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The stability and Growth Pact in Practice: inefficiencies of previous debt rules and the way forward

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Abstract. *This paper aims to assess the compliance of the EU Member States with the previous debt rules over the period 2011-2023. To achieve this, we assessed two complementary criteria concerning public debt, respectively the compliance with the 60% of GDP threshold and the one related to the debt reduction rule, which indicates that Member States with public debt levels higher than 60% of GDP should reduce the difference between the level of public debt share in GDP and the 60% of GDP threshold with an average rate of 1/20 in the last three years. Further, we highlighted the reasons why the last economic governance framework was not effective and we presented the new debt rules in their revised form.*

Keywords: stability and Growth Pact, public debt, rules, fiscal, economic governance review.

JEL Classification: E62, E63, H62, H63.

1. Introduction

Fiscal discipline is crucial for ensuring appropriate and balanced economic conditions, since it creates space for incentivising economic growth or social priorities, depending on country-specific needs. At the European Union level, fiscal rules were established through the Stability and Growth Pact, and are the core of the european economic governance framework. After several years of non-compliance with fiscal rules and the lack of operativity of the debt rules and of the Excessive Deficit Procedure (EDP) sanctions, in February 2020, the European Commission launched the debate on the economic governance review, which also targets the Stability and Growth Pact rules. However, taking into consideration the uncertainty generated by the COVID-19 crisis and the activation of the general escape clause, the European Commission delayed the debate on the economic governance review until October 2021, the final legislation being approved by the Council of the European Union on 29 April 2024, after many discussions and revisions in the thematic committees of the European Commission / Council of the EU.

Even if the main fiscal rules have not been changed (a budget deficit threshold of 3% of GDP and a limit of 60% of GDP for public debt) following the approval of the package, the final legislation introduced several amendments that refocused the process, the main relevant adjustments being:

- replacing the need to reduce the gap between public debt (if it is higher than 60% of GDP) and the 60% of GDP threshold by a three-years-average rate of 1/20 with the need to reduce public debt annually with 0.5pp of GDP if the public debt is higher than 60% of GDP, but lower than 90% of GDP or with the need to reduce public debt anually with 1pp of GDP if the public debt is higher than 90% of GDP;
- allowing the Commission to propose a technical trajectory for the net expenditure which should be reflected in the national medium-term fiscal-structural plans(1) and will ensure a gradual reduction of the public debt on long-term and a budget deficit lower than 3% of GDP, covering an adjustment period of 4 years (the regular period) or 7 years (in the case of extensions, which require additional reforms and investment commitments);
- changing the EDP trigger by allowing the European Commission to open an EDP case if an Member State fails to meet its reforms and investment commitments and does not comply with the technical trajectory;
- setting a deficit resilience margin of 1.5% of GDP below the 3% of GDP deficit threshold, which corresponds to the improvement of the primary budgetary balance with 0.4% of GDP annually or 0.25% of GDP annually if the Member State requested an extension of the adjustment period from 4 to 7 years;
- amending the relevant factors taken into consideration by the Commission when assessing if a Member State registered an excessive deficit;
- increasing the role of European Fiscal Board and maintaining the role of Independent Fiscal Institutions;
- reducing the financial sanctions for the Euro Area Member States to 0.05% of GDP, while increasing their frequency and putting more focus on reputational sanctions;

- establishing a national escape clause for events outside the control of the government, with major consequences at the level of a Member State.

Taking into account that the new economic governance framework has been recently adopted, it is essential to provide an ex-post assessment of the previous framework. This will highlight the previous framework issues that affected the fiscal surveillance process and its operativity. In addition, it worth to be mentioned that the previous framework allowed a transition period of three years between the abrogation of the EDP and the year when the Member State was expected to comply with the debt reduction rule for the countries that were subjected to EDP in 2011, which reduced the operability of the debt reduction rule. Considering the inefficiency of the previous framework, the main objective of the paper consists in assessing the EU Member States compliance with the Stability and Growth Pact fiscal rules corresponding to the previous economic governance framework, which will be meet by achieving the following specific objectives:

(i) assessing the compliance with the deficit rule (3% of GDP);
(ii) assessing the compliance with the debt rule (60% of GDP);
(iii) assessing the compliance with the debt reduction rule for Member States registered public debt levels higher than 60% of GDP (reducing the gap between public debt share in GDP and 60% of GDP threshold with a three-years-average rate of 1/20).

2. Literature review

Fiscal discipline should be treated as an important government objective, since maintaining fiscal stability enhances macroeconomic stability and sustainable economic growth. It also demonstrates efficient resource management, while the lack of fiscal discipline can lead to economic crises, increased pressure on the state budget, but also on public debt. To avoid major economic shocks, governments need to create fiscal buffers to help the economy in critical situations, such as dealing with unpredictable fiscal pressures caused by an ageing population (Kumar, 2007).

The economic literature in this field is vast. Fortunato and Loftis (2018) argued that the rules of the Maastricht Treaty negatively impacted budget deficits. Conversely, other authors showed that these rules had a positive effect on enhancing fiscal discipline (Haan et. al, 2013; Fall et. all, 2015; Caselli and Reynaud, 2020), while Franchino (2023) proved that surveillance under the excessive deficit procedure led to a reduction in the budget deficits. Moreover, fiscal discipline played a beneficial role in bond ratings, which are crucial for the evaluation of financial markets (Feld et al., 2017; Afonso and Jalles, 2019).

On the other hand, excessive rigidity in fiscal discipline can jeopardize public investment, particularly during periods of fiscal consolidation (Ardanaz et al., 2021; Vinturis, 2023). However, fiscal discipline does not increase pro-cyclicality in fiscal policymaking process (Reuter et al., 2022) and can support fiscal adjustments (Gootjes and de Haan, 2022). In sum, fiscal rules are essential for ensuring fiscal discipline, but their impact depends on the economic and institutional context.

