National-Level Priorities to Lift Growth in the EU: Why, What, and How?

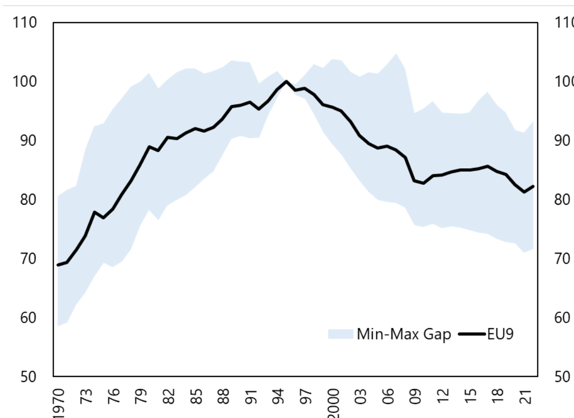
Most European Union (EU) countries have large per capita income and productivity shortfalls vis-à-vis the United States. A significant part of these shortfalls can be traced to large domestic structural policy gaps. There is scope for reducing these gaps without compromising member states' social and climate objectives. Closing half of these gaps could yield GDP gains of close to 6 percent for the EU in the medium term, often at limited or no fiscal costs. These gains significantly outweigh estimates of the losses for Europe from trade policy disputes. Key national reform priorities to lift medium-term output include (i) boosting labor reallocation and human capital, (ii) growth-friendly fiscal structural reforms, and (iii) streamlining business regulations. Quick progress requires early public engagement and effective communication, readiness to learning from others, and smart reform sequencing and bundling, including of domestic and EU-level reforms.

I. Europe's large per capita income gaps

Most EU countries have a large per capita income gap with the United States and best-performing European economies. While Europe outpaced U.S. labor productivity growth until the mid-1990s, it has since fallen behind (Figure 1.1). As of 2024, the per capita income gap with the U.S. is close to 30 percent for many advanced EU economies, with low productivity the predominant factor (Figure 1.2). Differences across EU countries themselves are large, with income per capita being close to the US level in Denmark and the Netherlands and exceeding it in Luxembourg and Ireland. Amid tepid productivity growth and rising demographic headwinds in most EU countries, the magnitude and persistence of these gaps point to the urgency of addressing structural barriers to higher growth and living standards.

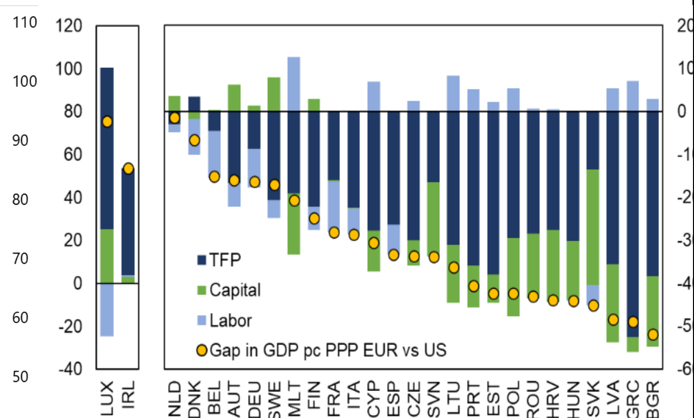
This note offers a blueprint for turning recognition into action. The next section documents EU members' structural policy gaps. Section III lays out the top-5 reform priorities by country based on IMF country teams' assessments and illustrates their significant potential to lift medium-term output. Section IV suggests specific reforms policymakers can implement by learning from the best performing EU countries in each area, and Section V discusses communication and other strategies that can help smooth and accelerate reform efforts. Finally, Section VI points out areas in which reforms at the EU level can complement national reform efforts and enhance their growth impact.

Figure 1.1. Labor Productivity indexed to the US
(GDP per hour worked in PPP terms relative to the US; 1995=100)



Sources: Long Term Productivity Database; ECB; and IMF staff calculations.
Note: GDP per hour worked (constant international dollars, PPP-adjusted), indexed to the U.S., and normalized to 1 for all EU9 countries in 1995. EU9: AUT, BEL, DEU, ESP, FIN, FRA, ITA, NLD, PRT.

Figure 1.2. Decomposition of GDP per Capita Difference with the US
(in PPP terms, 2024)

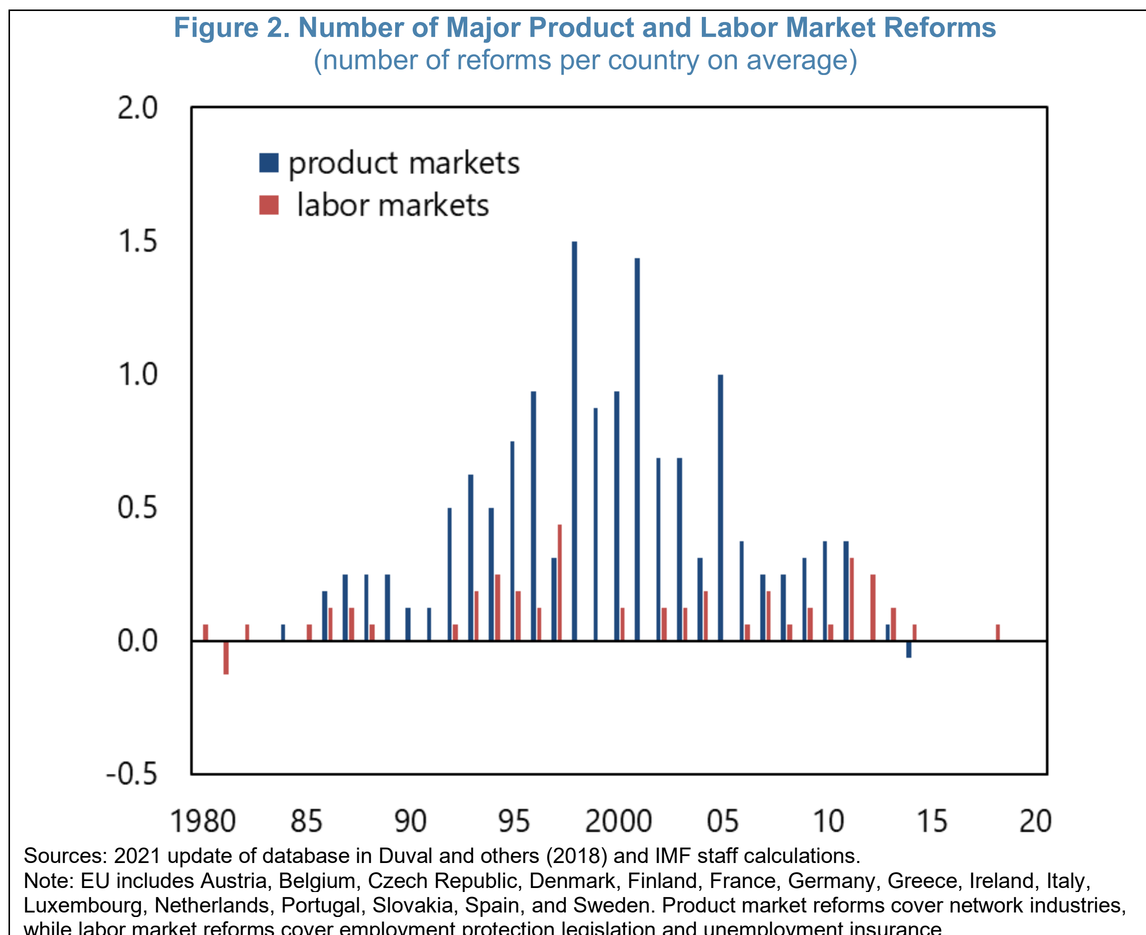


Sources: WEO; AMECO; and IMF staff calculations.

II. Europe's national-level structural policy gaps

Many European countries undertook major reforms in waves between the mid-1990s and mid-2010s. Extensive labor, capital, and product market reforms carried out across the EU helped narrow structural gaps with the US and between EU countries themselves (Figure 2). The impetus for reforms was spurred by economic stagnation (Ireland and Netherlands in the 1980s; Germany in the early 2000s), outright crises (Nordic countries in the early 1990s; Southern Europe in the early 2010s) and EU accession (Central and Eastern Europe). In a few countries, successful reforms in one area provided the economic and political momentum for reforms in other areas (e.g., the labor and product market reform waves in Denmark in the 1990s).

