EU INDEPENDENT
FISCAL INSTITUTIONS

EUROPEAN FISCAL MONITOR

A first look at a new fiscal paradigm

Summer 2025

The Network of Independent Fiscal Institutions, Place du Congrès 1, 1000, Brussels
Tel: +32 (0) 2 229 39 87, www.euifis.eu, euifis@ceps.eu

Foreword

2025 represents a defining moment for European fiscal policy. With the new EU Economic Governance Framework now in force, Member States are embarking on the implementation of a reformed system that aims to strike a better balance between sustainability, flexibility and national ownership.

Yet they do so within a wider macroeconomic and fiscal environment that remains uncertain. While moderate growth is projected across most EU Member States in 2025, geopolitical instability, defence-related fiscal pressures, and the global reordering of trade relationships continue to weigh heavily on national outlooks. At the same time, long-term structural challenges such as population ageing and the green transition are exerting growing pressure on long-term public finances. Fiscal risks are not only increasing—they are also evolving in nature. In this context, and amidst a crisis of trust in public institutions, IFIs have never been more essential.

This edition of the European Fiscal Monitor provides a timely and comprehensive overview of IFI assessments across Europe, drawing on survey responses from 32 IFIs covering 26 Member States and the United Kingdom. The results reflect a mixed picture: while many IFIs view national macroeconomic and fiscal forecasts as plausible, confidence in Member States' ability to meet the new net expenditure benchmarks is more limited. Concerns around debt sustainability, transparency, and fiscal compliance remain pronounced, particularly in light of growing defence expenditures and the activation of escape clauses under the new rules.

As implementation of the governance framework advances, ensuring that IFIs are equipped with adequate resources, institutional independence, and access to information will be crucial. Equally important is fostering their formal involvement in the design and monitoring of fiscal plans—particularly as Medium-Term Plans become central to EU fiscal coordination.

The Network of EU IFIs remains committed to supporting its members in meeting these challenges—through collaboration, peer learning, and the shared goal of safeguarding sound and transparent fiscal governance across Europe.

Lilia Cavallari
Chair of the Network of EU Independent Fiscal Institutions and Chair of the Parliamentary Budget Office, Italy

Esther Gordo Mora
Vice-Chair of the Network of EU Independent Fiscal Institutions and Director at the Spanish Independent Authority for Fiscal Responsibility

Sebastian-Bogdan Căpraru
Vice-Chair of the Network of EU Independent Fiscal Institutions and member of the Romanian Fiscal Council

Contents

Author

This report was authored by Harry Crichton-Miller, secretariat of the Network of EU Independent Fiscal Institutions.

It was reviewed by the Editorial Board and members of the Network. The report is based on survey responses from the members of the Network. The Editorial Board comprises: Bogdan Căpraru (Romanian Fiscal Council), Nicolas Carnot (French High Council of Public Finances), Bernhard Grossmann (Austrian Fiscal Advisory Council), Esther Gordo Mora (Spanish Independent Authority for Fiscal Responsibility), Flavio Padrini (Italian Parliamentary Budget Office), Bert Smid (CPB Netherlands Bureau for Economic Policy Analysis), Natasha Miaouli ((Hellenic Fiscal Council), and Lilia Cavallari (Chair of the Parliamentary Budget Office, Italy).

The analysis and views expressed do not necessarily represent the positions of individual members of the Network.

Introduction

After several years marked by overlapping crises – from the COVID-19 pandemic to the energy shock triggered by Russia's invasion of Ukraine – the European economy has shown signs of shared recovery. Most EU Member States are projected to return to growth in 2025, even if inflation is still anticipated to remain above the 2% target in many countries, with national Independent Fiscal Institutions (IFIs) broadly judging official forecasts of both as plausible. Yet, recovery remains uneven and vulnerable to significant downside risks. Rising defence spending, persistent geopolitical uncertainty, and the looming impact of global trade fragmentation cast long shadows over the medium-term outlook.

At the same time, the situation of public finances is less positive: High debt levels and budget deficits continue to challenge Member States' fiscal positions, with a number of IFIs voicing concern over the plausibility of their Member States meeting key EU fiscal rules, in particular the net expenditure growth path, whose central role in European fiscal architecture makes this only more troublesome. Fiscal sustainability is further strained by growing pressure to increase military and climate-related investments, amid broader ongoing demographic and structural challenges.

The implementation of the EU's new economic governance framework, in force since April 2024, marks an important turning point for European fiscal policy. In this context, IFIs play a central role in assessing the credibility of national fiscal projections and monitoring compliance with the new net expenditure growth paths. However, fewer than 40% of IFIs currently view their countries' expenditure paths as plausible, raising early concerns about the feasibility of delivering on the framework's debt reduction ambitions. Further, the transposition of key Directive 2024/1265, *inter alia* meant to boost IFIs' capacities and adapt their mandates to the new fiscal framework, is occurring heterogeneously, with almost half of IFIs believing it has yet to begin, setting alarm bells ringing ahead of the deadline for transposition at the end of this calendar year.

This edition of the European Fiscal Monitor draws on a survey conducted in late May and early June 2025 across 32 IFIs from 26 EU Member States and the UK. Section 2 presents IFIs' assessments of national macroeconomic and fiscal forecasts for 2025, and reviews progress on Directive 2024/1265. Section 3 evaluates short- and medium-term fiscal risks, with a particular focus on the implications of increased defence spending and broader uncertainties such as demographic pressures and climate adaptation, and section 4 reviews ongoing IFI challenges and concerns. Sections 5 and 6 present an initial glance at the implications of military spending and trade uncertainty for European fiscal sustainability, while Annex 1 provides a brief update of IFIs' key activities over the first half of 2025.

Together, these insights offer a timely snapshot of Europe's fiscal trajectory at a moment where high geopolitical certainty has added to structural change already underway – highlighting the critical role of credible, independent fiscal oversight in navigating the years ahead.

IFI assessments of the outlook for macroeconomic developments and public finances

This section summarises how Independent Fiscal Institutions (IFIs) evaluated the realism and robustness of EU Member States' official forecasts in 2025. IFIs were asked to express their opinion on the plausibility of official national forecasts as presented by Member States in the Annual Progress Reports (APRs). In two cases, APRs were not available, and other official national forecasts were used instead[1]. Each figure plots the forecast, coloured according to the extent to which IFIs found the forecast plausible. Due to many Annual Progress Reports' focus on the short-term, especially the 2025 calendar year, this section of the European Fiscal Monitor likewise only focuses on this timeline.

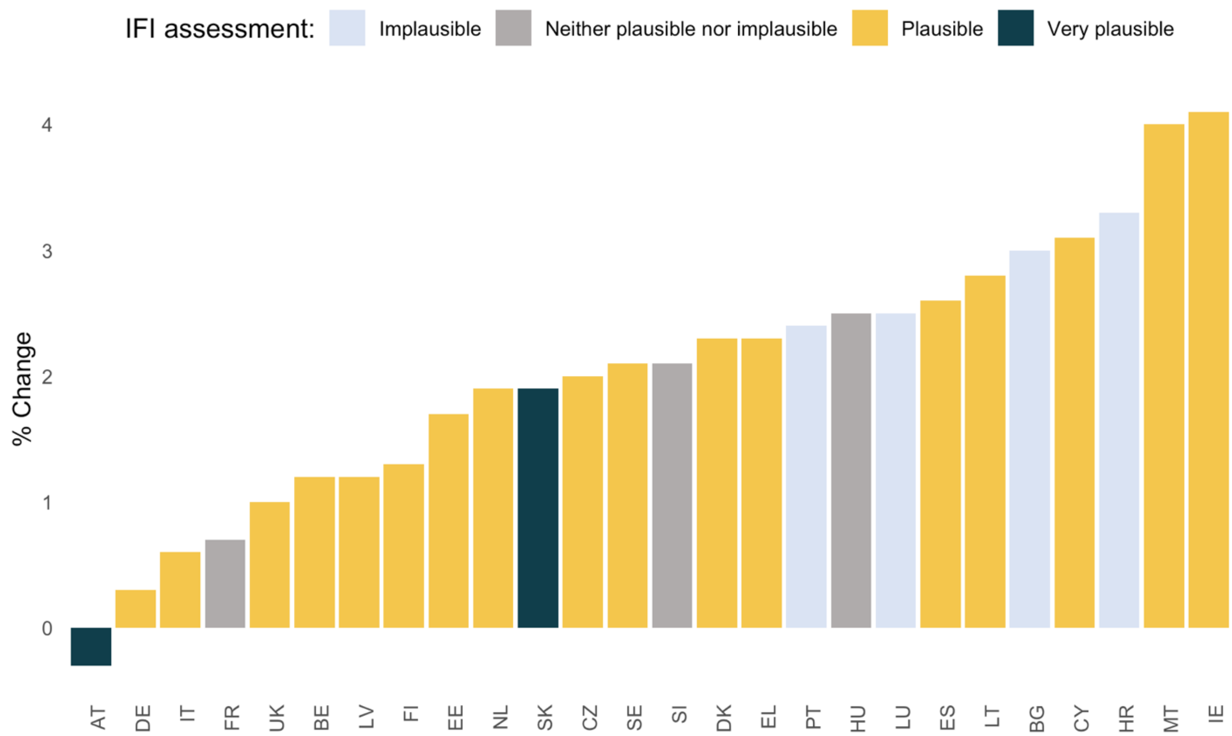
Economic environment

Despite a fraught geoeconomic environment, 19 out of 26 IFIs find their official national forecasts to be plausible. In terms of GDP, the economies of almost all Member States are expected to have returned to a growth path in 2025, a projection a majority of IFIs overall find plausible. Particularly strong growth, above 3%, is projected for Bulgaria, Croatia, Malta, Cyprus and Ireland, though IFIs for both Bulgaria and Croatia were doubtful as to the plausibility of these estimates.

Indeed, there are overall somewhat higher projections for GDP growth than in previous editions of the European Fiscal Monitor. Some IFIs interpret this as a short-term boost linked to increased military expenditure, which has functioned as a fiscal stimulus, even if it is currently not possible to estimate the precise extent. Conversely, several IFIs note that, despite assessing national GDP projections for the short-term as broadly realistic and achievable, a deteriorating and more uncertain external environment could dampen future growth prospects beyond 2025, in a way that may not have been fully captured in these projections for 2025.