At the European Union level, the implementation of fiscal rules, including debt rules, has always been at the core of the economic policy coordination process, with these rules being closely monitored to identify better solutions for ensuring fiscal discipline among Member States. Given the repeated failures of Member States to comply with debt reduction rule, a greater emphasis has been placed on ensuring its enforcement.

According to the European Fiscal Board (2019), the lack of effectiveness of the European Union`s debt reduction rule stemmed from the transition period established between the closure of the EDP (based on deficit) and ensuring the compliance with the debt reduction rule (the transition period being applied for Member States that were in EDP in 2011). In addition, Pench (2023 and 2024) highlighted its application failed in practice, as ways and reasons to block its implementation were consistently found.

European debt rules has been the subject of several reform proposals. In this respect, De Angelis and Mollet (2021), proposed the adjustment of the debt reduction rule with a more realistic rule to addres country-specific issues, but also replacing the structural adjustment rule with a net expenditure path. The authors proposed a country-specific rule related to the debt reduction, since one single criteria for all countries, as is the case of the 1/20 debt reduction rule does not have the capacity to adapt to the national fiscal capacities.

There were also authors supporting maintaining the 1/20 debt reduction rule, which advocated for raising the debt threshold from 60% of GDP to 100% of GDP (Francová et al., 2021). Despite that, Chopin et al. (2022) proposed the suspension of the debt reduction rule for the periods when actual GDP is lower than potential GDP (negative output-gap). Moreover, some authors proposed slowing down the debt reduction rate to 1/33 (Hauptmeier et al., 2022), whereas others (Giavazzi et al., 2021) have suggested establishing two pace of adjustment - applicable under different conditions, (1/20 and 1/50).

3. Methodology

This paper analyse the compliance of the EU Member States with the EU fiscal rules that were in force until the new economic governance framework was approved (2024). We used annual data for the period 2011-2023 to catch the budgetary developments post-2009 crisis, while focusing more on the pre-pandemic period, considering the general escape clause, which was active in the period 2020-2023. In this respect, we used the temporal analysis as a research method, combined with the meta-analysis of the European Commission reports.

To assess the compliance with the previous EU fiscal rules, we extracted the budgetary balance and the public debt data from Eurostat covering the period mentioned above. Firstly, we assessed the compliance with the deficit rule and we highlighted the Member States exceeding the deficit threshold of 3% of GDP. Secondly, we assessed the compliance with the debt rule, and if a Member State registered a public debt share in GDP higher than

60% of GDP, we verified if that Member State reduced its gap between its public debt share in GDP and the public debt threshold with a three-years-average rate of 1/20. However, regarding the debt reduction rule, we did not assess the cases where Member State complied with the 60% of GDP criterion at least in one year of the analysed subperiod.

Further, we checked if the Commission proposed opening an EDP case for countries that did not fulfill the deficit rule or the debt reduction rule. If the Commission did not open an EDP case even if the rules were not fulfilled by a Member State, we engaged in a comprehensive review of the country reviewed, based on the Commission reports and the examined data. To this end, we checked the fulfillment with the debt reduction rule by calculating the gap between the public debt share in GDP (if is higher than 60% of GDP) and the 60% of GDP threshold for all years. Subsequently, we calculated the percentage change of the gap towards the 60% of GDP in one year compared to the previous year, and we calculated the three-years-average of percentage changes.

Finally, to provide a good understanding of the Stability and Growth Pact implementation in the period 2011-2023, we presented the developments regarding the fulfillment of the deficit and debt criteria at country-level, where country-specific issues played a high role. In this context, compliance with EU fiscal rules at the country level was presented using a standardized approach, ensuring consistency in language and the information provided.

4. Results and interpretations

In this section, we assessed the compliance with the Stability and Growth Pact rules (with a particular focus on debt reduction rule) that were in force until the economic governance review package has been adopted (2024). In this respect, we started from assessing the compliance with the deficit criterion. According to the *Table 1*, all Member States failed to comply with the deficit criterion in the period 2011-2023, at least in one year.

Table 1. *EU Member States complying / not complying with the deficit rule (3% of GDP)*

Member State	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
BE	-4.4	-4.3	-3.2	-3.2	-2.5	-2.4	-0.8	-1.0	-2.0	-9.0	-5.4	-3.6	-4.2
BG	-1.7	-0.8	-0.7	-5.4	-1.9	0.3	1.6	1.7	2.2	-3.8	-3.9	-2.9	-2.0
CZ	-2.7	-3.9	-1.3	-2.1	-0.7	0.7	1.5	0.9	0.3	-5.6	-5.0	-3.1	-3.8
DK	-1.8	-3.2	-0.9	1.4	-0.9	0.3	1.7	0.8	4.3	0.4	4.1	3.4	3.3
DE	-0.8	-0.1	0.1	0.7	0.9	1.1	1.3	1.9	1.3	-4.4	-3.2	-2.1	-2.6
EE	0.6	-0.4	-0.2	0.9	0.2	-0.1	-0.5	-0.6	-0.1	-5.4	-2.6	-1.1	-2.8
IE	-13.5	-8.4	-6.3	-3.5	-2.0	-0.8	-0.3	0.1	0.4	-4.9	-1.4	1.7	1.5
EL	-10.5	-9.3	-13.6	-3.8	-5.9	0.2	0.7	0.9	0.8	-9.6	-6.9	-2.5	-1.3
ES	-9.7	-11.5	-7.5	-6.0	-5.3	-4.2	-3.1	-2.6	-3.1	-9.9	-6.7	-4.6	-3.5
FR	-5.3	-5.2	-4.9	-4.6	-3.9	-3.8	-3.4	-2.3	-2.4	-8.9	-6.6	-4.7	-5.5
HR	-7.6	-5.5	-5.5	-5.1	-3.5	-1.0	0.5	0.0	0.2	-7.2	-2.6	0.1	-0.9
IT	-3.5	-3.0	-2.9	-2.8	-2.5	-2.4	-2.5	-2.2	-1.5	-9.4	-8.9	-8.1	-7.2
CY	-5.9	-15.2	-5.6	-8.8	-0.8	0.5	2.1	-3.4	1.0	-5.6	-1.6	2.6	2.0
LV	-4.5	-1.5	-1.3	-1.7	-1.5	0.0	-0.3	-1.4	-0.2	-4.1	-7.2	-4.9	-2.4
LT	-5.9	-3.1	-2.7	-1.8	-0.8	0.0	0.4	0.6	0.5	-6.3	-1.1	-0.7	-0.7
LU	0.7	0.5	0.8	1.3	1.3	1.9	1.4	3.2	2.7	-3.1	1.0	0.2	-0.7
HU	-5.2	-2.3	-2.6	-2.8	-2.0	-1.8	-2.5	-2.0	-2.0	-7.5	-7.1	-6.2	-6.7

