

FISCAL ADJUSTMENTS DURING CRISES

The experience of the sovereign debt crisis and beyond

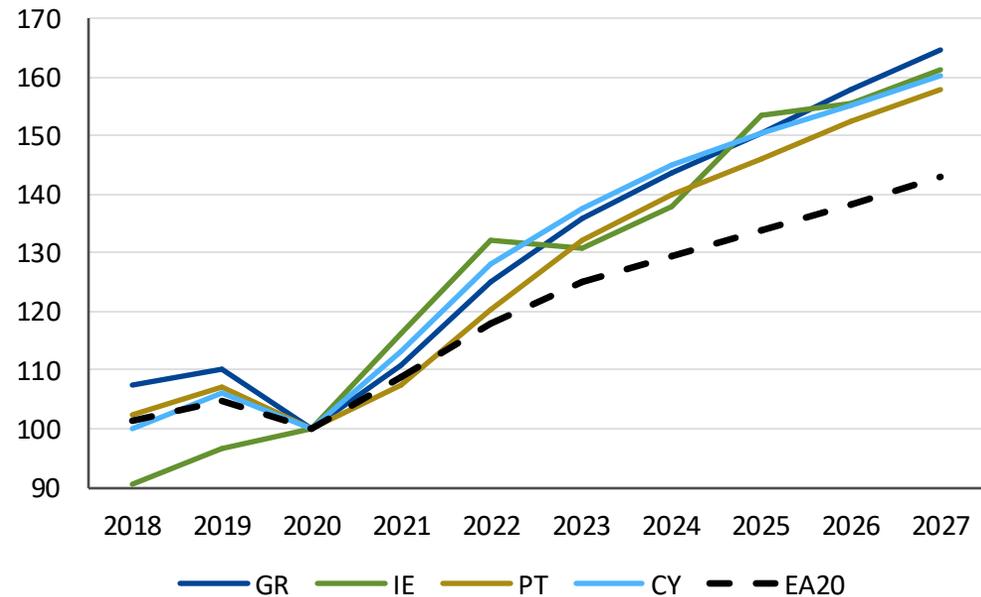
Rolf Strauch – ESM Chief Economist

Finnish Parliamentary Working Group on Fiscal Policy - 3 December 2025



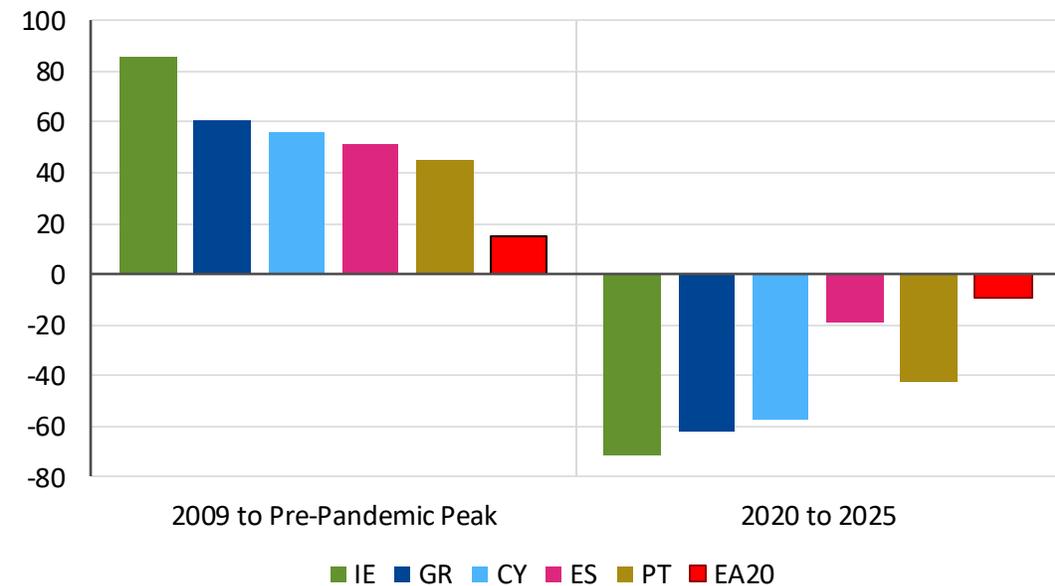
FROM CRISIS TO RESILIENCE: FORMER PROGRAMME COUNTRIES TODAY

