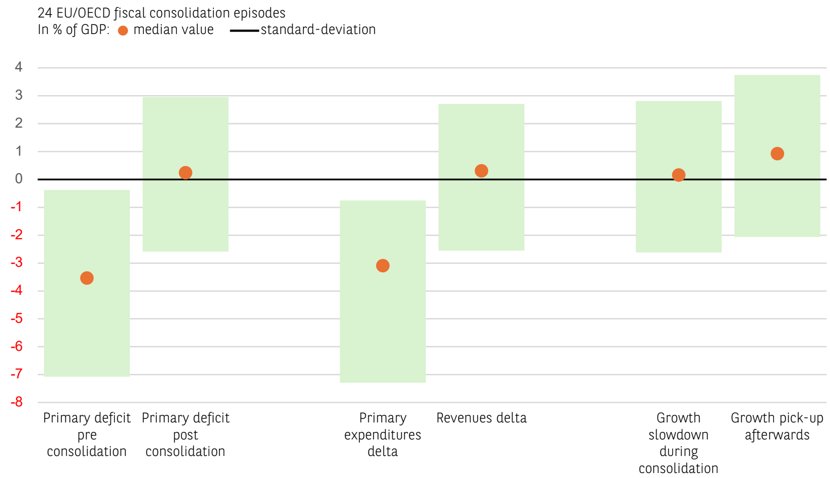
INSIGHTS FROM 24 FISCAL CONSOLIDATIONS IN EUROPE

Arne Maes

Ageing populations, rising long-term interest rates and increased defence spending are adding to the difficulties for public finances across the OECD. While fiscal consolidation – which can be measured by an improvement of the primary balance by at least 3% of GDP in 4 years – is essential for several member states, this is easier said than done. What can we learn from analysing 20 years of European public finance? Historical examples from EU countries show that expenditure-led consolidation can be an effective approach and tends to support stronger growth after it is completed.

EXPENDITURE-LED FISCAL CONSOLIDATION LOOKS EFFECTIVE AND GROWTH-SUPPORTIVE AFTERWARDS



SOURCE: BNP PARIBAS FORTIS

Reading note: A consolidation episode is defined as an improvement in the fiscal primary balance by at least 3% of GDP over four years.

The Covid-19 pandemic and the emergency measures enacted to address it have led to a significant and widespread decline in primary balances across the EU. Belgium is one such country facing this issue. This small, open economy is facing the major challenge of having to reduce its primary deficit by 3% of GDP over the next four years. To gain a clearer understanding of this challenge, which is also facing other EU member states under the EU Excessive Deficit Procedure, we set out to identify comparable periods of fiscal consolidation.

By examining a dataset that includes the EU countries that are also OECD members, covering the period from 2000 to 2019, interesting conclusions can be drawn.

How often did these countries engage in significant fiscal consolidation? No fewer than 24 such periods occurred. This equates to an average of one per country, although this average can be misleading.

Germany experienced two periods of consolidation, as did Greece. The Czech Republic and Portugal achieved such consolidation efforts on three occasions. Four countries did not engage in this process in the period under review: Belgium, Finland, France and Italy[1].

Looking back at these periods, some interesting observations emerge. Firstly, the typical period saw the primary balance shift from a deficit of -3.5% to a surplus of +0.2%, as shown on the lefthand side of the chart. So how was this achieved? The bars in the middle of the chart demonstrate that spending restraint was by far the primary driver of these efforts. In fact, the average improvement in the primary deficit closely corresponds to the reduction in spending as a percentage of GDP, amounting to 3.6% of GDP.

1 For the full list of countries and their respective consolidation periods in brackets: Belgium, Ireland (2009-2013), Portugal (2004-2008, 2009-2013, 2014-2018), Spain (2010-2014), France, Luxembourg (2004-2008), the Netherlands (2013-2017), Germany (2003-2007, 2010-2014), Italy, Greece (2010-2014, 2012-2016), Austria (2010-2014), Slovenia (2011-2015), Hungary (2004-2008), Slovakia (2010-2014), Czechia (2002-2006, 2010-2014, 2013-2017), Poland (2010-2014), Lithuania (2009-2013), Latvia (2009-2013), Estonia (2009-2013), Denmark (2002-2006), Sweden (2003-2007), and Finland.

It is important to note that there were indeed increases in taxes and other revenue sources. However, these changes contributed only marginally to the overall consolidation, representing a mere +0.1% of GDP.

Reducing G for more growth

It is also noteworthy that, during the four-year consolidation periods, growth was, on average, only 0.1 percentage points lower. In contrast, in the subsequent four years, growth rebounded by an average of 0.8 percentage points annually, marking a significant increase[2].

Getting the balance right between reduced expenditures and increased revenues is tricky. In this sample, three quarters of fiscal improvement trajectories saw a larger contribution from reduced spending. Typically, these periods were followed by higher real GDP growth. On the other hand, periods dominated by revenue increases were generally followed by lower growth.

In summary, savings and cuts in spending have emerged as the primary strategy for governments undertaking a significant primary deficit reduction initiative. Recent research[3] indicates that large spending cuts are indeed possible, for example in areas such as pensions and subsidies. National governments throughout the EU could learn from this, but the real challenge lies ahead: how to apply these (difficult) lessons?

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2 For example, in Spain, growth was -1.2% during the consolidation period (down from +1.1%) and +2.8% afterwards.
3 (What we can learn from public debt reductions in OECD countries | CEPR), 13 January 2026.

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