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REFORM OF THE ECONOMIC GOVERNANCE MODEL OF THE EURO AREA AFTER THE COVID-19 PANDEMIC

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Purpose: The purpose of this paper is to analyze the 2024 reform of the euro area's economic governance model in light of the macroeconomic challenges posed by the COVID-19 pandemic and subsequent geopolitical tensions. The study aims to assess whether the newly introduced fiscal framework enhances the resilience of euro area Member States and improves the coordination, sustainability, and credibility of their public finances.
Design/methodology/approach: The research employs a qualitative and institutional approach, grounded in the analysis of EU legislative documents, fiscal reform proposals, and secondary data concerning public finance management. The paper critically evaluates the design and implementation of new mechanisms such as debt sustainability analyses, reference trajectories, the control account, and corrective expenditure paths. It explores the theoretical framework of fiscal federalism and examines the practical implications of asymmetries within the Economic and Monetary Union.
Research limitations/implications: The study finds that the 2024 reform introduces greater flexibility and differentiation in fiscal governance, allowing for country-specific adjustment paths while enhancing EU-level oversight. Given the early stage of implementation, the study relies on institutional assessments and scenario-based inference rather than empirical data.
Practical implications: The findings suggest that the reformed framework can serve as a stabilizing tool for public finances by enhancing predictability and enabling more countercyclical fiscal responses. However, the effectiveness of the new rules depends on Member States' political will and capacities, while the absence of a central fiscal authority still hampers a unified response to asymmetric shocks.
Social implications: By supporting public investment and structural reforms - especially in green and digital transitions - the new framework has the potential to foster inclusive economic recovery and improve quality of life. The inclusion of defense-related spending as a mitigating factor in fiscal assessments reflects the EU's evolving approach to security and societal resilience.
Originality/value: This paper provides a comprehensive academic evaluation of the most significant reform to EU fiscal rules in over two decades. It offers value to scholars, policymakers, and fiscal authorities seeking to understand the dynamics of post-crisis economic governance in a monetary union lacking full fiscal integration.
Keywords: economic governance, euro area, fiscal policy reform, debt sustainability, public.
Category of the paper: Research paper.

1. Introduction

The European Union's fiscal reforms of April 29, 2024, significantly modified the principles of public finance management by adapting them to the post-pandemic economic landscape and the geopolitical implications of Russia's aggression against Ukraine. The newly introduced fiscal policy framework, based on individual debt sustainability assessments and flexible reference trajectories, replaces the previously rigid Stability and Growth Pact rules. The core objective of these changes is to bolster the resilience of euro area economies, ensure fiscal stability, and avoid repeating the policy errors that constrained crisis response capacities in the past.

The COVID-19 pandemic led to a sharp increase in public debt and necessitated the suspension of existing fiscal rules. In response to the crisis, broad support programs were launched, including the EU Recovery Fund (NextGenerationEU) (Council Regulation 2020) and the issuance of joint EU bonds, representing a milestone in the Union's fiscal policy evolution (European Commission, 2021). Concurrently, the European Central Bank pursued an expansionary monetary policy, stabilizing financial markets and enabling euro area countries to finance their deficits (ECB/2020/17, ECB/2015/10).

This study seeks to present and evaluate the reform of the euro area's economic governance model in the aftermath of the pandemic, with particular focus on the effectiveness of the tools applied and the impact of the new regulations on the public finances of EU Member States. Special attention is given to the 2024 reform of the euro area's economic governance provisions, their role in fostering greater accountability in fiscal policy, and the implementation challenges they pose.

This analysis addresses the central research question of whether the 2024 reform of the euro area's economic governance framework enhances the Union's resilience to future crises by examining the measures adopted in April 2024, with particular emphasis on their potential to strengthen Member States' fiscal robustness and improve the coordination of budgetary policy within a heterogeneous macroeconomic landscape. This paper goes beyond descriptive presentation by analyzing the potential of newly introduced fiscal instruments to deliver on fiscal sustainability and shock resilience objectives.

