SILESIAN UNIVERSITY OF TECHNOLOGY PUBLISHING HOUSE

SCIENTIFIC PAPERS OF SILESIAN UNIVERSITY OF TECHNOLOGY 2025
ORGANIZATION AND MANAGEMENT SERIES NO. 230

NEW EURO AREA FISCAL RULES IN THE AFTERMATH OF THE COVID-19 PANDEMIC

Juliusz GIŻYŃSKI

University of Gdańsk, Faculty of Management; juliusz.gizynski@ug.edu.pl, ORCID: 0000-0002-8547-6854

Purpose: The article aims to analyze and evaluate the key fiscal rules of the reformed Stability and Growth Pact, drawing comparisons with the previous version of its provisions.
Design/methodology/approach: The historical-legal method was used to examine the genesis and causes of changes in the Stability and Growth Pact regulations. Further, the comparative method was employed to assess the degree of improvement in the new rules of the Pact, identify its weaknesses and risks, and propose specific mitigative measures.
Findings: Following the COVID-19 pandemic and the energy crisis, the Stability and Growth Pact regulations were suspended for the period 2020-2023. Application of the old rules, once reinstated, would require unrealistically large fiscal adjustments by some euro area countries. Hence the reform in 2024. The previous rules proved too rigid in times of turmoil, resulting in uneven implementation by the member states. The most well-known rules, i.e. the 3% of GDP deficit and 60% of GDP debt thresholds, remained unchanged. The baseline timeframe for achieving these values was significantly extended, however. Only one operational target was adopted, i.e. the *net expenditure path*, constituting a key element of the *national medium-term fiscal-structural plans* over an adjustment period of 4-7 years. Furthermore, the reformed fiscal rule enforcement framework has been based on *Debt Sustainability Analysis* in individual euro area countries. Although the new surveillance rules streamline the process, they show clear weaknesses and risks. This mainly stems from the retention of certain old system solutions and the largely unchanged *deficit-based excessive deficit procedure*. These shortcomings may hamper effective implementation of the new Pact provisions. To limit these issues, development of a methodology for assessing the impact of planned reforms and investments on fiscal adjustment, establishment of a uniform adjustment rate for both the *excessive deficit procedure* and *Debt Sustainability Analysis*, as well as elaboration of changes to this methodology through public consultation are recommended.
Originality/value: The article highlights the weaknesses and risks of the new euro area fiscal policy surveillance framework, recommending several relevant mitigative measures. The recommendations are addressed to policy makers and institutions supervising the functioning of the euro area.
Keywords: euro area, budgetary surveillance, fiscal rules reform.
Category of the paper: Research paper.

1. Introduction

At the end of April 2024, a reform of economic surveillance, inclusive of fiscal rules within the Economic and Monetary Union (EMU), also known as the euro area (EA), entered into effect. The new approach to the supervision of member states by the European Commission (EC) and the Council of the European Union (EU) has been aimed at strengthening the medium-term stability of public finances in these countries. Additionally, the new regulations have been intended to promote sustainable economic growth and increase the resilience of the EA economy (Bęza-Bojanowska et al., 2024). It should be remembered that the strong political response to the COVID-19 pandemic, although very effective in mitigating the economic and social impact of the crisis (for more, see e.g. De Grauwe, 2022, pp. 273-277; Giżyński, 2024b, pp. 77-83), did lead to a sharp increase in the member states' public debt and budget deficit ratios. As a result, a need has emerged in these countries for a gradual, realistic, sustainable, but also pro-growth reduction of those ratios to prudent levels, allowing, at the same time, a certain degree of flexibility in countercyclical policies[1], and remedying macroeconomic imbalances, with due regard to social and employment objectives (Regulation (EU) 2024/1263, point (5)). Adequate reforms and investments are, in turn, crucial in ensuring a credible reduction of debt ratios. One of the objectives of the new fiscal surveillance framework, therefore, entails facilitation of its implementation by member states, particularly in such areas as the green and digital transitions, productivity and competitiveness improvement, as well as security capacity enhancement (cf. European Commission, 2024a, p. 1). Despite these refinements, certain ambiguities possibly hindering effective compliance with the new rules have arisen (Darvas et al., 2024b, p. 1).

Considering the above circumstances, the main objective of the article is to analyze and evaluate the key fiscal rules of the reformed Stability and Growth Pact, drawing comparisons with the previous version of its provisions. The research hypothesis, in turn, was formulated as follows: *although the new fiscal surveillance reform in the euro area has improved the rules contained in the Stability and Growth Pact (SGP), these regulations are characterized by clear weaknesses and risks potentially reducing the effectiveness of their implementation*. The article is divided into six parts, with the first constituting an introduction, the third entailing a description of the research methods used, and the sixth indicating the research conclusions. Part two, in turn, presents a theoretical overview on the essence of the euro area fiscal policy surveillance, identifying the main reasons behind its further reform. The fourth section characterizes the most crucial provisions of the revised Stability and Growth Pact. Part five

[1] Countercyclical (stabilization) policy can be defined as a set of measures undertaken by the state (or another supranational entity) (Balcerzak, 2012, p. 178) in the area of its fiscal and monetary policy. These policies constitute the main tools of aggregate demand management in the economy (Rosati, 2017, p. 54). They are aimed at limiting excessive volatility in domestic product growth rate. Such fluctuations are associated with the phenomenon of cyclical economic development (business cycle) (Balcerzak, 2012, p. 178).

assesses the degree of improvement in the new rules of the Pact in comparison with the previous version. This part also highlights the weaknesses and risks of the adopted EA fiscal framework, as well as formulates recommendations to mitigate those vulnerabilities, with these issues constituting the original contribution of the article. The recommendations are geared towards to policy makers and institutions supervising the functioning of the euro area. The article reflects the legal status as of December 31, 2024.

2. Literature review

The Economic and Monetary Union was originally established under the provisions of the Maastricht Treaty (MT) (Abraham et al., 2024, p. 8) of 1992, also known as the Treaty of Lisbon[2], where it was signed in 2007 (Giżyński, 2024b, p. 69). The architects of the EMU assumed the single monetary policy to be complemented by decentralized fiscal policies, coordinated through a set of common fiscal rules. The key objective behind these rules was to maintain fiscal discipline in the member states as well as curb the phenomenon of *deficit bias*[3]. The aim was to thereby avoid excessive growth in aggregate demand and a consequent rise in inflation rate. Increased inflation would lead to the so-called *negative externalities*[4] for other euro area countries, as it would force their central bank to intervene by raising interest rates in order to maintain price stability.

The above aspects can be considered the backdrop to the so-called *Maastricht criteria* (Abraham et al., 2024, p. 8), i.e. the convergence criteria setting out the conditions for joining the European Monetary Union (Ferreiro, Serrano, 2021, p. 216). These *criteria* were not defined precisely, however (Abraham et al., 2024, p. 8), and included a ban on creating *excessive deficits* (Ferreiro, Serrano, 2021, p. 216). Article 126(1) of the Treaty on the Functioning of the European Union (TFEU), constituting part of the Treaty of Lisbon (Idczak, 2015, p. 46), stipulates that *Member States shall avoid excessive government deficits,* while Article 126(2) TFEU specifies that, *with a view to identifying gross errors,* compliance with (Abraham et al., 2024, p. 8) fiscal discipline is to be based on two criteria, i.e. the budget deficit and the public debt. This, in essence, consisted of assessing whether the deficit and debt ratios had exceeded the reference values (Abraham et al., 2024, p. 9). The Maastricht Treaty's *Protocol (No. 12) on*

[2] The Treaty of Lisbon reiterated the provisions regarding fiscal policy in the euro area. It entered into force in late 2009.

[3] The *deficit bias* is attributed to democratic parliamentary systems, where power is held by politicians elected democratically. In such systems, those in power tend to increase public spending to meet their electors' expectations. For the same reason, they are reluctant to raise taxes. Such tactics are intended to facilitate their re-election (Rosati, 2017, p. 891).

[4] The term *externality* can be defined as an effect, positive or negative, on a person (or entity) not a party to the decision (c.f. Stigler, 1975, p. 104; Boudreaux, 2025).

the Excessive Deficit Procedure, referred to as EDP[5], specified the values characterizing fiscal imbalance as excessive, i.e. 3% and 60% of GDP, respectively. Insofar as the deficit and debt rules do find justification in theory, the reference values were set arbitrarily (Giżyński, 2024a, p. 147).

The fiscal convergence criteria were complemented by the provisions of the Stability and Growth Pact of 1997, which are crucial from the perspective of fiscal discipline in the euro area. They operationalize and elaborate on the relevant provisions of the Treaty. In other words, the SGP provides a set of fiscal rules and procedures aimed at ensuring compliance within the EA (Giżyński, 2024b, p. 76). The Pact provisions entered into force in July 1998, in the form of regulations, i.e. (I) the *preventive arm* (Council Regulation (EC) No. 1466/97), intended to ensure sound budgetary policies in the medium term and thus prevent the EMU countries from accumulating excessive deficits; and (II) the *corrective arm* (Council Regulation (EC) No. 1467/97), describing the aforementioned EDP procedure contained in Article 126 TFEU (Abraham et al., 2024, p. 9), aimed at eliminating excessive deficits ex post. By 2023, the rules of the Pact had undergone three rounds of reform (see Table 1). The first reform, in 2005, had eased and loosened the fiscal constraints (Giżyński, 2019, pp. 23-24), while the next two tightened them in 2011 and 2013. This tightening followed the financial crisis, which had hit Europe particularly hard in 2009. One response to the crisis was the Fiscal Compact (see Table 1), containing recommendations not only on balancing the EMU countries' budgets, but also on creating surpluses (Owsiak, 2017, p. 87).

