

Eurogroup statement on the fiscal policy response to high energy prices and inflationary pressures

3 October 2022

Over the past two-and-a-half years, the euro area economy has been marked by large swings in economic activity. The Russian war of aggression in Ukraine has brought new disruptions to the fore and pushed already rising global inflation to multi-decade highs. Recent forecasts and survey indicators point to a deterioration in the near-term growth and inflation outlook with further gas supply disruptions. On the other hand, in the first half of the year, economic growth has been higher than expected and labour markets look to be a source of resilience going forward, while the RRF continues to support growth-enhancing reforms and investments.

Today, the Eurogroup discussed the next steps for fiscal policy, building on its [July statement](#) on fiscal guidance for 2023. We recalled that broad-based support to aggregate demand through fiscal policies in 2023 is not warranted, the focus being instead on protecting the vulnerable, while maintaining the agility to adjust, if needed. Fiscal policies should aim at preserving debt sustainability as well as raising the growth potential in a sustainable manner, thus also facilitating the task of monetary policy to ensure the timely return of inflation to the ECB's 2% medium-term target.

It is our responsibility to mitigate the adverse impact of this external shock on our economies. Therefore, over the last few months, we have taken a series of measures to support vulnerable households and businesses. Given the urgency of this issue, we have taken emergency measures that can be easily and rapidly deployed, many of which have been broad based and targeting prices. Nevertheless, such measures will weigh increasingly on our national budgets and may, in some cases, slow down the necessary adjustment of energy demand.

Looking ahead, we aim to ensure the quality of the measures taken to shield citizens and businesses. We are committed to protect those in need, but also recognise that governments cannot fully shield their economies from the effects of the unprecedented energy price increases as the euro area is a net importer of energy. Therefore, we aim to focus our support increasingly on cost-efficient measures, in particular income measures that are exceptional, temporary, and targeted to the vulnerable.

Given the strong spill-overs in the European energy markets, we will coordinate our measures to preserve the level playing field and the integrity of the single market, including by refraining from harmful tax adjustments. Close coordination of economic policies also in a broader sense is needed to address the challenges we face. In particular, we should seek to avoid the energy price shock to develop into second round effects and a more persistent acceleration of inflation dynamics which would damage our economies. We therefore seek to refrain from policies that would add to inflationary pressures.

Speeding up our reduction of energy consumption is key to stabilise energy prices and reduce our reliance on Russian fossil fuels. We recall the importance of investments in

energy efficiency and interconnectivity of energy networks, the diversification of energy sources, the development of low-carbon energy production, and well-functioning energy markets. These are critical to enhance resilience, shield our economies from future increases in fossil fuel prices and build the foundations for long term, sustainable growth. The RRF and RePowerEU can provide important support in this regard. Targeted and temporary policies that do not distort the single market may be needed to help firms exposed to high energy prices to transition to reduced exposures, with those making windfall revenues from high energy prices contributing their share in solidarity with the rest of society.

We remain confident in the resilience of our economy and our ability to overcome the challenges of the energy price crisis. Our fundamentals remain strong, and the reforms and investments under the RRF will further improve the sustainability and resilience of our economies, making them better prepared for the challenges and opportunities of the green and digital transitions. We stress the importance of close coordination and of common European level solutions, where appropriate, and we are committed to achieving our policy objectives in a united manner. The Eurogroup will continue to closely monitor economic developments and commits to further reinforce our coordination, in order to deliver a determined and agile policy response.