

Macroeconomic and fiscal implications of structurally higher defence spending in the European Union

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Abstract

By temporarily exempting additional defence expenditure from fiscal adjustment requirements within defined limits, the National Escape Clause reduces the need for offsetting spending cuts or tax increases over 2025–2028. We analyse how much fiscal consolidation pressures under EU fiscal rules could increase after 2028, once the clause expires and higher defence spending becomes a permanent feature of national budgets requiring financing. We examine key factors shaping how higher defence expenditure affects macroeconomic and fiscal outcomes across EU member states.

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LIST OF ABBREVIATIONS

AMECO	Annual Macro-Economic Database
COFOG	Classification of the Functions of Government
DSA	Debt Sustainability Analysis
ECB	European Central Bank
EDF	European Defence Fund
EDP	Excessive Deficit Procedure
ESA	European System of Accounts
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
MTFSP	Medium-term Fiscal-Structural Plan
NATO	North Atlantic Treaty Organization
NEC	National Escape Clause
R&D	Research & Development
SAFE	Security Action for Europe
SGP	Stability and Growth Pact
SPB	Structural Primary Balance
SIPRI	Stockholm International Peace Research Institute
TFEU	Treaty on the Functioning of the European Union
TPI	Transmission Protection Instrument

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EXECUTIVE SUMMARY

Europe is moving towards a lasting increase in defence expenditure. Russia's full-scale war against Ukraine and growing doubts about the durability of US security commitments are placing the governments of EU member states under mounting pressure to rearm. Against this background, this study assesses the macroeconomic and fiscal implications of structurally higher defence spending across the EU.

The European Commission has introduced several initiatives to provide greater flexibility for additional defence expenditure, including a coordinated invitation for EU member states to activate the national escape clause (NEC) under the EU fiscal framework, which 18 member states have taken up so far. The NEC allows member states to deviate temporarily from their agreed expenditure paths by up to 1.5% of GDP per year over the period 2025–2028, provided that the deviation reflects additional defence spending. More recently, the NEC has been broadened, subject to specific limits, to cover fiscal measures aimed at reducing dependence on imported fossil fuels. While the NEC provides temporary flexibility, it is not designed to accommodate a structural increase in defence spending, for which durable financing solutions remain lacking.

We provide a quantitative assessment of how fiscal consolidation pressures could increase after 2028, once the NEC expires and higher defence spending becomes a permanent feature of national budgets requiring financing. We show that the expiry of the NEC would increase fiscal consolidation pressures in countries that use the flexibility to raise defence expenditure, including high-debt member states that already face significant adjustment requirements even without additional defence spending.

To assess the effects of higher defence expenditure on macroeconomic and fiscal outcomes, we review the relevant literature, focusing on short- and long-run output effects, inflationary pressures and sovereign borrowing costs. Financing higher defence expenditure through tax increases or cuts to other public spending once the NEC expires could weaken economic activity and trigger political opposition, thereby raising the risk of instability. Moreover, unless EU member states limit non-productive defence spending and place greater emphasis on investment and innovation, the output gains are likely to remain modest at best.

Based on this review, we provide a quantitative assessment of how defence spending may affect public debt ratios under different assumptions about its impact on economic output and the interest-growth environment. Our results suggest that upward pressures on public debt will be stronger unless policymakers organise the military build-up in ways that enhance its growth effects and contain increases in sovereign borrowing costs. Implementing current commitments to structurally increase military spending would be difficult to reconcile with the EU fiscal framework's core objective of placing public debt ratios on a plausibly declining trajectory.

We conclude with five recommendations:

First, use NEC flexibility selectively to avoid financing poorly targeted defence expenditure and future fiscal adjustment pressures; second, allocate part of it to productive energy-security investment to improve overall macroeconomic and public debt outcomes; third, strengthen European coordination and common financing to reduce procurement costs, limit borrowing-cost disparities and enhance overall macroeconomic gains; fourth, adapt the EU fiscal framework to provide a credible long-term response to structurally higher defence expenditure; and fifth, strengthen European Parliament scrutiny of the NEC and its post-2028 implications.

1. INTRODUCTION

Europe is entering a period of structurally higher defence spending. Russia's war against Ukraine, rising geopolitical tensions, growing cyber and hybrid threats, and increasing uncertainty about the long-term security guarantees provided by the United States have fundamentally altered the European security environment (e.g. Wolff et al. 2025; Hildebrand et al. 2026). After decades of comparatively low military expenditure and reliance on external security protection, European governments are now under strong pressure to rebuild military capabilities and strengthen the continent's defence industrial base. The European Commission has launched the "Readiness 2030" agenda and initiated greater flexibility for defence expenditure, including a coordinated invitation for EU member states to activate the national escape clause (NEC) under the reformed EU fiscal framework (European Commission 2025a). The NEC for defence expenditure allows Member States to temporarily deviate from agreed expenditure paths by up to 1.5% of GDP annually between 2025 and 2028 to accommodate higher defence expenditure (Council of the European Union 2026).

Structurally higher defence expenditure across the EU raises important questions about the macroeconomic and fiscal implications of this shift, particularly given that the NEC is designed only as a temporary instrument to facilitate higher defence spending over the coming years (section 2). This study contributes to the ongoing debate in several ways. First, we assess the benefits and limitations of using the NEC against the background of the reformed EU fiscal framework (section 3). Second, we analyse how fiscal consolidation pressures could be affected after 2028, once the NEC expires and higher defence spending becomes a permanent feature of national budgets requiring continued financing (section 4). Third, we examine the short- and medium-term macroeconomic effects of higher defence spending in the EU, focusing on issues such as import leakages, financing methods, the composition of expenditure, sectoral concentration and inflationary pressures (section 5). Fourth, we project public debt trajectories under alternative assumptions regarding the effects of higher defence expenditure on the macroeconomic environment (section 6). Finally, we discuss the current fiscal governance framework and policy recommendations for establishing an efficient and more durable financing architecture for defence spending in the EU (section 7).

2. EU FISCAL RULES AND DEFENCE SPENDING UNDER THE NATIONAL ESCAPE CLAUSE

In what follows, we explain the NEC for defence expenditure in the context of the reformed EU fiscal rules (Section 2.1) and discuss recent data – based on the statistical expenditure classification relevant under the NEC – on the evolution and composition of defence spending across EU member states (section 2.2).

2.1. The national escape clause and the reformed EU fiscal framework

The NEC, enshrined in Article 26 of Regulation (EU) 2024/1263, is a flexibility mechanism within the reformed EU fiscal framework that entered into force in April 2024 (e.g. Darvas et al. 2024; Heimberger 2025). It allows EU member states to temporarily deviate from the multi-year fiscal paths agreed with the European Commission when confronted with exceptional events beyond their control that have a substantial impact on public finances, provided that such deviations do not jeopardise medium-term debt sustainability. In this context, the European Commission (2025a) has classified Russia's war against Ukraine and the related deterioration in Europe's security environment as an exogenous shock of this kind, thereby justifying recourse to the NEC to accommodate increased defence expenditure.

In June 2026, the European Commission (2026a) announced that the NEC for defence expenditure could be broadened, on request, to cover certain fiscal measures undertaken since February 2026 to reduce dependence on imported fossil fuels, as they contribute to Europe's security. These energy-related measures would generally count towards the existing defence NEC ceiling of 1.5% of GDP and would be subject to an additional limit of 0.3% of GDP per year and 0.6% of GDP cumulatively over 2026–2028. However, the Commission may permit the 1.5% ceiling to be exceeded where a member state has already fully used the available flexibility for additional defence expenditure and seeks to make use of the energy-related flexibility as well (European Commission 2026b; Loi et al. 2026).