[1] Romania did not submit an APR, which has largely been seen to be linked to the political turmoil Romania has undergone in recent months, with elections only occurring in May. The United Kingdom also did not submit an APR, as it is not an EU Member State. Nonetheless, the UK's IFI, the Office of Budgetary Responsibility (OBR) is an observer of the network, and thus its assessments are included in this report.

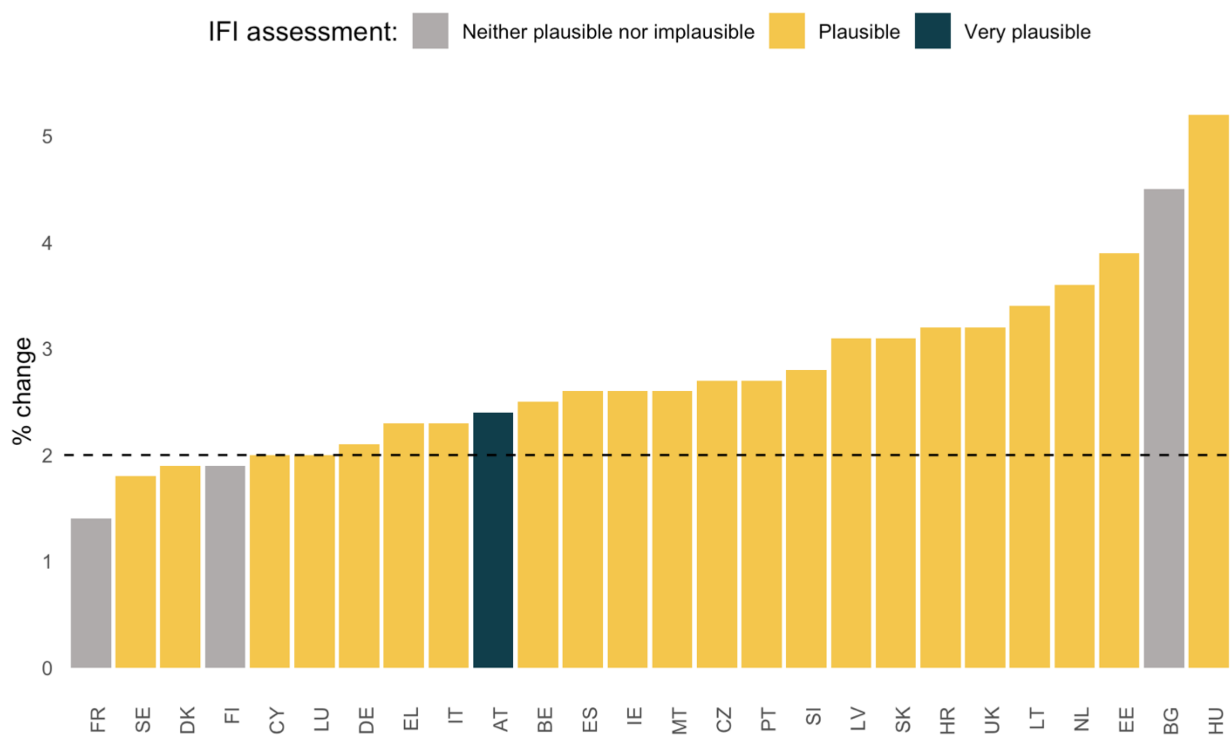
Figure 1. Real GDP growth projected for 2025 (%)



Source: The Network of EU Independent Fiscal Institutions (2025), based on official national forecasts. N=28.

Regarding inflation, positively, no IFIs found the official forecasts in the Annual Progress Reports to be implausible. More negatively, inflation is still broadly expected to remain above the 2% target in most Member States in 2025. There may be particular concern regarding inflation in Bulgaria and Hungary, though inflation is also plausibly forecast to be above 3% in Croatia, the UK, Lithuania, Slovakia, the Netherlands and Estonia – more countries than in previous editions.

Figure 2. Annual inflation projected for 2025 (%, GDP deflator)



Source: The Network of EU Independent Fiscal Institutions (2025), based on official national forecasts. N=28.

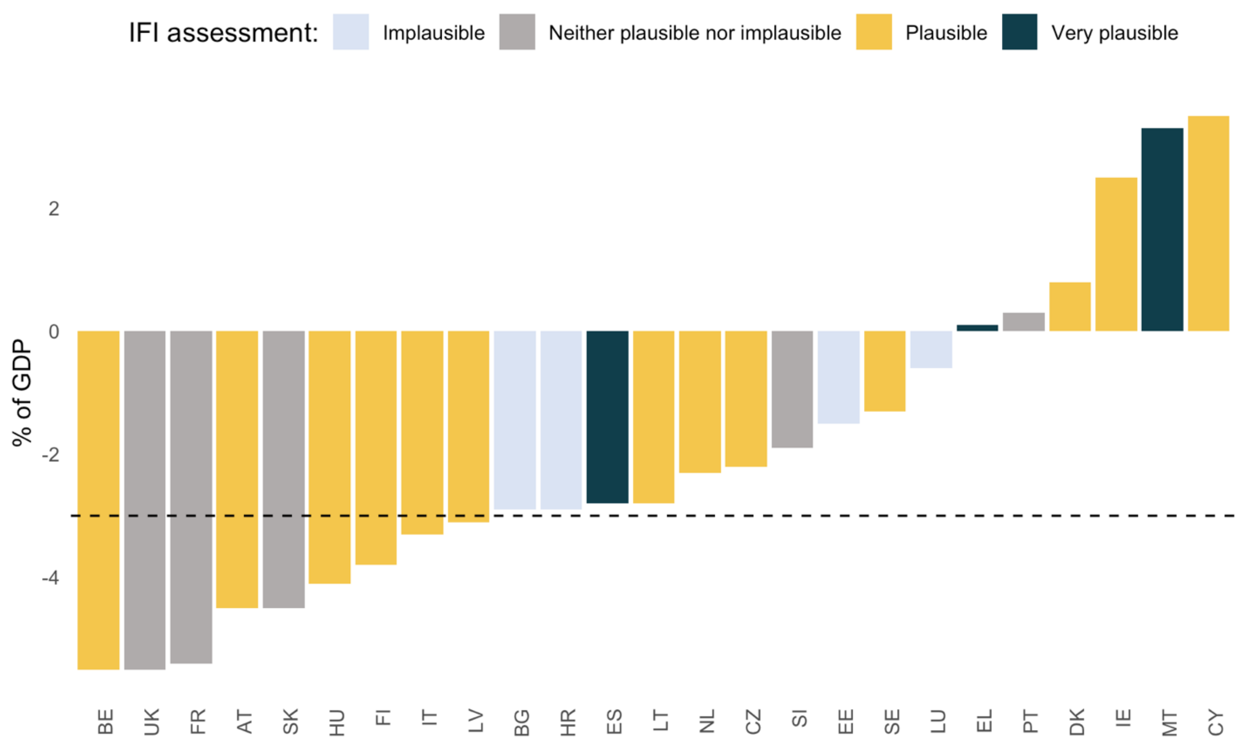
Public finances

The IFI view on the realism of forecasts of European public finances paints a slightly more mixed picture, with a larger proportion of IFIs finding projections either very plausible, or implausible. Similarly, a high number express concern about their national governments meeting the Maastricht criteria – debt below 60% of GDP and a budget deficit of less than 3%. Countries exceeding the Maastricht criteria is not new, yet perhaps a greater cause for concern, as only 14 out of 24 IFIs feel it is plausible that their country will meet the net primary expenditure growth path as recommended by the Council of the EU, suggesting Member States may not be on the right track towards meeting these sustainable debt criteria. Regarding the fiscal stance, just under half of IFIs expressed that their country's fiscal policy in 2025 was expansionary in some way, around the same number as previously.

Turning to the general government balance, most countries forecast a deficit, with only Cyprus, Malta, Ireland, Denmark, Portugal and Greece projected to have a short-term budgetary surplus. At the other end of the scale, nine countries have deficits projected higher than the 3% rate that Member States are expected to meet as part of the Stability and Growth Pact, with Belgium, the UK (though not bound by the Pact) and France particularly far above. Four countries are similarly forecast to fall just on the right side of the line. Overall, around half of IFIs believe their country will meet this threshold, a level somewhat more optimistic than the forecasts made in the Annual Progress Reports and the European Commission's own Spring 2025 forecast, which expects only 11 Member States to have a budget balance of less than 3%.

Whilst IFIs found official budgetary balance forecasts to be broadly plausible, there were several exceptions – plans from Bulgaria, Croatia, Estonia and Luxembourg were felt to be implausible, whilst it was felt that plans from the UK, France, Slovakia, Slovenia and Portugal were felt to be borderline – neither plausible nor implausible. Several IFIs noted that this was because, to some extent, defence spending made it difficult to forecast the general government balance. Similarly, activating the national escape clause from fiscal rules to increase defence expenditure might imply a worsening of fiscal indicators, yet it is not yet specified by how much in all cases.