Although fiscal surveillance in the euro area (including common fiscal rules) has over the 25 years of the EA's existence contributed to budgetary discipline in the member countries, it proved ineffective in preventing the 2010-2012 debt crisis in some of these countries, on the one hand, and failed to halt the continued rise in public debt ratios, on the other. This rendered these ratios vulnerable to various risks (crises) in some member states, including Italy, Spain, Portugal, and France. It is, furthermore, indicated that although the surveillance framework did incentivize the euro area countries to maintain deficit ratios below the reference value (the countries sought to avoid the EDP procedure), it was insufficient to prompt a significant number of them to reduce their debt ratios, under such relatively favorable economic conditions as those prevailing in 1998-2007 and 2015-2019. This would undoubtedly mitigate shocks during economic downturns. It should be remembered that high public debt ratios played a significant role in triggering the aforementioned crisis. Moreover, as emphasized above, this indicator's current susceptibility to various threat factors translates into high medium-term fiscal sustainability risk (Arnold et al., 2022, p. 4) for some euro area countries. In 2023, eight member states showed signs of this risk, namely Belgium, Greece, Spain, France, Italy, Portugal, Slovakia, and Finland (European Commission, 2024b, p. 11). It is therefore difficult to disagree

[5] The EDP procedure entails a process whereby the European Commission and the Council of the EU monitor the trend in member states' budgetary balance and public debt. The aim is to assess and/or correct the risk of excessive deficits in each of these countries (European Commission, Directorate-General..., 2025).

that, despite several attempts to reform the SGP, the fiscal rules contained therein have not served their primary purpose, i.e. the maintenance of fiscal stability and prevention of debt crises in the EA countries, including the associated negative spillover (Arnold et al., 2022, p. 4).

The main cause of failure in controlling the risk of debt is considered to lie in the euro area countries' non-compliance with the rules under the Stability and Growth Pact (for more, see Arnold et al., 2022, p. 4), successive reforms of which (see Table 1) led to increased regulation. While a certain degree of complexity in the common fiscal rules was unavoidable, it nevertheless hampered the implementation thereof (Arnold et al., 2022, p. 5). Other shortcomings in the implementation of the fiscal framework within the EMU during the first two decades of its existence stemmed from: I) inconsistencies in the fiscal criteria set out in the Maastricht Treaty, particularly at low nominal economic growth rates; II) flawed performance of the medium-term objective (MTO)[6] and the so-called *preventive arm matrix*[7]; III) difficulties in measuring the unobservable *output gap*[8] used to estimate the structural balance[9]; IV) a certain degree of propensity for procyclicality (Abraham et al., 2024, pp. 11, 14) in fiscal policy[10] (for more, see Arnold et al., 2022, p. 5); and V) inability to protect public investments[11] (Abraham et al., 2024, pp. 15-17).

In 2020, the European Commission launched a review of the Stability and Growth Pact regulations. The outbreak of the COVID-19 pandemic interrupted this review. In the wake of the pandemic (Darvas et al., 2024b, p. 2) (the public health threat posed by the pandemic was announced over by the World Health Organization in May 2023) (European Commission, 2024f) and the subsequent energy crisis which reached its peak on the European natural gas market in August 2022 (for more, see e.g. Giżyński, 2024a, pp. 149-150), the EU fiscal rules were suspended for the years 2020-2023, and reinstated at the beginning of 2024 (Darvas et al., 2024b, p. 2). It should be emphasized that the economic crisis triggered by the pandemic (in 2020, GDP in the euro area as a whole fell by as much as 6.1%) further highlighted the

[6] For more on the purpose behind the MTO, see Sections 4 and 5 of the present article.

[7] The *preventive arm matrix*, referred to as the *matrix of requirements*, lists the necessary annual adjustments to the fiscal policies of euro area countries (for more, see e.g. Giżyński, 2015, pp. 24-27; European Commission, 2019, pp. 16-17).

[8] The *output gap* (GDP/*output gap*) is the difference between potential and actual production; potential production is the quantity possible to be achieved under conditions of full capacity utilization (see e.g. Giżyński, 2015, p. 24).

[9] The structural balance is the cyclically-adjusted balance net of one-off measures. Statistical data show that the size of budget deficits is largely determined by the economic situation. When the economy downturns, deficits grow. As the economy improves, deficits decrease. The reasons for these fluctuations are complex (Giżyński, 2016, p. 170). For more on the concept of structural balance, see also, e.g. Banaszewska (2012, pp. 18-23) and Sections 4 and 5 of the present article.

[10] Fiscal policy is procyclical when government interventions reinforce rather than mitigate business cycle fluctuations, as in countercyclical policy (Rosati, 2017, p. 230).

[11] Since 2010, the percentage share of Gross Public Investment in GDP in advanced EA economies, i.e. Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, and Spain, has decreased significantly, with levels at the beginning of the third decade of the 21st century considerably below those recorded in Japan or the United States (see Arnold et al., 2022, p. 7).

challenges associated with the system of fiscal policy coordination within the Economic and Monetary Union. First and foremost, the crisis led to a significant increase in the member states' public debt ratios (by an average of 13.3 pp of GDP in 2020), posing the challenge of a gradual, sustainable and growth-friendly reduction thereof to sustainable levels (Giżyński, 2024b, pp. 77, 84). Furthermore, the countercyclical discretionary fiscal policy in the EMU countries, coupled with temporary supranational fiscal support tools, proved to be extremely effective in mitigating the effects of the crisis (see e.g. Giżyński, 2024b, pp. 80-81), which underscored the challenge of creating fiscal space in these countries during economic upturns and leveraging it to address downturns. Ultimately, the rapid unfolding of the crisis exposed difficulties in the application of fiscal policy assessment indicators among the member states, on the one hand, and in the formulation of rules covering all possible situations (European Commission, 2021, p. 9; European Commission, 2022; Giżyński, 2024b, p. 84), including crises, on the other.

The COVID-19 crisis only exacerbated existing shortcomings in the SGP framework (Pinheiro de Matos, Sanchez Soliva, 2021). Notably, the application of the old rules, once reinstated, would call for unrealistically large adjustments for some euro area countries, particularly those characterized by high debt ratios. Italy is an example where the rule of reducing the debt ratio by *one-twentieth* would entail an annual adjustment by roughly 5% of GDP (Arnold et al., 2022, p. 7). Justified was therefore the resumption of discussion on reforming EU fiscal surveillance at the supranational level (Pinheiro de Matos, Sanchez Soliva, 2021) in October 2021, aimed at reaching a broad consensus on further action by 2023. One promising solution seemed to be the adjustment of fiscal rules under the current surveillance system, with an emphasis on changes leading to both improved transparency and reduced complexity[12] (Pinheiro de Matos, Sanchez Soliva, 2021; Giżyński, 2024b, p. 84). As a result, an updated set of fiscal rules was adopted, which entered into force in late April 2024 (see Table 1 and Table 2), setting out fiscal consolidation requirements and thus the capacity of national fiscal policy to cope with both domestic and European challenges (Darvas et al., 2024b, p. 2).

The new challenge the euro area economy has been facing consists in its recovery from the pandemic and the effects of Russia's invasion of Ukraine. In 2024, it was accompanied by high debt ratios and interest rates as well as new reform and investment targets. The previous fiscal surveillance framework proved too rigid in times of turmoil, resulting in its inconsistent implementation across the EMU countries. The fiscal governance framework for the euro area has been therefore updated once again, to serve the authorities in the future (European Council, Council of..., 2025).

[12] For more on the various proposals of fiscal rule changes in the euro area, published in 2021-2022, see, e.g. the summary compiled by Arnold et al. (2022, p. 9).

3. Methods

In accomplishing the main objective of the article, the historical-legal method was used to examine the genesis and causes of changes in the Stability and Growth Pact regulations. Further, the comparative method was employed to assess the degree of improvement in the new rules of the Pact, identify its weaknesses and risks, as well as propose specific mitigative measures. These methods enabled the confirmation of the following research hypothesis, indicated in Section 1: *although the new fiscal surveillance reform in the euro area has improved the rules contained in the Stability and Growth Pact, these regulations are characterized by clear weaknesses and risks potentially reducing the effectiveness of their implementation*.

4. Results

The new provisions of the Stability and Growth Pact were adopted by way of three legal acts, i.e. two regulations and one directive. The first (Regulation (EU) 2024/1263) replaced the *preventive arm* under the old system (Council Regulation (EC) No. 1466/97), while the second (Council Regulation (EU) 2024/1264) amended the *excessive deficit procedure* (Council Regulation (EC) No. 1467/97). The directive (Council Directive (EU) 2024/1265), amending the one adopted in November 2011 (Council Directive 2011/85/EU), defined the budgetary framework requirements for member states (Darvas et al., 2024b, p. 3; European Commission, 2024e, p. 37).

The new SGP rules further draw on Article 126 TFEU, and Protocol No. 12 contained therein (for more, see Consolidated version of the Treaty..., pp. 99-102, 279-280; Darvas et al., 2024b, p. 2). Worth recalling is that, according to these regulations:

- Member states should maintain a budget deficit below 3% of GDP, unless the deviation is minor and temporary, with public debt below 60% of GDP, except when the latter shows a sufficient diminishing trend at a satisfactory pace towards the reference value.
- The *excessive deficit procedure* entails a process by which the European Commission identifies an excessive budget deficit in a given euro area country and recommends its correction. Once the member states within the Council approve the recommendation, the country in breach of the deficit rule is expected to implement the appropriate correction. Otherwise, the procedure may be accelerated, resulting in the imposition of financial sanctions[13].

[13] Noted should be that no significant sanctions have ever been imposed on EA countries. Some evidence shows, however, that the EDP has incentivized these countries to keep their deficit ratio below 3% of GDP (Darvas et al., 2024b, p. 2).

In the old SGP provisions, the main objective, i.e. the aforementioned MTO[14], was based on the overall structural balance. In essence, it involved clearing the state budget balance of cyclical factors, such as low tax revenues during a recession, and one-off fiscal measures, such as the bank bailouts following the global financial crisis of 2008 (Darvas et al., 2024b, pp. 2-3). Member states which had not yet achieved their MTOs were required to improve their structural budget balance by 0.5% of GDP annually, with the actual improvement possibly higher during an economic upturn and lower during a slowdown or recession. Furthermore, the *preventive arm* of the SGP included an *expenditure benchmark*, requiring the euro area countries which had not yet achieved their MTOs to maintain the growth rate of public expenditure below the medium-term growth rate of potential GDP (Rosati, 2017, pp. 941-942). In addition, EA countries with a debt ratio above 60% of GDP were required to reduce this ratio by at least 1/20 of the difference (annually) between the actual debt level and its reference value. Failure to meet this target could result in the launch of the *debt-based* EDP (Darvas et al., 2024b, p. 3).