The escape clause interacts directly with the relevant operational indicator of the reformed fiscal rules: the net expenditure growth benchmark embedded in each country's medium-term fiscal-structural plan (MTFSP).¹ When activated, the NEC allows EU member states to deviate from the net expenditure path – or, where relevant, from corrective paths under the Excessive Deficit Procedure (EDP) – specifically to the extent that deviations are driven by increased defence spending. In practice, compliance with fiscal rules is therefore assessed net of the additional defence expenditure covered by the clause. While the clause provides temporary leeway, it operates alongside the fiscal framework's monitoring mechanism, particularly the control account, which continues to track deviations from agreed expenditure paths, except for those related to defence spending covered by the clause.²

The European Commission (2025a) further clarifies how this flexibility operates. First, it defines the scope of eligible expenditure broadly, covering the full increase in defence spending – including investment and current expenditure – within the statistical classification of COFOG Division 02 (Defence). Spending financed by loans through the EU's instrument Security Action for Europe (SAFE) is also covered under the NEC. Second, the framework introduces a quantitative limit: the permitted

¹ Net expenditure refers to total government spending after excluding discretionary revenue measures (tax increases that create additional fiscal space), interest payments, spending on EU programs fully financed by EU funds, national contributions to co-financed EU programs, cyclical elements of unemployment spending, and any one-off or temporary measures (EU Regulation 2024).

² The European Commission uses a control account to track annual and cumulative upward and downward deviations from the planned actual net expenditure growth. Temporary deviations from the net expenditure path are allowed in exceptional circumstances. If a member state deviates from the plan markedly (by either 0.3 percentage points of GDP annually or 0.6 percentage points of GDP cumulatively), the European Commission may open an excessive deficit procedure, whereby the government in question will need to take corrective measures within six months (EU Regulation 2024). Under the NEC, deviations from the net expenditure path are assessed net of additional defence spending covered by the clause.

deviation from the net expenditure path is not allowed to exceed 1.5% of GDP per year. This ceiling applies before the operation of the so-called safeguards, meaning that the additional fiscal space is calculated prior to the imposition of minimum deficit- and debt-reduction requirements, thereby ensuring that the safeguards do not erode the flexibility granted under the NEC.³ Third, the clause is time-bound. It can be used over a four-year period (2025–2028). The reference year 2021 serves only as a baseline for measuring increases in defence spending and does not constrain overall expenditure levels. This is supposed to ensure equal treatment between EU countries that expanded defence spending earlier and those doing so during the activation period. In addition, the clause reflects the multi-year nature of defence procurement: contracts signed within the 2025–2028 window remain eligible for NEC flexibility even if the corresponding payments occur after 2028.

The European Commission (2025a) invited all EU member states to request the use of the NEC. It subsequently assessed these requests against the following criteria: the presence of exceptional, non-controllable events; a substantial fiscal impact; and the preservation of debt sustainability. Following positive assessments, the Commission issued country-specific recommendations, which were subsequently endorsed by the Council of the European Union. As of August 2026, the NEC had been activated for the following 18 EU countries: Austria, Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, Germany, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia, Slovenia, Spain (Council of the European Union 2026). It had not yet been activated for: Cyprus, France, Ireland, Italy, Luxembourg, Malta, Netherlands, Romania, and Sweden. Further member states may nevertheless request activation, particularly in light of the extension of NEC flexibility to additional expenditure aimed at reducing dependence on imported fossil fuels.

2.2. Defence spending across EU member states

Against the background of the growing recognition of Europe's deteriorated security environment, defence expenditure already started to rise over the years 2021–2024, i.e. before the activation of the NEC. In the EU-27 as a whole, COFOG-based defence expenditure rose from 1.3% of GDP in 2021 to 1.5% of GDP in 2024. However, this aggregate figure masks substantial differences across EU member states. As shown in Figure 1, defence spending increased strongly in some member states between 2021 and 2024, while remaining broadly unchanged or even declining in others.

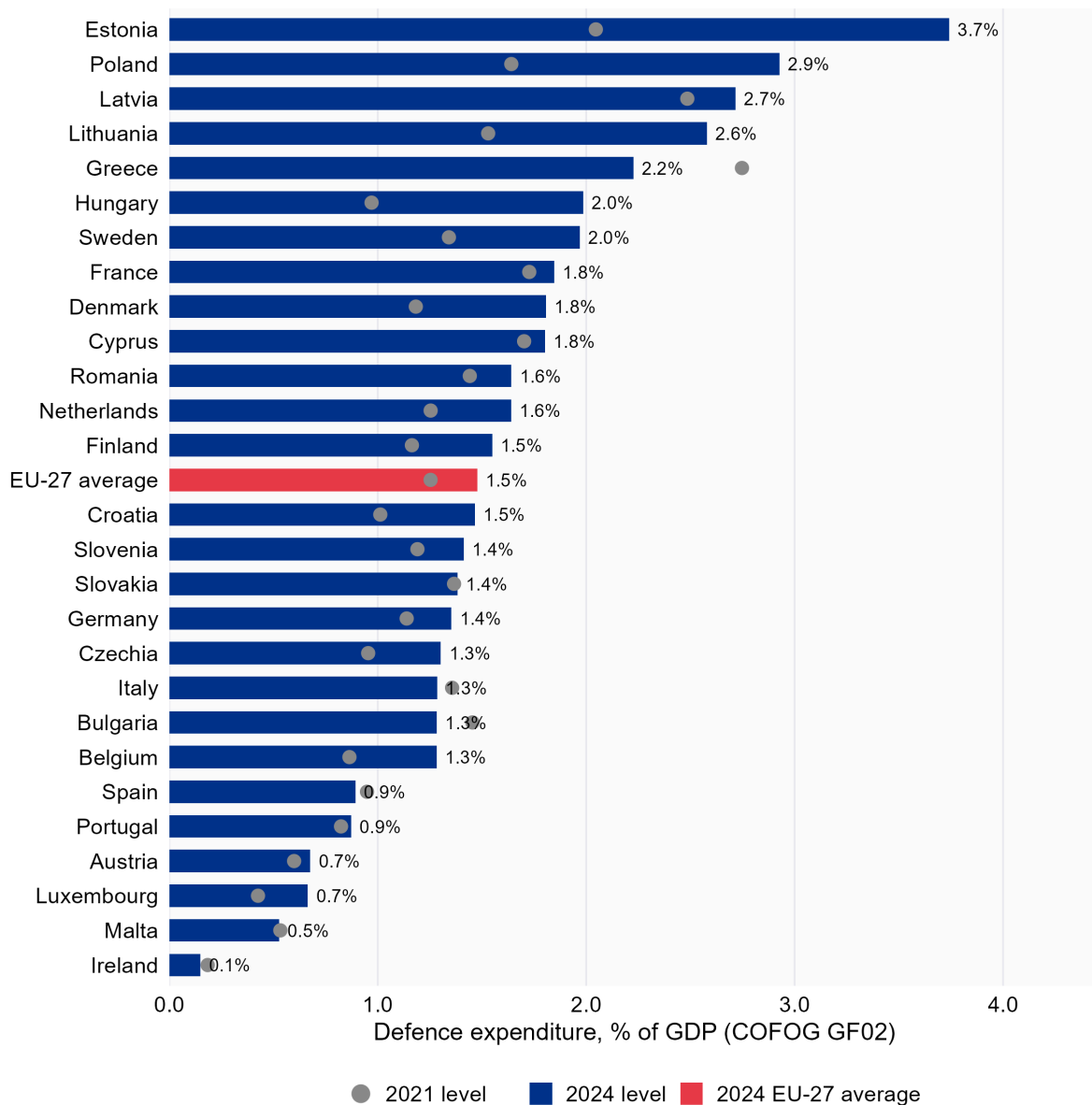
The largest increases were recorded in EU countries geographically close to Russia. In Estonia, defence spending rose from 2.0% of GDP in 2021 to 3.7% in 2024. Since Russia's full-scale invasion of Ukraine, the increase has also been pronounced in Poland, where defence spending rose from 1.6% of GDP in 2021 to 2.9% in 2024. By contrast, defence expenditure over 2021–2024 remained broadly stable in countries such as Slovakia, Portugal and Spain, and declined in countries such as Greece, Bulgaria and Italy. The overall rise in EU defence expenditure over 2021–2024 was driven mainly by a relatively small group of member states.

This uneven pace of increase is also reflected in the cross-country distribution of defence spending levels in 2024. The highest spending levels in 2024 are again found in EU countries in close geographical proximity to Russia. At the other end of the distribution, defence spending remained low in EU countries such as Ireland, Malta, Luxembourg and Austria.