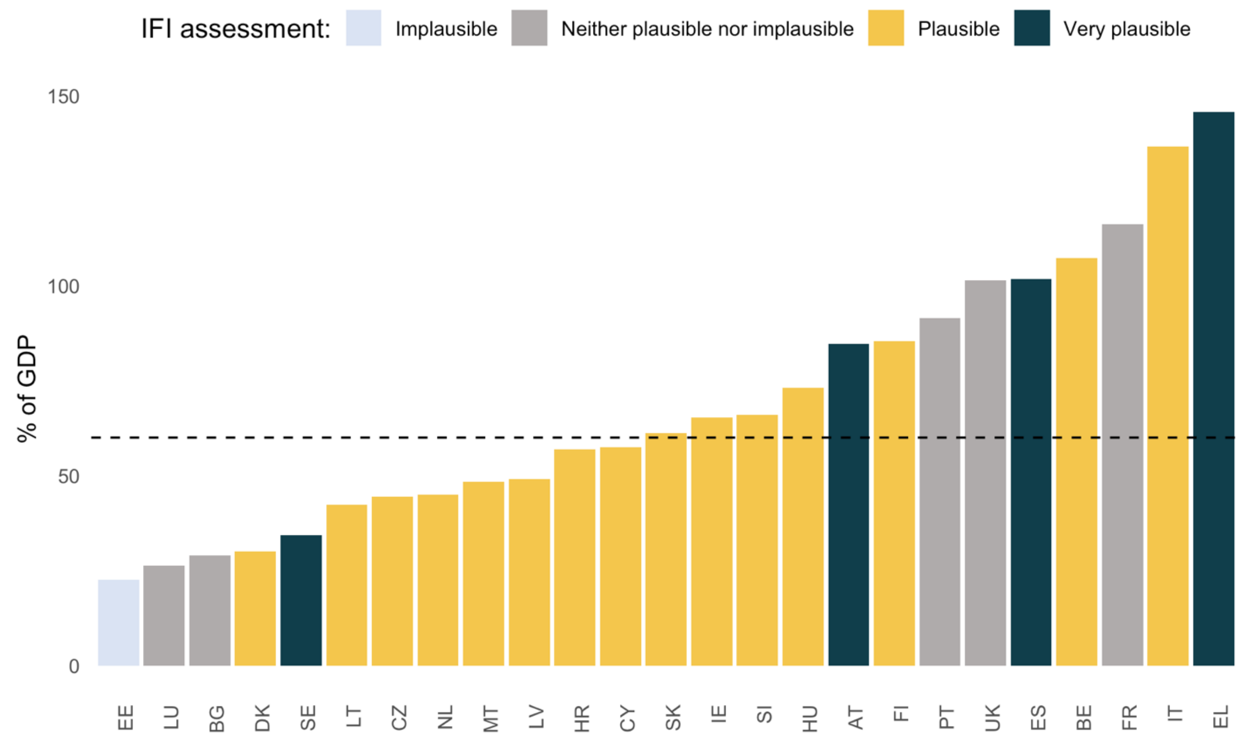
Figure 3. The general government balance projected for 2025 (% of GDP)



Source: The Network of EU Independent Fiscal Institutions (2025), based on official national forecasts. N=27.

A similar story is visible regarding forecasted public debt-to-GDP ratios. After a post-Covid fall, public debt ratios have stabilised. Yet, as is neither new nor a result of policy decisions taken in the last year, 13 countries are forecast to remain well above the levels of 60% of GDP required in the Stability and Growth Pact in 2025, and medium-term projections do not anticipate significant change. Governments and IFIs are realistic about the state of public debt in Europe, with only the Estonian Fiscal Council rating Estonia's national forecasts as implausible. In practice, Member States have more time to achieve the 60% target, and 2025 is all too early to assess conclusively if they are on the right track towards debt sustainability criteria. Still, levels are concerning, and the widespread use of the national escape clause from fiscal rules for defence spending will have an unfavourable impact on public debt.

Figure 4. Gross public debt on the Maastricht basis projected for 2025 (% of GDP)

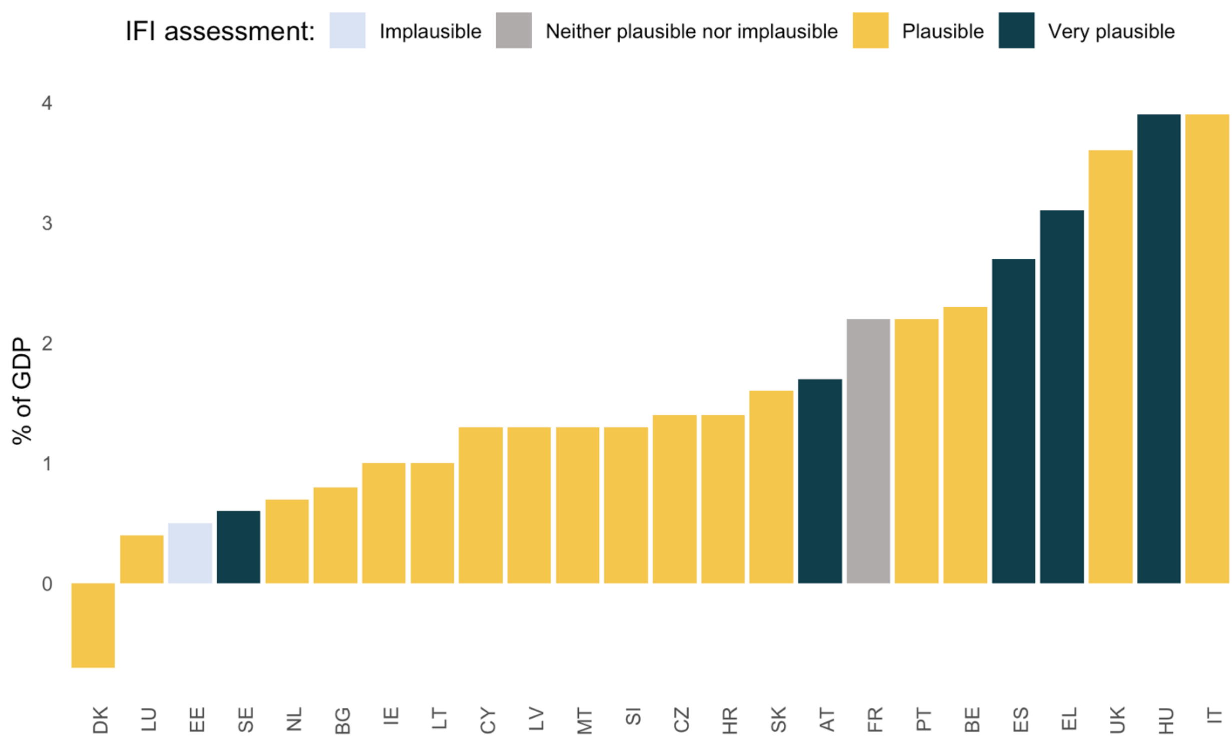


Source: The Network of EU Independent Fiscal Institutions (2025), based on official national forecasts. N=27.

Regarding interest expenditure, IFIs again broadly agree with the national forecasts. According to these forecasts, interest expenditure as a proportion of GDP remains highest for Hungary and Italy, as in previous editions of this Fiscal Monitor. Similarly, Denmark is once again projected to be the only country with a negative interest expenditure ratio[2]. Overall levels forecasted for 2025 are not significantly higher than in previous editions, though the full cost of additional debt taken on for military expenditure has yet to be incorporated, and it is not yet clear how the cost of defence spending will affect interest expenditure.

[2] A result of the Danish central bank's objective of maintaining a stable, fixed exchange rate between the krone and the euro.

Figure 5. Interest expenditure on public debt projected for 2025 (% of GDP)

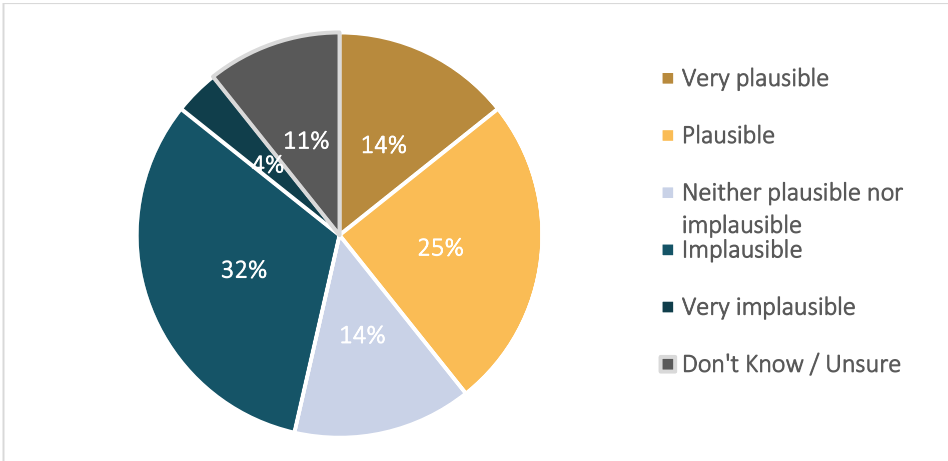


Source: The Network of EU Independent Fiscal Institutions (2025), based on official national forecasts. N=27.

The IFI assessment of Member States' forecast Net Expenditure Growth Paths is perhaps more worrying. When asked about the likelihood of Member States staying within their agreed upon net primary expenditure path (figure 6a), fewer than 40% of IFIs believed it was plausible. Further, three IFIs did not feel able to assess the plausibility of their country's net primary expenditure growth path at all, given a lack of adequate information. In some cases, this was due to government medium-term plans not including enough information for an adequate independent analysis, though in one case, it was a more procedural reason, that the net primary expenditure had not been agreed yet. Further, it is unclear if compliance with the net expenditure path alone is enough to stabilise or decrease the debt ratio, with one IFI suggesting their country will hit record debt-GDP ratios whilst remaining within their path.

Looking more closely, several IFIs expressed their worries that an increase to the planned defence spending might jeopardise the compliance with the net primary expenditure target. For some, to meet the new EU fiscal rules, national governments will likely have to either fully stretch their use of the control account, submit a new medium-term plan or choose to activate the national fiscal escape clause, so long as all the overspending can be linked to an increase in defence spending compared to 2021.

