

2. Fiscal policy coordination in the European Union and dilemmas in its enforcement

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Abstract: EU fiscal governance is examined as a system caught between common rules and uneven national implementation. The chapter follows the evolution of coordination from the Maastricht framework and Stability and Growth Pact through the six-pack, two-pack, Fiscal Compact, European Semester and 2024 reform. Descriptive, normative and diachronic analysis is used to trace how surveillance has become more complex while still struggling to secure compliance. Five tensions shape the discussion: rigidity versus flexibility, national priorities versus collective interest, responsibility versus solidarity, technocratic indicators versus political bargaining, and legal norms versus limited implementation. The chapter shows that soft-law recommendations depend heavily on trust and political will. Stronger fiscal resilience demands reliable reporting, credible enforcement, better national alignment and sanctions that are realistic enough to be applied.

Keywords: fiscal policy, budgetary policy, fiscal rules, coordination of economic policies.

Introduction

Fiscal policy coordination is one of the fundamental elements of economic governance in the European Union. Its importance stems from the need to ensure the stability of the public finances of the Member States, to limit the negative spillover effects of national budgetary policies, and to maintain the economic stability of the European Union as a whole, particularly the euro area. Unlike monetary policy, which has been centralized within the euro area and entrusted to the European Central Bank, fiscal policy remains within the competence of the Member States. This creates the need to develop coordination mechanisms that, on the one hand, respect the budgetary sovereignty of the Member States and, on the other hand, ensure that national fiscal policies are consistent with the economic and fiscal objectives of the European Union.

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The development of the EU framework for fiscal policy coordination reflects the lessons learned from successive economic and financial crises. The fiscal surveillance system has undergone gradual evolution, beginning with the establishment of the convergence criteria in the Maastricht Treaty and the adoption of the Stability and Growth Pact, followed by the reforms introduced in the aftermath of the global financial crisis through the so-called Six-Pack and Two-Pack legislative packages, as well as the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, and culminating in the reform of the EU fiscal rules applicable since 2024. These reforms were intended to enhance the effectiveness of fiscal surveillance, improve the transparency of the rules, and adapt them to the diverse fiscal situations of the Member States. At the same time, they have resulted in an increasingly complex system of legal norms, procedures, and supervisory instruments, the practical application of which has generated considerable controversy both in the academic literature and in political debate.

A particularly significant issue in the discussion on the effectiveness of EU fiscal policy coordination concerns the enforcement of the established fiscal rules. Experience to date demonstrates that formally binding provisions are not always applied uniformly across all Member States. In practice, decisions concerning the initiation of the excessive deficit procedure, the application of corrective measures, or the imposition of sanctions are often influenced by political, economic, and institutional considerations. Consequently, a tension arises between the normative character of the EU fiscal rules and their actual implementation, raising questions about the effectiveness and credibility of the EU's system of economic governance as a whole.

The aim of this chapter is to examine the issue of Member States' compliance with the EU fiscal rules within the framework of the coordination of economic policies and to identify the dichotomy in the enforcement of those rules. The research hypothesis assumes that the ongoing evolution of the fiscal policy coordination framework has led to growing discrepancies between the theoretical assumptions underlying the principles established in European Union law and their practical implementation by the Member States. To test this hypothesis, the chapter employs descriptive, normative, and diachronic research methods, enabling an analysis of the evolution of the EU's legal and institutional framework and an assessment of its functioning in practice.

The structure of the chapter follows the adopted research objective. The first part provides the theoretical background for the analysis of fiscal policy and its relationship with monetary policy. The second part outlines the evolution of the coordination of economic policies within the European Union, with particular emphasis on the development of fiscal surveillance instruments. The third part

analyses selected provisions of the reform of the EU fiscal rules applicable since 2024 in comparison with the previous legal framework, seeking to determine whether the new solutions simplify the system or, conversely, increase its complexity and interpretative challenges. The fourth part discusses five principal manifestations of the dichotomy in the enforcement of fiscal rules within the European Union, namely the discrepancies between legal norms and their practical application, the tension between flexibility and fiscal discipline, the conflict between the uniformity of the rules and the diversity of Member States' fiscal situations, the contrast between the technical nature of fiscal surveillance and its political dimension, and the divergence between the formal equality of Member States before the law and the differentiated practice of enforcing fiscal obligations.

The chapter contributes to the current debate on the future of EU economic governance, particularly in the context of the challenges posed by high levels of public debt, the need to finance the green and digital transitions, increasing expenditure on security and defence, and the necessity of maintaining the long-term sustainability of public finances. Assessing the effectiveness of the new framework for fiscal policy coordination is of considerable importance both for the further development of European Union economic law and for the practical conduct of fiscal policy by the Member States.