These issues have previously been addressed in numerous academic papers and institutional reports. The work of Blanchard, Leandro and Zettelmeyer (Blanchard et al., 2021) proved particularly influential, analysing the effects of low interest rates and growing public debt, calling for a reform of the EU fiscal framework towards greater flexibility and adjustment of rules to business cycles. In turn, Buti, Deroose and Veld (Buti et al., 2023), drawing on the institutional experience of the European Commission, pointed to the need to simplify the fiscal rules system and move away from the mechanical use of indicators towards a more coherent and understandable approach.

In a similar vein, Caselli and Wingender (2021) provide an empirical analysis of the differential effects of fiscal rules across EU countries, showing that the rigid Maastricht criteria did not always lead to the desired outcomes and that their effects were strongly dependent on national circumstances. This work provides an important reference point for assessing whether the new framework introduced in 2024 will indeed reconcile the need to ensure fiscal stability with the need to support growth and public investment.

The study is guided by the hypothesis that: The post-COVID-19 reforms of the euro area's economic governance model reinforce fiscal oversight mechanisms and enhance policy coordination. However, Member States remain the principal actors responsible for the stability of their public finances, implying the necessity for consistent application of the new rules and the ability to adapt flexibly to evolving economic conditions.

2. Reform of the EU Economic Governance Framework of April 29, 2024

The COVID-19 pandemic triggered a sharp increase in public debt (Bodnár et al., 2020) and necessitated the suspension of the existing fiscal rules, alongside the implementation of substantial support measures such as the EU Recovery Fund and the issuance of joint EU bonds (Recovery plan for Europe, 2024). Concurrently, the European Central Bank (ECB) pursued an expansionary monetary policy, stabilizing financial markets and enabling euro area countries to finance their budget deficits. The post-pandemic reform agenda was aimed at enhancing the resilience of national economies and ensuring the long-term stability of public finances, while avoiding the mistakes of the past that had constrained Member States' ability to respond to crises.

The EU's post-pandemic fiscal reforms introduced a new governance framework, replacing the rigid provisions of the Stability and Growth Pact (SGP) with a more flexible system based on individualized debt sustainability assessments (DSA) and reference fiscal trajectories. On April 29, 2024, the Council of the European Union adopted three new legislative acts reforming economic and budgetary governance in the EU.

The overarching objective of this reform is to guarantee the sustainability of public finances while promoting inclusive and sustainable economic growth across Member States. The new legal framework is designed to enhance the effectiveness of economic governance across the Union by strengthening debt management practices, encouraging structural reforms and public investment, and supporting job creation and long-term growth (Communication from the Commission, 2022). Successful implementation of these regulations requires timely and proper transposition into national systems.

The reform emphasizes a gradual, realistic, and sustainable reduction in public debt levels, while maintaining the fiscal capacity for strategic investments in digital transformation, environmental sustainability, and defense. Furthermore, the new framework establishes the foundation for conducting counter-cyclical fiscal policy, thereby improving the capacity of Member States to address macroeconomic shocks.

The revised EU fiscal architecture introduces significant changes to the governance of national public finances by advocating a flexible yet rigorous approach to the reduction of public debt and budget deficits. A core element of the reform is the implementation of the DSA, tailored to the specific macroeconomic and fiscal conditions of each Member State. This tool evaluates whether a country's public debt is on a credible downward trajectory or remains at a stable level, taking into account factors such as interest rates, economic growth, and the primary budget balance. The key variables in the DSA include GDP growth, interest rates, and the primary balance (i.e., revenues minus expenditures excluding interest payments). Higher growth facilitates debt stabilization or reduction, whereas rising interest rates elevate the cost of debt servicing, potentially undermining fiscal sustainability. The primary balance is pivotal in assessing whether a country generates sufficient resources to stabilize its debt without further borrowing.

The DSA also examines the risks associated with adverse macroeconomic developments that could drive debt levels beyond sustainable thresholds and assesses each country's capacity to respond to such shocks. It includes baseline scenarios based on current policies and economic conditions, as well as alternative scenarios incorporating potential disruptions such as rising interest rates, economic slowdowns, or shifts in fiscal policy. As a forward-looking tool, the DSA facilitates the formulation of realistic fiscal targets for each Member State.