Figure 6a. Proportion of IFIs that find it plausible that their Member State will be compliant with the Net Expenditure Growth Path projected for 2025

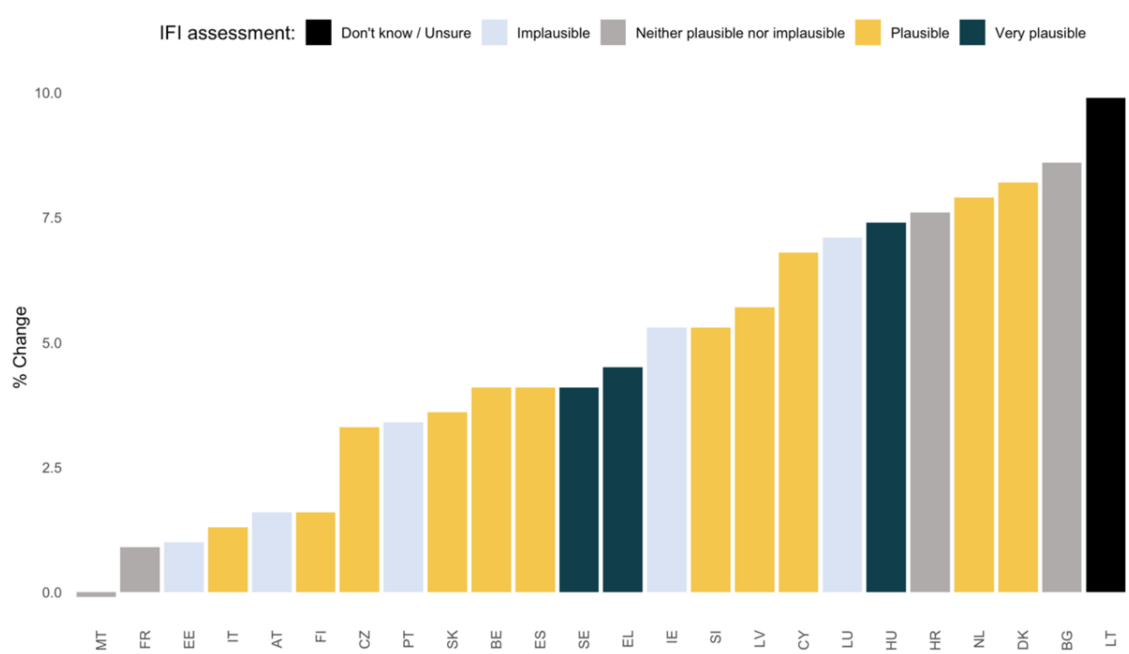


Source: The Network of EU Independent Fiscal Institutions (2025). N=28.

Turning to the forecasted net expenditure path of Member States in 2025 (figure 6b), overall, more IFIs do not find the forecast path to be as plausible as other key forecasts, with only 14 IFIs believing the forecast to be plausible or very plausible, and five finding it implausible. Overall, IFIs consider the net expenditure growth forecast for 2025 to be too optimistic at a higher rate than for other key indicators.

With its central role in the new EU economic governance framework, this is troubling for the state of independent fiscal oversight, and the sustainability of European public finances more broadly.

Figure 6b. Net Expenditure Growth Path projected for 2025 (% Change)



Source: The Network of EU Independent Fiscal Institutions (2025), based on official national forecasts. N=26.

IFI outlook: Transposition of the Directive (EU) 2024/1265 on requirements for budgetary frameworks of the Member States

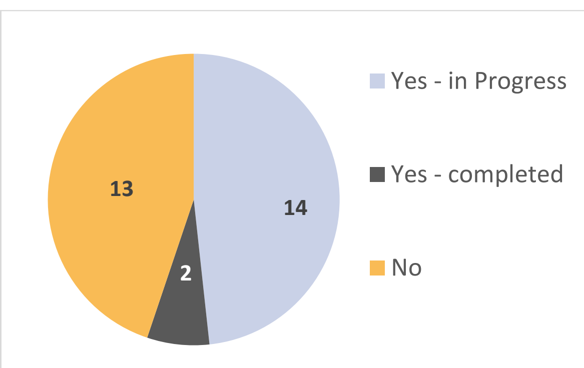
As covered in detail in the previous edition of the European Fiscal Monitor and elsewhere, the EU's new economic governance framework entered into force on 30 April 2024. A landmark piece of regulation, it seeks to strike a better balance between sustainable and cohesive European fiscal policy on the one hand, and greater national ownership and flexibility, including for growth-boosting reforms or investments, on the other. Of direct concern here for the EU IFI network is the amendment to Directive (EU) 2011/85 on budgetary framework requirements.

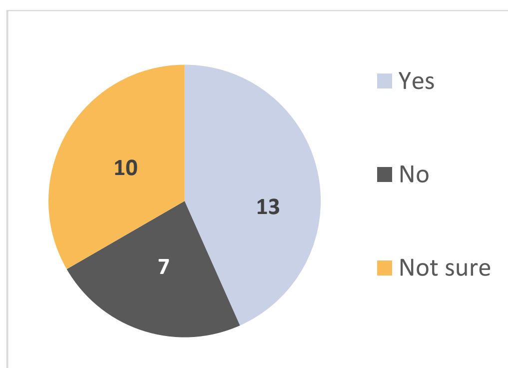
This amendment sought, inter alia, to safeguard and strengthen the role of IFIs in the EU fiscal policy space. The directive must be transposed into national law by 31 December 2025. This section thus provides a brief IFI perspective on Member States' transposition progress.

First, Figure 7 shows IFIs' view on the progress made thus far on the transposition process. In short, progress is uneven – only around half of IFIs believe the transposition process is underway in their countries, and only two believe it has been fully transposed into their national law. That 13 IFIs do not view this transposition process as underway at all is concerning, with some reporting that their Member States may be dragging their feet. However, transposition is only required by the end of the calendar year, and the directive is complex. Indeed, the recently published interim report highlighted that some concepts and terms of the Directive have been interpreted in varying ways, requiring adjustments and further discussion[3].

This is further complicated by the fact that many national legislation frameworks already include some elements of the reform, given it brings together, to some extent, existing regulation on EU law or the Fiscal Compact. As is visible in figure 8, the transposition process, according to almost half of IFIs, is taking place alongside broader legislative changes to the national fiscal framework, offering further reasons for this delay, beyond Member States showing resistance to change.

Figures 7 and 8. 'Is the directive transposed into law in your country?' (*left*) 'Is the transposition taking place as part of wider fiscal reforms in your country?' *(right)*





Source: The Network of EU Independent Fiscal Institutions (2025). N= 29 (left); N=30 (right), June 2025.

[3] https://op.europa.eu/en/publication-detail/-/publication/ff578741-55a0-11f0-a9d0-01aa75ed71a1/language-en, accessed 15.07.2025

A significant part of the directive is devoted to bolstering IFIs' capacities and conditions of autonomy. Article 8.a(4) sets out IFIs key capacities that must be implemented – that IFIs are independent from any other public or private body, that they have the capacity to communicate publicly, effectively and a timely manner, that they have adequate resources and access to information to perform their tasks effectively, and that they be subject to regular external evaluations by independent evaluators. IFIs were asked to rate their *current* degree of concern regarding these issues, to gain insight into the importance of these IFI-boosting reforms in the directive.

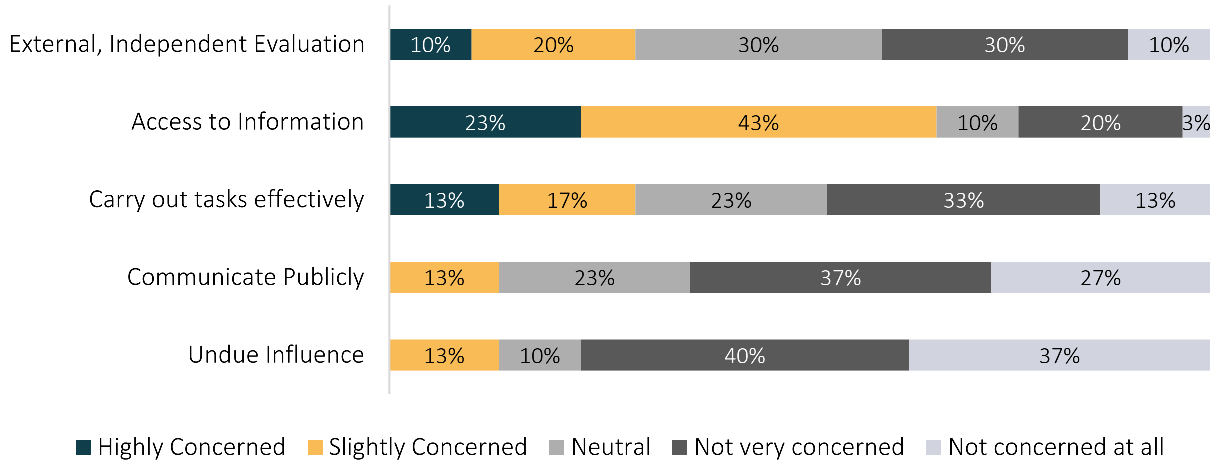
Overall, IFIs expressed more concern about their adequate and timely access to information than any other issue, with two thirds of IFIs being concerned. This is a recurrent issue for IFIs, also cropping up notably in later sections on IFIs' concerns. Multiple IFIs further noted that this was exacerbated by political instability, with IFIs having to scramble to update forecasts and models due to new governments or domestic budgets on tight deadlines.

IFIs, relatedly, also expressed a high concern about their ability to carry out their tasks effectively, mostly due to a lack of resources or personnel, and the prospect of external, independent evaluation (almost a third of the total in both cases). A large majority of IFIs were not very concerned or not concerned at all about their capacity to communicate their findings publicly in a timely manner or their capacity to be free from undue influence from national budgetary authorities. Nonetheless, several IFIs stress that where these practices exist *de facto*, their *de jure* codification into law will only strengthen them and embed them within an institutional setting.

Leaving aside the overall quality of the transposition itself, on which it is too early to comment, the transposition process is continuing to occur heterogeneously in terms of IFI involvement. Some IFIs have been involved or consulted by official bodies or finance ministries in developing the necessary amendments for integrating the directive, whilst others have not, despite frequent, proactive requests. Indeed, this exclusion may explain the large number of IFIs who do not know if the transposition is taking place as part of wider reforms (Figure 8), precisely because they are being kept in the dark regarding the whole transposition process.

Whilst only a provisional insight, ahead of more work from the Network of EU-IFI's working group, this summary nonetheless provides an indication as to the current state of play in transposing this important Directive.

Figure 9. IFI's current degree of concern regarding their key capacities as set out in Article 8.a(4) of Council Directive (EU) 2024/1265



Source: The Network of EU Independent Fiscal Institutions (2025). N=30.

