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Executive summary

Short-term outlook for public finances

- **European economies expect a strong economic recovery in 2021 from the Covid-19 crisis.** According to spring 2021 forecasts, real GDP is expected to grow on average by around 3% in 2021.
- Covid-19-related **fiscal measures and automatic stabilisers are having a large impact on government deficits** in 2021. General government deficits are expected to average 7% GDP in 2021.
- Public finances in most European countries **remain supportive in 2021** as countries are transitioning from first-aid fiscal measures to promoting economic recovery.

Medium-term outlook for public finances

- **European economies expect a favourable growth scenario in the medium term.** According to spring 2021 forecasts, real GDP is expected to grow on average around 3% per annum between 2021 and 2024.
- **Public deficits** in most countries will remain at or above the 3% reference value in 2024.
- Some of the national independent fiscal institutions (IFIs) that assessed national stability and convergence programmes (SCPs) **raised concerns about medium-term projections**, notably regarding assumptions underlying macroeconomic and fiscal forecasts, absence of realistic fiscal strategies, insufficient consolidation efforts and unattainable targets.

Impact of Covid-19 fiscal response to public deficits

- The 27 European countries covered in this report introduced over 1,000 budgetary measures to counter the effects of the pandemic in 2020 and 2021. **Fiscal measures amounted to an average of 5% of GDP in 2020 and 4% of GDP in 2021**. The fiscal stimulus could further increase in 2021, as new measures are expected to be adopted and current support measures extended.
- In general, national IFIs that have expressed an opinion on the **fiscal response to Covid-19 deem it appropriate**. Nevertheless, some of these IFIs expressed concerns over the size of the fiscal stimulus, structural drawbacks in the design of the measures, measures with an unclear link to Covid-19, and a surge in permanent public spending.

Recovery and Resilience Plans

- Almost all EU member states have submitted their national Recovery and Resilience Plans (RRPs). Most of the spending is expected to occur in 2021 and 2022. RRPs are expected to **boost economic recovery** in EU countries.
- In general, national IFIs that have expressed an opinion on the **RRPs deem them appropriate**. Nevertheless, some warn that reforms outlined in the national RRPs are too ambitious, complex and highly dependent on the public sector's administrative capacity and effective coordination with other stakeholders.

Impact on IFI activities

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

Foreword

The gradual phasing out of the Covid-19-related restrictions is spurring economic growth throughout Europe. Governments have started phasing out the ‘first-aid’ fiscal stimulus and are introducing measures to support economic recovery. The implementation of the EU-funded Recovery and Resilience Facility (RRF) is expected to further boost economic growth.

Although the automatic stabilisers and special Covid-19-related measures have significantly increased the public debt, fiscal support policies are broadly considered effective by the national independent fiscal institutions (IFIs) in these extraordinary times. In the short run, the expansionary measures will continue to dominate the public finances, with large deficits in most European countries in 2021. In the medium term, progress against Covid-19 and economic recovery are expected to contribute to healthier fiscal indicators.

However, fiscal policy will need to move back towards ‘normal’ settings once the effects of the pandemic have subsided. According to the assessments of national IFIs, a number of medium-term plans by national governments have overly optimistic assumptions and too-expansionary fiscal stances. Many IFIs are concerned about long-term fiscal pressures such as climate change and ageing population. Governments must ensure that they have credible post-pandemic plans to deliver social and climate objectives within the context of medium-term economic and budgetary stability.

The independent assessment of public finances by national IFIs will remain essential. Now that economies are finding their ‘new’ normal, governments will face various challenges related to the sustainability of their public finances. Independent fiscal surveillance is necessary to ensure that realistic and appropriate medium and long-term plans are prepared and executed.

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

1 Introduction

As vaccines are rolled out and restrictions relaxed, European economies are recovering from the Covid-19 pandemic. Nevertheless, most recent projections for 2021 are less optimistic than earlier estimates, given the further intense disruption caused by Covid-19 early this year.[1] Both the projected real GDP growth and public balances were revised downwards by on average 1 percentage point.[2]

All countries are expected to record positive economic growth in 2021 – the anticipated average real GDP growth is 3%. The pace of economic recovery in Europe appears to be uneven, though, as some countries are set to reach their pre-pandemic levels of GDP in 2021, while others expect to reach this level only in 2022 or 2023.

The fiscal stance in most countries remains expansionary, as governments are shifting from first aid to supporting economic recovery. In the 27 countries[3] covered by this European Fiscal Monitor (EFM), policy measures cost on average about 5% of GDP in 2020 and 4% of GDP in 2021. The costs for the Covid-related measures might further increase if new measures are adopted.

Over recent months the EU Recovery and Resilience Facility (RRF) Regulation has been adopted and nearly all countries have prepared and submitted their Recovery and Resilience Plans (RRPs). The RRF amounts to €673 billion and will be distributed through grants and loans in the next seven years, but most will be distributed in 2021 and 2022. The European Commission (2021) estimates that the RRF will have an accumulative contribution of around 1.2% of 2019 EU GDP to economic growth over 2021-22.

This EFM gives an overview of the activities of 32 national IFIs, and the fiscal measures adopted in response to Covid-19 in 26 EU member states and the UK. The monitor is based on a survey of EU IFIs conducted in May and June 2021, and is largely based on information linked to spring 2021 stability and convergence programmes (SCPs).[4] The information depends on the mandate of the national IFI, and is obtained from these or from the national governments.[5]

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 (2021), European Fiscal Monitor (March 2021).

[2] Average aggregation for **all indicators** is calculated as unweighted average of EU IFI Network members.

[3] AT, BE, BG, CY, CZ, DE, DK, EE, EL, ES, FI, FR, HR, HU, IE, IT, LT, LU, LV, MT, NL, PT, RO, SE, SI, SK, UK.

[4] European Network of EU IFIs (2021), Survey of European Independent Fiscal Institutions, June 2021.

[5] For this reason, projects may not be fully comparable. Please see the Survey of European Independent Fiscal Institutions, June 2021 for more information about the cut-off date and source of projections.

2 Short-term outlook for public finances

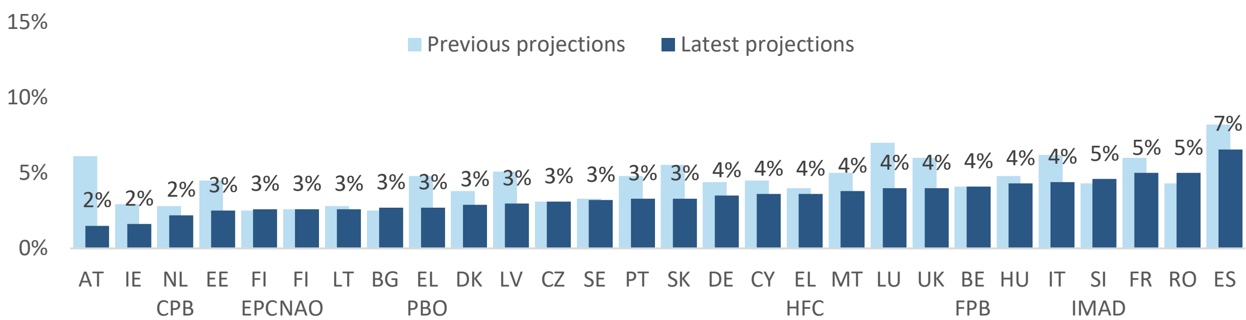
Real GDP growth, general government balance and gross public debt are key indicators used by national IFIs to assess the short-term outlook for public finances. IFIs produce or assess these projections regularly in the context of the budget endorsement or assessment.

2.1 Economic growth

In most countries economic growth projections have been revised downwards from the last EFM estimates (see Figure 1).[6] According to the government or IFI forecasts disclosed with the 2021 SCPs, average economic growth in the 26 countries[7] is expected to be 3% in 2021, one percentage point lower than initially expected. Economic growth projections have only been revised upwards in six countries.[8]

According to the latest projections, the highest growth rate in 2021 is expected in Spain (7%), followed by three countries[9] that have an expected economic growth of 5%. The expected real GDP growth for the remaining countries ranges between 2% and 4%. Only 6 out of 27 surveyed countries[10] are expected to reach their pre-pandemic levels during 2021.

Figure 1. Projected real GDP growth in 2021 (% 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. The figures for Ireland relate to Modified GNI rather than GDP. The previous projection for Spain is based on the medium of the three prepared scenarios.
Source: The Network of EU Independent Fiscal Institutions (2021).

2.2 Public balances

Automatic stabilisers and Covid-19-related fiscal measures are having a larger impact on 2021 government budgets than the projections in the previous EFM published in March 2021 (see Figure 2). On average, public deficits in 25 countries are expected to reach 7% in 2021, one percentage point above previous

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

[7] Projections were unavailable for Croatia.

[8] BE, BG, CZ, FI, RO, SI.

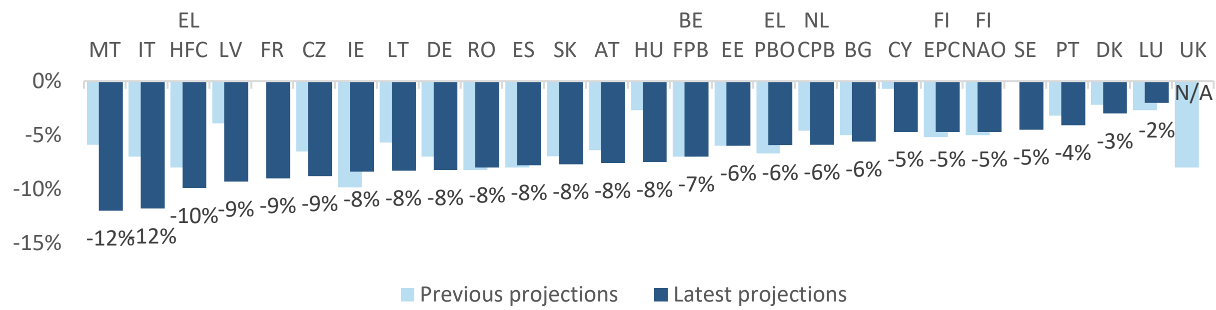
[9] FR, RO, SI.

[10] DK, IE, LT, LU, RO, SE.

projections. In eight countries,[11] public deficits are expected to be smaller than previous projections, according to the figures shared by at least one national IFI.

Public deficits in nearly all 26 countries are expected to exceed the 3% reference value in 2021. Luxembourg is the only exception, with a projected public deficit of 2% of GDP. Malta and Italy are projected to have the largest public deficits (both 12% of GDP), followed by Greece (10%), and Latvia, France and Czechia (all 9%). The remaining countries are expected to have public deficits ranging between 3% and 8%.

Figure 2. Projected general government balance in 2021 (% of GDP)



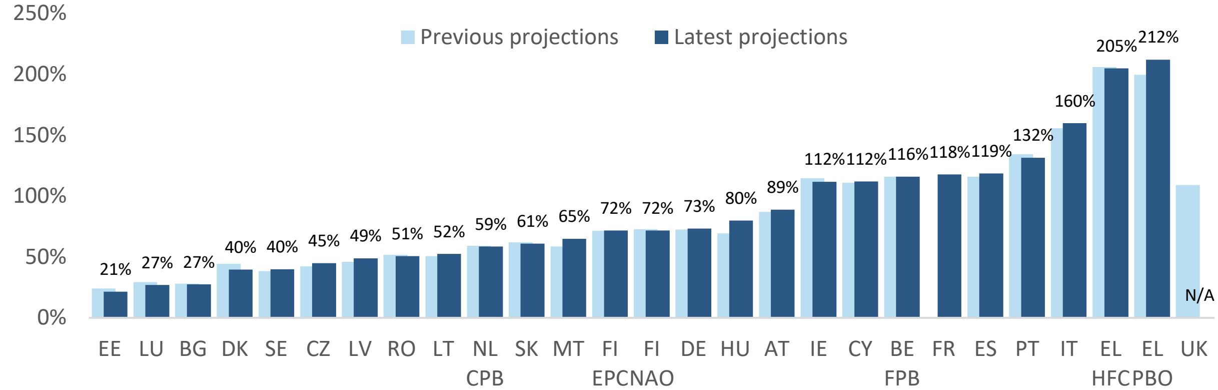
Note: The figures show the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. The figures for Ireland relate to Modified GNI rather than GDP. The previous projection for Spain is based on the medium of the three prepared scenarios.
Source: The Network of EU Independent Fiscal Institutions (2021).

2.3 Public debt

The substantial size of fiscal expansions in 2021 in response to Covid-19 is expected to have a large impact on public debt. The increase in the debt-to-GDP ratio is also expected to be higher than previously envisaged (see Figure 3). Higher public debt projections were reported by 14 out of 32 national IFIs,[12] revised upwards by 3 percentage points on average. A dozen IFIs[13] report the projected public debt in 2021 to be lower than originally envisaged, by about 2 percentage points. Other IFIs did not report updated projections[14] or do not have a mandate[15] to produce/assess the projections. The debt levels of 15 countries[16] are projected to be above the 60% debt reference value in 2021.

[11] BE, EE, EL, ES, FI, IE, LU, RO.
[12] AT, BE, CZ, CY, DE, EL PBO, ES, FI EPC, HU, LT, LV, MT, IT, SE.
[13] BG, DK, EE, EL HFC, FR, FI NAO, IE, LU, NL, PT, RO, SK.
[14] UK.
[15] HR, NL RVS, SI SFC.
[16] AT, BE, CY, DE, ES, EL, FI, FR, HU, IE, IT, MT, PT, SK, UK.

Figure 3. Projected gross public debt in 2021 (% 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. The figures for Ireland relate to Modified GNI rather than GDP. The previous projection for Spain is based on the medium of the three prepared scenarios.
Source: The Network of EU Independent Fiscal Institutions (2021).

2.4 Assessment by IFIs

Most national IFIs with competences on the fiscal stance (21 out of 32 surveyed)[17] consider the adopted fiscal stance as appropriate for economic and budgetary stability in 2021. Public finances in most countries are set to remain expansionary in 2021. This is deemed reasonable given that the Covid-19 impact on the economy remains significant in most countries. Nevertheless, many IFIs warn that as social restrictions are gradually relaxed and vaccination rates rise, it is appropriate to speed up the phasing out the emergency support measures and focus on more targeted measures to support the recovery of the economy.

The fiscal stance was deemed too expansionary in only one country, where national fiscal rules had been significantly loosened and fiscal consolidation plans were insufficient.

[17] Eleven national IFIs did not report a view as this is outside their mandate or for other reasons.

3 Medium-term outlook for public finances

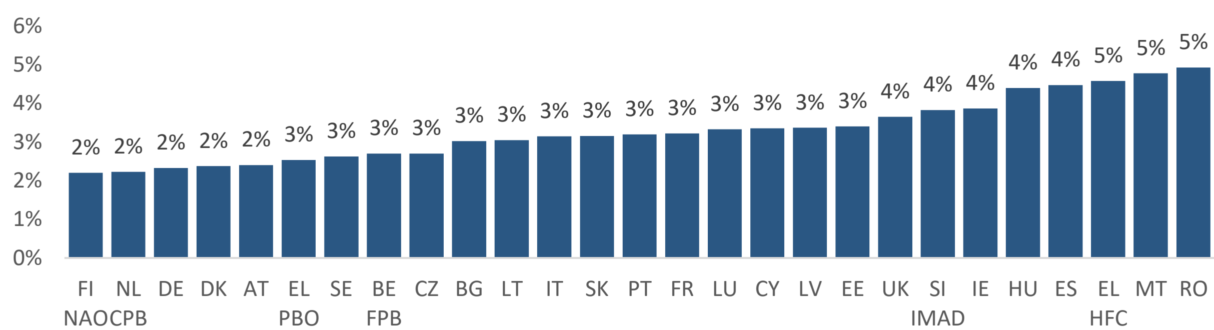
Real GDP growth, general government balance and gross public debt on the Maastricht basis are also key indicators used by national IFIs to assess the medium-term outlook for public finances. IFIs produce or assess projections as part of the assessment of the medium-term budgetary plans of governments.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

3.1 Economic growth

In most countries, strong growth is expected in the medium term (see Figure 4). According to national IFIs, six countries[18] are projected to reach their pre-pandemic growth levels this year, but most are expected to reach them in 2022[19] or 2023.[20]

According to the most recent official projections, 26 countries[21] are expected to grow by an average 3% between 2021 and 2024. According to at least one national IFI, Romania, Malta and Greece are projected to reach the highest average growth over this period (5%). Five other countries[22] are projected to grow on average 4% over 2021-24. The projected real GDP growth for the remaining countries ranges between 2% and 3%.

Figure 4. Projected average real GDP growth over 2021-24



Note: The figures show the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. The unweighted average is computed based on real GDP projections for 2021-24. The figures for Ireland relate to Modified GNI rather than GDP.
Source: The Network of EU Independent Fiscal Institutions (2021).

