EUROPE

IMF

Europe's Fiscal Squeeze

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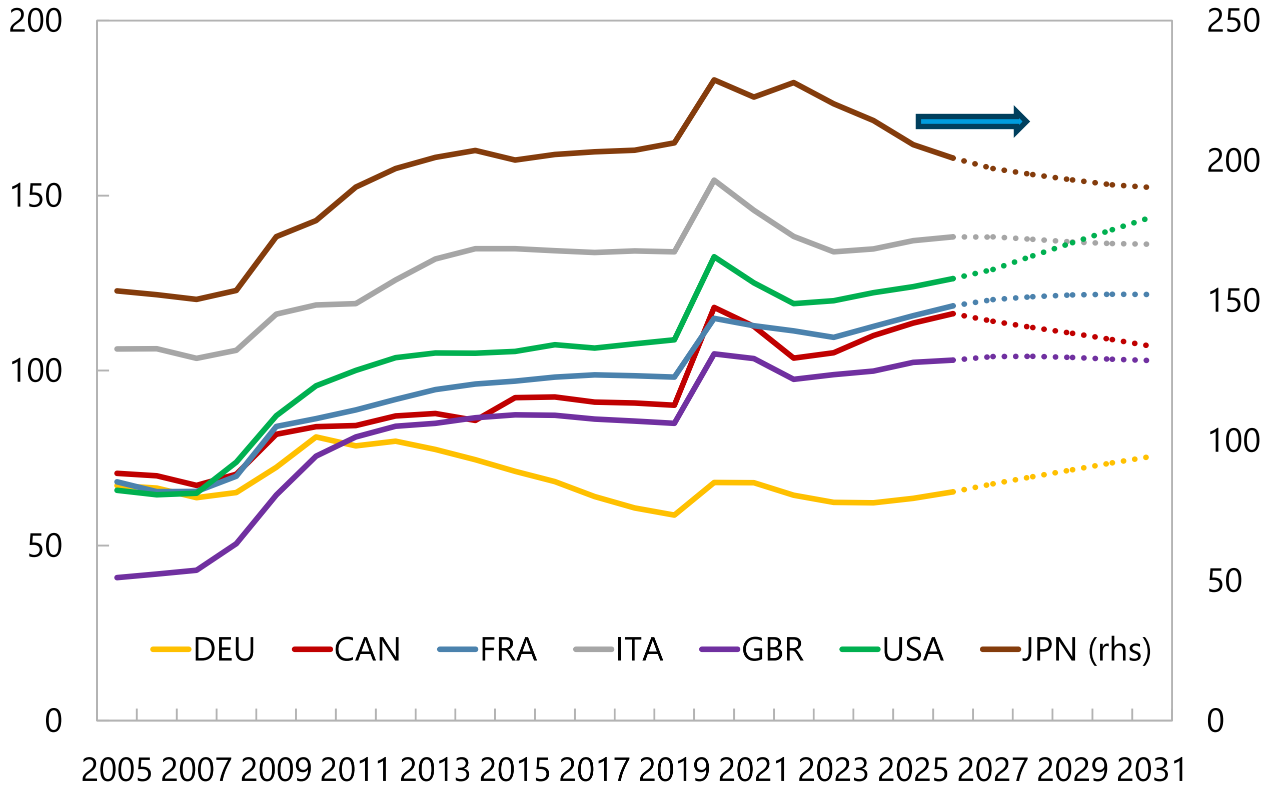
Europe’s fiscal challenge

- **New defense needs, an energy transition, and ageing populations**
- Over the next 15 years, these **spending pressures will intensify**
- What is the **scale of the challenge?**
- **What policy action is needed?**
  - ► Will traditional deficit-reducing measures be sufficient?
  - ► Can growth-enhancing economic reforms help?
  - ► Will a rethink of the role of government be needed to make larger savings?