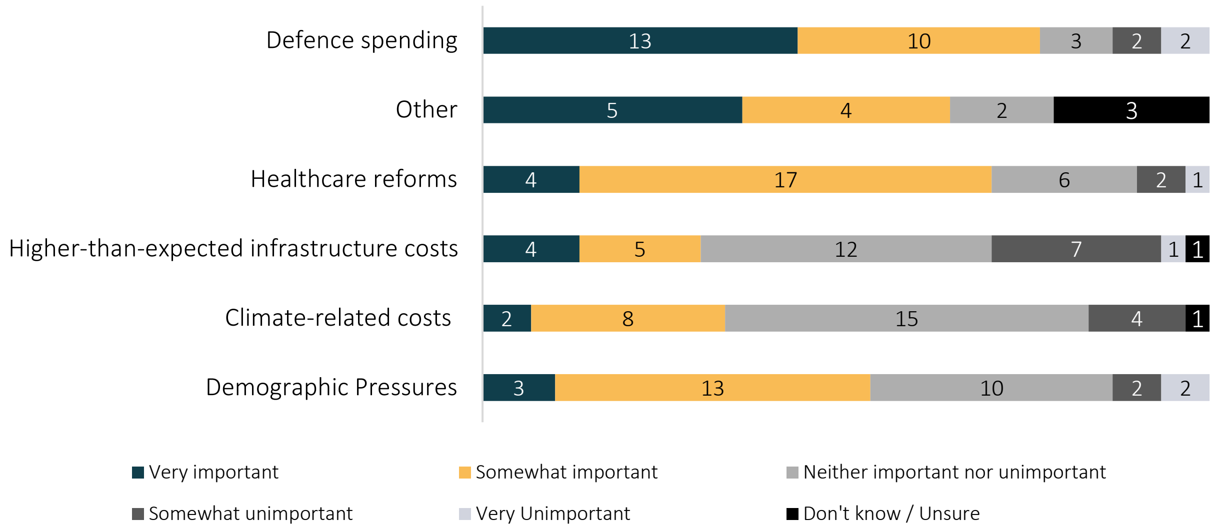
Risks to public finances and IFI activities

As the economic environment becomes more volatile, IFIs face new and expanding challenges. This section identifies key fiscal risks perceived by IFIs and provides an overview of their evolving activities.

The most cited short-term risk to public finances in the latest survey was defence spending, with 77% of respondents believing it to present an important risk. A similar number (70%) found healthcare to be posing an important fiscal risk, though a large majority thought it was only 'somewhat' important, as opposed to 'very' important. Infrastructure and climate were perceived as being relatively less important.

In terms of 'other' risks, several IFIs noted a larger proportion of new risks than previously. There was a particular increase in short-term fiscal risks that were driven by government decisions, at both national and local level. Some of these risks are due to technical decisions, such as the accounting standard followed by the Cypriot government being cash-based, which makes spending prone to 'surprises'. Others are driven by a lack of clarity around announced policies, especially when it comes to the spending involved – for instance, a lack of clarity over expenditure for policies relating to the green transition – whilst still others are linked to ongoing political fragmentation, as political developments increasingly threaten to destabilise fiscal policy. Finally, there are also risks arising from ongoing legal action against the State, which could result in potentially high compensations and indemnities, such as in Spain.

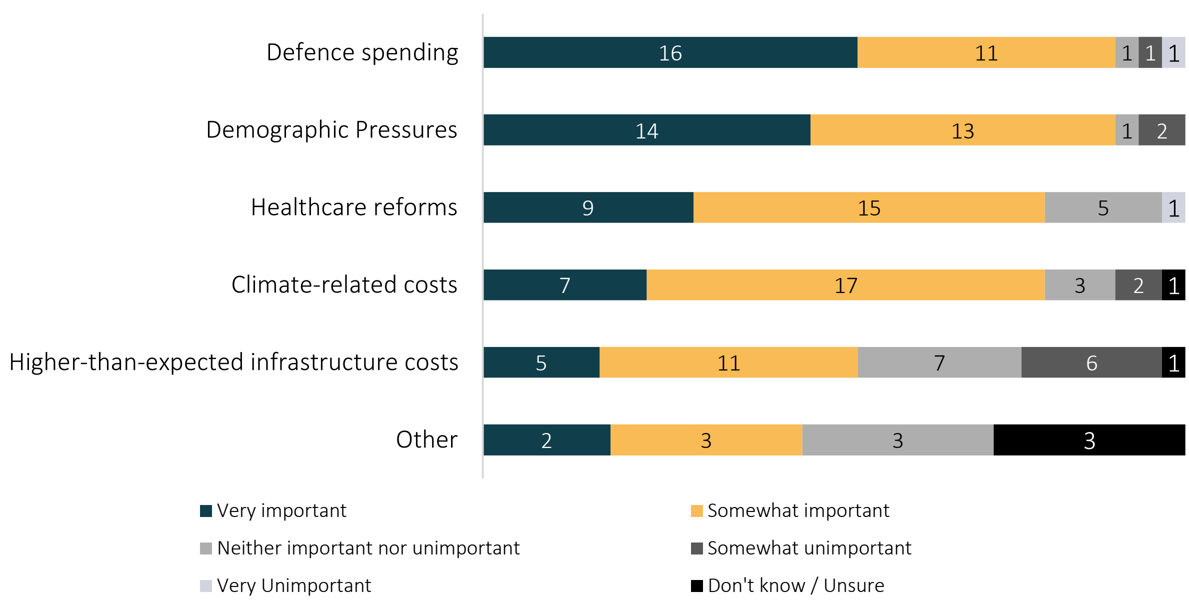
Figure 10. Risks to public finances in the short term (2025-2026)



Source: The Network of EU Independent Fiscal Institutions (2025). N=30.

In the medium term, the proportion of IFIs that viewed defence spending as an important fiscal risk has grown to 90%, perhaps reflecting concerns that the extra debt taken on to finance military investment will become fiscal millstones around the necks of European countries. Importantly, IFIs rated all risks as more significant in the medium term than short term, suggesting an increasingly fraught fiscal environment. In particular, IFIs see climate- (from 33% to 80%), demography-related (53% to 90%) pressures becoming significantly larger risks moving into the medium term.

Figure 11. Risks to public finances in the medium term (2027-2030)



Source: The Network of EU Independent Fiscal Institutions (2025). N=30.

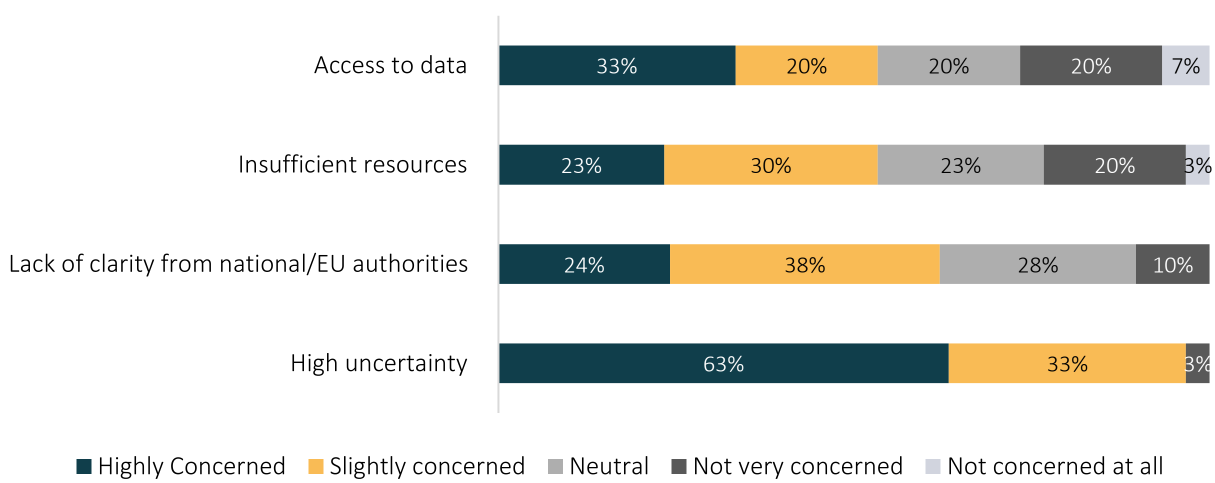
Challenges faced by IFIs & IFI concerns

An increasingly fraught, volatile and uncertain fiscal and macroeconomic environment, coupled with the need to adapt to the new EU economic governance framework, has translated into a more challenging environment for IFIs.

Far and away the biggest challenge is the high level of uncertainty for almost all IFIs (96% of IFIs stated being somewhat concerned, with almost two-thirds highly concerned), an increase from the already-high 90% in December 2024. A majority of IFIs now state being highly concerned by the uncertainty, as opposed to only slightly concerned. Such uncertainty stems from a variety of sources, from geopolitical crises, volatile energy prices and global trade tensions abroad, to risks from political instability and a lack of clarity over new regulation at home.

Yet its impact cuts across the core functions of IFIs' work. Such broad uncertainty makes producing, assessing or endorsing forecasts more difficult. This is particularly so when key inputs – such as energy prices or military expenditure – are so volatile and non-linear shocks – like wide-ranging import tariffs – are so unexpected yet may have a significant impact on estimating key variables such as GDP growth. High uncertainty also impedes IFIs' key work assessing the plausibility of national medium-term plans. Some IFIs report that uncertainty hampers their ability to find credible baselines against which to assess government medium-term plans. In smaller IFIs, there is sometimes a lack of capacity to repeatedly generate scenario analyses with each successive shock. Public communication around findings is also more difficult in highly uncertain contexts, when conditions shift rapidly and IFIs must strike a balance between communicating that uncertainty whilst maintaining their credibility. Overall, this is a serious challenge for IFIs.

Figure 12. Challenges faced by IFIs in executing their work in 2025



Source: The Network of EU Independent Fiscal Institutions (2025). N=30.