The new fiscal policy surveillance framework for the euro area, in turn, sets only one operational target, namely the *net expenditure path*[15] (Darvas et al., 2024b, p. 3), constituting the most important element of *national medium-term fiscal-structural plans*[16] (MTPs) (Bęza-Bojanowska et al., 2024), covering a four-to-seven-year adjustment period (Darvas et al., 2024b, p. 3). The *net expenditure path* entails a multi-year trajectory of a member state's expenditure (Regulation (EU) 2024/1263, Article 2, point (5)). This objective is intended to ensure that, assuming no further budgetary measures, the projected general government debt ratio is reduced or remains on a *plausibly downward* path throughout the adjustment period, or remains at a prudent level below 60% of GDP in the medium term (cf. Regulation (EU) 2024/1263, Article 6, point (a)). The expression *plausibly downward* indicates, in turn, a 70% or higher probability of a debt ratio decline, based on a stochastic Debt Sustainability Analysis (DSA)[17], with a possible to expect decline in the ratio, even under predefined unfavorable

[14] MTOs served as quantitative criteria for the structural balances each member country committed to achieve within a timeframe consistent with its medium-term budgetary framework (Baran, 2013, p. 28).

[15] *Net expenditure* refers to government expenditure minus interest expenditure, discretionary revenue measures, expenditures on EU programs fully offset by EU funds, national contributions to EU programs, the cyclical component of unemployment benefits, one-offs, and other temporary measures (cf. Regulation (EU) 2024/1263, Article 2, point (2); European Commission, 2024e, pp. 37-38).

[16] A *national medium-term fiscal-structural plan* is a document outlining a euro area country's commitments regarding its budgetary policy, reforms and investments. The time horizon is four or five years, depending on the length of the parliamentary term in the member country concerned (Regulation (EU) 2024/1263, Article 2, point (6)). MTPs have replaced national reform, stabilization, and convergence programs (see European Commission, 2025b).

[17] The DSA methodology was applied in the first year of operation of the new euro area fiscal surveillance framework, i.e. in 2024 (Darvas et al., 2024b, p. 4). The methodology draws on macroeconomic and fiscal policy assumptions. It serves an important function in providing a benchmark for bilateral negotiations and surveillance in the context of the reformed EMU fiscal rules (Gechert et al., 2024, p. 276). Details can be found, e.g. in European Commission documents (2024b, pp. 109-115; 2024e, pp. 43-46). With the establishment of a working group responsible for reviewing this methodology, certain changes in its application cannot be ruled out in the next round of surveillance (Darvas et al., 2024b, p. 4). A quantitative assessment of the key assumptions

interest rate, GDP, and primary fiscal balance scenarios (Darvas et al., 2024b, pp. 3-4). This means that the downward debt path in a given EA country will need to be sufficient to ensure the stability of the debt ratio in that country, even during economic downturns or under adverse economic shocks (Bęza-Bojanowska et al., 2024). These conditions are referred to as *DSA requirements* (Darvas et al., 2024b, p. 4). Such approach to calculating the required fiscal adjustment is entirely new. The key factor here entails an analysis of debt sustainability, i.e. DSA, over a period of 14-17 years (Bęza-Bojanowska et al., 2024). Furthermore, the *net expenditure path* established in a given EA country is expected to ensure a reduction of the budget deficit ratio in that country to below the reference value by the end of the adjustment period (*deficit requirement*), whenever it exceeds the reference value of 3% of GDP (Darvas et al., 2024b, p. 4).

Moreover, the new regulations stipulate that in those member states where the public debt ratio exceeds 60% of GDP, or the deficit ratio exceeds 3% of GDP, the *net expenditure paths* call for additional *safeguards*. These *safeguards* are to ensure:

- *no backloading* - the annual fiscal adjustment cannot be increased during the adjustment period (Darvas et al., 2024b, p. 4; cf. Regulation (EU) 2024/1263, Article 6, point (c)).
- *debt sustainability* - the projected debt ratio should decrease by a minimum average annual value of 1 pp of GDP, as long as it exceeds 90% of GDP (see Table 2) (cf. Regulation (EU) 2024/1263, Article 7(1), point (a)); and by 0.5 pp of GDP, when it remains between 60% and 90% of GDP (see Table 2) (cf. Regulation (EU) 2024/1263, Article 7(1), point (b)), from the onset of the adjustment period or the correction of the excessive deficit (whichever occurs later) until the end of the adjustment period (Darvas et al., 2024b, p. 4; cf. Regulation (EU) 2024/1263, Article 7(2)).
- *deficit resilience* - for member states with a structural budget deficit exceeding 1.5% of GDP, the annual improvement in the *structural primary balance*[18] should amount to at least 0.4% of GDP, when the adjustment period lasts four years, and at least 0.25% of GDP when it spans seven years (Darvas et al., 2024b, p. 4; cf. Regulation (EU) 2024/1263, Article 8(1 and 2) and Article 14).

The European Commission will be required to initiate the *excessive deficit procedure* if a member state with a debt ratio above 60% of GDP and a deficit exceeding 0.5% of GDP (see Table 2) deviates significantly from the recommended *expenditure path* (Bęza-Bojanowska et al., 2024).

The new regulations are based on the requirement contained in the unchanged *deficit-based* EDP. It stipulates that if a euro area country exceeds the reference deficit value, i.e. 3% of GDP, except cases where the excess is minor and temporary, it is required to undertake fiscal

underlying this method can be found, e.g. in the work of Gechert et al. (2024, pp. 276-283). For more information on the reservations regarding the DSA methodology, see Section 5 of the present article.

[18] *Structural primary balance* is the structural balance minus debt servicing costs, i.e. interest (Regulation (EU) 2024/1263, Article 2, point (11)).

adjustment of at least 0.5% of GDP annually (see Table 2). In 2025-2027, this adjustment is to be measured using the structural primary balance, i.e. excluding interest payments. From 2028 onwards, it is to be determined based on the aforementioned overall structural balance (Darvas et al., 2024b, p. 4; cf. Council Regulation (EU) 2024/1264, point (23)). In addition, member states implementing projects funded by loans under *the Recovery and Resilience Facility*[19] (RRF), bearing, at the same time, the burden of co-financing EU funds in 2025-2026, have been allowed to postpone the fiscal consolidation plan submitted in 2024, until its final years of the fiscal consolidation process. When the *excessive deficit procedure* is launched against a euro area country, in turn, the Council of the EU will recommend a corrective *expenditure path* to its authorities, based, by default, on the figures presented in the MPTs. (Bęza-Bojanowska et al., 2024).

Worth characterizing is the process of determining the *net expenditure path* in member countries, consisting of several stages.

First, the European Commission presents the member state recording a debt ratio above 60% of GDP or a deficit ratio above 3% of GDP with a so-called *reference trajectory for net expenditures*[20] (Darvas et al., 2024b, p. 4). The *trajectory* is to cover a four-year adjustment period, with an extension of up to three years if needed (Regulation (EU) 2024/1263, Article 5). The EC's communication of the *trajectory* is intended to guide a dialogue with the countries concerned during the elaboration of their MPTs (Regulation (EU) 2024/1263, Article 2, point (3)). The rest of the member countries, not exceeding the reference values, will, in turn, receive so-called *technical information*[21] from the European Commission. The customary deadline for submitting recommendations has been set for January 15 of the year in which the *net expenditure paths* are negotiated.

Subsequently, all member states are required to submit their MTPs (Darvas et al., 2024b, p. 4). As indicated above, the key elements in these plans are the *net expenditure paths*, binding over a period of at least four years. These *paths* serve to, inter alia, set the maximum rates of growth for the euro area countries' budget expenditures. This is to ensure the sustainability of public finances in these countries, i.e. as emphasized earlier, reduction of the budget deficit ratio to below 3% of GDP within specified time frame, on the one hand, and appropriate reduction of the public debt ratio or maintenance of the deficit and debt ratios below the reference values (3% and 60% of GDP, respectively), on the other. Worth adding is that the

[19] *The Recovery and Resilience Facility* constitutes the most important component of *Next Generation EU,* adopted at the end of 2020. Its main objective is to repair the direct economic and social damage caused by the COVID-19 pandemic. To receive funds under the RRF, member states were required to develop specific plans outlining how the funds will be invested. For more on these plans in individual euro area countries and an overview of disbursements to date (European Commission, 2024c) see the Commission's interactive scoreboard (European Commission, 2024d).

[20] A forecast of public finance sector expenditure growth rate (Bęza-Bojanowska et al., 2024).

[21] *Technical information* refers to the guidelines provided by the European Commission (upon request) to member states with both public debt and budget deficit ratios below the reference values (for more, see Regulation (EU) 2024/1263, Article 2, point (4)).

fiscal surveillance authorities in the EA will not expect the MTPs to list all the tools for achieving this objective. Nevertheless, EMU member states will need to present specific measures ensuring the implementation of the *expenditure paths* in their draft annual budgets. Discretionary measures on the revenue side are to play a special role. Given the above, *expenditure paths* will be set in *net* terms, i.e. without taking these measures into account (Bęza-Bojanowska et al., 2024).