2.1. Fiscal and monetary policy in the Keynesian and monetary theories

The current conditions and challenges of conducting stabilising fiscal policy in the euro area are the subject of intense debate among economists. Fiscal (budgetary) policy refers to broadly defined state activities related to public finances and the budget. In Polish academic literature, the term “tax policy” is also used, since a number of economists believe that “fiscal policy” can be understood only as tax regulation (Oręziak, 2009, p. 45). Used interchangeably, the two terms cover a wide range of government activities, including designing tax policy, managing budgetary expenses, financing the social security system, and the activities of other public institutions, both governmental and municipal. Fiscal policy and monetary policy work together to shape the macroeconomic equilibrium. On the one hand, central bank actions in monetary policy affect the conditions under which governments conduct fiscal policy; on the other, fiscal policy decisions affect central bank actions. In the economic literature, the combination of these two policies is referred to as the “policy mix”.

In economic theory, the dispute over the conduct of fiscal policy is mainly between Keynesians and monetarists. Both for proponents of the Keynesian

and monetarist theories, the primary role of fiscal policy is macroeconomic stabilisation. Keynesians believed that money and monetary policy play a role in shaping economic activity in the short run, e.g., through the central bank's ability to stimulate the economy by lowering interest rates and increasing the demand for credit. In their view, monetary policy has only a limited impact on the level of aggregate output and the course of the business cycle. In their interpretation, the monetary policy merely complements fiscal policy, whose greater effectiveness was attributed to its ability to affect aggregate demand more quickly and directly and to the greater predictability of its effects (Cargill, 2001, p. 116; Espinosa-Vega, 1998, p. 15; Kiedrowska & Marszałek, 2003, p. 73).

In Keynesian theory, fiscal policy is countercyclical, meaning that it operates in the opposite direction to the business cycle (Keynes, 2003; Markowski, 2018, p. 77). During a recession, it should be deployed in an expansionary manner by increasing fiscal spending and/or reducing taxes, as such actions have a positive effect on aggregate consumer spending and consequently increase aggregate demand, real income and employment levels (Birol & Gencer, 2014, pp. 106–119). Expansionary fiscal policy leads to budget deficits and public debt; however, this should not be viewed negatively, as the incurrence of public debt can help counteract short-term declines in economic activity. The additional spending made possible by moving away from a balanced budget creates the multiplier effect that leads to increased employment and output. In the long run, the debt resulting from the deficit can be repaid through increased GDP (Owsiak, 2002, pp. 46–47). When an economy shows signs of overheating and the threat of rising inflation looms, fiscal policy should be tightened to curb public spending, raise taxes, and reduce demand pressures. In each of the above cases, the extent of fiscal action depends on the value of the fiscal multiplier, which measures the overall output growth generated by additional government spending to mitigate the effects of the crisis (Kiedrowska & Marszałek, 2003, p. 75; Wildowicz-Szumańska, 2021, pp. 118–119).

Unlike Keynesians, monetarists took a very different view of fiscal policy, attributing to it a much more limited role. In their view, fiscal policy serves mainly to correct social inequalities and to allocate resources but is unable to solve business cycle problems (Kiedrowska & Marszałek, 2003, p. 76). According to monetary theory, crises are most often caused by a reduction in the availability of money, while an excessive increase in the money supply leads to inflation. For this reason, monetarists contend that only monetary policy should be used to support the economy, as it has the ability to self-regulate (Wildowicz-Szumańska, 2021, p. 119).

From the creation of the euro area until the 2008 crisis, the relationship between fiscal and monetary policy stemmed from the widespread recognition

that each is limited to its own separate spheres of influence. Levy noted that fiscal policy affects resource allocation, savings, investment and consumption, while monetary policy focuses on demand management. This approach may have led to marginalising the need to coordinate them. In the economic discourse, it has been argued that a common currency area does not increase the requirement for cooperation between fiscal and monetary policy. If the functions of both policies are performed systematically, coordination becomes unnecessary (Barczyk & Lubiński, 2009; Markowski, 2019, p. 150). In order to reflect on coordination and application of the “policy mix”, it is crucial to take into account that the euro area was established during the period of neoliberalism, i.e. during the period of popularity of monetary theory and new classical economics, while the idea of coordination of fiscal and monetary actions is symptomatic of Keynesian theory (Barczyk & Lubiński, 2009; Markowski, 2019, p. 150).

2.2. Evolution of the coordination of economic policies in the EU

Coordination of the Member States’ economic policies had already been provided for in the 1957 Treaty of Rome, which led to the formal development of procedures and the establishment of relevant committees (Apel, 1998, p. 29). Since the mid-1960s, the European Commission has prepared special medium-term economic programmes. In general, these have mainly contained recommendations and guidelines on price stability, exchange rates, structural policies and, to a lesser extent, public finance or regional policies. However, macroeconomic data and forecasts for individual countries were not always consistent and comparable. Moreover, there has been a lack of alternative scenarios for economic development, while recommendations and guidelines were not binding, as they were not subject to consultation with the Commission (Szeląg, 2003, p. 14). By the end of the 1960s, the problem of the inadequacy of the adopted mechanisms of economic policy coordination became apparent. At that time, the Commission prepared and submitted to the Council a document on the coordination of economic policies and monetary cooperation, known as the Barre Plan (European Commission, 1969). This was followed a year later by the Werner Plan (Council – Commission of the European Communities, 1970), which envisaged the creation of an economic and monetary union within ten years, i.e. by the end of 1980. However, the breakthrough in the introduction of mechanisms for coordinating economic policies, including fiscal policies, only appeared when the Maastricht Treaty came into force in 1993. This document introduced provisions for an Economic and Monetary Union (EMU), including a single monetary policy

