CAMPAIGN FOR END AUSTERITY PEOPLE AND PLANET

AUSTERITY AMID INSTABILITY:

EUROPE'S RISKY FISCAL GAMBLE

April 2025

Publisher: End Austerity Campaign
April 2025

This work is part of the End Austerity Campaign and contributes to exposing how fiscal rules and public spending cuts within the EU deepen inequality and threaten democratic accountability. The paper calls for bold, inclusive alternatives that support a rights-based, care-centred economic system and works for people and the planet. For any questions related to this work, please contact Valentin Sava at valentin@adip.ong and Mihaela Siritanu at msiritanu@brettonwoodsproject.org

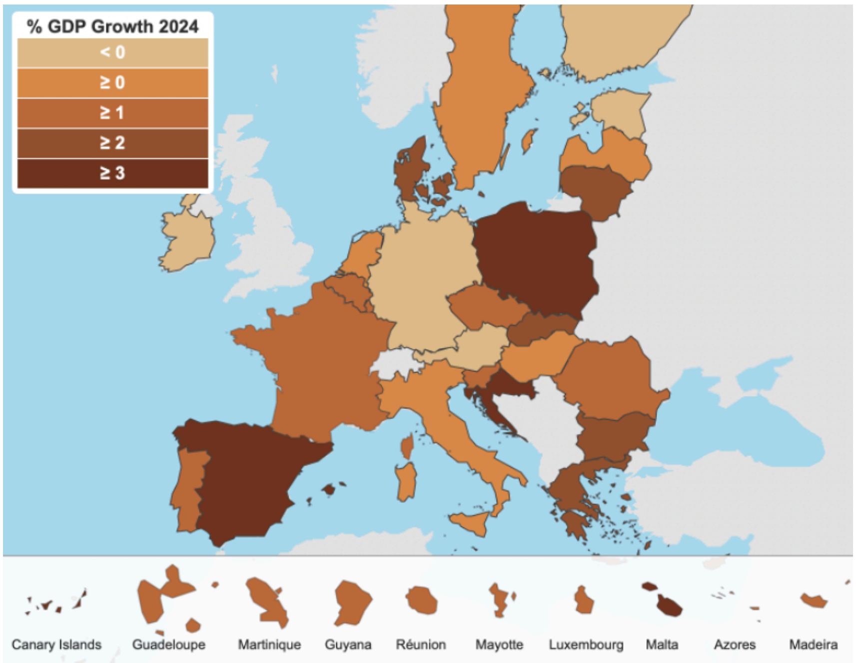
Table of Contents

I. Introduction: The EU's economic outlook in a time of uncertainty

The European Union faces a complex economic landscape marked by modest growth projections, geopolitical tensions, and internal political shifts. Geopolitically, the EU is navigating challenges such as the ongoing conflict in Ukraine and evolving transatlantic relations, leaving the block's defence and economic competitiveness in a state of uncertainty. Internally, the rise of nationalist sentiments and political fragmentation within member states add layers of complexity to policy-making and economic cohesion. These factors collectively shape an environment where the EU must balance economic recovery efforts with external pressures and internal dynamics, and increasing evidence shows the EU is responding by bringing upon itself "a new age of Austerity."

Following a period of prolonged economic instability driven by the Covid-19 pandemic and the ongoing war in Ukraine, the European Union is showing signs of a cautious recovery. After a sluggish 2024, in which many member states struggled with low growth and tight fiscal conditions, the EU economy resumed expansion in early 2024 and is projected to grow by 1.5% in 2025[1]. This recovery is underpinned by a rebound in consumer spending and investment, signaling a slow but steady return of economic confidence across the bloc.

Fig.1. GDP Growth Map. Source: Geographic Information System of the Commission.



The outlook is particularly optimistic for the Central and Southeastern European (CESEE) member states, where economic growth is expected to outpace the EU average. With projections reaching 3.1% growth in 2025, the CESEE region is emerging as a key driver of EU-wide economic performance.[2] This divergence reflects not only the catch-up potential of these economies but also targeted investment and increased domestic demand following years of underperformance.

One of the standout positives in the EU's economic landscape is the resilience of the labour market. Despite the shocks of recent years, the EU economy has managed to generate over 8 million new jobs since the onset of the pandemic.[1] Unemployment remains historically low, providing a stable foundation for household consumption to recover, as they see their real disposable income rise in 2025. After peaking at 11.5% in October 2022, inflation has dropped significantly, reaching 1.7% in September 2024.[3] This trend has reduced pressure on household budgets and allowed central banks to reconsider the pace of monetary tightening. As inflation continues to ease, households are projected to reduce their precautionary savings, with the savings rate projected to fall to 14% by 2026, further supporting private consumption and domestic demand.[1]

1. *European Commission. Autumn 2024 Economic Forecast: A Gradual Rebound in an Adverse Environment, November 2024.*
2. *European Parliament. Macroeconomic Imbalances and the European Semester: Briefing, March 2024.*
3. *Euronews. "Inflation in Europe: Which Countries Have the Highest and Lowest Inflation Rates?" Euronews Business, March 2024.*

II. The cost of caution: Why the EU's recovery is lagging behind

Yet, the recovery remains well below Europe's full potential. In the near term, uncertainty surrounding economic policy direction, political instability, and ongoing geopolitical tensions continue to dampen the outlook.[4] Employment growth is expected to decelerate from 0.8% in 2024 to 0.5% by 2026.[5] A resurgence in global commodity and shipping costs could also disrupt or reverse recent disinflation trends. Additionally, concerns about global fragmentation and unpredictable trade policies are undermining business confidence across the EU, leading to lower anticipated returns on capital and reduced investment. Over the longer term, the EU's growth prospects are constrained by weak productivity, stemming from limited market scale, underinvestment, and stagnant firms. These challenges are further compounded by uncertainty tied to geopolitical conflict, multilateral fragmentation, climate change, and broader structural transformations across the global economy.

Compared to other advanced economies, the European Union's post-pandemic recovery has been noticeably weaker-especially when measured against the United States.[6] Between 2019 and 2023, the euro area's real GDP grew by only around 3% cumulatively, while the U.S. economy expanded by over 8% in the same period.[6] According to the U.S. Treasury, much of this performance gap stems from stronger private consumption and greater energy independence in the United States.[7] In contrast, the EU faced serious headwinds due to its heavy reliance on Russian energy supplies, which left it more exposed to energy market shocks following the war in Ukraine.

When it comes to domestic policy choices, both the US and the EU pursued similar monetary policies. The Federal Reserve increased interest rates by 5.25 percentage points, while the European Central Bank (ECB) - responsible for the monetary policy of roughly five-sixths of the EU - raised its benchmark rate by 4.5 percentage points.[8] However, the effects of rate hikes have been felt differently. In the U.S., due to the dominance of fixed-rate loans and longer refinancing cycles, the transmission of higher interest rates has been slower, shielding households from immediate financial stress.[9] In the EU, where variable-rate mortgages are more common, consumers felt the pinch more quickly, affecting household consumption and confidence.