Despite these innovations, the core benchmark of the 3% of GDP limit on budget deficits, as enshrined in the Treaties, remains in force (European Parliament, 2024). However, the reform introduces additional fiscal safeguards to ensure compliance and promote the long-term sustainability of public finances.

The first safeguard is the debt stability rule, which mandates that countries with public debt exceeding 90% of GDP must reduce their debt-to-GDP ratio by at least 1 percentage point annually. Countries with debt between 60% and 90% of GDP are required to reduce debt by at least 0.5 percentage points per year. This mechanism aims to secure a steady reduction in public debt, particularly in highly indebted economies.

The second safeguard, the deficit resilience rule, stipulates that the structural deficit must not exceed 1.5% of GDP. For countries exceeding this threshold, annual improvements to the structural balance of at least 0.4% of GDP are required. If the adjustment period is extended to seven years, the minimum correction is lowered to 0.25% per year. This measure is designed to curb excessive deficits and reinforce the long-term sustainability of fiscal policy.

Another innovation is the "no-backloading" rule, which mandates a uniform pace of fiscal adjustments throughout the corrective period. This rule aims to prevent the postponement of difficult budgetary decisions to the latter stages of the adjustment process - a pattern that has historically led to procyclical fiscal policy and endangered financial stability.

A major procedural change is the adoption of net expenditure paths as the sole operational fiscal rule (Buti et al., 2023). Net expenditure is defined as total general government expenditure, adjusted by excluding interest payments, discretionary revenue-increasing measures, fully EU-financed expenditures, national co-financing of EU programs, cyclical unemployment-related spending, and one-off or temporary expenditures. These expenditures must align with a pre-determined adjustment trajectory aimed at reducing deficits and debt in a sustainable manner.

Member States are now obliged to prepare medium-term fiscal-structural plans (MTFSPs) covering a four-year horizon. These plans include fiscal commitments, structural reforms, and public investment priorities aligned with EU-wide goals, particularly in the domains of green and digital transitions. The adjustment period may be extended to seven years if a Member State commits to ambitious reforms and investments that enhance both economic growth and fiscal sustainability. This adjustment introduces greater flexibility while ensuring that fiscal consolidation remains credible and tailored to each country's specific macroeconomic context (Darvas, Biovin, 2025).

2.1. Preventive Measures for Sound Public Finances

Under the new regulatory framework, each EU Member State is required to prepare a medium-term fiscal-structural plan covering a period of four to five years, depending on the length of the national parliamentary term. These plans must include a trajectory of net public expenditures and detailed explanations of investment and reform initiatives designed to address the challenges outlined in the European Semester, particularly the country-specific recommendations.

The April 2024 reform introduced two additional fiscal rules in the form of quantitative criteria, referred to as "safeguards", which apply to Member States whose public debt exceeds 60% of GDP and whose budget deficit exceeds 3% of GDP. These safeguards aim to enhance fiscal discipline in highly indebted countries and ensure that fiscal commitments are met in a sustainable manner in accordance with EU rules.

The new rules establish two specific safeguards to be incorporated into the reference expenditure trajectory:

1. Debt Stability Mechanism – ensures that general government debt levels are steadily reduced by at least the prescribed minimum.
2. Deficit Resilience Mechanism – ensures that the public deficit remains below the Treaty reference value of 3% of GDP, thereby enabling the creation of fiscal buffers.

The debt stability mechanism obliges Member States to systematically reduce their debt-to-GDP ratio during the adjustment period. In countries where public debt exceeds 90% of GDP, the annual reduction must be at least 1 percentage point. For countries with debt levels between 60% and 90% of GDP, the minimum annual reduction is 0.5 percentage points. This obligation applies throughout the adjustment period but is suspended for countries under an Excessive Deficit Procedure due to breaching the 3% deficit threshold. In such cases, the debt reduction requirement becomes effective once the country exits the EDP.