³ Under the reformed fiscal framework, a "deficit resilience safeguard" applies when determining the multi-year adjustment path. This mechanism obliges governments to continue fiscal tightening even after achieving the 3% fiscal deficit threshold, until the structural deficit is reduced below 1.5% of GDP. In addition, the "debt sustainability safeguard" stipulates that countries with public debt exceeding 90% of GDP must plan to lower their debt ratio by at least 1 percentage point annually during the adjustment period, while countries with debt ratios between 60% and 90% of GDP are required to reduce debt by 0.5 percentage points per year (EU Regulation 2024).

An important caveat is that the NEC is based on the COFOG statistical classification of defence expenditure, which differs from the NATO definition commonly used in political discussions about defence spending targets. NATO expenditure includes certain items excluded under COFOG, such as military pensions and some security force expenditure; COFOG includes certain civil defence activities not counted by NATO. In addition, NATO figures are typically reported on a cash basis, whereas COFOG expenditure follows ESA accrual accounting, which can lead to differences in the timing of expenditure recognition, particularly for major defence procurement projects (Conigrave and Shin 2026). Consequently, NATO spending targets – such as the 2% benchmark or the recently agreed higher targets – cannot be directly translated into COFOG-based expenditure. For several EU member states, the gap between NATO- and COFOG-based measures of defence expenditure is substantial (e.g. Lane 2026).

Figure 1: Defence spending in % of GDP in EU countries (2021 vs. 2024)



Source: Eurostat (COFOG).

The COFOG-based defence spending developments shown in Figure 1 are relevant for the operation of the NEC. Since the clause uses 2021 as the baseline for measuring increases in defence expenditure, countries that have already raised defence spending substantially can potentially exclude a sizeable part of this increase from the assessment of compliance with their net expenditure paths.⁴ In Poland, for example, the increase to 2.9% in 2024 implies additional defence expenditure of around 1.3% of GDP relative to the NEC baseline, which is close to the annual ceiling of 1.5% of GDP. This illustrates that, for countries with large post-2021 defence increases, the NEC can provide significant fiscal space, although only up to the year 2028 and subject to the conditions discussed in section 2.1.

Defence expenditure is set to rise further over 2025–2028. Official COFOG data for 2025 and 2026 were not yet available at the time of writing. However, a recent ECB analysis points to an increase in COFOG-based defence expenditure in the euro area from 1.4% of GDP in 2024 to 1.7% in 2026 (Lane 2026). NATO allies have committed themselves to substantially higher defence spending targets over the coming decade, and the European Commission’s “Readiness 2030” agenda explicitly aims to create additional fiscal space for defence expenditure. Several (large) EU member states have already announced and started to implement substantial medium-term defence spending increases. Germany provides a particularly important example: after decades of restrained military expenditure, the German government has embarked on a strong expansion of defence spending following a constitutional reform of the debt brake in March 2025 that exempts defence expenditure above 1% of GDP from federal borrowing limits (e.g. Zettelmeyer 2025). Under the NEC, additional defence expenditure of this kind can be excluded from the relevant net expenditure path, but only up to the annual ceiling of 1.5% of GDP, thereby temporarily easing the tension between the fiscal costs of rising defence spending and compliance with EU fiscal rules.

⁴ However, 2021 is not used as the base year in all cases; for Bulgaria, Greece and Spain, the base year is 2024 (European Commission 2026a, p. 48).

3. ASSESSING THE NATIONAL ESCAPE CLAUSE FOR DEFENCE SPENDING

The NEC seeks to reconcile higher defence expenditure with continued fiscal surveillance. Unlike a general suspension of the rules, it preserves monitoring through the net expenditure benchmark, control account and Stability and Growth Pact procedures; flexibility remains conditional and subject to Commission and Council oversight.

By temporarily exempting additional defence expenditure, the NEC reduces the need for offsetting measures during 2025–2028; it thereby helps preserve non-defence investment and limit short-run consolidation pressures (European Commission 2025b). Continued eligibility of contracts signed during this period also supports multi-year procurement planning. Because the permitted deviation is calculated before the safeguards are applied, the clause can provide meaningful relief to countries with constrained adjustment paths. It may also reduce the likelihood of new or escalating EDPs, which matters for access to the ECB's Transmission Protection Instrument (Pench 2025).

However, the NEC has important limitations. First, it remains driven by national budget decisions about the procurement and financing of defence expenditure taken by individual member states. Uneven take-up and the lack of substantial common EU borrowing reinforce fragmented national procurement rather than fostering coordinated European capability building, in contrast to the more centralised fiscal response adopted during the COVID-19 crisis (e.g. Heimberger and Lichtenberger, 2023).

Second, the 2021 baseline creates potentially problematic incentives. Since defence increases undertaken before activation can be excluded from the compliance assessment, countries that raised spending early may obtain fiscal space without increasing defence expenditure further. In principle, they could use the resulting margin to finance unrelated expenditure or tax reductions (Becker Đuričić and Mazzocchi 2025).

Third, the clause's temporary nature is poorly aligned with the persistence of Europe's security challenges. The NEC was designed to address exceptional shocks, whereas Europe faces a structural shift in its security environment (e.g. Wolff et al. 2025). Once the exemption expires, the higher expenditure will again be fully reflected in the net expenditure path, increasing future adjustment requirements. Governments anticipating this correction may therefore refrain from using the flexibility.

Because the additional expenditure is unlikely to disappear after 2028, governments using the NEC will eventually have to raise taxes or reduce non-defence spending. This may crowd out public investment in climate policy, energy security and digitalisation (Heimberger 2026). The tax increases or expenditure cuts required to finance higher military spending could also weaken economic activity and prove politically contentious, potentially increasing political instability (e.g. Heimberger and Matzner 2026).

Historical evidence suggests that wartime buildups are financed mainly through debt; peacetime expansions rely more evenly on debt and taxation. Marzian and Trebesch (2026) find little systematic reduction in social spending; they show that tax revenues and rates often remain elevated for 15 years or longer. Persistently higher defence spending may therefore leave member states with a permanently larger public sector, characterised by both higher taxation and higher expenditure.

The extension of NEC flexibility to selected energy security measures could partly mitigate crowding-out risks by supporting grids, storage, energy efficiency and clean energy capacity. Such investment could produce stronger output effects than military expenditure, raise potential growth and reduce future exposure to fossil-fuel price shocks (Batini et al. 2022; Jaumotte et al. 2021). However, the extension remains temporary and small compared to the financing tension.

High-debt countries face a dilemma: they benefit from flexibility but are most exposed to debt sustainability concerns, higher borrowing costs and adverse market reactions (e.g. Guttenberg and Redeker 2025). Some have so far used the NEC not at all or only partially. For countries in an EDP, activation also does not facilitate exit unless the headline deficit, including defence expenditure, falls below the 3% deficit threshold. Higher defence spending will therefore prolong EDPs (Becker Đuričić and Mazzocchi 2025).

Finally, eligibility based on COFOG Division 02 may create classification incentives. Governments could seek to classify expenditure in ways that maximise fiscal flexibility even when the expenditure contributes only indirectly to military capability. NEC incentives therefore do not always align with broader European or transatlantic defence objectives.

4. FISCAL CONSOLIDATION PRESSURES WITH STRUCTURALLY HIGHER DEFENCE SPENDING UNDER EU FISCAL RULES

The estimates presented in this section are intended to indicate the potential scale of fiscal adjustment pressures after NEC expiration rather than provide quantitatively precise forecasts. They apply the European Commission's current Debt Sustainability Analysis (DSA) framework underlying the EU fiscal rules to 2029–2035 using the most recent available macro-fiscal data (based on the European Commission's AMECO Spring 2026 forecast). Since the European Commission does not make the full DSA model framework publicly available, we have to use a replication (Welslau 2025).⁵

We assume that defence spending increases linearly relative to its 2021 level, reaching an additional 1.5% of GDP in 2028, and thus that member states make full use of the flexibility provided by the NEC. To the extent that member states use this flexibility not at all or only partially, fiscal deficits and the resulting consolidation pressures would be correspondingly smaller. Our estimates therefore constitute a thought experiment; they illustrate how fiscal adjustment pressures could be affected after the NEC expires if member states used the available flexibility in full to finance additional defence spending through 2028. The European Commission will, however, use updated macroeconomic and fiscal data when calculating the next round of reference trajectories and negotiating the subsequent medium-term fiscal-structural plans, and also apply the safeguards.⁶ The eventual adjustment requirements are therefore likely to differ from our projections. Nevertheless, the calculations remain useful for illustrating the key relationships between additional defence spending and the resulting fiscal adjustment pressures according to the EU fiscal framework.