Their approach to fiscal policy however, displays a few stark differences. While officials on both sides of the Atlantic resorted to fiscal stimulus to cushion their economies from the impact of the pandemic, the US did so on a much bigger scale, with a stimulus package worth 10% of GDP, followed by an equally large infrastructure package.[9][10] The eurozone however, had a much smaller stimulus package, only 4.2% of GDP in 2020.[11]

Moreover, the design of stimulus policies differed. Overall, the U.S. policies were more progressive than those in the EU, prioritising unemployment benefits, debt moratoriums, and direct support to households, whereas Europe leaned more heavily on wage subsidy schemes aimed at preserving existing jobs. While the EU's approach helped maintain employment levels during the crisis, the U.S. strategy facilitated labour market reallocation, allowing faster productivity growth in the aftermath.[12]

4. International Monetary Fund. *Regional Economic Outlook: Europe, October 2024*. Washington, DC: IMF, October 2024.
5. European Commission, Autumn 2024 Economic Forecast.
6. European Central Bank. *Inflation Persistence and Transmission in the Euro Area*. Economic Bulletin, Box 1, April 2024.
7. U.S. Department of the Treasury. *Newsletter: U.S. Economic Update – March 2024*, March 2024.
8. Financial Times. *US Trade Policy Poses New Risks for Global Growth*. March 2024.
9. CNN Business. US, China, and Europe: *Three Paths to Economic Recovery*, December 2023.
10. International Monetary Fund. *Europe's Energy Shock and the Path Forward – Video Briefing*, 2024.
11. European Central Bank. *Economic Bulletin – February 2021*. Frankfurt: ECB, 2021.
12. International Monetary Fund. *Inflation Dynamics and Fiscal Responses in Europe*. IMF Working Paper 2024/124, April 2024.

These contrasting fiscal approaches have had notable impacts on public finances. The U.S. federal deficit drove up national debt to approximately 123% of GDP by the end of 2024 - its highest level since World War II.[13] The EU also saw rising debt, but to a more moderate level of 84%, well below that of other advanced economies such as the UK - 104%, and Japan - 255%.[13] This reflects a more restrained fiscal stance in Europe, but also raises questions about whether the EU's relative austerity may have dampened its post-pandemic economic momentum.

III. The EU's fiscal trap

The EU's debt sustainability is managed by its Stability and Growth Pact (SGP) - a framework conceived as a means to enforce orthodox fiscal rules designed to steer member states towards balanced budgets.[14] This austerity based approach to fiscal policy making requires countries to have a maximum debt of 60% of GDP and annual deficit of 3% - is a significant factor in Europe's low-growth environment and the widening productivity gap with the United States.[17]

Although the SGP was temporarily suspended during the pandemic,[15] to allow countries to borrow to sustain their fiscal stimulus, it was reintroduced in 2024 with minor, largely superficial, revisions.[16] Most notably, countries with debt above 90% of GDP, have to reduce their debt by 1% and by 0.5% per year if the debt is between 60% and 90%. During periods of economic growth, the deficit must go down to 1.5% per year if country deficits go beyond 3%. In addition, while the revised rules permits some public investments to be excluded from regular budget calculations, the bulk of these expenditures must still adhere to the rule that additional public investment should be funded through higher taxes or cuts to other spending.[17] In effect, most public spending cannot be financed through public debt issuance. The prohibition on financing productive investments through public debt introduces an additional bias against public spending.

In the private sector, companies often finance productive assets through debt issuance, provided the anticipated returns exceed borrowing costs, including any risk premium. This same principle applies to government investment in public infrastructure. When such investments yield long-term economic and social benefits, financing them through government bonds is a rational strategy, especially when borrowing costs are low.

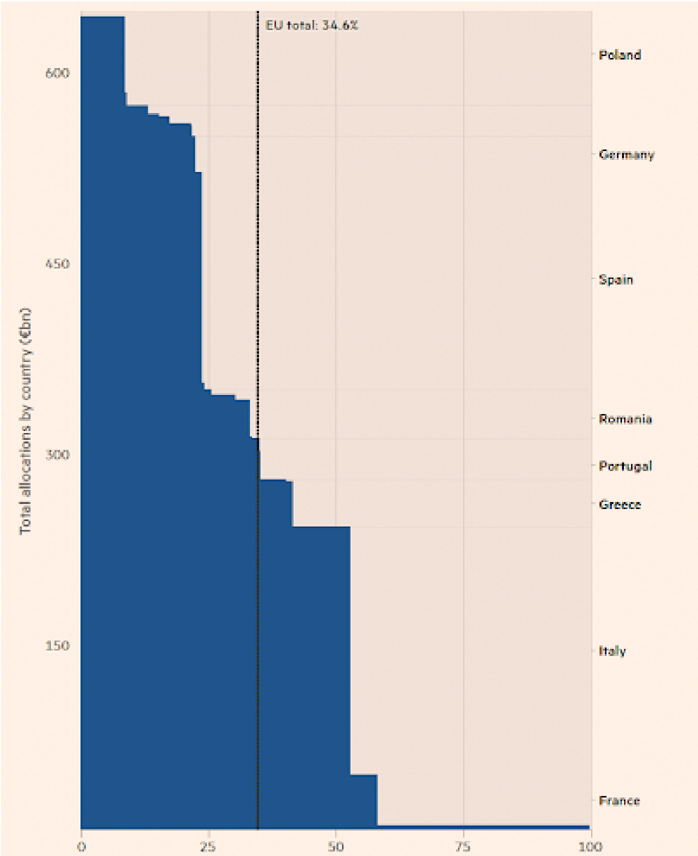
With government bond yields for most Eurozone countries currently ranging between 2% and 3%, the economic justification for increased public investment is strong. Projects like energy infrastructure for a green transition can generate returns far exceeding these borrowing costs.

However, the existing SGP rules in the Eurozone create a political disincentive for such investments. Policymakers often hesitate to champion projects that require immediate expenditure but primarily benefit future generations, making long-term investments politically unattractive.[17] This reluctance is reflected in historical trends: during the 1980s and 1990s, public investment accounted for over 8% of total government spending in the EU.[17] By the 2000s, this figure had declined to less than 6%.[17] The drop suggests that fiscal constraints and political considerations have led to underinvestment in critical public goods, despite the long-term economic advantages.

13. *The Economist.* *A Fiscal Squeeze in 2025 Will Harm Europe's Growth*, *November 2024.*
14. *European Commission.* Stability and Growth Pact: Economic and Fiscal Governance. *Accessed April 2025.*
15. *Euractiv.* *EU Countries Warn of Severe Economic Downturn, Suspend Stability Pact*, *March 2020.*
16. *Reuters.* *Main Elements of Fiscal Reforms Agreed by EU Governments*, *December 2023.*
17. *Social Europe.* *Stability or Stagnation? How Europe's Fiscal Rules Are Strangling Growth*, *February 2024.*

The SGP rules come into effect this year, at a time when the EU's fiscal stimulus package - the Recovery and Resilience Facility (RRF), runs out in 2026. This will require more prudent spending when the need for it remains high - not least to finance the European Green Deal.[18]

Fig.2. Proportion of allocated RRF funding disbursed by February 1, 2024 (%). Source: Financial Times.



