



Submitted: 20.12.2024.

Revised: 21.4.2025.

Accepted: 10.5.2025.

# REFORM OF THE FISCAL FRAMEWORK OF THE EUROPEAN UNION AND IMPACT REVIEW

---

*Andraž Konc*  
*School of Advanced Social Studies*

## ABSTRACT

This article explores the reform of the European Union's fiscal framework, focusing on the evolution of fiscal rules, their implications, and the recent updates introduced in 2024. The analysis begins with an overview of the EU's fiscal governance structure, emphasizing its historical foundations in the Maastricht Treaty and subsequent reforms. The study employs a review-based methodology, analysing key policies such as the Stability and Growth Pact, the Fiscal Compact, and the European Semester. The 2024 reform is critically examined, highlighting its central aim to ensure sustainable public finances while enabling counter-cyclical policies and addressing macroeconomic imbalances. The findings indicate improved flexibility and sustainability compared to prior frameworks, yet challenges persist, such as balancing fiscal discipline with necessary investments in transnational public goods and addressing disparities among Member States. We contribute to understanding the complexities of EU fiscal governance and offer insights into future policy directions to enhance economic resilience and integration.

**KEYWORDS:** EU fiscal framework; reform; Stability and Growth Pact; fiscal rules; economic governance; public finances.

### **Authors' contact:**

Andraž Konc is Doctoral student, Department of Management, School of Advanced Social Studies, Slovenia.

E-mail: [andrazkonc@gmail.com](mailto:andrazkonc@gmail.com); <https://orcid.org/0009-0000-5064-8153>

## INTRODUCTION

Many countries around the world have had long-standing fiscal deficits, which have contributed to rising public debt since the mid-1970s (Minea and Villieu 2012, 1), which increased during the 2008 financial crisis and in response to the sovereign debt response. In response, rule-based fiscal frameworks have become the new trend for the conduct of fiscal policy. This pronounced focus of monetary policy on monetary objectives has increased the burden placed on fiscal policy as a shock absorber (Vinturis 2022, 4). According to the IMF Fiscal Rules Database (Davoodi et al. 2022), by 2021, 106 countries had already adopted some form of fiscal framework. Fiscal rules are designed to address distorted incentives and contain pressures to overspend, especially in good times, in order to ensure fiscal responsibility and debt sustainability (Budina et al. 2012). They also narrow the discretion of the government to prevent short-term opportunistic behaviour that would be detrimental to a stable and sustainable fiscal policy. The lack of coordination of fiscal and macroeconomic policies and imbalances in public finances between Member States in EU has led to fundamental changes and upgrades in economic governance in the EU (Čok et al. 2021). As a result of the COVID-19 outbreak, the European Union effectively suspended the enforcement of its fiscal rules through the activation of the general escape clause in early 2020 – an extraordinary measure that has remained in place until 2024, fundamentally altering the trajectory of fiscal governance within the Union.

### AN OVERVIEW OF THE EU'S FISCAL REFORMS

The Maastricht Treaty (1992), signed at the end of the recessionary period at the end of the last millennium, helped to establish a single monetary authority and independent regional fiscal policies, constrained by rules that would prevent the possible negative externalities of irresponsible practices (Postuła 2022). Today, we have four interlinked elements in European Union: the Stability and Growth Pact, the Fiscal Compact, the Macroeconomic Imbalances Procedures and the European Semester. In addition, the European Stability Mechanism (ESM) was created as a permanent EU anti-crisis fund to provide assistance to Member States facing financial difficulties.

The EU's fiscal framework has undergone a number of reforms (Arnold et al. 2022). The 2005 reform of the Stability and Growth Pact (SGP) aimed to strengthen the economic rationale of the rules and improve their flexibility by introducing country-specific medium-term targets set in terms of structural fiscal balances (Bökemeier and Wolski 2022, 217-226). EU economic governance has been improved with the implementation of the

Economic Governance Package (2011), with greater macroeconomic surveillance introduced to increase compliance with the rules (Pappa 2020, 4). Enforcement of fiscal commitments was also to be improved by adding an expenditure benchmark to the preventive arm and making the debt criterion in the corrective arm more operational by adding a debt correction rule requiring a country to reduce the difference between its debt level and 60% of GDP by 1/20 annually (Arnold et al. 2022, 5). In 2012, twenty-five EU Member States signed the Fiscal Stability Treaty. This included the Fiscal Compact, which sets out the golden rule and dictates balanced budgets or surpluses. In 2016, the European Fiscal Committee was established, which acts as an advisory body to the EC. The EU's fiscal framework, which was in place until the 2024 reform and is officially called the Stability and Growth Pact, consists of four main numerical rules (Tordoir, van Dijk and Ziesemer 2023, 3). Under the deficit rule, Member States must ensure that their budget deficit does not exceed 3% of their gross domestic product in any year. To comply with the debt rule, Member States must ensure that their government debt does not exceed 60% of government GDP. If this threshold is exceeded, measures must be taken to reduce it by one twentieth of the distance to 60 percent. Countries should aim to achieve a budget balance that is either in balance or in surplus over the medium term. This means that they should aim to limit the structural deficit to 0.5% of GDP. The structural deficit is the deficit excluding the effects of the business cycle. The expenditure benchmark requires Member States to limit the growth of government expenditure to the medium-term value of potential GDP growth plus inflation. This should automatically reduce the debt-to-GDP ratio, as public expenditure would grow more slowly than the economy as a whole. National governments in the EU have often failed to follow these four rules. As fiscal policy is still largely in the hands of Member States, the EU institutions need very concrete reasons to intervene. If an EU country does not respect its deficit or debt limits, the so-called corrective arm of the Pact comes into play. If the initial warning to the Member State does not lead to a tightening of fiscal policy, the Commission recommends to the Council of Ministers the opening of an „excessive deficit procedure”, which requires the Member State to adjust its fiscal policy within an agreed period. In the event of serious infringements, the Commission can impose fines of up to 0.2% of the national GDP of the country concerned (Tordoir, van Dijk and Ziesemer 2023, 5). This has never happened in practice.

