Euro area inflation has been driven by an unparalleled sequence of negative external economic shocks, from the transitory disruptions to production and logistics caused by the pandemic to Russia's invasion of Ukraine. Surging energy and food prices are likely to keep inflation elevated for a longer while weighing on activity.

While the responsibility for price stability falls upon the European Central Bank, the Commission has been emphasising the need to address the impact of surging energy prices. Given their fiscal cost, this should occur through temporary measures, which should be targeted towards the most vulnerable households. Income measures are preferable to price measures, as they preserve incentives for the energy transition.

In a context of high inflation and with the current shocks primarily originating from the supply side, supporting overall demand through fiscal policies does not appear warranted at this stage. Instead, fiscal policy should combine higher investment with controlling the growth in nationally-financed primary current expenditure, while allowing automatic stabilisers to operate. It will be important to combine the move towards a more prudent fiscal stance with protecting the most vulnerable. Full and timely implementation of the Recovery and Resilience Plans is key to achieving higher levels of investment.

The Commission proposed a set of measures and actions to help Member States tackle the impact of high energy prices on vulnerable consumers, reduce Europe’s dependency on Russia’s fossil fuels, and accelerate the green transition. The country-specific recommendations in the 2022 European Semester cycle feed into this process.