

# FISCAL ADJUSTMENTS DURING CRISES

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The experience of the sovereign debt crisis and beyond

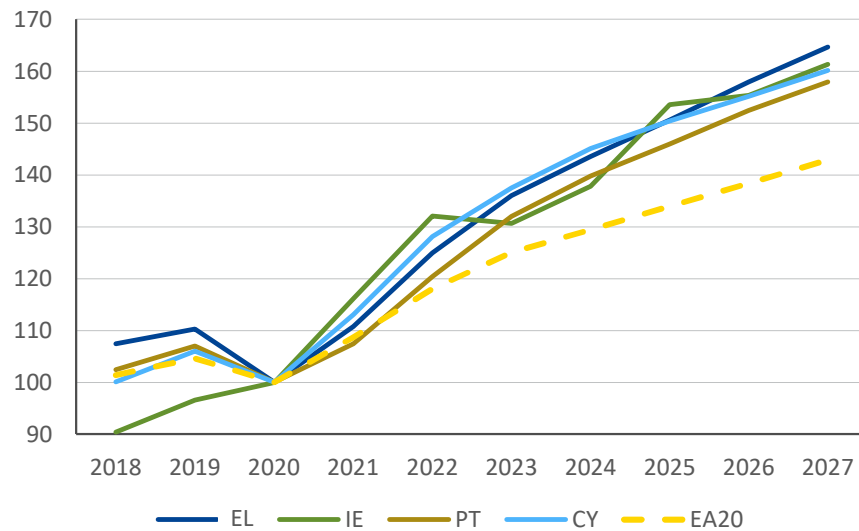
Rolf Strauch, ESM Chief Economist and Management Board Member

Finnish Parliamentary Working Group on Fiscal Policy, 3 December 2025



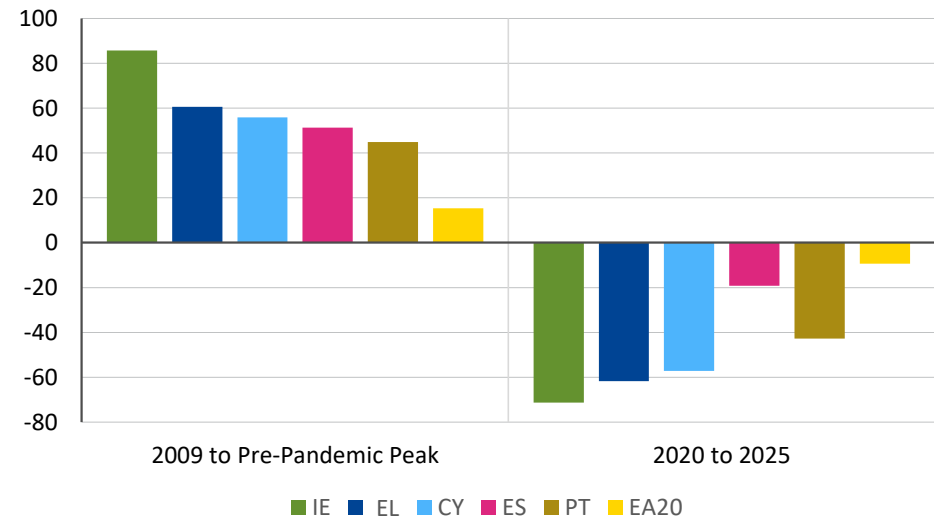
# FROM CRISIS TO RESILIENCE: BENEFICIARY MEMBER STATES TODAY

## Real economic output per capita (2020=100)



Sources: AMECO, Central Statistics Office of Ireland, Debt Sustainability Monitor 2024