3.2 Public balances

Government deficits are projected to remain substantial from 2021 to 2024 even as temporary Covid-19-related effects unwind (see Figure 5). As most countries are planning to implement fiscal consolidation and GDP growth rates are set to recover, 17 of them[23] expect deficits to remain at or above the 3% public deficit reference value in 2024. According to the latest projections, Cyprus, Finland, Greece, Luxembourg and

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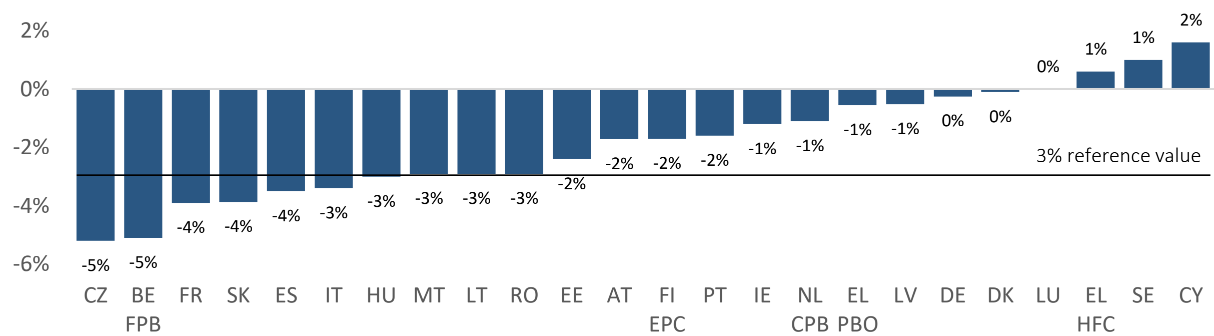
[18] DK, IE, LT, LU, RO, SE.
[19] BE, BG, CY, CZ, DE, EE, EL HFC, ES, FI EPC, FI NAO, FR, HU, LV, MT, NL, PT, SI IMAD, SK, UK.
[20] AT, EL PBO, IT.
[21] Projections were unavailable for Croatia.
[22] ES, HU, IE, SI, UK.
[23] AT, CY, HU, DE, DK, EE, EL, FI EPC, IE, LT, LV, LU, MT, NL CPB, PT, RO, SE.

Sweden are the only countries expected to record neutral or positive public balances in 2024. The remaining countries are expected to have public deficits below 3%. Czechia and Belgium are projected to have the largest public deficits (about 5% of GDP) in 2024, with France, Slovakia and Spain forecasting around 4% the same year.

Figure 5. Projected general government balance in 2024 (% 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. The figures for Ireland relate to Modified GNI rather than GDP.
Source: The Network of EU Independent Fiscal Institutions (2021).

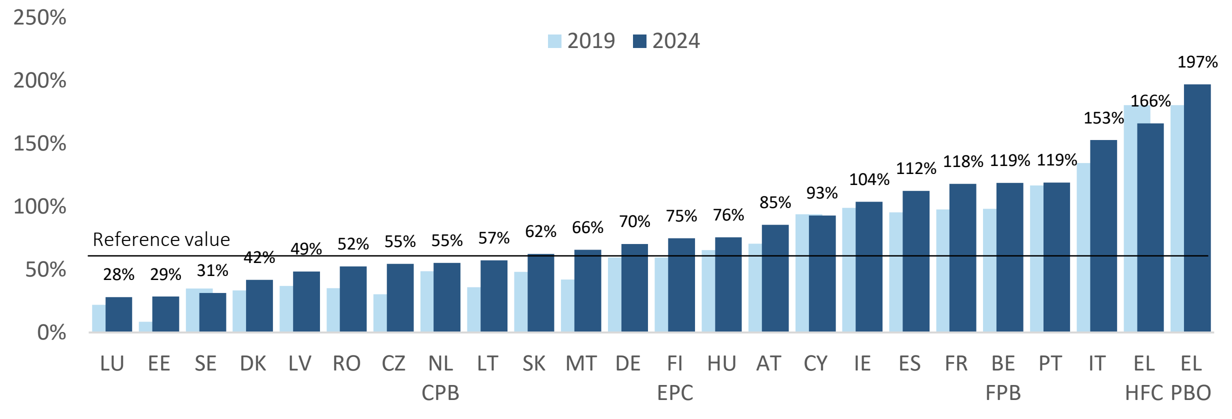
3.3 Public debt

In the medium term, public debt levels in most countries are set to increase from 2019 levels (see Figure 6). National IFIs in 21 countries[24] project an increase in the public debt-to-GDP ratio up to 2024. This increase is mostly due to the large size of adopted Covid-related fiscal stimulus. The largest increases in debt-to-GDP ratios between 2019 and 2024 are projected in Czechia (+24%), Malta (+24%), Lithuania (+21%), Belgium (+21%), France (+20%) and Estonia (+20%).

National IFIs project the debt level to decrease over that same period in only three countries. The largest decreases in the debt-to-GDP ratio are projected in Greece (-14%),[25] Sweden (-4%), and Cyprus (-1%). By 2024, public debt is projected to be above the 60% reference value in 14 countries.[26]

[24]AT, BE FPB, CZ, DE, DK, EE, EL PBO, ES, FI EPC, FR, HU, IE, IT, LT, LU, LV, MT, NL SPB, MT, RO, SK.
[25] According to projections of the Hellenic Fiscal Council.
[26] AT, BE, CY, DE, DE, SK, MT, DE, ES, FI, FR, HU, IE, PT, IT.

Figure 6. Projected gross public debt on Maastricht basis (% of GDP)



Note: The 2019 figures are taken from AMECO. The 2024 figures show the projections produced (officially or internally) or assessed (with or without endorsement) by IFIs in line with their mandates. The figures for Ireland relate to Modified GNI rather than GDP. *Source:* The Network of EU Independent Fiscal Institutions (2021), AMECO (2021).

3.4 Assessment by IFIs

In general, the national IFIs that have assessed SCPs[27] consider the underlying macroeconomic forecasts to be plausible, realistic and consistent with current macroeconomic conditions. However, many IFIs warn that macroeconomic forecasts are plausible only assuming that certain conditions (e.g. effectiveness of vaccination, effective usage of RRF funds) are met. The IFIs emphasise that uncertainty remains significant and the risks of the pandemic evolving may affect the economic situation.

Fiscal forecasts underlying national SCPs have been or will be assessed by 20 national IFIs.[28] Most national IFIs found the fiscal forecasts to be plausible, though slightly conservative and pessimistic in some countries, and two[29] have found them to be implausible because of overestimation of spending and unrealistic assumptions about public finance developments.

Most national IFIs[30] that assessed the medium-term fiscal planning of their national governments consider the medium-term path for public finances attainable or reasonable. However, two IFIs[31] deem their national medium-term fiscal plans not attainable because of unrealistic underlying assumptions, notably those used to project government revenue and expenditure.

Only 10 national IFIs have assessed or are planning to assess the long-term sustainability of public finances in the fiscal plans. Most of them consider long-term fiscal plans attainable or reasonable. Only in the Netherlands do both national IFIs[32] consider the long-term plans unattainable. National IFIs in the Netherlands estimate the gap between current trajectory and sustainability targets to be around 1.8% of GDP.

[27] AT, BG, CY, DE, EE, EL HFC, EL PBO, ES, FI EPC, FI NAO, FR, HR, IE, IT, LT, LU, LV, MT, NL RVS, PT, SE.
[28] AT, BU, CY, DE, EE, EL HFC, EL PBO, ES, FI EPC, FI NAO, IE, IT, LT, LU, LV, MT, NL RVS, PT, SE, SI SFC, SK.
[29] DE, SI SFC.
[30] AT, DE, EE, ES, FI EPC, FI NAO, EL PBO, IE, LT, LV, PT, SE.
[31] CZ, SI SFC.
[32] Council of State and CPB Bureau for Economic Policy Analysis

Despite the extraordinary situation created by the pandemic, most national IFIs reporting their view on the survey consider the fiscal stance in the 2021 SCP to be broadly appropriate. The public finances in the years ahead are set to remain supportive in most countries, which amounts to a countercyclical fiscal stance. The domestic fiscal stimulus will be complemented by the resources from the RRF to reinforce economic growth in the medium term. Some national IFIs even warn that a strong economic recovery might turn the policies procyclical. Currently, however, only one IFI considers the fiscal stance to be too expansionary.

Nevertheless, nearly a third (12 out of 32) of national IFIs have raised concerns about the 2021 SCPs. These mostly relate to: i) unrealistic assumptions underlying macroeconomic and fiscal forecasts, ii) violated procedures, iii) the absence of realistic medium-term fiscal strategies, iv) insufficient medium-term consolidation efforts, and v) unattainable medium-term targets.

4 Impact of Covid-19 fiscal response on public deficits

4.1 Fiscal response across countries

In addition to automatic stabilisers, the 27 countries covered by this report have introduced over a thousand budgetary measures to counter the effects of the pandemic. The impact of adopted measures on public deficit in 2020 is substantially larger than in 2021 because of the winding down of some Covid-related emergency measures linked to the relaxation of restrictions, expected RRF transfers, and the roll out of revenue-generating measures in some countries.

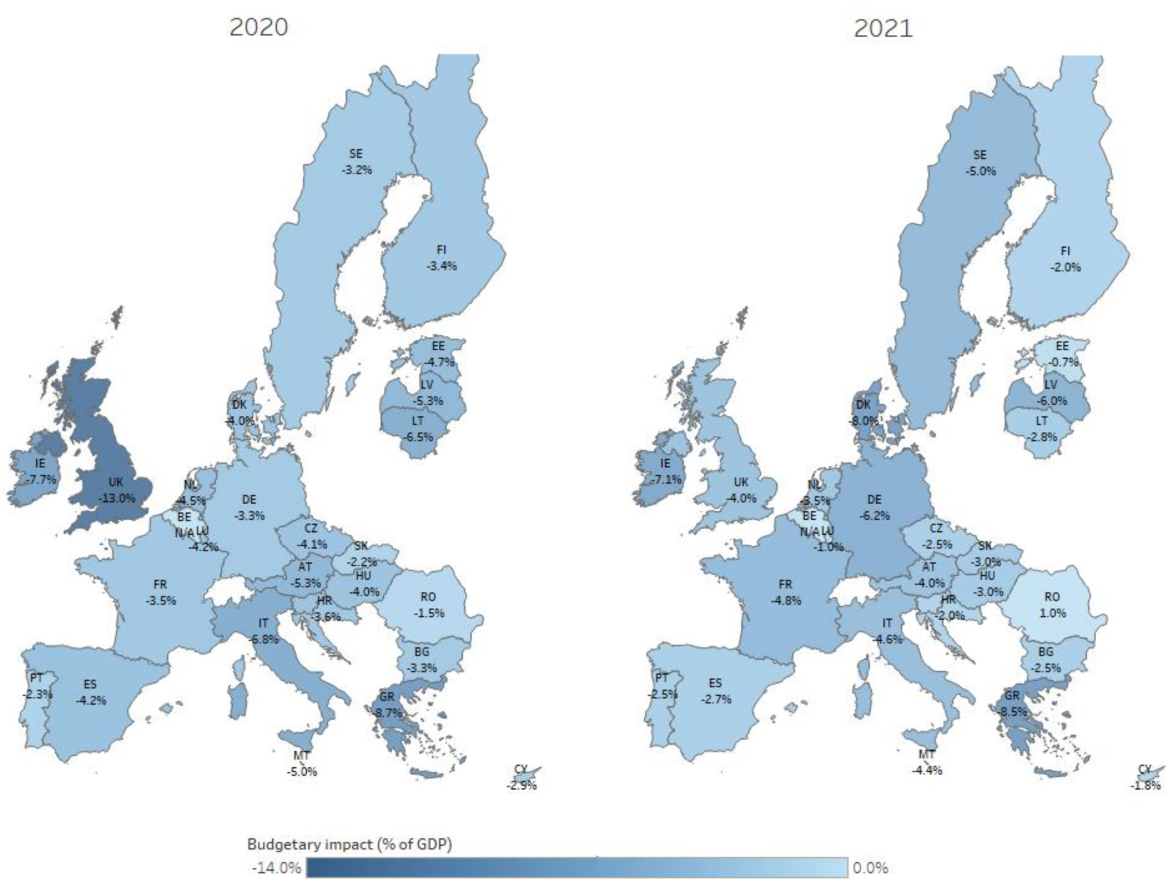
The size of the adopted fiscal response is significant in terms of GDP (see Figure 7). On average, according to IFIs, the impact on public deficits of adopted fiscal measures[33] amounted to 5% of GDP in 2020 and 4% of GDP in 2021. The latter figure might still increase if current support measures are extended or new measures adopted.

There are substantial differences across countries. According to updated estimates, the UK had the largest relative number of fiscal measures in place (about 13% of GDP) in 2020. Greece (8%), Ireland (8%), Slovenia (7%) and Hungary (7%) also incurred deficit impact of 7% or more of GDP in 2020. The countries with the smallest fiscal stimulus in 2020 were Romania (2%) and Slovakia (2%).

The impact of Covid-related fiscal measures is expected to be lower in 2021, mostly because of the gradual phasing out of income support measures and the rolling out of revenue-generating measures in some countries. Greece is projected to have the highest cost of fiscal stimulus in 2021 (about 9% of GDP). In Denmark and Ireland the fiscal measures are projected to have a deficit impact of about 8% and 7% of GDP respectively. According to the latest projections, the impact of adopted measures on the deficit ranges from 1% to 5% of GDP in the remaining countries.

[33] Discretionary measures and liquidity ones for the part that national accountants deem unrecoverable.

Figure 7. Size of adopted Covid-19-related fiscal measures (% of GDP)



Note: The total size of adopted fiscal measures in 2020 and 2021 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 (2021).

4.2 Fiscal response by instruments and beneficiaries

Public spending accounts for the largest share of the adopted fiscal measures (about 7% of GDP) and foregone revenues (1%) (see Figure 8). The deficit impact of the liquidity measures[34] (loans and guarantees) is smaller and about 0.5% of GDP on average. Tax deferrals have an even smaller impact (about 0.3%).

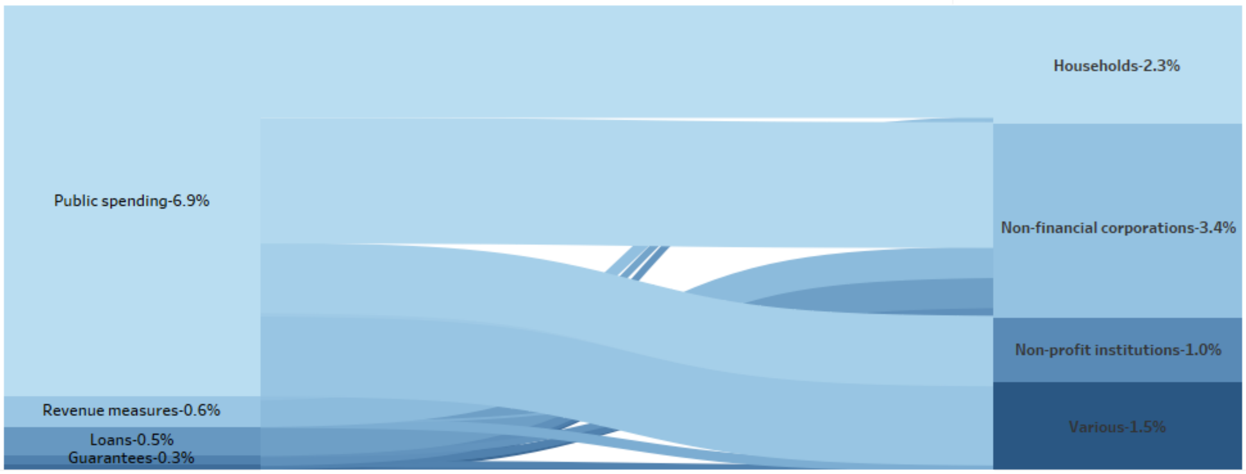
Non-financial corporations are the largest direct beneficiaries, benefiting from support measures with a size equivalent to about 3% of GDP. Since most of these measures provide subsidies and grants to companies severely hit by the Covid-19 crisis, they may indirectly also benefit employees and thus households.[35]

Households are the second largest group of direct beneficiaries, receiving about 2% of GDP. Additionally, the non-profit institutions serving households (1%) also received significant amounts of the measures.

[34] The deficit impact of liquidity measures consists of defaults on loans and loans as guarantees by the government.
[35] Employment support measures target companies and the self-employed in several countries, despite households being the ultimate beneficiaries.

Finally, there are substantial measures (about 2% of GDP) targeting several categories of other beneficiaries at once.

Figure 8. Cumulative size of fiscal measures by main instrument and beneficiaries (% of GDP)



Note: Fiscal measures are measured as a first-round effect in general government (ESA2010) terms in 2020 and 2021. The figures were rounded up to the first decimal.
Source: The Network of EU Independent Fiscal Institutions (2021).