Public debt in G7 countries

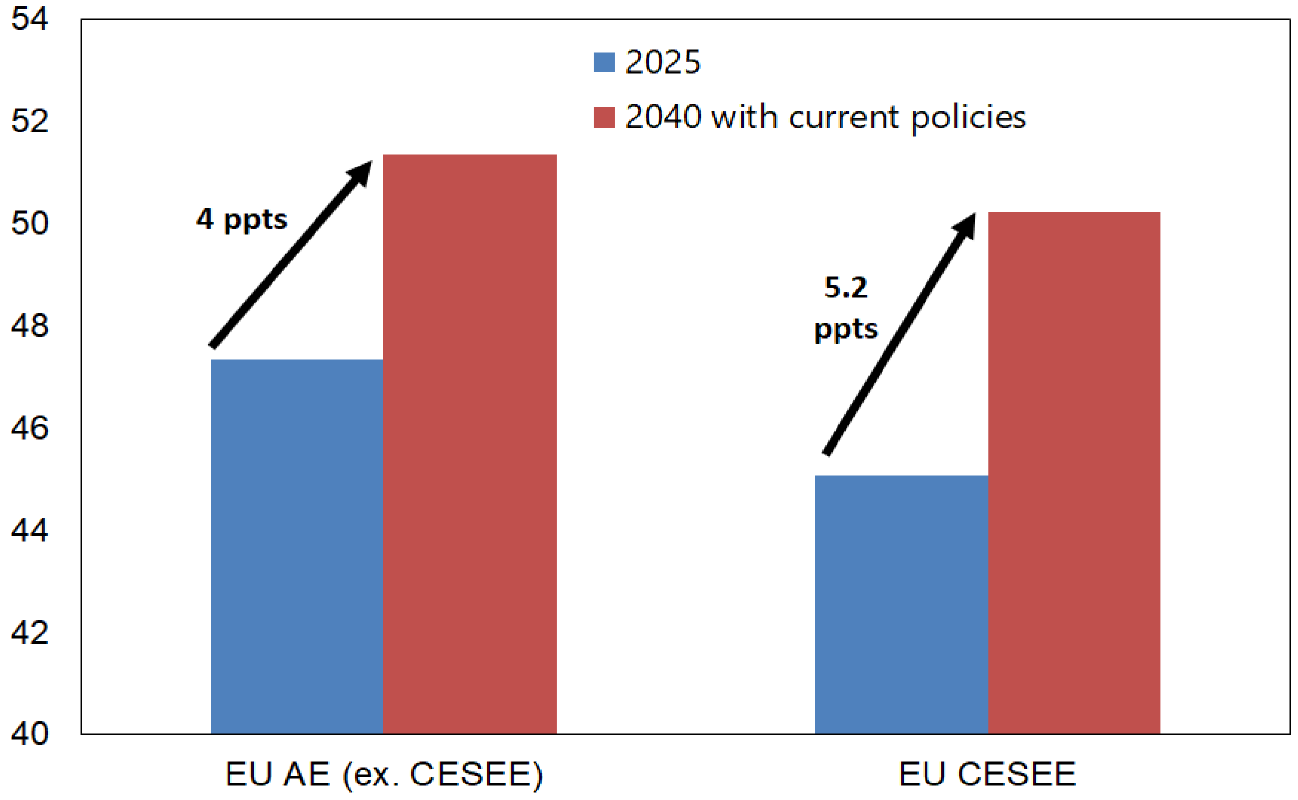
Public Debt Ratios
(G7 Countries; Percent of GDP)



Sources: IMF's 2026 July World Economic Outlook.