The deficit resilience mechanism requires that Member States reduce their structural deficit to no more than 1.5% of GDP. Countries exceeding this level must undertake annual fiscal adjustments of at least 0.4% of GDP. If the adjustment period is extended to a maximum of seven years, the required minimum correction is lowered to 0.25% of GDP annually. This mechanism aims to ensure gradual and sustainable reduction of fiscal imbalances over the medium term.

Compliance with these safeguards is monitored by the European Commission and the EU Council, which may require modifications to fiscal plans deemed inconsistent with the agreed standards. Once a plan is approved by the Council, the net expenditure path becomes the key reference for assessing a Member State's alignment with EU fiscal governance requirements. Deviations - whether positive or negative - from the expenditure path are recorded in a newly introduced control account. If a deviation exceeds 0.3% of GDP in one year or 0.8% over two years, countries with debt above 60% of GDP may be subject to the debt-based EDP, which mandates corrective measures and may lead to financial sanctions.

Countries with debt below 60% of GDP are not subject to sanctions for breaching debt criteria. However, they may receive warnings or recommendations under soft law if their fiscal policy deviates from the approved expenditure path. The only scenario in which these countries may be subjected to an EDP is by breaching the 3% deficit threshold. In such cases, corrective actions must be taken to align public finances with EU rules and avoid sanctions. The corrective expenditure path under EDP should aim to bring the general government deficit below the 3% reference value, as stipulated in Article 126(2) TFEU and Protocol No. 12. This corrective path must correspond to the trajectory initially established by the Council, ensuring at least a 0.5% structural adjustment annually, unless objective circumstances justify revision.

As of April 2024, the European Commission provides Member States with high debt or deficits a "reference trajectory" for net public expenditure. This applies to countries with public debt exceeding 60% of GDP or deficits over 3% of GDP. The trajectory reflects each country's financial stability challenges and sets out the required path for reducing or maintaining debt at a sustainable level. Member States must incorporate these reference paths - derived from the two safeguards - into their national fiscal-structural plans. These plans are subject to Council approval, and all deviations from the net expenditure path are recorded in the control account.

The control account is one of the cornerstone tools introduced in the governance reform to monitor adherence to approved expenditure trajectories. It tracks any deviation from the budgetary plans and identifies potential risks to fiscal stability. The mechanism enhances transparency and accelerates intervention in cases where Member States fail to meet their obligations. Operating as a virtual accounting tool, the control account records discrepancies between actual net expenditure and approved targets annually. Positive deviations indicate overspending, while negative ones reflect savings. If the control account balance breaches the set thresholds - 0.3% of GDP in one year or 0.8% over two years - the European Commission may recommend initiating an EDP. The procedure obliges the Member State to undertake corrective actions and may result in sanctions for non-compliance.

The reference trajectory and corrective expenditure path are two central elements of the reformed EU economic governance framework. Although interconnected, they serve different purposes. The reference trajectory, proposed by the European Commission, is intended to guide Member States in preparing their medium-term fiscal-structural plans. In contrast, the corrective path, imposed by the EU Council, is a binding plan implemented when a country breaches fiscal rules and enters the EDP.

The reference trajectory offers a forecasted path for net expenditure over four to seven years, intended to ensure a credible decline or stabilization in debt levels in accordance with EU debt sustainability analysis. While the reference path is negotiable, provided alternatives remain compliant with EU fiscal stability rules, the corrective path is non-negotiable and enforced by the Council.

By combining both instruments, the EU aims to establish a predictable and enforceable fiscal framework that safeguards macroeconomic stability while allowing flexibility in implementation. The control account reinforces this framework by enabling early detection of risks, encouraging timely corrective actions, and supporting long-term fiscal sustainability across the Union.