4.3 Take-up rate of guarantees

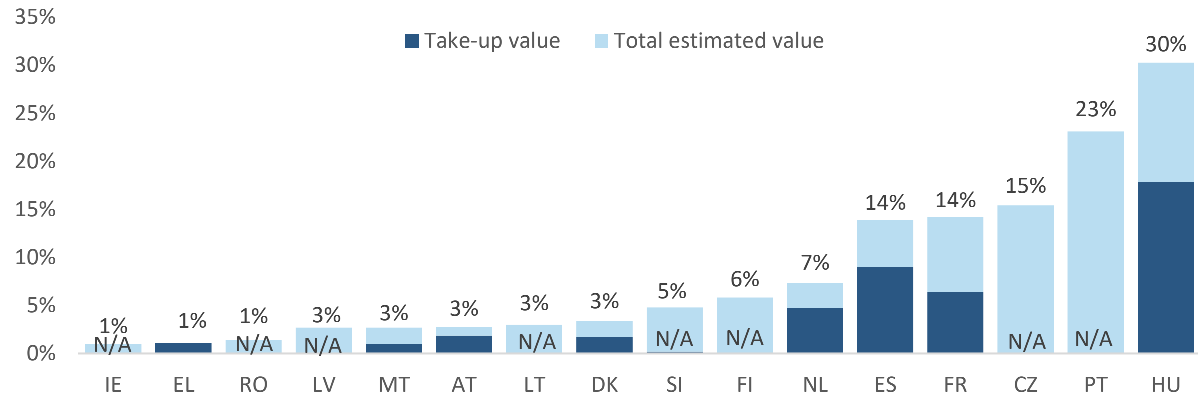
Government guarantees are widely used to ensure the continued access to credit of companies and the self-employed. Guarantees do not imply immediate cost for governments, as long as the guarantees are not called. The chance of default and impact on the budget over the next few years can be estimated and included in budgetary projections.

According to national IFIs, many countries have announced guarantees of substantial size (see Figure 9). Hungary guaranteed total loans equivalent to about 30% of GDP. Portugal announced about 23% of GDP in liquidity measures. In Czechia (15%), Spain (14%) and France (13%), the total amount of announced guarantees represents more than one tenth of GDP. In the remaining countries, the total estimated value of guarantees ranges from 1% to 7% of GDP.

Despite the large size of announced guarantees, the take-up of guaranteed loans has been lower. In Greece (100%) nearly all of the announced guarantees have been used. By contrast, in Spain (69%), the Netherlands (64%), Hungary (59%) and Denmark (50%), little over half of the estimated value of guaranteed loans have been taken up. In France, less than half (45%) and in Malta (37%) only about one third of all announced guaranteed loans have been used. In other countries the take-up value of guarantees has been marginal, with less than 10% of the announced loans being used. Data on the take-up of guarantees in eight other countries is not yet available.[36]

[36] CZ, ES, FI, IE, LT, LV, PT, RO.

Figure 9. Total estimated value and take-up value of adopted guarantees by country by end of May 2021 (% of GDP)



Note: The information on total estimated value and take-up of guarantees is available only for the specified countries. For other countries the information was not available. Total estimated value of guarantees is measured in cash terms for 2020 and 2021.

Source: The Network of EU Independent Fiscal Institutions (2021).

4.4 Assessment by IFIs

Most national IFIs (20 out of 32)[37] consider the government fiscal and budgetary actions taken in response to the pandemic in 2021 appropriate in general. The IFIs have noted a smooth transition from the first-aid fiscal measures to supporting economic recovery. The composition of new and extended fiscal measures has generally been found effective in addressing the crisis. Nevertheless, some IFIs assess that some of the measures were rather poorly designed.

Moreover, national IFIs in four countries deem the fiscal response to Covid-19 excessive because of the large size of the fiscal stimulus, structural drawbacks in the design of the measures,[38] measures with an unclear link to Covid-19, or a surge in permanent public spending. IFIs in these countries warn that adopted and announced fiscal measures aggravate medium-term fiscal sustainability risks. In turn, the national IFI in one country assesses the fiscal response to Covid-19 to be insufficient and called for additional one-off measures to stimulate the economy.

[37] A further six IFIs did not report a view as this is outside their mandate, or for other reasons.
[38] Some IFIs reported adoption of measures that are not targeted at the right entities (e.g. significant changes in personal income tax, etc.).

5 Recovery and Resilience Plans

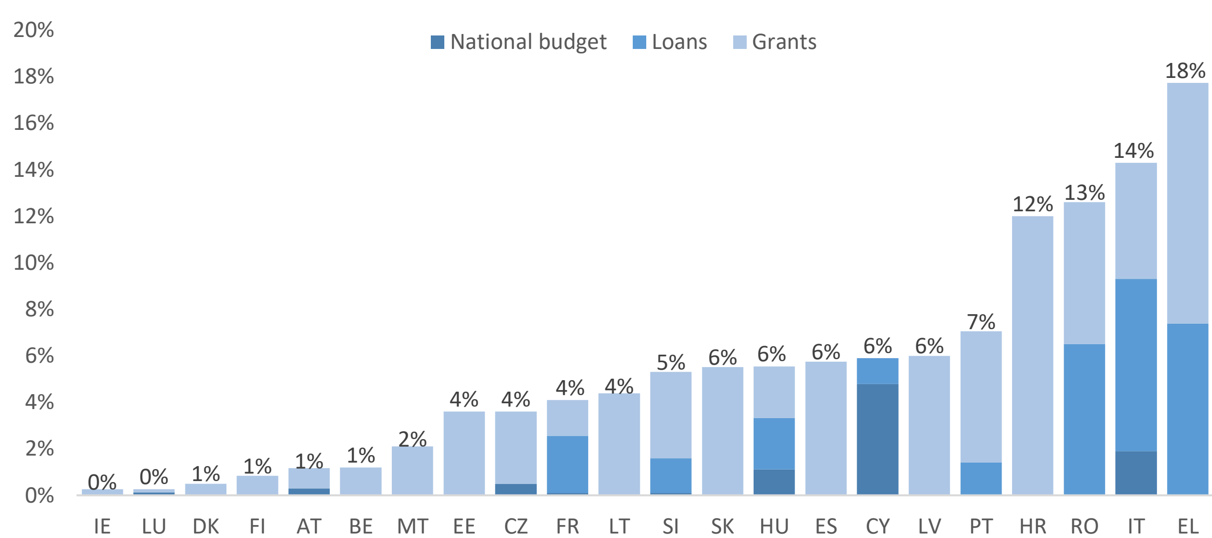
5.1 Recovery and Resilience Plans across countries

Twenty-four EU member states[39] had submitted national RRPs by the end of June 2021. The total size of the RRF amounts to €673 billion, of which about half (46%) is allocated in grants and the other half (54%) in loans (EC, 2021). National governments can supplement the RRFs through national budgets. The funds are allocated on a range of different criteria, such as magnitude of the economic recession due to the Covid-19 pandemic, real GDP, population share, and unemployment.

The RRF is financed through debt issued by the EU, which is the largest ever euro-denominated issuance at supranational level (ECB, 2021). The debt is measured as counting towards the EU accounts, which means that it has no impact on measured national debts and deficits (Eurostat, 2020). However, loans will need to be repaid over time and will appear as part of national government debt. Grants will not have a counterpart, being instead partially financed from member states' future EU contributions. This implies a financial commitment, and RRF spending will not be included in the assessment of numerical benchmarks under the EU fiscal rules (Eurostat, 2020).

According to the European Commission, RRPs are expected to have a total economic impact of 1.2% of 2019 EU real GDP over next two years. This figure reflects the direct impact of the RRF on GDP, channelled primarily through domestic demand, in particular investment. The RRF is also expected to have an indirect impact on economic growth through supply-side effects (EC, 2021). The RRP of Greece has the largest relative size, representing about 18% of GDP. The RRPs of Italy (14%), Romania (13%) and Croatia (12%) are also larger than one tenth of the GDP. Ireland (0.3%) and Luxembourg (0.3%) have the smallest relative RRPs, representing less than 1% of GDP. In other countries the size of RRPs range between 1% and 7% of GDP.

Figure 10. Recovery and Resilience Plans across countries by source of funding (% of GDP)



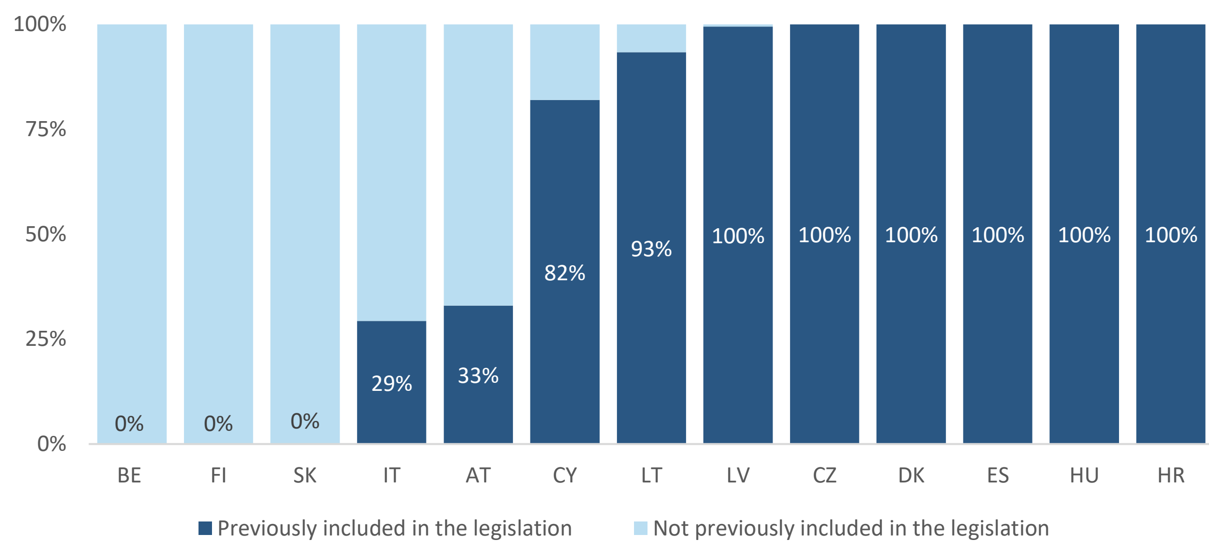
[39] AT, BE, CY, CZ, DK, DE, EE, EL, ES, FI, FR, HR, HU, IE, IT, LT, LU, LV, PT, PL, RO, SE, SI, SK.

Note: The information on total size of RRPs and source of funding is only available for the 22 specified countries. For other countries the information was not available. The UK is not eligible for RRF funding.

Source: The Network of EU Independent Fiscal Institutions (2021).

In many countries[40] RRPs appear to cover measures that were predominantly included in the previous legislation. In six EU member states[41] national RRPs only cover measures that were already introduced in the previous legislation (see Figure 11). In two EU member states[42] new measures make up more than four fifths of the total size of the national RRPs. In the remaining EU member states national RRPs either fully[43] or substantially[44] consist of new measures that were not included in the previous legislation.

Figure 11. Share of measures that were included in the previous legislation (% of total RRP size)



Note: The information on share of new measures under RRPs that were not previously included in 2021 budgets was only available for the 14 specified countries. For other countries the information was not available. The UK is not eligible for RRF funding.

Source: The Network of EU Independent Fiscal Institutions (2021).

5.2 Recovery and Resilience Plans across years

The national RRPs cover six years in most countries. Austria and Czechia plan to implement the national RRP in seven years, while in Denmark and Malta the timeline is five years, and four years in France.

Most RRPs are heavily front-loaded with the largest share of the expenditures incurred in the first two years of the timeline (2021-22) (see Figure 12). In Denmark about 67% of the total size of the national RRP is planned over the first two years. Moreover, in Spain (65%) and Malta (52%) more than half of funds should

[40] 9 out of 14 for which information was available.

[41] CZ, DK, ES, HU, LV, HR.

[42] CY, LT.

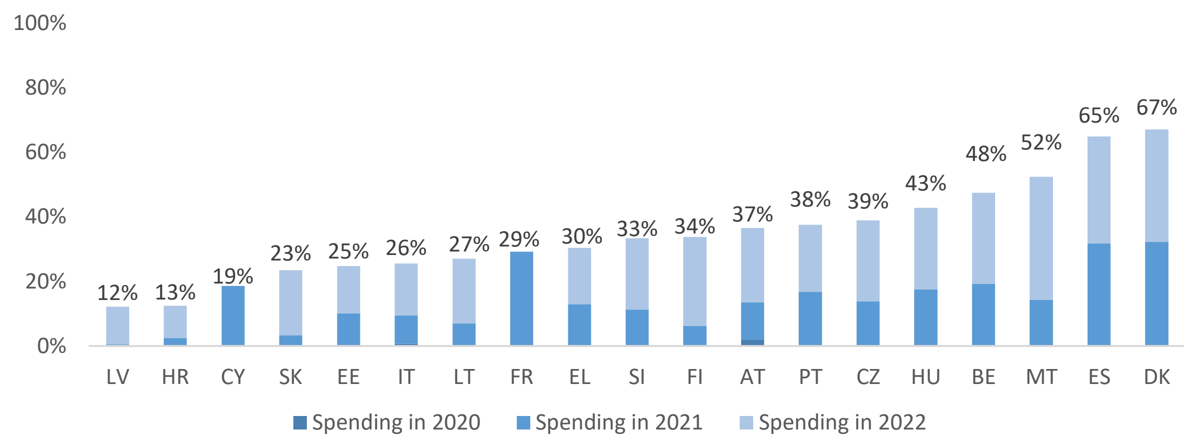
[43] BE, FI, SK.

[44] AT, IT.

be spent in the first two years. In eight other countries,[45] more than a third of the national RRP should be spent in 2021 and 2022.

There are also a few countries where some of the 2020 measures are planned to be retroactively financed though national RRPs, though the share is marginal (2% in Austria and less than 1% in Czechia, France and Italy).

Figure 12. Total expected spending under national Recovery and Resilience Plans by year (% of total RRP size)



Source: The Network of EU Independent Fiscal Institutions (2021).

5.3 Assessment by IFIs

Only 7 out of 32 national IFIs[46] had an official role in RRPs. The Belgian Federal Planning Bureau (FPB), Estonian Fiscal Council (EFC) and Slovenian Institute of Macroeconomic Analysis and Development (IMAD) were tasked with assessing the macroeconomic impact of the EU-financed component of the national RRPs,[47] and four others have provided or will provide an opinion on the national RRPs. Overall, national IFIs deemed the RRPs to be appropriate. However, some have questioned the underlying assumptions and overall fragmentation of the national RRPs.

Eight IFIs[48] have raised concerns about the content, lack of information about the projected reforms, and the implementation and prioritisation of the national RRPs.

National IFIs noted that the reforms outlined in the RRPs are ambitious, complex and highly dependent on the capacity of the administration and effective coordination with other stakeholders when it comes to implementation.

[45] AT, BE, CZ, EL, FI, HU, PT, SI.

[46] BE FPB, CZ, EE, FI EPC, EL HFC, LV, SI IMAD.

[47] The NL CPB also has a mandate to assess the macroeconomic impact of the RRP and will likely do so once the government submits it.

[48] CZ, ES, EL HFC, IT, LV, NL CPB, PT, SK.

6 Impact on IFI activities

Covid-19 is still affecting the activities of national IFIs. Most (21 out of 32)[49] faced "important" or "very important" challenges in executing their tasks in 2021 (see Figure 13). The four main challenges cited by the 32 IFIs are outlined below.

1. Uncertainty about the pandemic and political decisions about related social restrictions remains high for 18 IFIs,[50] which complicates the endorsement/assessment of the macroeconomic and budgetary projections. Most national IFIs addressed this uncertainty through scenario analyses by including a pessimistic and an optimistic scenario alongside their baseline forecasts. Some national IFIs have also opted for new types (e.g. high frequency) of data and/or modified their approaches to build in the interplay between Covid-19 infection, social restrictions, and macroeconomic conditions.

2. Lack of clarity from the national and/or EU-authorities formed an important obstacle to the work of 10 IFIs.[51] National IFIs note that costings of major measures over the medium-term, revenue forecasts, and assumed costs of Covid-19 schemes beyond expiration date lack transparency. Most IFIs also note that EU authorities also lack clarity, in particular regarding the treatment of Covid-19-related discretionary measures and interpretation, while the implementation and operationalisation of the general escape clause remains an open issue.

3. Access to data has been a significant challenge for 10 IFIs.[52] New and recent data are crucial for IFIs to assess the budgetary impact and the take-up rate of, for example, Covid-19-related fiscal measures and sectoral turnovers, and the consistency of the budgetary forecasts against the macroeconomic scenario and the underlying policy measures. Better data-sharing arrangements are required to improve the exchange of information between IFIs and national governments.

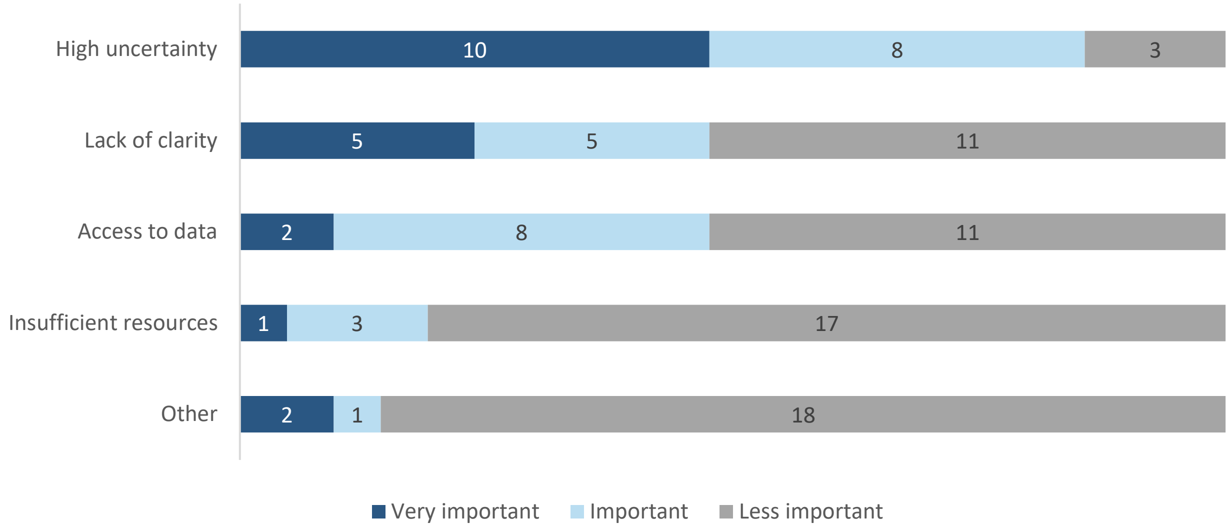
4. Insufficient resources formed a significant challenge for 4 IFIs.[53] The resources available to IFIs differ widely and an increased workload has raised the pressure on all of them, but especially on those whose resources were already limited before the Covid-19 outbreak.