At the same time, the European Court of Auditors (ECA) pointed out that, as of late March 2024, only just over a third of the funds available for disbursement have been paid out.[19] Romania, for example, spent only 8% from its allocated RRF funds by 2024 and completed only 70 out of 518 targets, indicating a completion rate of less than 14%.[20] Notably, the Netherlands, Ireland and Sweden have not yet received any RRF funding.[19] Moreover, the ECA expressed its concerns about the repayment of the loan repayment process as interest rates have considerably increased in recent years, but there is no dedicated source of EU funding to pay back the loans as of yet. ECA estimates that interest charges could rise to as much as €27bn for the EU’s entire multi-year budgeting period, doubling initial estimates.[19]

IV. Bracing for austerity: The unlearned lessons of the past

Amid rising political instability, an ongoing war on its eastern border, declining productivity and competitiveness, the climate crisis, and strained transatlantic relations, the European Union faces a critical juncture. Despite these mounting challenges, two-thirds of EU member states are preparing to implement a new wave of Commission-driven austerity. Under this directive, countries are set to slash public spending by over €100 bn in the coming year alone. France (€26 bn), Italy (€25 bn), Spain (€14 bn), and Germany (€11 bn) are expected to make the most significant annual cuts to meet the EU’s fiscal targets within a four-year timeline.[21]

18. Guarascio, Dario, and Francesco Zezza. EU Fiscal Rules: Time to Face the Contradictions. Social Europe, March 2023.
19. EUCRIM. Mid-Term Evaluation of the Recovery and Resilience Facility. March 2024.
20. Romania Insider. Romania Has Spent Only EUR 3.17 Bln of Recovery and Resilience Facility Funds. July 2024.
21. industriAll Europe. Europe’s Recovery Fund Is Failing Workers, Warns industriAll Europe. June 2024.

This trajectory is alarmingly reminiscent of the EU's post-2008 response to the financial crisis, when austerity - championed by the European Commission - became the cornerstone of fiscal policy. At the height of the eurozone crisis (2010 - 2013), over 20 EU countries were required to implement deficit-cutting measures. Through normative tools like the European Semester, the Commission greatly expanded its influence over domestic policies and it effectively became a vehicle for exporting the austerity agenda across the EU, even to countries not under direct bailout programs.

Fig 3: Comparison between cuts required every year under a four or seven year austerity plan. Source: European Trade Union.

	4 year plan	7 year plan
France	26,1 billion	14,2 billion
Italy	25,4 bn	13,5 bn
Spain	13,9 bn	8,9 bn
Germany	11,0 bn	5,8 bn
Belgium	7,5 bn	4,5 bn
Netherlands	6,4 bn	3,3 bn
Poland	4,4 bn	3,5 bn
Romania	4,3 bn	2,9 bn

While fiscal consolidation managed to tame the worst deficits in the EU and normalise interest rates, the eurozone's overall performance in the 2010-2014 period was dismal: it suffered a second recession in 2012, and its recovery lagged far behind the U.S. and UK, which pursued looser fiscal policy.[22]

The effects were severe: countries like Greece, Portugal, and Spain experienced prolonged recessions, record-high unemployment, deteriorating public services, and rising poverty and inequality. In Greece, for instance, the economy contracted by approximately 23.5% between 2008 and 2013,[23] leading to soaring unemployment rates that peaked at 27.5% in 2013.[24] Similarly, Portugal and Spain experienced severe recessions, with unemployment rates reaching 18%[25] and 25%[26] respectively, disproportionately affecting the youth population.

Rather than restoring confidence and stability, these measures widened the economic and social divide between Northern and Southern Europe. Contrary to the intended goal of reducing public debt, austerity measures often led to increased debt-to-GDP ratios. The economic contraction reduced government revenues, exacerbating debt burdens. For example, Greece's debt-to-GDP ratio rose from 143% in 2010 to 165% in 2011, despite austerity efforts.[27] Austerity measures also exacerbated poverty and income inequality. Research from the New Economics Foundation shows that EU citizens became €3,000 a year worse off due to these policies, with governments spending €1,000 less per person on public and social services than they would have without austerity.[27]

The political backlash was equally profound. Austerity triggered widespread protests and paved the way for anti-establishment movements such as Syriza in Greece, Podemos in Spain, and Italy's Five Star Movement. The Commission's inflexible enforcement of fiscal rules - despite clear evidence of their economic and social damage - undermined trust in EU institutions and deepened the Union's legitimacy crisis.

22. Schroders. Ten Years on from the Financial Crisis: How Have European Companies Changed?. September 2018.
23. Friedrich-Ebert-Stiftung. Europe's Austerity Trap: Policy Brief. 2013.
24. NTL Trust. How the Greek Golden Visa Has Resurrected Greece's Economy. Accessed April 2025.
25. The Guardian Portugal's Jobless Rate Hits Record High Amid Government Cuts, May 2013.
26. Betcherman, Gordon. The Impact of the Financial Crisis on Employment and the Role of Labor Market Institutions. European Economic Review, Vol. 119, October 2019.
27. ScienceDirect. Austerity – Social Sciences Topic Overview. Accessed Apr 2015.
28. New Economics Foundation. Austerity Policies Have Made European Citizens £3,000 a Year Worse Off. November 2022.

Now, as the EU prepares to reintroduce its fiscal rules in 2024, there is growing concern that the hard lessons of the past are being ignored. While recent revisions to the SGP introduce modest changes, they continue to prioritize debt reduction and structural balances over investment-led growth. Early indicators point to a renewed risk of economic slowdown, with many 2025 national budgets centered around stringent fiscal tightening measures.

V. The EU's fiscal dilemma: Growth vs. austerity

The EU's three leading economies - Germany, France, and Italy - are pursuing distinct fiscal strategies, shaped by their individual economic realities and budgetary pressures. Germany, despite maintaining the eurozone's lowest debt-to-GDP ratio at 67% in 2024, has long championed austerity both at home and within EU and global financial institutions.[29] Domestically, its fiscal policy has been anchored by the "debt brake" (*Schuldenbremse*) - a constitutional cap introduced in 2009 that limits new borrowing to 0.35% of GDP.[30] While this rule has kept debt levels low, it has also contributed to years of underinvestment, undermining the country's infrastructure, competitiveness, and long-term growth capacity.[30]

Germany's economic outlook remains subdued, with growth projected at just 0.7% in 2025, weighed down by high energy prices, weak exports, and growing geopolitical uncertainties, including strained transatlantic relations and rising defense demands.[31] In response to mounting political pressure - intensified by a snap election - the German government has moved to ease its debt break rules.[29] Defense spending exceeding 1% of GDP will now be exempt from borrowing limits, and a new €500 bn off-budget facility will be established to fund infrastructure upgrades, including €100bn dedicated to climate-related investments.

Italy and France present a more fragile fiscal picture. Holding the second and third largest share of the EU's total public debt (after Greece) - 138.2%[32] and 112%[33] of GDP respectively, the countries are required by the SGP rules to make drastic deficit cuts. After reaching a 6.1% deficit in 2024,[34] France aims to reduce it to 5.4% in 2025.[35] This involves the biggest spending cut in 25 years - €32 bn, and tax hikes worth €21 bn.[36] However, France's fiscal strategy is unfolding amid intense political turmoil, including approving the budget using Article 49.3 to bypass a parliamentary vote.[37] Similarly, Italy introduced a fiscal tightening of €9 bn in 2025 to reduce the deficit from 3.8% to 3.3% in the context of a sluggish economy with a growth forecast of just 1 % for 2025.[38][32]

The divergence of EU's power houses highlights a striking double standard.[29] While the german government has embraced large, off-budget spending increases - particularly for infrastructure and defense - it continues to pressure other EU countries to strictly comply with the SGP rules. This inconsistency underscores a growing rift between Germany's domestic economic strategy and the fiscal discipline it expects from its European partners.