Member State	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
MT	-3.0	-3.3	-2.2	-1.5	-0.8	1.1	3.4	1.9	0.7	-8.7	-7.0	-5.2	-4.5
NL	-4.4	-3.8	-2.9	-2.2	-1.8	0.2	1.3	1.5	1.8	-3.6	-2.2	0.0	-0.4
AT	-2.5	-2.2	-2.0	-1.9	-0.5	-1.5	-0.8	0.2	0.5	-8.2	-5.7	-3.3	-2.6
PL	-5.0	-3.8	-4.2	-3.7	-2.6	-2.4	-1.5	-0.2	-0.7	-6.9	-1.7	-3.4	-5.3
PT	-7.7	-6.2	-5.2	-7.4	-4.5	-1.9	-3.0	-0.4	0.1	-5.8	-2.8	-0.3	1.2
RO	-5.6	-3.8	-2.3	-1.2	-0.5	-2.5	-2.5	-2.8	-4.3	-9.2	-7.1	-6.4	-6.5
SI	-6.7	-4.2	-11.2	-4.5	-2.8	-2.0	0.1	0.9	0.7	-7.7	-4.6	-3.0	-2.6
SK	-4.4	-4.4	-2.9	-3.2	-2.8	-2.6	-1.0	-1.0	-1.2	-5.3	-5.1	-1.7	-5.2
FI	-1.0	-2.2	-2.5	-3.0	-2.4	-1.7	-0.6	-0.9	-0.9	-5.5	-2.7	-0.2	-3.0
SE	-0.4	-1.2	-1.6	-1.8	-0.3	0.9	1.3	0.7	0.4	-3.2	-0.1	1.0	-0.6

Source: *Eurostat database*

Notes:

(red) - Member States not complying with deficit rule (3% of GDP)

(green) - Member states complying with the deficit rule (3% of GDP)

However, we also identified countries that showed a good management of public finances in the analysed period. In this respect, Denmark, Estonia, Sweden and Luxembourg registered a deficit higher than 3% of GDP in one year, with Denmark being the only EU country for which it has not been reported a deficit in 2020. In contrast, Spain and France showed the most unfavourable deficit trends in the period 2011-2023, consistently failing to meet the deficit criterion in most of the years covered in the assessment. Spain fulfilled the deficit rule only in 2018, while France met the requirement in 2018 and 2019. These two Member States also experienced the longest periods under the Excessive Deficit Procedure, with France being subjected to the EDP from 2009 to 2018, and Spain from 2009 to 2019. After excluding the negative developments caused by the COVID-19 crisis, we identified other positive examples, such as Germany, Austria and Finland, which successfully limited their budget deficit to the 3% of GDP threshold.

Next, we assessed the fulfillment of the debt (60% of GDP) rule. After identifying the Member States not complying with this criterion, we continued our efforts to analyse the implementation of the debt reduction rule for these countries. As shown in *Table 2*, 13 countries failed to comply with the 60% of GDP debt rule in 2023 (17 countries did not respect this requirement at least in one year of the analysed period), while 10 of these registered debt levels higher than 60% of GDP in all examined years (BE, EL, ES, FR, HR, IT, CY, HU, AT, PT). Additionally, 10 of the remaining 14 Member States managed to keep their debt level below the 60% of GDP limit in all years covered in the analysis.

Table 2. *EU Member States complying / not complying with the debt rule (60% of GDP)*

Member State	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
BE	103.5	104.8	105.5	107.0	105.2	105.0	102.0	99.9	97.6	111.9	107.9	104.3	105.2
BG	15.2	16.6	17.0	27.0	25.9	29.1	25.1	22.1	20.0	24.6	23.9	22.6	23.1
CZ	39.7	44.2	44.4	41.9	39.7	36.6	34.2	32.1	30.0	37.7	42.0	44.2	44.0
DK	46.1	44.9	44.0	44.3	39.8	37.2	35.9	34.0	33.7	42.3	36.0	29.8	29.3
DE	79.4	80.7	78.3	75.3	71.9	69.0	65.2	61.9	59.6	68.8	69.0	66.1	63.6
EE	6.2	9.8	10.2	10.6	10.1	10.0	9.1	8.2	8.5	18.6	17.8	18.5	19.6
IE	110.4	119.9	120.1	104.0	76.5	74.4	67.4	62.9	57.1	58.1	54.4	44.4	43.7
EL	175.2	162.0	178.2	180.3	176.7	180.5	179.5	186.4	180.6	207.0	195.0	172.7	161.9
ES	69.9	90.0	100.5	105.1	103.3	102.7	101.8	100.4	98.2	120.3	116.8	111.6	107.7