National IFIs also indicated further obstacles, including lack of governmental cooperation about the projects commissioned for them, appointments of their heads, and organisational challenges caused by the shift to teleworking.

While the EU 'general escape clause' has been important to manage the consequences of the Covid-19 pandemic, the reduced emphasis on the fiscal rules could limit the relevance of national IFI activity in monitoring the public finances of many of the countries, thereby increasing the likelihood that governments will undertake risky policies. The rules-based system must be reinstated once the exceptional circumstances have passed.

[49] AT, BU, CY, DE, DK, EL HFC, EL PBO, ES, FR, HR, IE, IT, LT, LU, MT, NL CPB, NL RVS, PT, RO, SE, SI SFC, SI IMAD, SK, UK.
[50] Important: CY, IE, LT, MT, NL CPB, NL RVS, PT, SI SFC; very important: AT, BU, DE, EL HFC, HU, IT, RO, SK, UK.
[51] Important: DE, LT, PT, RO, SI SFC ; very important: AT, IE, NL RVS, SI IMAD, UK.
[52] Important: DE, IE, LT, LU, NL CPB, RO, SK, UK; very important: AT, BU.
[53] Important: CY, LT, UK; very important: RO.

Figure 13. Challenges faced by IFIs in the execution of their work in 2021 (number of respondents indicating one or more challenges)



Note: The IFIs were asked "Did you face any important challenges in the execution of your work in 2021?", to which 21 out of 32 respondents replied positively.
Source: The Network of EU Independent Fiscal Institutions (2021).

Annex - Country factsheets

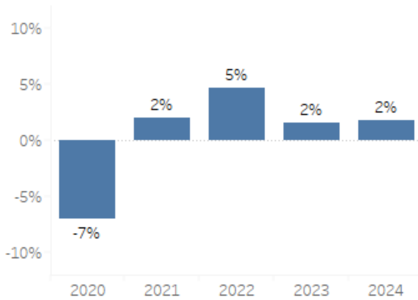
NOTE

Country factsheets provide a concise and comprehensive overview of the key fiscal indicators and fiscal response to the Covid-19 outbreak, 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 2020 and 2024, ii) general government deficit and gross public debt on Maastricht basis between 2020 and 2024, iii) the size of the adopted fiscal stimulus in response to Covid-19 in 2020 and 2021, and iv) the total size of fiscal stimulus measures in response to Covid-19. The total costs of measures in response to Covid-19 cover the impact in 2020 and 2021. Only significant measures (costing more than 0.05% of GDP) are included.

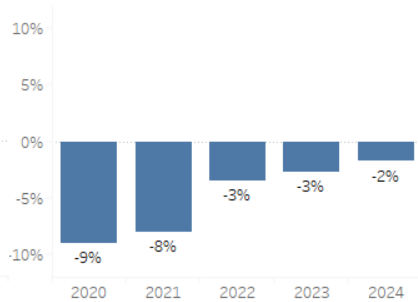
Austria

Fiskalrat

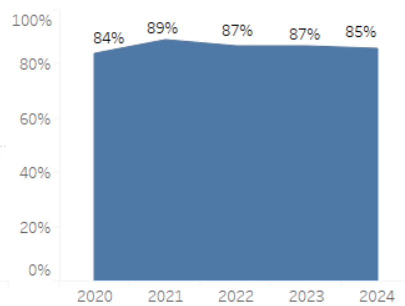
Real GDP growth (%)



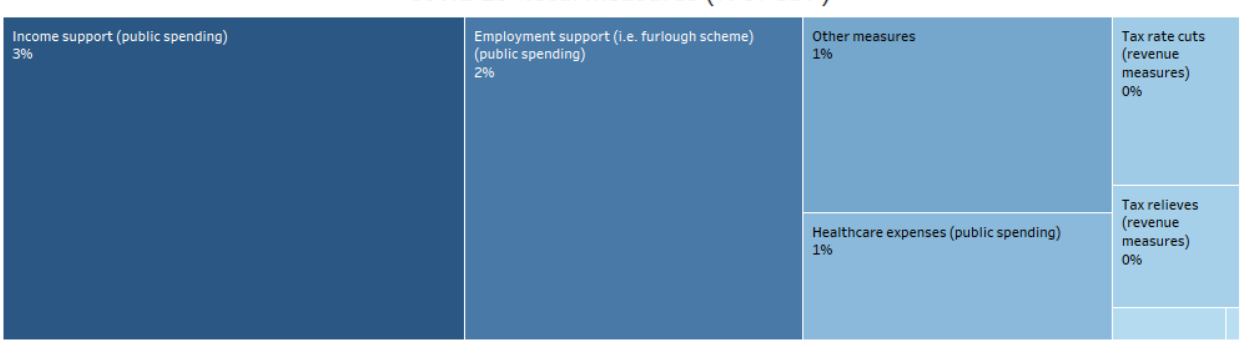
General government balance (% of GDP)



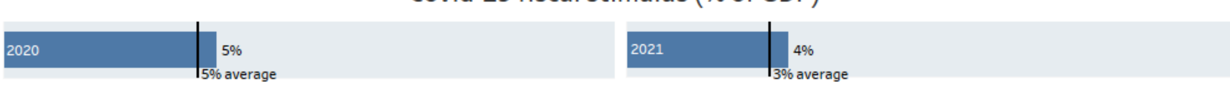
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



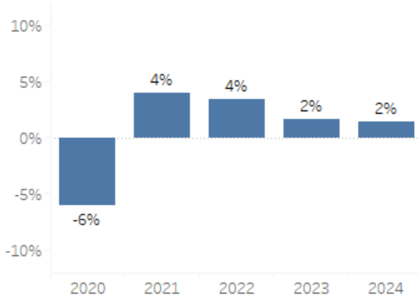
Covid-19 fiscal stimulus (% of GDP)



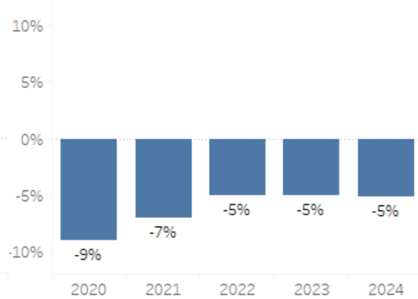
Belgium

Federal Planning Bureau

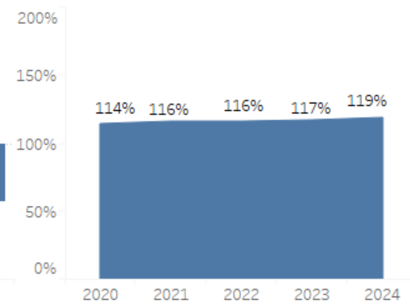
Real GDP growth (%)



General government balance (% of GDP)



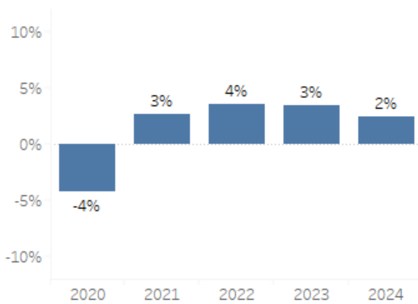
Gross public debt (% of GDP)



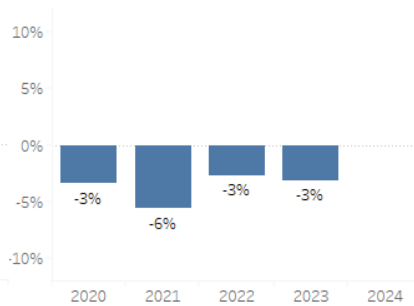
Bulgaria

Bulgarian Fiscal council

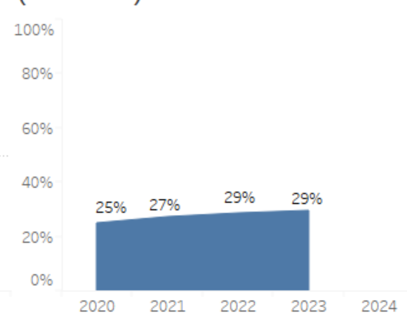
Real GDP growth (%)



General government balance (% of GDP)



Gross public debt (% of GDP)

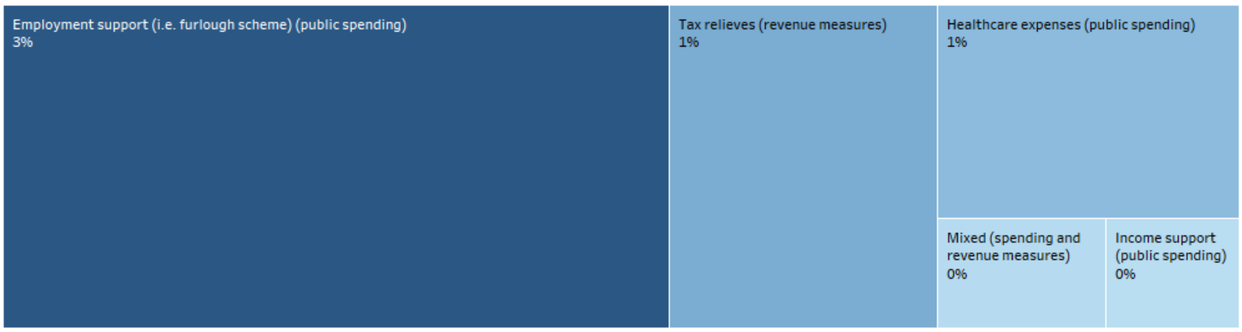


Covid-19 fiscal stimulus (% of GDP)

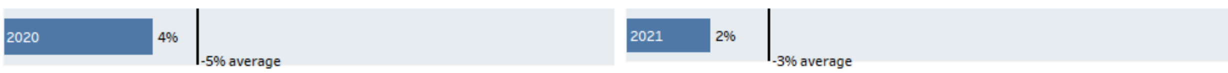
Croatia

Fiscal Policy Commission

Covid-19 fiscal measures (% of GDP)



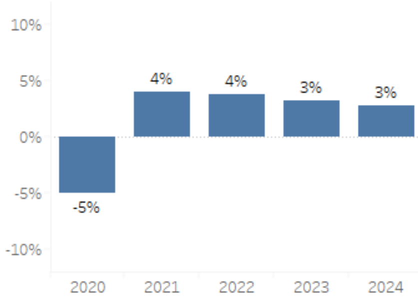
Covid-19 fiscal stimulus (% of GDP)



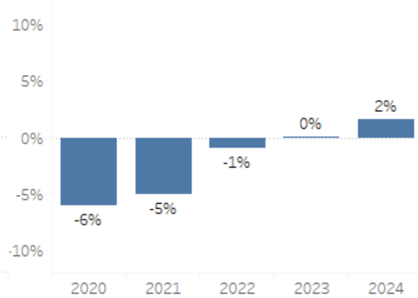
Cyprus

Cyprus Fiscal Council

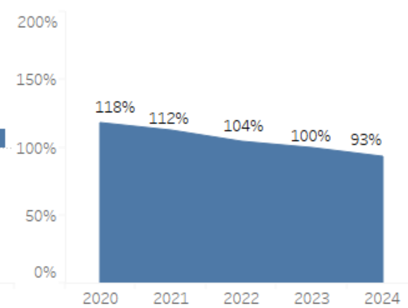
Real GDP growth (%)



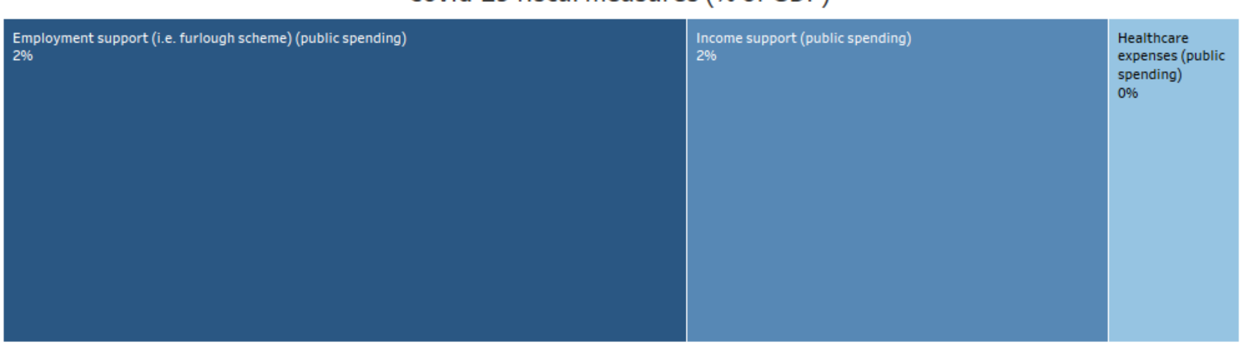
General government balance (% of GDP)



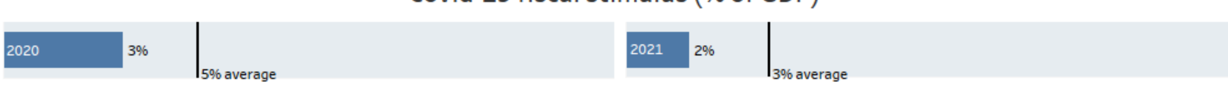
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)

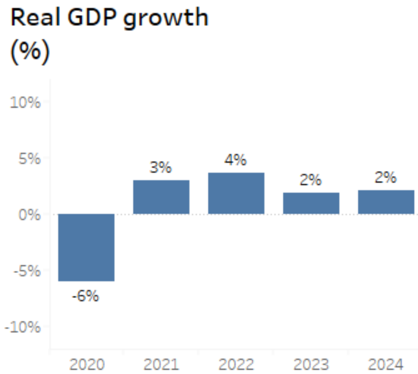


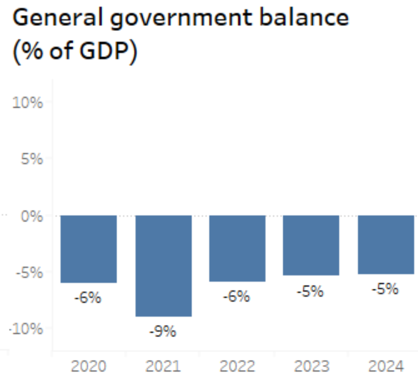
Covid-19 fiscal stimulus (% of GDP)