It should be mentioned that member state authorities should provide relevant explanations in their MTPs regarding the fiscal commitments, reforms, and public investments intended to be undertaken over the subsequent four to five years. These plans were to be submitted in September 2024 (with the option of a slight delay)[22]. In the upcoming round of surveillance, however, the deadline for submitting the plans is to be set for the end of April. Worth adding is that euro area countries may request an extension of the adjustment period, from four to seven years, provided they propose, as part of their national MTPs, appropriate reforms and investments collectively contributive to economic growth, supporting fiscal stability, taking account of the common priorities[23], including relevant recommendations formulated under the *European Semester*[24], leading to increased domestically financed investments (Darvas et al., 2024b, p. 4). EMU countries should complete the above reforms within the four-year MTP term. Significant progress in the implementation of these investments, in turn, should be achieved during an extended (maximum seven-year) adjustment period (Bęza-Bojanowska et al., 2024). While the *net expenditure path* in a given euro area country may deviate from the *reference trajectory* presented by the European Commission, it is expected to be consistent with such criteria as: debt stability, the budget deficit requirement, and the aforementioned *safeguards* (Darvas et al., 2024b, p. 4). If, however, the *net expenditure path* in a given MTP exceeds the Commission's *reference trajectory*, the member state government concerned should provide (reliable and data-based) economic arguments in its plan, explaining this difference (Regulation (EU) 2024/1263, Article 13, point (b)). Once approved by the Council, each MTP is subject to implementation (starting in 2025), with changes possible only under objective circumstances preventing its realization or in the event of new authorities being appointed in a given EA country (Bęza-Bojanowska et al., 2024).

[22] For more on the MPTs submitted by member states in 2024, refer to the European Commission website (2025a). Worth noting is that MPTs are to be submitted to the Council and the EC every four years (Ministry of Finance Republic..., 2025). Although this period has been adopted as standard, the above countries' governments should submit MPTs covering five years, when such a timeframe aligns better with their parliamentary terms (Notice - Guidance…, p. 4).

[23] The common EMU priorities are as follows: a) fair green and digital transition, including climate objectives; b) social and economic resilience, including *the European Pillar of Social Rights*; c) energy security; and d) defensive capacity building, where deemed necessary (see Regulation (EU) 2024/1263, Article 13, point (c)).

[24] *The European Semester* entails an annual process to coordinate EU economic and social policies. During this process, the EA countries align their budgetary and economic policies with the objectives and principles agreed upon at the supranational level (European Commission, 2025c).

By the end of April each year, euro area states are to publish reports on the implementation of their MTPs (Regulation (EU) 2024/1263, Article 21(1)). The European Commission will monitor deviations from the recommended *expenditure paths*, through control accounts (Bęza-Bojanowska et al., 2024). Furthermore, the *paths* are to be enforced through the aforementioned *debt-based* EDP (Darvas et al., 2024b, p. 4). As a rule, this procedure will be triggered when the cumulative deviation from the approved *path* exceeds 0.3 pp of GDP annualized or 0.6 pp of GDP accumulatively (cf. Council Regulation (EU) 2024/1264, Article 2(2), points (a) and (b); Darvas et al., 2024b, pp. 4-5). A given member state will then be required to correct the accumulated deviation and ensure a reduction in its debt ratio.

Compliance with the *expenditure path* is to serve as the basis for ending the *excessive deficit procedure*, and the accumulation of deviations - to strengthen the surveillance under this *procedure*. Should a given EA state seek to extend the adjustment period, the implementation of the aforementioned reforms and investments in that country shall be subject to monitoring. If it proves unsatisfactory, the Council may issue a recommendation to correct the *expenditure path* in the EA country, and shorten the adjustment period (Bęza-Bojanowska et al., 2024).

Table 2 shows the main differences between the old and new *excessive deficit procedure* rules. The areas of comparison concern the grounds for launching the EDP, the debt and deficit correction timeframe, the size of annual corrections to these indicators, the member states' influence over the size of these corrections, and the conditions for closing the EDP.

Noteworthy is that upon launching the new EDP in a given member state, the European Commission will analyze the impact of relevant factors, such as increased public investment in national defense, on the country's exceedance of the deficit reference value. What is more, the Commission may also take account of other relevant factors. The new regulations stipulate particular attention to the *financial contribution* supporting international solidarity and the achievement of the EA policy objectives (cf. Regulation (EU) 2024/1263, point (36); Article 13, point (c)). If the deficit ratio is found to be exceeded solely as a consequence of these factors, the member state concerned will not be required to correct its deficit below 3% of GDP (Bęza-Bojanowska et al., 2024).

5. Discussion

Considering the key research findings, it should be emphasized that the most well-known EU rules, i.e. the 3% of GDP budget deficit and 60% of GDP public debt thresholds, have remained unchanged. The target timeframe for achieving these values (see Table 1 and Table 2), has been extended significantly, however (Bęza-Bojanowska et al., 2024). Furthermore, the key difference between the old and new SGP rules lies in the criteria indicating whether a public debt ratio exceeding 60% of GDP is declining sufficiently towards the reference value at a satisfactory pace. Both versions of the Pact refer to the medium-term objective of ensuring *sufficient diminishing* of debt ratios. They also cover the criteria for determining whether a given member country is on track to meet this objective. The definition of and compliance with this objective varies considerably between the versions, however (Darvas et al., 2024b, p. 2).

As Darvas et al. indicate, under the old SGP provisions, the main objective, i.e. the aforementioned MTO, was based on the overall structural balance (Darvas et al., 2024b, p. 2). In 2023, individual member states' MTO targets ranged from -1.0% to +0.75%, calculated using three criteria, two of which were formula-based. The authors argue that, while the data used in calculating these targets were considered justifiable, e.g. countries with higher debt ratios and higher costs of aging population were consequently recommended higher MTO values, the numerical parameters for calculating the impact of these effects were adopted rather *ad hoc* (for more, see Darvas et al., 2024b, p. 3). In determining the MTOs, aside from the expected costs of population aging, other factors affecting public debt dynamics, such as real interest rates or real economic growth, were never taken into account. What is more, Darvas et al. point out that, despite the fact the EA countries violated repeatedly the reduction target of debt ratio, i.e. by at least 1/20 of the difference (annually) between the actual debt level and its reference value, the failure to meet this target never resulted in the launch of the *debt-based* EDP against these countries (Darvas et al., 2024b, p. 3).

Many researchers have criticized the MTO-based framework of EU fiscal surveillance (see e.g. EFB, 2018, pp. 4-5; Giżyński, 2019, p. 29; Darvas et al., 2018, pp. 3-7; Blanchard et al., 2021, pp. 17-18; Arnold et al., 2022, pp. 4-8). The main issues raised concern its complexity, sensitivity to unobservable and poorly estimated variables, such as the aforementioned output gap or structural budget balance, and the arbitrariness of certain numerical parameters. Darvas et al. have indicated that more significant, however, was the fact that the main objectives of the surveillance framework were never achieved. The member states often failed to comply with these regulations, which caused debt ratios to rise well above the reference value of 60% of GDP in nearly half of these countries. Moreover, the previous surveillance frameworks, as the authors have stated, failed to prevent these governments from pursuing procyclical fiscal policies, manifested mainly in insufficient fiscal consolidation during favorable economic conditions. These frameworks were also insufficient to sustain public investment, which declined, particularly, in the aftermath of the debt crisis (Darvas et al., 2024b, p. 3) experienced by some euro area countries in 2010-2012 (De Grauwe, 2022, p. 275; see also Rosati, 2022, pp. 74-79).

The new fiscal policy surveillance framework for the euro area, in turn, sets only one, as aforementioned, operational target, namely the *net expenditure path*, constituting the most important element of MTPs, covering an adjustment period of 4 to 7 years (Bęza-Bojanowska et al., 2024; Darvas et al., 2024b, p. 3). Supranational-level fiscal surveillance covers most of the euro area countries' general government expenditures. Bęza-Bojanowska et al. note that the surveillance applies to the total level of spending in these countries, rather than to individual categories. Some expenditures are to be excluded from surveillance, as defined by the *net expenditure path*, including public debt servicing costs, expenditures on projects financed under the EU budget, and national co-financing of EU projects. National defense spending and other factors of significance, from the EDP perspective, are not subject to exclusions, as Bęza-Bojanowska et al. underline. The authors also indicate that, under the new regulations, the required pace of public debt reduction is to be even twice as low (see Table 2). The European Commission will, however, be required to initiate the EDP if a member state with a debt ratio above 60% of GDP and a deficit exceeding 0.5% of GDP deviates significantly from the recommended *expenditure path*, as argued by Bęza-Bojanowska et al. (2024).

Recalled should be that the new regulations are based on the requirement contained in the unchanged *deficit-based* EDP. It stipulates that if an EA country exceeds 3% of GDP, except cases where the excess is minor and temporary, it is required to undertake fiscal adjustment of at least 0.5% of GDP annually (Darvas et al., 2024b, p. 4). Bęza-Bojanowska et al. emphasize that although the EDP will continue to be initiated whenever member countries exceed the budget deficit reference value, the correction period has been significantly extended from the previous 1.5 years to between 4 and 7 years (see Table 2). When the EDP is launched against a euro area country, in turn, the Council of the EU will recommend a corrective *expenditure path* to its authorities, based, by default, on the figures presented in the MPTs. Thus Bęza-Bojanowska et al. conclude that, as a result of the fiscal rules reform, member states have gained some discretion over the pace and size of their budget deficit ratio correction (see Table 2). Ultimately, the *expenditure paths* recommended by the Council are to constitute a compromise between the proposals put forward by the Commission and the member states (Bęza-Bojanowska et al., 2024). Furthermore, as already indicated, the *paths* are to be enforced through the *debt-based* EDP (Darvas et al., 2024b, p. 4). A given member state will then be required to correct the accumulated deviation and ensure a reduction in its debt ratio. Worth noting is that, as Bęza-Bojanowska et al. underline, this change is of significance. In the past, EA countries with a public debt ratio above 60% of GDP were never subject to the EDP (Bęza-Bojanowska et al., 2024). Darvas et al. also emphasize that the *debt-based* EDP is not triggered automatically when the cumulative deviation from the approved path exceeds the above-mentioned values (Darvas et al., 2024b, p. 5).