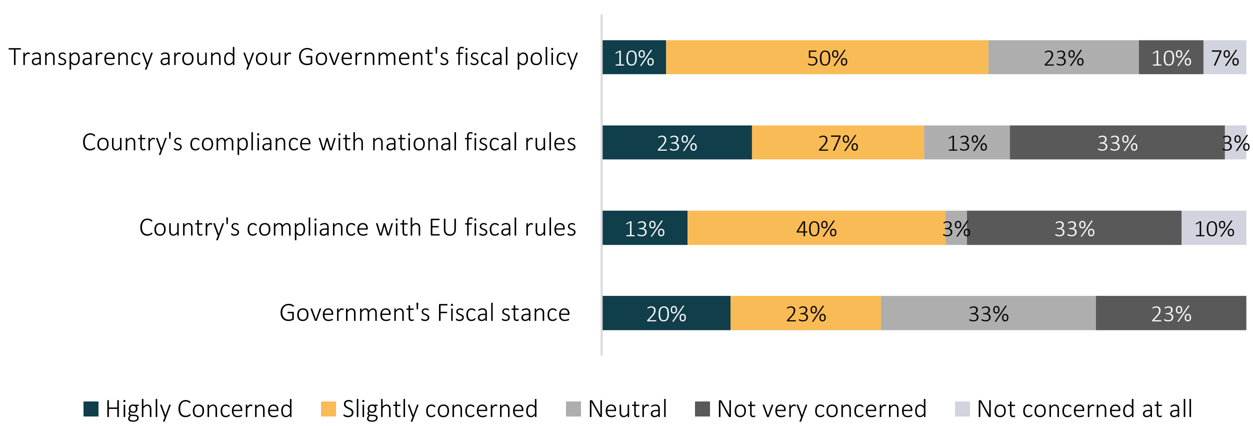
IFIs have voiced slightly higher levels of concern over access to data and resources than in previous reports – around half of IFIs reporting themselves to be concerned, with some IFIs specifically highlighting data related to the upcoming Council decision on ReArmEU. This may imply a lack of action on these recurrent issues, which may be a cause for investigation going forward. More positively, IFIs see a lack of clarity from national and EU authorities as less of a challenge than before. This said, some IFIs still report acute issues on this front, in particular relating to missing governmental forecasts or information on the transposition of the new economic governance framework, such as the precise, new functions of some IFIs. Yet the overall decrease suggests that the transposition process is currently causing less concern than before – even if some countries are still yet to fully transpose the legislation.

IFIs were also asked to qualitatively rate their concerns about their governments' fiscal behaviour. There was a notable increase in concern over the transparency of national governments' fiscal policy, with around 60% of IFIs having concerns, up from 46% in winter 2024. By contrast, fewer IFIs are concerned about their country's fiscal stance than in winter 2024 (43% compared to 53%), suggesting the challenge is more to do with a lack of adequate information than governments' actual fiscal stances. IFIs qualitatively assess just over half of their countries' fiscal stances to be expansionary, with just under a quarter being contractionary or neutral.

The proportion of IFIs who are concerned about their country's compliance with national and EU fiscal rules, at 50% and 53% respectively, has stayed almost the same since July 2024, suggesting that the matter of transposing the new economic governance framework may not have increased IFIs' overall concerns about compliance with fiscal rules. Some IFIs are at pains to note that, despite fiscal rules largely being met in 2025, this may not be the case going forward, and that in some countries, this more positive IFI response owes more to new governments having not yet revealed their domestic fiscal rules than to sound fiscal stewardship.

Beyond these four core issues, there was an increase in concern among IFIs regarding other, new challenges. Some relate to transparency, involving methodological or data issues such as delays to data or spending estimates published by governments that impede IFIs in performing their work. Others point to a high structural deficit, in some cases despite large attempts at consolidation this year.

Figure 13. Degree of concern expressed by IFIs about governments' key fiscal behaviour



Source: The Network of EU Independent Fiscal Institutions (2025). N=30.

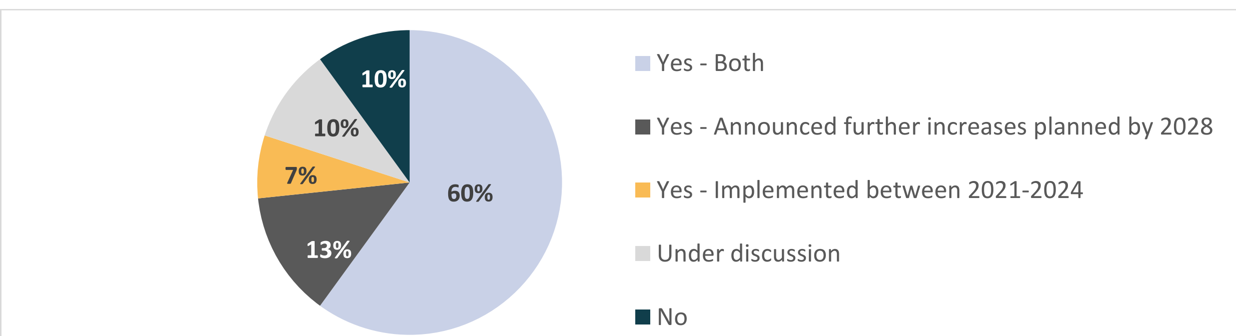
A first IFI perspective on military spending

Recent geopolitical upheaval, notably the Russian invasion of Ukraine and uncertainty over US support, has led to a renewed focus on bolstering European defence spending across the continent. At the 2025 NATO Summit in The Hague, NATO allies committed to investing 5% of GDP annually on defence-related spending by 2035. The Readiness 2030 plan, also known as the ReArm Europe Plan, is the European Commission's own proposal, and provides the levers to achieve these goals, aiming to raise up to EUR 800 billion. As well as joint procurement, a European loan instrument ('SAFE'), and mobilising private capital through accelerating the Savings and Investment Union, this will be primarily achieved by allowing Member States to request to activate the Stability and Growth pact's national escape clause for military spending. To preserve fiscal sustainability, this flexibility is capped at 1.5% of GDP compared to the base year (2021) and is available for a period of only four years (2025-28).

A key question over the coming years is how European fiscal policy – and particularly the new economic governance framework – will respond to this urgent need. This section aims to provide an initial snapshot of how IFIs across the EU are approaching this defence-driven fiscal pivot.

80% of IFIs reported that their governments have either increased defence spending significantly between 2021 and 2024 or plan to do so by 2028, with 60% having done both. In some Member States, such increases represent a multi-year doubling of defence budgets. Most respondents also indicated that defence spending is expected to exceed 2% of GDP by 2028 or 2030. However, there are varying levels of uncertainty over these commitments; several IFIs noted that long-term targets of 3% or above have been politically announced but have not yet been embedded in binding fiscal planning, nor announced as part of finalised spending plans. To accommodate this, some 16 Member States have requested to activate the national escape clause, and 15 have already obtained such flexibility[4].

Figure 13. 'Has your country implemented a significant increase in defence spending between 2021 and 2024, or has announced planned increases by 2028?'



Source: The Network of EU Independent Fiscal Institutions (2025). N=30.

[4] Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, Germany, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia. Germany's request has yet to be accepted, as it has not submitted a medium-term fiscal structural plan, thus the Commission is currently unable to allow it to activate the clause. Germany is expected to activate the clause in the coming months.

Regarding the new economic governance framework in this context, a question arises on integrating recent defence expenditure increases into the MTPs. IFIs currently report that this integration appears uneven – slightly more than half of IFIs report no adjustment in official fiscal projections in their Member States to account for defence-related spending increases since the MTPs were submitted, though it is possible that such increases were already provisioned when the MTP was originally submitted. Two IFIs reported that updated APRs or national plans now include higher military spending baselines, though three noted a lag between political announcements and fiscal documentation at this stage.

IFIs' important role in this emerging space is underscored by the fact that a third of IFIs have already published specific estimates on the impact of increased defence spending on public finances. Those who have done so focused on short- and medium-term deficit implications or their interaction with national expenditure ceilings, with increases generally ranging from 0.3 to 1 percentage points of GDP higher in 2025 compared to 2021.

Yet many IFIs have already raised concerns regarding this increased military spending. Some have issued opinions on the opportunity cost of rising military budgets, as the increased expenditure is counter financed via cuts in other areas; for example, several have argued that this will place other areas of public expenditure under unbearable and unproductive pressure, in a way that may significantly limit medium-term annual growth in real terms for other expenditure. Others lean the other direction, with one issuing an objection to using the EU's new defence derogation clause, arguing that increased defence should be funded through restructuring expenses and creating fiscal space, rather than taking on further debt, as the ReArm EU instrument incentivises. Another area for concern raised by one IFI is the precedent that may be set by allowing rule deviations for sector-specific spending. Finally, three IFIs have already observed early signs of the possible crowding out of other public investments, particularly in climate-related infrastructure or education, though in most cases, these trade-offs remain theoretical or prospective.

Overall, while full-fledged public reporting remains limited in some cases, most IFIs are already actively tracking and, in some cases, analysing the fiscal implications of increased defence spending. Differences in institutional mandates and data availability help explain the variation in the depth and visibility of this work. Going forward, this will continue to be a space where independent, credible fiscal oversight is vital.

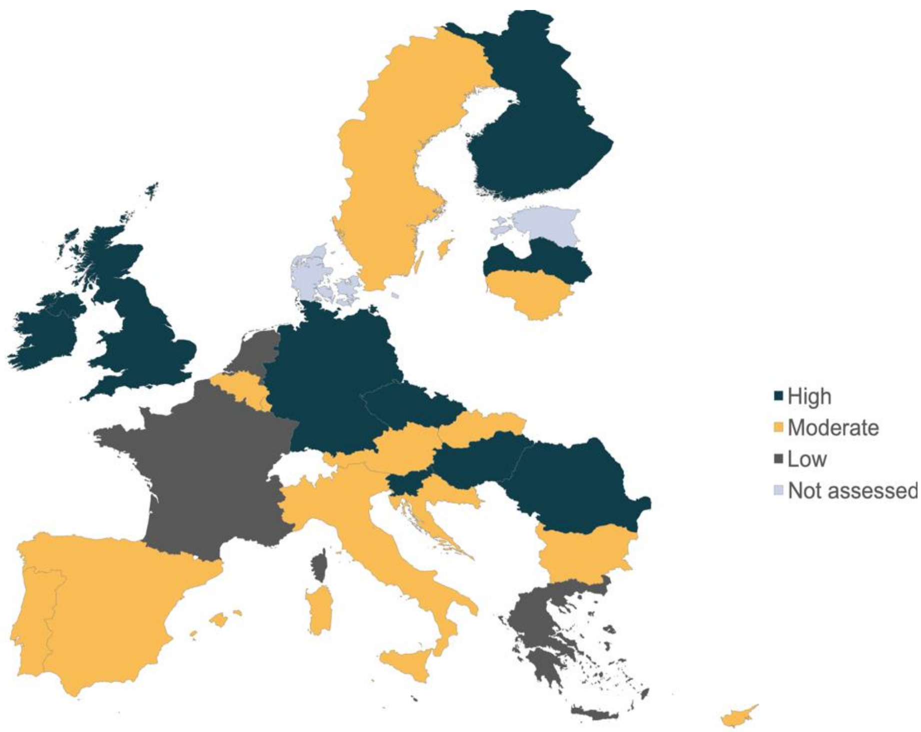
A first IFI perspective on trade uncertainty

The global trading system is under renewed pressure. A complex mix of geopolitical tensions, strategic decoupling, and the use of trade policy as an instrument of statecraft has led to rising concerns about the durability of open markets. Major economies have introduced or proposed new tariffs, export controls and investment restrictions, with recent months marked by high-profile announcements of retaliatory trade measures. These developments come against a backdrop of broader geoeconomic fragmentation, as supply chains are reconfigured in response to security, climate and industrial policy goals.