Mounting spending from ageing, defense and energy

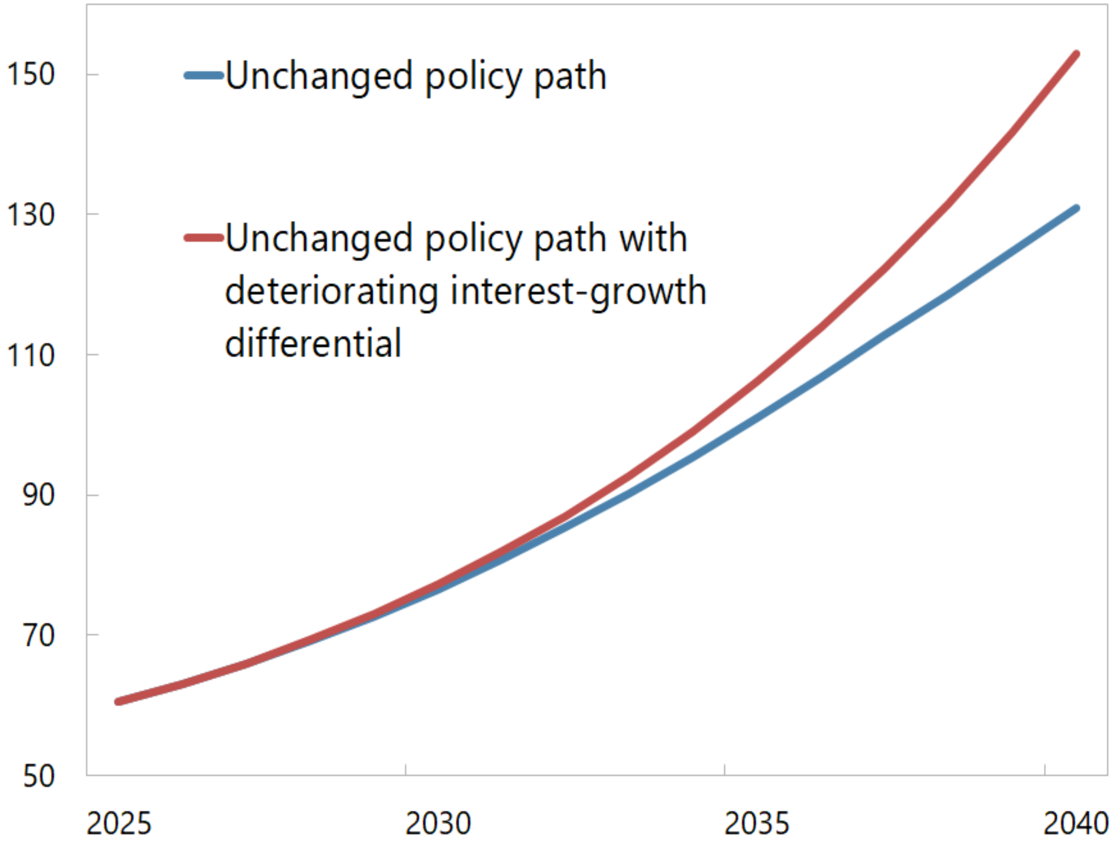
Public Spending Ratios
(Government expenditure in EU Countries; Percent of GDP)



Source: Eble and others (2025) and IMF Staff Calculations.
Note: EU Advanced Economies (AEs) (ex. Central, Eastern and Southeastern (CESEE) countries) include Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Spain and Sweden. EU CESEE countries include the remaining EU countries.