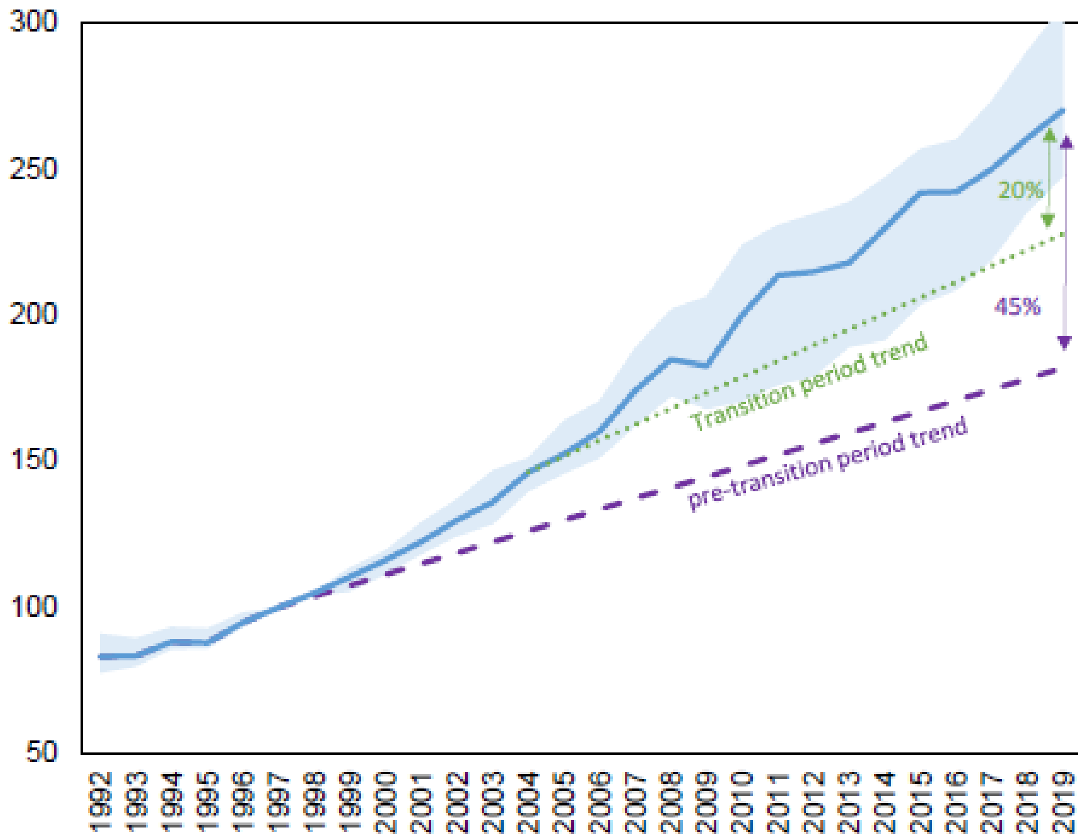
Figure 2. Number of Major Product and Labor Market Reforms
(number of reforms per country on average)



Sources: 2021 update of database in Duval and others (2018) and IMF staff calculations.
Note: EU includes Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovakia, Spain, and Sweden. Product market reforms cover network industries, while labor market reforms cover employment protection legislation and unemployment insurance.

There is compelling evidence that structural reforms have lifted GDP per capita and this prevented a larger gap with the US. In most advanced economies, past reform waves were followed by strong growth performance, with some key examples including Denmark, Ireland and the Netherlands during the 1990s as well as Germany during the 2000s. In Southern Europe (Greece, Portugal, Spain), the European debt crisis prompted reforms that are partly underpinning today's robust growth performance (Hatzidakis, 2025; Cuerpo, 2025). In former EU accession countries in Eastern Europe, reforms also brought sizeable growth dividends, especially in the Baltics and Romania, not only after but even during the transition period due to massive reforms implemented to join the EU (Figure 3; IMF, 2024a).

Figure 3. Average GDP per Capita of Regions in New Member States
(index, 1997=100)

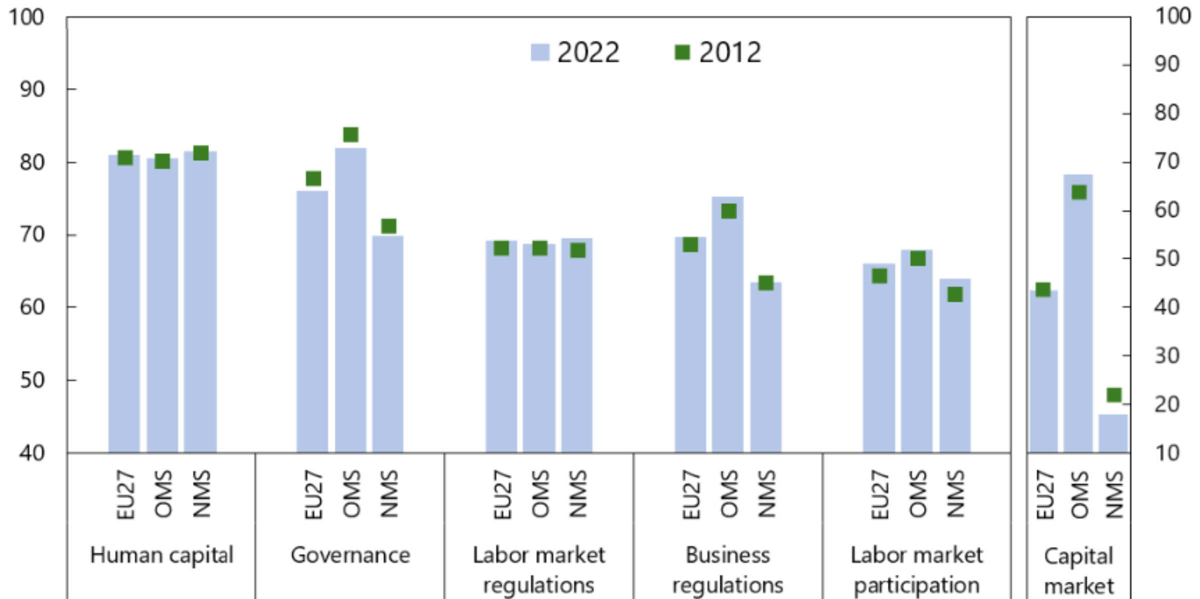


Sources: IMF (2024a).
Note: Transition period trend based on period between 1997 and 2004. Pre-transition trend from 1992 to 1997. The shaded area shows the interquartile range.

Reform momentum has faded considerably. While the Recovery and Resilience Facility (RRF) has partly rekindled efforts in recent years, progress with reducing structural reform gaps has been quite limited since the early 2010s (Figure 4).[1] For example, while both old and new Member States (MS) undertook reforms of their labor market regulations in 2000s and early 2010s to facilitate reallocation, only very modest changes have taken place since then (see also Schoefer, 2025). While there have been significant increases in female labor force participation, improvements in human capital have been slow, with only marginal advances in educational attainment and persistent skill mismatches. In product markets, following past deregulation of network industries and cuts in administrative burdens on existing and new businesses (e.g., through digitalization and streamlined start-up procedures), efforts in remaining areas for action have faded. Governance gaps remain equally entrenched, particularly among new MS.

[1] Policy gaps for each country are computed by comparing their performance on each structural policy indicator with the respective frontier, normalized to a 0-100 scale where 100 denotes the frontier and aggregated for each broad structural policy area. All the indicators used in this note are consistent with the IMF's Third-Party Indicators (TPI) Guidelines. The Worldwide Governance Index is a perception-based indicator. For further details and caveats see Budina and others (2025).