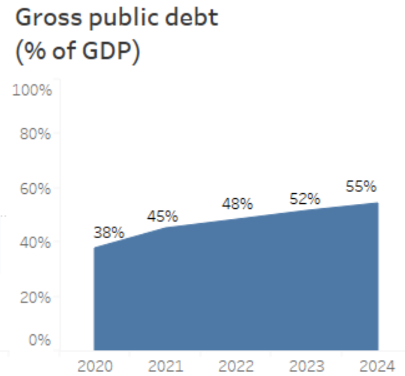


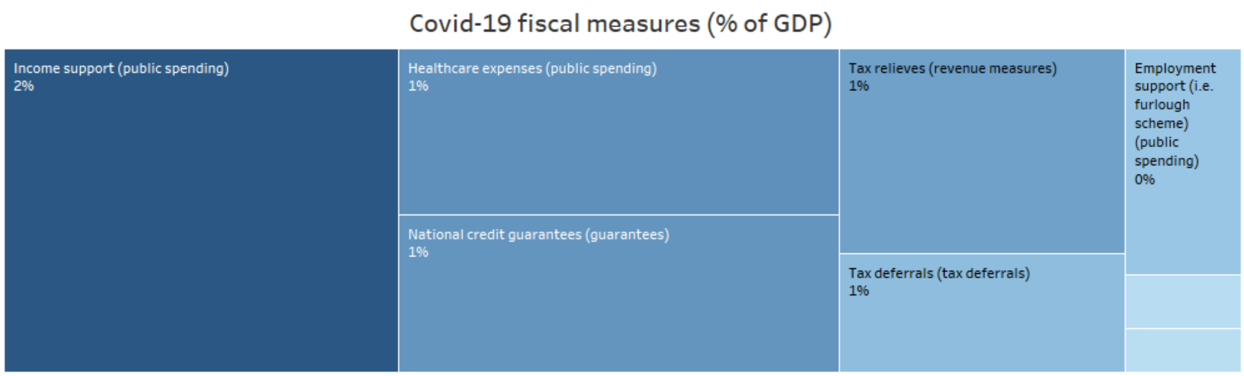
Czech republic

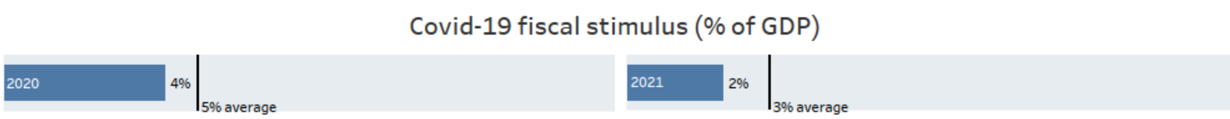
National Fiscal Council







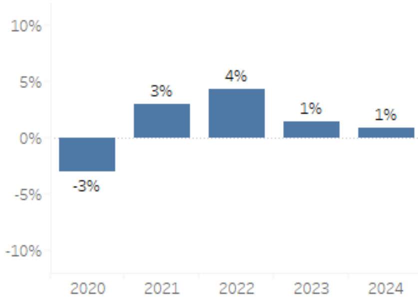




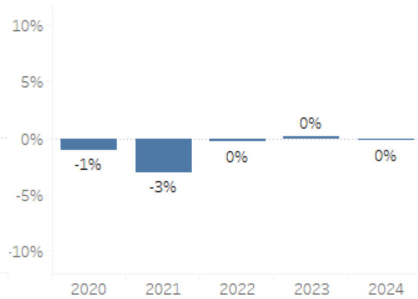
Denmark

Danish Economic Council

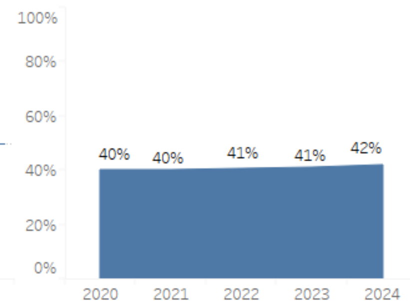
Real GDP growth (%)



General government balance (% of GDP)

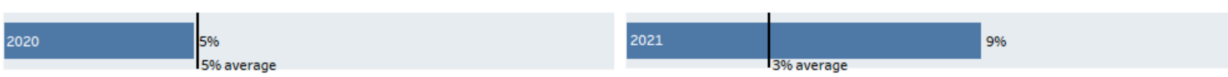


Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)

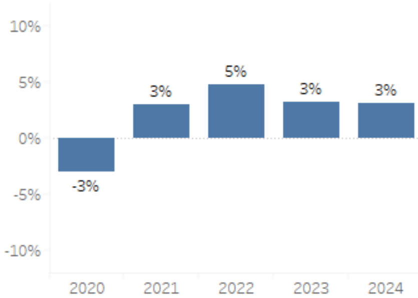
Covid-19 fiscal stimulus (% of GDP)



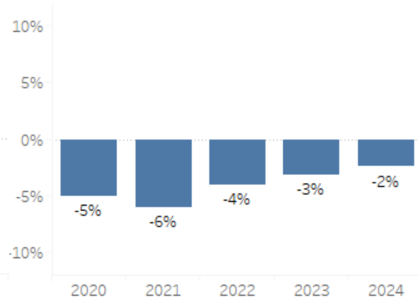
Estonia

Estonian Fiscal Council

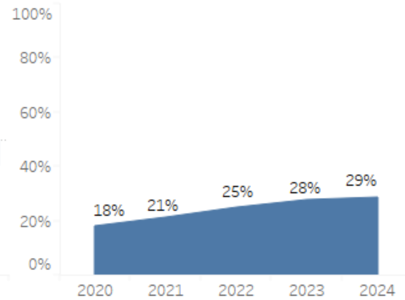
Real GDP growth (%)



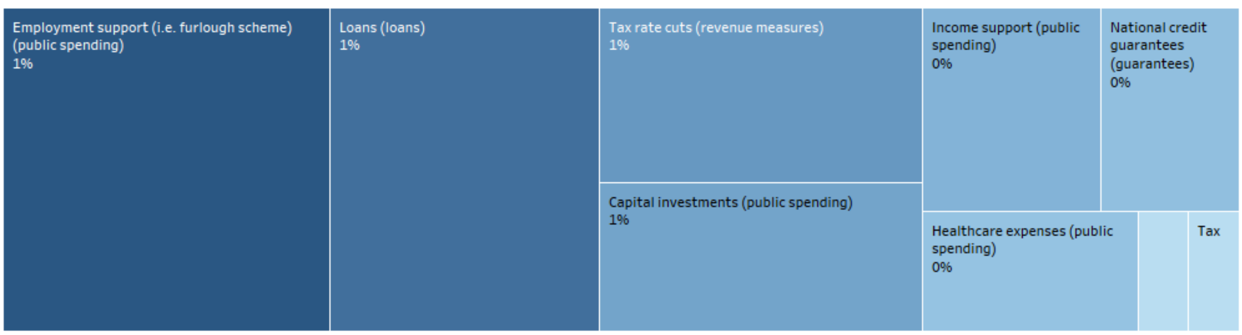
General government balance (% of GDP)



Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)

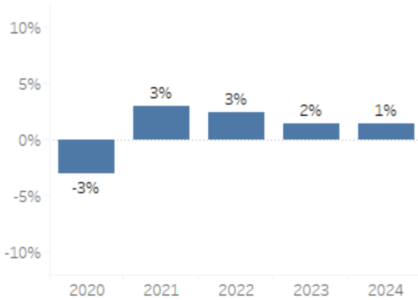


Covid-19 fiscal stimulus (% of GDP)

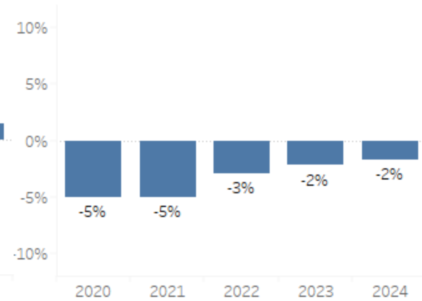
Finland

Economic Policy Council

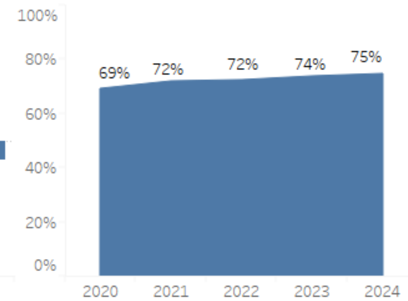
Real GDP growth (%)



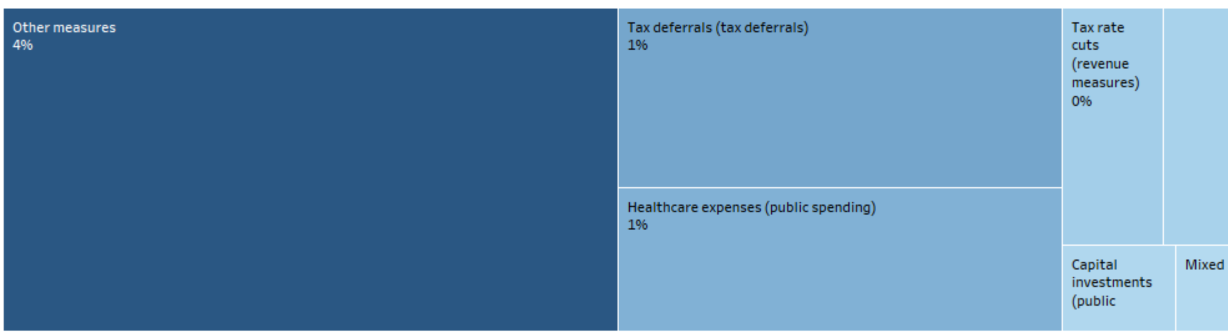
General government balance (% of GDP)



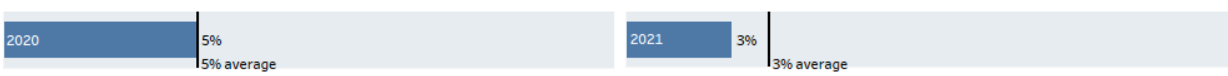
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



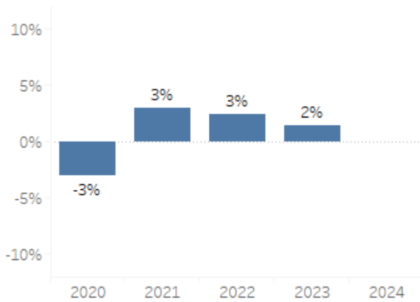
Covid-19 fiscal stimulus (% of GDP)



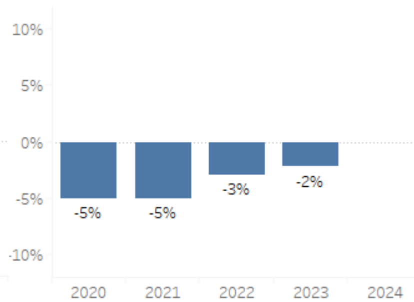
Finland

National Audit Office

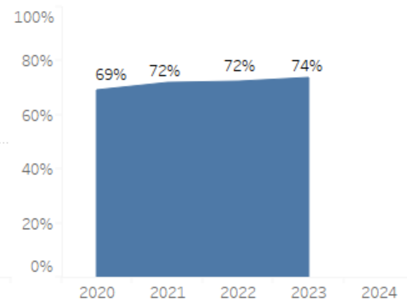
Real GDP growth (%)



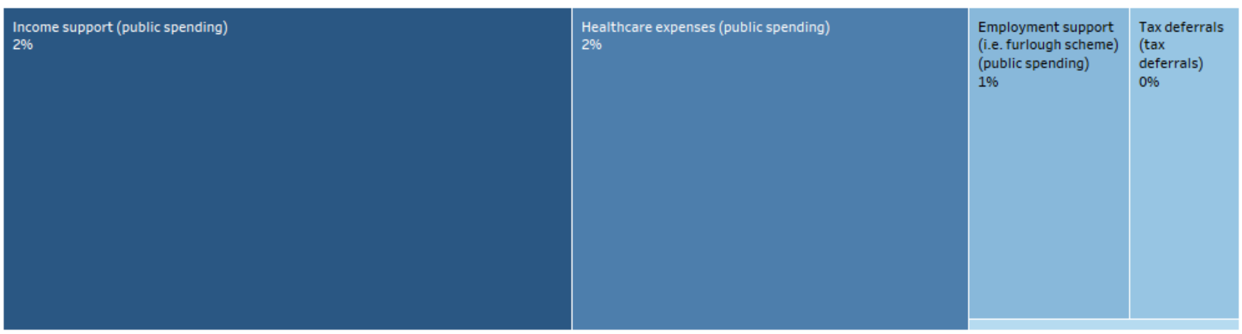
General government balance (% of GDP)



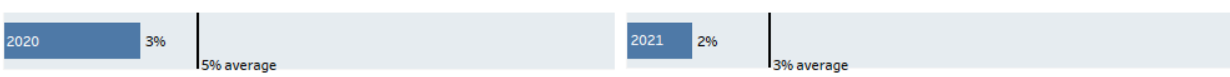
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



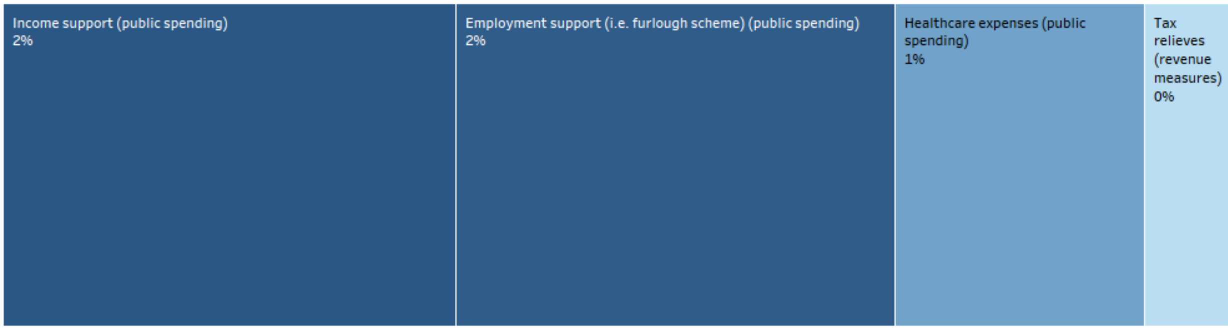
Covid-19 fiscal stimulus (% of GDP)



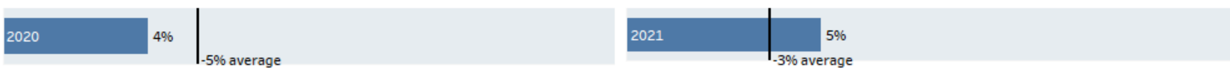
France

High Council of Public Finances

Covid-19 fiscal measures (% of GDP)



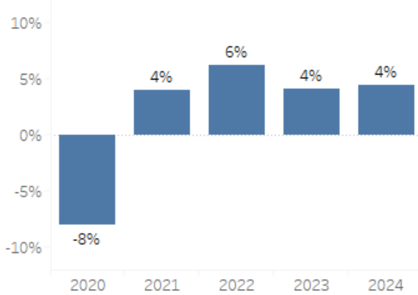
Covid-19 fiscal stimulus (% of GDP)



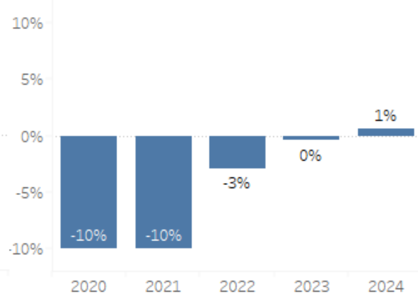
Greece

Fiscal Council

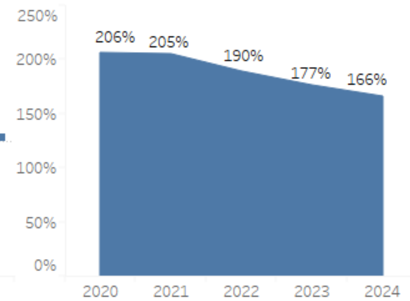
Real GDP growth (%)



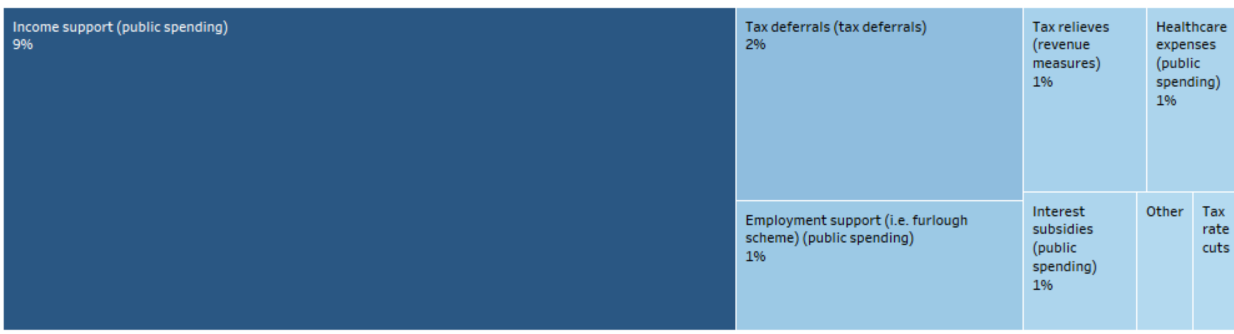
General government balance (% of GDP)



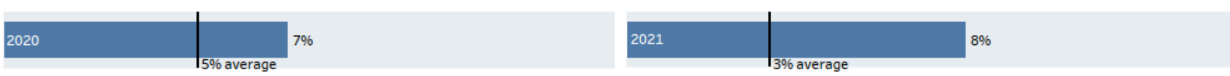
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



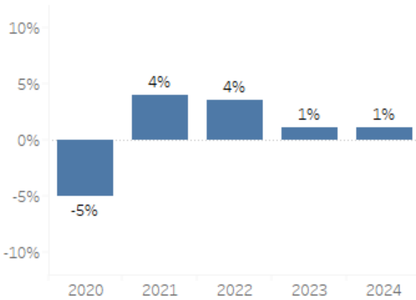
Covid-19 fiscal stimulus (% of GDP)



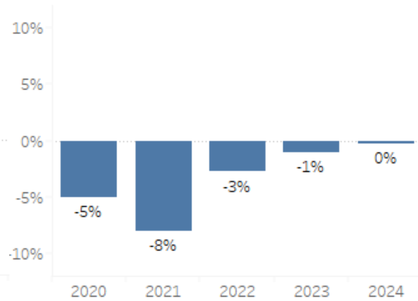
Germany

Advisory Board of the Stability Council

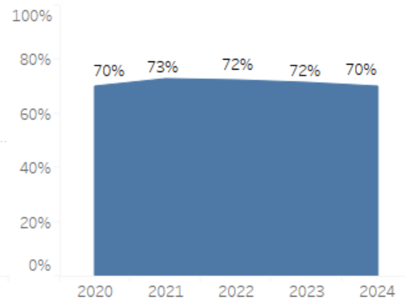
Real GDP growth (%)