As explained in Section 3, the NEC only postpones the fiscal impact of higher defence spending; it does not eliminate it. When the clause expires in 2028, the deferred cost feeds back into the European Commission's DSA under the new EU fiscal rules, which determines each member state's net expenditure ceiling to ensure public debt remains on a plausibly downward path over a ten-year horizon after the multi-year fiscal adjustment (e.g. Darvas et al. 2024).

The NEC does not alter the DSA itself, but it changes the compliance calculation: while active, additional defence spending is excluded from the compliance check, even though it continues to affect the public debt-to-GDP path. Once the exemption ends, the DSA must account for this accumulated gap by increasing the required adjustment in the post-NEC multi-year adjustment period to offset spending that was previously excluded from the compliance calculation during 2025–2028.

In what follows, we quantify the fiscal adjustment required over the multi-year adjustment period following the expiry of the NEC, using an extended version of the European Commission's DSA framework and applying it to all 27 EU member states. Even though only 18 member states had asked for an activation of the clause as of August 2026, more countries may do so in the future. We model two consecutive fiscal adjustment periods. Period 1 is the baseline period (2025–2028), in which we apply the NEC and assume that all countries fully use the NEC flexibility. Period 2 is the multi-year fiscal adjustment period, in which we remove the NEC under the conditions of structurally higher defence spending. The EU fiscal rules allow the standard four-year adjustment period to be extended by up to three years when supported by qualifying reform and investment commitments. Defence-related reforms and investment are a natural candidate for such commitments. In our simulations, we

⁵ While the European Commission publishes country-specific Excel files covering the deterministic scenarios, the stochastic component remains accessible only via Stata files that are not publicly accessible. We therefore rely on the full-model replication developed by Welslau (2025).

⁶ While the European Commission publishes country-specific Excel files covering the deterministic scenarios, the stochastic component is not publicly accessible. We therefore rely on the full-model replication developed by Welslau (2025).

therefore provide simulations for the required fiscal adjustment under a four-year (2029–2032) and seven-year (2029–2035) post-NEC adjustment period.

The model captures the effect of the NEC through two linked mechanisms. First, there is the NEC itself: during period 1, additional defence spending within defined limits is excluded from the compliance check. Second, there is the underlying spending path: defence expenditure is assumed to increase linearly over period 1 toward an additional 1.5 % of GDP compared to the 2021 baseline.

Figure 2 illustrates the structural primary balance (SPB) – that is, the headline fiscal balance adjusted for cyclical and one-off effects and excluding interest payments – required to put the public debt ratio on a plausibly downward trajectory according to the DSA. For each country, the red marker shows the SPB required to achieve this trajectory, after deducting the additional defence spending permitted under the NEC. The dark blue marker denotes the SPB target required to put the public debt ratio on a plausibly downward trajectory for 2032 under a four-year adjustment period following the expiry of the NEC, when defence spending is no longer exempted, while the light blue marker indicates the corresponding SPB target under a seven-year adjustment period. While we present the results in terms of the SPB because it provides a more intuitive and readily interpretable measure of the required fiscal effort, the corresponding fiscal adjustment can be translated into a country-specific net expenditure path, which serves as the operational indicator under the EU fiscal framework.⁷

The post-2028 adjustment pressures shown in Figure 2 reflect two related factors: first, the weaker SPB inherited from the increase in defence spending during the NEC period; and second, the fiscal position required thereafter to place public debt on a plausibly downward trajectory.

The first factor is identical across all countries. This reflects the mechanical impact of assuming that each member state fully uses the NEC flexibility over 2025–2028: additional defence spending amounting to 1.5% of GDP is temporarily excluded from the fiscal adjustment requirement, allowing countries to reach 2028 with a correspondingly weaker SPB. The second factor determines how much of this weaker fiscal position must subsequently be corrected. Once the NEC expires, countries entering 2029 with structural primary deficits must improve their fiscal balances sufficiently to place the public debt ratio on a plausibly downward trajectory. The gap between the red marker and the dark (light) blue bar therefore indicates the structural adjustment required over 2029–2032 (2029–2035) after the temporary exemption ends.

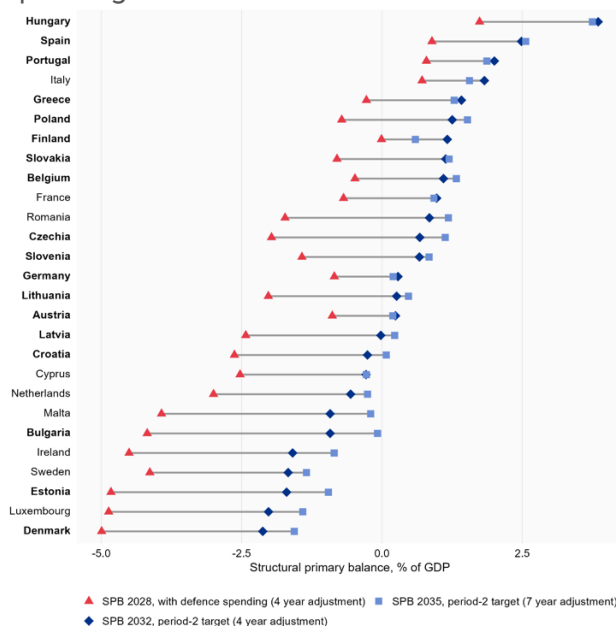
Countries with the highest public debt ratios and the largest deficits over 2025–2028 are required to achieve the largest structural primary surpluses in the post-NEC adjustment period, particularly Hungary, Spain, Portugal, Italy, Greece and Poland. Under structurally higher defence spending, the DSA requirement to place debt on a plausibly downward trajectory implies substantial improvements in the SPB between 2028 and 2032. In Poland, for example, the SPB would have to improve from –0.7% of GDP in 2028 to 1.3% in 2032—an increase of 2 percentage points, equivalent to an average annual adjustment of about 0.5 percentage points. In Germany, reaching the 2032 structural primary surplus target amounting to 0.3% of GDP would require an improvement of around 1.1 percentage points.

These results show that, although the NEC temporarily allows governments to increase defence expenditure without offsetting consolidation, once the clause expires, the DSA can require a substantial fiscal correction to place public debt on a plausibly downward trajectory. This would put pressure on national governments to raise taxes and/or cut non-defence expenditure after 2028.

⁷ The European Commission does not make the full DSA framework publicly available. Technical difficulties in incorporating the NEC into the replicated DSA prevented us from calculating net expenditure in a fully comparable manner.

A different pattern emerges among countries with initially low public debt ratios. Where public debt remains below 60% of GDP and the headline deficit below 3%, the Commission does not prescribe a DSA-based fiscal adjustment path. Instead, the member state's fiscal policy must ensure that debt and the deficit remain below these reference values over the medium term. In our simulations, these countries are assumed to use the available fiscal space fully and to run comparatively large structural primary deficits up to 2028. This is not a forecast of their actual fiscal behaviour, but it illustrates that, unlike countries with high public debt ratios and/or deficits, low-debt countries are not necessarily required under the DSA framework to maintain a balanced structural primary position or run a surplus. After the NEC expires, countries such as Denmark, Estonia, Bulgaria and Croatia would still be permitted to run structural primary deficits in 2032 according to our DSA-based projections. However, those deficits must be substantially smaller under structurally higher defence spending than in 2028, implying significant SPB improvement even though the resulting post-NEC SPB target remains negative.