Public debt would at least double by 2040 without policy action

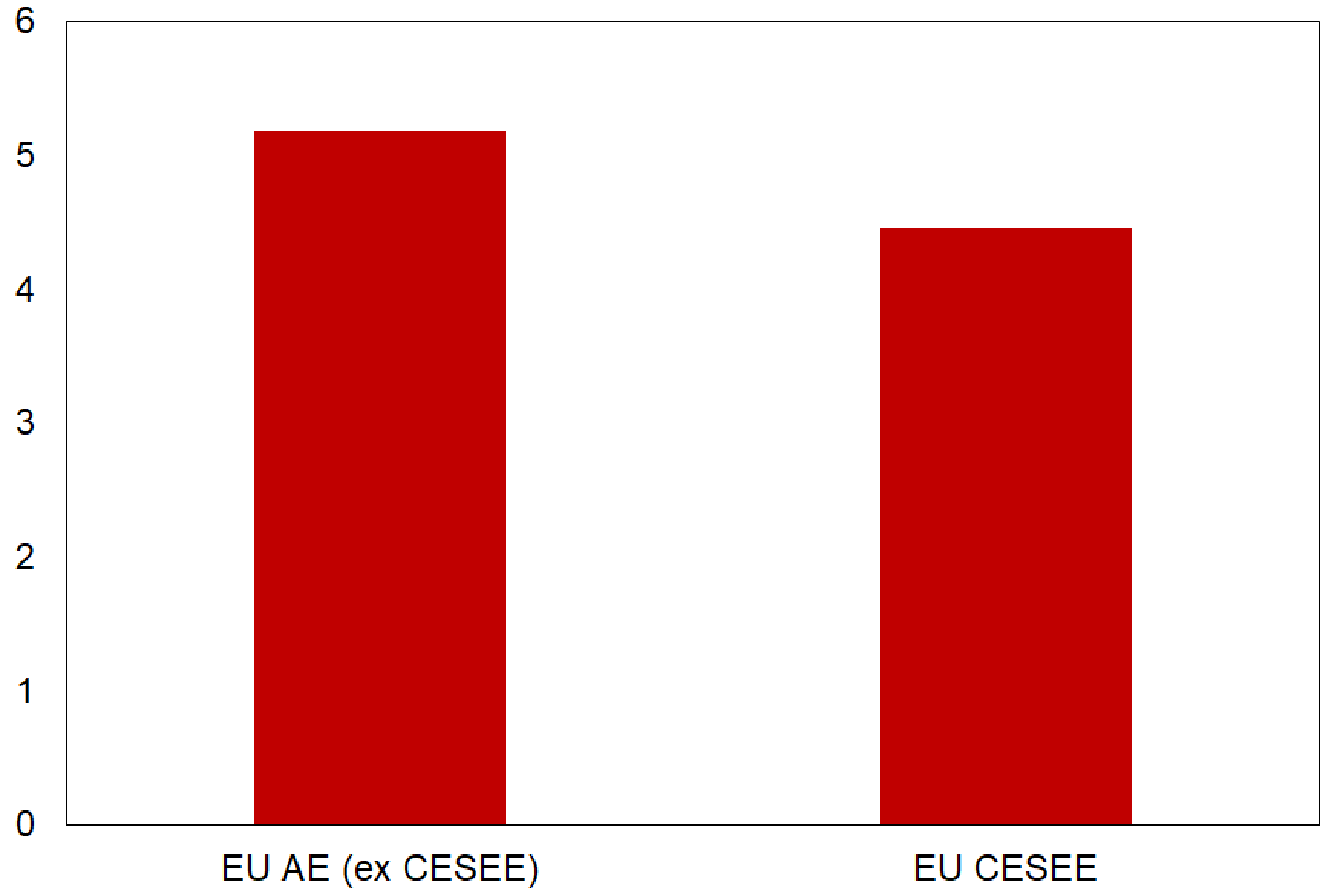
Public Debt Without Policy Action
(Percent of GDP; Simple average of European countries)



Source: Authors' calculations.

Deficits need to be reduced by 4-5 pp on average to stabilize/reduce debt-to-GDP ratios

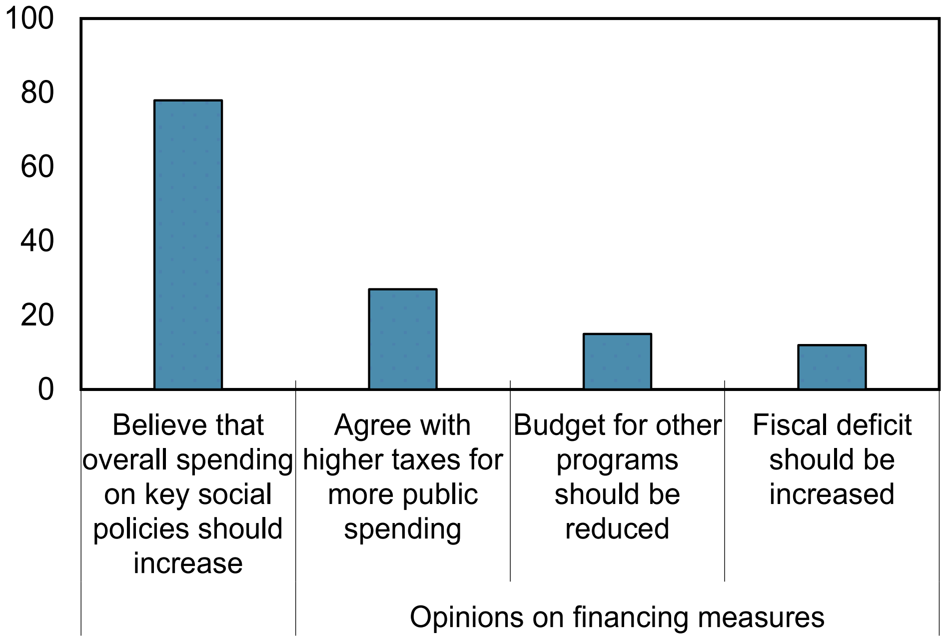
Fiscal Consolidation Needed to Stabilize Debt Ratios in EU Countries
(Percent of GDP, cumulative 2026-30)



Source: Authors' calculations.