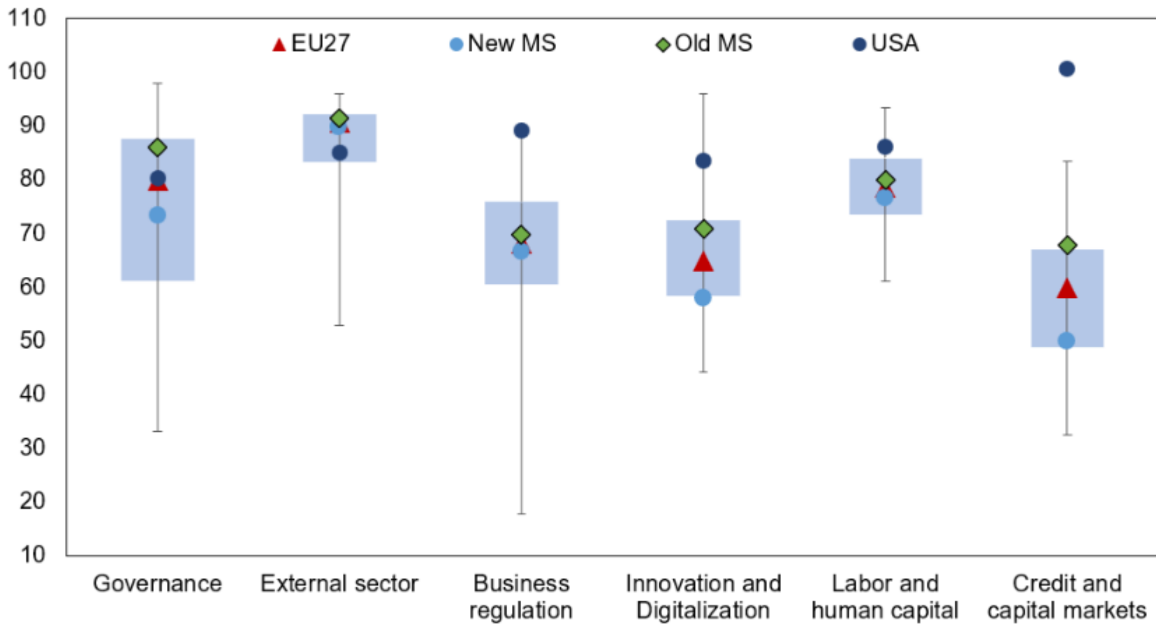
Figure 4. Distance to Frontier in Macrostructural Areas Over Time
(Percent, Relative to global frontier)



Sources: Fraser Institute; OECD; GTA; Eurostat, Berkeley; IMF, World Bank; and IMF staff calculations.
Note: The frontier is defined as the average of the top two of European countries and the US on each structural policy indicator. Frontier = 100; all other values are normalized to this reference. Regional numbers are simple average. OMS and NMS denote old and new member states, respectively.

This has left most EU countries with sizeable and persistent structural policy gaps, suggesting untapped growth potential. While Europe has leading examples of best practices across many structural policy areas, overall available indicators show significant structural policy gaps relative to the frontier, leaving scope for growth-enhancing reforms (Figure 5). Gaps are especially significant in labor market and human capital policies, business regulations, innovation and digitalization, and capital markets. The new MS countries face larger policy gaps in general, particularly in governance and in credit and capital markets.

Figure 5. Distance to Frontier in Macrostructural Areas, 2022
(Percent, Relative to global frontier)



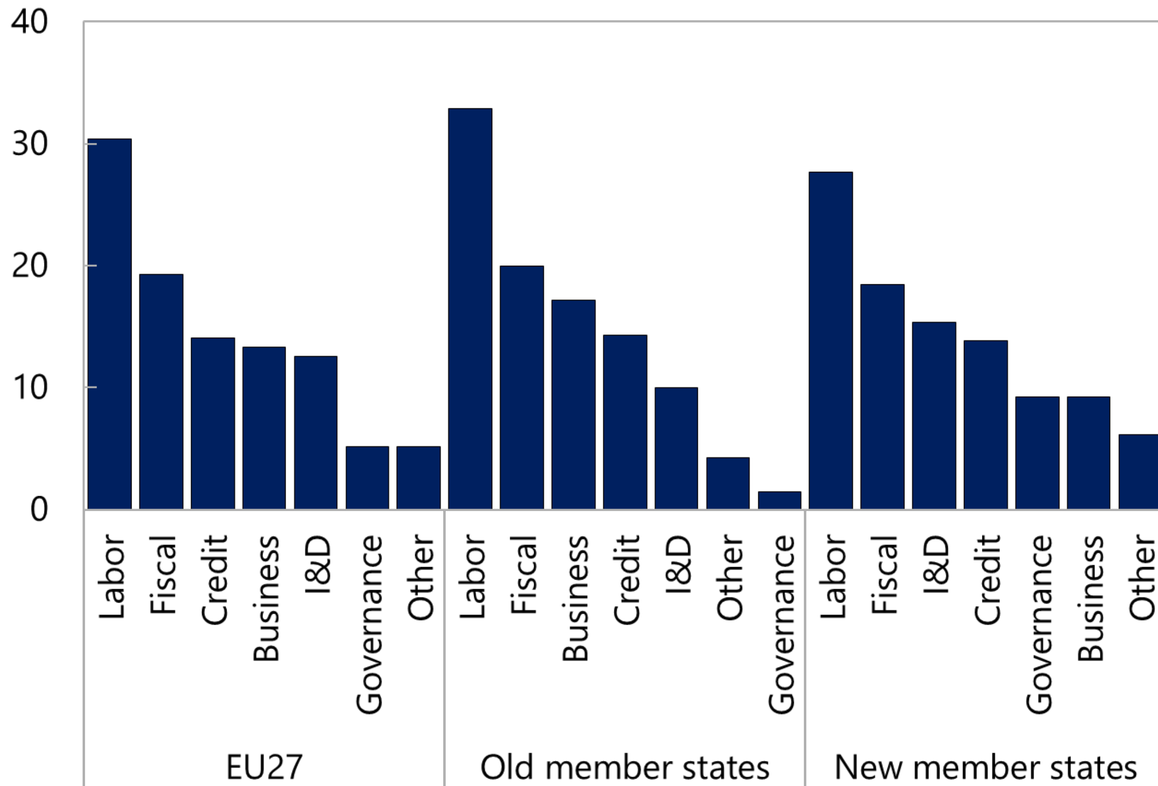
Sources: Fraser Institute; OECD; GTA; Eurostat, Berkeley; IMF, World Bank; and IMF staff calculations.
Note: Most indicators are 2022. The frontier is defined as the average of the two most growth-friendly settings within the group of European countries and the U.S. Frontier = 100; all other values are normalized to this reference. The whiskers represent the range between the minimum and maximum values of European countries, while the bars indicate the interquartile range, spanning from the 25th to the 75th quartile. Regional numbers are simple average.

III. Structural reform priorities to lift medium-term output

Closing half of the structural policy gaps of each country in the identified top priority areas could raise GDP by close to 6 percent in the EU over the medium term, with higher growth gains for countries farther away from the most growth-friendly regulatory settings. This is equivalent to closing around 20 percent of the per capita income gap with the US. Key reforms cut across multiple areas, including boosting labor reallocation and human capital, growth-friendly fiscal structural reforms, and streamlining business regulations.

National reform priorities in the EU cut across multiple areas. This section summarizes the IMF staff-identified top five country-level structural reform priorities for lifting medium-term output (Figure 6). These priorities are based on comprehensive IMF staff assessments, as crystallized in Article IV staff reports, based on available evidence—including the structural policy gaps identified above and available estimates of the potential gains from closing them (discussed further below). Looking across EU countries, priorities emphasize boosting labor and human capital, growth-friendly fiscal structural reforms, streamlining business regulations, enhancing innovation-policy design, and deepening domestic credit and capital markets. Old and new MSs share similar broad policy priority areas, but the nature of concrete reform needs within each area differs.

Figure 6. Top 5 Reform Priorities by Area and Ranking
(percent, share of the number of total reforms)



Source: IMF staff's assessment.
Note: I&D denotes Innovation and Digitalization

Labor market and human capital-building reforms top the list of staff-assessed priorities across the EU. All EU countries have at least one top-5 reform priority in this area, which together account for more than 30 percent of all identified priorities. Reform priorities in both old and new MS mainly focus on building human capital by improving education systems and expanding training programs (Figure 7 and 8).[2] This strong emphasis reflects a combination of the criticality of highly skilled labor for productivity growth, and their prospective role in supporting demographic, digital, energy and green transitions. Expanding labor supply—including boosting the labor force participation of women, foreigners and youth, and reducing the labor tax wedge to raise employment rates—is also considered critical to cope with increasing demographic headwinds. Finally, enhancing labor market flexibility is also seen as important in several old MS, building on progress achieved in this area in the past two decades.