Real Economic output per capita (2020=100)



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

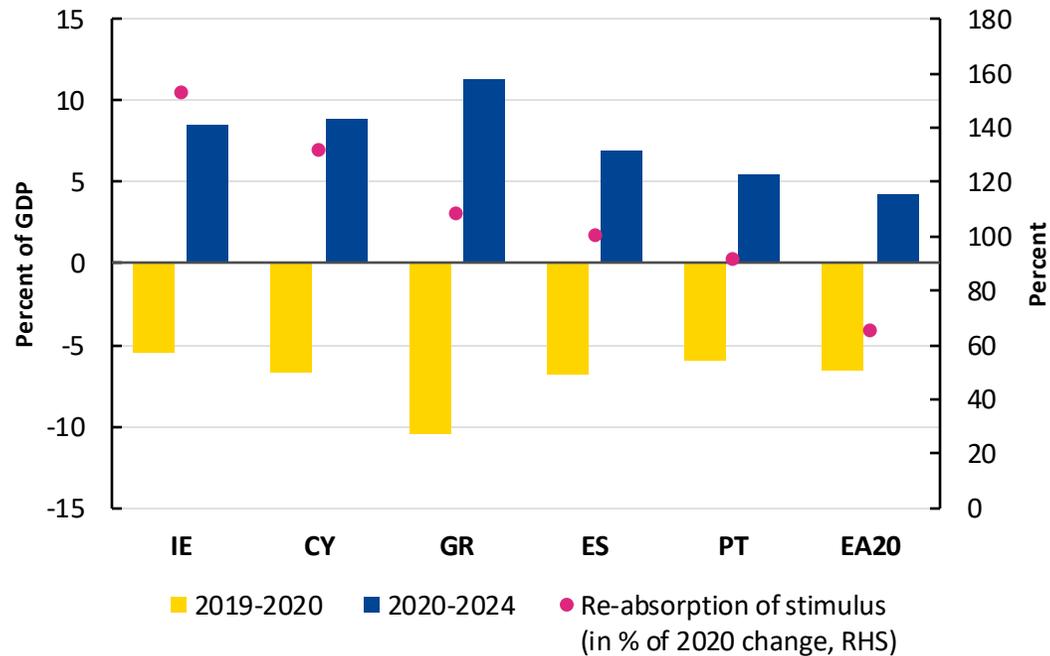
Change in Debt-to-GDP: Former Programme Countries, Percent of GDP



Sources: AMECO; Central Statistics Office of Ireland. Notes: AMECO data is used to calculate the Debt-to-GDP. In the case of Ireland, Debt-to-Modified GNI is used, which is available up until 2024