The political economy is challenging

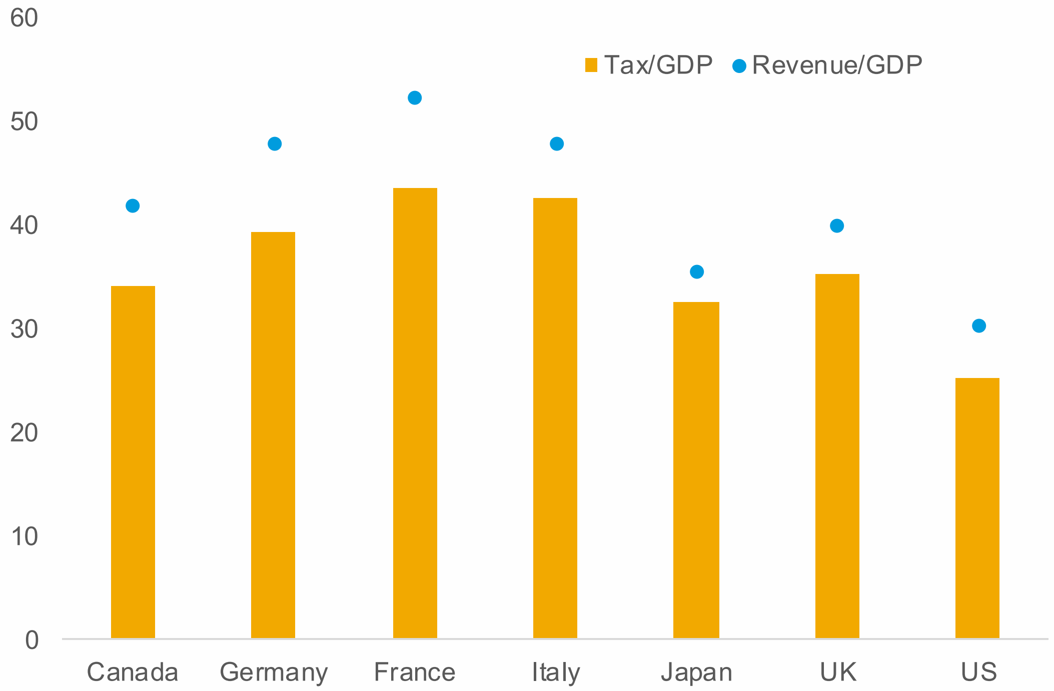
Europeans Support More Public Spending--- but not Higher Taxes or Deficits
(Percent of respondents)



Source: EU Barometer Special 529 (May to June 2022) and Flash 562 (April 2025).