General government balance (% of GDP)

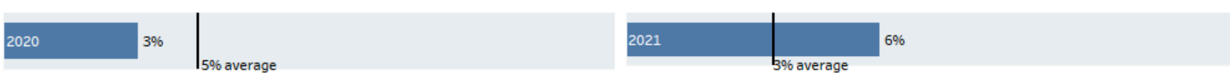


Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)

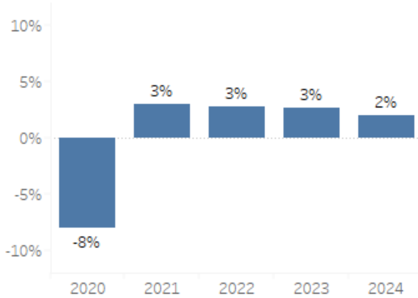
Covid-19 fiscal stimulus (% of GDP)



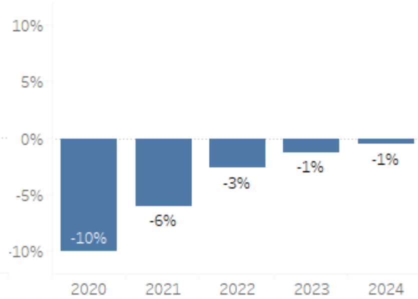
Greece

Parliamentary Budget Office

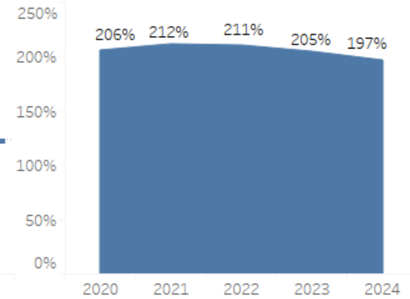
Real GDP growth (%)



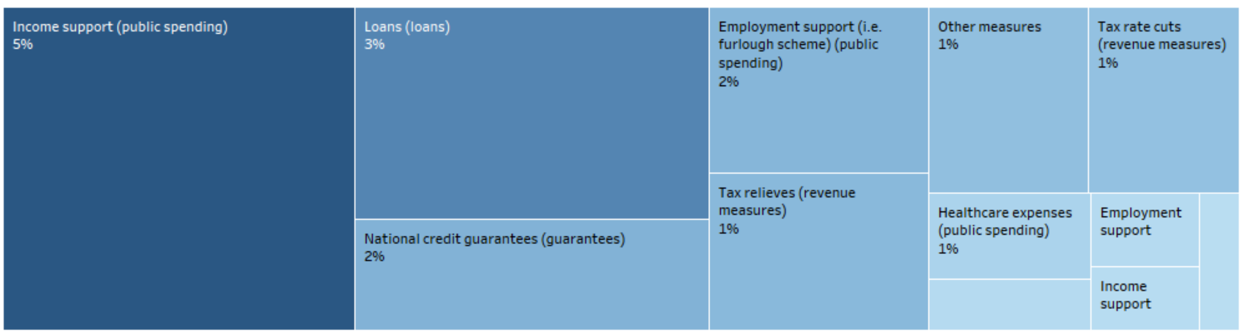
General government balance (% of GDP)



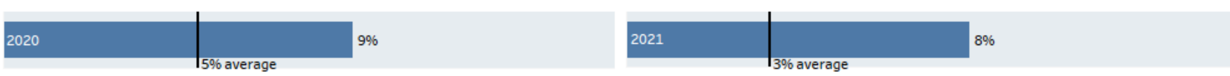
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



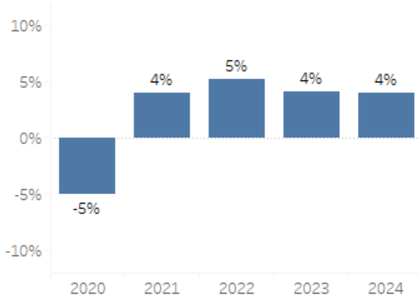
Covid-19 fiscal stimulus (% of GDP)



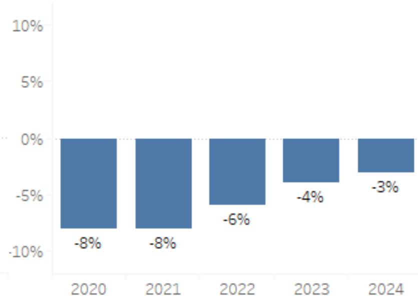
Hungary

Fiscal Council of Hungary

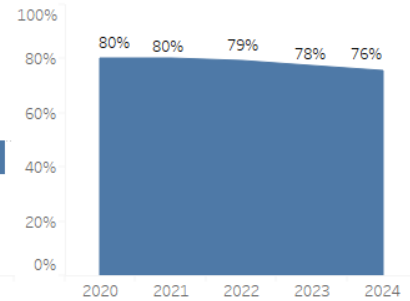
Real GDP growth (%)



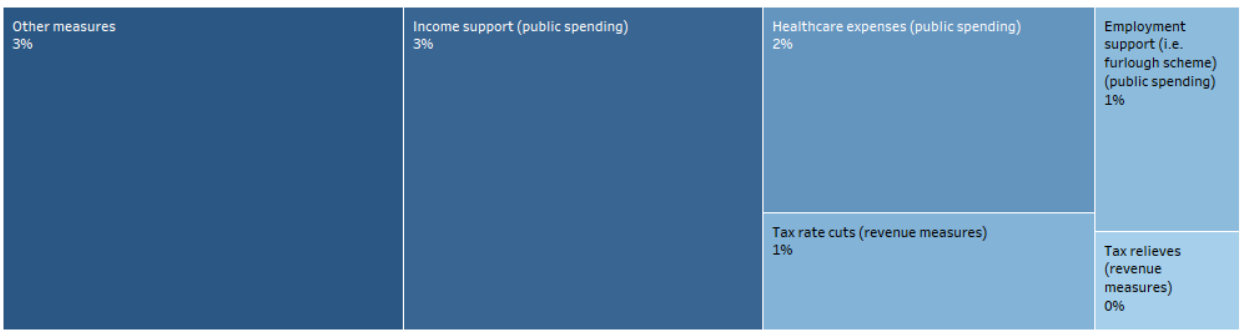
General government balance (% of GDP)



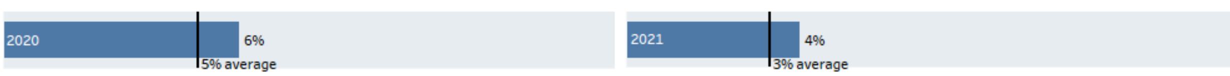
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



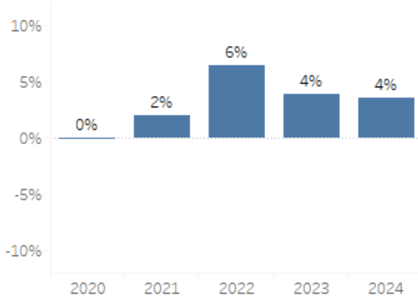
Covid-19 fiscal stimulus (% of GDP)



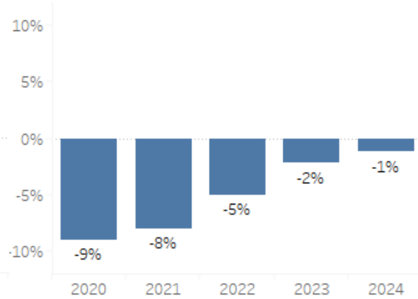
Ireland

Irish Fiscal Advisory Council

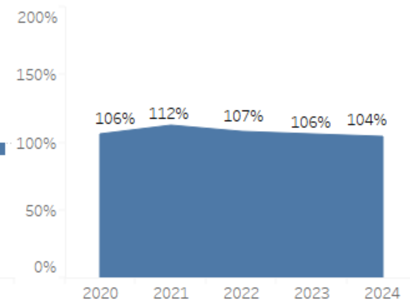
Real GNI* growth (%)



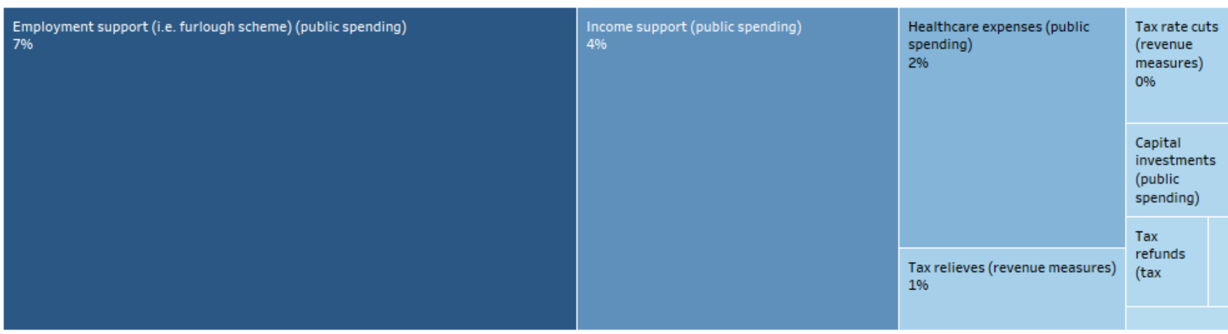
General government balance (% of GNI*)



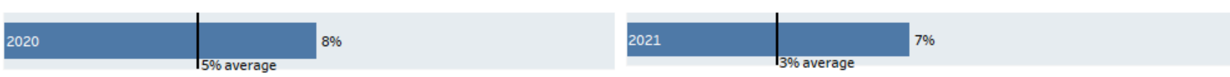
Gross public debt (% of GNI*)



Covid-19 fiscal measures (% of GNI*)



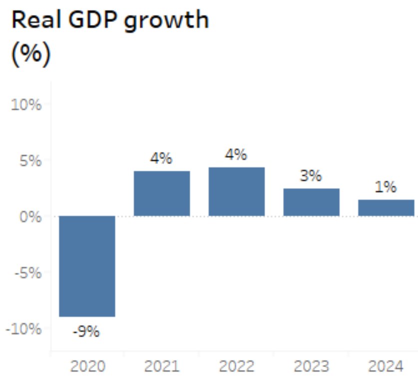
Covid-19 fiscal stimulus (% of GNI*)

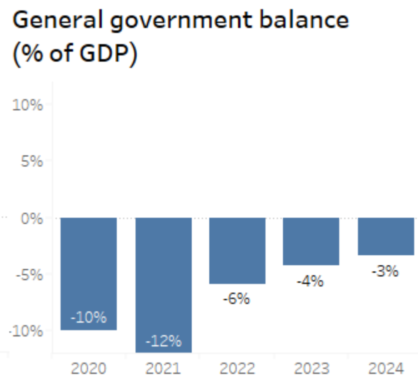


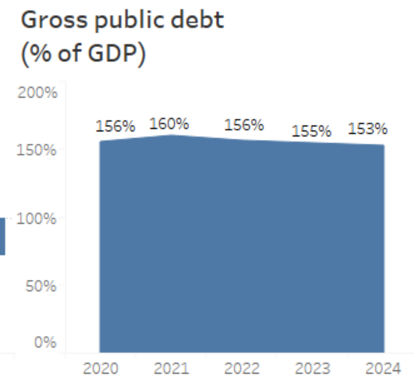
Note: GNI* = Modified Gross National Income.

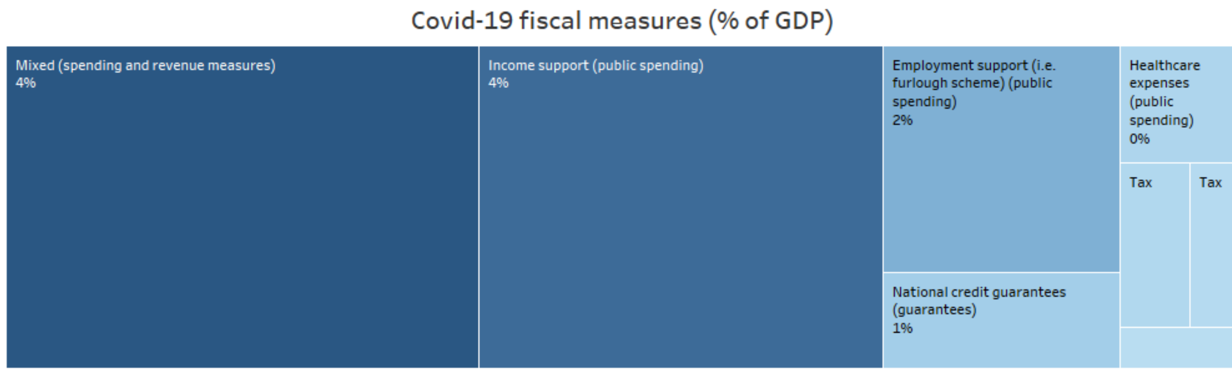
Italy

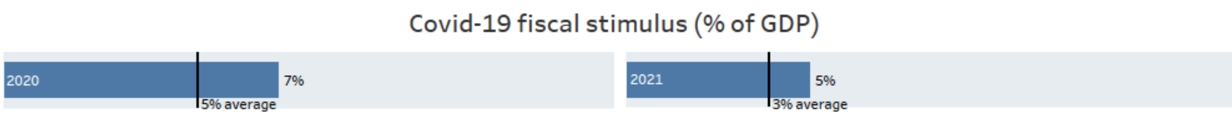
Parliamentary Budget Office







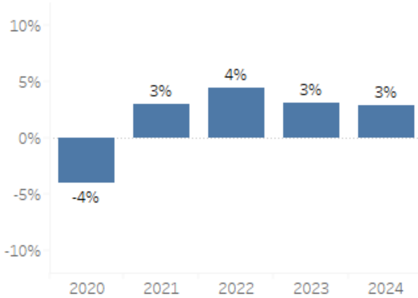




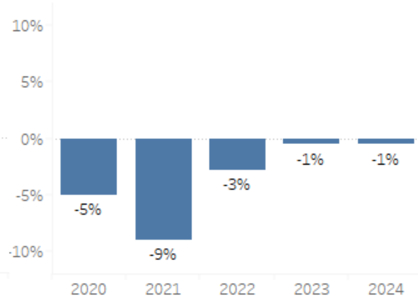
Latvia

Fiscal Discipline Council

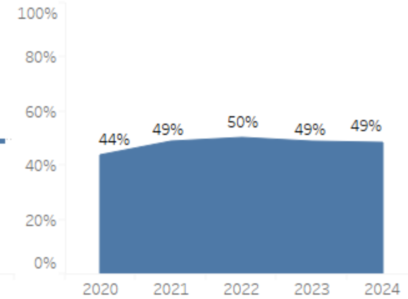
Real GDP growth (%)



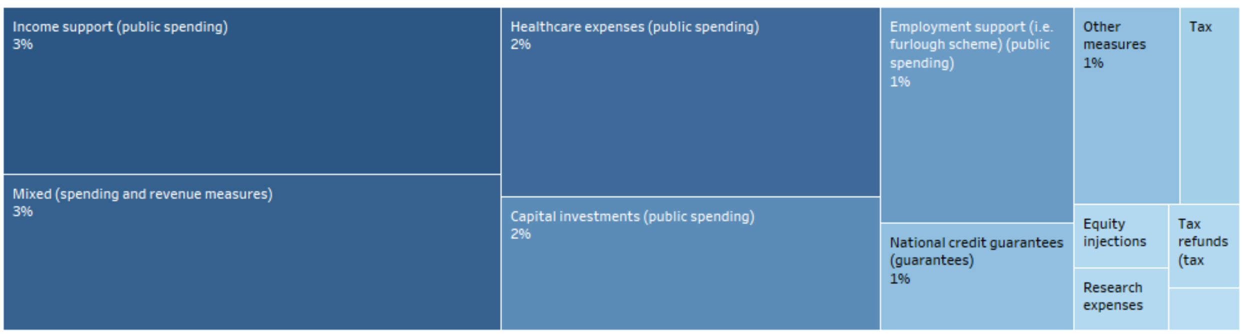
General government balance (% of GDP)



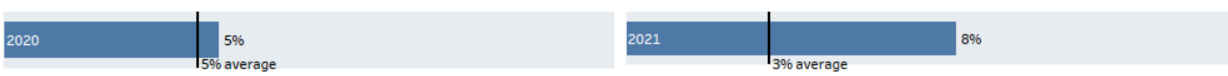
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)

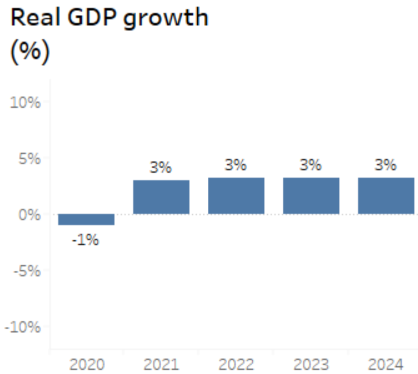


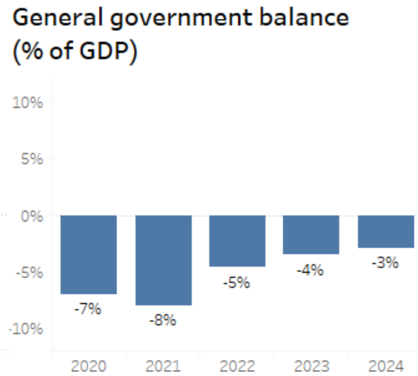
Covid-19 fiscal stimulus (% of GDP)