29. New Economics Foundation. Germany's U-Turn Proves Europe's Fiscal Framework Must Change, April 2025.
30. BNP Paribas. German Debt Brake: Merits and Limitations of Fiscal Rules, February 2024.
31. European Commission. Economic Forecast for Germany. Accessed April 2025.
32. European Commission. Economic Forecast for Italy. Accessed April 2025.
33. Eurostat. Government Debt as a Percentage of GDP, January 2025.
34. Barigazzi, Jacopo. France's Eye-Watering €40 Billion Budget Cut Angers EU Commission. Politico, January 2025.
35. Le Monde. French Government Now Aims for Public Deficit of 5.4% of GDP in 2025, January 3, 2025.
36. Politico. EU Slams French Spending Plan as Bayrou Defends Government Priorities, January 2025.
37. AP News. French Government Pushes Ahead with Budget Despite Political Crisis, January 2025.
38. Reuters. Italian Parliament Approves 2025 Budget, December 28, 2024.

At the same time, Germany's fiscal expansion has wider implications for the European Economic landscape. By pushing forward with major spending plans off budget in defence and infrastructure, Germany risks driving up borrowing costs across the eurozone. Heavily indebted countries like France, Italy, and Spain are already feeling the pressure, with rising borrowing costs complicating their ability to fund similar initiatives.[39] This dynamic puts them at a disadvantage, especially as defense and public investment become more urgent priorities across the region.

Germany's deviation from the European rules opens the door for broader reform. With the EU's fiscal framework increasingly seen as outdated and restrictive, Germany's policy reversal could serve as a catalyst for rethinking the rules to better support investment, resilience, and long-term sustainability across the Union, particularly as austerity pressures rise across the continent.

Among the countries facing the most severe fiscal tightening in the coming years, Belgium stands out for its high structural vulnerability and rising social unrest. Despite achieving modest economic growth - 1.2% projected for 2025,[40] Belgium is burdened by a persistently high budget deficit - expected to average 4.8% of GDP through 2029 - and a mounting public debt projected to reach 114% of GDP by the end of the decade.[41] In response, the government has adopted aggressive austerity measures, including €14 bn in public service cuts, deep pension reforms, and strict limitations on unemployment benefits. These measures have sparked mass protests and strikes, with trade unions and civil society mobilising against what is widely viewed as socially regressive policymaking.[42] As a result, Belgium's austerity strategy is not only fiscally driven but is also fueling growing public discontent and political instability, adding another layer of risk to its already fragile economic outlook.

In stark contrast, the Netherlands is imposing austerity from a position of strength. With one of the lowest debt-to-GDP ratios in the eurozone (under 50%)[43] and a relatively modest projected deficit of 2.1% in 2025, the country's public finances remain fundamentally healthy.[44] Nevertheless, the Dutch government has chosen to implement €6 bn in cuts over four years, targeting sectors such as higher education, childcare, and development aid. These policies disproportionately affect students, low-income households, and young families, despite no immediate fiscal crisis. Framed as a move toward prudence and EU rule compliance, this approach instead reflects a fiscally conservative orthodoxy that may weaken rather than reinforce social and economic resilience. By choosing austerity over strategic investment, the Netherlands risks creating needless socioeconomic strain in an otherwise stable environment.

In contrast to both Belgium's constraint-driven retrenchment and the Netherlands' self-imposed austerity, Spain and Poland have emerged as relative outliers, demonstrating strong economic resilience and opting for more growth-friendly and socially protective fiscal strategies. With GDP growing 3.2% in 2024 and a projected 2.6% in 2025, Spain outperforms most of its eurozone peers.[45] The country reduced its public deficit to 2.8% of GDP in 2024 and aims to bring it down to 0.8% by 2031.[46] Its left leaning government has implemented reforms mostly focused on progressive tax policies, while largely safeguarding public spending and social investment.

39. Reuters. *German Fiscal Bonanza Adds European Debt Strains, Defence Challenge*, April 2025.
40. European Commission. *Economic Forecast for Belgium*. Accessed April 2025.
41. The Brussels Times. *'Significant Deterioration': Belgian Economy Faces Bleak Future as Budget Soars*, March 2025.
42. Euronews. *Nationwide Strike Across Belgium Severely Disrupts Public Transport and Other Services*, March 2025.
43. Eurostat. *General Government Gross Debt — Q3 2024*, January 2025.
44. De Nederlandsche Bank. *Public Finance – Current Economic Issues*. Accessed April 2025.
45. Reuters. *Spain's 2024 Economic Growth Outperformed Eurozone, Final Data Shows*, March 2025.
46. El País. *El Déficit Público se Reduce en unos 8.000 Millones en 2024, hasta el 2,8% del PIB*, March 2025.

Similarly, Poland's fiscal strategy in 2025 reflects a commitment to safeguarding its citizens from the immediate impacts of austerity. The government projects a GDP growth of approximately 3.9% for 2025, following a 3.1% growth in 2024.[47] Despite a general government deficit that increased to 6.6% of GDP in 2024[48] - attributed mainly to enhanced defense spending and reduced VAT revenues - the administration aims to reduce the deficit to 5.5% in 2025 and further to 2.9% by 2028.[49] This approach allows for sustained investment in public services and social benefits, thereby maintaining economic stability and protecting citizens from the adverse effects of austerity measures. Additionally, Poland's public debt stood at 55.3% of GDP in 2024, indicating a manageable level that supports continued public spending without imposing severe fiscal constraints. In the plan submitted to the Commission, the country anticipates an initial increase in the public debt ratio, peaking at 61.3% in 2027, before a projected decline to 61.2% in 2028, effectively delaying any cuts into the future.[50] By balancing fiscal responsibility with strategic investments, Poland demonstrates a commitment to both economic growth and the well-being of its population.

Romania is another outlier because in 2024 recorded the highest budget deficit in the EU - 8.65% of GDP.[51] Following the SGD rules, Romania's 2025 budget assumes a deficit reduction to 7%,[52] with an austerity strategy rooted in cutting public spending and eliminating tax exemptions, while projecting revenue increase based on improved tax collection and increased EU funding absorption. However, lack of clear implementation mechanisms raises serious doubts about its feasibility.[53]

Despite varying strategies, a common theme emerges: austerity in 2025 is deeply political, often hitting the vulnerable while avoiding the structural reforms needed to tackle inequality. Across the board, equity and social impact assessments appear secondary to deficit reduction targets - a reminder of the EU's continued struggle to balance fiscal discipline with social justice.

Fig.4. A comparative analysis of austerity policies in EU countrries subjected to the biggest budget cuts

Country	Progressivity of Taxes	Affected Groups by Cuts	Overall Distributional Fairness
France	High (targeted taxes)	Public workers, pensioners, low-wage	Mixed – progressive taxes but social cuts
Italy	Moderate	Local services, fuel consumers	Mixed – sectoral taxes + regressive effects
Spain	High	Minimal impact on services	High – emphasis on fair taxation
Belgium	Low	Retirees, unemployed, commuters	Low – regressive and unpopular
Netherlands	Mixed	Families, students, cultural sector	Moderate – indirect burdens on middle class
Romania	Moderate	Public workers, students, retirees	Low – rapid cuts without cushioning

47. Government of Poland. Responsible but Generous – 2025 Budget Adopted, January 2025.
48. Reuters. Poland's General Government Deficit Rises to 6.6% of GDP in 2024, April 2025.
49. Notes from Poland. Poland Sets Out Plan to Bring Deficit Below EU's 3% Limit, October 2024.
50. European Commission. Poland – 2024 Convergence Programme (PDF), May 2024.
51. Romania Journal. Romania Records 8.65% GDP Deficit in 2024 – Highest in 4 Years, January 2025.
52. Reuters. EU Approves Romania's Seven-Year Deficit Reduction Plan, January 2025.
53. Romania Insider. Romania Economic Monitor: Budget 2025, January 2025.