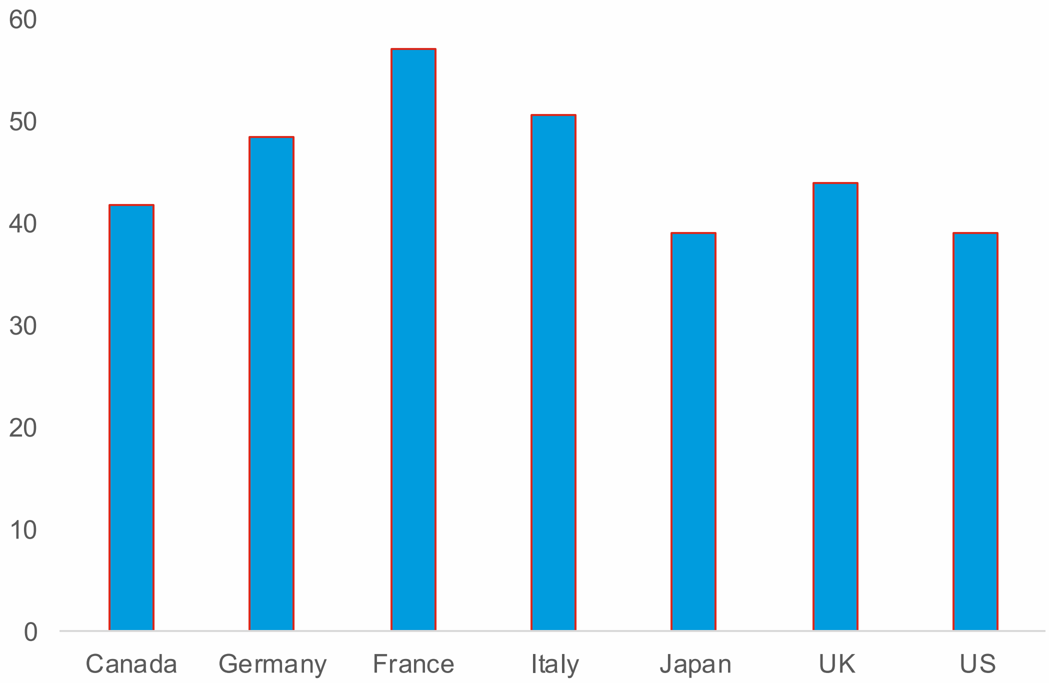
Tax, revenue, and expenditure ratios

G7: Tax and Revenue Ratios
(Percent of GDP)



Source: OECD.

Expenditure/GDP
(Percent of GDP)



Source: OECD.

Policy action: boost growth, adapt benefits for longevity, boost efficiency, rethink the footprint of the state

Growth boosting structural reforms

- Domestic growth reforms
- EU level – e.g. deepening single market

Fiscal reforms + consolidation

- E.g. Reduce public pension and health-related spending, conventional fiscal consolidation, increase private sector contribution

Efficiency gains

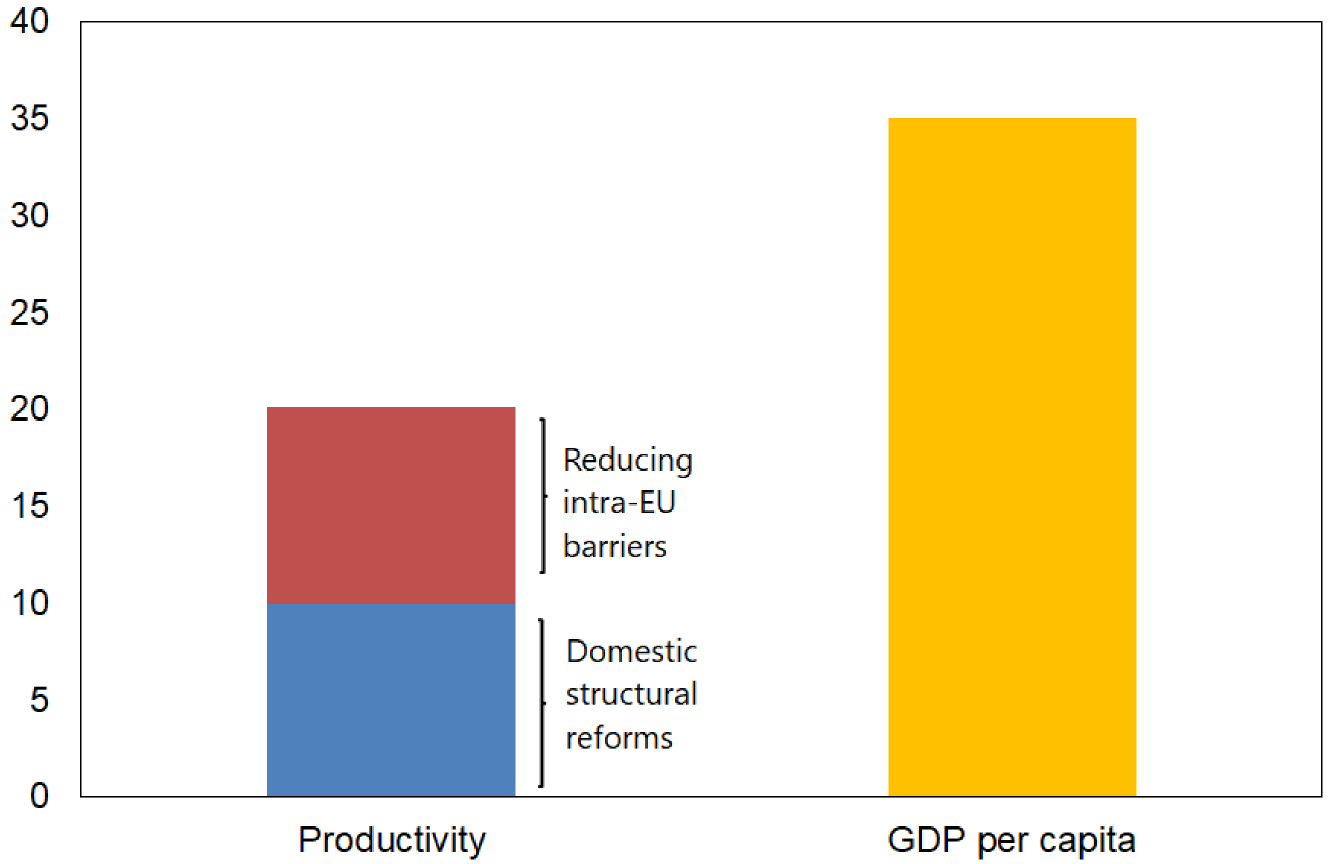
- Joint provision of European public goods