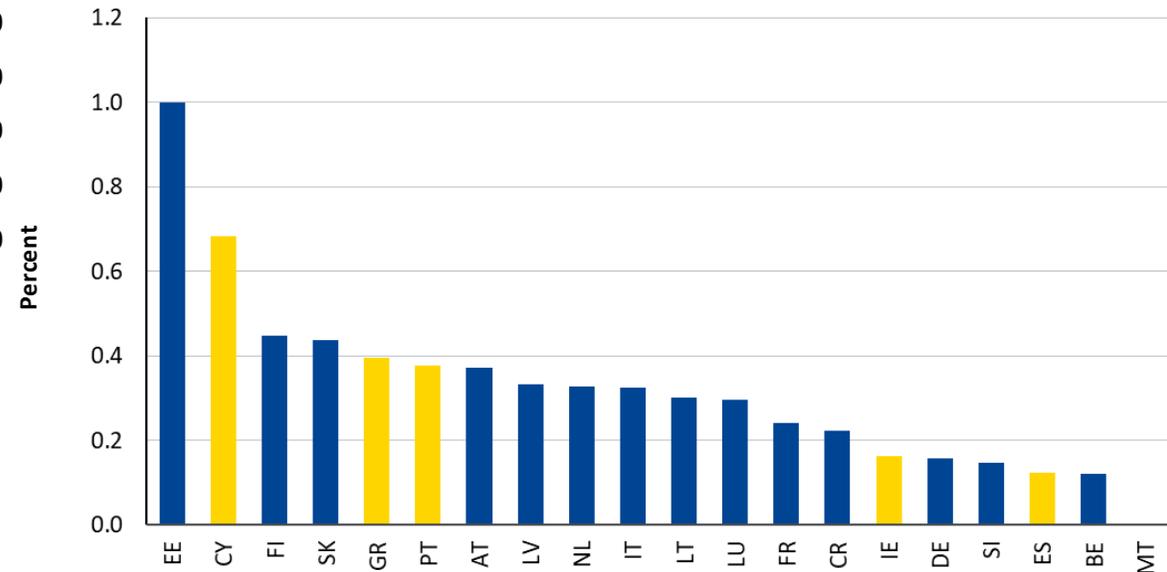
FISCAL POLICY IN THE 2020S: MORE TEMPORARY AND TARGETED

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

SUCCESSFUL PROGRAMME COUNTRIES FOCUSED ON HOW TO ADJUST, NOT JUST HOW MUCH.



- **Recognise new environment**
- **Raise efficiency with PFM & digitalisation**
- **Make budgets more agile**
- **Prioritise growth-enhancing spending**
- **Broaden tax bases, reduce distortions**

EFFICIENCY AND AGILITY: PENSION SPENDING

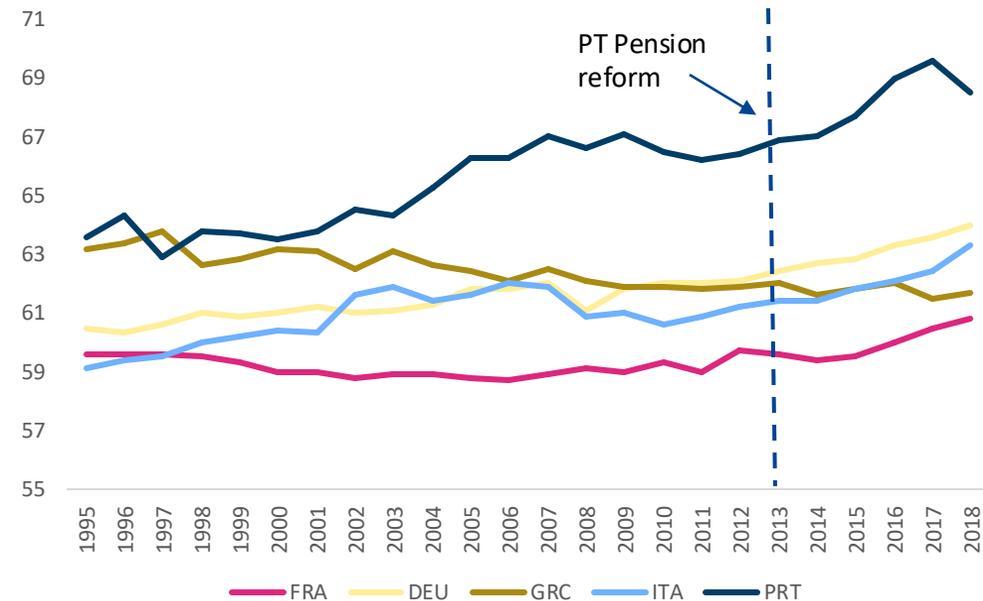
Portugal – raising retirement age & automatic life-expectancy link

- **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 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