France's austerity package is among the most balanced in terms of tax progressivity. The government has introduced new income taxes targeting high earning individuals, alongside a 20% minimum tax to limit the use of loopholes.[54] Corporate taxes are also increasing for large companies and financial institutions, with revenue expected to rise significantly. However, these progressive tax measures are paired with significant spending cuts that disproportionately affect lower- and middle-income citizens, such as the six-month pension freeze, job reductions in the public sector, and a slashed €16 bn employment support program for low-skilled workers.[55] While the revenue side leans progressive, the retrenchment in public services risks deepening socioeconomic divides.

AUSTERITY MEASURES PLANNED IN FRANCE

Tax Increases

- **Corporate taxes** will be levied on large corporations with revenue exceeding €1 bn.[56] The tax is expected to raise €8 bn and would affect 440 companies.[57] Furthermore, the tax on financial transactions will be raised from 0.3% to 0.4%.[58]
- **VAT** registration **threshold** will be lowered from €37,500 to €25,000 in turnover, with up to 250,000 workers directly affected.[59]
- **High-Income Individuals** earning more than €250,000 a year will see an increase in income tax, raising €2 bn per year.[57] Furthermore, a min tax of 20% will be introduced for those households to prevent the use of tax loopholes.
- **Sector-specific tax** increases on electricity consumption, air travel, and polluting vehicles will be introduced.[57]

Spending Cuts

- **2,200 Public sector jobs** will be eliminated with a focus on reducing administrative and bureaucratic roles.[60]
- **Social Programs** adjustments including a six-month freeze on pension increases will be introduced, aiming to save €3.6 bn.[57] A further €16 bn program to encourage businesses to hire blue-collar entry-level workers will be slashed.[55]
- A 40% reduction in **development aid** will be introduced in 2025.[63]
- At least €1 bn in **subsidies** for consumer purchases of pharmaceutical products will be cut.[55] A further reduction in subsidies for apprenticeships and green initiatives totaling €4 bn.[57]

Italy takes a similar approach in targeting profitable sectors - banks, insurance firms, and weapons manufacturers - through new levies and fuel tax reforms. However, the extensive €11 bn in cuts to ministerial and municipal budgets, along with a wide ranging public spending review, suggest an austerity model that could undermine service delivery and local welfare systems.[62] Although taxation here appears designed to spare average citizens, the indirect effects of public spending cuts may end up harming those most reliant on state support, especially in economically weaker regions.

54. CNBC. Main Spending Cuts, Taxes in France's 2025 Budget, October 2024.
55. The New York Times. France Unveils Budget with Deep Spending Cuts to Curb Debt, October 2024.
56. Avocats GT. Tax Alert: 2025 French Finance Bill – Key Measures (PDF), March 2025.
57. Reuters. Main Spending Cuts, Tax Increases in France's 2025 Budget, October 2024.
58. Reuters. Main Measures and Targets in France's 2025 Budget. February 2025.
59. VATCalc. France Updates VAT Registration Thresholds. Accessed April 2025.
60. Le Monde. French PM Barnier Puts Austerity on the Menu in 2025 Budget, October 2024.
61. RFI. France's Proposed Budget Cuts Slash Overseas Development Aid, February 2025.
62. Politico Europe. Giorgia Meloni's 2025 Budget Aims to Appease Brussels with Austerity, January 2025.
63. RFI. France's Proposed Budget Cuts Slash Overseas Development Aid, February 2025.

AUSTERITY MEASURES PLANNED IN ITALY

Tax Increases

- A new levy targeting **banks and insurance firms** is projected to raise approximately €3.5 bn.[64]
- Increased **taxation on companies** within the most profitable sectors, including weapons manufacturers.[65]
- **Adjustments to fuel taxes** involving ending tax discounts on diesel will be applied as a way to align fuel taxation with environmental objectives while boosting tax revenues.[65]

Spending Cuts

- The government has mandated approximately €11 bn in cuts to **ministerial and municipal budgets** over the next three years.[66]
- A **public sector expenditure review** will be initiated, requiring ministries to identify and implement cost-saving measures within their respective departments.[64]

Spain, in contrast, has adopted what might be the most socially protective fiscal strategy among the group. Instead of imposing cuts to social services, Spain is relying on progressive taxation measures - such as raising taxes on high-income capital gains, enforcing a 15% minimum tax on multinationals, and extending a windfall tax on energy companies - to reduce its deficit.[67] This approach signals a political commitment to shielding the vulnerable while ensuring that profitable actors contribute more. By avoiding widespread cuts, Spain maintains both public confidence and a more equitable adjustment path.

AUSTERITY MEASURES PLANNED IN SPAIN

Tax Increases

- A **minimum corporate tax rate** of 15% for multinationals will be introduced to ensure that large companies contribute a fair share of taxes, aligning with international efforts to prevent tax base erosion.[67]
- Increased personal **income tax for high earners** will be applied, targeting high-income individuals to increase tax progressivity and revenue.[67]
- The temporary **energy windfall tax** of 1.2% on energy companies with a turnover of at least €1 bn has been extended to ensure that energy firms contribute additional revenue during periods of significant profits.[68]

Belgium, on the other hand, demonstrates one of the most regressive austerity strategies in Europe. With €14 bn slashed from public services, €3 bn saved through pension reforms, and severe budget reductions for the national railway, the social impact has been profound.[69] The plan to limit unemployment benefits to just one year with stricter conditions is likely to affect precarious workers most acutely. These changes have already triggered large-scale strikes and growing public dissatisfaction.[70] In Belgium's case, the burden is falling squarely on pensioners, public workers, and the unemployed, with relatively little compensation or progressive taxation to offset the impact.

64. AP News. *Italy Approves Budget with Levy on Banks and Insurers to Cut Deficit*, October 2024.
65. Reuters. *Italy Plans Higher Taxes on Its Most Profitable Companies, Economy Minister Says*, October 2024.
66. Politico Europe. *Giorgia Meloni's 2025 Budget Aims to Appease Brussels with Austerity*, January 2025.
67. CaixaBank Research. *2025 Treasury Strategy in the Context of the Reduction in Spain's Public Deficit*. Accessed April 2025.
68. Reuters. *Spain's Utilities Tax Suffers Defeat in Parliament*, December 2024.
69. EPSU. *Belgium: Mobilisation Against New Austerity Measures*, February 2025.
70. Euronews. *Nationwide Strike Across Belgium Severely Disrupts Public Transport and Other Services*, March 31 2025.

AUSTERITY POLICIES PLANNED IN BELGIUM

Spending Cuts

- The government plans to **cut €14 bn from public services**, impacting the quality and availability of various governmental functions.[71]
- An additional €3 bn in savings is targeted through **pension reforms**, including restricting early retirement options and modifying end-of-career arrangements.[71] Adjustments to public sector pensions are proposed to align calculations with those of private-sector workers, potentially reducing benefits for many retirees.[72]
- Severe **budget cuts** amounting to €675 million are proposed for the **national rail** company SNCB, impacting services and infrastructure.[73]
- **Unemployment benefits will be limited** to one year, with strict conditions for extensions.[71]

The Netherlands adopts a subtler form of austerity. Rather than headline-grabbing cuts, it is relying on indirect methods such as VAT hikes on cultural institutions,[76] funding reductions in higher education and research,[77] and a €2.4 bn drop in development aid.[74] While tax adjustments appear mildly progressive through bracket restructuring, the freezing of childcare subsidies and limitation of wage growth in the public sector indicate an erosion of support for middle-class families and public service workers. The burden may not be immediate, but over time it risks creating cumulative disadvantages for younger and lower-income groups.