Bęza-Bojanowska et al. indicate that the reformed (new) provisions of the Stability and Growth Pact are less stringent in terms of the scale and pace of the required excessive deficit or debt reduction (see Table 1 and Table 2). The previous regulations, as mentioned earlier, proved unfeasible (Bęza-Bojanowska et al., 2024). The EA authorities emphasize that the main objectives of the adopted reform entail: I) securing sound and stable public finances in member states, and I) supporting economic growth in these countries through reforms and investments (cf. European Commission, 2024e, pp. 37-38). This ensures that the new SGP regulations are designed to facilitate the implementation of the EMU priorities, i.e. the pursuit of a digital, green, and more resilient future, as well as foster competitiveness and strategic autonomy at the supranational level (European Council, Council of..., 2025).

The new euro area fiscal policy surveillance framework, though improving the oversight, presents clear weaknesses and risks. As Darvas et al. (2024b, p. 9) emphasize, this can mainly be attributed to the failure to follow through on (weakening of) the original concept of supervisory arrangements presented by the European Commission in 2022, on the one hand, and the fact that the *deficit-based* EDP has remained largely unchanged, on the other.

Darvas et al. have argued that the Commission's original concept of changes to the EMU fiscal surveillance system stemmed from the assumption that once the widely criticized flaws of the old system were removed, the reform would enable the achievement of two objectives. Firstly, the focus was on increasing the effectiveness of the system - in terms of ensuring that member states retain full flexibility in conducting their fiscal policy while maintaining stable debt levels. Secondly, the aim was to improve these countries' compliance with the regulations, based on the belief that more reasonable rules are more likely to be complied with (Darvas et al., 2024b, p. 9). Darvas et al. have pointed out that Article 126(10) TFUE (Consolidated version of the Treaty..., Article 126(10), p. 101) excluded judicial enforcement of the provisions. The authors, furthermore, indicate that throughout the last 25 years of fiscal surveillance, the Council of the EU has shown little willingness or ability to enforce compliance with the provisions by imposing fines, apart from exerting pressure from other EMU states (Darvas et al., 2024b, p. 9). The imposition of fines has been provided for in Article 126(11) TFUE (Consolidated version of the Treaty..., Article 126(11), p. 101). They therefore assert that the only solution leading to compliance with the common fiscal rules was to create a (better) system the EA states would be more willing to accept (Darvas et al., 2024b, p. 9).

As already mentioned, the European Commission representatives failed to force through their original concept of the changes to the EA fiscal surveillance system. Darvas et al. mention that the negotiations ended with the reintroduction of some of the weak solutions of the old system, which the Commission had sought to eliminate (Darvas et al., 2024b, p. 10). The authors have highlighted three main issues in this regard.

The first entails a possible replacement of stochastic *DSA methodology* with numerical *safeguards*. This solution runs counter to the basic principle intended to improve compliance with the new system, i.e. the member states' obligation to adjust their fiscal policies solely when required by their debt sustainability or the 3% budget deficit limit laid down in the TFEU. Darvas et al. argue that the most problematic aspect in this case lies in the *deficit resilience* safeguard. Unlike other *safeguards*, it can affect not only the pace of fiscal adjustment, but also the medium-term consolidation target calling for a more ambitious objective than under the DSA. The authors note that the examples of medium-term budget deficit ratios consistent with a *plausibly downward* debt ratio *trajectory*, as per Regulation (EU) 2024/1263, point (18), and exceeding 1.5% of GDP, are not difficult to find. They posit, taking a debt ratio above 60% of GDP into account, that this would be the case in countries with a relatively slow decline or increase in the cost of population aging or with relatively high GDP projections. According to the European Commission's spring 2024 forecast, that scenario applied to France and Italy, with a seven-year adjustment period only indicated for the latter (for more, see Darvas et al., 2024b, pp. 8-11).

Secondly, the minimum requirement of budget deficit correction in member states that have exceeded its reference value, i.e. 3% of GDP, is regarded a potentially procyclical factor. Darvas et al. note that a member state affected by a production (economic) crisis resulting in an excessive deficit ratio in that country may be forced to pursue an additional fiscal adjustment. This adjustment may occur even when the authorities have strictly adhered to the agreed *net expenditure path*. Whether such an adjustment is required or not depends on the initial fiscal adjustment *path* set out in the aforementioned *national medium-term fiscal-structural plans*. The authors indicate that the minimum adjustment of 0.5% of GDP, under the *deficit-based* EDP, will not affect countries which have included an annual adjustment requirement above this level in their MTPs. Conversely, if a euro area country sets its fiscal adjustment below 0.5% of GDP, it will be required, under the EDP, to accelerate its fiscal adjustment amid weak economic conditions. Darvas et al. point out, however, that this requirement does not apply when an *escape clause*[25] has been activated (Darvas et al., 2024b, p. 11).

Third, the *no backloading* safeguard, the *deficit resilience* safeguard, as well as the minimum adjustment requirements under the *deficit-based* EDP impede investments in the euro area countries. Darvas et al. argue that, while many of these countries remain committed to reforms and investments entitling them to a three-year extension of the fiscal adjustment period, the measures adopted under the new surveillance framework will, overall, constrain their authorities to balance investment growth through higher taxes or cuts in non-investment expenditure. Otherwise, these authorities would be in breach of one of the minimum adjustment (correction) requirements and/or the *no backloading* safeguard, as the authors explain. They also note that when the *deficit resilience* safeguard is merely binding, and the increase in investment pertains to an extension of the adjustment period from 4 to 7 years, the required fiscal adjustment in the year of the increase in investment will be reduced by 0.15 pp of GDP. Consequently, this will translate into a lower minimum fiscal adjustment in the event of an adjustment period extension, i.e. 0.25% of GDP, instead of 0.4% of GDP (Darvas et al., 2024b, p. 11).

The above (third) weakness of the new fiscal surveillance framework could be, as Darvas et al. suggest, remedied by incorporating a *responsible public investment* rule. The idea behind it entails exempting Council-approved investments from all *safeguards* and minimum adjustment requirements, on the one hand, and stipulating that the *net expenditure paths* resulting from the investments undertaken are consistent with the DSA methodology and meet

[25] The *escape clause* is a legal solution allowing greater budgetary flexibility in euro area countries. Its introduction has been designed to assist EA countries in coping with significant economic slowdowns. Depending on its type, the clause may involve a temporary departure from the fiscal adjustment path (see e.g. Giżyński, 2024b, p. 76).

the deficit ratio below the reference value by the end of the adjustment period, on the other. Studies indicate that even in EMU countries with high debt ratios, the above rule would not jeopardize the stability of this ratio. Darvas et al. highlight that member states could, at the same time, significantly increase their public investment levels (Darvas et al., 2024b, pp. 11, 15-17).

The second main weakness of the new fiscal surveillance framework in the euro area lies in the largely unchanged nature of the *deficit-based* EDP, resulting in its poor integration into the new framework and a lack of clarity as to how it should be implemented. The procedure still requires member states with a deficit ratio above 3% of GDP to reduce it by at least 0.5% of GDP annually. Darvas et al. point out that the only change pertains to the method of measuring the pace of fiscal adjustment. Under the old rules, it was measured using the overall structural balance. The new rules introduce the structural primary balance. Importantly, this change, as Darvas et al. underline, applies to the years 2025-2027 only. Starting in 2028, the use of the overall structural balance is to be reinstated. The authors view this solution as a compromise between France and Germany, explaining that France preferred to use the structural primary balance throughout the entire period, while Germany was unwilling to change the measurement tool. From a practical standpoint, the use of the structural primary balance indicator as a measure of fiscal adjustment is to be particularly relevant in 2025-2027. During this period, some euro area countries are expected to face a significant increase in interest payments, which are not included in the structural primary balance. The increase in interest payments will result from the impact of higher interest rates on the growing debt ratio. Therefore, as the authors note, by using the structural primary balance in the initial period of the new surveillance framework, the size of the required fiscal adjustment will be significantly reduced, compared to leaving the *excessive deficit procedure* unchanged (Darvas et al., 2024b, pp. 9-12).

Other risks associated with the reformed euro area fiscal surveillance framework have also been identified (for more, see Pench, 2024, pp. 3-6). One of them concerns a possible under-adjustment of fiscal policy under the *excessive deficit procedure*, relative to the DSA and the deficit requirements for MTP-based *net expenditure paths*. Darvas et al. argue that this can occur in several cases. First, when the adjustment paths imply fiscal adjustments of 0.5% of GDP annually, even with the DSA and deficit requirements indicating larger adjustments. Second, when satisfactory progress under the EDP is measured against changes in the nominal budget deficit, i.e. the cyclically unadjusted indicator, rather than against changes in net expenditure. Third, when renegotiation of the adjustment path under the EDP results in a reduction of the overall adjustment requirement, relative to the *DSA requirements* and the *net expenditure path* deficit requirement. As Darvas et al. emphasize, a lenient treatment of euro area countries exceeding the deficit reference value may weaken other members' willingness to comply with the *net expenditure paths* agreed on with the Council of the EU (Darvas et al., 2024b, pp. 11-12).

The initial implementation of the new euro area fiscal surveillance framework may also be weakened by the uncertainty surrounding the impact of the proposed reforms and investments on the DSA method and, consequently, on the annual fiscal adjustment requirements for member states. Darvas et al. note that the Commission's decisions have been based on a no-policy-change assumption, under which only reforms and investments already implemented are accounted for in the DSA. Announced measures are therefore not taken into account. The authors argue that member states would thus receive a vote of confidence in preparing high-quality reform and investment plans solely in the form of an extension of the fiscal adjustment period. They would not be allowed to reduce their fiscal adjustment requirements relative to the Commission's seven-year reference path, due to faster economic growth, however. The new regulations, at the same time, require euro area countries to demonstrate the impact of the proposed reforms and investments on their economic growth and fiscal stability, if they wish to extend the adjustment period (Darvas et al., 2024b, p. 12). These regulations additionally allow member states to propose smaller fiscal adjustments, subject to the above-mentioned justifiable and data-based economic arguments, under their *national medium-term fiscal-structural plans* (Regulation (EU) 2024/1263, Article 13(b)). Darvas et al. therefore suspect it is highly likely that member states presenting arguments regarding the impact of the planned reforms on their economic growth adopted in the form of an extension of the fiscal adjustment period will use these arguments to justify more optimistic forecasts and thus smaller fiscal adjustment (Darvas et al., 2024b, p. 12). To remedy this risk, Darvas et al. propose establishment of a decision-making procedure by the Council on whether and to what extent reforms or investments proposed under the MTPs justify a fiscal adjustment lower than that envisaged in the Commission’s reference path. The implementation risk, as indicated by Darvas et al., can be mitigated by setting benchmarks designed to guide the decisions on whether given reforms or investment plans have been implemented as expected. Such benchmarks could encompass government approval of measures or submission of a reform to parliament, as well as the adoption of a reform by parliament. The authors also point to the adoption of the so-called *backup fiscal trajectory*, involving a larger fiscal adjustment triggered when a member state fails to meet the agreed benchmarks (see Darvas et al., 2024a, pp. 17-18).