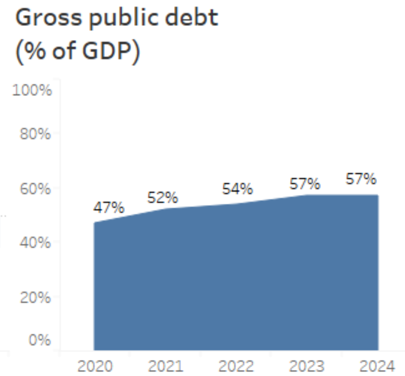


Lithuania

National Audit Office

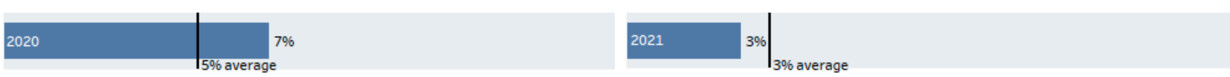






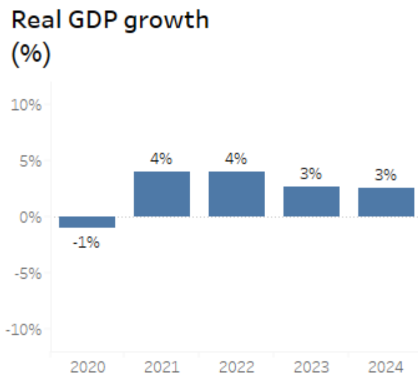
Covid-19 fiscal measures (% of GDP)

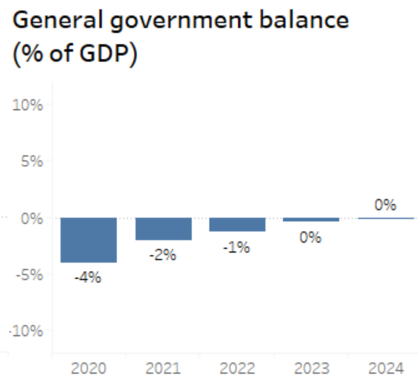
Covid-19 fiscal stimulus (% of GDP)

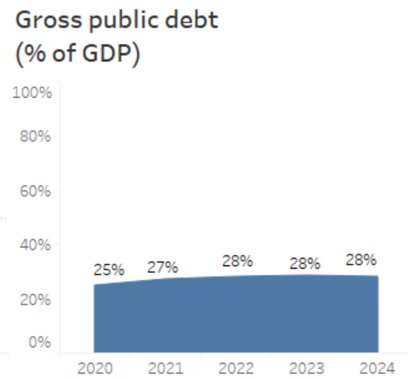


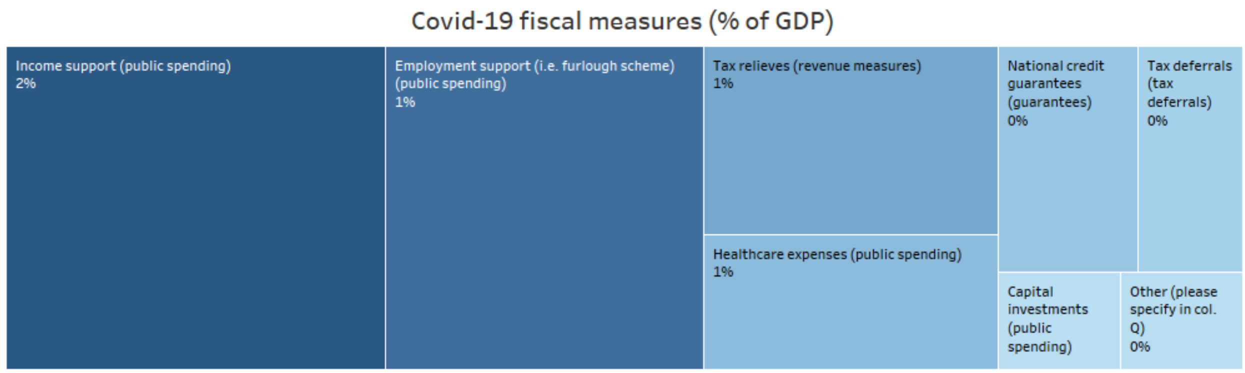
Luxembourg

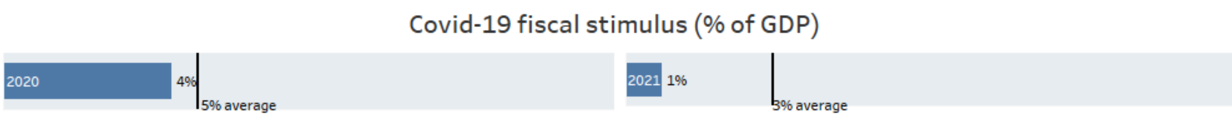
Conseil National des Finances Publiques





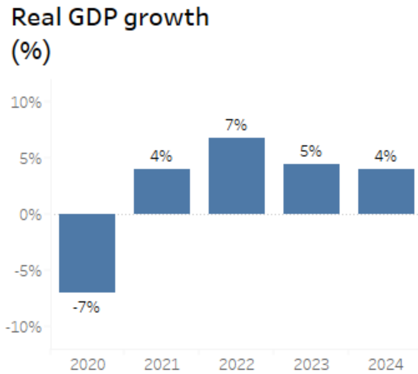


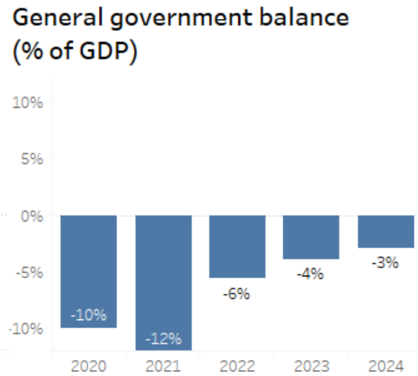


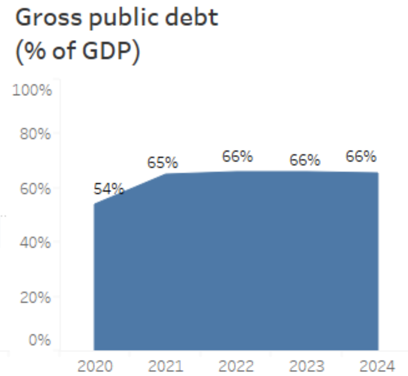


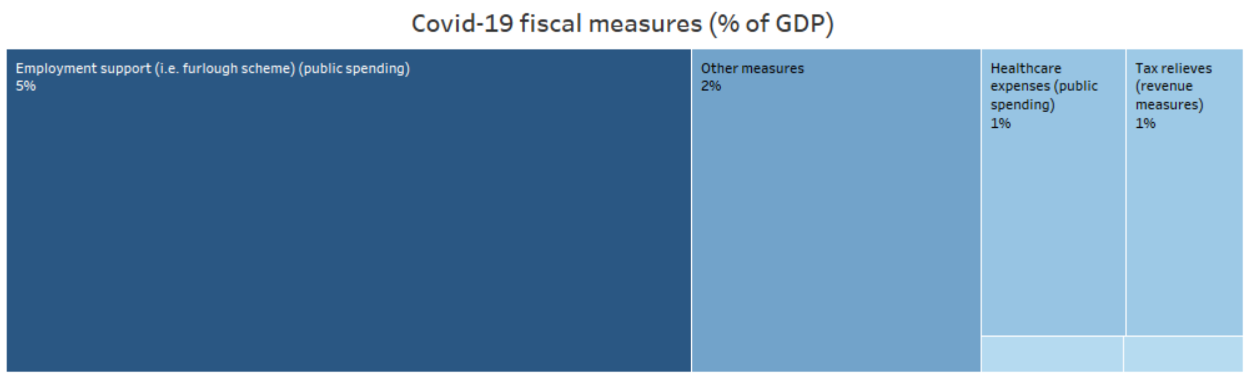
Malta

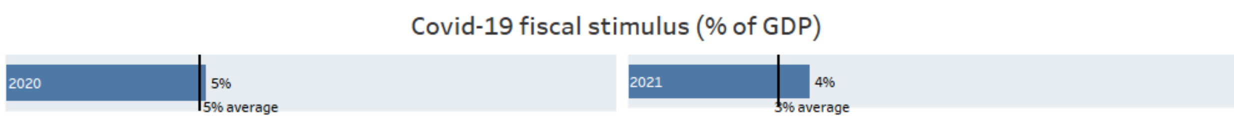
Malta Fiscal Advisory Council







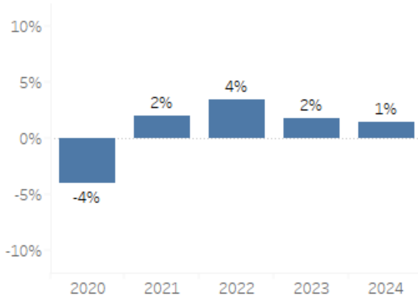




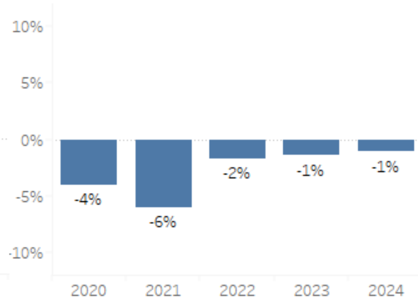
Netherlands

CPB Netherlands Bureau for Economic Policy Analysis

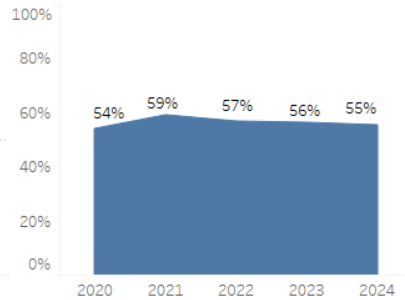
Real GDP growth (%)



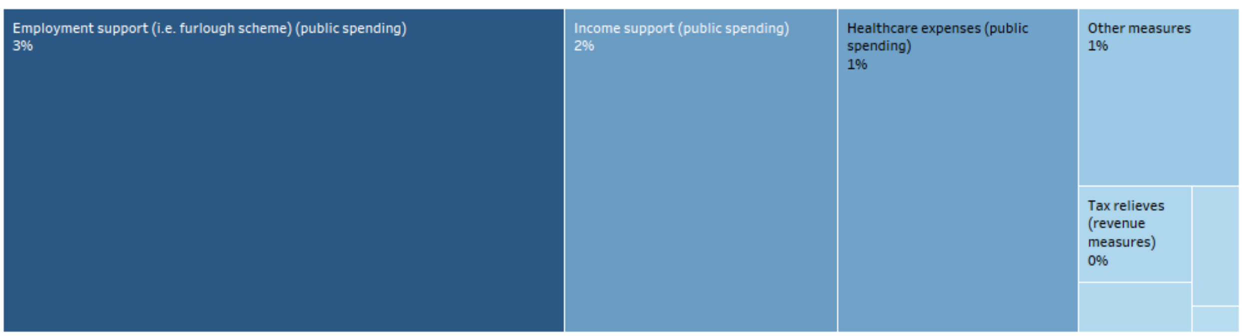
General government balance (% of GDP)



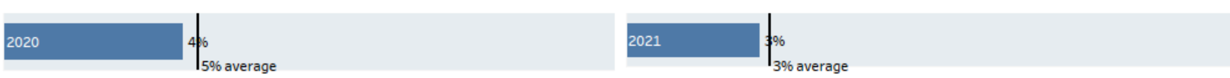
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



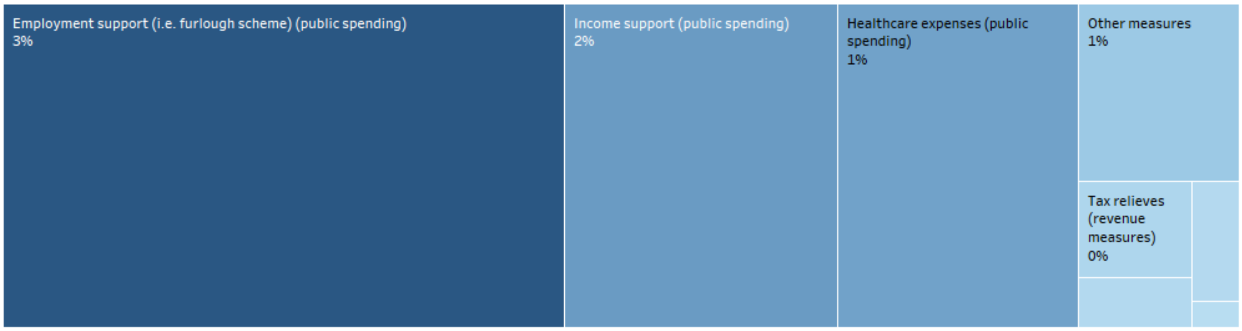
Covid-19 fiscal stimulus (% of GDP)



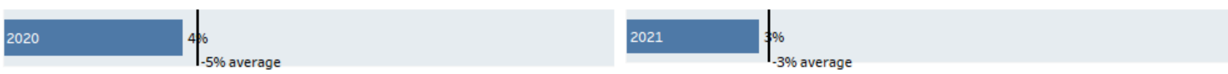
Netherlands

Dutch Council of State - Raad van State

Covid-19 fiscal measures (% of GDP)

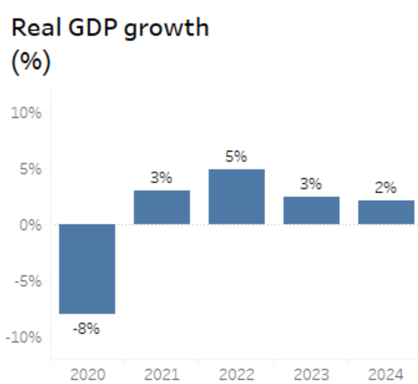


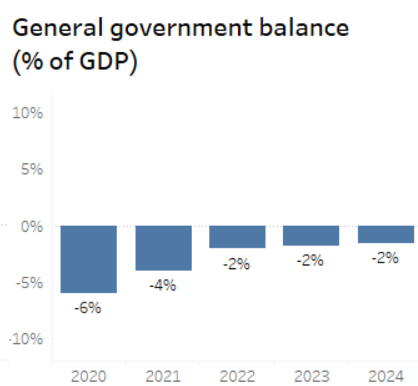
Covid-19 fiscal stimulus (% of GDP)

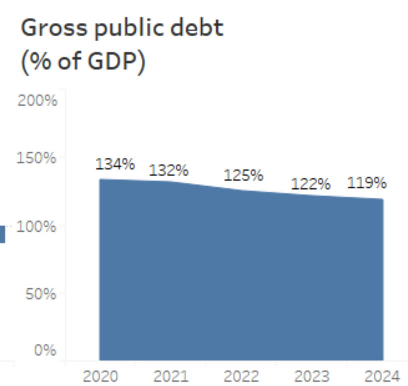


Portugal

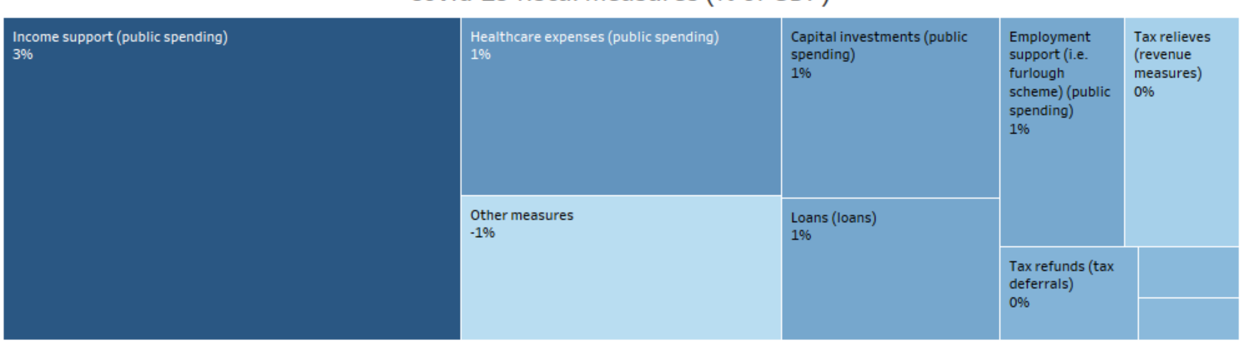
Portuguese Public Finance Council







Covid-19 fiscal measures (% of GDP)

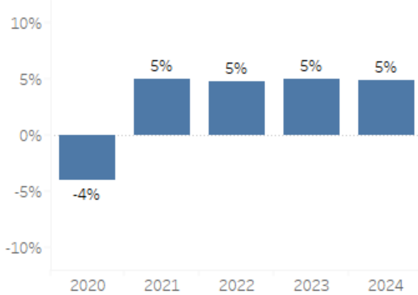


Covid-19 fiscal stimulus (% of GDP)