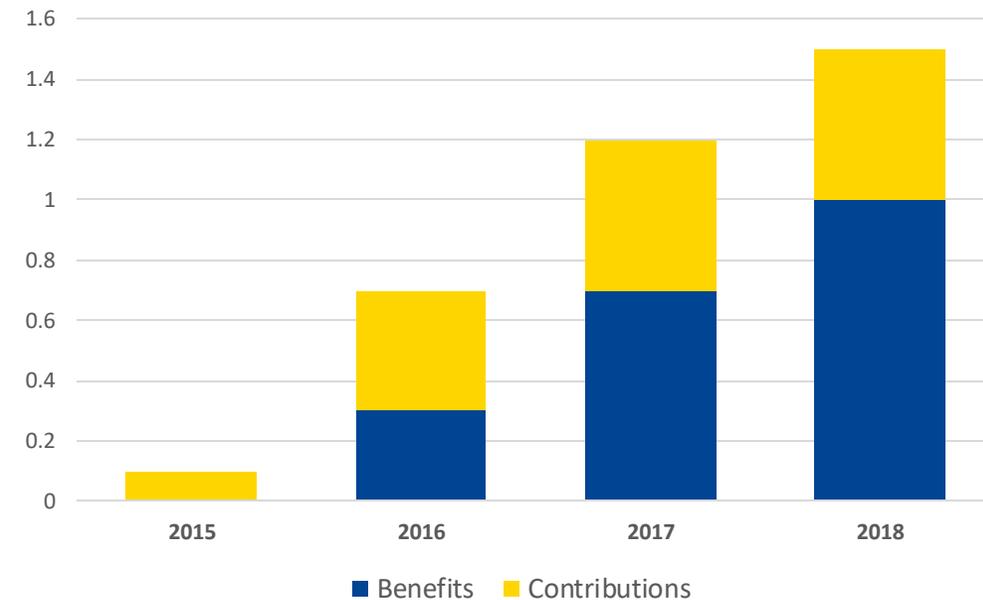
EFFICIENCY AND AGILITY: PENSION SPENDING

Greece – comprehensive parametric pension reforms

- **Programme:** First & 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 harmonizing 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. **But** 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, EC, 2025

IFIs – Changes of roles after the 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

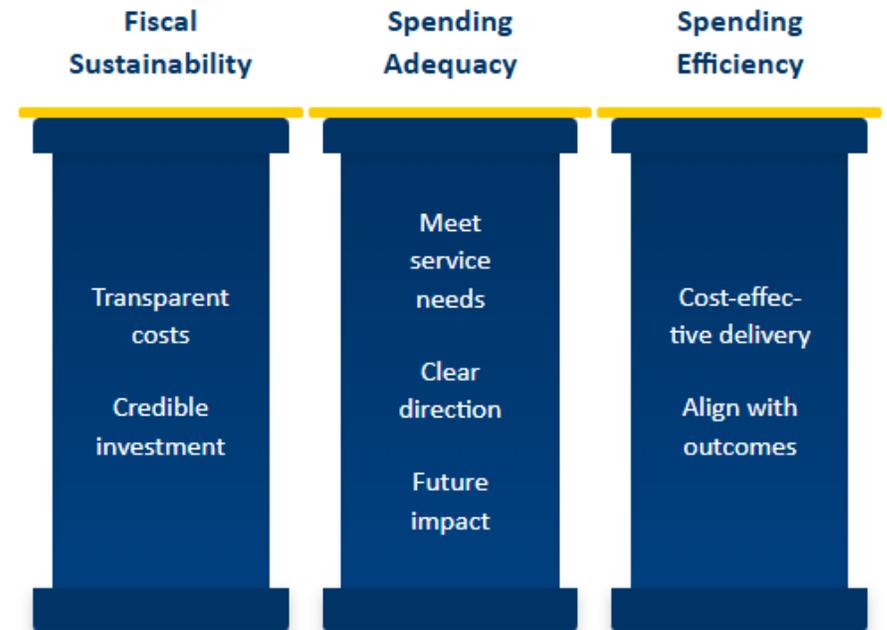
Ireland – Medium-Term Expenditure Framework (MTEF) with binding ceilings

