



Press Release

EU Fiscal Risks Remain High Despite Stabilisation

2025 represents a defining moment for European fiscal policy, with the new EU Economic Governance Framework aiming to **strengthen debt sustainability** on the one hand, but new risks for the public budget mounting on the other, whether geoeconomic or political instability, defence expenditure, the green transition or ageing populations. Today, a new report from the **Network of EU Independent Fiscal Institutions** (IFIs) finds that, while short-term growth and inflation forecasts are broadly plausible, **fiscal risks are increasing**, and medium-term compliance with EU rules remains uncertain. Remarkably, IFIs are most pessimistic regarding the new, all-important net expenditure growth path, with **fewer than 40% believing their country will comply with their path in 2025**.

"As Europe enters a new era of heightened fiscal risk and spending pressures, this report shows that IFIs are vital to ensuring that responsibility and resilience remain at the heart of budgetary decisions." Lilia Cavallari, Chair of the EU IFI Network and of the Parliamentary Budget Office, Italy.

Key takeaways from the report are:

- **Net expenditure path doubts:** Fewer than 40% of IFIs find their country's net expenditure growth path to be plausible, raising red flags about fiscal compliance with the new lynchpin variable.
- **Other EU fiscal rules missed:** As is well known, nine countries exceed the 3% deficit threshold in 2025, and thirteen remain above the 60% public debt limit, and medium-term forecasts show little change. IFIs broadly find these forecasts to be accurate.
- **Directive 2024/1265 transposition slow off the mark:** Only two countries have fully transposed the EU's revised budgetary directive, in IFIs' opinions. The legal deadline for transposition is 31 December 2025, suggesting some dragging of the feet from Member States, despite both political and legal complexity.
- **A more fraught fiscal environment:** IFIs are growing more worried about risks to public finances in the medium-term across the board, but especially relating to climate, demography and defence spending.
- **Defence spending is accounted for heterogeneously:** EU IFIs are adapting to the surge in military spending, but fiscal headroom is small, transparency is insufficient, and integration into fiscal plans heterogeneous.
- **Trade uncertainty is a significant downside risk:** Risks are moderately high, with smaller economies with high export orientation more likely to be hit, adaptation from firms already visible macroeconomically.

IFIs are **non-partisan, national public bodies** tasked with promoting **sustainable public finances**, particularly through monitoring compliance with fiscal rules, producing or endorsing macroeconomic forecasts, and advising national governments. This, the European Fiscal Monitor, is the EU IFIs' bi-annual report, based on input from 32 IFIs across 26 EU Member States and the UK, collected in May and June 2025.

Full report available at: www.euifis.eu.

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