## Change in Debt-to-GDP: beneficiary member states (BMSs) Percent of GDP

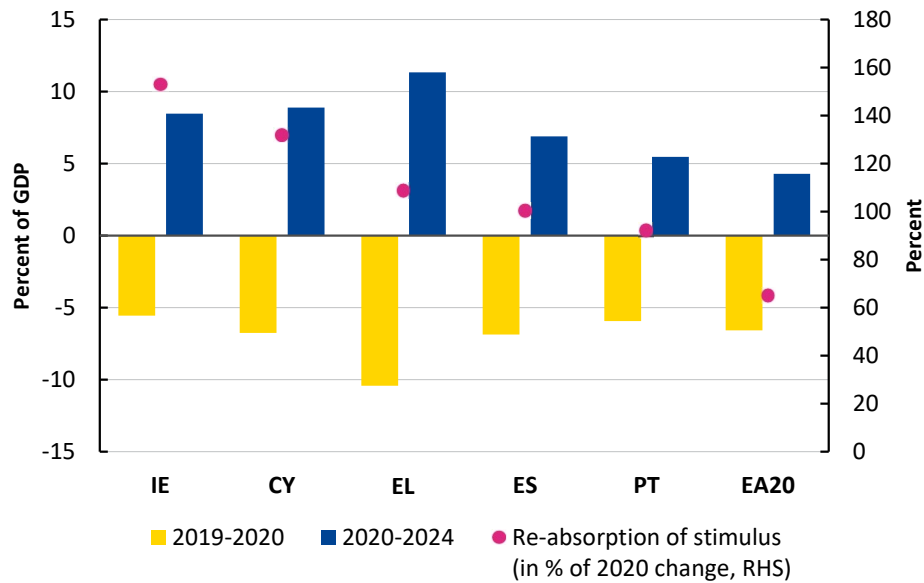


Sources: AMECO; Central Statistics Office of Ireland

Notes: The pre-pandemic peak of Debt-to-GDP was in 2014 for Spain, Portugal, Cyprus and the Euro area; in 2019 for Greece; and in 2012 for Ireland. AMECO data is used to calculate the Debt-to-GDP. In the case of Ireland, Debt-to-Modified GNI is used, which is available till 2024

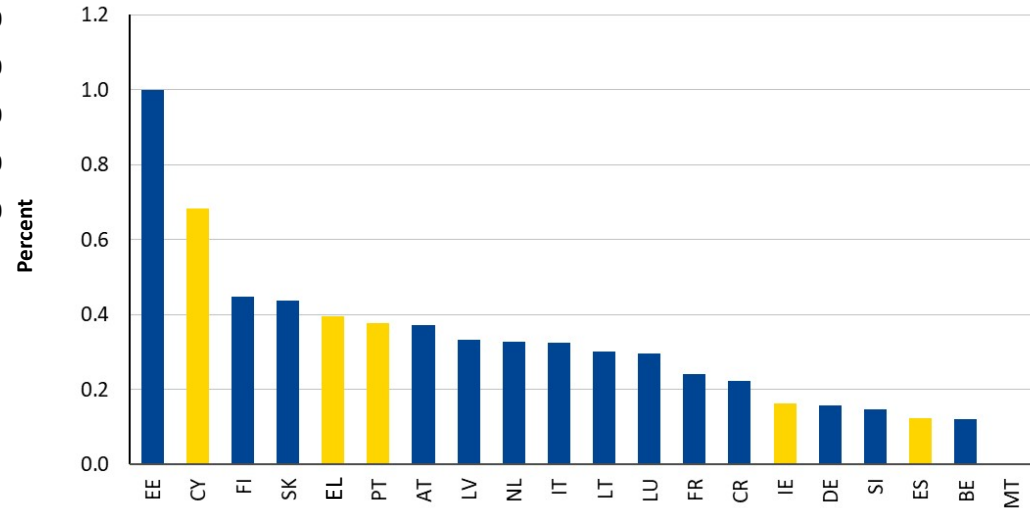
# FISCAL POLICY IN THE 2020S: MORE TEMPORARY AND TARGETED

**Primary balance 2020-2024**  
(percent of GDP)



Source: Eurostat and ESM staff calculations

**Household support measures 2022-2023**  
(share of targeted measures over total)



Source: IMF (2022), "Targeted, Implementable, and Practical Energy Relief Measures for Households in Europe", WP/22/262 and ESM staff calculations

## FOCUS ON HOW TO ADJUST, NOT JUST HOW MUCH

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- 1** Recognise new environment
- 2** Raise efficiency with Public Financial Management (PFM) and digitalisation
- 3** Make budgets more agile
- 4** Prioritise growth-enhancing spending
- 5** Broaden tax bases, reduce distortions

## FOCUS ON HOW TO ADJUST, NOT JUST HOW MUCH

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### Broad awareness of a new economic environment

#### *BMSs:*

- Recognition that the post-global financial crisis world required a different fiscal and tax framework
- Early re-assessment of fiscal risks and spending rigidities