Figure 2: Structural primary balance (SPB) required at the end of the adjustment period to keep the public debt ratio on a plausibly downward trajectory assuming additional defence spending under the NEC



Source: Own calculations based on Welslau (2025)⁸ and AMECO Spring 2026. The SPB targets indicate the levels required to meet the DSA criterion of placing the public debt ratio on a plausibly downward path. All 27 member states are simulated as if they activated the NEC. Bold names mark those that actually did (as of August 2026); non-bold show the hypothetical outcome for the rest. The red marker shows the 2028 SPB after deducting the additional defence spending permitted under the NEC, where defence spending rises linearly during the NEC period from 2025 to 2028, reaching an additional 1.5% of GDP relative to its 2021 level. The dark (light) blue marker indicates the 2032 (2035) SPB required under a four-year (seven-year) fiscal adjustment after NEC expiration.

Extending the adjustment period to seven years generally has only a limited effect on the SPB required at its end, while reducing the average annual adjustment effort by spreading consolidation over a longer period. For several countries in the lower half of Figure 2, however, the seven-year adjustment implies a higher required SPB than the four-year adjustment: low-debt countries enter the post-NEC period with sizeable structural primary deficits, allowing the public debt ratio to continue rising. Under the seven-year path, fiscal consolidation proceeds more gradually; hence, the public debt ratio rises for

⁸ See Lennard Welslau's github page: <https://github.com/lennardwelslau/eu-debt-sustainability-analysis/> [last download on July 17th 2026].

longer before being placed on a declining trajectory. The DSA therefore requires a larger cumulative improvement in the SPB by 2035. This applies, for example, to Bulgaria and Denmark.

By contrast, in high-debt countries such as Greece and Spain, the DSA requirement to establish a plausibly declining debt trajectory leaves less scope for such a prolonged increase in the public debt ratio. Extending the adjustment period therefore changes the terminal SPB only modestly: the additional years mainly reduce the annual pace at which the required fiscal position is reached rather than substantially altering that position itself. In some countries, including Finland and Italy, the SPB required in 2035 is even somewhat lower than the corresponding 2032 target. The figure alone does not reveal the precise reason for this result, which depends on the interaction of the projected debt trajectory with the DSA requirements. Overall, extending the adjustment period reduces the annual consolidation effort but does not eliminate the need to accommodate the increase in defence spending or substantially reduce the cumulative adjustment required.

The implications of using the NEC for additional defence spending differ according to countries' initial fiscal positions. For high-debt countries, the post-NEC correction typically entails a transition towards (sizeable) structural primary surpluses, a process that would be postponed until after 2028 if NEC flexibility is used to finance additional defence spending. For low-debt countries, it generally implies a marked reduction in the structural primary deficits consistent with debt sustainability according to the DSA.

A comparison with the DSA-based adjustment requirements contained in the technical information provided by the European Commission in 2024 to member states ahead of the submission of their MTFSPs, based on AMECO Spring 2024 (Darvas et al. 2024), provides some additional context, but it should be treated with caution. The two sets of estimates are not directly comparable: our simulations are based on the more recent AMECO Spring 2026 forecast and also incorporate the assumed increase in defence spending under the NEC. For Germany and Belgium, the SPB required by 2032 is similar to the level indicated by the Commission for 2028. This suggests that the NEC mainly shifts adjustment into the post-2028 period: countries can reach 2028 with a weaker SPB, but then have to move back towards the fiscal position previously envisaged. Achieving the same SPB with structurally higher defence spending would, however, require offsetting tax increases or cuts in other primary spending, since the higher defence outlays would otherwise weaken the SPB. For Poland and Hungary, the post-NEC requirement is higher, while for Italy and Greece it is lower (see Table A.1 in the annex). These differences reflect revisions in the underlying macro-fiscal data between the two vintages, the incorporation of higher defence spending under the NEC, and changes in how the resulting debt trajectories interact with the DSA requirements. The importance of data revisions is particularly visible for Italy: its estimated structural primary balance was revised from -1.1% of GDP to -0.2% for 2024 and from -1.1% to 0.2% for 2025 between the Spring 2024 and Spring 2026 vintages. This more favourable reassessment of Italy's starting fiscal position helps explain why our projected SPB requirement for 2032 is lower than the Commission's 2028 estimate based on the earlier data vintage.

The actual post-NEC adjustment requirements will therefore also depend on how countries' macro-fiscal conditions evolve before the Commission next officially runs the DSA, including developments in structural fiscal balances, public debt ratios, growth and interest rates.

5. MACROECONOMIC EFFECTS OF HIGHER DEFENCE SPENDING

To what extent higher defence expenditure improves or worsens public debt dynamics depends not only on its direct budgetary cost but also on its effects regarding output, inflation and borrowing costs. In the short run, additional defence spending operates as a targeted fiscal stimulus. Most empirical studies find positive but modest output effects, with defence spending multipliers generally below or around unity and often well below one (e.g. Ilzetzki 2025). The effects tend to be stronger when monetary policy accommodates the fiscal expansion, there is economic slack and governments have ample fiscal space. They are weaker in highly open economies, under tighter monetary conditions and when expenditure is announced in advance and implemented gradually, as is typical for military procurement (Sheremirov and Sprivoska 2022; Balima et al. 2026; Furceri et al. 2026).

Model-based simulations for the EU broadly corroborate these findings. The European Commission (2025b) considers a linear increase in defence spending of up to 1.5% of GDP by 2028 relative to 2021. EU real GDP rises by around 0.5% above baseline in its main scenario, consistent with an average multiplier well below one, while inflation remains about 0.2 percentage points above baseline until 2028. IMF simulations for a representative group of EU member states find a somewhat larger real GDP effect of 0.9% by 2028 and an increase in inflation of about 0.25 percentage points (Balima et al. 2026). These results suggest that higher defence spending can support economic activity, but that the resulting increase in the denominator of the public-debt-to-GDP ratio does not compensate for the additional borrowing.

The financing method is important. Debt-financed increases generally have stronger short-run output effects than tax-financed increases because higher taxation lowers private consumption. However, persistent debt financing raises public debt and can increase sovereign borrowing costs, especially where public debt ratios are already high. The European Commission's simulations suggest that a fully debt-financed increase under the NEC raises the EU public debt ratio by around 2 percentage points above baseline by 2028 despite the positive GDP effect. The IMF and ECB likewise find that sustained military buildups financed through borrowing increase public debt ratios in the medium term (European Commission 2025b; Bouabdallah et al. 2025; Balima et al. 2026).

Inflation and monetary policy can reinforce or offset these effects. Higher nominal GDP reduces the public debt ratio, but defence buildups may create demand pressures and bottlenecks. Monetary tightening then raises government bond yields and interest expenditure. In the IMF's main scenario, long-term rates rise by about 0.1 percentage points; monetary policy accommodation increases output but raises inflation more strongly (Balima et al. 2026).

The composition of defence expenditure also affects its macroeconomic effects. In most NATO and EU countries, personnel, operations and maintenance account for around four-fifths of total spending, with personnel alone representing nearly half in the EU (Centrone and Fernandes 2024; Becker et al. 2025). Such current expenditure can support demand and employment; however, it is less likely to expand productive capacity or to produce persistent positive spillovers. By contrast, expenditure on infrastructure, advanced equipment and especially defence-related research and development can crowd in private investment and raise productivity growth (e.g. Antolin-Diaz and Surico 2025). The long-run growth effects are therefore more favourable when spending builds technological and productive capabilities rather than primarily expanding payrolls or routine operations.

The macroeconomic benefits are constrained by the concentration of military demand in industries such as aerospace, electronics, machinery and transport equipment. Rapid buildups can draw skilled labour and capital from civilian activities. Under tight capacity constraints, additional demand raises prices and

imports rather than domestic output, while crowding out civilian infrastructure and research with potentially higher returns (e.g. Lehmus et al. 2025).

Import leakages are especially important in the EU. European NATO members' arms imports in 2021–2025 were 143% higher than in 2016–2020, and the United States supplied 58% of those imports (SIPRI 2026). Import dependence also operates through intermediate inputs, even where final procurement is nominally domestic. For an individual member state, purchases from both EU and non-EU suppliers reduce the domestic multiplier. From an EU-wide perspective, however, intra-EU procurement redistributes demand between member states, whereas purchases from outside the EU constitute the main leakage from aggregate European activity.

The Commission's simulations illustrate the quantitative relevance of this distinction. In a high-imports scenario, EU real GDP is only 0.3% above baseline by 2028, compared with about 0.5% in the main scenario. By 2034, the effect declines to approximately 0.1% in the high-imports case, compared with 0.3% in the main scenario (European Commission 2025b). Countries with limited domestic defence industries retain a smaller share of the stimulus.