While there are alternative policies to fiscal frameworks that can help fiscal discipline, notably fiscal consolidation, these two policies differ in two important dimensions. First, fiscal consolidation is usually short-term, in the form of „shock therapy”. According to Bamba et al. (2020, 21), half

of the 123 fiscal consolidations identified lasted no more than two years, while less than 20% were longer than five years. In contrast, among the 185 countries studied, only about one-tenth abandoned fiscal rules after they had been adopted, suggesting that fiscal rules are „long-lasting constraints on fiscal policy” (Vinturis 2022, 5). Second, the objectives pursued by fiscal discipline are also different. Fiscal consolidations are short-term actions aimed at avoiding the imminent risk of large fiscal imbalances. In contrast, fiscal rules are designed as part of a defined fiscal framework, aiming at a sustainable arrangement characterised by smaller deficits. Unlike fiscal consolidations, which signal imbalances, they are designed to steer the economy towards a new equilibrium. This is confirmed by Berganza (2012, 8), who finds that fiscal rules have been more effective precisely for long-term sustainability rather than for dealing with shocks.

### BUDGETARY GOVERNANCE

The European Union is a unique and complex political and economic framework in which Member States come together to pursue common goals, such as fostering economic convergence, promoting sustainable development, and ensuring social cohesion, and to tackle shared challenges, including geopolitical instability, fiscal sustainability, and resilience to external economic shocks. One of the key aspects of this integration is the interconnectedness of public finances between the EU and individual Member States. Public finances play a key role in financing various EU policies such as cohesion policy, the Common Agricultural Policy, research and innovation, and a number of other programmes and projects are also on the drawing board, such as common defence, the Green Transition, the Common Capital Market and others. Evidence from the Great Financial Crisis and the pandemic has shown that the economies of most EU Member States are relatively poorly resilient to the effects of external shocks (Postuła 2022). Financial markets and financialization have changed the principles reflected in economic policy, rendering them ineffective and neglected, especially when comparing the EU with the powerful US capital market. It is worth considering whether such challenges might not require new, more complex approaches to operating in the modern economic environment and to designing social and economic policies for the countries and the European Union that would ensure their coherence with the rest of the world, financial markets and economies.

The European Union’s public finances are based on three types of legal instruments (European Commission and Directorate-General for Budget 2014, 118-127): financial provisions of the Treaties (primary legislation), secondary legislation, and provisions adopted by agreements between the