for the euro area. Authorisations and responsibilities for carrying out the fiscal policy remained the remit of individual Member States, while the EU's role in the fiscal policy is limited to coordination and monitoring (Articles 5(1) and 121(1) TFEU). The European Union has neither the competence nor the instruments to carry out its own fiscal policy (no fiscal union), and its actions are limited to monitoring national budgets and assessing their compliance with collectively agreed fiscal policy rules, such as the Maastricht criteria for public debt and deficit limits. The purpose of such supervision is to limit the potential negative effects of decentralised management of the economic policy within a monetary union (Dermine, 2022, p. 8). The autonomous economic policies of individual Member States affect both the unified monetary policy and the exchange rate policy of the euro area. Consequently, a significant risk exists that inappropriate, irresponsible or unilateral economic actions focused solely on the national interests of a select few countries could destabilise the euro area as a whole and threaten the common interests of its members (European Commission, 2002).

In practice, many countries have struggled to comply with the fiscal policy restrictions set out in the Maastricht Treaty. Although the conditions for convergence were rigorously defined, once countries met them and entered the euro area, they often lost the incentive to continue complying with them, especially as regards avoiding excessive budget deficits. Consequently, three years after the adoption of the Maastricht Treaty, the Stability and Growth Pact (SGP)¹ was developed to clarify the fiscal rules. This document contained detailed provisions on fiscal criteria, their implementation, monitoring, and enforcement. The adoption of the Pact was intended to prevent euro area countries from taking an excessively casual approach to the rules stemming from the convergence criteria.² The rules established in the Pact apply to all countries of the European Union, but the Pact's corrective part applies only to the euro area countries (Panico & Vázquez Suárez, 2007, p. 3). The purpose of the preventive function is to ensure that the fiscal policy is balanced over the economic cycle, i.e. that

¹ The Stability and Growth Pact is an agreement of the European Union Member States concluded on 17 June 1997 during the European Council summit in Amsterdam.

² The Stability and Growth Pact consists of three documents: 1) Resolution of the European Council. (1997). Resolution of the European Council on the Stability and Growth Pact Amsterdam, 17 June 1997, Official Journal, C 236, Volume 40, 2 August 1997 (resolution is an act without legally binding force) – it is a political commitment of all parties involved in the implementation of the Stability and Growth Pact (Commission, Member States and the Council of the EU) to fully implement the budgetary surveillance process while respecting the set deadlines. 2) EU Council Regulation No. 1466/97 of July 7, 1997, on the strengthening of the surveillance of budgetary positions and the coordination of economic policies – the provisions contained in this regulation are of preventive nature. 3) Council Regulation (EC) No 1467/97 of July 7, 1997, on speeding up and clarifying the implementation of the excessive deficit procedure – the provisions contained in this regulation are of a corrective nature.

the medium-term budgetary objective, which is specific to each member state, is achieved. On the other hand, if the national budget deficit exceeds 3% of GDP or the public debt exceeds 60% of GDP (Treaty values), EU countries will take corrective measures.

In the late 1990s and early 2000s, Europe struggled to maintain its economic and fiscal rules. It was a period of economic stagnation characterised by near-zero economic growth. Budget deficits increased in most countries as a result of automatic stabilisers, and certain countries, such as Portugal and the Netherlands, exceeded the deficit limits set by the Stability and Growth Pact. Inflation exceeded 2% for most of that period, and the European Central Bank was criticised for being slow to cut interest rates. France and Germany, the euro area's largest economies, also exceeded the budget deficit limit during this difficult time (Table 2.1). Despite these problems, the rules of the Stability and Growth Pact continued to apply. However, because of the limitations of monetary and fiscal policies and the difficulties in complying with the Pact, the major euro area countries began to push for greater flexibility and mitigation of its strict rules (Zsolt de Sousa, 2004, pp. 7–8).