Pillar one: Pro-growth reforms

Growth boosting structural reforms	Domestic growth reforms
	EU level – e.g. deepening single market
Fiscal reforms + consolidation	E.g. Reduce public pension and health-related spending, conventional fiscal consolidation, increase private sector contribution
Efficiency gains	Joint provision of European public goods

Structural reforms can boost growth

Long-term Potential Gains from EU and National Reforms
(Productivity and GDP per capita, in percentage points)



Source: IMF European Regional Economic Outlook, Note 2, Fall 2025.

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A moderate downpayment on these reforms can reduce fiscal consolidation needs meaningfully

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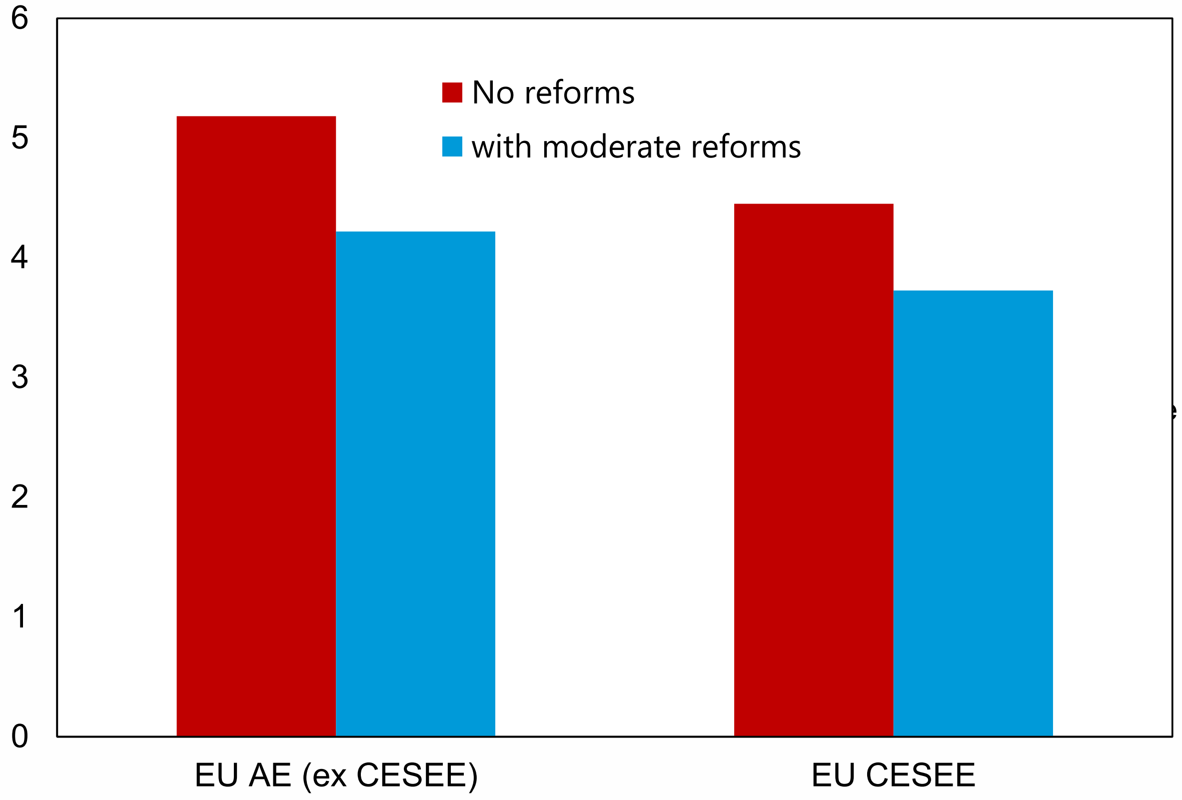