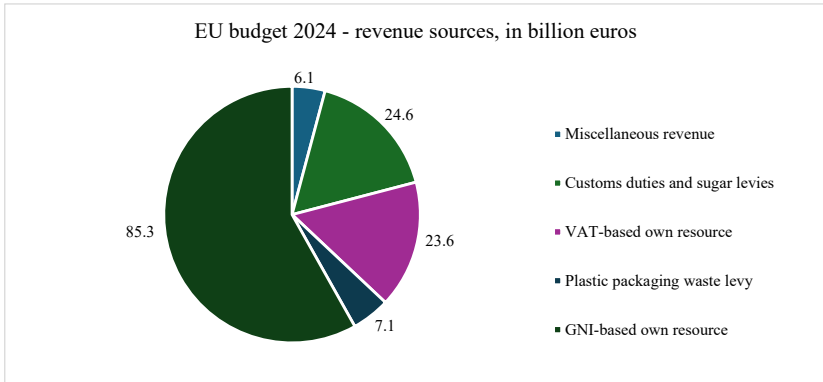
institutions. The Treaty on European Union (TEU 1992) and the Treaty on the Functioning of the European Union (TFEU 2007) introduced a number of changes to the structure of EU public finances, while preserving the main features. The framework provides for a two-stage planning of EU public finances. At a more strategic level, the MFF provides the content and limits of the budget's expenditure, while the decision on the own sources of funds defines and limits the sources of its financing. At the operational level, the annual budgetary procedure is used to adopt, implement and control the current budget within the constraints of the multi-annual limits. In the context of the established structure of EU public finances described above, the most recent MFF for the period 2021-2027 has been substantially reinforced by the EU's pandemic recovery facility, NextGenerationEU, which has temporarily increased the size of the budget substantially, and provided for large-scale EU borrowing on behalf of Member States to provide the investment means for economic recovery, in the wake of the emergence of Covid-19. The EU's Multiannual Financial Framework (MFF) sets the ceilings for the main headings and sub-headings of the EU's budget expenditure, and thus the ceiling for the overall volume of EU budget expenditure, on a year-by-year basis over a multiannual period of at least five years and currently seven. It is adopted as a regulation of the Council of the EU, after obtaining the consent of the European Parliament. Decision-making within the Council is based on the principle of unanimity, following prior unanimous political agreement within the European Council. If a new financial framework is not adopted (in time) at the end of the current financial framework, the implementation of the last year of the current year of the MFF is foreseen (Article 312 TFEU 2007). The NextGenerationEU Recovery Facility foresees substantial additional funding over and above the MFF, so the established method of financing from the EU budget's current revenue has not been sufficient. In addition to this instrument, it provides for financing through borrowing by the European Commission on behalf of the EU, which is ground-breaking not only in terms of volume, but also purpose and the expected duration of the repayment of the liabilities. The European Commission has decided to borrow on a regular basis to meet the financing needs of specific anti-crisis financial instruments, such as balance of payments assistance, macro-financial assistance to non-EU partner countries and for the European Financial Stabilisation Mechanism (EFSM). However, these instruments have provided assistance to recipients in the form of repayable funds, i.e. loans, but on a much smaller scale. In the case of NextGenerationEU, however, the European Commission has for the first time been given a temporary mandate to also borrow on the financial markets to finance budget expenditure of around €800 billion, half of which is grant funding (European

Commission 2021). This is a landmark decision, similar in substance to debt financing of budget deficits at the level of government. The agreement foresees that the total debt would start to be repaid before the end of the 2021-2027 MFF and would be repaid by the end of 2058 at the latest.

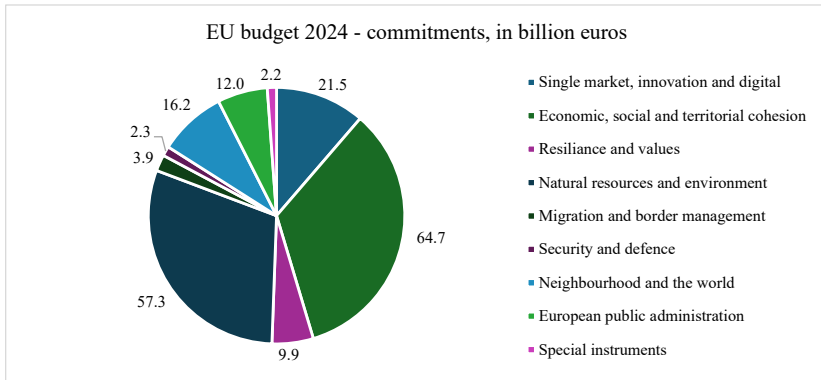
The implementation and control of the EU budget follow an established budgetary procedure, which includes phases similar to those at the national level (Čok et al. 2021). If the European Parliament and the Council fail to agree on the EU budget for the following year by the end of the year, the rule of twelfths is followed (European Commission and DG Budget 2014), which automatically extends the previous year's budget on a monthly basis until a new budget is adopted. The European Court of Auditors exercises professional control over the implementation of the budget, while the European Parliament discharges the budget politically. The EU annual budget is relatively small, with total commitments set at €189.3 billion (European Council 2024a), just 1% share of the entire EU GDP, and is much smaller compared to Germany's annual federal budget of €476.8 billion (Federal Ministry of Finance 2024). This is because it largely excludes the expenditures that most determine the size of national public finances, notably social security, pensions, public sector services and sovereign functions of the state such as the army and the police. Čok et al. (2021) argue that the EU budget has an unusual structure compared to national budgets because, in the absence of traditional categories of public expenditure, it contains primarily redistributive expenditure (see pie chart below) – to subsidise agriculture and Member States' cohesion policies – but also expenditure on the provision of some European public goods, such as research, development and innovation for infrastructure projects, cross-border mobility of education and knowledge, environmental and consumer protection, and management of the EU's external border and migration. Recently, the importance of both traditional policies (agriculture and cohesion) has been declining at the expense of the growing importance of other internal policies, the green transition, digital transformation, security. The remainder of the budget expenditure is used to implement the EU's growing external policy role and to cover the many administrative costs of the European institutions.

All these expenditures are financed by different sources of revenue (see pie chart); traditionally the last sources (customs duties and agricultural levies), the VAT and GNI sources. In 2021, the European Union introduced a new own resource based on non-recycled plastic packaging waste generated by Member States, with the aim of diversifying the EU's revenue base and aligning budgetary policy with environmental objectives by incentivizing waste reduction (European Court of Auditors 2024). Looking ahead, the EU is also considering additional own resources, including potential

taxation of digital platforms, as part of efforts to modernize its revenue system, reduce dependency on national contributions, and respond to broader regulatory and geopolitical challenge (Hayashi and Kim 2023).