Table 2.1. EU Member States' budget deficits from 2000 to 2005

State	2000	2001	2002	2003	2004	2005
Belgium	-0,1	0,2	0,0	-1,9	-0,2	-2,7
Bulgaria	0,1	0,7	-1,1	0,0	1,8	1,6
Czechia	-3,6	-5,8	-6,4	-6,9	-2,4	-3,0
Denmark	1,9	1,1	0,0	-0,1	2,1	5,0
Germany	-1,6	-3,0	-3,9	-3,7	-3,3	-3,3
Estonia	-0,1	0,2	0,4	1,8	2,4	1,1
Ireland	4,9	1,0	-0,5	0,3	1,3	1,6
Greece	-4,1	-5,5	-6,0	-7,8	-8,8	-6,2
Spain	-1,2	-0,5	-0,3	-0,4	-0,1	1,2
France	-1,3	-1,4	-3,2	-4,1	-3,5	-3,5
Croatia	-8,8	-4,6	-4,6	-4,6	-5,7	-3,0
Italy	-2,4	-3,2	-2,9	-3,2	-3,5	-4,1
Cyprus	-2,2	-2,1	-4,1	-5,9	-3,7	-2,2
Latvia	-2,7	-1,9	-2,3	-1,6	-1,2	-0,5
Lithuania	-3,2	-3,5	-1,9	-1,3	-1,4	-0,3
Luxembourg	5,5	5,6	2,0	0,3	-1,4	-0,2
Hungary	-3,0	-4,0	-8,8	-7,2	-6,6	-7,8
Malta	-5,5	-6,1	-5,3	-8,9	-4,2	-2,8

State	2000	2001	2002	2003	2004	2005
Netherlands	1,2	-0,4	-2,0	-3,1	-1,8	-0,5
Austria	-2,4	-0,7	-1,4	-1,8	-4,8	-2,5
Poland	-4,0	-4,7	-4,8	-6,0	-5,0	-3,9
Portugal	-3,2	-4,8	-3,3	-5,7	-6,2	-6,1
Romania	-4,6	-3,5	-1,9	-1,4	-1,1	-0,8
Slovenia	-3,6	-4,5	-2,4	-2,6	-1,9	-1,3
Slovakia	-12,6	-7,2	-8,2	-3,1	-2,3	-2,9
Finland	6,9	5,0	4,1	2,4	2,2	2,7
Sweden	3,1	1,4	-1,4	-1,2	0,2	1,8

Source: (Eurostat, n.d.).

The PSW was reformed in 2005, easing the criteria for assessing whether a country has an excessive deficit and extending the deadlines applicable to this procedure.

During the crisis that began in 2007, the importance of coordinating fiscal and monetary policies increased significantly. The recession was largely the result of mistakes in monetary policy implementation (such as maintaining low interest rates and inadequate supervisory mechanisms) and insufficient restrictiveness of the fiscal policy, mainly manifested in the growing public debt and budget deficits of Member States (e.g., Spain, Greece and Portugal) (Table 2.2). Inadequate coordination between these two policies exacerbated the crisis, as the fiscal policy was characterised by a lack of fiscal discipline and low taxes, which were implemented in parallel with lax monetary policy (Owsiak, 2012, pp. 47–62). During the 2008 crisis, the EC witnessed a reassessment of views on the role of fiscal policy, resulting in a greater emphasis on the coordination of fiscal policy with monetary policy and a turn to Keynesian theories. Corsetti et al. point out that in the event of a recession, a joint monetary and fiscal policy may be necessary to satisfactorily stabilise the economy (Corsetti et al., 2016, pp. 1–29).

In 2011, the “Six-Pack” was adopted, i.e. a legislative package (five regulations and a directive) containing rules that apply to EU countries in and outside the euro area. The EU regulations (Regulation (EU), 2011a, 2011b, 2011c, 2011d, 2011e) apply to EU countries, except for Regulations No. 1173/2011 and No. 1174/2011, which apply to euro area countries. Two of the five regulations, i.e. Regulation No. 1175/2011 and Regulation No. 1177/2011, are at the same time regulations amending the PSW, meaning that they are consequently part of it. On the other hand, according to Council Directive 2011/85/EU of November 8, 2011, on requirements for the fiscal framework of the Member States, the Member States should establish institutions and mechanisms to independently

monitor compliance with fiscal rules, such as limits on the budget deficit or public debt. The Fiscal Council operates as an independent expert and advisory body, acting as a guardian of financial stability by assessing and monitoring the government's fiscal policy.³

Table 2.2. Budget deficit of EU Member States from 2007 to 2011

State	2007	2008	2009	2010	2011
Belgium	0,1	-1,1	-5,4	-4,1	-4,3
Bulgaria	0,0	1,4	-4,4	-3,7	-1,7
Czechia	-0,6	-2,0	-5,4	-4,2	-2,7
Denmark	5,0	3,2	-2,8	-2,7	-2,1
Germany	0,3	-0,1	-3,2	-4,4	-0,9
Estonia	2,7	-2,6	-2,2	0,2	1,1
Ireland	0,3	-7,0	-13,9	-32,1	-13,6
Greece	-6,7	-10,2	-15,2	-11,4	-10,5
Spain	1,9	-4,6	-11,3	-9,5	-9,7
France	-3,0	-3,5	-7,4	-7,2	-5,3
Croatia	-2,1	-2,3	-7,0	-6,7	-7,6
Italy	-1,3	-2,6	-5,1	-4,2	-3,6
Cyprus	3,2	0,9	-5,4	-4,7	-5,7
Latvia	-0,6	-4,3	-9,5	-8,6	-4,3
Lithuania	-0,8	-3,1	-9,1	-6,9	-8,9
Luxembourg	4,4	3,4	-0,2	-0,3	0,7
Hungary	-5,1	-3,8	-4,7	-4,4	-5,2
Malta	-2,0	-4,1	-3,1	-2,2	-3,0
Netherlands	-0,2	0,1	-5,2	-5,3	-4,4
Austria	-1,4	-1,5	-5,3	-4,4	-2,6
Poland	-1,9	-3,6	-7,3	-7,5	-5,0
Portugal	-2,9	-3,7	-9,9	-11,4	-7,7
Romania	-2,8	-5,4	-9,5	-7,1	-5,6
Slovenia	0,0	-1,4	-5,8	-5,6	-6,6
Slovakia	-2,1	-2,5	-8,1	-7,5	-4,3
Finland	5,1	4,2	-2,5	-2,5	-1,0
Sweden	3,3	1,9	-0,9	-0,1	-0,4