- **Programme:** EU/IMF Economic Adjustment programme (2010–13)
- **Key measures:**
 - **Introduce a Medium-Term Expenditure Framework 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

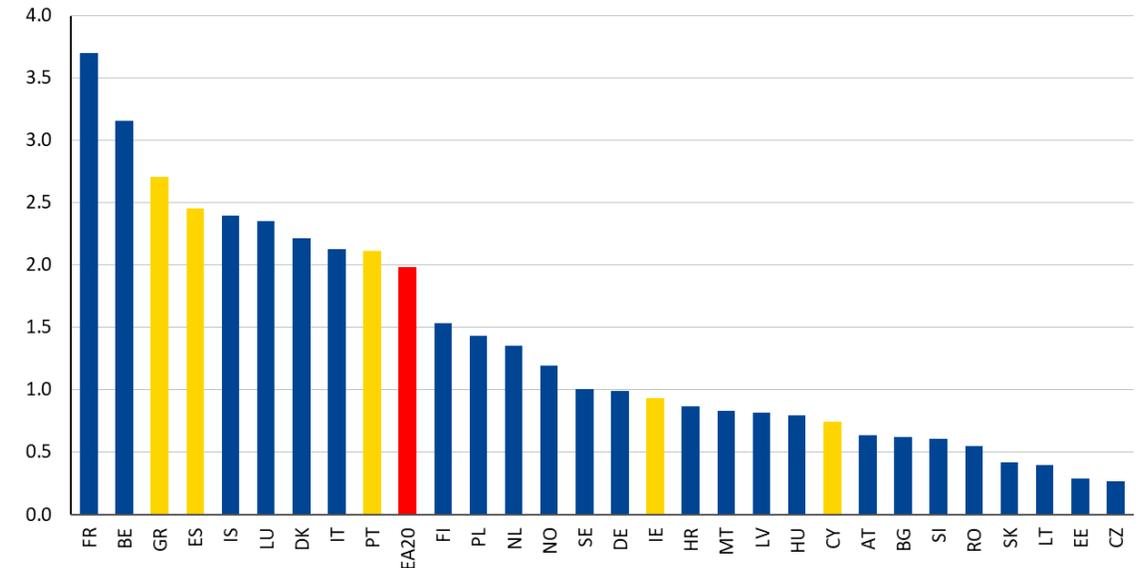
All countries, different fiscal outcomes

• 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 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*

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

Property taxes , 2023 (percent of GDP)