Source: European Council 2024a.



Source: European Council 2024a.

## PRESENTATION OF THE LATEST REFORM OF THE EU FISCAL FRAMEWORK

In 2020, the EU was hit by a precedent-setting economic crisis as a result of the outbreak of the Covid-19 pandemic. The recession, which hit the economic field as an exogenous symmetric shock due to economic shut-downs, required Member States to take generous countercyclical fiscal policy action to preserve the capacity of their economies and prevent an

uneven recovery (Čok et al. 2021). The EU, in essence, suspended the enforcement of these fiscal rules at the outset of the coronavirus pandemic. The EU's economic governance system at the time was no longer appropriate as it did not provide the necessary flexibility for national public finances. As a result, the European Commission implemented a reformed economic governance framework for the European Union. Already 20 years ago, the EU budget was described as a „historical relic” (Sapir et al. 2004). The budget is relatively small in comparison to the size of the overall EU economy and the growing expectations placed on the Union. Nowadays, it remains outdated and inadequate to address the EU's contemporary political challenges, which are also fiscally costly: the green and digital transition, the war in Ukraine and the Middle East, migration and others (Buti 2023). Moreover, much more is now expected of the EU than before. Future enlargement, which could bring more less developed countries from the Balkans into the EU, will further increase budgetary demands. To meet expectations and cope with all the challenges, the EU budget needs to be radically reformed both on the revenue and expenditure side. It is well known that the EU budget does not contribute enough to cyclical stabilisation, partly because of its small size and the fear that countries would not create enough fiscal space if they knew that the EU would help in the event of a negative shock (Buti 2023). Such concerns could be addressed by appropriate eligibility criteria for EU support. However, the European Union „should not be seen only in terms of the net financial benefits it derives from the European budget ... Indeed, the budget represents only a small part of the benefits or costs of membership. By far the largest part of the benefits is access to the common European market” (Rant 2018).

In April 2023, the European Commission published a package of proposals to refresh the fiscal governance framework in the European Union: a regulation to replace the preventive arm of the Stability and Growth Pact. The main objective of the reform of the economic governance framework is to ensure sound and sustainable public finances, provide adequate room for counter-cyclical policies, correct macroeconomic imbalances, while promoting sustainable and inclusive growth and job creation in all Member States through reforms and investment (European Council 2024b). The overall objective of the agreed framework is to reduce debt and deficit ratios in a realistic, sustainable and growth-friendly manner, while safeguarding reforms and investments in strategic areas such as digital, green, social or defence (Bruni, Tentori and Villafranca 2022, 11). The updated fiscal rules enter into force in 2024, as they have already been approved by the European Parliament (European Parliament 2024). Member States had to submit their first national plans by 20 September 2024. The main innovation under the reform is the adoption of a differentiated approach

towards each Member State to take into account the diversity of fiscal positions, public debt and economic challenges in the EU (Council of the EU 2023). The new framework will thus allow for multiannual fiscal trajectories for each Member State separately, while ensuring effective multilateral surveillance and respecting the principle of equal treatment.

The basic indicator for setting fiscal paths is a single operational indicator, namely net primary expenditure, or all elements of public expenditure under the direct control of the government, excluding discretionary revenue measures and excluding interest and cyclical unemployment expenditure (Höflmayr 2024, 4). The fiscal plan should be for a minimum of four years, with the possibility of extending it to seven years, subject to commitments on reforms and investments. Before a Member State would submit its fiscal-structural plan, a non-public technical dialogue between the Member State and the Commission would ensure that the plan meets certain criteria, in particular that it contains a projected net expenditure path for at least four years, and the Member State's possible actions to address the EC's country-specific individual recommendations (Council of the EU 2023). The Commission would issue a technical trajectory, i.e. a benchmark fiscal adjustment path that ensures credible debt reduction for Member States with a deficit ratio above the 3% threshold or a debt ratio above 60%, to ensure (Höflmayr 2024, 4): that the debt ratio is credibly reduced, that the deficit ratio remains or returns below the 3% threshold and that expenditure growth remains below medium-term GDP growth. In addition, Member States should ensure, within the timeframe of the plan, that the debt ratio is lower at the end of the plan than at the beginning and that fiscal effort is reduced towards the end of the period. For Member States with a deficit ratio below 3% and a debt ratio below 60%, the Commission would provide technical information to ensure that the deficit ratio remains below 3% in the medium term. (Council of the EU 2023). Member States will submit annual progress reports and national fiscal institutions will play a more prominent role in the ex-ante assessment and ex-post surveillance of national fiscal and structural plans. „This will include the preparation or endorsement of budgetary forecasts, the assessment of sustainability and policy impact analyses, and the ex-post evaluation of forecasts and fiscal plans.” (Höflmayr 2024, 5) Two clauses would allow a Member State to deviate from its net expenditure path in exceptional circumstances (Höflmayr 2024, 5-6), namely a clause in the event of a severe economic downturn in the euro area or the EU as a whole, and a country-specific clause that would activate a general escape clause procedure as in the *Stability and Growth Pact*. A control account will be set up to monitor deviations from agreed net expenditure paths. As regards the Excessive Deficit Procedure, the Council agreed that the Commission