#### *Parallel today:*

- Europe must adapt to a new security, trade, and industrial landscape (Ukraine, US policy shifts)

## FOCUS ON HOW TO ADJUST, NOT JUST HOW MUCH

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### Broad awareness of a new economic environment

Public-service reforms and better PFM systems (*Portugal, Greece*)

Spending reviews and digitalisation of procedures (*Ireland, Cyprus*)

Reduced administrative and compliance costs → stronger growth with limited fiscal drag

## FOCUS ON HOW TO ADJUST, NOT JUST HOW MUCH

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### More agile budgets through reduced rigidities

Rebalancing towards flexible spending, limiting entitlement-driven or automatic items

Strengthening medium-term frameworks and fiscal councils to create space for reprioritisation

**Spending composition and agility enhance resilience to shocks** (*European Stability Mechanism 2024*)

## FOCUS ON HOW TO ADJUST, NOT JUST HOW MUCH

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### Effective spending prioritisation

Protect high-return investment (education, R&D, digital, infrastructure)

Target low-efficiency subsidies and recurrent spending instead of blanket cuts

Better procurement and debt-management reforms to free fiscal space

Result: debt falls **without** undermining long-run growth



# EFFICIENCY AND AGILITY: PENSION SPENDING

## Portugal – raising retirement age and automatic life-expectancy link

**Programme:** EU/IMF Economic Adjustment Programme (2011–14)

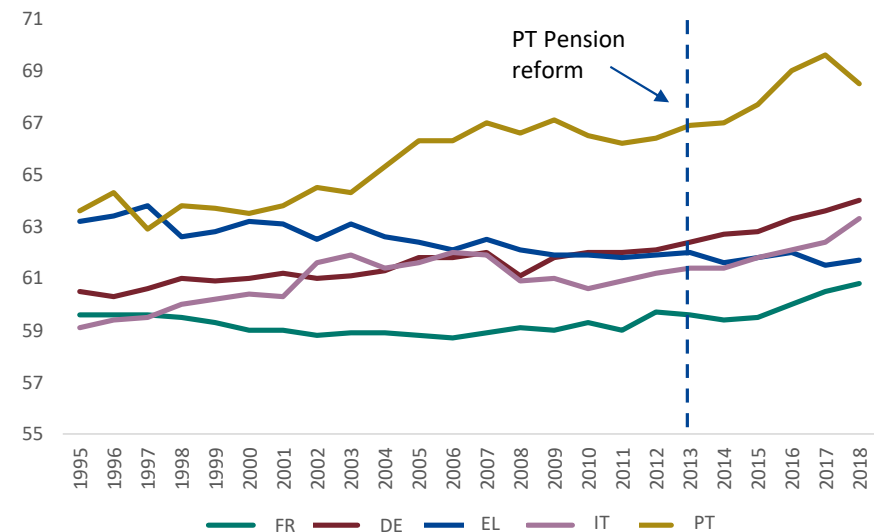
### Key measures:

- **Increase statutory retirement age to 66**
- **Introduce an automatic link to life expectancy for the statutory retirement age**
- Tighten access to early retirement and adjust benefit formulas to improve sustainability

Classic example of parametric pension reform with very large long-term savings and limited immediate hit to demand.

The Memorandum of Understanding (MoU) explicitly frames this as a measure to ensure long-term sustainability of the pension system.

**Average effective retirement age**  
(in years, men)



Source: OECD (2018) - Database on Average Effective Retirement Age

# EFFICIENCY AND AGILITY: PENSION SPENDING

## Greece – comprehensive parametric pension reforms

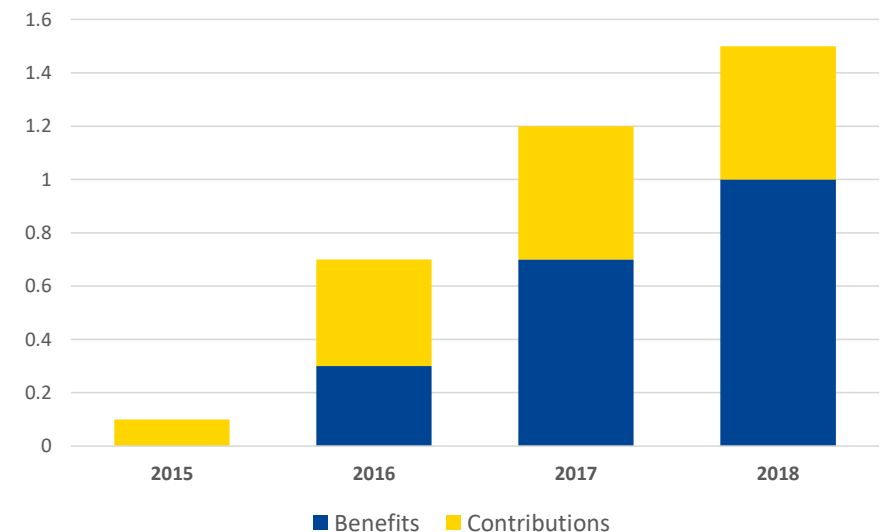
**Programme:** First and Second EU/IMF Economic Adjustment Programmes, later ESM programme

