

## **Christodoulos Patsalides: Fiscal management in changing times - the initial responses**

Speech by Mr Christodoulos Patsalides, Governor of the Central Bank of Cyprus, at the EU IFI conference "Fiscal management in changing times - the initial responses", organised by the Cyprus Fiscal Council and the EU IFI network, Nicosia, 10 February 2026.

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It is a privilege to address this conference organized by the Fiscal Council of Cyprus bringing together the EU's independent fiscal institutions to discuss such a topical issue: "Fiscal management in changing times; The initial responses."

Indeed, this issue is timely and relevant in an environment of continued uncertainty, geopolitical tensions and trade fragmentation, which place Europe's growth under strain. Moreover, 2026 began with new geopolitical shifts, such as Venezuela and renewed turmoil in Iran, developments, with unknown potential economic repercussions.

Over the past few years, Europe has faced an exceptional sequence of shocks: the Covid-19 global pandemic, soaring energy prices, wars and other geopolitical tensions that reshaped trade and security dynamics.

During the pandemic, our economies came to a near standstill, forcing governments to deploy extensive fiscal support to safeguard households and businesses. Monetary policy and fiscal policy worked in tandem to address this unprecedented challenge.

Following the pandemic, we were faced with a new shock. Russia's invasion of Ukraine, mounting geopolitical uncertainty, and an energy shock that drove inflation to levels unseen in decades.

The European Central Bank began shrinking its balance sheet and embarked on decisive rate hikes to tame inflation, while governments introduced broad support measures to cushion the impact on income, employment, and growth.

These interventions were necessary-but they came at a cost: elevated debt and reduced fiscal space, at a time when Europe urgently needs investment in defense, technology, and climate transition. High debt and stretched public finances could trigger a repricing of sovereign risks and create strain in global bond markets.

Although our economies have shown resilience, growth remains subdued, and structural challenges persist. Additionally, the current environment seems to place further challenges to our growth model.

How should fiscal policy respond to these challenges?

I argue that the answer is well-known. Governments should prioritize investments in productivity gains, targeted spending in areas which enhance competitiveness, support potential growth and strategic priorities while consolidating their public finances.

And we have the tools to do so. The new economic governance framework is accommodative towards this direction, featuring a common EU framework underpinned by a strong focus on debt sustainability.

Additionally, the new EU fiscal rules give member-states the opportunity to extend their fiscal adjustment period to as long as seven years if they commit to public investment and structural reforms that strengthen productivity and long-term growth.

Studies have shown that increasing spending in infrastructure and education while maintaining overall public spending constant could lead to sizeable long-term growth gains.

Such measures also matter for central banks, as a low-growth environment can render the job of central banks more difficult. It is argued that reforms which increase potential output would not only ease debt reduction but would also reduce inflation pressures in the long run.

Moreover, we should collectively address Europe's structural impediments to growth and promote initiatives that would unlock our growth potential.

In this direction, it is high time to complete the Banking Union, promote the Savings and Investment Union and strengthen the single market, including through financial market integration.

Removing barriers would enable scaling up in new technologies. According to the IMF, internal barriers within the Single Market are equivalent to a 45% tariff on goods and a 110% tariff on services.<sup>i</sup>

Conversely, the so-called 28th regime should be put in place, allowing innovative firms to operate, trade and raise financing seamlessly across the EU, as is the case on the other side of the Atlantic.

Turning to Cyprus. Owing to stronger GDP growth and robust fiscal surpluses, the country's public debt has been placed on a firmly downward trajectory. The authorities should utilize the favourable fiscal position to direct investments to boost productivity and long-term growth. Every reform should place productivity at its core, as productivity gains strengthen growth potential. That said, Cyprus has an additional reason to maintain sufficient fiscal buffers as it is a small, open economy, vulnerable to external shocks.

To conclude, fiscal discipline alone is not enough. Yes, we should maintain fiscal buffers in case of headwinds, but we should spend smarter, invest in green and digital transitions and promote reforms that would foster productivity and long-term growth.

We need to strike a balance between maintaining fiscal buffers without stifling growth. Otherwise, we run the risk of what has been dubbed as "fiscal stagnation," that is, prioritizing on maintaining fiscal buffers at the expense of productive investments.<sup>ii</sup>

In this context, Fiscal Councils have a role to play, identifying vulnerabilities and enhance transparency and accountability in fiscal planning.

Thank you for your attention and I wish every success for a constructive

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[i Europe's Choice: Policies for Growth and Resilience](#)

[ii FS.pdf](#)