would prepare a report to trigger the procedure when the debt-to-GDP ratio exceeds the reference value or when the headline deficit is not close to balance or in surplus and when the deviations recorded in the Member State's control account either exceed 0.3 percentage points of GDP per year or 0.6 percentage points of GDP cumulatively (Council of the EU 2023). The involvement of the European Parliament in the fiscal framework will be limited to an economic dialogue to discuss policy guidelines for Member States and it will have the task to review the results of the surveillance process (Höflmayr 2024, 6). For Member States that breach the 60% debt-to-GDP ratio, it is sufficient to take into account their net expenditure path, which they have committed to in their Fiscal and Structural Plan, in order to avoid the excessive deficit procedure.

For Member States facing more serious debt management challenges identified under debt sustainability monitoring and deviating from the net expenditure path, a debt-based EDP is triggered by default (Höflmayr 2024, 6). Once a Member State is in EDP and its deficit exceeds 3%, the so-called corrective net expenditure path is triggered. For years when the deficit ratio exceeds the 3% threshold, the net expenditure path set out in the national fiscal-structural plan would be adjusted by 0.5% of GDP (European Commission 2023). Until effective action is taken, Member States in excessive deficit procedure will be subject to fines of up to 0.05% of GDP to be paid every six months, up to a total of 0.5% of GDP. This would lower the ceiling compared to the previous EU fiscal framework and make the sanctions imposed more frequent (European Commission 2023).

## REVIEW OF THE IMPACT OF THE REFORMED FISCAL FRAMEWORK

In reviewing the reformed fiscal framework, replacing the structural deficit with net primary expenditure as the control variable seems to be a step forward, as the latter focuses on the elements of discretionary fiscal policy that governments can control (Feás 2023). While it is true that the absence of a minimum adjustment rhythm tends to postpone difficult policy decisions, setting a specific figure such as 0.5% also reduces flexibility and remains pro-cyclical, i.e. it further reduces the sustainability of the finances of the indebted country (Feás 2023). The timing and pace of adjustment over a four- to seven-year period should provide sufficient flexibility to allow for realistic annual adjustment targets and to give room for green investments (Darvas, Welslau and Zettelmeyer 2024). As such policies continue to be financed primarily at the national level, there is a high risk that countries will want to invest less rather than more than necessary. Fiscal rules could constrain public investment in highly indebted Member States, with two effects (Feás 2023): an increase in the real diver-

gence between Member States with greater fiscal capacity and those forced into severe fiscal adjustment; and, on the other hand, insufficient aggregate EU investment to finance transnational public goods. An extended period of alignment of the fiscal position with the fiscal requirements would mean that the required annual fiscal adjustment could be reduced from a level that could be politically and economically very painful to a more feasible level. It allows more scope for adjusting the fiscal adjustment to the country's circumstances, not only in terms of its cyclical conditions but also in terms of policy choices affecting future growth. Primary spending paths will in some cases potentially be conditional on multiannual investment and reform commitments, effectively giving the Commission more power in important national decisions. This increased power risks making the Commission a scapegoat for national political parties that may wish to deviate from pre-existing plans negotiated by themselves or perhaps even by the previous government (Lorenzoni et al. 2023). Tordo, van Dijk and Ziesemer (2023, 10) argue that countries' fiscal plans should cover a shorter period than four years, so that a government can take advantage of compliance or early financing of key investments during its mandate, rather than its successors benefiting from additional room for manoeuvre or EU funds.