Table 1.
Key Differences Between the Reference Trajectory and the Corrective Net Expenditure Path

Feature	Reference Trajectory	Corrective Net Expenditure Path
Created by	European Commission	EU Council
Nature	Recommendation, point of reference	Mandatory adjustment plan
When applied	During negotiations of medium-term fiscal-structural plans	In the event of activation of the Excessive Deficit Procedure
Purpose	To assist Member States in planning expenditure adjustments	To enforce corrective fiscal actions in response to non-compliance with EU fiscal rules
Minimum adjustment	No minimum requirement	0.5% of GDP annually in case of deficit criterion breach; 0.25% annually if seven-year adjustment period applies
Flexibility	May be negotiated by the Member State	May only be amended under exceptional circumstances

Source: Prepared based on: European Council, *Economic governance framework*. Retrieved from: https://www.consilium.europa.eu/pl/policies/economic-governance-framework/, 15.01.2025.

The corrective net expenditure path is a mandatory adjustment plan imposed by the Council of the European Union, which must be implemented by a Member State subject to the EDP. Its primary objective is to bring the general government budget deficit below the reference threshold of 3% of GDP or to ensure that public debt is reduced in accordance with EU fiscal requirements. This path is typically established by the Council based on the original reference trajectory proposed by the European Commission. However, in contrast to the reference trajectory, the corrective path is legally binding and non-negotiable.

In cases where a Member State breaches the deficit criterion, the corrective path must deliver a minimum structural adjustment of at least 0.5% of GDP annually. If the breach concerns the debt criterion, the path must reflect the need to correct deviations from the established debt reduction target. Should the originally adopted path become unfeasible due to objective circumstances - such as unforeseen economic crises or significant macroeconomic shocks - the Council may designate a new adjustment path. Nonetheless, such revisions are permitted only in exceptional cases and require a thorough assessment of the new circumstances and their fiscal implications.

The fundamental distinction between the reference trajectory and the corrective net expenditure path lies in their nature and application. The reference trajectory serves as a non-binding guidance tool, aimed at supporting Member States in formulating their MTFSPs. In contrast, the corrective expenditure path is a compulsory recovery plan, activated when a country enters the EDP due to non-compliance with EU fiscal thresholds. Furthermore, the reference trajectory is prepared by the European Commission and can be negotiated, whereas the corrective path is established by the Council of the EU and may only be amended under extraordinary conditions.

In summary, the reference trajectory and the corrective net expenditure path serve as fundamental instruments in the reformed EU fiscal governance framework. While the reference trajectory offers strategic guidance developed by the Commission to help shape fiscal planning, the corrective path is a binding measure that enforces compliance in situations of fiscal deviation. Together, these tools aim to enhance the stability of public finances across the EU and provide more effective oversight over Member States' levels of debt and budget deficits.

2.2. Changes to the Excessive Deficit Procedure

As part of the reform of the EU economic governance framework, significant changes were introduced to the Excessive Deficit Procedure, particularly with respect to the public debt criterion. The new regulations promote a more flexible and individualized approach to fiscal policy management, accounting for the specific economic challenges of each Member State, while strengthening mechanisms for monitoring and enforcing fiscal commitments.

Member States are required to maintain their budget deficits below 3% of gross domestic product (GDP), unless the deviation is minor and temporary. Furthermore, countries must ensure that their public debt levels remain below 60% of GDP, unless the debt is on a downward trajectory moving toward the reference value at a satisfactory pace, as stipulated in Article 126(2) TFEU.

The EDP is triggered when the European Commission determines that a Member State has breached the fiscal thresholds. The Commission then issues recommendations for corrective measures, which, once approved by the Council of the European Union, obligate the Member State to implement the necessary fiscal adjustments (at least 0.5% of GDP annually).

From 2025 to 2027, the required correction will be assessed based on the structural primary balance, excluding interest payments and focusing on the underlying fiscal position. Starting in 2028, evaluations will shift to the overall structural balance, reflecting the need to incorporate debt servicing costs and adapt to evolving financial conditions.

This mechanism is especially important for Member States facing fiscal pressures during economic downturns, enabling gradual adjustments that reduce the likelihood of abrupt expenditure cuts or sudden tax hikes, which could destabilize growth and social cohesion.

Non-compliance with the annual correction requirement may lead to the initiation or escalation of the EDP, including the imposition of financial sanctions. The incentive structure promotes responsible fiscal behavior and adherence to EU budgetary rules.