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



CONTACT

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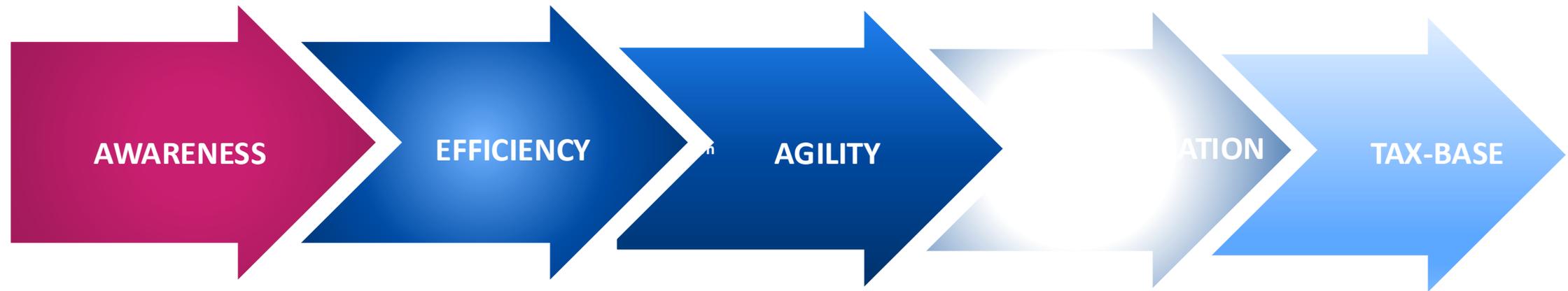
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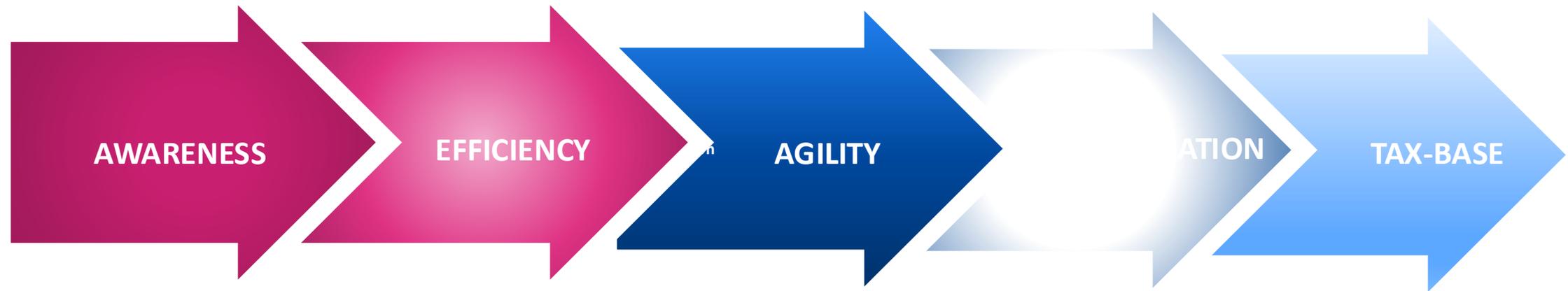
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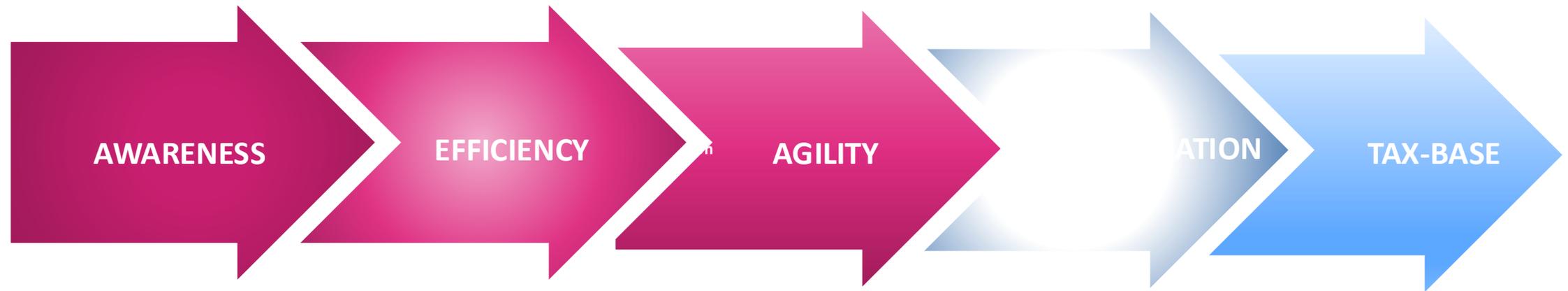
- **Broad awareness of a new economic environment**
- *Programme countries:*
- Recognition that the post-GFC world required a different fiscal and tax framework.
- Early re-assessment of fiscal risks and spending rigidities.
- *Parallel today:*
- Europe must adapt to a new security, trade, and industrial landscape (Ukraine, US policy shifts).