Member State	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
FR	88.9	91.7	94.7	96.3	97.1	98.0	98.5	98.2	97.9	114.9	113.0	111.9	110.6
HR	63.3	69.0	79.8	83.4	82.8	79.1	76.0	72.6	70.4	86.1	77.5	67.8	63.0
IT	119.7	126.5	132.5	135.4	135.3	134.8	134.2	134.5	134.2	155.0	147.1	140.5	137.3
CY	65.8	80.1	103.7	108.8	107.5	103.2	93.2	98.5	93.0	114.9	99.3	85.6	77.3
LV	45.1	42.4	40.3	41.6	37.0	40.3	38.9	37.0	36.7	42.7	44.4	41.8	43.6
LT	37.1	39.7	38.7	40.5	42.5	39.7	39.1	33.7	35.8	46.2	43.4	38.1	38.3
LU	18.5	20.8	22.4	21.9	21.1	19.6	21.8	20.9	22.4	24.6	24.5	24.7	25.7
HU	80.3	78.2	77.2	76.5	75.8	74.9	72.1	69.1	65.3	79.3	76.7	74.1	73.5
MT	70.0	66.6	66.4	62.1	56.2	54.7	47.8	43.4	40.0	52.2	53.9	51.6	50.4
NL	61.7	66.2	67.7	67.9	64.7	61.9	57.0	52.4	48.6	54.7	51.7	50.1	46.5
AT	82.4	81.9	81.3	84.0	84.9	82.8	78.5	74.1	70.6	82.9	82.5	78.4	77.8
PL	55.1	54.8	57.1	51.4	51.3	54.5	50.8	48.7	45.7	57.2	53.6	49.2	49.6
PT	114.4	129.0	131.4	132.9	131.2	131.5	126.1	121.5	116.6	134.9	124.5	112.4	99.1
RO	32.3	35.4	37.8	39.1	37.7	37.8	35.3	34.4	35.1	46.7	48.5	47.5	48.8
SI	46.5	53.6	70.0	80.3	82.6	78.5	74.2	70.3	65.4	79.6	74.4	72.5	69.2
SK	43.2	51.7	54.7	53.5	51.7	52.3	51.5	49.4	48.0	58.8	61.1	57.7	56.0
FI	51.9	57.7	60.6	64.5	68.3	68.0	66.0	64.8	64.9	74.7	72.6	73.5	75.8
SE	37.2	37.5	40.3	45.0	43.7	42.2	41.4	39.6	35.6	40.2	36.7	33.2	31.2

Source: *Eurostat database*

Notes:

- Member States not complying with debt rule (60% of GDP)

- Member states complying with the debt rule (60% of GDP)

According to the data explored, only a few countries successfully transitioned from high debt levels (>60% of GDP) to low or moderate debt levels (<60% of GDP) in the analysed period, notably Ireland (primarily due to significant growth in nominal GDP), Malta and Netherlands. Although Greece continue to register the highest debt level (161.9 of GDP in 2023), it has made significant reductions in recent years, lowering its debt from the peak of 207% of GDP reached in 2020 to a level below the one specific to 2012 year, which marked Greece`s lowest debt level in the last decade. Regarding the Italy case, it succeeded to reduce their debt share in GDP with 17.7pp of GDP in the post-pandemic period, but the challenges are still high. As we indicated in the literature, 60% of GDP debt criterion does not automatically trigger the EDP; rather, it signals to the Commission that the country should be monitored further to determine if the Member State will reduce the gap between its debt level and the 60% of GDP threshold with an average rate of 1/20 (5%) per year, taking into consideration the previous three years as a reference for calculating the average.

Following our calculations based on Eurostat (*Table 3*), 14 Member States (of 17 Member States that overpassed the 60% of GDP debt criterion at least in one year in the period 2011-2023) failed to comply with the debt reduction rule at least in one year in the pre-pandemic period (BE, IE, EL, ES, FR, HR, IT, CY, HU, NL, AT, PT, SI, FI). There were also cases where we could not assess the implementation of the debt reduction rule, especially when Member States did not fulfill the 60% of GDP debt criterion in one year or in a period less than the one compatible with the calculation of the percentage change of the gap towards the 60% of GDP on three years average.

Table 3. *Percentage change of the gap between the public debt level (expressed as a % of GDP) and the 60% of GDP threshold*

Member State	2011-2014	2012-2015	2013-2016	2014-2017	2015-2018	2016-2019	2017-2020	2018-2021	2019-2022	2020-2023
BE	2.62	0.34	-0.33	-3.65	-4.04	-5.81	9.09	8.19	7.60	-4.40
DE	-7.10	-16.74	-21.00	-29.60	-43.35	NA	NA	NA	NA	1.51
IE	-2.54	-29.65	-34.01	-41.28	-40.72	NA	NA	NA	NA	NA
EL	2.07	4.89	0.68	-0.19	2.73	0.12	7.69	3.05	-0.93	-11.42
ES	83.13	14.12	1.99	-2.49	-2.28	-3.63	16.35	15.53	14.30	-7.51
FR	7.92	5.43	3.08	1.98	0.99	-0.08	14.43	13.54	13.11	-2.68
HR	103.64	45.21	-0.20	-11.67	-17.90	-18.31	37.42	33.52	20.86	-49.97
IT	8.14	4.30	1.07	-0.53	-0.35	-0.27	9.34	6.44	4.05	-6.62
CY	125.21	42.14	-0.02	-11.62	-5.41	-7.16	22.68	7.89	1.03	-31.90
HU	-6.64	-4.60	-4.67	-9.58	-16.43	-28.45	65.87	69.64	78.37	-11.10
MT	-34.74	NA	NA	NA	NA	NA	NA	NA	NA	NA
NL	97.17	-4.57	-32.49	NA	NA	NA	NA	NA	NA	NA
AT	2.57	4.56	2.66	-7.85	-17.03	-22.49	22.48	29.82	32.02	-7.74
PT	10.81	1.08	0.06	-3.15	-4.70	-7.49	5.80	3.49	-0.10	-19.34
SI	NA	NA	32.06	-10.02	-22.95	-32.76	62.64	62.95	74.41	-22.04
SK	NA	NA	NA	NA	NA	NA	NA	NA*	NA*	NA*
FI	NA	NA	243.61	18.61	-16.20	-14.31	60.69	62.60	64.29	3.30

Source: *Own calculations using Eurostat database and Microsoft Office Excel 2016*

Notes:

- Member States not complying with debt reduction rule (1/20 reduction rate)