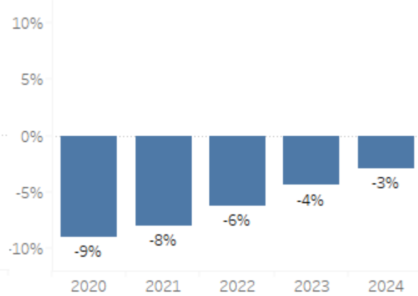
Romania

Romanian Fiscal Council

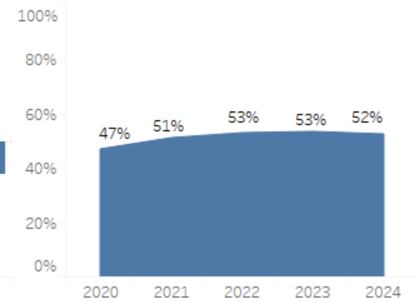
Real GDP growth (%)



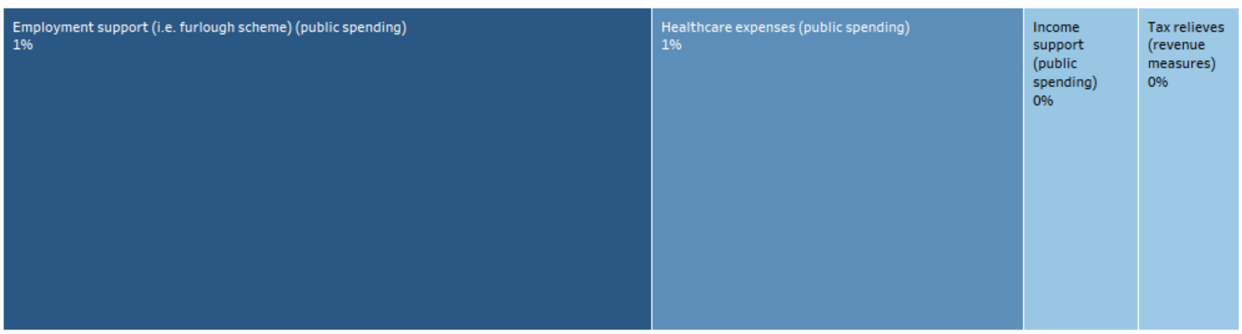
General government balance (% of GDP)



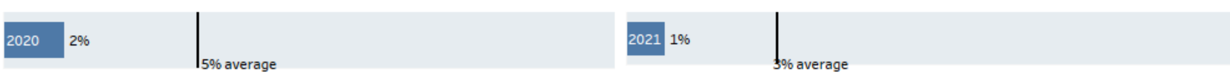
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



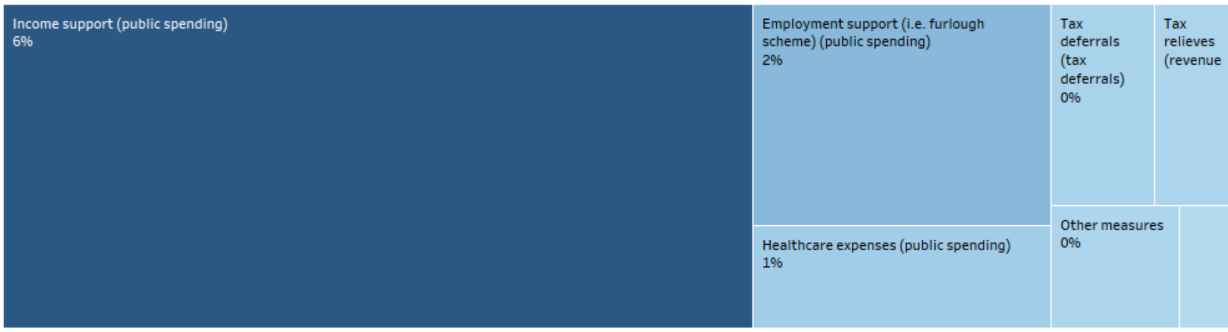
Covid-19 fiscal stimulus (% of GDP)



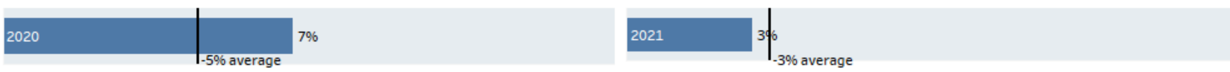
Slovenia

Institute of Macroeconomic Analysis and Development

Covid-19 fiscal measures (% of GDP)



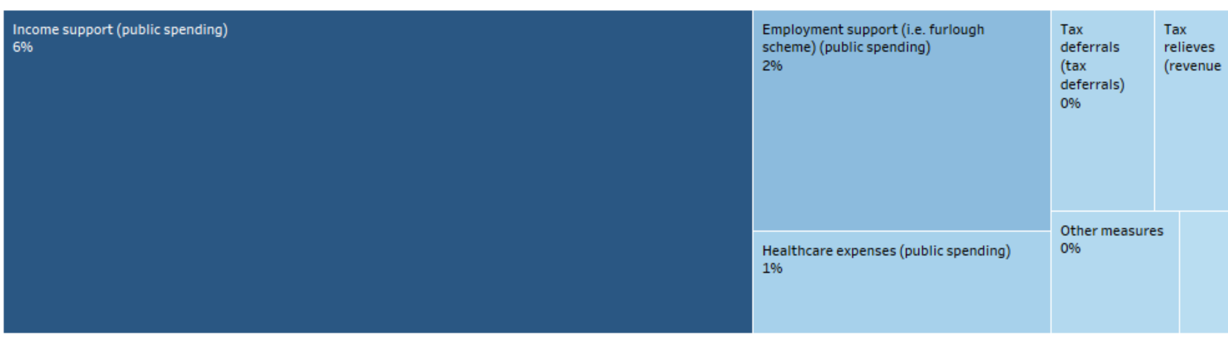
Covid-19 fiscal stimulus (% of GDP)



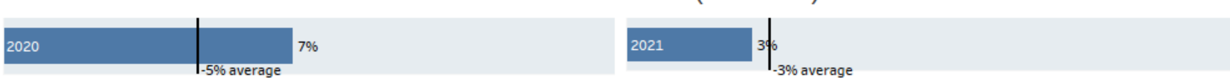
Slovenia

Slovenian Fiscal Council

Covid-19 fiscal measures (% of GDP)



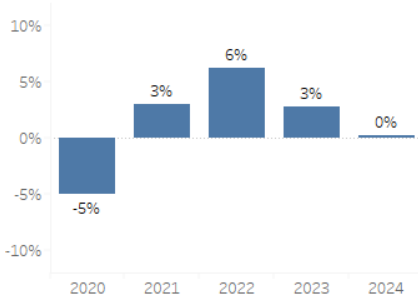
Covid-19 fiscal stimulus (% of GDP)



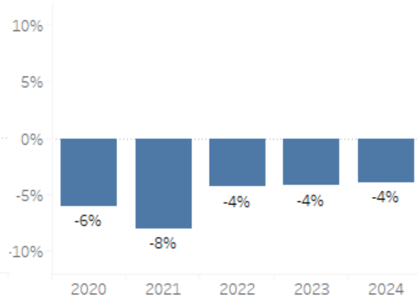
Slovakia

Council for Budget Responsibility

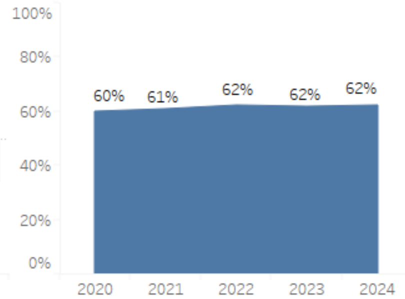
Real GDP growth
(%)



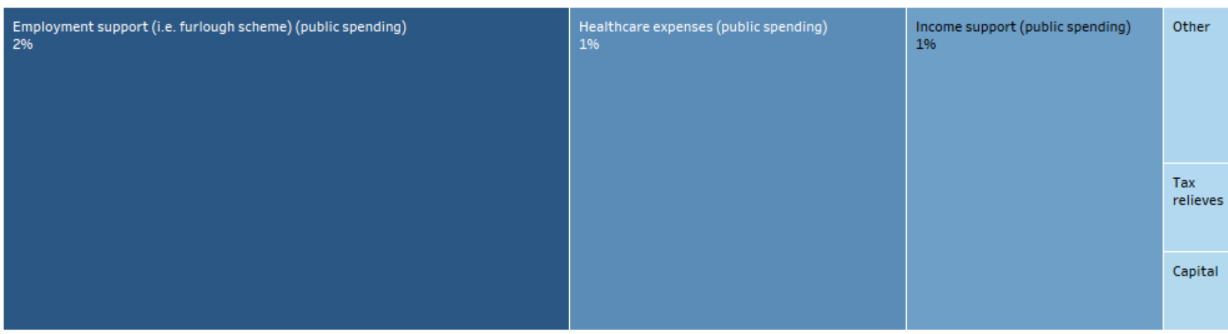
General government balance
(% of GDP)



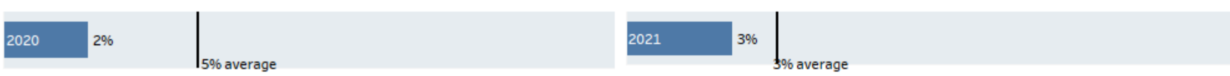
Gross public debt
(% of GDP)



Covid-19 fiscal measures (% of GDP)



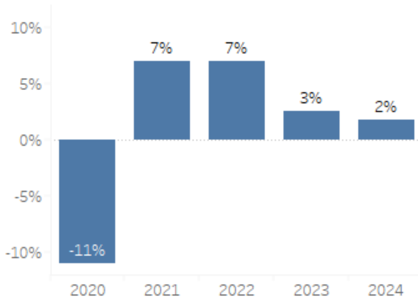
Covid-19 fiscal stimulus (% of GDP)



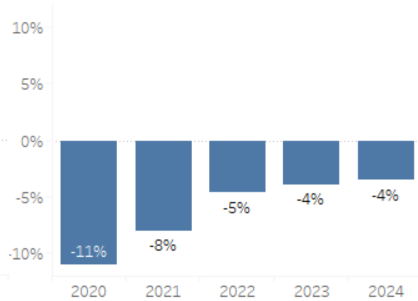
Spain

Independent Authority for Fiscal Responsibility

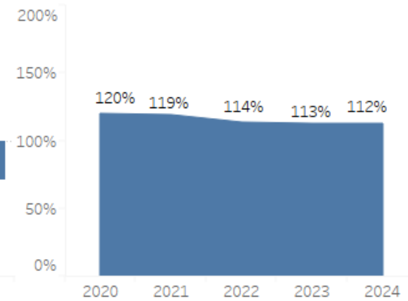
Real GDP growth (%)



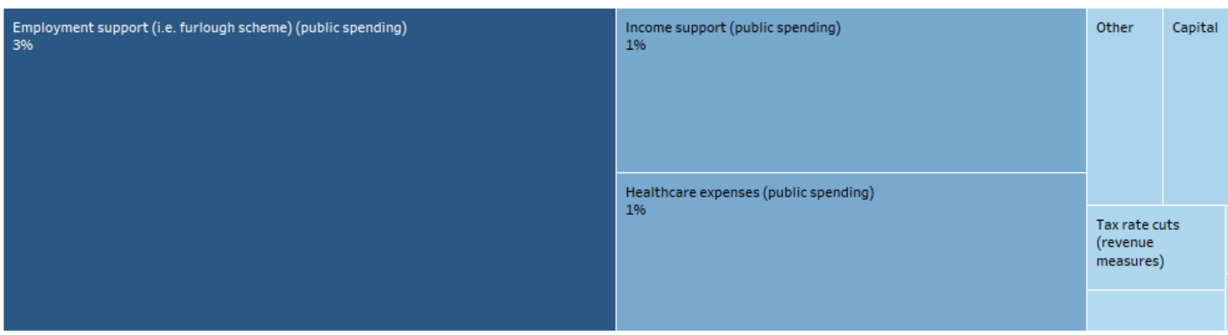
General government balance (% of GDP)



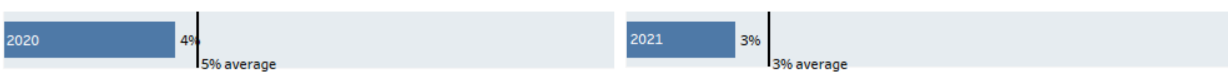
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



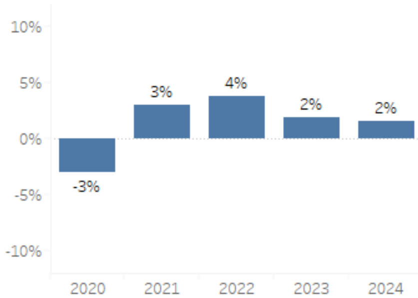
Covid-19 fiscal stimulus (% of GDP)



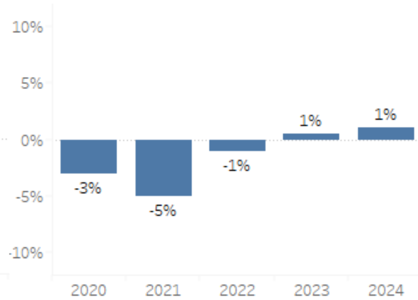
Sweden

Swedish Fiscal Policy Council

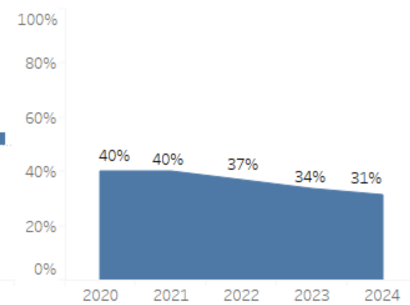
Real GDP growth (%)



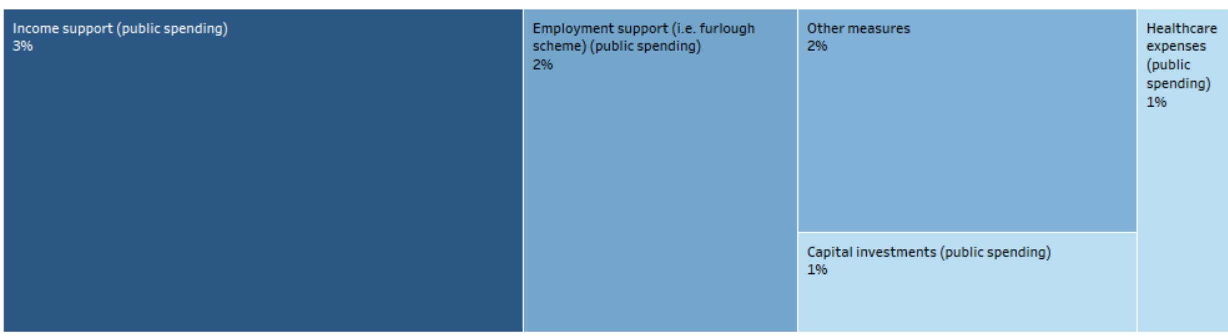
General government balance (% of GDP)



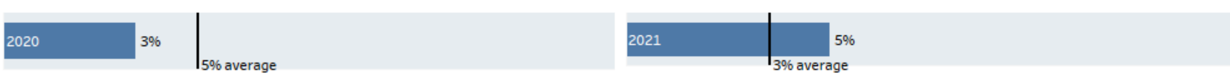
Gross public debt (% of GDP)



Covid-19 fiscal measures (% of GDP)



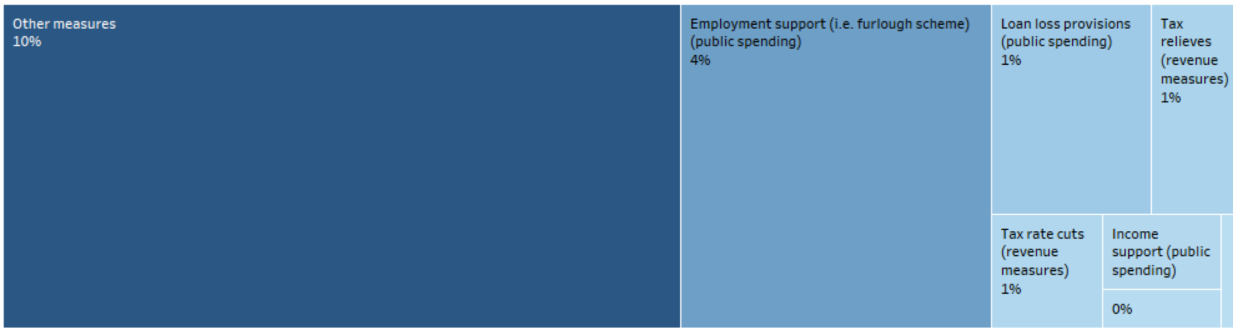
Covid-19 fiscal stimulus (% of GDP)



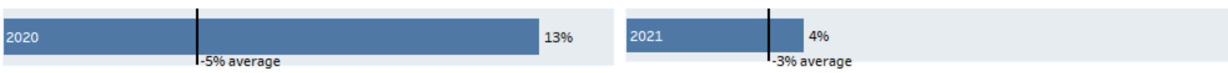
United Kingdom

Office for Budget Responsibility

Covid-19 fiscal measures (% of GDP)



Covid-19 fiscal stimulus (% of GDP)



The Network of EU Independent Fiscal Institutions

The Network is composed of 32 independent fiscal institutions representing 26 EU countries and the 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