Fiscal-structural reforms are the second high-priority area, with some heterogeneity across country groups. Fiscal-structural reforms are among top-5 reform priorities in ten old MS and six new MS, accounting for 19 percent of all reform priorities. Specific priorities differ across country groupings, however. In old MS, tax—including a rebalancing of the tax base from labor to consumption taxes, growth-friendly fiscal adjustment, and more efficient tax expenditures—and pension reforms account for a majority of reform needs, with a large share of social security and tax reforms ultimately aimed at enhancing labor market performance by reducing work disincentives or achieving a business-friendlier tax environment. In new MS, priorities cover not only a range of tax and pension reforms but also increasing

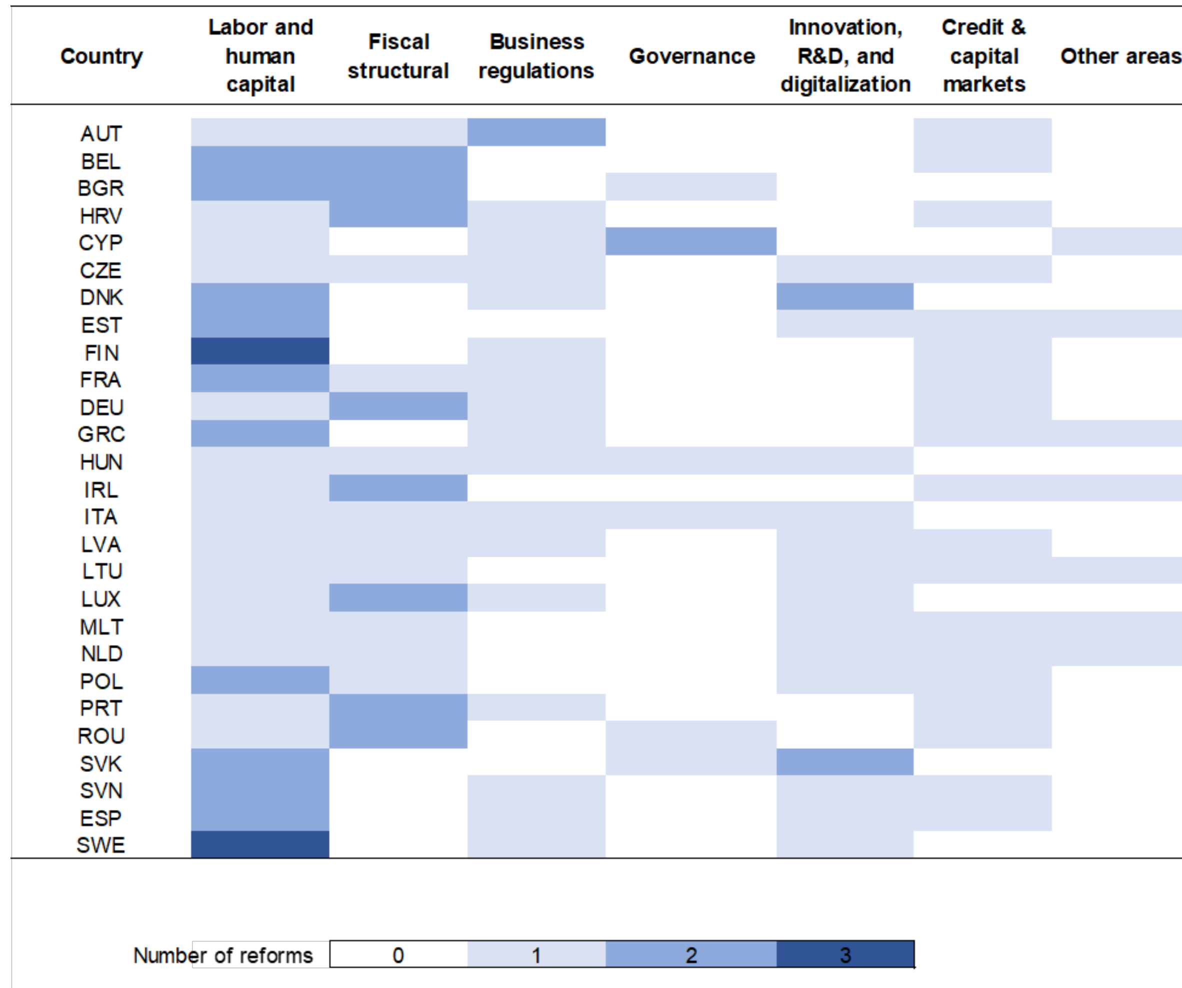
[2] See Appendix 2 for details of reform priorities.

infrastructure investments and its quality through strong public investment management (PIM) frameworks, and improving the governance of state-owned enterprises.

Other productivity-boosting reforms, including enhancing innovation and digitalization, deepening domestic credit and capital market, and streamlining business regulations also rank high. Each of these areas accounts for roughly 13 percent of growth-enhancing reform priorities. Business regulations are prioritized in 17 countries, predominantly in old MS, and focus on cutting red tape and promoting competition by reducing barriers to firm entry and exit. Innovation, R&D and digitalization reforms are prioritized in about half of EU countries. In old MS, the focus is mainly on innovation-enhancing reforms such as higher R&D direct funding and tax incentives for R&D and innovation, while priorities in new MS cover both innovation and private and public sector digitalization. Credit and capital market reforms are prioritized in 19 EU countries (10 old MS and 9 new MS), with a particular focus on financing for innovation (14 out of 19 reforms), including venture capital and start-ups finance.

Figure 7. European Union: Reform Priorities Across Broad Structural Areas

Figure 8. European Union: Number of Reform Priorities Across Broad Structural Areas



Source: IMF staff's assessment.

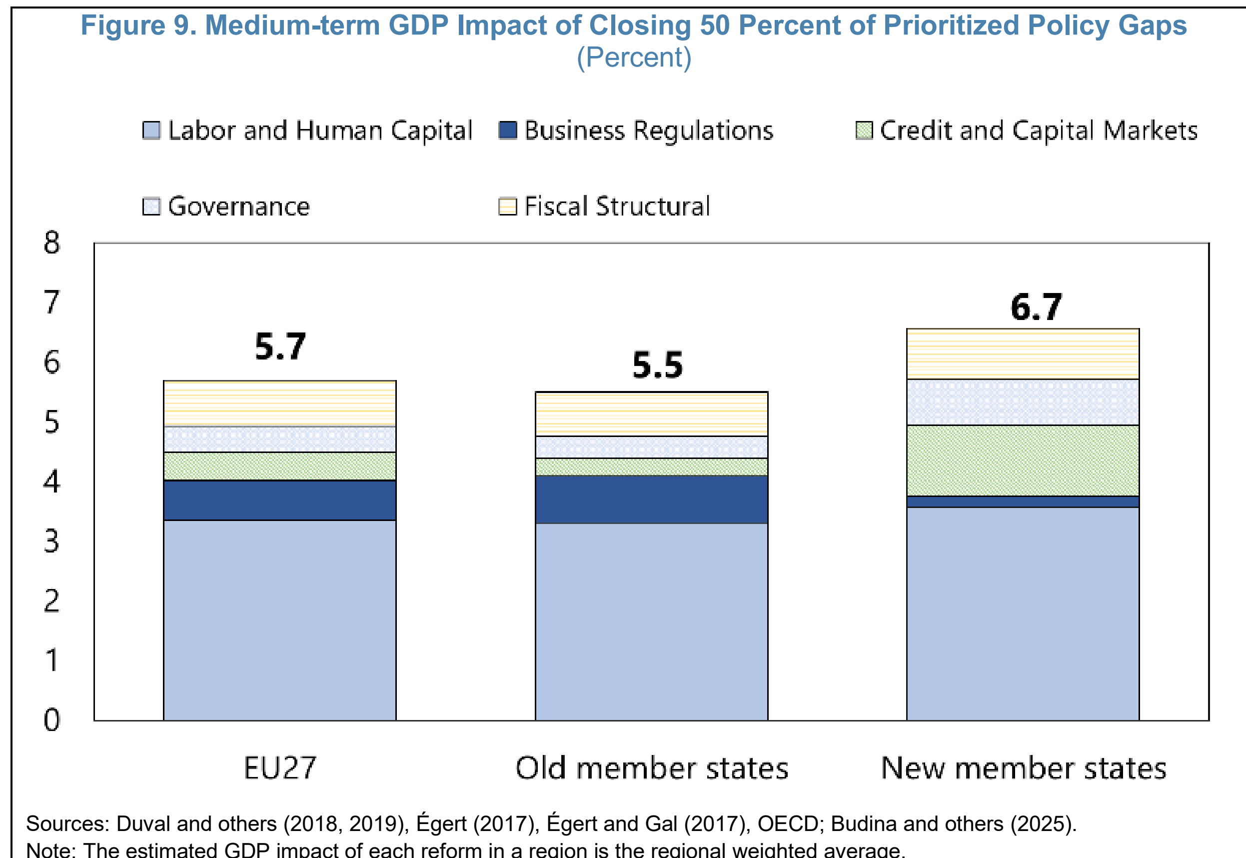
Enhancing governance is important for new MS, while some EU countries also have priorities in other areas, notably energy. About half of new MS have a priority on strengthening governance, tackling corruption, improving the judiciary system, and increasing policy predictability to reduce uncertainty on investment. Seven countries also have priorities in other areas, with a majority in energy such as scaling up grid networks and phasing out energy subsidies.