- Member states complying with the debt reduction rule (1/20 reduction rate)

NA - not assessed, as the member states complied with the 60% of GDP criterion at least in one year; data are reflected in the table starting with the second year after overpassing the 60% of GDP threshold + three years for computing the average;

* Slovakia did not fulfill the debt criterion (60% of GDP) only in 2021, but it has been fulfilled in the following years

In terms of meeting the debt reduction requirement in the pre-pandemic period, the best performers were DE (which respected the rule in all years of the period 2014-2018; for 2019, we did not assess the implementation of the debt reduction rule, since the 60% of GDP criterion was fulfilled), IE and HU (which met the requirement in 4 years both), while the worst performers were FR, EL, IT, ES, BE and PT. These categories remain valid even if we take into consideration the post-pandemic period, since the COVID-shock affected the implementation of the rule in all countries with debt levels higher than 60% of GDP. Our assessment also take into account the discretionary approach used by the European Commission in activating / closing the EDP, but also the rule established after the economic and financial crisis setting a three years period after complying with the deficit rule (for the Member States that were in EDP in 2011) as a transition period to ensure also the compliance with the debt reduction rule.

Our ex-post assessment based on the data explored, the Commission reports and the Stability and Growth Pact records, highlights that Commission had enough proofs to trigger the EDP in three specific cases (BE - 2017-2018; IT - 2016-2019; FI - 2016-2017), based on failing to comply with the debt reduction rule, even if after the Commission took into

account the relevant factors, it found that the requirements has been met, although from a quantitative point of view, the Member States failed to respect the debt reduction rule. In the case of Finland, the decision seems to be more justified, since the debt level has been reduced in these years and the difference towards the threshold is quite low, while the average percentage change of the gap between the debt level and the 60% of GDP has been significantly influenced by the increase in the debt gap from 0.6% of GDP in 2013 to 4.5% of GDP in 2014.

Regarding the deficit criterion, we identified four countries (BG and FI in 2014, CZ, ES and FI in 2023), in the case of which the Commission did not activate the EDP in the examined period, even if the deficit target was not fulfilled, these decisions being based on relevant factors proving the excess over the 3% of GDP target is temporary and exceptional (being outside of the government control). In 2024, following the deactivation of the general escape clause, the Commission relaunched the standard Stability and Growth Pact process and activated 7 new EDP cases (which adds to the Romania case for which the EDP was active since march 2020), even if 11 Member States did not fulfilled the deficit criterion, this decision being based on relevant factors such as:

- CZ - positive outlooks, high expenditure on managing the Ukrainian migrants, high expenditure on energy crisis and high defence expenditure, debt risks and high interests;
- ES - positive forecast, appropriate budgetary rules, debt risks, commitment to drive spending reviews, no longer experiencing macroeconomic imbalances;
- FI - high defence expenditure, appropriate budgetary rules, debt risks, the implementation of structural reforms and investments.

In sum, the Commission proved a good implementation of the deficit criterion rule after taking into account the relevant factors, but there were also cases where the Commission could have acted differently (even it had enough proofs and justifications) in a more flexible manner, such is the case of Romania, when the Commission triggered the EDP, just before activating the general escape clause. However, taking into account the application of the debt rule in two stages (60% of GDP threshold and if not complied with reducing the gap with a rate of 1/20), but also the high debt challenges across the EU, the debt reduction rule could have been applied much more strictly. In addition, the regulation also allowed for a 3 years transition period between complying with the deficit criterion and respecting the debt reduction rule for the Member States that were in EDP in 2011, this making the rule inoperative for too long. It also worth to be mentioned that from a mathematical point of view the debt reduction rule its limited, since the lower gaps between actual debt and the thresholds tend to vary more in relative terms than the larger gaps.

Moreover, we also identified three cases (ES and PT - financial sanction; HU - Cohesion fund access sanction) where the Commission proposed sanctions, but following the billateral discussions with the Member States involved, withdrawed their proposals. In our view, the Commission did not deliver a positive message to the Member States regarding the need of fiscal discipline. We acknowledge the justifications submitted by the Member States which were appropriate for withdrawing the sanctions, but these discussions should have taken place before preparing and adopting the proposal. However, to provide a good understanding of the Stability and Growth Pact implementation in the period 2011-2023,

we presented the developments regarding the fulfillment of the deficit and debt criteria at country-level, where country-specific issues played a high role.

Belgium. The deficit criterion. In the period 2011-2014 and 2020-2023 did not fulfill the deficit rule. As a consequence, it has been subjected to the EDP in the period 2009-2014. After the deactivation of the general escape clause, EDP was relaunched in 2024 based on 2023 data.

The debt criterion. Belgium registered a public debt higher than 60% of GDP in all analysed years, and respected the debt reduction rule only in 2019/2016. However, the period 2014-2016 corresponds to the transition period between the abrogation of the EDP and the year (2017) when the country was expected to comply with the debt reduction rule. In 2017 and 2018, even if the criterion has not been fulfilled, the Commission took into consideration relevant factors (forecast, structural adjustment) based on which it decided to not relaunch the procedure.

Bulgaria. The deficit criterion. In 2014 and in the period 2020-2021 did not fulfill the deficit rule. It worth to be mentioned that in the period 2010-2012 has been subjected to the EDP based on the 2009/2010 data. In 2015, EDP was not triggered since the excess over the 3% of GDP threshold was exceptional, this resulting from an event outside of the government control, the deficit being affected by the statistical reclassification within the Deposit Insurance Fund following the reimbursement of the guaranteed deposits at the level of the Corporate Commercial Bank (amounting 3% of GDP).

The debt criterion. Bulgaria registered a public debt lower than 60% of GDP in all analysed years.

Czechia. The deficit criterion. In 2012 and 2020-2023 did not fulfill the deficit rule. As a consequence, it has been subjected to the EDP in the period 2009-2014. Even if the period 2020-2023 corresponds to the one when general escape clause was active, in 2024, the Commission could have activated the EDP, but it chose to do not open an EDP case, after taking into consideration the relevant factors, such as positive outlooks, expenditures on Ukrainian migrants, energy expenditures, the increase of interest rates, short-term public debt risks and the increase of defence investments.