AUSTERITY POLICIES PLANNED IN NETHERLANDS

Tax Increases

- **Higher education and research** budget will be reduced by €1 Ben.[77] This will be achieved by decreasing the number of international students, reducing allocations to the fund for research and science and eliminating certain research grants.
- **Development aid** will be cut development aid by €300 million in 2025 and €500 million in 2026, totaling a €2.4 bn reduction by 2027.[74]
- Public Sector wage growth will be limited and the civil servant base will be reduced, aiming for savings of approximately €1 bn.[78]
- The **childcare subsidy** will not increase with inflation, resulting in parents paying over €100 million more to care providers in the coming year.[79]

Spending Cuts

- **Natural gas tax** will be increased in some consumption brackets by 22.4% as of 2025, aimed at incentivising reduced consumption and promote environmental sustainability.[75]
- Starting in 2026, the **VAT rate on cultural institutions**, including museums, will rise from 9% to 21%.[76] This increase aims to generate additional revenue but has raised concerns within the cultural sector.

71. EPSU. Belgium: Mobilisation Against New Austerity Measures.
72. Brinkmann, A. L. Massive Nationwide Strike in Belgium Against Austerity Plans. World Socialist Web Site, March 2025.
73. European Transport Workers' Federation. Belgium: ETF Stands with Workers in Nationwide Protest Against Austerity Measures, Feb 2025.
74. Reuters. Dutch Right-Wing Government Cuts Development Aid as Deficit Balloons, September 2024.
75. Netherlands Government. Income Tax Brackets and Rates to Change. Accessed April 2025.
76. The Art Newspaper. Cash-Strapped Dutch Museums Nervous About Future Despite Last-Minute VAT Reprieve, January 2025.
77. Educations.com. Netherlands Faces Backlash Over Higher Education Budget Cuts. Accessed April 2025.
78. ABN AMRO. Budget Plan: Short-Term Spending Increase Covered by Shaky Cuts. Accessed April 2025.
79. NL Times. Dutch Cabinet's 2025 Budget Affects Wallet, Deficit at €31.9 Billion Likely, September 2024.

Romania's austerity is perhaps the most sweeping and abrupt. While the government has introduced corporate-focused tax measures, like dividend tax hikes and the reintroduction of property tax on company-owned buildings, it has simultaneously imposed a freeze on public wages and pensions, reduced public subsidies, and instituted a hiring freeze across the public sector.[80] These decisions disproportionately affect public employees, retirees, students, and those reliant on state support. Although some revenue is raised from businesses, the speed and scale of Romania's consolidation - undertaken to satisfy EU deficit targets - place a heavy burden on those with the least financial flexibility.

AUSTERITY POLICIES PLANNED IN ROMANIA

Tax Increases

- **Dividend taxes** will be raised from 8% to 10% from Jan 2025 to increase government revenues from corporate profits.[80]
- **Tax thresholds for small businesses** will be lowered, expanding the tax base among microentreprises.[80]
- **Tax exemptions** and fiscal incentives previously granted to sectors such as IT, construction, agriculture, and the food industry will be eliminated.[80]
- **A property tax for companies** of 1.5% will be reintroduced on the value of all buildings owned by companies, encompassing assets ranging from warehouses to office buildings.[80]

Spending Cuts

- **Public sector wages and pensions** will be frozen at 2024 levels, with no adjustments for inflation or cost-of-living increases.[80]
- **Hiring freeze in public linstitutions** will be instituted to control the expansion of the public sector wage bill. Exceptions are limited to critical roles essential for the functioning of public services.[81]
- The government mandated a **reduction in operational costs** across public institutions, targeting savings equivalent to 1% of GDP. This includes cuts to administrative expenses and non-essential services.[80]
- Various **subsidies** will be reduced, including those for public transportation and student travel.[82]
- **State subsidies for political parties** will be cut by 25% compared to 2024 levels, reflecting broader efforts to reduce public expenditures.[80]

VI. Fiscal tightening in turbulent times

This wave of EU-driven fiscal tightening is playing out within a politically volatile European context - amid escalating geopolitical tensions - including increased transatlantic strain, the imposition of new U.S. tariffs, and the pressing need to support Ukraine, all while far right movements are gaining strength across the continent.

The recent imposition of a 20% tariff by the United States on EU imports, affecting approximately €380 bn worth of goods, poses a substantial threat to the EU's economic stability.[83] Core sectors such as automotive, agriculture, and manufacturing, which are foundational to the EU economy, are among the most exposed. In the short term, this move is expected to disrupt supply chains and drive up retail prices, reducing affordability for consumers.

80. Reuters. Romania's Government Decrees Tax Hikes, Spending Cuts to Reduce Deficit, December 2024.
81. Reuters. Romania's Budget Cuts Spark Backlash Ahead of Sensitive Election, February 2025.
82. China-CEE Institute. Romania Political Briefing: Romania's Economic Crossroads in 2025 – Fiscal Challenges and Policy Paths, March 2025.
83. The Guardian. "'Fundamentally Wrong, Brutal and Paranoid': How Will the World Respond to Donald Trump's Tariffs?" The Guardian, April 5, 2025.

These pressures could intensify if the EU implements reciprocal tariffs. Economists have also raised concerns about rising inflation, with the European Central Bank (ECB) warning of growing economic volatility. ECB board member Isabel Schnabel recently highlighted a "dramatic surge" in uncertainty that may further fuel inflationary pressures across the eurozone. In the medium term, export-dependent industries face serious challenges.[84] Industries reliant on exports to the U.S., particularly automotive manufacturing, are facing potential job cuts due to decreased demand and production slowdowns. Germany's car industry, in particular, is preparing for considerable losses and a decline in GDP.[85] As a result, eurozone economic growth is projected to slow, with analysts forecasting a reduction of approximately 0.3 percentage points in the first year.[86]

Implementing austerity measures in this context may exacerbate economic contraction. Reduced public spending could diminish domestic demand, compounding the adverse effects of decreased exports. This scenario risks initiating a negative feedback loop, where economic downturn leads to further fiscal tightening, hindering recovery efforts.

Compounding economic challenges, the EU faces mounting pressure to enhance its defense capabilities, particularly in light of the U.S.' suspension of military aid to Ukraine.[87] In response, the EU has unveiled the "Readiness 2030" plan, aiming to mobilize up to €800 bn to bolster Europe's defense infrastructure.[88] This initiative includes proposals to suspend EU budget rules to allow member states to increase defense spending, potentially unlocking €650 bn over four years. Additionally, €150 bn in loans are proposed for joint defense projects, such as air and missile defense systems.[88] While these measures are crucial for regional security, they necessitate substantial financial commitments from member states, further straining national budgets already under austerity pressures.

