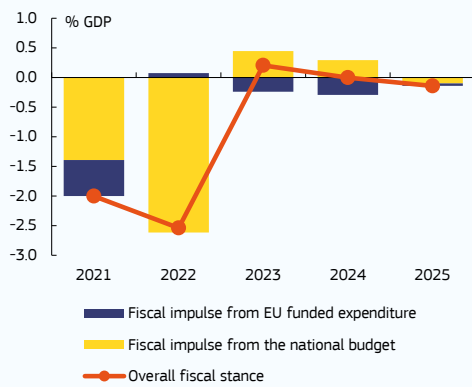


**Box 1.2.2: Fiscal stance: gauging the impact of fiscal policy on aggregate demand**

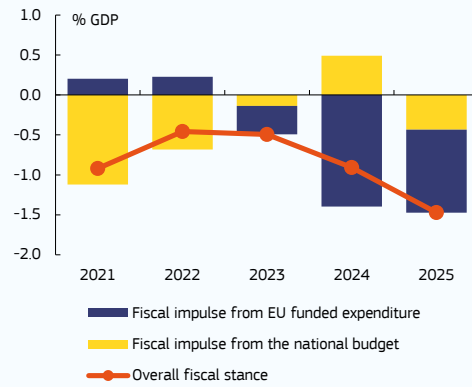
**The increasing role of EU funds – especially in the aftermath of Next Generation EU – calls for a new measurement of the fiscal stance that takes into account the EU budget.**

The overall fiscal stance measures the extent to which fiscal policies drive economic growth by supporting aggregate demand in the short run. Traditionally, this has been proxied by the change in the structural balance. The problem with this approach is that it does not take into account the fiscal impulse coming from transfers that leave the general government balance unaffected, but that potentially can have a sizeable effect on aggregate demand. In the EU the economic impulse from fiscal policies does not only come from national budgets and respective deficit, but also from the EU budget given the important role of EU funds, including the RRF and European Structural and Investment Funds. EU funds can reinforce, dampen or even reverse the fiscal impulse from the national budget – a fact often overlooked by some commentators. To measure the overall fiscal stance, both components should therefore be taken into account. Graphs 1a and 1b provide some illustrative examples for Spain and Latvia, showing how the fiscal impulse from the EU budget can significantly affect the overall fiscal stance in some Member States. In Spain, in 2023 and 2024, the expansionary impulse from EU-funded expenditure offset part of the contractionary impulse from the national budget. In Latvia, in 2023, the expansionary impulse from EU-funded expenditure was larger than the impulse from the national budget, and in 2024, it more than offsets the contractionary impulse from the national budget. For details on the composition of the fiscal stance for all EU Member States see Section 2.7.

Graph 1a: Fiscal stance in Spain



Graph 1b: Fiscal stance in Latvia



Note: Negative figures indicate an expansionary impulse, positive numbers indicate a contractionary impulse.