normative approach', where Member States would adhere to the fiscal requirement of the new framework, it is also assumed that Member States without adjustment needs will implement a neutral fiscal stance in their national budgets. With four-year adjustment paths, the resulting euro area fiscal stance would be contractionary by around ½ % of GDP. If all Member States with adjustment needs opted for a seven-year path, the euro area fiscal stance would be contractionary, at around ¼ % of GDP (Graph 7).

Graph 7: **EA fiscal stance in 2025 under a 'normative approach' and Member States' contributions (% of GDP)**



Note: the euro area fiscal stance (solid bar) represents the sum of the Member States' contributions (striped bars). The contribution to the euro area fiscal stance by each Member State includes both the national budget and expenditure financed by RRF grants and other EU funds.
Source: European Commission services' calculations.

This contractionary fiscal stance is expected to be broadly appropriate for the euro area in 2025 from a fiscal and macroeconomic standpoint. The contractionary stance would be consistent with the need to improve public debt sustainability, underpinning Member States' commitment to debt sustainability, and support monetary policy in bringing down inflation to the ECB target. The short-term economic impact of the necessary consolidation effort can be minimised through a careful choice of deficit-reducing measures. In particular, a contractionary stance in 2025 can be achieved while preserving or increasing public investment. The more gradual consolidation when there is an extension of the adjustment period can provide incentives in this direction. The new EU fiscal framework, in tandem with the advancing implementation of the Recovery and Resilience Plans (RRPs), will thus facilitate progress towards the twin transition and enhanced economic resilience. Continuing efforts to improve the effectiveness, quality and composition of public spending will remain essential.

CONCLUSIONS

The euro area fiscal stance was significantly expansionary in 2020-2023, mainly driven by an increase in permanent net current expenditure, although growth-enhancing spending financed by the EU budget also contributed. That large expansion has implied a worsened underlying fiscal position compared with the 2019 pre-pandemic level, including in high-debt Member States. These Member States have been recommended to limit the growth of net expenditure in order to ensure that the general government debt is put on a plausibly downward trajectory over the medium term.

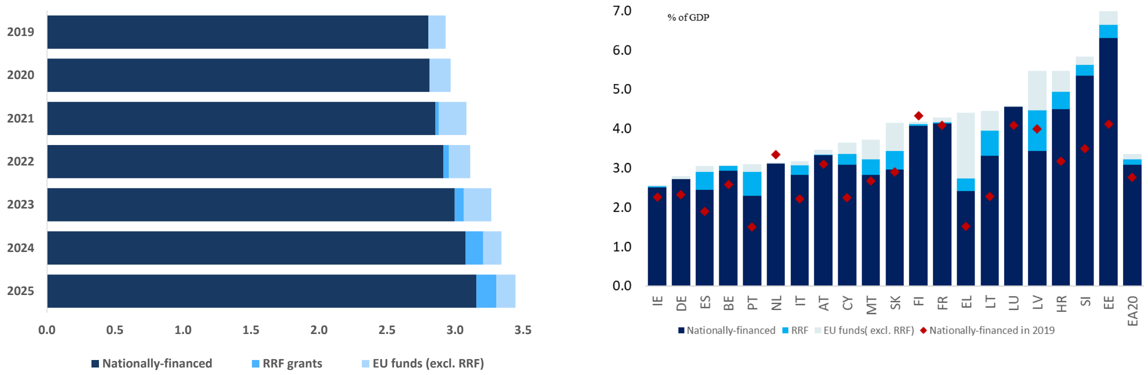
Fiscal policy is set to turn contractionary in the euro area in 2024, as energy support measures and other temporary measures are phased out, however permanent net current expenditure is also expected to increase further. This contractionary stance is contributing to taming euro area inflation, thus supporting monetary policy.

Based on unchanged policies in the Commission 2024 spring forecast, the euro area fiscal stance is projected to be broadly neutral in 2025. This is driven by a slight contraction in net current expenditure, while investment would continue to be preserved. In a number of Member States, the fiscal stance would still be expansionary under a no-policy change assumption. The euro area fiscal stance in 2025 under a normative approach, based on Member States' adjustment needs under the revised economic governance framework, would be contractionary, ranging from around ¼ % to around ½ % of GDP, depending on whether Member States opt for four or seven-year adjustment paths. Such a contractionary fiscal stance is expected to be broadly appropriate for the euro area in 2025, from a debt sustainability standpoint but also with a view to supporting monetary policy in lowering inflation.

ANNEX

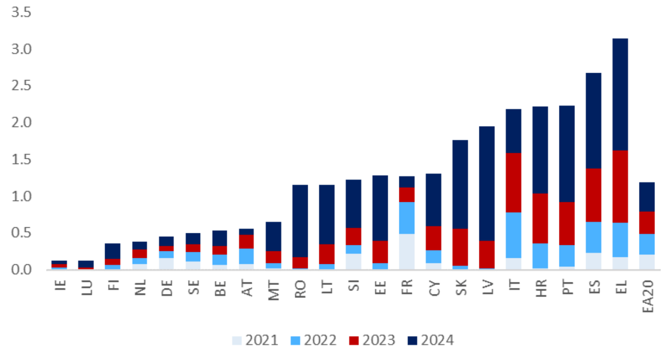
Graph A1: **Public investment in the euro area**

a) Euro area (% of pot. GDP) b) Member States (% of GDP)



Source: European Commission 2024 spring forecast.

Graph A2: **Expenditure financed by RRF grants: 2021-2024 (% of GDP)**



Source: European Commission 2024 spring forecast.

Table A1: **Energy support measures (level; % of GDP)**

	Budgetary cost (levels in % GDP)				
	2021	2022	2023	2024	2025
BE	0.0	0.8	0.4	0.0	0.0
DE	0.0	1.2	1.2	0.1	0.0
EE	0.1	0.7	0.3	0.0	0.0
IE	0.0	0.5	0.4	0.1	0.0
EL	0.5	2.8	0.0	0.1	0.1
ES	0.1	1.6	0.9	0.2	-0.1
FR	0.1	0.9	0.9	0.2	0.0
HR	0.0	1.8	1.9	0.6	0.0
IT	0.3	2.4	1.0	0.0	0.0
CY	0.1	0.6	0.4	0.3	0.0
LV	0.0	1.6	1.0	0.0	0.0
LT	0.0	1.2	0.3	0.0	0.0
LU	0.0	0.7	0.9	0.5	0.3
MT	0.5	2.3	1.7	2.0	1.0
NL	0.0	0.7	1.0	0.1	0.0
AT	0.0	1.3	1.4	0.4	0.1
PT	0.0	2.0	0.9	0.6	0.5
SI	0.0	1.0	1.4	0.1	0.0
SK	0.0	0.2	2.1	0.4	0.0
FI	0.0	0.1	0.2	0.0	0.0
EA	0.1	1.3	1.0	0.1	0.0

Source: European Commission 2024 spring forecast.

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