Nationally fragmented procurement further weakens the growth effects. European defence firms often operate at relatively small scale in segmented domestic markets. Member states maintain numerous incompatible weapons systems. This limits economies of scale, raises unit costs and reinforces dependence on external suppliers (European Commission 2025b; Wolff et al. 2025).

Overall, macroeconomic benefits of higher defence spending in the EU are likely to remain modest at best (e.g. Heerma van Voss et al. 2026): increases are gradual and pre-announced, non-investment spending is large, supply constraints are significant, and procurement leaks abroad. Tax increases or spending cuts after the NEC expires would offset the stimulus, while continued borrowing would raise the public debt ratio and potentially bond yields.

6. PUBLIC DEBT TRAJECTORIES WITH ALTERNATIVE ASSUMPTIONS ON DEFENCE MULTIPLIERS AND INTEREST-GROWTH DIFFERENTIALS

Whereas Section 4 examined the fiscal adjustment required to place the public debt ratio on a downward path after the NEC expires, this section asks a different question: how sensitive are public debt trajectories to the economic effects of higher defence spending if governments do not introduce offsetting tax increases or spending cuts?

We focus on two factors. The first is the interest–growth differential ($r-g$), which captures the relationship between government borrowing costs and nominal GDP growth. The second is the fiscal multiplier, which measures how strongly higher defence spending raises output. The debt ratio effects also depend on nominal GDP growth: to the extent that higher defence spending raises inflation (see section 5), it may mechanically reduce the debt-to-GDP ratio and erode the real value of outstanding nominal debt. This denominator effect is partly captured through the $r-g$ differential, although its net impact depends on whether higher inflation also raises sovereign borrowing costs. Our projections build on the European Commission’s public debt projection framework (Welslau 2025). In our simulations, defence spending increases gradually relative to its 2021 level, reaching an additional 1.5% of GDP in 2028 and remaining at that level thereafter. The model captures the denominator effect through a temporary inflation shock: a 0.25 percentage point increase in the GDP deflator over 2025–2028, which mechanically lowers the public debt to GDP ratio by increasing the denominator (nominal GDP).⁹ Borrowing costs remain exogenous.

We first examine how public debt evolves when higher defence spending has persistent effects on economic growth and sovereign borrowing costs. In the adverse scenario, the $r-g$ differential deteriorates by 0.5 percentage points relative to the baseline, owing to weaker economic growth and higher government borrowing costs. In the favourable scenario, $r-g$ improves by 0.25 percentage points. In both cases, the effects are assumed to persist from 2029 to 2070. The asymmetric scenario analysis reflects the literature reviewed in Section 5.

Figure 3 shows that the differences between the adverse and favourable scenarios are initially modest but widen substantially over time, as persistent changes in growth and borrowing costs compound year after year. The figures also incorporate the defence-driven inflation shock described above, which lowers debt ratios by roughly 0.6 percentage points on average per year throughout the projection without affecting the pattern. In the adverse scenario, for example, the public debt ratios of France and Italy are about 50 percentage points of GDP higher in 2070 than under the reference $r-g$ scenario, whereas the cumulative increase in low-debt countries such as Estonia and Sweden is only a fraction of this. The effects are particularly pronounced in high-debt member states because a given deterioration in the interest–growth differential triggers a larger adverse snowball effect when applied to a larger outstanding debt stock.

We then vary the national fiscal multiplier between 0.3 and 1.5, with 0.5 as the baseline. Lower multipliers reflect factors such as high import content, gradual implementation, capacity constraints and spending concentrated on personnel or operations. Higher multipliers represent more favourable conditions, including stronger domestic production, coordinated procurement and greater emphasis on investment. The multiplier applies only while defence spending is being increased. Once spending

⁹ The assumed magnitude follows the inflation response in Balima et al. (2026), although their model simulations refer to consumer price inflation rather than GDP deflator inflation.

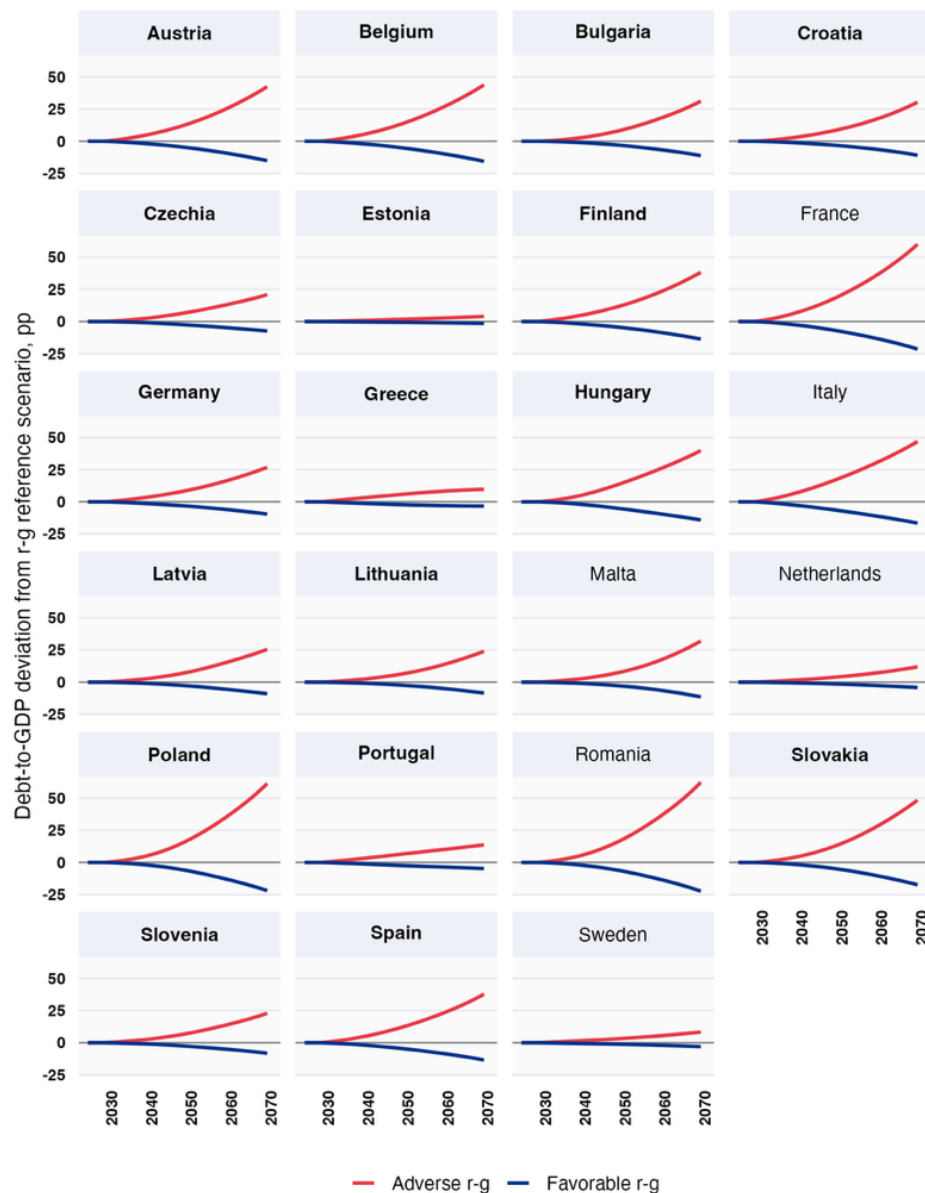
reaches its permanently higher level in 2028, there is no further fiscal impulse, although the output gains delivered during the preceding years remain.

Figure 4 shows that higher fiscal multipliers lower public debt ratios relative to the baseline by supporting economic output. As in Figure 3, Figure 4 includes the denominator effect of the defence-driven inflation shock. The multiplier effects, however, remain relatively modest. With a multiplier of 1.5, the public debt ratio deviates from the baseline by around 2 percentage points of GDP over the projection period. This is because the multiplier effects arise only during the temporary increase in defence spending, whereas persistent changes in growth and borrowing costs – captured by the $r-g$ scenarios in Figure 3 – accumulate over several decades. Long-run public debt trajectories are therefore considerably more sensitive to lasting changes in the interest–growth differential than to differences in the short-run fiscal multiplier.