Potential gains from reforms are sizeable. Potential growth dividends from implementing the top-5 reform priorities in each EU country are large, even more so for lower-income-per-capita MS. Using a stylized quantification framework based mostly on existing IMF and OECD studies, IMF staff simulate an ambitious scenario in which countries close 50 percent of their prioritized policy gaps with respect to the most growth-friendly regulatory settings (the "policy frontier"). Bearing in mind potential sources of both underestimation and overestimation,[3] the analysis suggests that closing half of the gap to the frontier in the respective priority areas could yield significant gains of around 5.7 percent for potential output in medium term for the EU as a whole (Figure 9). This is equivalent to narrowing nearly 20 percent of the EU's income per capita gap with the US. Furthermore, growth gains from reforms would be higher for new MS, mainly due to their larger structural policy gaps. These potential gains from domestic policy levers

[3] See Budina and others (2025) for more details.

are orders of magnitude larger than estimates of the negative short-term impact for Europe from the recent rise in global trade fragmentation.[4]

Figure 9. Medium-term GDP Impact of Closing 50 Percent of Prioritized Policy Gaps
(Percent)



Sources: Duval and others (2018, 2019), Égert (2017), Égert and Gal (2017), OECD; Budina and others (2025).
Note: The estimated GDP impact of each reform in a region is the regional weighted average.

IV. Europe can learn from itself

The EU has many countries at or close to the structural policy frontier, providing an opportunity to share and emulate best practices. Based on the indicators in Budina and others (2025), Appendix 1 shows the EU countries that *on average across indicators* have the most growth-friendly policy settings in each structural policy area, and the entire list of EU members with IMF-assessed reform priorities in each area (Appendix 2 spells out the reform priorities by country).[5]

While even top performing EU countries have room to improve, they hold lessons for the entire membership. Table 1 below names the top three EU countries that have the most growth-friendly policy settings in each structural policy area according to the average of available quantitative indicators, and highlight crucial elements among one of these top EU performers in each broad policy area. While instructive, it is also important to keep some of the caveats in mind that qualify any such ranking. In particular, these indicators do not necessarily capture all relevant dimensions of policy settings (e.g., *de jure* vs *de facto* settings), the EU countries shown can in some areas be lagging the global policy frontier, and even top-performing countries generally have room for improvement.

[4] Rising trade restrictions and broader tensions are weighing on growth, but leaving aside other potential sources of fragmentation (such as in finance and technology), short-term losses so far appear small relative to the potential gains from structural reforms. Forecast growth rates for EU were revised down by 0.2 percentage points for both 2025 and 2026 in the April 2025 World Economic Outlook compared to the January 2025 forecast.

[5] In this exercise, labor market and human capital reforms are split into human capital (education, skill-building), labor market participation (including issues related to tax wedge) and labor market flexibility reforms.

Table 1. Frontier Countries and Reform Priorities Across EU Countries

Structural policy area	Top 3 EU performers	Example
Human capital	Estonia, Finland, Germany	Finland scores highly on the UNDP human capital index. In addition to high-quality formal education, Finland has built world-leading education systems by systematically aligning vocational training and lifelong learning to evolving labor market demand. Its upper-secondary vocational education and training is popular and widely open to both youth and adults. Lifelong learning is pervasive: about two-thirds of Finnish adults engage annually in formal or non-formal training (OECD, 2020). In 2020 Finland launched a "Continuous Learning Reform" with multiple measures to help working-age adults reskill for evolving job demands (Eurydice, 2024).
Labor force participation	Estonia, Netherlands, Sweden	Sweden boasts one of the highest labor force participation rates in the EU, particularly among women and older individuals. This strong performance is underpinned by substantial investment in publicly provided and subsidized services to support working families, such as childcare, preschool, and eldercare (Kleven, 2014). Notably, Sweden's publicly funded parental leave and heavily subsidized daycare—the "earner-care" model—encourages both men and women share earnings and caregiving responsibilities (Mogstad and others., 2025). Other tax and labor market policies also promote labor force participation, such as individual taxation, earned income tax credits, a pension system that incentivizes delayed retirement (Gottfries, 2018; Forslund, 2019) and lifelong learning and upskilling programs.
Labor market flexibility	Denmark, Ireland, Luxembourg	The Danish labor market model, known as "flexicurity," combines flexibility for employers and security for employees. It has three core elements: (i) employers can hire and fire flexibly, with minimal legal barriers and low costs for dismissals; (ii) employees receive generous unemployment insurance upon job loss, and (iii) the government provides extensive active labor market programs for the unemployed, such as job-search assistance, work practice, and retraining, tied to benefit eligibility. This model has proven effective in fostering an agile labor market responsive to changing labor demand, while maintaining income security.
Credit and capital markets	France, Italy, Sweden	Sweden's equity markets are among the most developed and growth-oriented in the EU, underpinned by decades of reforms. Key drivers of this success include pension reforms, notably the introduction of individual investment accounts —which allow citizens to directly allocate a portion of their pension savings into private funds—has supported a steady flow of long-term capital into the markets. tax simplification, and the introduction of accessible savings vehicles—such as the tax-advantaged Investment Savings Accounts (ISK)—which, along with digital investment platforms, have broadened retail investor participation and entrenched long-term saving habits among households (CEPS, 2025; Arampatzi and others, 2025; Kaskarelis and others, 2025).
Business regulation	Estonia, Finland, Ireland	Ireland has, among EU members, the highest composite average of six business indicators comprising regulatory burden, bureaucracy costs, administrative burdens, impartial public administration, distortion of business environment and barriers to entry in service and network sectors. Ireland's 2004 landmark "Regulating Better" framework established core business regulation principles (necessity, proportionality, consistency, effectiveness, transparency, and accountability) and emphasized that regulatory intervention should occur only when clearly justified (Department of the Taoiseach, 2004). The introduction of Regulatory Impact Analysis (RIA) also marked a significant step forward as it required a systematic assessment of costs and benefits of all proposed regulations (OECD, 2010).

Innovation and digitalization	Austria, France, Netherlands	The Netherlands fosters a strong environment for technological innovation and digital transformation and ranks among Europe's top performers in internet access and digitalization (IMF, 2024d). Strong collaboration between stakeholders create a cooperative environment where the private sector typically leads in developing technologies, with municipalities acting as key promoters and supporters (OECD, 2025a). For example, Brainport-Eindhoven, known for its renowned deep tech ecosystem, and the region's collaborative framework (among local government, educational institutions, and industries as equal partners) is essential for maintaining its leading status (IMF, 2025c).
Fiscal structural	Denmark, Netherlands, Sweden	Denmark adheres stringently to a national budget law that limits structural deficits, sets multi-year spending ceilings, and restricts borrowing at the local government levels. A key strength of Denmark's fiscal structure lies in its forward-looking planning and a pension system in which retirement ages adjust in line with life expectancy. Denmark's Economic Council (i.e., fiscal council) is also widely respected for its credibility and effectiveness in delivering impartial advice that reinforces fiscal discipline and policy coherence.
Governance	Denmark, Finland, Luxembourg	Finland is recognized for its well-established institutions supporting strong governance. The rule of law is supported by an independent judiciary, a perceived absence of corruption, and widespread access to justice (European Commission, 2025). Transparency is supported by a commitment to digital public services for businesses and citizens (European Commission, 2024) and Finland's public administration is viewed as merit-based and efficient. Regulatory quality is high, ranking eighth globally in the World Bank's Regulatory Quality Index – with a commitment to and track record of evidence-based policymaking, strong frameworks for regulatory impact assessments, and stakeholder engagement (OECD, 2025b).