Failure to implement corrective actions may result in a more stringent procedure and, in extreme cases, financial penalties. Although the EU has rarely enforced sanctions, evidence suggests that the EDP incentivizes compliance and helps maintain deficits below 3% of GDP (Caselli, Wingender, 2021).

The new rules also allow greater flexibility for countries undertaking structural reforms and public investments that support long-term economic development. In such cases, Member States may be granted extended deadlines for fiscal adjustment, provided they submit comprehensive reform plans aligned with EU priorities, such as green transition, digitalization, and energy security.

Defense-related investments have also been recognized as mitigating factors in EDP assessments (Guttenberg, Redeker, 2025). Expenditures on military modernization, procurement of advanced equipment, and capability enhancement may justify deviations from standard thresholds, especially in response to rising geopolitical risks (De Lemos Peixoto et al., 2025).

A sustainable approach to debt reduction is emphasized, allowing Member States to tailor debt reduction paths to their specific economic circumstances. Countries with debt exceeding 60% of GDP are required to present MTFSPs outlining net expenditure paths and concrete debt reduction strategies.

The 'no-backloading' rule is introduced to prevent deferral of fiscal adjustments. It mandates a consistent pace of consolidation throughout the adjustment period, avoiding a concentration of difficult reforms in the later stages that could jeopardize fiscal stability.

This rule responds to past instances where Member States delayed corrective measures, creating financial pressure toward the end of the adjustment period and complicating fiscal policy implementation. Systematic execution enhances credibility and mitigates economic and social disruption.

Moreover, the rule facilitates effective monitoring by the European Commission and Council, enabling timely intervention and early identification of risks. Its alignment with other safeguards, such as annual debt reduction requirements, contributes to more stable and balanced public finance management.

In conclusion, the reforms represent a major advancement in EU budgetary governance, balancing the imperative of debt stabilization with the need to support economic growth. The integrated approach ensures more resilient fiscal frameworks while preserving fiscal space for national and EU-level investment priorities.

3. Effectiveness of the Euro Area Economic Governance Reform Post-COVID-19

The 2024 reform of the euro area's economic governance framework constitutes a pivotal advancement toward aligning the European Union's fiscal architecture with evolving macroeconomic realities. It aims to bolster the resilience of public finances across Member States through improved fiscal coordination, a more flexible approach to debt management, and enhanced oversight of public expenditures. However, as implementation remains decentralized and rests with individual countries, concerns persist regarding the reform's operational effectiveness and consistency across jurisdictions.

A cornerstone of the reform is the departure from the rigid parameters of the Stability and Growth Pact in favor of country-specific debt sustainability analyses and flexible fiscal adjustment trajectories, tailored to the structural and cyclical conditions of each Member State. The inadequacy of uniform deficit and debt thresholds became particularly apparent during the COVID-19 crisis, which necessitated significant fiscal interventions and sharp increases in public debt. The new fiscal framework offers a more realistic and adaptive design, enabling national authorities to better absorb macroeconomic shocks without imposing excessive consolidation pressures during downturns. By integrating mechanisms aimed at ensuring debt sustainability and enhancing deficit resilience, the framework seeks to preempt fiscal imbalances and preserve countercyclical policy capacity.

Another key component is the strengthened role of EU-level fiscal oversight. The introduction of a "control account" to monitor deviations from agreed net expenditure paths enables earlier identification of fiscal risks and facilitates a more coordinated Union-level response. This instrument is expected to enhance transparency, reinforce budgetary discipline, and promote political accountability. Nonetheless, the existence of such monitoring tools is insufficient in itself; compliance will critically depend on enforcement mechanisms and the credibility of corrective procedures.

One of the first academic studies to evaluate the newly reformed EU fiscal rules is the analysis conducted by Pezzotti Piccoli and Luigi Gaetano (Piccoli, Gaetano 2025), who examines whether the updated framework - emphasizing simplicity, flexibility, and country-specific adaptability - is likely to strengthen or weaken fiscal discipline in terms of debt and deficit control. His research highlights both the potential advantages and the inherent limitations of the revised fiscal governance model.