These results do not imply that short-run fiscal multipliers are unimportant; rather, within the European Commission's debt projection framework applied in our simulations, the temporary output gains generated during the build-up of defence spending offset only a limited share of the fiscal cost of maintaining expenditure permanently at a higher level. The contrast between the two sensitivity exercises also reflects their different treatment in this framework: the multiplier operates only while spending is being increased; changes in the interest–growth differential persist and therefore accumulate over several decades. Long-run debt trajectories are consequently much more sensitive to persistent changes in growth and sovereign borrowing costs (due to higher military expenditure) than to differences in the short-run defence multiplier.

As discussed in Section 5, the positive output effects of additional defence spending in the EU are likely to be modest at best. Higher defence expenditure is therefore unlikely to be self-financing through stronger long-run economic growth, particularly if it comes at the expense of spending with greater growth-enhancing potential. It could also increase sovereign borrowing costs, particularly if investors doubt that it will lead to sufficient future economic growth and tax revenues to support debt sustainability. Under such circumstances, the resulting upward pressure on public debt would be greater.

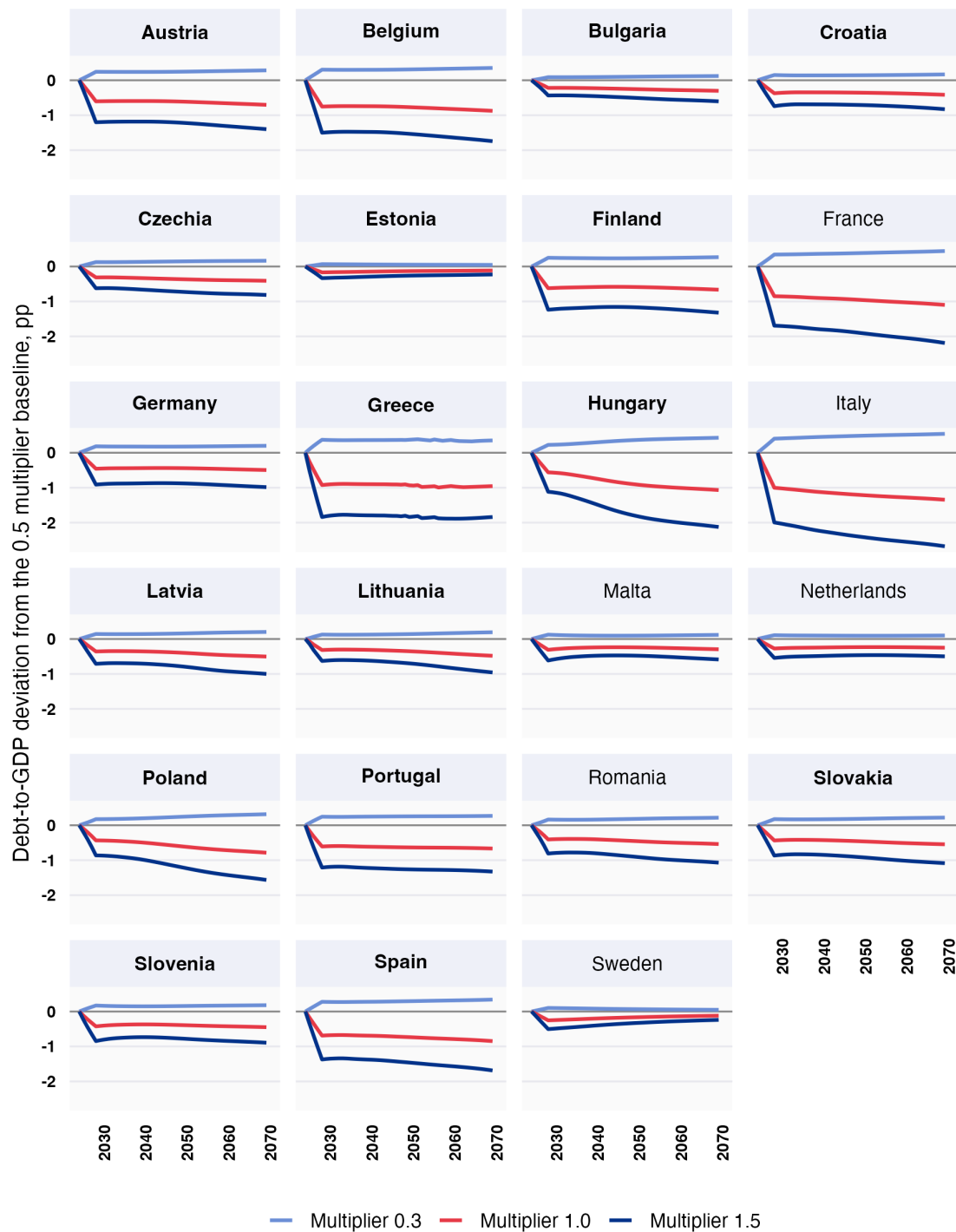
Figure 3: Sensitivity of the public-debt-to-GDP ratio to deviations in the interest–growth differential under alternative assumptions about the effects of additional defence spending



Note: includes the defence-driven inflation shock (+0.25pp deflator, 2025-2028; Balima et al. 2026)

Source: Own calculations based on Welslau (2025) and AMECO Spring. 2026.

Note: Cyprus, Denmark, Ireland, and Luxembourg are omitted from the figure. Their debt-to-GDP ratio reaches the model's zero floor by 2035 under every scenario, so the figure would convey no information. The rapid convergence is driven not only by low initial public debt ratios but also by large structural primary surpluses at the start of the projection. Because this surplus exceeds interest costs on the small debt stock by several percentage points of GDP each year, the public debt ratio declines rapidly and hits the floor well before the horizon ends. The adverse r-g shock delays this by at most one year. Adverse r-g: increase in r-g by 0.5 percentage points compared to the baseline. Favourable r-g: decline in r-g by 0.25 percentage points. All 27 member states are simulated as if they activated the NEC. Bold names mark those that actually did (as of August 2026); non-bold show the hypothetical outcome for the rest.

Figure 4: Sensitivity of the public-debt-to-GDP ratio to alternative defence spending multipliers

Note: includes the defence-driven inflation shock (+0.25pp deflator, 2025-2028; Balima et al. 2026)

Source: Own calculations based on Welslau (2025) and AMECO Spring, 2026.

Note: Cyprus, Denmark, Ireland, and Luxembourg are omitted from the figure, as in Figure 3: their debt ratio reaches the model's zero floor by 2035, driven by large structural primary surpluses at the start of the projection. Country names in bold denote the member states that activated the NEC for defence spending. All 27 member states are simulated as if they activated the NEC. Bold names mark those that actually did (as of August 2026); non-bold show the hypothetical outcome for the rest.

7. BENEFITS AND LIMITATIONS OF COORDINATED EU DEFENCE SPENDING AND FINANCING

An important qualification in the literature is that higher defence spending should not be treated as an objective in itself but should be guided by an assessment of actual capability needs and military requirements. The relevant question is not only how much additional fiscal space can be created for defence, but also whether additional spending is directed towards capabilities that strengthen readiness and European industrial capacity (e.g. Centrone and Fernandes 2024; Niinistö 2024).

Without such a capability-based approach, higher defence expenditure could reproduce existing national fragmentation and import dependence, thereby weakening its macroeconomic returns and increasing the fiscal costs of reaching given security objectives. The case for stronger European coordination therefore rests not only on financing higher spending levels more efficiently, but also on improving the composition and effectiveness of defence expenditure.

However, shifting procurement from one member state to another primarily redistributes demand and value added within the EU. The EU-wide macroeconomic benefits of increased coordination arise to the extent that it substitutes European production for extra-EU imports and increases the share of EU value added in defence supply chains. Furthermore, it lowers procurement costs through economies of scale and joint purchasing (e.g. Hildebrand et al. 2026).