Source: (Eurostat, n.d.).

³ In Poland, on 22 October 2024, the Government adopted the draft act on the Fiscal Council and submitted it to the Sejm. The Fiscal Council began carrying out its tasks in 2026, while its members were elected in 2025.

The preventive part (Regulation (EU), 2011e, f) focuses on the achievement and maintenance of medium-term budgetary objectives by Member States. These are set in structural terms, i.e. after adjusting the nominal balance for the impact of the business cycle and after adjusting for one-off and temporary measures. In addition, the objectives are tailored individually to each country, taking into account its economic and budgetary situation in relation to financial stability. In addition, the scope of the information required in the stability and convergence programmes has been broadened. These programmes should also include an analysis of the costs and benefits of significant structural reforms that directly lead to improvements in public finances in the long run. The corrective part (Regulation (EU), 2011f) clarifies and strengthens the rigour of the excessive deficit procedure. If general government debt exceeds the reference value, the debt-to-GDP ratio is considered to be sufficiently diminishing and approaching the reference value at a satisfactory pace if, over the previous three years, its distance from the reference value has been decreasing at an average rate of 1/20 per year, based on the changes over the previous three years for which data are available.

The next step in strengthening the fiscal discipline of the euro area countries and the fiscal surveillance mechanisms was the adoption by the European Commission of two regulations, known as the “Two-Pack”, and the signing of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, known as the Fiscal Compact. The regulations (Regulation (EU), 2013a, b) of the “Two-Pack” introduce certain obligations and procedures for all euro area countries, as well as for euro area countries subject to an excessive deficit procedure. The reform also introduces a system of progressive surveillance by the Council and the Commission to ensure timely and sustainable correction of excessive deficits and enable early identification of risks of a Member State not complying with the provisions of the Stability and Growth Pact. The Fiscal Pact introduces the “Budget Pact”, which contains recommendations closely linked to the procedures provided for in Articles 119-144 of the TFEU, Protocol No. 12 to the TFEU, the provisions of the Stability and Growth Pact and the “Six-Pack”. The economic indicators mentioned in the Treaty are also subject to the provisions of the Pact, the “Six-Pack” and the TFEU, which they faithfully reflect.

Furthermore, in 2015, the Commission established the European Fiscal Board (European Commission, 2016), following a recommendation in the Five Presidents’ Report (European Commission, 2017) to create an advisory European Fiscal Board to strengthen the EU’s governance framework by such actions as coordinating and complementing the work of national independent fiscal accountability bodies, and providing independent public assessment of the performance of budgets and their implementation against EU budgetary objectives.

A further change in the coordination of macroeconomic policies, including fiscal policy came in 2024, following the review of the effectiveness of the economic surveillance framework and as a result of economic shocks, including the impact of the combination of reforms and investments under the post-COVID-19 pandemic recovery and resilience instrument.⁴

Table 2.3. EU Member States' budget deficit from 2020 to 2023

State	2020	2021	2022	2023
Belgium	-9,0	-5,4	-3,6	-4,4
Bulgaria	-3,8	-3,9	-2,9	-1,9
Czechia	-5,8	-5,1	-3,2	-3,7
Denmark	0,3	4,1	3,3	3,1
Germany	-4,3	-3,6	-2,5	-2,5
Estonia	-5,4	-2,5	-1,0	-3,4
Ireland	-5,0	-1,5	1,7	1,7
Greece	-9,8	-7,0	-2,5	-1,6
Spain	-10,1	-6,7	-4,7	-3,6
France	-8,9	-6,6	-4,8	-5,5
Croatia	-7,2	-2,5	0,1	-0,7
Italy	-9,4	-8,7	-8,6	-7,4
Cyprus	-5,7	-1,8	2,7	3,1
Latvia	-4,4	-7,2	-4,6	-2,2
Lithuania	-6,5	-1,1	-0,6	-0,8
Luxembourg	-3,4	0,5	-0,3	-1,3
Hungary	-7,6	-7,2	-6,2	-6,7
Malta	-9,4	-7,6	-5,5	-4,9
Netherlands	-3,7	-2,2	-0,1	-0,3
Austria	-8,0	-5,8	-3,3	-2,7
Poland	-6,9	-1,8	-3,4	-5,1
Portugal	-5,8	-2,9	-0,3	1,2
Romania	-9,3	-7,2	-6,3	-6,6
Slovenia	-7,6	-4,6	-3,0	-2,5
Slovakia	-5,3	-5,2	-1,7	-4,9
Finland	-5,6	-2,8	-0,4	-2,7
Sweden	-2,8	0,0	1,2	-0,6

Source: (Eurostat, n.d.).