The debt criterion. Czechia registered a public debt lower than 60% of GDP in all analysed years.

Denmark. The deficit criterion. In 2012 did not fulfill the deficit criterion, and has been subjected to the EDP in the period 2010-2014. It worth to be mentioned that Denmark was the only member state registering a budget surplus in 2020.

The debt criterion. Denmark registered a public debt lower than 60% of GDP in all analysed years.

Germany. The deficit criterion. In the period 2020-2021 did not fulfill the deficit rule, but it corresponds to the one when general escape clause was active and the EDP could not be triggered.

The debt criterion. Germany registered a public debt higher than 60% of GDP in all analysed years excepting 2019. Regarding the debt reduction rule, it did not comply with it in 2023/2020. However, the Commission did not propose the activation of the debt-based EDP, taking into consideration the transition to the new debt rules.

Ireland. The deficit criterion. In the period 2011-2014 and 2020 did not fulfill the deficit criterion. Therefore, it has been subjected to the EDP in the period 2009-2016. In 2020 the general escape clause was active and the EDP could not be activated.

The debt criterion. Ireland registered a public debt higher than 60% of GDP in 2011-2018, and did not respect the debt reduction rule only in 2014/2011. In 2014, Ireland was already in the EDP, and after the abrogation of the procedure in 2016, it benefited of three years transition period (2016-2018) to comply with the debt reduction rule.

Greece. The deficit criterion. In the period 2011-2015 and 2020-2021 did not fulfill the deficit rule. As a consequence, it has been subjected to the EDP in the period 2004-2017, a period marked by several extensions of fiscal adjustment deadline. In 2020-2021 the general escape clause was active and the EDP could not be triggered.

The debt criterion. Greece registered a public debt higher than 60% of GDP in all analysed. Moreover, Greece did not comply with the debt reduction rule in all examined years, excepting 2023. However, the period 2017-2019 corresponds to the transition period between the abrogation of the EDP and the year (2020) when the country was expected to comply with the debt reduction rule. Even if in 2020 Greece din not complied with the debt reduction rule, the general escape clause was active and new EDP cases could not be opened.

Spain. The deficit criterion. In the period 2011-2017 and 2019-2023 did not fulfill the deficit rule. As a consequence, in the period 2009-2019, ES was subjected to the excessive deficit procedure, with several extensions of the excessive deficit adjustment deadline. In 2016, the Council of the EU found that Spain did not take effective measures to correct the deficit, and consequently, on 16 July 2016, the Commission proposed to the Council of the EU the adoption of a sanction for non-compliance with the obligation to adopt effective measures to correct the excessive deficit in the amount of 0.2% of GDP. Subsequently, Spain sent a letter to the Commission requesting the reduction of the sanction to 0% of GDP, this request being motivated by the important fiscal consolidation effort and the structural reforms implemented which proved to be decisive in correcting the accumulated macroeconomic imbalances, but also by the negative effect of low inflation on the fiscal consolidation process. The Commission considered most of the arguments presented by Spain to be appropriate, and the sanction was no longer applied.

The debt criterion. Spain registered a public debt higher than 60% of GDP in all analysed years, and respected the debt reduction rule only in 2023. However, the period 2019-2021 corresponds to the transition period between the abrogation of the EDP and the year (2022) when the country was expected to comply with the debt reduction rule. It should be also taken into consideration that in 2020, the general escape clause was active.

France. The deficit criterion. In the period 2011-2017 and 2020-2023 did not fulfill the deficit rule. As a consequence, it has been subjected to the EDP in the period 2009-2018. After the general escape clause has been deactivated, EDP was relaunched in 2024 based on 2023 data.

The debt criterion. France registered a public debt higher than 60% of GDP in all analysed years and did not comply with the debt reduction rule in 2011-2023. However, the period 2018-2020 corresponds to the transition period between the abrogation of the EDP and the year (2021) when the country was expected to comply with the debt reduction rule.

Croatia. The deficit criterion. Taking into account that the EU accession has been produced with a deficit higher than 3% of GDP, the EDP has been opened in 2013 and abrogated in 2017, taking into account the 2016 data which demonstrated that the budget deficit decreased below 3% of GDP.

The debt criterion. Croatia registered a public debt higher than 60% of GDP in all analysed years, and complied with the debt reduction rule only in four years (2017/2014, 2018/2015, 2019/2016, 2023/2020). However, the period 2020-2023 corresponds to the one when general escape clause was in force and the EDP could not be triggered.

Italy. The deficit criterion. In the period 2011-2012 and 2020-2023 did not fulfilled the deficit rule. To this end, it has been subjected to the EDP in the period 2009-2013, while in 2024 the procedure has been relaunched based on 2023 figures.

The debt criterion. Italy registered a public debt higher than 60% of GDP in all analysed years, and complied with the debt reduction rule only in one year (2023/2020). However, the period 2013-2015 corresponds to the transition period between the abrogation of the EDP and the year (2016) when the country was expected to comply with the debt reduction rule. In 2016, after the end of the transition period, although from a quantitative perspective the debt reduction rule was not fulfilled, it was considered fulfilled from an exhaustive perspective, after taking into account all relevant factors, respectively: adjustment to medium-term objective (MTO), macroeconomic conditions and public investments, structural reforms, financial contribution to the international solidarity and to the achievement of the political objectives of the Union. This approach was also used in the following years (when the rule was not fulfilled), the relevant factors being changed depending on the economic context, while in the period 2020-2023 the general escape clause was active.

Cyprus. The deficit criterion. In the period 2011-2014 and in 2020 did not fulfill the deficit rule. As a consequence, it has been subjected to the EDP in the period 2010-2016, while in 2020 general escape clause has been activated.

