EU urges limits to energy cost support

Brussels wary of turning impact of Middle East war into the latest fiscal crisis

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EU officials are urging governments to avoid excessive support to offset surging energy prices, warning the shock of the Iran war could tip into a fiscal crisis.

The European Commission is insisting in discussions with member states that proposed energy subsidies, tax cuts and price caps be limited in time and scope, according to people briefed on the talks. Brussels is seeking to avoid a repeat of the 2022 energy crisis, which fuelled inflation and ballooning deficits.

“This is a unified effort from the Commission,” EU energy commissioner Dan Jørgensen told the FT. “What happens in one sector of the economy can spill over to the rest of society.”

Several countries, including Italy, Poland and Spain, have cut fuel taxes, while others have called for EU state aid rules to be loosened. Rome is also pushing for Brussels to ease fiscal constraints to give capitals more wriggle room.

The Commission was giving “technical advice and help to countries to form these policy tools and instruments that they want to use . . . within the fiscal room that they have,” Jørgensen said.

US strikes on Iran have pushed European oil and gas prices up about 60 per cent and raised fears of diesel and jet fuel shortages.

The Commission was urging “co-ordination and caution” on any measures to ease energy price pressures, officials briefed on talks between Brussels and national finance ministries said.

Officials fear the conflict will trigger the third economic crisis for the EU in six years, after the Covid-19 pandemic and Russia’s full-scale invasion of Ukraine in 2022, both of which prompted large stimulus programmes that drove up national debt.

The EU’s general government gross debt-to-GDP ratio rose from 77.8 per cent at the end of 2019 to 82.1 per cent in the third quarter of last year, according to the latest available data.

“Targeted government policies can help smooth the shock by reducing energy demand and compensating lower-income households,” ECB president Christine Lagarde said last month. However, she warned that “broad-based and open-ended measures” may backfire as they could fuel demand “excessively” and drive inflation. She urged policymakers to focus on “temporary, targeted and tailored” action.

EU economy commissioner Valdis Dombrovskis told national finance ministers only “coherent”, short-term emergency measures should be adopted. He warned that excessive spending would “have serious fiscal implications”.

Italian finance minister Giancarlo Giorgetti last week said it was “inevitable” that Brussels would have to be more lenient on rules limiting countries’ budget deficits to just 3 per cent of GDP.

That came after Rome extended a “temporary” 20 per cent excise tax on fuel until May 1, and the country’s official statistics agency said the 2025 deficit was 3.1 per cent of GDP.

The finance ministers of Germany, Spain, Italy, Portugal and Austria on Friday urged Brussels to impose an EUwide windfall tax on energy companies.