The EU offers excellent examples of countries near the policy frontier with settings others can aspire to, but these examples do not necessarily convey how the outcomes were achieved. The following section focuses on successful reform examples—key to helping others replicate their success.

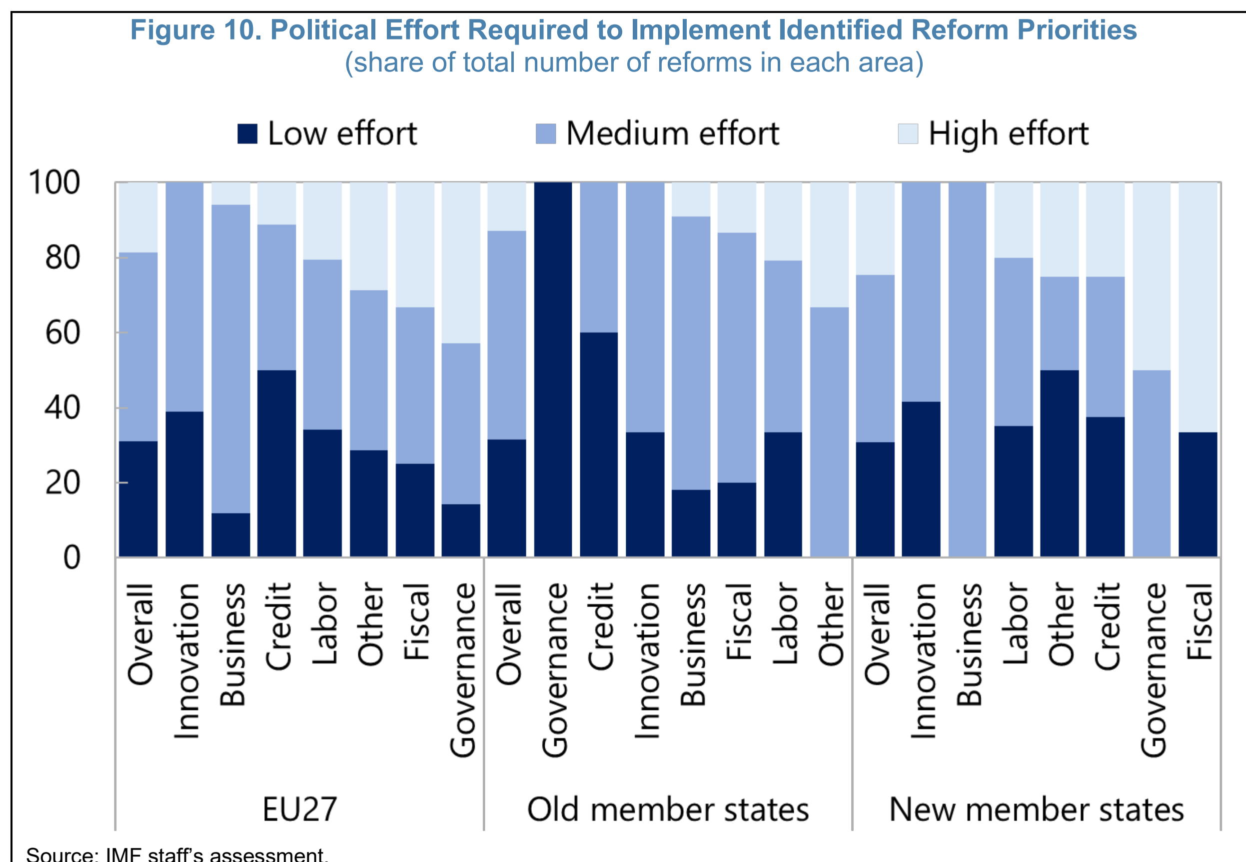
V. How to make reforms happen again

Reforms are harder to implement outside of crisis periods, which were a key trigger in the past including most recently during the euro area crisis. Overcoming deeply-entrenched obstacles to the implementation of identified priorities will require significant political leadership and carefully designed strategies. Effective leadership should leverage a few key elements that can significantly help smooth the path to reform. These elements include early communication to stress the need for reform and correct any misperceptions, strong institutional setups that feed public debates through impartial analysis, carefully crafting the sequencing and bundling of reforms to maximize economic benefits and minimize political resistance, leveraging fiscal policy, and emulating successful regional peers.

Communication, institutional setups, and consensus building

Successful reform experiences highlight the critical role of strong institutional setups and effective communication. Communication and institutional setups that foster trust and dialogue among stakeholders from the early stages of policy design raise awareness of the need for reform and correct misinformation and misperceptions about policies (IMF 2024b, 2025a). These efforts ultimately build consensus in successful reform cases.

Figure 10. Political Effort Required to Implement Identified Reform Priorities
(share of total number of reforms in each area)



Source: IMF staff's assessment.

- **Having well-defined reform objectives and communicating them clearly**—along with spelling out the consequences of inaction—is key for success (Tompson and others, 2010). For example, the reform of disability insurance in the Netherlands (2002–06) communicated reform objectives through public reports that underscored both the unsustainable cost of non-reform and targets. Poland's 1999 pension reform is another illustration, as policymakers systematically presented

demographic and financial projections highlighting the severe fiscal consequences of inaction, while conducting an extensive public awareness campaign through media and local outreach, thus building broad consensus. Strategic framing of reforms, e.g., presenting retirement-age reforms to sustain benefit levels, can also help (IMF, 2025a).

- **Platforms for two-way social dialogue** among stakeholders also facilitate reform acceptance and adoption. Strong social partnership arrangements, including active roles for unions and employers, significantly helped with adoption and implementation of the Hartz reforms in Germany (Tompson and others, 2010), labor market reforms in the Netherlands (Banerjee and others, 2017), and labor and product market reforms in other EU countries during the 1990s and early 2000s (Adhikari and others, 2018). In Denmark, continuous dialogue and tripartite negotiations involving workers, employers, and the government have been a long-standing practice in the labor market area, which helped build and refine the country's successful "flexicurity" system (IMF, 2024b). Two-way dialogue can be deployed through various means (IMF, 2024b), including large-scale surveys, scenario planning, participatory budgeting, and laboratories to evaluate policies through focus groups and pilots (such as the Avalua·lab in Valencia), and open town hall meetings (such as the Grand débat national organized in response to the Yellow Vest movement in France, IMF, 2024c).
- **Independent institutions**, such as the Netherlands Bureau for Economic Policy Analysis (CPB) , also played a role in supporting structural reforms—underscoring the importance of trust in both the message and the messenger (IMF, 2024c). These institutions provided impartial economic analyses, contributing to informed policy debates and enhancing the transparency and credibility of reform proposals. By delivering objective *ex-ante* evaluations of policy impacts, they fostered an evidence-based approach to policymaking that facilitated consensus-building among diverse stakeholders, thereby reducing political resistance (Tompson and others, 2010).

Bundling, sequencing, and timing

Careful reform bundling, sequencing, and timing will facilitate implementation and maximize impact.