The debt criterion. Cyprus registered a public debt higher than 60% of GDP in all analysed years, and did not fulfill the debt reduction rule in 2014/2011, 2015/2012, 2016/2013, 2020/2017, 2021/2018, and 2022/2019. However, the period 2016-2018 corresponds to the transition period between the abrogation of the EDP and the year (2019) when the country was expected to comply with the debt reduction rule.

Hungary. The deficit criterion. In 2011 and in the period 2020-2023 did not fulfill the deficit criterion. Hungary has been subjected to EDP in the period 2004-2013, this period being marked by several extensions of fiscal adjustment deadline. In 2012, the Commission proposed suspending the access to the Cohesion Fund, but the Council decision on the suspension was withdrawn given that Hungary made rapid progress in correcting the excessive deficit, before the entry into force of the sanction (1 January 2013). The procedure was reopened in 2024, following the end of the applicability period of the general escape clause, taking into account the failure to comply with the deficit criterion in 2023.

The debt criterion. Hungary registered a public debt higher than 60% of GDP in all analysed years, and did not fulfill the debt reduction rule in 2015/2012, 2016/2013, 2020/2017, 2021/2018 and 2022/2019. In particular, in 2015/2012 and 2016/2013, Hungary reduced its debt share in GDP by approximately 5% average over 3 years (slightly below the reference rate). Therefore, Commission did not identify a significant deviation (the criterion was considered fulfilled).

Malta. The deficit criterion. In the period 2011-2012 and 2020-2023 did not fulfilled the deficit rule. To this end, it has been subjected to the EDP in the period 2009-2012, while in 2024 the procedure has been relaunched based on 2023 data.

The debt criterion. Malta did not complied with the 60% of GDP debt rule in the period 2011-2014. However, in this period it successfully managed to reduce the gap between the debt share in GDP and the threshold with a minimum three-years-average rate of 5%.

The Netherlands. The deficit criterion. In the period 2011-2012 and 2020 did not fulfill the deficit rule. As a consequence, it has been subjected to the EDP in the period 2009-2014, while in the period 2020-2023, the general escape clause was active and the EDP could not be triggered.

The debt criterion. The Netherlands registered a public debt higher than 60% of GDP in 6 (2011-2016) of 13 analysed years, and did not complied with the debt reduction rule in 2014/2011 and in 2015/2012. However, the period 2014-2016 corresponds to the transition period between the abrogation of the EDP and the year (2017) when the country was expected to comply with the debt reduction rule. In 2017, the Netherlands registered a public debt share in GDP lower than the threshold and there was not need to check the compliance with the debt reduction rule.

Austria. The deficit criterion. In the period 2020-2022 did not fulfill the deficit rule, but it corresponds to the one when general escape clause was active and the EDP could not be triggered. However, in the period 2009-2014, Austria was subjected to the EDP based on the budget slippages generated by the economic and financial crisis. The data reported at that time were different from those currently available on Eurostat. Also, there was a discrepancy between the results and the budgetary forecasts, for various reasons such as: recognizing the public spending measures for the recapitalization of the KA Finanz bank, achieving a lower level of planned expenses at all levels of government, respectively more favourable economic conditions compared to the outlooks. To this end, the Commission did not recommend closing the EDP too early (which was deactivated in 2014), due to the

high risks, uncertainty and unfavourable forecasts. Besides that, the period 2020-2022 corresponds to the one when general escape clause was active and the EDP could not be triggered.

The debt criterion. Austria registered a public debt higher than 60% of GDP in all analysed years, and did not respect the debt reduction rule in 2014/2011, 2015/2012, 2016/2013, 2020/2017, 2021/2018 and 2022/2019. However, the period 2014-2016 corresponds to the transition period between the abrogation of the EDP and the year (2017) when the country was expected to comply with the debt reduction rule. Starting from 2017, Austria complied with the debt reduction rule, until 2020, when it failed to reduce its debt to a sufficient extent, due to the shock generated by the COVID-19 crisis. In 2023, the EDP was not activated based on the forecast for the 2024-2025 years.

Poland. The deficit criterion. In the period 2011-2014, but also in 2020, 2022 and 2023 it has not complied with the deficit rule. Taking into account the post-2009 crisis developments, the EDP was activated for the period 2009-2015, while in 2024, after deactivating the general escape clause, the EDP has been relaunched based on 2023 figures.

The debt criterion. Poland complied with the 60% of GDP debt rule in all examined years.

Portugal. The deficit criterion. In the period 2011-2015, 2017 and 2020 did not fulfill the deficit rule. To this end, Portugal was subjected to the excessive deficit procedure in the period 2009-2017. In 2016, the Commission proposed to the Council of the EU the adoption of a sanction for non-compliance with the obligation to adopt effective measures to correct the excessive deficit, in the amount of 0.2% from GDP. Subsequently, Portugal sent a letter to the Commission requesting the reduction of the sanction to 0% of GDP, this request being motivated by the important fiscal consolidation effort and the structural reforms implemented during the economic adjustment program period, but also by the high effect on such a sanction on the capacity to end the excessive deficit situation in 2016. Portugal also mentioned the uncertainty generated by the result of the United Kingdom referendum on the EU membership. Commission considered the arguments presented by Portugal to be appropriate, and the sanction was no longer applied. Following the correction made, in 2017 the procedure was closed. In 2020 the general escape clause was active and the EDP could not be triggered.

The debt criterion. Portugal registered a public debt higher than 60% of GDP in all analysed years, and fulfilled the debt reduction rule only in 2019/2016 and 2023/2020. However, the period 2017-2019 corresponds to the transition period between the abrogation of the EDP and the year (2020) when the country was expected to comply with the debt reduction rule.

Romania. The deficit criterion. In the period 2011-2013 and 2019-2023 it has not complied with the deficit rule. As a consequence of the 2009 crisis, EDP was active for the period 2009-2013. In 2020, the Council adopted the decision on the existence of an excessive deficit, just before the activation of the general escape clause in the context of the COVID-19 crisis, Romania being the only Member State that has been subjected to the EDP when general escape clause was active.