⁴ https://ec.europa.eu/commission/presscorner/detail/pl/ip_22_6562 (retrieved December 31, 2024).

Table 2.4. General government debt 2020–2023

State	2020	2021	2022	2023
Belgium	111,9	107,9	104,3	105,2
Bulgaria	24,6	23,9	22,6	23,1
Czechia	37,7	42,0	44,2	44,0
Denmark	42,3	36,0	29,8	29,3
Germany	68,8	69,0	66,1	63,6
Estonia	18,6	17,8	18,5	19,6
Ireland	58,1	54,4	44,4	43,7
Greece	207,0	195,0	172,7	161,9
Spain	120,3	116,8	111,6	107,7
France	114,9	113,0	111,9	110,6
Croatia	86,1	77,5	67,8	63,0
Italy	155,0	147,1	140,5	137,3
Cyprus	114,9	99,3	85,6	77,3
Latvia	42,7	44,4	41,8	43,6
Lithuania	46,2	43,4	38,1	38,3
Luxembourg	24,6	24,5	24,7	25,7
Hungary	79,3	76,7	74,1	73,5
Malta	52,2	53,9	51,6	50,4
Netherlands	54,7	51,7	50,1	46,5
Austria	82,9	82,5	78,4	77,8
Poland	57,2	53,6	49,2	49,6
Portugal	134,9	124,5	112,4	99,1
Romania	46,7	48,5	47,5	48,8
Slovenia	79,6	74,4	72,5	69,2
Slovakia	58,8	61,1	57,7	56,0
Finland	:	:	73,5	75,8
Sweden	40,2	36,7	33,2	31,2
Norway	:	:	:	:

Note: : – not available.

Source: (Eurostat, n.d.).

Between 2020 and 2023, Member States faced high budget deficits and public debt. An analysis of Eurostat data (Table 2.3 and Table 2.4) shows that only a small number of countries experienced a downward trend in these indicators, following a sharp deterioration in public finance indicators in 2020 and 2021,

driven by the need to mobilise financial assistance from national funds to rescue Member State economies. It should also be noted that, as of March 2020, a general exit clause of the Stability and Growth Pact was triggered in response to the crisis caused by the COVID-19 pandemic. The temporary relinquishment from the standard budgetary requirements of the Pact allowed Member States to respond flexibly to the exceptional economic circumstances that prevailed at the time. According to the Communication of the European Commission of November 9, 2022, this clause was in force until the end of 2023.

On 23 April 2024, the European Parliament adopted legislation governing the coordination of economic policies, including an overhaul of the EU's fiscal rules to make them simpler, more investment-friendly, better adapted to each country's situation, and more flexible (European Council, 2024a; European Council, 2024b; European Parliament, 2024). These new rules include provisions that grant Member States more freedom in their fiscal policy. In particular, the time to achieve the objectives of the national plans has been extended by three additional years compared to the standard four years. This additional time can be granted for any reason the Council deems appropriate, not only if certain criteria are met, as originally proposed. Countries with excessive debt would be subject to safeguards, requiring them to reduce their debt by an average of 1% per year if this debt exceeds 90% of GDP, and by an average of 0.5% per year if their debt is between 60% and 90% of GDP. These rules are less restrictive than the current requirement that each country reduce its debt by 1/20th of the amount above 60% each year. If a country's deficit exceeds the 3% of GDP threshold, the requirement would be to reduce it to 1.5% during periods of growth to build a spending buffer against difficult economic conditions. As a result of the European Commission's new rules, it will now be more difficult for a Member State to become subject to the excessive deficit procedure if it is making the necessary investments, as any domestic expenditure related to the co-financing of EU-funded programmes will be excluded from the government's expenditure calculations. The legislation requires Member States to clarify in their national plans how they will invest in EU priority areas, such as climate and digital transformation, energy security and defence. The new rules are designed to encourage and facilitate the implementation of key reforms and investments by Member States. When reporting on a Member State's deviation from the expenditure path, the Commission will take the investments already made in the above-mentioned priority areas into account in its assessment, thus giving the Member State the opportunity to make a case for not being subject to the excessive deficit procedure.

For Member States facing serious public debt management challenges, a deviation from the agreed fiscal adjustment path will, in principle, trigger the excessive deficit procedure. The social dimension will also be strengthened

within the European Semester process. The Commission will assess both the implementation of the principles of the European Pillar of Social Rights and the risks to social convergence. Member States must therefore ensure that their national plans also contribute to social objectives.