- Across the EU, **combining different reforms into packages** that deliver net gains for a broader range of stakeholders can aid implementation. To illustrate, the Hartz reforms in Germany (2003–2005) did not just cut unemployment benefits—they also restructured the Federal Employment Agency and introduced active labor market policies (job-search assistance, training, hiring subsidies, and wage subsidies) that helped the unemployed find jobs (IMF, 2025a). These complementary measures helped offset the immediate hardship of benefit cuts with tangible opportunities for the unemployed, which mitigated opposition to reform. Exploiting the economic and political synergies between product and labor market reforms also contributed to the success of major reform packages in AEs in the 1990s, such as those in Ireland and the Netherlands (Adhikari and others, 2018).
- The **sequencing** of reforms also matters, both economically and politically. On the economic front, governance reforms that build capacity, strengthen public trust and level the playing field between incumbent and younger firms create an enabling environment and amplify the gains from further reforms in other areas, such as cutting barriers to entry in product markets (IMF, 2019). For example, improvements in governance since the 1990s have been important in increasing the impact from other reforms in Estonia and Latvia. By amplifying the gains from other reforms, key enabling measures such as strengthening governance also enhance public support for reform, and thereby the chances that efforts be sustained over time rather than eventually be stalled or even rolled back. By contrast, pursuing major pension and labor market reforms jointly could backfire politically as their combination imposes significant burden on workers, making them hard to sustain; if possible, such reforms should be sequenced rather than combined (Tompson and others, 2010).
- In terms of **timing**, while crises create political impetus for reforms, reforms' acceptability and sustainability may be higher if implemented during periods of strong macroeconomic conditions—as with Germany's increase in the retirement age. When implemented in good times, reforms

such as easing employment protection legislation for regular workers also yield larger employment and output gains, improving public support for them (Duval and others, 2020).

The role of national and EU fiscal policies

Various rationales support a reform-facilitating role for fiscal policies, both at the national and EU levels. Many structural reforms do not carry direct fiscal costs, but they can create resistance by creating winners and losers across different sectors and income segments. Fiscal policy can then support reform implementation by compensating losers and providing broader financial support to households and firms.[6] Fiscal policy support can also amplify the gains from certain reforms, such as easing employment protection legislation for regular workers, thereby also facilitating their adoption (Duval and Furceri, 2018).

- **National fiscal policies can help overcome implementation challenges**. Fiscal support works best when it is temporary, targeted, and tied to credible reform packages, with safeguards against permanent fiscal drift—especially in countries with limited fiscal space to respond to future shocks. In those well-defined cases, fiscal policy can help buy out economic rents, compensate losers more broadly, and bring forward the output gains from reforms (e.g., job protection deregulation) that could otherwise entail short-term losses. In this vein, labor market reforms implemented in Finland, Germany, Ireland, and the Netherlands in the 1990s and 2000s were supported by fiscal “sweeteners” to gain acceptance (Technical Appendix 2 in Banerji and others, 2017). Examples include cuts in personal income tax rates, with a special focus on reducing the tax burden for low-income households (all cases) and introducing progressively higher income tax thresholds to benefit the poor (Finland, Germany, Ireland). Some countries used expanded ALMPs to help low-skilled workers, the young and the long-term unemployed find jobs (Finland, Germany, the Netherlands). Compensating the affected parties was equally instrumental to get buy-in for product market reforms. In Ireland, pension debts were written off and employees were granted share options to facilitate privatization of state-owned enterprises, and taxi drivers were provided with tax relief (writing off the value of their licenses against taxes after liberalization) as entry barriers were removed.
- **The new EU economic governance framework can provide fiscal room to implement high-quality reforms.** The reformed Stability and Growth Pact encourages growth-enhancing reforms while promoting sustainable public finances by allowing an extension of adjustment periods from 4 to 7 years for countries committing to structural reforms and investments. When conditional on the adoption of credible, growth-enhancing structural reforms that entail a transitory fiscal cost, this flexibility can help provide the necessary fiscal space and facilitate reform adoption.
- **The EU’s Multiannual Financial Framework (MFF) can also play a key role in supporting reforms that generate EU-wide benefits through cross-border spillovers**.[7] Reforms in one member state can boost growth in others–a positive cross-border externality that reforming countries may not internalize. This makes MFF performance-based support for multiple coordinated national reforms socially optimal, and such an approach can build on the experience with the Recovery and Resilience Facility (RFF). Examples where the RFF prompted significant reforms included labor market and education reforms (dual vocational training and social assistance in Spain, “GOL” program for guaranteed employability of workers in Italy, vocational education and training reform in Greece) as well as justice system reforms (in Italy over 2021-23), among others.

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[6] The discussion in this subsection covers only the normative case for the use of discretionary fiscal policy as a complement to structural reform. From a positive (descriptive) point of view, the prioritized structural reforms for each country are meant to be, in principle, budget neutral. In practice, some of the identified reforms may still entail fiscal costs (e.g., education reforms) and second-order fiscal multiplier effects (arising from differences in multipliers between the tax and spending items involved in a budget-neutral fiscal reform package, for example).

[7] See Busse and others (2025) for a further discussion on EU’s Multiannual Financial Framework.

VI. A coordinated push with complementary EU-level reforms

A coordinated push on both national and EU-level fronts is critical to exploit reforms synergies and maximize the growth impact of both agendas.[8] In most areas, there exist complementarities between national and EU-level efforts, either because failure to implement reform at one (domestic or EU) level can blunt the impact of reforms pursued at the other level, or because the positive impact of both sets of reforms is magnified when they pursued jointly.[9] EU-level reforms (e.g., advancing the capital markets union) can magnify the benefits from certain domestic efforts (e.g., to deepen firms' access to venture capital). Conversely, domestic reforms (e.g., cutting barriers to entry in services) can amplify—or even unlock in the first place—gains from EU-level reforms (e.g., cutting cross-country barriers to trade in goods and services). For example, getting rid of "gold plating", in which national governments add extra requirements when transposing EU directives under concerns of protecting domestic firms, is crucial for single market integration. Similarly, domestic reforms to reduce within-country barriers to labor mobility (e.g., unifying domestic pension systems, or reducing domestic barriers to entry—licenses, specific qualification requirements—in professional services) will strengthen EU-level efforts to improve EU-wide labor mobility (e.g., through pension portability or mutual recognition of qualifications).

[8] See Arnold and others, 2025, for a discussion of the macroeconomic impact of key EU-level reforms.

[9] For example, Cresciolli (2024) finds that the effectiveness of European directives in reducing firm-level market power increased with the extent of preceding domestic pro-competition reforms.

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Appendix 1. Frontier Countries and Reform Priorities Across EU Countries

	Labor and human capital			Credit and capital markets	Business regulation	Innovation	Fiscal structural	Governance
	Human capital	Labor force participation	EPL					
EU countries at the frontier or closest to the frontier								
Top 1								
Top 2								
Top 3								
EU countries with a reform priority in a given area								
Old member states								
		AUT		AUT	AUT		AUT	
	BEL		BEL	BEL			BEL	
		DEU		DEU	DEU		DEU	
	DNK	DNK			DNK	DNK		
	ESP		ESP	ESP	ESP	ESP		
	FIN	FIN		FIN	FIN			
	FRA	FRA		FRA	FRA		FRA	
	GRC	GRC		GRC	GRC			
	IRL			IRL			IRL	
	ITA				ITA	ITA	ITA	ITA
		LUX			LUX	LUX	LUX	
	NLD			NLD		NLD	NLD	
			PRT	PRT	PRT		PRT	
	SWE	SWE			SWE	SWE		
New member states								
	BGR	BGR					BGR	BGR
	CYP				CYP			CYP
	CZE			CZE	CZE	CZE	CZE	
	EST	EST		EST		EST		
		HRV			HRV	HRV	HRV	
		HUN			HUN	HUN	HUN	HUN
	LTU			LTU		LTU	LTU	
	LVA			LVA	LVA	LVA	LVA	
	MLT			MLT		MLT	MLT	
	POL	POL		POL		POL	POL	
		ROU		ROU			ROU	ROU
	SVK	SVK				SVK		SVK
		SVN	SVN	SVN	SVN	SVN		

Source: OECD, IMF, Budina and others (2025).

Appendix 2. National Reform Priorities by EU Member[10]

List of Top 5 Reform Priorities for EU27 Identified by IMF Teams – Old Member States

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Austria	Expand the labor force by facilitating full-time employment for women including by improving access to childcare.	Pursue growth-friendly fiscal adjustment.	Ease barriers to entry in the service sector. Ease permitting process for new energy projects.		Develop risk capital financing to support innovation.		
Belgium	Labor market reforms to incentivize workforce entry, reduce hiring costs, and upskill workers. Education reforms to achieve equitable educational outcomes, reduce costs, and better align curricula with labor market needs.	Tax reforms, aim at shifting part of the tax burden from labor to capital, to support employment. Pension reform to address the fiscal cost of aging.			Develop risk- capital financing within an EU-wide saving and investment union to support innovation.		
Germany	Expand the labor force, by facilitating full-time employment for women including by improving access to childcare.	Increase public infrastructure investment. Reduce distortionary tax effects.	Reduce regulatory burden and bureaucracy costs by accelerating permitting and licensing procedures and reducing duplicative reporting requirements.		Develop risk capital financing to support innovation.		