Worth mentioning are also the reservations regarding the DSA methodology itself. One of its assumptions entails the use of a constant short-run fiscal multiplier[26]. Gechert et al. argue that the European Commission sets it at 0.75, even though the literature indicates there is no single multiplier value for all countries and periods. What is more, the methodology assumes a rapid fadeout of the production effect caused by fiscal adjustment, as well as no impact of trade partners' consolidation measures on domestic economic activity. Gechert et al. have presented DSA simulations reducing, however, the weight of the official assumptions

[26] The fiscal multiplier can be defined as a measure of the real GDP effect caused by a 1 pp change in the fiscal position (see e.g. ECB, 2004, p. 47).

underlying this methodology. Their study focused on the four largest euro area economies: Germany, France, Italy, and Spain. The results suggest that the public debt sustainability framework, i.e. the DSA, contained in the new SGP regulations, is susceptible to changes in assumptions and may insufficiently account for the negative effects of real GDP growth, as a result of fiscal adjustment. Consequently, the debt ratios in the member states may be higher than originally assumed (Gechert et al., 2024, pp. 276, 280). Although, as Gechert et al. indicate, these ratios do decline in the four countries mentioned during the medium term, they are likely to be higher at the end of the forecast horizon, i.e. 2038, by an average of 3.1 pp of GDP, relative to the European Commission's projections[27]. As a result, large euro area economies with high debt ratios, i.e. France, Italy, and Spain, which will be forced to make much larger fiscal adjustments, compared to other EMU countries, may face a more adverse impact on their growth than currently expected. This will particularly be the case, as Gechert et al. emphasize, if average fiscal multipliers in these countries assume a higher value and/or if the negative effects of fiscal adjustments on their economic growth fade more slowly than the Commission has predicted in the short term. Although a change in public debt ratios not necessarily poses a threat to debt sustainability in the medium term, economic stagnation and an unexpected short-term increase in these ratios could lead to, as the authors suspect, a decline in confidence among both citizens (voters) and bond investors (treasury bond holders). If cross-country spillovers of fiscal adjustment[28] occur, Germany and other euro area economies with strong intra-EU trade links will experience lower economic growth as a result of the restrictive fiscal policy stance adopted by their major trading partners. Under such circumstances, as the authors argue, offsetting the slowdown in growth resulting from lower import demand from euro area trading partners may prove challenging (Gechert et al., 2024, pp. 281-282).

Considering the above, the main research hypothesis has been confirmed. To mitigate the weaknesses and risks associated with the new fiscal rules in the euro area, its member states, the Commission, and the Council should undertake, as Darvas et al. (2024a and 2024b) suggest, several important measures in the near future.

First, the Commission and the Council should adopt an EDP implementation plan with no leniency for member states applying the procedure, as compared to those in non-application. The plan should include: (1) corrective paths not specifying fiscal adjustments smaller than those set by the DSA and deficit requirements; (2) non-application of the EDP only when both the budget deficit and public debt criteria are met. Secondly, the *deficit-based* EDP should be managed in a manner minimizing procyclicality, in line with the leeway allowed[29]. EMU countries with a public debt ratio below 60% of GDP should not initiate the EDP due to

[27] For more on the differences in these estimates, see Gechert et al. (2024, pp. 279-282).

[28] Alternatively, this phenomenon can be explained by the fact that fiscal consolidation measures taken by trading partners impact domestic economic activity (for more, see Gechert et al., 2024, p. 281).

[29] The aim is to provide leeway for countercyclical policies and eliminate macroeconomic imbalances in member states, while taking due account of social and employment objectives (see Council Regulation (EU) 2024/1264, point (5)).

an excessive budget deficit caused by an adverse output shock. By contrast, member states with debt ratios above 60% of GDP should retain their expenditure adjustment paths unchanged, i.e. as approved in their MTPs, even if these paths were set at a level slightly below 0.5% of GDP. Third, the European Commission should develop a methodology for assessing the potential quantitative impact of proposed reforms and investments on the fiscal adjustment required of the euro area countries under the new legal framework, and apply it to assess the credibility of all MTPs incorporating higher *net expenditure paths* resulting from the proposed reforms. The Council of the EU and the member state concerned should at the same time jointly agree on a lower *net expenditure path* applicable if the country fails to implement the planned reform (for more, see Darvas et al., 2024a, pp. 1-28). Additionally, the EA authorities can mitigate the risks associated with the implementation of reforms or investments in member countries by setting benchmarks that would aid the decisions on whether given reforms or investment plans have been implemented as expected. Fourthly, and finally, member states and the Commission should agree on changes to the DSA methodology. Prior to adopting the proposed changes, other stakeholders should be invited to submit comments, i.e. through a public consultation. The data necessary for the application of this methodology should also be made public, including the computer code (Darvas et al., 2024a, pp. 17-18; 2024b, pp. 12-13).

6. Conclusions

The founders of the Economic and Monetary Union (EMU for short), also known as the euro area (EA for short), envisaged a single monetary policy complemented by decentralized fiscal policies coordinated through a set of common fiscal rules. The fundamental objective behind these rules entailed the maintenance of fiscal discipline in EA countries. The most relevant fiscal surveillance regulations and procedures have been laid down in the Stability and Growth Pact (SGP for short). They provide an operational elaboration and specification of the respective provisions contained in the Treaty of Lisbon. The Treaty stipulates that fiscal discipline is to be based on two criteria, namely the budget deficit criterion (3% of GDP threshold) and the public debt criterion (60% of GDP threshold). The Pact's provisions were adopted in the form of two regulations: the *preventive arm*, intended to prevent euro area countries from accumulating excessive deficits, i.e. 3% of GDP, and the *corrective arm*, describing the *excessive deficit procedure* (EDP for short) contained in one of the sections of the Treaty of Lisbon. By 2023, the SGP regulations had been reformed thrice. Although fiscal surveillance in the euro area did contribute to the member countries' budgetary discipline over the 25 years of its existence, it proved insufficient in preventing a debt crisis in some of these countries and a continuous increase in public debt ratios. This is mainly attributed to the fact that the EA countries failed to comply with the rules of the Pact. Moreover, successive reforms led to an increase in the number of regulations, which impeded the implementation thereof. In the wake of the COVID-19 pandemic and the subsequent energy crisis, European fiscal rules were suspended for the period of 2020-2023. As a result of the economic crisis caused by the pandemic, debt ratios in euro area countries have increased significantly. The rapid unfolding of the crisis also highlighted the difficulties in applying fiscal policy assessment indicators within the EA, as well as in developing regulations covering all possible scenarios, including crises. Furthermore, the application of the old surveillance rules, once reinstated, was found to require unrealistically large adjustments by some euro area countries, particularly those with high debt ratios. Therefore, in 2024, the EMU fiscal surveillance framework was reformed once again. The previous framework had proved too rigid in times of turmoil, which led to its non-uniform application by the member states.

The new SGP rules draw on the provisions of the Treaty of Lisbon. They were adopted in the form of two regulations and one directive. The first regulation replaced the *preventive arm* of the old system, while the second amended the *excessive deficit procedure*. The directive, in turn, specifies the budgetary framework requirements for euro area countries. Under the old SGP rules, the main objective, i.e. the medium-term objective, also known as the MTO, was based on the overall structural balance. The essence of the MTO consisted in removing cyclical factors and one-off measures from the budget balance. The *preventive arm* of the SGP also included an *expenditure benchmark*. It committed EA countries that had not yet achieved their MTOs to keep the growth rate of public expenditure below the medium-term potential GDP growth rate. Additionally, countries with a public debt ratio above 60% of GDP were required to reduce it annually by at least 1/20 of the difference between the actual level and the reference value of the ratio. Failure to meet this requirement could result in the opening of the *debt-based* EDP. Under the new surveillance framework, one operational objective was established, namely the *net expenditure path*. It covers a multi-year trajectory, i.e. a forecast of the public expenditure growth rate in euro area countries, constituting the key element of *national medium-term fiscal-structural plans* (MTPs for short) for an adjustment period of 4 to 7 years. MTPs replaced the stability programs previously submitted by the EA countries under the old surveillance rules. The above operational objective is intended to ensure reduction or a *plausibly downward* path of member countries' projected debt ratios by the end of the adjustment period, or containment of debt ratios at a prudent level below 60% of GDP in the medium term, assuming no further fiscal measures by the countries concerned. These conditions have been defined as the *requirements of the DSA*, i.e. *Debt Sustainability Analysis*, methodology. Additionally, the *net expenditure path* set for a euro area country is expected to ensure that whenever its deficit ratio exceeds 3% of GDP, the country will reduce it to below the reference value, referred to as the *deficit requirement*, by the end of the adjustment period. The supervision covers the total level of public expenditure in EA countries, excluding expenditures on debt servicing, projects financed from the EU budget or national co-financing of EU projects. Discretionary measures on the revenue side are of particular relevance to compliance with the *net expenditure* paths. These *paths* are set in *net* values, i.e. without accounting for these measures. The new framework additionally specifies that EA countries with a debt ratio exceeding 60% of GDP or a deficit ratio exceeding 3% of GDP are subject to three additional *safeguards* on their *net expenditure paths*: *no backloading*, *debt sustainability* and *deficit resilience*. The Commission will be forced to launch the EDP if a given EA country with a debt ratio above 60% of GDP and a deficit above 0.5% of GDP deviates significantly from the recommended *expenditure path*. What is more, the new fiscal rules are based on the requirement of an unchanged *deficit-based* EDP. It stipulates that euro area countries exceeding the reference value for the deficit should implement fiscal adjustments of at least 0.5% of GDP annually. When the procedure is launched against an EA country, the Council will recommend its authorities to adopt a corrective *expenditure path*, based on the MTP figures. Worth adding is that they can apply for an extension of the adjustment period, from 4 to 7 years, if they propose appropriate reforms and investments in their MTPs. By the end of April each year, they are to publish progress reports on the implementation of these plans. The Commission will monitor deviations from the recommended *expenditure paths* enforced through the *debt-based* EDP. Compliance with the *net expenditure paths* will serve as the basis for ending the *excessive deficit procedure*, whereas cumulative deviations will trigger enhanced surveillance. When launching the procedure in a given EA country, the Commission will examine the impact of relevant factors on the country's excess of the reference value.