### Key measures:

- **Raise normal retirement age to 65, later to 67, with**
  - equalisation of men's and women's retirement ages
  - indexation of the retirement age to life expectancy
- **Merge fragmented pension funds** into a smaller number of funds and shift to a **notional defined-contribution logic with a sustainability factor adjusting benefits to contributions**
- **Tighten early-retirement pathways** and increase required contributory years for a full pension

Greece illustrates how a very fragmented, generous system can be put on a rule-based, life-expectancy-linked path  
Low-growth-cost measure needed where ageing pressures are high.

## Benefits from the 2015-2017 pension reforms (in percent of GDP)



Source: Kangur, Kalavrezou and Kim (2021), "Reforming the Greek Pension System", WP/21/188  
Note: *Benefits* include tightening early retirement rules; harmonizing the main pension benefit rules, phasing out the solidarity grant, and consolidating the main pension funds. *Contributions* include putting auxiliary, dividend, and lump-sum funds on more sustainable footing and harmonising contribution rules.

# AWARENESS AND EFFICIENCY: INDEPENDENT FISCAL COUNCIL

## Portugal and Greece – establishment of an independent fiscal council as a programme condition

**Programme:** EU/IMF and ESM Economic Adjustment programmes

### Key measures:

- **Fiscal surveillance and monitoring**
- **Macroeconomic and budgetary forecasting**
- Monitoring **compliance with national fiscal rules**
- MoU requirements on **transparency and communication**

Strong and encompassing fiscal council brings awareness and underpin credibility, without needing large immediate cuts. *However*, political traction builds over time.

EGR gives space for a broader scope of fiscal councils (comply-or-explain),

*Independent Fiscal Institutions in the Revised Legal Framework State of Play, European Commission, 2025*

## International Financial Institutions – Changes of roles after the Economic Governance Review (EGR)

Area	Pre-Reform Role	Post-Reform (EGR 2024) Novelties
Macro forecast endorsement	Widespread but inconsistent	Reinforced; tied to MTFSP credibility
Monitoring fiscal rules	Mainly national rules	Explicit monitoring of EU net expenditure path
Assessing plans	Annual budgets	Central role in multi-year fiscal-structural plans
Escape clauses	Optional or limited	Expected to assess NEC justification and implications
Independence standards	Variable	Minimum EU-wide safeguards
Role in EU cycle	Informal	Systematically integrated into Commission assessments