[10] As of September 2025.

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Denmark	Align the foreign worker recruitment schemes, [especially the salary requirement limit and the positive list], with labor market needs. Enhance vocational training and training.		Reduce regulatory burden and bureaucracy costs.	Accelerate the adoption of AI in the public sector. Continue to strengthen policy frameworks to support scale-ups.			
Spain	Reduce skill mismatches. Streamline dismissal procedures for regular contracts.		Reduce regulatory burden and bureaucracy costs, including inter-regional trade barriers and regulatory heterogeneity.	University reform to foster innovation and R&D.	Facilitate access to financing for innovation.		
Finland	Reduce labor tax wedge. Increase tertiary education participation. Reduce youth unemployment by streamlining the benefit system and removing disincentives to work.		Reduce barriers to entry in network and service sectors.		Improve access to risk capital for startups.		
France	Pension and unemployment benefits reforms. Education and training reforms to promote job quality and facilitate the green and digital transitions.	Increase spending efficiency, including rationalizing state aid and R&D tax expenditures.	Ease entry barriers and reduce regulatory burden.		Enhance access to capital and its efficient allocation, including by advancing the EU Savings and Investment Union.		

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Greece	Expand the labor force through higher participation rate. Reduce skill mismatches.		Reduce regulatory burden and bureaucracy costs.		Advancing judicial system reforms to address crisis legacy distressed private debt.		Scaling up grid network and storage.
Ireland	Reduce labor shortages and skill mismatches by facilitating upskilling and reskilling, and increasing internal and international labor mobility, including through improving housing affordability.	Improve infrastructure. Tax reform to rebalance the tax mix.			Develop the domestic capital market to improve access to finance of domestic firms.		Increase housing supply.
Italy	Improve educational outcomes and increase the number of STEM graduates.	Tax reform to close revenue administration loopholes and increase compliance to support lower tax rates.	Promote competition.	Modernize and digitalize public administration.		Raise efficiency of the judiciary system.	
Luxembourg	Support labor market participation and reallocation across sectors and reduce skill mismatches.	Pension reform to address the fiscal cost of aging. Tax reform to enhance the distributional role of fiscal policy.	Reduce regulatory burden and bureaucracy costs, and facilitate entry and exits of companies from the market.	Reform to foster innovation and R&D such as strengthening intangible assets investment and digital infrastructure.			

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Netherlands	Labor and human capital reforms to improve educational outcomes and vocational training, reduce labor market duality, encourage part-time workers to work longer hours, and better integrate migrants.	Growth-enhancing tax reforms; (i) capital taxation reform, and (ii) further streamlining inefficient and ineffective tax expenditures.		Increase productivity-enhancing investment by (i) advancing digitalization, particularly in SMEs, (ii) encouraging R&D, and (iii) fostering investments with large spillovers.	Better support firm growth from start-ups to scale-ups and beyond by facilitating access to financing for innovation.		Address critical growth bottlenecks by developing a legally robust strategy to reduce nitrogen depositions and accelerating plans to address electricity grid congestion.
Portugal	Ease employment protection legislation for permanent job contracts.	Reducing tax expenditure and simplifying the tax system. Reducing progressivity of the corporate income tax to promote corporate growth.	Reduce regulatory burden and bureaucracy costs.		Facilitate access to financing for innovation.		
Sweden	Reduce skill mismatches. Reduce labor tax wedge. Education reforms.		Reduce business regulation.	Review R&D tax incentive and direct government funding.			

List of Top 5 Reform Priorities for EU27 Identified by IMF Teams – New Member States

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Bulgaria	Implement reforms to improve education outcomes including digital skills. Boost labor market policies to stem the decline in labor force.	Reform tax system to raise more domestic revenue. Scale up quality public investment in physical and digital infrastructure.				Strengthen the governance framework and mitigate corruption risks.	
Cyprus	Education oriented towards e-skills and more STEM graduates to resolve skill mismatches.		Adopt policies to reduce administrative burden on businesses, digitalize government systems and streamline business regulation.			Judiciary system reform to simplify court procedures, upgrade courts infrastructure, and increase digitalization and staffing. Strengthen out-of-court debt restructuring and insolvency mechanisms.	Integrate electricity network with the rest of the EU, increase share of LNG and renewable energy sources and make the energy market more competitive.
Czech Republic	More targeted active labor market policies to facilitate labor reallocation towards higher value-added sectors and firms, as well as to upskill and reskill labor.	Pension and healthcare reforms.	Reduce administrative and red tape, especially among local municipalities, and expediting spatial planning and construction permit processes.	Harmonize IT systems in public administration, upgrading online e-gov services to businesses, and expanding digital infrastructures.	Develop venture capital investment and equity financing.		
Estonia	More active labor market policies to support labor reallocation. Facilitate the integration of foreign labor.			Increase government support to innovation, R&D, and digitalization in the private sector, through both tax incentives and direct public funding.	Facilitate access to financing for innovation.		Speed up the green transition.

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Croatia	Foster higher labor participation and reduce skill mismatches.	SOE reforms. Improve public investment management.	Reducing regulatory barriers to facilitate firm entry and exit.		Facilitate access to financing for innovation.		
Hungary	Labor market reforms, including ease occupational licensing rigidities and promote labor mobility.	Remove distortionary energy subsidies as well as personal and corporate income tax exemptions and improve spending efficiency.	Reduce regulatory burdens to promote competition and firm-level productivity.	Adopt policies and improve existing state R&D measures to expand access to risk-based capital for young, innovative firms and accelerate innovation diffusion.		Reforms to strengthen governance.	
Lithuania	Education reform to address skill mismatches.	Implement revenue mobilization measures to restore long term debt sustainability.		Consolidating research institutions, simplifying access to public R&I support and incentivizing business R&I investment.	Develop the domestic capital market to improve access to finance of domestic firms.		Rationalize the health care system and improve services provision.
Latvia	Utilize targeted active labor market policies to boost skilled labor and alleviate labor market shortages.	Adopt reforms to improve pension adequacy.	Reduce business regulation.	Accelerate digital transformation and increase R&D investment.	Expand venture capital and equity financing.		
Malta	Strengthen educational outcomes, especially by better aligning curricula with business needs.	Phase out energy subsidies (fuel and electricity.)		Review tax incentives for innovation.	Enhance financing for start-ups and innovative SMEs.		Promote sustainable and high-quality tourism.

Country	Labor and human capital	Fiscal structural	Business regulations	Innovation, Digitalization, R&D	Credit and capital market	Governance	Other
Poland	Strengthen vocational training and skill-matching. Provide adequate child and elderly care to support female labor participation.	Equalize the retirement age for men and women and then adjusting it over time in line with life expectancy.		Invest in digitalization and ICT infrastructure.	Deepen the capital market via further development of third pillar pension funds and increased household access to low cost, diversified investment products.		
Romania	Increase female labor participation.	Further improve transportation infrastructure to unlock the entire country for FDI. Strengthen the governance of SOEs (e.g. SOEs' board members selection and SOEs' accountability.)			Unlock effective access to finance for SMEs.	Improve the predictability of fiscal policy, to limit the serious adverse impact of policy uncertainty on investment.	
Slovakia	Increase the size and quality of the labor force, including by expanding vocational education, shortening the maximum parental leave, increasing options for flexible work, limiting options for early retirement, and further integrating migrants. Strengthen active labor market policies.			Reforms to foster innovation and R&D. Promote digitalization in both public and private sector.		Maintaining a favorable investment climate, strengthening governance, and reducing vulnerability to corruption	
Slovenia	Reduce the labor tax wedge in the context of a comprehensive tax reform. Ease of hiring foreign labor.		Reduce regulatory burden and bureaucracy costs.	Promote digitalization in both public and private sector.	Improve availability of venture capital and promote financial deepening.		