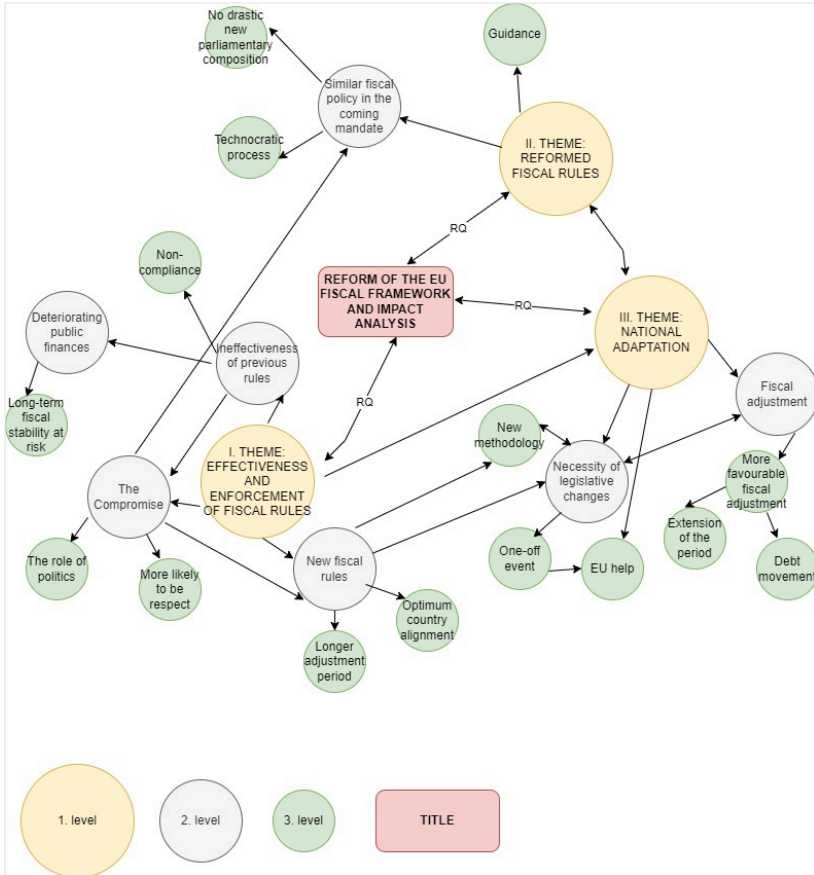
The Commission and the Council should develop a methodology for quantifying the impact of the proposed reforms on the fiscal path, together with a risk management process. The medium-term fiscal-structural plan may deviate from the Commission's reference path if the Member State shows „... sound and data-driven economic arguments explaining this divergence”. Thus, the Commission will need to assess whether the trade-off between fiscal adjustment and reforms envisaged in the MTF is quantitatively realistic. According to Darvas, Welslau and Zettelmeyer (2024), the Commission's forecasting methodology is not appropriate for assessing the impact of recently adopted reforms, as the impact of these reforms may not be reflected in the short-term forecast, and even if it is, it is assumed to dissipate over time. The use of the net expenditure path as the main operational target and the general and national exit clauses will make the system less pro-cyclical (Darvas, Welslau and Zettelmeyer 2024). As for sanctions or freezing of European funds, these will continue to operate pro-cyclically, undermining their credibility. The use of moral sanctions, such as political accountability, is a good idea on paper, but its effectiveness is unclear. A greater role for national independent fiscal institutions in assessing debt reduction programmes is welcome, but their recommendations are not binding. The current economic context poses challenges for the enforcement and design of fiscal rules, in particular (de Biase and Dougherty 2022, 5): calibrating fiscal rules to scena-

rios with historically low but rising interest rates, low output growth and ageing populations; calibrating fiscal rules to rising regional inequality; and aligning fiscal rules with policies addressing the energy transition, climate change and future crises.

#### PARADIGM MODEL

Based on our qualitative research, we also developed a paradigmatic model (in the next page). The reform of the EU fiscal framework has emerged as a necessary response to the suspension of fiscal rules during the COVID-19 crisis, which triggered a significant increase in public debt and deficits across Member States. The activation of the general escape clause proved essential for economic stability, but has also emphasized the need for restoring fiscal discipline. The previous framework was widely regarded as pro-cyclical and insufficiently tailored to country-specific conditions, often leading to non-compliance and undermining effectiveness. In contrast, the new rules introduce a more flexible approach, as they allow for one-off expenditures to be temporarily excluded from the fiscal adjustment path, a country-specific analysis of the fiscal position and adjustment of measures according to particular economic conditions and long-term debt sustainability projections. This approach reduces the risk of pro-cyclicality and encourages Member States to adopt rules that are better aligned with their real fiscal capacities. While the revised rules are perceived as more manageable, challenges remain in terms of institutional coordination, particularly in aligning national frameworks with EU-level oversight. The broader political context, shaped by recent European elections, suggests continuity in moderate policymaking, which supports investment in strategic priorities such as the Green Deal and common defence capacity. Nonetheless, concerns persist regarding the complexity of the rules and potential political misuse of exceptions, highlighting the importance of transparency and accountability in implementation process, particularly in the context of requests for extending the adjustment period.

ANDRAŽ KONC  
 REFORM OF THE FISCAL FRAMEWORK OF THE EUROPEAN UNION  
 AND IMPACT REVIEW



## CONCLUSION

The freezing of fiscal rules during the Covid-19 pandemic had important consequences for public finances across the European Union, as Member States had to introduce large fiscal measures to cushion the economic downturn, leading to an increase in public debt and budget deficits. The activation of the general escape clause was necessary to ensure economic stability in the EU, as strict fiscal rules could further jeopardise future economic growth and worsen public finances. In addition, the clause was essential to ensure the legality of state interventions and to manage the short-term negative impacts of the pandemic. Going forward, it will be important to restore fiscal discipline and consolidate public finances and to adapt to the new fiscal rules to ensure long-term fiscal sustainability. In