Although the 3% of GDP budget deficit and 60% of GDP public debt thresholds remain unchanged, the baseline period for meeting these values has been significantly extended, compared to the old SGP rules. The main difference in the new Pact lies in the criteria for determining whether a debt ratio above 60% of GDP is declining sufficiently and approaching the reference value at a satisfactory rate. The MTO-based surveillance framework drew heavy criticism. Concerns were raised over its complexity, sensitivity to unobservable and poorly estimated variables, and the arbitrariness of some of its numerical parameters. Furthermore, the framework failed to prevent procyclical fiscal policies in the EA countries. It also proved insufficient in sustaining public investment, the level of which declined particularly in the aftermath of the debt crisis. Under the new surveillance framework, by contrast, only one operational objective was, as aforeindicated, established, i.e. the *net expenditure path*. Its primary aim is to ensure reduction or sustenance of debt ratios at reasonable levels below 60% of GDP in the medium term. It needs to be emphasized that the downward path of the debt ratio in a given member country will need to be sufficient to ensure the ratio's stability even under adverse economic conditions or shocks. This constitutes one of the requirements in the *DSA methodology*, which represents a completely new approach to calculating the necessary fiscal adjustment. Moreover, under the new regulations, the required pace of debt reduction is to be even twice as slow. The EDP will also continue to be initiated due to a deficit exceeding the reference value. The adjustment period has been significantly extended, however, from the previous 1.5 years to, currently, 4 to 7 years. With the SGP reform, EA countries under EDP have also gained influence over the pace and size of their deficit correction. The Commission will monitor deviations from the recommended *expenditure paths* enforced through the *debt-based* EDP. This is a significant change. Previously, euro area countries with a debt ratio above 60% of GDP were never subject to the procedure. Taking the above changes to the SGP fiscal rules into account, it can be concluded that the new rules are less stringent than the previous ones in terms of the scale and pace of the required reduction of excessive deficits or debt. The previous regulations proved impossible to comply with. The new euro area fiscal surveillance framework, while improving the oversight, reveals significant weaknesses and risks. One of the main reasons underlying these shortcomings is considered to lie in the non-adoption of the original design of the surveillance reforms. As a result, certain weaknesses of the old system have been carried over. The first involves the provision of numerical *safeguards* as an alternative to the DSA. This solution may hamper the improvement of EA countries' compliance with the new framework. Another weakness concerns the minimum adjustment requirement for excessive deficits, viewed as potentially procyclical. Comments have also been raised on the mechanisms ensuring the *no backloading* and *deficit resilience* safeguards, as well as the minimum adjustment requirements under the *deficit-based* EDP. These mechanisms hinder increased investment in the EA countries. The second main cause of the weaknesses in the new surveillance framework is the fact that the *deficit-based* EDP has been left largely unchanged. This results in its poor integration with the new rules, creating uncertainty regarding the manner of their implementation. Furthermore, a significant risk of the reformed rules lies in the possible lower fiscal adjustment under the EDP, compared to that required by the DSA and the deficit targets for *net expenditure paths* resulting from MTPs. Lenient treatment of EA countries breaching the budget deficit rule may reduce the willingness of other members to adhere to the *expenditure paths* agreed upon with the Council. The application of new fiscal rules may also be weakened by difficulties in assessing the impact of planned reforms and investments on the DSA methodology and, consequently, on annual fiscal adjustment requirements. It is therefore highly probable that member states will resort to various arguments to justify more optimistic forecasts and, accordingly, lower fiscal adjustments. Finally, reservations regarding the DSA itself should be noted. These concerns follow from the simulations conducted, which reduce the weight of the official assumptions underlying the methodology. Consequently, public debt ratios in EA countries may turn out to be higher than originally assumed. Given the above weaknesses and risks of the new supervisory framework, as well as its previously identified flexibility (improvements), it should be concluded that the main research hypothesis has been confirmed. To reduce the above-described inaccuracies, the EA countries, the European Commission, and the Council of the EU are recommended to take several essential steps in the near future. First, the Commission and the Council should adopt an EDP implementation plan that does not imply a more lenient treatment of member states when the procedure is applied, compared to when it is not launched. It is therefore necessary to ensure the same fiscal adjustments under the *excessive deficit procedure* as under the DSA. The second step concerns the improvement of *deficit-based* EDP management, which aims to reduce procyclicality within the leeway allowed. This can be remedied by introducing a principle of *responsible public investment*, exempting investments approved by the Council from all *safeguards* and minimum adjustment requirements. The third line of action should consist in developing a methodology to assess the impact of reforms and investments on the fiscal adjustment required of the EA countries under the new surveillance framework. Furthermore, euro area authorities could reduce the risks associated with reform or investment implementation in member states by setting benchmarks that would serve as guidelines in determining whether a given reform or investment plan has been implemented as expected in the respective country. As part of the fourth initiative, it is recommended that member states, together with the Commission, agree on changes to the DSA methodology, through public consultation, including consideration of the disclosure of data necessary for the application of the very methodology.

References

1. Abraham, L., Bańkowski, K., Bischl, S., Bouabdallah, O., Haroutunian, S., Hauptmeier, S., Leiner-Killinger, N., O'Connell, M., Oleaga, I.A., Trzcinska, A. (2024). The path to the reformed EU fiscal framework: a monetary policy perspective. *ECB Occasional Paper Series, No. 349*, pp. 1-68, https://doi.org/10.2139/ssrn.4841009.
2. Arnold, N., Balakrishnan, R., Barkbu, B., Davoodi, H., Lagerborg, A., Lam, W.R., Medas, P., Otten, J., Rabier, L., Roehler, C., Shahmoradi, A., Spector, M., Weber, S., Zettelmeyer, J. (2022). Reforming the EU Fiscal Framework: strengthening the fiscal rules and institutions. *Departmental Paper, International Monetary Fund*, *No. 14,* pp. 1-47. Retrieved from: https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2022/08/31/Reforming-the-EU-Fiscal-Framework-Strengthening-the-Fiscal-Rules-and-Institutions-The-EUs-518388, 12.04.2025.
3. Balcerzak, A.P. (2012). Polityka antycykliczna. In: B. Kryk (Ed.), *Polityka gospodarcza - teoria i praktyka* (pp. 178-194). Szczecin: Economicus.
4. Banaszewska, M. (2012). Mierniki nierównowagi finansów publicznych. *Zeszyty Naukowe Uniwersytetu Ekonomicznego w Poznaniu, No. 232*, pp. 9-29. Retrieved from: https://bazekon.uek.krakow.pl/zeszyty/171221881, 10.04.2025.
5. Baran, B. (2013). Reguła średniookresowego celu budżetowego w Unii Europejskiej. *Gospodarka Narodowa, No. 11-12*, pp. 23-47. Retrieved from: https://gnpje.sgh.waw.pl/pdf-100932-33026?filename=Regula%20sredniookresowego.pdf, 10.04.2025.

6. Bęza-Bojanowska, J., Barańczak, M., Kamiński, A., Puszkiewicz, M. (2024). *Zarządzanie gospodarcze w Unii Europejskiej: lifting czy wielka reforma*. Retrieved from: https://www.rp.pl/opinie-ekonomiczne/art40223001-zarzadzanie-gospodarcze-w-unii-europejskiej-lifting-czy-wielka-reforma, 20.04.2025.
7. Blanchard, O.J., Zettelmeyer, J., Leandro, A. (2021). Redesigning EU Fiscal Rules: From rules to standards. *Peterson Institute for International Economics Working Paper, No. 21-1*, pp. 1-31, http://dx.doi.org/10.2139/ssrn.3810052
8. Boudreaux, D.J. (2025). *What, exactly, are Negative Externalities?* Retrieved from: https://aier.org/article/what-exactly-are-negative-externalities/, 25.04.2025.
9. Consolidated version of the Treaty on the Functioning of the European Union, OJ C 326, 26.10.2012.
10. Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.
11. Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.
12. Council Regulation (EC) No. 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, OJ L 209, 2.8.1997.
13. Council Regulation (EC) No. 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, OJ L 209, 2.8.1997.
14. Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure.
15. Darvas, Z., Martin, P., Ragot, X. (2018). European fiscal rules require a major overhaul. *Bruegel Policy Contribution, No. 18*, pp. 1-18. Retrieved from: https://www.bruegel.org/system/files/wp_attachments/PC-18_2018.pdf, 12.04.2025.
16. Darvas, Z., Welslau, L., Zettelmeyer, J. (2024a). Incorporating the impact of social investments and reforms in the European Union's new fiscal framework. *Working Paper Bruegel, Iss. 7*, pp. 1-28. Retrieved from: https://www.bruegel.org/system/files/2024-03/WP%2007_0.pdf, 15.06.2025.
17. Darvas, Z., Welslau, L., Zettelmeyer, J. (2024b). The implications of the European Union's new fiscal rules. *Policy Brief, No. 10*, pp. 1-36. Retrieved from: https://www.bruegel.org/sites/default/files/2024-10/PB%2010%202024.pdf, 12.04.2025.
18. De Grauwe, P. (2022). Towards a new euro crisis. *Intereconomics, Vol. 57, No. 5*, pp. 273-277, https://doi.org/10.1007/s10272-022-1078-x.
19. ECB (2004). Fiscal policy influences on macroeconomic stability and prices. *ECB Monthly Bulletin*, *April*, pp. 45-57. Retrieved from: https://www.ecb.europa.eu/pub/pdf/other/pp45-57_mb200404en.pdf, 10.06.2025.
20. EFB (2018). *Annual Report 2018*. Brussels: EFB.