2.3. The dichotomy in the enforcement of fiscal rules in the EU

The legal order adopted in the EU with respect to the economic governance framework considers the differences among Member States' fiscal situations, public debt and economic challenges. Moreover, it includes a very comprehensive system of economic policy coordination and monitoring. As a rule, the introduction of any fiscal governance reform is preceded by an analysis of the economic situation of individual EU Member States, taking into account current regional and global conditions. It is assumed that any new arrangement should facilitate the process of economic coordination and monitoring, including the pursuit of prudent fiscal policies, aiming at a gradual, realistic, sustainable and growth-friendly reduction of debt and deficit ratios to prudent levels, considering employment and social objectives. However, an analysis of the fiscal policy coordination reforms introduced from the adoption of the Stability and Growth Pact until 2024 shows that some tension exists between the theoretical assumptions of the fiscal policy coordination rules introduced at the EU level and the practical implementation of these rules. Facilitating the application of economic policy coordination mechanisms in practice means making the solutions introduced by the EU more difficult and complicated. This aspect of the dichotomy is also pointed out by Dermine. The thematic scope of economic policy coordination mechanisms has been expanded to include key fiscal variables such as public debt, deficit, structural balance, or expenditure levels. This allows EU institutions to analyse and challenge all relevant factors shaping national fiscal systems. The procedures and mechanisms supporting the system have been significantly expanded and improved, resulting in a more intensive, intrusive and restrictive surveillance model. The euro area countries are now subject to a rigorous regime of reporting requirements, monitoring procedures and review mechanisms, resulting in constant interaction with EU institutions, as well as systematic assessment and scrutiny of their fiscal policies. On the one hand, the complex procedural architecture underlying today's EU fiscal governance system provides national authorities with a robust and flexible framework for the conduct of fiscal policy; on the other, it requires countries to continuously provide justifications for the selecting and using particular instruments over others to implement these

policies. Fiscal surveillance in the post-crisis era is characterised by an even more difficult approach to enforcement and compliance (Dermine, 2022, p. 8). As pointed out in the European Commission Communication, November 9 2022, “the established economic governance framework did not sufficiently allow for differential treatment of Member States, despite their different fiscal situations” (European Commission, 2022).

The problem of the dichotomy in enforcing responsible fiscal policies in Member States can be observed in several dimensions:

1. **Rigidity vs. flexibility of fiscal rules.** The fiscal rules established by EU institutions contain clauses permitting certain expenditures to be excluded, their amount to be reduced for the purpose of assessing budget deficit and public debt indicators, or temporarily suspended in exceptional situations, such as in the event of a severe economic crisis (e.g., COVID-19). Such flexibility, to the extent that it allows for crisis response, has been criticised as undermining its effectiveness and consistency of enforcement.
2. **National interest vs. community interest.** Member States frequently prioritise their own economic agendas over collective rules, leading to divergent perceptions of national and EU objectives. Member States often prefer pro-cyclical fiscal policies and thus do not take advantage of periods of economic prosperity to build up fiscal buffers. Such behaviour is related to political economy, the competence of policymakers and a number of political factors that can impede good fiscal policy (Balassone & Franco, 2001). Furthermore, the enforcement of these fiscal rules can sometimes be selective, exacerbating tensions between countries that favour strict fiscal discipline and countries that are more likely to break the rules due to higher fiscal needs.
3. **Accountability vs. solidarity.** This dimension is related to the previous one. The established framework for economic governance, including the coordination of Member States’ fiscal policies, is based on Member States’ responsibility for their public finances. At the same time, the EU implements the principle of solidarity, which forms the basis for cooperation between Member States and their joint action and support. In practice, the principle of solidarity means expressing the willingness to help each other in crisis situations, to pursue EU goals together and to take into account the interests of other Member States, e.g., in the form of aid funds or post-crisis reconstruction programmes. At times, Member States may take advantage of this principle, as it can encourage greater indebtedness in the expectation of community support at a later date.
4. **Technocratic nature of rules vs. political decisions.** EU fiscal rules are formulated in a technocratic manner and are based on precise mathematical

criteria. In contrast, decisions addressed to Member States, such as the existence of an excessive deficit, depend on political decisions, which often lead to conflicts and different interpretations in the European Council and the European Commission.

5. Normative assumptions vs. practice. While fiscal rules have been introduced in EU legislation to maintain fiscal stability and cap public deficits (up to 3% of GDP) and public debt (up to 60% of GDP), in practice, many Member States do not comply with these rules (Tables 2.1, 2.2, 2.3 and 2.4). Governments frequently fail to meet the established criteria, while sanctions for non-compliance are rarely applied or prove ineffective. The normative assumptions of fiscal policy coordination in the EU, arising from the difference between the declared and actual need for Member States to enforce fiscal rules, also involve the application of so-called hard law and soft law (Chrostek, 2022, pp. 183–208; Trubek et al., 2005, pp. 1–34). Hard EU law includes binding rules such as treaties, regulations and directives, while soft law includes non-binding instruments such as recommendations, opinions and guidelines (Treaty, 2012, Art. 288, 2012). The current system of fiscal governance in the euro area is based on hard law instruments (e.g., TFEU, regulations). According to various treaty procedures, the European institutions, starting with the Council of the EU, are competent to adopt decisions, i.e. acts that have explicit binding legal effects on their addressees (Treaty, 2012, Art. 288, § 4). However, as regards the most relevant elements of this regulatory system, the instructions which the EU addressed to national fiscal authorities are often contained in legal acts that are considered soft law, e.g. opinions addressed by the Commission to a Member State when an assessment of the budgetary situation and the level of government debt shows that an excessive deficit exists or may occur (Treaty, 2012, Art. 126, § 5), or recommendations: if the Council concludes that an excessive deficit exists, it shall, upon a recommendation from the Commission, adopt without undue delay recommendations addressed to the Member State concerned to submit its information on corrective instruments (Treaty, 2012, Art. 126, § 7).