Pillars two and three: Entitlement reforms, conventional consolidation, efficiency gains

Growth boosting structural reforms

- Domestic growth reforms
- EU level – e.g. deepening single market

Fiscal reforms + consolidation

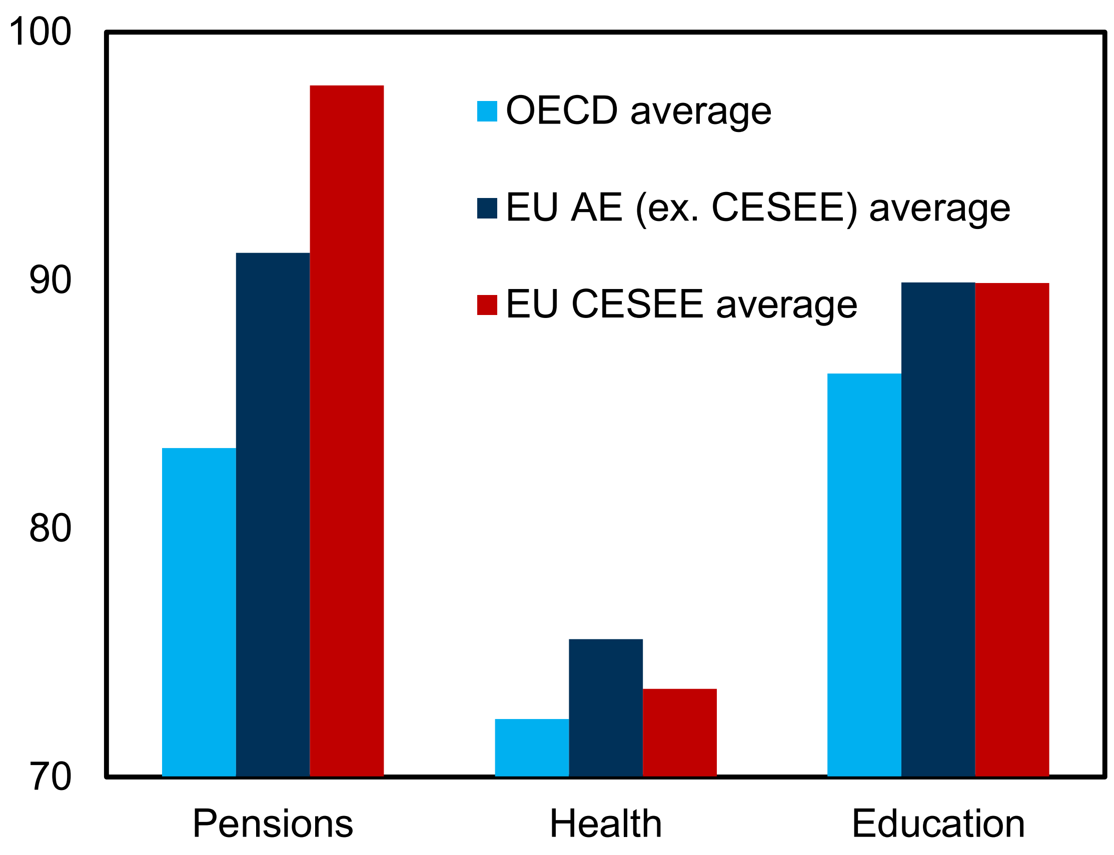
- E.g. Reduce public pension and health-related spending, conventional fiscal consolidation, increase private sector contribution

Efficiency gains

- Joint provision of European public goods

The EU public sector funds more than 70 percent of core services

Public Financing Share in EU countries is above the OECD average
(Percent of total; EU countries)



With growth refo
reform package

Growth reforms
(domestic + selected EU-level)

and
‹age

Implementation requires a strategic approach

Mix of expenditure and revenue measures

- Most consolidation achieved through lasting expenditure reductions
- Complemented by tax base broadening and rate increases

Growth-friendly and fair

- Growth-friendly measures (enhance efficiency, protect public investment)
- Wealthy should bear some burden of consolidation measures
- Accompany consolidation measures with pro-poor policies

Clear public communication

- Governments explain why consolidation is necessary
- Involve stakeholders and show progress towards targets

Thank you