To finance these defense initiatives, the European Commission is considering redirecting approximately €93 bn in unspent funds from the RRF towards defense initiatives, raising concerns about the potential neglect of pressing economic and social recovery needs.[89] Given that many member states have yet to fully utilize these funds for their intended purposes, with just over one-third disbursed so far, redirecting these resources to defense could undermine efforts to bolster healthcare systems, education, and infrastructure - sectors vital for long-term economic stability and growth.[90] This comes on top of the Commission's directive for member states to reallocate part of their 2021-2027 cohesion funds to key investment areas, including defense, competitiveness and decarbonisation, affordable housing, water resilience, and energy transition.[91] While this is completely voluntary, to encourage reallocation, the Commission is offering better financing conditions and greater flexibility in accessing these funds.

Financially, increasing defense spending through the reallocation of RRF funds could strain national budgets and elevate public debt levels. The EU's plan to mobilise up to €800 billion for defense investments has already raised concerns about potential debt crises reminiscent of the Eurozone's financial struggles between 2009 and 2015.[89] Uncontrolled borrowing for defense purposes may lead to heightened interest rates and fiscal instability, particularly for member states with existing high debt burdens.

84. Reuters. *ECB's Schnabel Says "Dramatic Surge" in Uncertainty May Get Worse*, April 2025.
85. The Guardian. *Germany's Car Industry Faces Up to Trump Tariffs*, April 2025.
86. Reuters. *EU to Prepare Countermeasures for US Reciprocal Tariffs, Says EU Chief*, April 2025.
87. CNN. *Trump Administration and Ukraine Aid*, March 2025.
88. Euronews. *Ukraine Defence and Economy Top the Agenda as EU Leaders Meet in Brussels*. March 20, 2025.
89. Financial Times. *EU Turns Recovery Fund Towards Defence in Shift of Priorities*. April 1, 2025.
90. EUCRIM. *Mid-Term Evaluation of the Recovery and Resilience Facility*. 2025.
91. Euronews. *Water and Defence but Not Bullets: EU Reallocates Regional Funds*. April 1, 2025.

In the midst of escalating geopolitical tensions, the European Union is doubling down on a policy model that prioritizes fiscal restraint over socio-economic resilience, not only at home but abroad. Nowhere is this clearer than in its approach to Moldova and Ukraine - two frontline states critical to the EU's defense perimeter - where the EU, acting through the IMF, has effectively exported austerity under the guise of financial assistance and reform.

In Moldova, the IMF's Extended Credit Facility, backed strongly by the EU, conditioned aid on sharp fiscal consolidation, including public sector wage freezes, rollback of pension entitlements, and energy tariff increases.[92] Despite Moldova's low wages and fragile economy, these policies were enforced under the logic of reducing the deficit and attracting private investment.[92] These measures, while intended to promote economic stability, placed additional strain on Moldova's economy, already suffering from the war on its border.[93] Similarly, in Ukraine, IMF support mandated pre-war pension and wage restraint, along with large-scale privatization and energy market liberalization.[94] Even in wartime, when flexibility increased, austerity was only deferred - not discarded. The Fund's 2023 Extended Fund Facility emphasised tax increases and subsidy rollbacks, with the expectation that fiscal tightening would return post-conflict.[96]

This transposition of austerity - often referred to as "discipline by proxy" - is increasingly at odds with Europe's current strategic needs. At a time when the EU is attempting to integrate and defend its eastern neighbors against authoritarian threats, austerity undermines that very agenda. Public backlash in Moldova against higher energy bills and social spending cuts has grown in parallel with skepticism toward the EU's role.[97] In Ukraine, economic precarity and IMF-mandated liberalization during war risks eroding both social cohesion and public trust. These are not just economic setbacks - they're political vulnerabilities, further weakening the EU and its strategic objectives.

VII. Rethinking EU fiscal strategy amid austerity and geopolitical pressure

Austerity is not unfolding in a vacuum - it is both shaped by and accelerating major political shifts across the European Union. In recent years, far-right and nationalist movements have gained significant traction, fueled by growing public disillusionment with economic inequality, stagnant wages, and a perceived disconnect between EU institutions and ordinary citizens. In countries like Italy, France, the Netherlands, and Germany, far-right parties are polling at record highs or entering governing coalitions, often campaigning on anti-EU, anti-immigration, and anti-austerity platforms, offering populist solutions to complex problems. In many cases, they present themselves as the only political force willing to challenge what they call "Brussels-imposed" economic hardship, capitalising on a widespread sense that mainstream politics has failed to deliver for the average voter.[98]

This political realignment has tangible consequences. It weakens trust in democratic institutions, undermines social cohesion, and fuels polarization - making it harder for centrist and progressive forces to build consensus around long-term investment strategies. The far right's ascendancy is not merely a cultural or ideological shift; it is rooted in material grievances exacerbated by years of fiscal restraint, underinvestment, and social dislocation. As more voters turn to parties that promise protectionism and fiscal nationalism, the EU's capacity to act collectively - whether on climate, defense, or economic reform - is being eroded from within.

92. International Monetary Fund. *Moldova and IMF Reach Staff-Level Agreement on Sixth Review under the ECF/EFF Arrangements and Second Review under the RSF Arrangement*, November 2024.
93. German Economic Team. *War in Ukraine: Moldova to Face Severe Economic Shock*. 2024.
94. International Monetary Fund. *Ukraine: Request for Stand-By Arrangement - Press Release; Staff Report; and Statement by the Executive Director*, June 2020.
95. Associated Press. *"Moldovans Grapple with Outages as Energy Crisis Grips Pro-Russia Transnistria"*. Associated Press, January 2025.
96. International Monetary Fund. *IMF Completes the Seventh Review of Ukraine's Extended Fund Facility Arrangement*, March 2025.
97. Associated Press. *Moldova's Energy Crisis Worsens Amid Russian Pressure*. 2024.
98. Deutsche Welle. *Italy's Populists Make Significant Steps Toward Coalition Government*, May 2018.

In this context, fiscal policy is no longer just a matter of economic management - it is a critical lever for democratic legitimacy. Policymakers must urgently abandon the narrow orthodoxy that prioritizes deficit targets over public well-being. If the EU continues down a path of pro-cyclical austerity, it risks deepening the very crisis of governance it seeks to prevent. What's needed now is a new fiscal strategy that restores trust in public institutions by investing in housing, education, healthcare, and climate action - visible policies that meet people where they are. The following recommendations aim to reframe EU fiscal policy around resilience, fairness, and democratic accountability in an era of mounting geopolitical and political instability.

1. Expand the 'general escape clause' within the stability and growth pact

The SGP includes a 'general escape clause' that allows for temporary deviations from fiscal requirements in exceptional circumstances.[99] To address current needs, expanding the scope of the escape clause to include investments in areas such as defense, climate transition, and digital infrastructure can provide member states with the fiscal space needed for strategic expenditures.[100] Establishing transparent guidelines for when and how the escape clause can be activated ensures its use is justified and consistent. Implementing time-bound measures ensures that deviations from standard fiscal rules are temporary and subject to periodic review. By adapting the SGP to current realities, the EU can facilitate necessary investments while maintaining overall fiscal discipline.

2.Reform the EU's debt sustainability analysis to avoid counterproductive austerity

A key shortcoming in the EU's current fiscal governance is its narrow and outdated approach to Debt Sustainability Analysis (DSA). The Commission's method, which determines whether a country's fiscal path is "sustainable," heavily influences how much fiscal space a member state is granted. However, the existing DSA framework often relies on overly rigid assumptions and deterministic forecasts that fail to reflect real-world uncertainty or economic shocks.[101] Notably, during the crucial 4-7 year adjustment period under the reformed SGP, the Commission uses only basic sensitivity analysis, deferring more sophisticated stochastic risk modeling until later stages.[101] This methodological gap risks encouraging unnecessary austerity during downturns, compounding rather than easing fiscal pressure.