The debt criterion. Romania registered a public debt lower than 60% of GDP in all analysed years.

Slovenia. The deficit criterion. In the period 2011-2014 and 2020-2022 did not fulfill the deficit rule. As a consequence, it has been subjected to the EDP in the period 2009-2016. In 2020-2022, the general escape clause was active and the EDP could not be triggered.

The debt criterion. Slovenia registered a public debt higher than 60% of GDP in 2013-2022 and it did not comply with the debt reduction rule in 2016/2013, 2020/2017, 2021/2018 and 2022/2019. However, the period 2016-2018 corresponds to the transition period between the abrogation of the EDP and the year (2019) when the country was expected to comply with the debt reduction rule.

Slovakia. The deficit criterion. In 2011, 2012, 2014, 2020, 2021 and 2023 did not fulfill the deficit rule. As a consequence, in the period 2009-2014 it has been subjected to the EDP, while in the period 2020-2023, the general escape clause was active and the EDP could not be triggered. Following the deactivation of the clause, the excessive deficit procedure has been activated considering the significant deviation from the threshold found in 2023.

The debt criterion. Slovakia registered a public debt higher than 60% of GDP in all analysed years excepting 2021.

Finland. The deficit criterion. In 2014, 2020 and 2023 did not fulfill the deficit rule. In 2015, according to the European Commission assessment, the deficit reached 3.2% of GDP and was predicted to remain above 3% of GDP in the period 2015-2016. However, the European Commission explained that the deficit is close to the limit of 3% of GDP and considered it to be an exceptional deficit, mentioning that the 2014 level was affected by the change in the ESA methodology. In 2020 and 2023, the general escape clause was active and the EDP could not be triggered. Even if in 2023, Finland registered a deficit of 3% of GDP, after taking into account the relevant factors, the Commission decided to not activate the procedure.

The debt criterion. Finland registered a public debt higher than 60% of GDP in 2013-2023 and it did not comply with the debt reduction rule in 2016/2013, 2017/2014, 2020/2017, 2021/2018 2022/2019 and 2023/2020. The debt reduction rule has not been fulfilled in 2016-2017, but after taking into account the relevant factors (cyclical conditions and potential growth, structural reforms, structural deficit and fiscal consolidation, government spending and investments, long-term sustainability of public finances, the total stock of government-guaranteed debt, operations regarding the financial stabilization), the European Commission decided to not activate the procedure. However, it must be taken into account that the difference compared to the threshold of 60% of GDP was not high, this being one of the main reason for do not activating the procedure. The period 2020-2022 corresponds to the period when general escape clause was active and the EDP could not be triggered, while in 2023 the new fiscal rules were already almost set.

Estonia, Latvia, Lithuania, Luxembourg and Sweden fully complied with the debt criterion in all examined years. However, as a consequence of the COVID-19 crisis, these

failed to comply with the deficit criterion in 2020 (excepting Latvia which registered a deficit in excess over 3% of GDP in the period 2020-2022), but no steps forward have been taken within the EDP, taking into account the activation of the general escape clause in March 2020. Besides that, Latvia[(2)] and Lithuania[(3)] have been subjected to the EDP in the period 2009-2013 based on the unfavourable fiscal developments registered post-2009 crisis.

5. Conclusions

This paper identified the countries failed to comply with the previous fiscal rules that were in force until the new economic governance framework has been adopted. After taking into account the transitional period for fulfilling the debt reduction rule, we found that Belgium (2017-2018), Italy (2016-2019) and Finland (2016-2017) failed to comply with te debt reduction rule in the examined period, while the European Commission found that the requirement has been met after considering the relevant factors. However, in the case of Finland, the difference towards the threshold was quite low, and the non-compliance with the debt reduction rule was an effect of the fact that smaller numbers tend to vary more in relative terms than higher numbers. Nevertheless, in the case of Belgium and Italy, the non-compliance was much more visible.

Regarding the deficit rule, we found that the European Commission decided to do not open an EDP case for Bulgaria and Finland in 2014, but also for Czechia, Spain and Finland in 2023, even if the deficit rule was not fulfilled. Its assessment took also into consideration relevant factors for each country proving that the excessive deficit was temporary and exceptional.

Our assessment shows that the Commission, generally, used an appropriate approach regarding the implementation of the deficit rule after considering the relevant factors, even if there were found some cases where a greater flexibility would have been needed such is the activation of the EDP for Romania in 2020, just before activating the general escape clause which stoped the clock on activating new EDP cases. However, the implementation of the debt reduction rule was ineffective, one of the main reason being the three-year-transition period until complying with the debt reduction rule that countries being in EDP in 2011 benefited from.

Moreover, the design of this rule was not appropriate and did not properly took into account the math befind the numbers. In this respect, it should be noted that the new debt reduction rule is more suitable for ensuring proportionality between Member States, respectively a better and streamlined enforcement.

Nevertheless, the main risks for the current economic governance framework are related to the credibility of the process, since in the previous framework sanctions did not produce effects, and these challenges will be fully addressed only after the European Commission will efficiently use a combined approach between stricter application of the new rules and treating countries equally, depending on their specific if there is a case to do it. In addition, the current framework provides a higher discretionary power to the European Commission

in advancing the EDP stages, the corresponding risks depending on the extent in which the Commission will succesfully use a "equal treatment for same conditions" approach, which could increase the efficiency of the process, since there are cases such was that of Bulgaria (which registered a deficit of 5.4% of GDP in 2014 as a consequence of a statistical reclassification) where the assessment cannot be judged automatically, a prudent and specific economic analysis being recommended.

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(1) are replacing the National Reform Programmes and Convergence / Stability Programmes, and will include reforms and investment commitments to address macroeconomic imbalances and to comply with the technical trajectory proposed by the European Commission, while the commitments should be in line with EU priorities and with country-specific recommendations.

(2) reached a deficit over 3% of GDP in 2011.

(3) reached a deficit over 3% of GDP in the period 2011-2012.

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