Against this backdrop, the European Commission's Spring 2025 Economic Forecast identified rising trade tensions as a significant downside risk to growth and fiscal sustainability. The potential for slower global trade, reduced investment and terms-of-trade shocks looms large for open European economies. To assess how such risks are being perceived and managed at the national level, the European Fiscal Monitor surveyed IFIs on how they are treating trade-related risks in their fiscal planning and analysis.

22 out of 30 IFI respondents view the fiscal risk from trade fragmentation as either high or moderate. Further, two IFIs note that this risk may be increased due an already-adverse environment for GDP growth. Whilst the picture is mixed, some particularly concerned IFIs tend to be from smaller or particularly open economies ones with a high degree of export orientation, trade openness and integration into international supply chains, though there are exceptions, such as the Netherlands. In such cases, negative external shocks could have a significant impact on GDP and fiscal sustainability, due to lower tax receipts (above all corporation tax). This is especially so for countries with a high number of US businesses and multinationals. A broader economic slowdown would also have large indirect effects for countries across the EU27, especially for economies with prominent tourism industries.

Figure 14. 'How high is geoeconomic fragmentation a risk to national fiscal sustainability in your institution's view'.



Source: The Network of EU Independent Fiscal Institutions (2025). N=30.

Some IFIs have begun to see some early signs of macroeconomic impact, though the first quarters of 2025 have passed relatively smoothly. One observed change is behavioural shifts by firms in anticipation of trade barriers, such as sudden falls in investment activity and in the share of exports to euro area countries, but an increase in exports to the US, especially on soon-to-be-tariffed goods, such as alcohol. This likely reflects frontloading strategies aimed at 'beating' prospective tariffs or quota restrictions. Others cited the possibility that recent unexpected GDP fluctuations could already reflect trade-related uncertainty, though attribution remains difficult and further time might be needed.

IFIs report that national risk assessments tend to integrate the risk of external economic shocks. Almost three-quarters do so, though only a third do so fully and attempt to quantify the risk. Some may have needed to update their analysis to reflect the result of the US election. Where such analysis exists, the projected impacts are generally moderate but non-trivial – for example, a small rise in the debt-to-GDP ratio or a short-term decline in GDP growth. A smaller number of institutions have carried out quantified scenario analysis or stress testing. These simulations, in some cases, developed in collaboration with ministries of finance or external forecasters, suggest that severe trade fragmentation could result in GDP losses of one to two percentage points over the medium term, and moderate increases in public debt ratios. Impacts on public balances are generally modest, though asymmetric effects across sectors and regions may amplify distributional concerns.

Overall, the findings suggest that trade fragmentation is increasingly recognised as a material fiscal risk, but one that remains difficult to quantify and only partially integrated into formal fiscal frameworks. Several IFIs noted the challenge of forecasting policy decisions taken by major trading partners, let alone its macroeconomic impact. Several indicated their plans to expand their treatment of external risks in future publications, including deeper macroeconomic sensitivity analysis and the more frequent use of adverse scenarios. For now, most IFIs are approaching the issue with caution but growing attention, recognising that future shocks – if sustained or coordinated – could have larger and more persistent effects on public finances than currently assumed.

A. Annex 1 – Country factsheets

Country factsheets provide an opportunity for national IFIs to provide an overview of their key activities and noteworthy developments in their country over the last six months or, in cases where still relevant, earlier. This enables a reader to efficiently be brought up to speed on recent developments.

Such changes may include new publications, forecasts and other work, changes to the structure, funding and mandate of the IFI, or other, broader developments in legislation relating to IFIs and their work.

AUSTRIA – FISKALRAT

The Austrian Fiskalrat has recently produced a number of analyses shedding light on national fiscal and climate-related issues.

Its assessment of Austria's current National Energy and Climate Plan suggests that cost-effectiveness is not adequately prioritised. For instance, high-cost but low-impact measures such as the KlimaTicket travel pass have been implemented, while more efficient options like lowering speed limits have not been pursued. Further details can be found in their summary report: link.

The 2025 Fiscal Sustainability Report indicates that maintaining debt on a path compliant with EU fiscal rules would require a structural primary balance adjustment rising from 2.5% to 7.0% of GDP by 2070. This deterioration is largely driven by demographic trends, though climate-related expenditures also contribute significantly, accounting for 1.3% of GDP. See full report: link.

In its 2024–2029 Fiscal Rules Compliance Report, the Fiskalrat projects that Austria will exceed the net expenditure path in each year from 2026 to 2029, with 2025 being the sole exception. Nevertheless, these deviations are expected to remain within the permitted margins of the control account. However, the Maastricht-deficit is forecast to stay well above the 3% of GDP threshold, indicating a continued need for fiscal consolidation. More details are available here: link.

Additionally, there have been changes to the Fiskalrat's mandate, which are anticipated to align with Directive (EU) 2024/1265, especially concerning the evaluation of the consistency, coherence, and effectiveness of the national budgetary framework.

BELGIUM – FEDERAL PLANNING BUREAU

The Federal Planning Bureau of Belgium has published its June macroeconomic forecasts on 11 June 2025. This exercise has incorporated the new Government Accord for the 2024–2029 legislature, the official 2025 Budget, and the multi-annual budgetary outlook through 2029.

Two other major publications of the High Council of Finance were the June 2024 Advice on the allocation of the reference trajectory transmitted by the European Commission to Belgium for the period 2025-2028/2031 (Link) and the April 2025 Advice on the allocation of the Medium-Term Fiscal-Structural Plan submitted by Belgium to the European Commission on 18 March 2025 (Link).

The 2024 Advice responded to the federal government's request to the Section to provide an advice by mid-July on a distribution of efforts among the different levels of government based on the expenditure benchmark included in the reference trajectory sent to Belgium by the European Commission on 21 June 2024. The Section has worked out a method for allocating the balance and expenditure standard included in the EC reference trajectory for Belgium between Entity I (Federal Government and Social Security) and the individual communities and regions including the local authorities for which they are competent.

The 2025 Advice responds to the federal government's request to the Section to recalculate the scenarios included in the July 2024 Advice by 18 April 2025, taking into account the net expenditure path from the Medium-Term Fiscal-Structural Plan (MTFSP) submitted by Belgium to the European Commission on 18 March 2025.

CROATIA – FISCAL POLICY COMMISSION

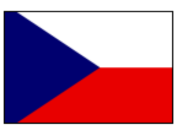
In Croatia, the Fiscal Policy Commission has primarily focused on evaluating the government's fiscal policy. This period also marked the first time the Commission engaged with the Medium-Term Plan (MTP) and its initial progress report. Additionally, the Commission contributed to the adoption of a new fiscal responsibility law that will significantly influence its operations. Several analyses and official positions have been published on its website (in Croatian), alongside an official assessment of macroeconomic projections for 2025, conducted in accordance with existing fiscal responsibility legislation.

CYPRUS – FISCAL COUNCIL

The Cyprus Fiscal Council has centred its recent efforts on advocating for improved long-term fiscal planning, particularly in areas like infrastructure, climate mitigation, COLA, and the green and digital transitions. Many of these investment needs are underway but remain excluded from official spending projections, posing a risk to compliance with the net primary expenditure (NPEx) trajectory.

The CFC has also called for tighter controls on "inelastic spending" during periods of fiscal surplus. A key concern is the growing reliance on lending from the Social Security Fund, which has created a substantial future internal liability now exceeding 30% of GDP. The Council has actively engaged in discussions on the Recovery and Resilience Facility (RRF) implementation and broader structural reform.

The CFC issued an opinion on the first Annual Progress Report (APR) for 2025, accompanying the Medium-Term Fiscal Structural Plan (MTSFP) for 2025–2028. This opinion flagged risks associated with the frontloaded NPEx trajectory and urged caution in revising the Public Debt Management Office strategy. The MTSFP was submitted in October 2024 and endorsed by the Council in January 2025. Legislative processes to align domestic fiscal governance with the 2024 EU Economic Governance Framework are also reported to be underway.



CZECH REPUBLIC – FISCAL COUNCIL

The Czech Fiscal Council has released two key reports in English: the "Report on Compliance with the Rules of Budgetary Responsibility for 2023" (published November 2024) and the "Report on the Long-Term Sustainability of Public Finances 2024" (published March 2025). These documents, available on the Council's website, summarize its recent evaluations and positions. In addition, the CFC continues to publish opinions and statements on major fiscal developments.

DENMARK – ECONOMIC COUNCIL

The Danish Economic Council published its Spring 2025 analysis, including Chapter II of its discussion paper. The full document is accessible here.

ESTONIA – FISCAL COUNCIL

In Estonia, the Fiscal Council continues its routine operations, with recent activities including discussions with the Ministry of Finance regarding the transposition of the new EU economic governance framework. This dialogue anticipates new responsibilities for the Council in the coming years.

FINLAND – ECONOMIC COUNCIL

The Finnish Economic Policy Council published its latest annual report in January 2025. The document reviews developments in fiscal and economic policy and is available here.

FINLAND – NATIONAL AUDIT OFFICE

The National Audit Office of Finland released its main fiscal monitoring report for 2024 as well as its Spring 2025 report. The latter will be available in English by June 2025 on the NAOF website: link. Additionally, the NAOF organised a seminar on EU fiscal rules in February.