To correct this, the Commission should urgently revise the DSA framework to include full-cycle stochastic modeling from the outset - not just after the consolidation period. Additionally, indicators used in the model must be country-specific and adjusted based on current macroeconomic conditions, rather than relying on average or outdated estimates.[102] This would prevent underestimating the contractionary effect of budget cuts, particularly in low-growth or high-unemployment economies. Furthermore, DSAs should formally integrate structural and political risk indicators - such as demographic ageing, labour market volatility, and governance risks - to build a more holistic and realistic view of fiscal sustainability.[103] Finally, the Commission should establish clear, transparent criteria for how DSA results feed into country-specific fiscal recommendations and enforcement procedures, so that the DSA can evolve into a tool that enables strategic planning, not one that forces pro-cyclical austerity.

99. European Parliamentary Research Service. The EU's Economic Governance Framework: Stocktaking and Challenges, July 2020.
100. Centre for Economic Policy Research. Revisiting the EU Fiscal Framework: Economic Necessities and Legal Options, January 2024.
101. Gitton, Raphaël. The EU's New Debt Sustainability Analysis: Unfinished Progress. LinkedIn, March 2024.
102. European Parliament. The New EU Economic Governance: Analysis and Outlook, February 2025.
103. Bruegel. How Demographic Change Will Hit Debt Sustainability in European Union Countries, March 2024.

3. Enhancing mechanisms for efficient utilisation of EU funds

A central weakness in the EU's fiscal strategy lies in its chronic underutilization of allocated funding, with the RRF funding being the latest, most prominent example - an issue that becomes even more urgent in times of austerity and geopolitical stress.[104] The capacity to absorb and invest funds effectively should be seen as a cornerstone of EU fiscal resilience. Without addressing this systemic issue, the bloc risks letting billions of euros sit idle while pressing economic, social, and climate challenges remain underfunded.

To counter this inefficiency and maximize the impact of available resources, the EU should streamline and simplify the procedures associated with accessing and deploying funds. This includes reducing bureaucratic hurdles to expedite the disbursement and implementation of projects funded by EU programs. In addition, providing technical assistance to member states in project planning and execution can ensure that funds are utilized effectively and align with EU objectives. Moreover, implementing robust monitoring systems to track fund allocation and project outcomes can enhance accountability and facilitate the sharing of best practices among member states. These measures can help ensure that EU funding translates into tangible benefits, particularly in critical areas such as infrastructure, innovation, and social development.

4. Exploring new mechanisms to increase EU funding

To reduce its reliance on direct member state contributions and meet the rising costs of common priorities - such as defense, climate resilience, and industrial policy - the EU must diversify and expand its sources of revenue. Implementing revenue streams such as Digital Services Tax (DST) and a Financial Transaction Tax (FTT) will strengthen the EU's fiscal autonomy and equip the budget with stable, long-term funding streams.[105] Implementing a DST would levy taxes on revenues generated by large technology companies operating within the EU.[105] This measure targets digital giants that often benefit from the EU market without commensurate tax contributions, aiming to ensure they pay a fair share. An FTT, meanwhile, could raise billions in revenue by taxing trades in stocks, bonds, and derivatives, while also dampening excessive speculation.[106]

Expanding the EU's own resources in this way is not just a technical adjustment - it is a political necessity. With mounting fiscal demands and pressure on national budgets, new EU-level revenue streams can serve as a buffer against austerity, offering counter-cyclical capacity at the supranational level. This would allow the EU to better respond to crises and invest in long-term goals without forcing member states into harmful consolidation. A more autonomous EU budget, supported by environmental, digital, and financial sector taxation, is therefore key to restoring fiscal space while building a more resilient and socially just Union.

5. Expand fiscal space through reformed global mechanisms

To complement internal reforms, the EU should also advocate for reforms at the global level - particularly in how Special Drawing Rights (SDRs) are allocated by the International Monetary Fund (IMF), where it holds significant decision-making power. SDRs are a critical, underused tool that can provide a fast, non-debt source of liquidity during systemic shocks. Yet, their current allocation process remains opaque, politicized, and slow.[107]

104. EUCRIM. *Mid-Term Evaluation of the Recovery and Resilience Facility*. EUCRIM, February 2024.
105. Tax Foundation. *Digital Services Taxes in Europe, 2024*. Tax Foundation, March 2024.
106. European Commission. *Study on a Possible Contribution of a Digital Levy as Own Resource to the EU Budget*. Directorate-General for Taxation and Customs Union, October 2021.
107. Bretton Woods Project. *Reconceptualising SDRs as a Tool for Development Finance*. October 2023.

To make SDRs more responsive and equitable, the IMF should reform and clarify the criteria that trigger their allocation. Concrete and automatic triggers could be introduced such as *force 'majeure shocks'* - pandemics, natural disasters, or global food crises - could activate SDR allocations based on assessments by trusted multilateral institutions.[108] Another trigger could respond to '*global recessions*', defined either by two consecutive quarters of global GDP contraction or when three out of five SDR currency issuers adopt large-scale stimulus packages.[108] A third trigger could be linked to '*capital flow reversals*', when sharp interest rate hikes in advanced economies cause destabilizing outflows from low- and middle-income countries.[108] Introducing such automatic, rules-based mechanisms would make SDR allocations more timely, transparent, and counter-cyclical - helping vulnerable countries avoid fiscal crises and unnecessary austerity.

Reforming SDR trigger criteria would support EU fiscal space by strengthening foreign reserves across member states and partner countries, providing unconditional liquidity that can be used without borrowing or austerity measures - thereby easing budgetary pressure and creating room for strategic public investment.

Conclusion: From fiscal rigidity to strategic resilience

The European Union finds itself at a pivotal juncture - facing simultaneous economic, political, and geopolitical pressures. As inflation recedes and cautious growth returns, many governments are choosing to double down on austerity measures despite mounting evidence of their long-term economic and social costs. This return to fiscal tightening - especially in the face of war, climate change, and democratic backsliding - risks repeating the mistakes of the post-2008 crisis period. Instead of fostering resilience, austerity has historically deepened divides, stalled investment, and eroded public trust in institutions.

At the same time, the EU's own fiscal architecture remains constrained by outdated assumptions and rigid rules. The SGP, while intended to ensure fiscal prudence, does little to differentiate between productive investment and reckless spending. This framework not only stifles the fiscal space needed for green, digital, and social transitions - it also reinforces a one-size-fits-all approach that disproportionately burdens vulnerable economies and populations. The result is a widening gap between political rhetoric and the lived experiences of citizens across the Union.

Looking ahead, EU policymakers must move beyond short-term deficit targets and embrace a broader vision of fiscal policy as a tool for stability, equity, and strategic autonomy. This means reforming outdated fiscal rules, enabling greater investment in public goods, and ensuring that the costs of adjustment are shared fairly across society. If the EU is to remain economically dynamic, socially cohesive, and geopolitically relevant, it must abandon the false choice between austerity and credibility. A more flexible, future-oriented fiscal framework is not only possible - it is essential.

108. LSE IDEAS. Reforming the Global Financial Architecture to Achieve the SDGs. Global Economic Governance Commission Working Paper, London School of Economics, November 2022