On the side of greater fiscal discipline, the author points to the increased national ownership of fiscal planning. By allowing Member States to design their own MTFSPs, the reform encourages alignment between national and EU-level objectives, fostering a cooperative rather than hierarchical dynamic. The focus on net expenditure paths as the single operational indicator makes fiscal surveillance more transparent and implementable, while the ability of the EU Council to impose reference trajectories ensures that flexibility does not translate into laxity.

Further mechanisms - such as linear and proportional fiscal adjustments, the prohibition of backloading, improved methods for assessing deviations, and streamlined sanction procedures - enhance the credibility and enforceability of the framework. The retention of deficit and debt targets within safeguard mechanisms, like the Debt Stability and Deficit Resilience Mechanisms, ensures continuity with prior rules in a more adaptive form. Pezzotti Piccoli also notes the empowered role of Independent Fiscal Institutions (IFIs) under Directive (EU) 2024/1265, reinforcing oversight through the "comply or explain" principle.

Nevertheless, he cautions that certain elements may weaken the reform's effectiveness. The complex and cumulative triggers for launching the EDP could undermine enforcement, while overuse of the national escape clause - especially if applied too broadly or frequently - risks diluting the framework's integrity.

In conclusion, Pezzotti and Gaetano considers the reform a meaningful step toward improved fiscal governance, primarily through enhanced national engagement and more realistic implementation tools. Yet, some structural risks remain, which could challenge the framework's durability and the consistency of fiscal discipline across the EU.

Due to the short period of operation of the new, reformed provisions, there is no experience of their application by Member States. However, a notable early evaluation is offered by Nicolas E. Boivin and Zsolt Darvas in their February 2025 study (Boivin, Darvas, 2025), which provides valuable insights into the reform's preliminary efficacy. Their work makes a meaningful contribution to the ongoing discourse concerning the practical relevance and sustainability of the new framework.

Boivin and Darvas concentrate their analysis on the consistency between MTFSPs and the requirements stipulated under the EDP. In particular, they investigate the alignment of macroeconomic assumptions embedded in national plans with the European Commission's guidelines, as well as the extent to which these plans safeguard or enhance public investment levels.

According to their findings, the European Commission had conducted an integrated assessment of the MTFSPs and EDP cases by November 2024. This approach was designed to ensure coherence between fiscal planning and compliance mechanisms. Notably, the fiscal adjustment paths mandated under the EDP were identical to those proposed within the MTFSPs, both of which were grounded in debt sustainability assessments and safeguarding mechanisms.

This convergence of MTFSP and EDP trajectories reflects a deliberate shift toward a coordinated model of fiscal surveillance under the reformed governance framework. The reform aspires to harmonize deficit and debt reduction requirements with national fiscal strategies, while accounting for country-specific macroeconomic conditions and investment priorities.

Boivin and Darvas assess whether the new framework meaningfully strengthens fiscal discipline without undermining public investment or ignoring economic heterogeneity. Their analysis highlights several critical implementation risks and proposes enhancements to bolster the system's functionality.

Of particular importance is the integrated evaluation process of the MTFSPs and EDP - a central innovation in the EU's revised economic governance model. This signifies a departure from the prior rules-based orthodoxy to a more tailored and outcome-oriented framework that emphasizes country-specific pathways while maintaining Union-wide consistency in fiscal expectations. The fact that both MTFSPs and EDP recommendations rely on the same analytical foundations (i.e., debt sustainability and risk buffers) is intended to improve the credibility and effectiveness of EU fiscal oversight by ensuring that national obligations are logically interlinked and mutually reinforcing.

However, Boivin and Darvas also underscore a fundamental limitation: the absence of a common methodology for quantifying the growth impact of structural reforms. This gap has led to divergent assumptions and methodologies among Member States, undermining the comparability and credibility of national reform plans. They advocate for the development of a unified framework to evaluate the macroeconomic returns of structural measures - a prerequisite for robust and transparent fiscal planning across the Union.