the second strand, we looked at the reform of the EU's fiscal framework. The reform of the EU's fiscal framework is seen as necessary and a step in the right direction, although it still faces important challenges and shortcomings. Fiscal rules as they existed before were often pro-cyclical and did not take into account the specific circumstances of Member States, leading to non-compliance and economic inefficiency, but we believe that it is still better than not having them at all. The new rules bring a more flexible approach, allowing for a country-by-country analysis of the fiscal situation and the adjustment of measures according to specific economic conditions and long-term debt sustainability projections. This approach reduces the risk of pro-cyclicality and encourages countries to adopt rules that are more tailored to their real capacity. However, the reform is not perfect; some of the safeguards may still make economically sensible adjustments difficult and undermine the credibility of the rules and future public investment, crucial to finance, for example the green transition and other common European interests. The reform has also allowed for greater accountability and transparency of Member States in the surveillance and implementation of fiscal rules, which is an important step forward, however, even after the reform, politics could still exploit potential loopholes in the legislation. Both fiscal and legislative adjustments will be needed to meet the new EU fiscal rules. Institutional changes will need to include improved communication between the national authorities and the European Commission and a reform of the medium-term budgetary balance formula. When discussing the future fiscal policy of the European Union, we need to bear in mind EU elections in 2024. New fiscal rules have already been agreed and will be technically implemented without significant changes, but how the new Commission and Parliament develop the policy orientations will be crucial. Geostategic pressures will require the EU to provide additional financial resources to strengthen its defence capabilities, which is likely to require the creation of new *NextGenerationEurope*-like funds to finance these needs, and may require some adjustment of the EU's objectives. In particular, the changing economic circumstances make it a primary objective of the fiscal framework to set the course for a disciplined and responsible fiscal policy.

#### REFERENCES

- Arnold, Nathaniel, Ravi Balakrishnan, Bergljot Barkbu, Hamid Davoodi, Andresa Lagerborg, W. Raphael Lam, Paulo Medas, Julia Otten, Louise Rabier, Christiane Roehler, Asghar Shahmoradi, Mariano Spector, Sebastian Weber and Jeromin Zettelmeyer. 2022. "Reforming the EU fiscal framework: strengthening the fiscal rules and institutions". *International Monetary Fund*. <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Is->

- sues/2022/08/31/Reforming-the-EU-Fiscal-Framework-Strengthening-the-Fiscal-Rules-and-Institutions-The-EUs-518388.
- Bamba, Moulaye, Jean-Louis Combes and Alexandru Minea. 2020. "The effects of fiscal consolidations on the composition of government spending". *Applied Economics* 52, 1517–1532.
- Berganza, Juan Carlos. 2012. "Fiscal Rules in Latin America: A Survey". *Bank of Spain* occasional paper 1028.
- Bökemeier, Bettina and Marcin Wolski. 2022. "This time is different: Fiscal response to the COVID-19 pandemic among EU countries". *International Economics*, Volume 172, 217–226. ISSN 2110-7017. <https://doi.org/10.1016/j.inteco.2022.10.001>.
- Bruni, Franco, Davide Tentori in Antonio Villafranca. 2022. "New fiscal rules: The EU beyond Covid and the War". *ISPI*. <https://www.ispionline.it/en/publication/new-fiscal-rules-eu-beyond-covid-and-war-34922>.
- Budina, Nina, Andrea Schaechter, Anke Weber and Tidiane Kinda. 2012. "Fiscal Rules in Response to the Crisis -Toward the 'Next-Generation' Rules. A New Dataset". *IMF Working Papers*, 12/187. <https://ssrn.com/abstract=2169733>.
- Buti, Marco. 2023. "When will the European Union finally get the budget it needs?" *Bruegel*. <https://www.bruegel.org/analysis/when-will-european-union-finally-get-budget-it-needs>.
- Čok, Mitja, Andreja Cirman, Valentina Prevolnik Rupel, Vasja Rant, Igor Gabrijelčič, Nataša Kump, Jan Porenta and Mojca Bartol Lesar. 2021. *Javne finance v Sloveniji*. Ekonomska fakulteta. Copis.
- Council of the EU. 2023. *Economic governance review: Council agrees on reform of fiscal rules*. <https://www.consilium.europa.eu/en/press/press-releases/2023/12/21/economic-governance-review-council-agrees-on-reform-of-fiscal-rules/>
- Darvas, Zsolt, Lennard Welslau in Jeromin Zettelmeyer. 2024. "The implications of the European Union's new fiscal rules". *Bruegel*. <https://www.bruegel.org/first-glance/eu-needs-methodology-including-reform-impacts-fiscal-trajectories>.
- Davoodi, Hamid R., Paul Elger, Alexandra Fotiou, Daniel Garcia-Macia, Andresa Lagerborg, Raphael Lam in Sharanya Pillai. 2022. *Fiscal Rules Dataset: 1985-2021*, International Monetary Fund. <https://www.imf.org/external/datamapper/FiscalRules/map/map.htm>
- de Biase, Pietrangelo and Sean Dougherty. 2022. "The past and future of subnational fiscal rules: An analysis of fiscal rules over time". *OECD Working Papers on Fiscal Federalism*, No. 41, OECD Publishing, Paris. <https://doi.org/10.1787/d2798c9e-en>.
- European Commission and Directorate-General for Budget. 2014. *European Union public finance*, Publications Office. <https://data.europa.eu/doi/10.2761/17724>.