Stronger European coordination in procurement, financing and industrial planning could lower the long-term fiscal costs of structurally higher defence spending. Existing estimates put the annual costs of fragmentation in European defence expenditure at up to EUR 57 billion. Collaborative defence procurement remains below 20%. Increasing it to the long-standing 35% benchmark could yield savings of up to EUR 3.2 billion per year, while more coordinated purchases from third-country suppliers, where no European equivalent is available, could save up to EUR 3.0 billion annually through lower unit prices and greater bargaining power. Under a more ambitious scenario, inefficiencies in equipment procurement alone are estimated at EUR 10.9 billion per year (Centrone and Fernandes 2024; Tothova and Clapp 2026). These estimates suggest that better coordination could reduce the additional national spending needed to reach given capability targets. In the short term, this may require pooling urgent third-country purchases where European alternatives are not yet available.

Over the long term, however, the benefits are likely to be greater if EU member states move beyond ad hoc joint purchases towards EU-centred common procurement programs, pooled readiness stocks and coordinated defence industry planning. Such an approach could reduce acquisition costs and lead to savings not only in procurement, but also in training, maintenance, spare parts and readiness. These gains could be reinforced by more coordinated financing arrangements, including proposals for common defence bonds. Hildebrand et al. (2026) argue that joint issuance of bonds could minimise financing costs and achieve borrowing terms close to those of the best-performing euro area sovereign issuers. Such arrangements could therefore also limit borrowing cost disparities among participating member states.

The main limits to coordinated EU defence spending and financing are that defence remains a national competence, while joint financing would require some degree of joint decision-making. Member states would have to accept liability for EU debt used to finance defence choices. Cheaper EU loans would do little to solve the problem, since the main constraints in many EU member states currently are fiscal rules, national fiscal space and political willingness rather than borrowing costs. Joint EU borrowing would make sense for genuinely European priorities with strong spillovers, such as joint procurement or missile defence; but this would require member states to (partly) cede control over major defence decisions (Guttenberg and Redeker 2025).

8. RECOMMENDATIONS

1. **Avoid using NEC flexibility indiscriminately.** Member states should expand defence expenditure in line with clearly identified capability needs and their medium-term fiscal capacity. Using the available NEC flexibility to finance poorly targeted defence expenditure could leave governments with weaker fiscal positions and greater fiscal adjustment requirements after 2028.
2. **Use the recently broadened NEC flexibility primarily for productive energy-security investment.** The extension of the NEC to measures that reduce dependence on imported fossil fuels creates scope to support investment in energy security alongside higher defence spending. Such public investment is likely to deliver stronger and more persistent macroeconomic benefits than additional military expenditure. A balanced use of the available flexibility could therefore produce more favourable macroeconomic and public debt outcomes than using it exclusively for defence.
3. **Strengthen European coordination and common financing.** Joint procurement and coordinated industrial planning could reduce procurement costs and increase European value added, thereby strengthening the EU-wide macroeconomic benefits of additional defence spending. Common financing could limit borrowing cost disparities across member states and ease pressure on national fiscal space, particularly in countries facing relatively high government bond yields.
4. **Adapt the EU fiscal framework to structurally higher defence spending.** The temporary NEC postpones rather than resolves the long-term financing challenge. Persistently higher defence expenditure raises difficult questions about how the EU fiscal framework can accommodate new structural spending priorities while safeguarding debt sustainability. Addressing this mismatch requires credible long-term financing and governance solutions rather than repeated reliance on temporary exemptions.
5. **Strengthen European Parliament scrutiny of the NEC and its post-2028 implications.** The European Parliament should use its scrutiny powers to promote greater transparency over the use and longer-term fiscal implications of the NEC. In particular, the European Commission should provide the European Parliament with systematic information on the fiscal space used by member states, the additional expenditure covered by the clause, its implications for public debt trajectories, and the adjustment requirements likely to arise after the NEC expires.

9. CONCLUSIONS

By allowing additional defence expenditure within certain limits to be temporarily excluded from fiscal adjustment requirements, the NEC reduces the need for offsetting government spending cuts or tax increases under the EU fiscal rules during 2025–2028. However, the clause is ill-suited to accommodating a structural rise in defence spending across EU member states. Once it expires, higher defence expenditure will become a lasting budgetary commitment that must be financed on a permanent basis. We show that this would increase fiscal consolidation pressures under the EU fiscal rules after 2028, including in high-debt member states that already face substantial adjustment requirements even without additional defence spending. There are already indications that some high-debt member states are making only limited use of the defence flexibility available under the NEC. One likely reason is that they anticipate that additional borrowing during the exemption period would leave them with a weaker fiscal position and adjustment requirements once the clause expires.

Counter-financing higher defence outlays through tax increases or spending cuts would limit the need for sovereign borrowing; however, it could not only slow economic activity, but also prove politically contentious, thereby increasing the risk of political instability. Furthermore, the macroeconomic benefits of higher defence spending in the EU are likely to be modest at best, while pressures on debt sustainability could persist, unless member states become more selective and shift military expenditure more strongly towards investment and innovation.

As long as defence remains largely a national competence and the changed security environment translates into structurally higher national spending levels, pressure will grow to find more durable ways of accommodating higher defence expenditure within the EU fiscal framework. Yet extending exemptions for defence spending beyond 2028 would be difficult to reconcile with the framework's core objective of placing public debt ratios on a plausibly declining path.

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ANNEX

Table A.1: DSA-based structural primary balance (SPB) targets to keep the public debt ratio on a plausibly downward trajectory

Country	SPB 2028 (2024 EC simulation)	SPB 2028, with defence	SPB 2032 (4y period)	SPB 2035 (7y period-2 end)
Denmark	-2.9	-5.0	-2.1	-1.6
Luxembourg	-3.1	-4.9	-2.0	-1.4
Estonia	-3.1	-4.8	-1.7	-1.0
Sweden	-2.3	-4.1	-1.7	-1.3
Ireland	-2.0	-4.5	-1.6	-0.9
Bulgaria	-3.0	-4.2	-0.9	-0.1
Malta	-1.9	-3.9	-0.9	-0.2
Netherlands	-0.6	-3.0	-0.6	-0.3
Cyprus	0.4	-2.5	-0.3	-0.3
Croatia	0.4	-2.6	-0.3	0.1
Latvia	-1.0	-2.4	0.0	0.2
Austria	0.8	-0.9	0.2	0.2
Lithuania	-0.8	-2.0	0.3	0.5
Germany	0.4	-0.8	0.3	0.2
Slovenia	0.5	-1.4	0.7	0.8
Czechia	-0.2	-2.0	0.7	1.1
Romania	0.1	-1.7	0.8	1.2
France	0.8	-0.7	1.0	0.9
Belgium	1.1	-0.5	1.1	1.3
Slovakia	0.8	-0.8	1.1	1.2
Finland	1.4	0.0	1.2	0.6
Poland	0.6	-0.7	1.3	1.5
Greece	1.9	-0.3	1.4	1.3
Italy	3.3	0.7	1.8	1.6
Portugal	2.6	0.8	2.0	1.9
Spain	2.7	0.9	2.5	2.6
Hungary	3.0	1.7	3.9	3.7

Notes: The SPB targets indicate the levels required to satisfy the DSA criterion of placing the public debt ratio on a plausibly downward trajectory. The SPB 2028 (2024 EC simulation) is based on Darvas et al. (2024) and uses AMECO Spring 2024 forecast data. The third column reports the 2028 SPB after deducting the additional defence spending permitted under the NEC, where defence spending rises linearly during the NEC period from 2025 to 2028, reaching an additional 1.5% of GDP relative to its 2021 level. The fourth and fifth columns report the SPB required in 2032 and 2035, respectively, under four-year and seven-year fiscal adjustment periods following the expiry of the NEC. Columns 3–5 are based on AMECO Spring 2026 forecast data for the DSA projections and are therefore not directly comparable with column 2, which uses Spring 2024 data.

By temporarily exempting additional defence expenditure from fiscal adjustment requirements within defined limits, the National Escape Clause reduces the need for offsetting spending cuts or tax increases over 2025–2028. We analyse how much fiscal consolidation pressures under EU fiscal rules could increase after 2028, once the clause expires and higher defence spending becomes a permanent feature of national budgets requiring financing. We examine key factors shaping how higher defence expenditure affects macroeconomic and fiscal outcomes across EU member states.

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