Furthermore, their study raises concerns regarding the potential crowding-out effect of fiscal consolidation on public investment. Drawing on post-2008 crisis data, the authors note that Member States pursuing aggressive fiscal adjustment often curtailed capital expenditure disproportionately. This raises the risk that the new fiscal plans, while striving for debt and deficit reduction, could again suppress critical public investments essential for long-term growth and structural transformation. To mitigate this, Boivin and Darvas propose exploring alternative financing mechanisms, such as a loan-based EU-level investment fund modeled after NextGenerationEU.

Their findings suggest that the ultimate success of the fiscal reform will depend on several interrelated factors:

- Coherence and coordination: The integration of MTFSP and EDP assessments represents a step toward more consistent fiscal oversight.
- Methodological rigor: The absence of a standardized approach to evaluating the economic impact of reforms presents a significant analytical challenge.
- Safeguarding investment: There is a persistent tension between fiscal consolidation and public investment needs, which must be addressed through innovative funding mechanisms.
- Macroeconomic realism: Ensuring that national plans are consistent with the Commission's macroeconomic projections is crucial for maintaining the credibility of fiscal trajectories.

In sum, the long-term effectiveness of the reform hinges on the extent to which these challenges can be mitigated and whether Member States can implement the new rules in a manner that is coherent, realistic, and conducive to sustainable growth.

While the reform represents a significant step toward enhanced fiscal stability and surveillance, it does not fully address the structural asymmetries inherent within the monetary union. The euro area continues to lack a centralized fiscal authority, and national capacities to respond to crises remain highly uneven. Though the introduction of more flexible fiscal rules may enhance systemic stability, their effectiveness is contingent upon enforceability and the political will of national governments. There is an enduring risk that highly indebted countries may defer necessary structural reforms if they conflict with short-term political imperatives.

Ultimately, the credibility of the revised framework will be tested during the next significant economic shock. In theory, the new rules should empower Member States to better manage public finances while preserving fiscal space for countercyclical interventions (Kolm, 2024). However, the true resilience of the euro area will only be demonstrated when Member States are compelled to balance rule compliance with crisis responsiveness under real-world pressures.

The 2024 reform lays important groundwork for a more robust fiscal governance regime. Yet, its success will depend not only on institutional design, but also on the political commitment, administrative capacity, and economic foresight of the Member States entrusted with its implementation.

4. Summary

The post-COVID-19 reform of the euro area's economic governance framework introduced substantial changes to the EU's fiscal rules, adapting them to new financial, economic, and geopolitical challenges. The revised framework, adopted on April 29, 2024, is intended to improve fiscal resilience, enhance the sustainability of public finances, and establish a more flexible yet rigorous approach to debt and deficit reduction. The adoption of individualized reference trajectories and the control account mechanism strengthens fiscal oversight while allowing Member States greater room to tailor policies to their macroeconomic conditions.

The pandemic exposed weaknesses in the previous governance model, prompting a reassessment of EU fiscal principles. The launch of the EU Recovery Fund and the issuance of joint bonds marked a breakthrough in EU fiscal integration. While the reformed system still operates within rule-based constraints, it incorporates greater flexibility to manage fiscal policy during economic or geopolitical crises (D'Alfonso, 2021).

Key reform features include the 'no-backloading' rule, which prevents deferring adjustments to the end of the corrective period, and the recognition of defense spending as a mitigating factor in fiscal assessments. The reform also prioritizes structural reforms and public investment - especially in green and digital transformation - as essential to enhancing the EU's long-term competitiveness. It also accounts for the fiscal challenges posed by the need to expand defense capabilities through military modernization, defense technology development, and enhanced cooperation via EU defense programs such as the European Defence Fund.

These developments underscore the growing role of a common fiscal policy in the EU and the progressive alignment of the euro area with a model monetary union. The new rules, while expanding national policy flexibility, also demand stricter compliance with fiscal discipline (Blanchard et al., 2021). The effectiveness of the reformed fiscal framework will ultimately depend not only on the political willingness of Member States and the credibility of rule enforcement mechanisms, but also on the EU's capacity to ensure consistent implementation amid shifting economic conditions and the tendency of national governments to prioritize short-term political gains over medium-term fiscal discipline.

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