# PRIORITISATION: MEDIUM-TERM EXPENDITURE FRAMEWORK

## Ireland – Medium-Term Expenditure Framework (MTEF) with binding ceilings

**Programme:** EU/IMF Economic Adjustment programme (2010–13)

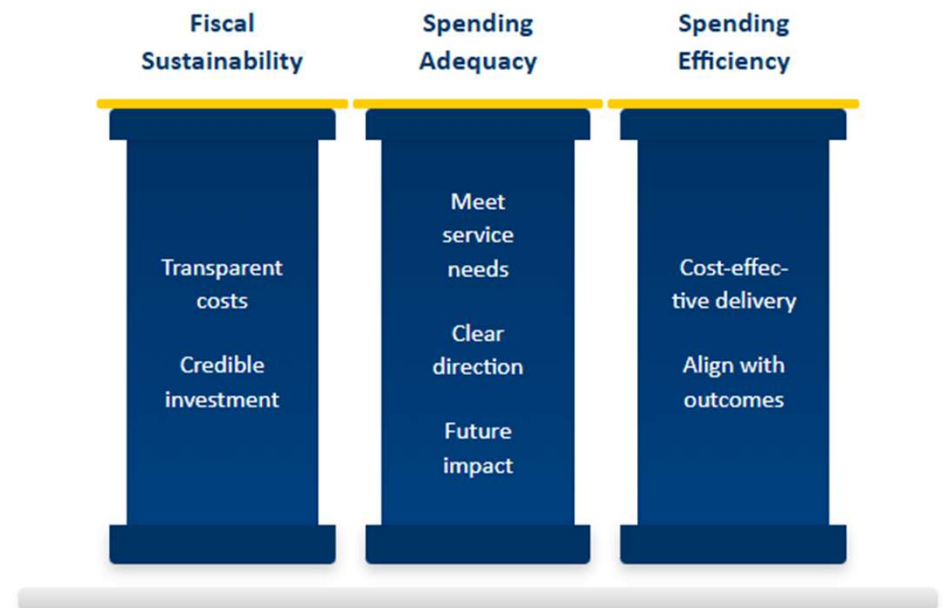
### Key measures:

- **Introduce a MTEF with binding multi-annual expenditure ceilings** consistent with fiscal targets – a specific structural benchmark under the programme
- Move budgetary procedures towards **performance budgeting**, focusing on outputs/outcomes.

During the programme fiscal adjustment was mainly expenditure-based, through public-service efficiency reforms & better targeting of welfare spending.

Today, that revenues are strong, the MTEF creates a transparent anchor for the fiscal council and other institutions to assess policies and hold the government to its commitments.

## The Irish Framework: three core pillars



Source: ESM, based on Department of Finance, 'Medium-term Expenditure Framework', Sept. 2025

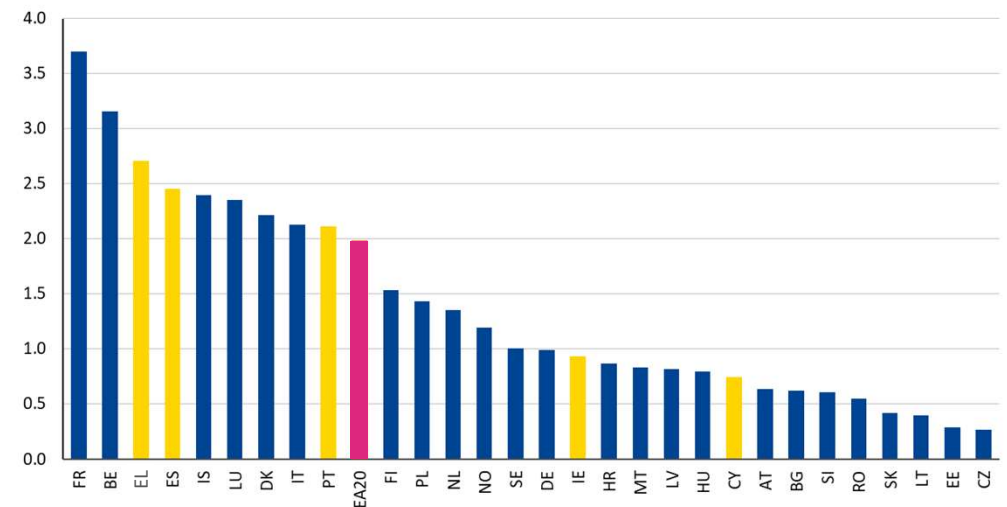
# BROADENING THE TAX BASE – PROPERTY TAX

## All countries, different fiscal outcomes

### Key measures:

- **Greece** – creation of a unified, broad-based property tax (ENFIA) covering almost the entire property stock; high-yield and stable.
- **Portugal** – broadening of municipal property tax (IMI) via valuation updates and elimination of exemptions.
- **Spain** – wider VAT and property-tax bases via reduced exemptions and updated cadastral values.
- **Ireland** – Local Property Tax (LPT); self-assessed and used to finance local authorities. *But with relative low rates and narrow definition (residential only) revenues remain constrained.*
- **Cyprus** – modernised Immovable Property Tax and broader coverage. *But without regular revaluation revenues remain weak*

**Property taxes, 2023**  
(percent of GDP)



Source: European Commission, DG Taxation and Customs Union, based on Eurostat data – Extracted in February 2025

Rebalancing and broadening (e.g. property/environmental bases, rationalising tax expenditures) is growth-friendly.



## CONTACT

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