

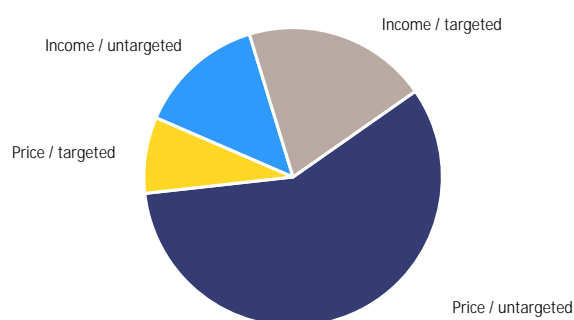
Box 1.2.4: Fiscal policy measures to mitigate the impact of high energy prices

The increase in energy prices has prompted most Member States to implement fiscal policy measures to mitigate the social and economic impact on households and firms. This box takes stock of the overall budgetary impact of the measures currently in place and their nature. Furthermore, it explores the budgetary consequences if high energy prices required a prolongation of measures beyond the currently announced plans.

In 2022, the net budgetary cost of measures to mitigate the impact of high energy prices is estimated at 1.2% of GDP in the EU.

This box addresses the cost of energy measures from a budgetary perspective, i.e. only measures with a direct budgetary impact on the general government accounts are taken into account. Regulatory measures or measures implemented by public companies outside the perimeter of general government are not included, unless the government provides a compensation to the companies involved (e.g. in the form of a subsidy or a capital transfer). For the purposes of this estimation, '*energy measures*' are defined as: (1) measures that have a direct impact on the marginal cost of energy consumption for households and/or firms ('*price measures*'); (2a) measures that provide temporary income support to households (hence, permanent increases in wages and salaries, pensions or other social benefits are not considered to be energy measures, as they are not to be reversed when energy prices decrease again); (2b) measures that provide compensation to firms (other than price measures) in energy-intensive industries (both '*income measures*'); and (3) revenues from (new taxes or levies on) windfall profits by energy companies.⁽¹⁾ Based on this definition, for 2022 as a whole, Member States have adopted measures with a net cost of close to EUR 200 billion (1.2% of GDP), by the cut-off date of this forecast. The vast majority of these measures are price measures (roughly two thirds). Therefore, they may distort the price signal and reduce incentives to contain energy consumption and increase energy efficiency. The adopted measures can be further characterised by whether they are targeted (or not) to households and firms most vulnerable to energy price hikes. Conversely, untargeted measures are broad-based measures that apply to the majority of the population without (much) differentiation based on income or specific needs. For 2022, more than 70% of measures have been untargeted. Taking both criteria together, almost 60% of measures can be considered to be untargeted price measures (see Graph 1).

Graph 1: Energy measures as % of GDP in 2022 by category



⁽¹⁾ Revenue from (taxes or levies on) windfall profits form a special category as this is does not constitute a support measure, but rather a source of funding. This particular type of revenue is included in the estimates given the very direct link with increased energy prices, and because many Member States are already using or are contemplating the use of this revenue source to fund support measures.

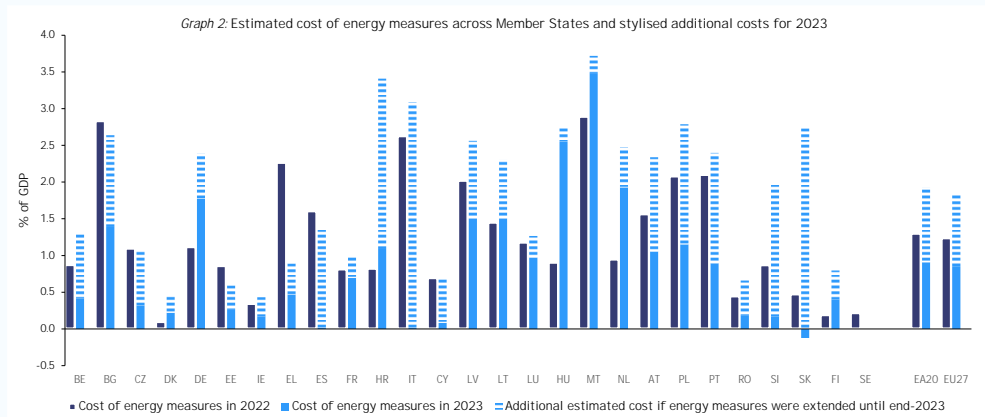
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Box (continued)

As energy prices are set to remain high in 2023, the currently announced measures may underestimate the ultimate budgetary costs.

In line with the Commission's customary 'no-policy-change assumption', ⁽²⁾ the projections for 2023 take into account measures that have been credibly announced and specified in sufficient detail by the cut-off date of this forecast. On this basis, the net budgetary cost of energy measures for 2023 is forecast at around EUR 144 billion (0.9% of GDP), below 2022. Costs have been projected based on when the measures entered into force and their announced expiry date. They differ in size across Member States, reflecting country-specific factors such as the design of their national policy packages and energy mix. Importantly, at the cut-off date, some Member States had not yet announced which energy measures they plan for 2023. Moreover, in several Member States, energy measures are planned to expire in the course of 2023 (some as early as the end of the first quarter of the year). Yet, if energy prices remain high, Member States may decide to prolong existing measures or to implement new ones. The current projection for the budgetary cost of measures related to the high energy prices is largely driven by a few large Member States that have already announced significant full-year policy packages. As a result, for a number of Member States and for the EU as a whole, the budgetary cost of energy measures in 2023 may be underestimated.

Complementing the budgetary projections included in this forecast, the Commission services have tentatively estimated the potential additional budgetary cost of energy measures, if the existing measures were to be extended throughout 2023. This is necessarily a highly stylised exercise, using the Autumn Forecast as a starting point, and disregarding the impact that the extension of energy measures could possibly have on economic activity and inflation. This exercise indicates that, if energy measures had to be kept in place for the full year 2023, their total net cost could increase by an additional 1% of GDP in both the EU and the euro area, reaching close to 2% of GDP in 2023, significantly higher than in 2022. ⁽³⁾ The picture is mixed at the level of individual Member States, depending on the characteristics of the energy measures that are currently in force or have been announced, including their generosity and expiry dates. Although these estimates are surrounded by considerable uncertainty, they illustrate how future energy price developments may impact fiscal outcomes. Graph 2 presents the budgetary cost of energy measures in 2022 and 2023 as included in this Autumn Forecast, and adds for 2023 the estimated additional budgetary cost of extending the energy measures throughout that year.



⁽²⁾ European Commission (EC-DG ECFIN) (2016), "The no-policy-change assumption in the Commission's forecast." In *EC Report on Public Finances in EMU*, European Economy Institutional Paper 045, pp. 34-48, December 2016.

⁽³⁾ For some specific Member States, this estimate also assumes the effective use of budgetary appropriations currently foreseen by some governments to finance additional energy measures in 2023, the details of which have not yet been specified. Its budgetary impact has already been reflected in the projections for the general government deficit and debt in 2023 underlying this Autumn Forecast, but not in the overall budgetary cost of energy measures in that year.