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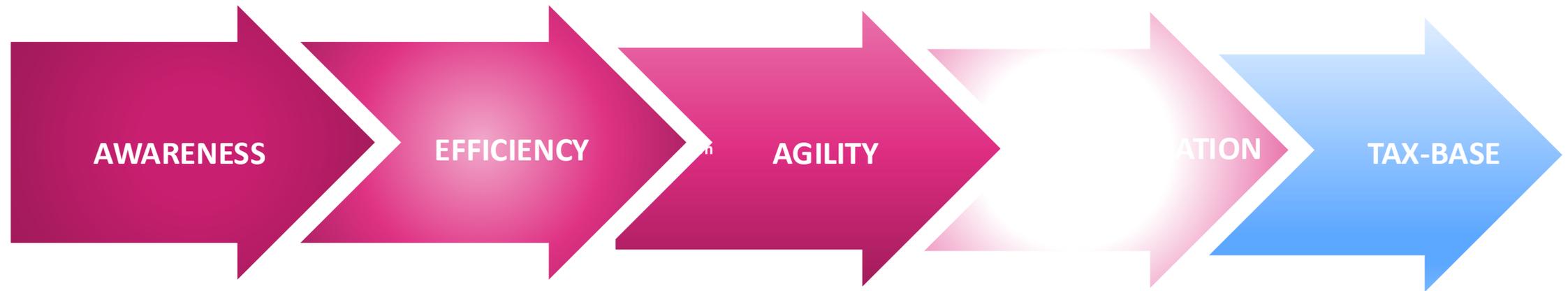
- **Public-service reforms and better PFM systems (Portugal, Greece).**
- **Spending reviews and digitalisation of procedures (Ireland, Cyprus).**
- **Reduced administrative and compliance costs → stronger growth with limited fiscal drag.**

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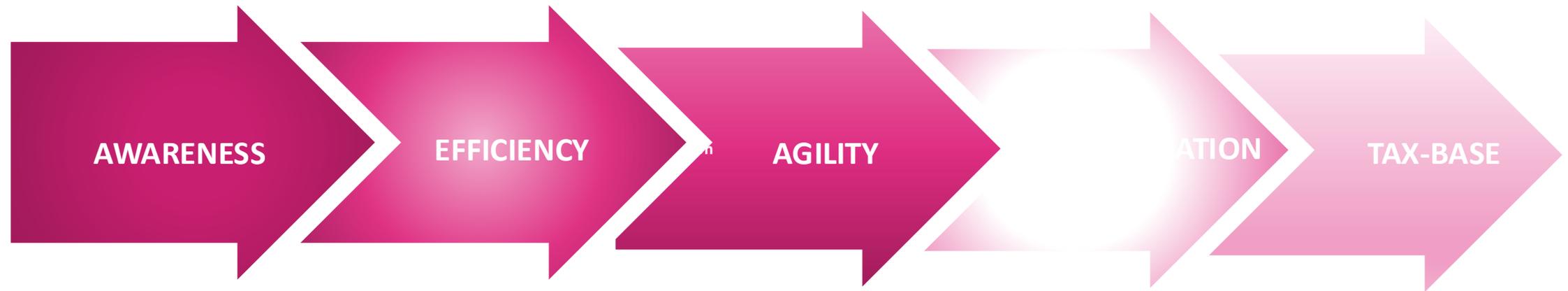
- **More agile budgets through reduced rigidities**
- Rebalancing towards flexible spending, limiting entitlement-driven or automatic items.
- Strengthening medium-term frameworks and fiscal councils to create space for reprioritisation.
- **Spending composition and agility enhance resilience to shocks. (ESM 2024)**

SUCCESSFUL PROGRAMME COUNTRIES FOCUSED ON HOW TO ADJUST, NOT JUST HOW MUCH.



- **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.

SUCCESSFUL PROGRAMME COUNTRIES FOCUSED ON HOW TO ADJUST, NOT JUST HOW MUCH.



- **Growth-friendly tax-base reforms**
- Broadening the base instead of raising distortionary rates.
- Examples:
 - Ireland → modern property tax (LPT).
 - Greece/Portugal → large compliance and VAT-gap gains via digitalisation.
- Supports revenue sustainability with limited impact on competitiveness.