- European Commission. 2021. *NextGenerationEU: Commission carries out €800 million of first payments to foster crisis repair and resilience*. [https://ec.europa.eu/regional\\_policy/home\\_en](https://ec.europa.eu/regional_policy/home_en).
- European Commission. 2023. *Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure*. <https://eur-lex.europa.eu/legal-content/SL/TX-?uri=COM%3A2023%3A241%3AFIN>.
- European Council. 2024a. *2024 EU budget*. Consilium. <https://www.consilium.europa.eu/en/infographics/2024-eu-budget/>.
- European Council. 2024b. *Economic governance review: Council and Parliament strike deal on reform of fiscal rules*. <https://www.consilium.europa.eu/en/press/press-releases/2024/02/10/economic-governance-review-council-and-parliament-strike-deal-on-reform-of-fiscal-rules/>.
- European Court of Auditors. 2024. *Proposal for a regulation of the European Parliament and of the Council on the European Digital Tax* (CELEX: 52024SA0016(01)). [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:-52024SA0016\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:-52024SA0016(01)).
- European Parliament. 2024. *New EU fiscal rules approved by MEPs*. Press Release. <https://www.europarl.europa.eu/news/en/press-room/20240419IPR20583/new-eu-fiscal-rules-approved-by-meps>.
- European Union. 1992. *Treaty on European Union (Consolidated Version)*, Treaty of Maastricht, Official Journal of the European Communities C 325/5. <https://www.refworld.org/legal/agreements/eu/1992/en/16882>.
- Feás, Enrique. 2023. “An insufficient reform of the EU’s fiscal rules”. ARI 53/2023, *Elcano Royal Institute*. <https://www.realinstitutoelcano.org/en/analyses/an-insufficient-reform-of-the-eus-fiscal-rules/>.
- Federal Ministry of Finance. 2024. *Overview of federal budgetary and financial data up to and including January 2024*, monthly report. [https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press\\_Room/Publications/Monthly\\_Report/Key\\_Figures/2024/2024-02-federal-budget.html](https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press_Room/Publications/Monthly_Report/Key_Figures/2024/2024-02-federal-budget.html).
- Hayashi, Andrew T. and Young Ran Kim. 2023. “Taxing digital platforms”. *Virginia Journal of Law and Technology*, 26(1). <https://ssrn.com/abstract=4681167>.
- Höflmayr, Martin. 2024. “New Economic Governance Rules”. *European Parliament*. [https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747906/EPRS\\_BRI\(2023\)747906\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747906/EPRS_BRI(2023)747906_EN.pdf).
- Lorenzoni, Guido, Francesco Giavazzi, Veronica Guerrieri in Leonardo D’Amico. 2023. “New EU fiscal rules and governance challenges”. *CEPR*. <https://cepr.org/voxeu/columns/new-eu-fiscal-rules-and-governance-challenges>.
- Minea, Alexandru and Patrick Villieu. 2012. “Persistent Deficit, Growth, and Indeterminacy”. *Macroeconomic Dynamics*, 16, 267–283.

- Pappa, Evi. 2020. "Fiscal Rules, Policy and Macroeconomic Stabilization in the Euro Area". *ECB*. <https://www.semanticscholar.org/paper/Fiscal-Rules%2C-Policy-and-Macroeconomic-in-the-Euro-Pappa/4de0ec498e3a481f07b816193c55afbae58cb3da>.
- PDEU. 2007. Conference of the Representatives of the Governments of the Member States. *Consolidated version of the Treaty on the Functioning of the European Union*, 2008/C 115/01. <https://www.refworld.org/legal/agreements/eu/2007/en/97880>.
- Postuła, Marta. 2022. *Public Financial Management in the European Union: Public Finance and Global Crises (1st ed.)*. Routledge. <https://doi.org/10.4324/9781003222033>.
- Rant, Vasja. 2018. "EU proračun: od kod pride in kam gre evropski denar?" *Intelektta Audio podcast*. <https://prvi.rtvsllo.si/podkast/intelekta/49/174583363>.
- Sapir, André, Philippe Aghion, Giuseppe Bertola, Martin Hellwig, Jean Pisani-Ferry, Dariusz Rosati, José Viñals, Helen Wallace, Marco Buti, Mario Nava in Peter M. Smith. 2004. *An Agenda for a Growing Europe: The Sapir Report*, Oxford University Press
- Tordoir, Sander, Jasper van Dijk and Vinzenz Ziesemer. 2023. "Five proposals for enforceable EU fiscal rules". *Centre for European Reform*. <https://www.cer.eu/publications/archive/policy-brief/2023/five-proposals-enforceable-eu-fiscal-rules>.
- Vinturis, Cezara. 2022. "How Do Fiscal Rules Shape Governments' Spending Behavior?" *Economic Inquiry*. <https://uca.hal.science/hal-03839781>.