FRANCE – HIGH COUNCIL OF PUBLIC FINANCES

The change of government mid-December and the implications of the major slippage in public finances in 2023 and 2024 are the main noteworthy developments in France. Indeed, French public finance continued to deteriorate in 2024, the fiscal deficit reaching 5.8% of GDP (after 5.4% of GDP in 2023) and the public debt reaching 113% of GDP.

Thus, last January, the HCFP had to examine the new macroeconomic forecasts for 2025 underlying the amended draft finance bills and social security financing bills.

In April, in its opinion on APR of MTP, the HCFP has triggered the correction mechanism set out in the Organic Law due to the “significant difference” for 2024 between the outcome and the multi-year structural balance targets.

The HCFP was more broadly questioned by the parliamentary inquiry committee in January on the significant gap between actual figures and government forecasts.

In partnership with the Paris School of Economics (PSE), the HCFP has also organized a public conference attended by more than 160 people on that topic in May. An expert panel of High-level figures from French (Government, National Assembly, Senate, HCFP, French Treasury, Banque de France, PSE and OFCE) and

European institutions (British and Italian independent budgetary institutions) contributed to rich debates on the public finance deterioration and the governance of forecasts in France and Europe.

The new government launched an "Action Plan" in March to improve the monitoring and transparency of public finance forecasts, also its effectiveness remains to be seen.

GERMANY – INDEPENDENT ADVISORY BOARD TO THE STABILITY COUNCIL

The Independent Advisory Board to the Stability Council published its Spring 2025 statement, which focused on the suspension of budgetary surveillance and the transposition of the new EU governance framework. The English translation of this statement is pending; the German version is available here. The Board also responded to the proposed draft bill that aligns national legislation with the revised EU fiscal rules, though this response has not been made public. In December 2024, the Board released an extraordinary statement, available in English here.

GREECE – FISCAL COUNCIL

The Hellenic Fiscal Council issued an opinion on the 2025 Annual Progress Report (APR), accessible here. It also participated in the national working group for the transposition of the EU Economic Governance Regulation (EGR) into national law, as well as in the multi-country Technical Support Instrument (TSI), with Phase A now concluded across all pillars.

HUNGARY – FISCAL COUNCIL

Hungary's Fiscal Council published its second three-year outlook in February 2025 and reviewed the draft 2026 budget. Key documents outlining these activities are available here.

IRELAND – FISCAL ADVISORY COUNCIL

The Irish Fiscal Council has been actively contributing to key national debates. It published a widely impactful study on the fiscal costs of missing climate targets: link. Another recent publication focused on the revenue and risk implications of BEPS Pillar II reforms: link. After the 2024 budget, the Council published its Fiscal Assessment Report in December: link. Prior to the November election, it also released an interactive game simulating fiscal choices facing the finance minister: link. A legislative change to increase the Council's funding is under consideration.

ITALY – PARLIAMENTARY BUDGET OFFICE

The Parliamentary Budget Office (PBO) of Italy has remained highly active. Since December 2024, it has published three parliamentary hearing reports, including on fiscal inventory management, fiscal federalism, and the 2025 Public Finance Document (PFD). The PBO endorsed the macroeconomic projections in the PFD on April 7, 2025. It also published two quarterly Reports on Recent Economic Developments and several policy-focused publications.

The PBO received an increase in its annual budget allocation from Parliament, rising from €6 million to €7 million. Legislative efforts are underway to align domestic fiscal rules with the 2024 EU governance framework, with the PBO participating in a parliamentary working group. The 2025 PFD serves as a transitional document that anticipates forthcoming regulatory adjustments, offering more detail than the EU minimum but less than previous Italian EFDs. While it updates the fiscal outlook for 2025–2027, its limited scope for 2028 positions it more as an update than a full planning document.

LATVIA – FISCAL DISCIPLINE COUNCIL

The Fiscal Discipline Council of Latvia has noted accelerated defence spending following the U.S. presidential election outcome, aiming to reach 5% of GDP by 2026. Progress on green legislation has stalled in Parliament, potentially pending revisions to EU environmental targets. Despite slower economic growth, recent tax reforms have helped the government meet its revenue targets. Russian aggression remains a dominant concern in national politics. The Council is prioritising reforms to the Fiscal Discipline Law in 2025 to enhance its effectiveness.

LITHUANIA – NATIONAL AUDIT OFFICE

The National Audit Office of Lithuania endorsed the Ministry of Finance's Economic Development Scenario and published its own projections: link. It also released an Assessment of the Sustainability of General Government Finances for 2025–2050 link and evaluated the fiscal aspects of Lithuania's Medium-Term Fiscal-Structural Plan. An English translation of the latter is forthcoming.

LUXEMBOURG – COUNCIL OF PUBLIC FINANCES

The CNFP of Luxembourg published its May 2025 assessment of the national Medium-Term Fiscal-Structural Plan and Annual Progress Report. The full evaluation is available here.

MALTA – FISCAL ADVISORY COUNCIL

In the past six months, Malta's MFAC released three key publications: an assessment of macroeconomic forecasts in the 2025 Annual Progress Report link, the 2024 Annual Report and Statement of Accounts link, and an endorsement letter on the Medium-Term Fiscal Policy Strategy link.

THE NETHERLANDS – CPB BUREAU FOR ECONOMIC POLICY ANALYSIS

The CPB has been engaged in numerous activities relevant to fiscal oversight. Its February forecast highlighted steady growth expectations for the Dutch economy amid geopolitical uncertainty link. An ex-ante analysis of the Spring Budget was also conducted link.

Recent CPB publications include a Financial Risk Report link, a discussion paper on COVID-related fiscal policy and debt link, and a monthly column link. The CPB also continues to publish the World Trade Monitor link.

The CPB has contributed to legislative efforts to implement the new European fiscal framework within Dutch law. It also assisted in reviewing the Ministry of Finance's public finance forecasting methods and is now supporting implementation of the resulting recommendations.

PORTUGAL – PUBLIC FINANCE COUNCIL

The Public Finance Council of Portugal released its economic and fiscal outlook in March 2025, covering the 2025–2029 period. The report is accessible here. Additionally, the CFP published an opinion on the Annual Progress Report (APR), which included an analysis of the macroeconomic scenario and the net expenditure growth path. The Council reached different conclusions from the Government, particularly due to varying assessments of Discretionary Revenue Measures (DRM). That opinion is available here.

ROMANIA – FISCAL COUNCIL

Romania’s Fiscal Council has released several key publications in recent months. These include a position note on the public budget and fiscal rules from December 2024 link, and multiple opinions on the State Budget Law and the 2025–2027 Fiscal Strategy, published in February 2025 link. The Council also published a note on EU funds absorption link and a report on the Medium-Term Fiscal-Structural Plan (MTP) in March link.

SLOVAKIA – COUNCIL FOR BUDGETARY RESPONSIBILITY

In Slovakia, the Council for Budgetary Responsibility has issued several major reports, including an addendum to the evaluation of the 2025–2027 General Government Budget link, a report on the 2024 General Government Budget results link, a report on the long-term sustainability of public finances link, and finally the assessment of the Annual Progress Report for 2025 link. The CBR also provides monthly budgetary forecasts under the "Budgetary Traffic Lights" series link. Additionally, the CBR published a short commentary (in Slovak only) on the need to transpose specific IFI-related articles of the new EU directive into national legislation link.

SLOVENIA – FISCAL COUNCIL

The Fiscal Council of Slovenia contributed to the recent amendment of the Fiscal Rule Act (ZFisp-1), which was adopted by Parliament. The text of the law is available here. In April 2025, the Council published its assessment of the draft Annual Progress Report for 2025 link.

SLOVENIA – INSTITUTE OF MACROECONOMIC ANALYSIS AND DEVELOPMENT

In March 2025, IMAD presented its Spring Forecast of Economic Developments link. Recent changes to Slovenia's fiscal governance legislation now require IMAD to produce two economic forecasts annually, including a central scenario aligned with fiscal targets and an alternative scenario excluding fiscal measures. The Spring forecast must also provide a thirteen-year projection when an MTP or its revision is being prepared.

As Slovenia's designated National Productivity Board, IMAD published its 2025 Development Report in May. The report assesses economic, social, institutional, and environmental trends. The Slovene version is available here, with an English translation in preparation.

SPAIN – INDEPENDENT AUTHORITY FOR FISCAL RESPONSIBILITY

AIReF has been highly active in recent months, producing a wide array of reports and opinions. Key documents include the November 2024 reports on the Medium-Term Structural Fiscal Plan and the main budgetary lines for 2025, an external evaluation report, and the institution's 2025 Action Plan. AIReF also published its 2024 Annual Report, a March opinion on fiscal risks, and two March studies on SME financial instruments and the civil servant mutual insurance system.

Other important outputs include a second opinion on the long-term sustainability of public finances and a report on the pension expenditure rule. In April and May 2025, AIReF released its assessment of the Initial Budget for 2025 and a monitoring report on the 2025–2028 MTP. On May 12, the AIReF president appeared before the Finance and Public Function Committee to discuss the institution's work, present the 2024 evaluation findings, and outline the final phase of her term.

SWEDEN – FISCAL POLICY COUNCIL

In Sweden, a parliamentary commission has proposed lowering the fiscal surplus target from one-third of GDP to a balanced budget rule, effective from 2027. The debt anchor of 35% of GDP would remain unchanged. The FPC released its Annual Report in May 2025 and also published studies on regional and municipal economic developments and Sweden's military support to Ukraine.

UNITED KINGDOM – OFFICE FOR BUDGET RESPONSABILITY

The UK government introduced legislation to guarantee the publication of a forecast whenever a major fiscal event is announced. The announcement is available here. The OBR also developed a new overlapping generations (OLG) model to enhance long-term fiscal and economic analysis. Details of the model are provided in Working Paper No. 22 link.

The Network of EU Independent Fiscal Institutions

The Network is composed of 32 independent fiscal institutions representing 25 EU countries and the UK. It is voluntary and inclusive, open to all independent fiscal oversight bodies operating in the EU. It provides a platform to exchange views, expertise and pool resources in areas of common concern. The Network supports the efforts to review and reinforce the EU fiscal framework, seeking to better exploit the synergies between rules and institutions, as well as between different levels of administration whilst respecting the principle of subsidiarity and enhancing local ownership and accountability.

For further information, visit the website: https://www.euifis.eu/

EU INDEPENDENT
FISCAL INSTITUTIONS