Fiscal policy coordination is therefore based on cooperation and mutual trust that the guidelines provided by the EU institutions through these instruments will be consistently followed at the national level. However, do Member States actually implement the guidelines and recommendations addressed to them by the European institutions? Data from the European Commission show (Table 2.5) that a total of 3818 recommendations were issued under the European Semester procedure in the period of 2020–2023, of which 1190 were related to

the fiscal framework and fiscal management. Only 5% of all recommendations were fully implemented, while 12% of country-specific recommendations were implemented in the case of fiscal frameworks. Some progress was made in implementing 40% of the recommendations, of which 25% were related to the fiscal framework.

Table 2.5. Recommendations to Member States under the European Semester 2020–2023

Specification	CSR No Longer Relevant	Full Implementation	Limited Progress	No Progress	Not Assessed / No Input to Add	Some Progress	Substantial Progress	No data
Number of recommendations – total 3818	286	193	933	125	110	1526	430	215
Percentage of implementation – total (%)	7	5	24	3	3	40	11	6
Number of recommendations – fiscal framework 1190	179	148	134	54	94	293	172	116
Percentage of implementation – fiscal Framework (%)	15	12	11	5	8	25	14	10

Source: based on European Commission, Country-specific recommendations database, https://ec.europa.eu/economy_finance/country-specific-recommendations-database/ (accessed 03.01.2025).

Reflecting on the use of soft and hard law in the area of fiscal policy coordination in the EU, Trubek et al. indicate the reasons why soft law is used for fiscal policy coordination in the EU. These reasons include reducing the costs of negotiation, as soft law reduces the degree of commitment, delegation and/or precision, thus allowing for cooperative agreements. Furthermore, it fosters compromise, since soft law can accommodate divergent national circumstances through flexible implementation. This in turn helps countries deal with the domestic political and economic consequences of an agreement. Finally, it lays the groundwork for hard law, meaning that soft law can be seen as a precursor to hard law. Soft law can also eventually evolve into binding rules when uncertainty is reduced and there is a higher degree of consensus (Chikin, 2000; Hillgenberg, 1999, pp. 499–515; Lipson, 1991; Reinicke, 2000; Trubek et al., 2005, pp. 11–12).

Conclusions

The scale and accelerating pace of global economic and political change, which poses a range of risks to the economic and social order of the world, countries and regions, make economic and financial security increasingly important. Ensuring the sustainability of public finances embodies the principles that governments should adhere to, regardless of the current level of debt. Controlling public debt and its issuance when necessary is of paramount importance for the smooth functioning of the economy. The Economic and Monetary Union project established a mechanism for coordinating fiscal policies in the European Union. The project has been modified since 2005 in response to regional and global challenges. A key element in the effectiveness of rule-based fiscal policy is not only the proper design of the rule system but also the establishment of a mechanism to ensure compliance. An effective and comprehensive system of fiscal surveillance should include widespread and unavoidable sanctions, prompt and reliable procedures for their application, and reliable reporting. This is true at both the national and supranational levels. It is crucial to harmonise EU rules with national standards. However, the full implementation of national standards requires prior compliance with EU legislation. There is a certain discrepancy between the theoretical assumptions of the established principles of fiscal policy coordination at the EU level and the practical implementation of these rules. The problematic dichotomy in the enforcement of responsible fiscal policies in EU Member States can be seen in five dimensions:

- Firstly, EU fiscal rules combine rigour with flexibility to respond to crises but are sometimes criticised for undermining effectiveness.
- Secondly, national interests often take precedence over community interests, leading to tensions between proponents of fiscal discipline and rule-breaking countries.
- Thirdly, the principle of solidarity, while promoting cooperation and assistance in crises, can be used to justify debt.
- Fourthly, the technocratic nature of fiscal rules sometimes contradicts political choices, leading to conflicts of interpretation.
- Fifthly, normative assumptions are often poorly implemented in practice, as illustrated by the European Commission's data: only 12% of the 2020–2023 fiscal frameworks recommendations have been fully implemented.

The use of soft law facilitates negotiation and implementation but can act as a precursor to more binding rules. Ultimately, while fiscal policy coordination in the EU requires mutual trust, practice reveals gaps in the implementation of the recommendations.

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