21. European Commission (2013). *Two-Pack enters into force, completing budgetary surveillance cycle and further improving economic governance for the euro area*. Retrieved from: https://ec.europa.eu/commission/presscorner/detail/en/memo_13_457, 12.06.2025.
22. European Commission (2017). *The Fiscal Compact - Taking Stock*. Retrieved from: https://economy-finance.ec.europa.eu/publications/fiscal-compact-taking-stock_en, 17.06.2025.
23. European Commission (2019). Vade Mecum on the Stability & Growth Pact - 2019 edition. *European Economy. Institutional Paper, No. 101,* pp. 1-95, https://data.europa.eu/doi/10.2765/724849
24. European Commission (2021). *Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions*. *The EU economy after COVID-19: implications for economic governance* (COM/2021/662).
25. European Commission (2022). *A European green deal: striving to be the first climate-neutral continent*. Retrieved from: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en, 25.04.2025.
26. European Commission (2024a). *Communication from the Commission to the European Parliament, the Council and the European Central Bank*. *2025 European Semester: bringing the new economic governance framework to life* (COM(2024) 705 final).
27. European Commission (2024b). Debt Sustainability Monitor 2023. *European Economy. Institutional Paper, No. 271*, pp. 1-291, https://data.europa.eu/doi/10.2765/860483.
28. European Commission (2024c). *Recovery plan for Europe*. Retrieved from: https://commission.europa.eu/strategy-and-policy/recovery-plan-europe_en, 06.12.2024.
29. European Commission (2024d). *Recovery and Resilience Scoreboard*. Retrieved from: https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html, 23.12.2024.
30. European Commission (2024e). Report on public finances in EMU 2023. *European Economy. Institutional Paper, No. 295*, pp. i-vii, 1-160, https://data.europa.eu/doi/10.2765/41155.
31. European Commission (2024f). *The EU's response to the COVID-19 pandemic*. Retrieved from: https://www.consilium.europa.eu/en/policies/coronavirus-pandemic/, 30.01.2024.
32. European Commission (2025a). *National medium-term fiscal-structural plans*. Retrieved from: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/national-medium-term-fiscal-structural-plans_en#france, 12.04.2025.
33. European Commission (2025b). *Stability and convergence programmes prior to 2024*. Retrieved from: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/preventive-arm-prior-2024/stability-and-convergence-programmes-prior-2024_en, 20.04.2025.

34. European Commission (2025c). *The European Semester*. Retrieved from: https://commission.europa.eu/business-economy-euro/european-semester_en, 27.04.2025.
35. European Commission, Directorate-General for Economic and Financial Affairs (2025). *Glossary*. Retrieved from: https://economy-finance.ec.europa.eu/document/download/d21d43e5-4841-42cc-9e0f-6bba2661d6ed_en?filename=glossary.pdf, 30.04.2025.
36. European Council, Council of the European Union (2025). *Economic governance framework*. Retrieved from: https://www.consilium.europa.eu/en/policies/economic-governance-framework/, 25.04.2025.
37. Ferreiro, J., Serrano, F. (2021). The COVID health crisis and the fiscal and monetary policies in the euro area. *International Journal of Political Economy*, *Vol. 50, Iss. 3*, pp. 212-225, https://doi.org/10.1080/08911916.2021.1984730
38. Gechert, S., Guarascio, D., Heimberger, P., Schütz, B., Welslau, L., Zezza, F. (2024). Debt Sustainability Analysis in Reformed EU Fiscal Rules. *Intereconomics, Vol. 59, No. 5,* pp. 276-283, https://doi.org/10.2478/ie-2024-0055
39. Giżyński J. (2024a). Fiscal interventions mitigating high energy prices and their impact on public finances in the euro area countries. *Scientific Papers of Silesian University of Technology. Organization and Management*, *No. 207*, pp. 145-165, http://dx.doi.org/10.29119/1641-3466.2024.207.9.
40. Giżyński J. (2024b). The impact of the COVID-19 crisis on the fiscal positions in the euro area countries. *Economics and Law*, *Vol. 23, Iss. 1*, pp. 67-94, https://doi.org/10.12775/EiP.2024.004
41. Giżyński, J. (2015). Nowe wytyczne na temat stosowania zmodyfikowanych reguł paktu stabilności i wzrostu. *Zarządzanie i Finanse [Journal of Management and Finance], Vol. 13, No. 3, Iss. 2*, pp. 19-33.
42. Giżyński, J. (2016). Saldo strukturalne jako wskaźnik oceny polityki fiskalnej w krajach strefy euro. *Folia Oeconomica*, *No. 323, Iss. 4*, pp. 169-182, https://doi.org/10.18778/0208-6018.323.12.
43. Giżyński, J. (2019). The significance of the European Fiscal Board in the surveillance of fiscal policy in the euro area: the two year experience with its operation and the prospects for the future. *Research Papers of Wroclaw University of Economics, Vol. 63, No. 6*, pp. 22-39, https://doi.org/10.15611/pn.2019.6.02
44. Idczak, P. (2015). Pogłębianie integracji europejskiej. Poszerzanie Wspólnot. In: E. Małuszyńska, G. Mazur (Eds.), *Unia Europejska 2014+* (pp. 25-56). Warszawa: Difin.
45. Ministry of Finance Republic of Poland (2025). *Medium-Term Fiscal-Structural Plan*. Retrieved from: https://www.gov.pl/web/finance/medium-term-fiscal-structural-plan, 20.04.2025.
46. Notice - Guidance to Member States on the Information Requirements for the Medium-Term Fiscal-Structural Plans and for the Annual Progress Reports (C/2024/3975).

47. Owsiak, S. (2017). *Finanse publiczne. Współczesne ujęcie*. Warszawa: PWN, pp. 1-1148.
48. Pench, L. (2024). Three risks that must be addressed for new European Union fiscal rules to succeed. *Policy Brief, No. 8*, pp. 1-13. Retrieved from: https://www.bruegel.org/system/files/2024-05/PB%2008%202024_1.pdf, 07.06.2025
49. Pinheiro de Matos, L., Sánchez Soliva, R. (2021). *The EU in 2022: fiscal rules reform back on the table*. Retrieved from: https://www.caixabankresearch.com/en/economics-markets/public-sector/eu-2022-fiscal-rules-reform-back-table, 20.04.2025.
50. Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No. 1466/97.
51. Rosati, D. (2017). *Polityka gospodarcza. Wybrane zagadnienia*. Warszawa: SGH, pp. 1-966.
52. Rosati, D. (2022). *Euro. Mity i fakty*. Warszawa: PWE, pp. 1-302.
53. Stigler, G.J. (1975). The economists' traditional theory of the economic functions of the state. In: G.J. Stigler (Ed.), *The citizen and the state* (pp. 103-113). Chicago: University of Chicago Press.

Appendix

Table 1.
Evolution of fiscal rules in the surveillance of euro area countries' budgetary policies

Year of introduction	General characteristic of supervisory rules
1997	The first version of the Stability and Growth Pact (SGP) established three rules: − a 3% of GDP threshold for the overall government deficit (under the *corrective arm*); − a 60% of GDP threshold for the public debt ratio (under the *corrective arm*); − a requirement to maintain medium-term fiscal positions at levels approximate to balance or in surplus (*preventive arm*).
2005	The first SGP reform, aimed at strengthening the economic rationality of fiscal rules and increasing the flexibility thereof. It introduced country-specific *medium-term objectives* (MTOs), defined in structural fiscal balance categories.
2011	The second SGP reform was adopted, introducing six new measures in the form of legal acts, known as the *Six Pack*. The reform aimed to improve enforcement by, inter alia, introduction of: − an expenditure benchmark (under the *preventive arm*), − a debt correction rule (under the *corrective arm*). The reform additionally defined the responsibilities of national independent fiscal institutions.
2013	At the beginning of the year, the Fiscal Compact came into force. Its provisions called on member states to *anchor* the EU rules at the national level. In the second quarter of the year, the third SGP reform was introduced. Additional measures were adopted in the form of the *Two Pack*, which strengthened the euro area fiscal monitoring and surveillance. These legal acts defined additionally the tasks of national independent fiscal institutions.
2015	Guidelines on the application of modified SGP rules were adopted. They aimed to increase the flexibility of fiscal rules in order to create incentives for investment and structural reforms in euro area countries, taking due account of their economic cycles.
2016	The European Fiscal Board was established as an advisory body to the European Commission.
2024	The SGP was reformed for the fourth time. The most well-known EU rules, i.e. the 3% GDP deficit and 60% GDP debt thresholds, remained unchanged. The baseline period for achieving these values was, however, significantly extended. Only one operational objective was adopted, namely the *net expenditure path*, constituting a key element of *national medium-term fiscal-structural plans* (MPTs) spanning an adjustment period of 4 to 7 years.

Source: Own preparation based on Arnold et al. (2022, p. 5); Bęza-Bojanowska et al. (2024); Darvas et al. (2024b, p. 3); European Commission (2013; 2017).

Table 2.
Old vs new rules of the ***excessive deficit procedure*** *applied in the fiscal policy surveillance of euro area countries*

Procedure features	Comparative analysis	
	old EDP	new EDP
Grounds for initiation	– deficit > 3% of GDP; – debt > 60% of GDP or a reduction in the debt ratio exceeding 60% of GDP at a rate of less than 5% annually (unapplied).	– deficit > 3% of GDP; – debt > 60% of GDP and a deficit > 0.5 of GDP and deviation from the *net expenditure path.*
Adjustment period	– deficit → 1.5 years; – debt → 2.5 years.	– 4 to 7 years.
Size of annual adjustment	– deficit → key role of the European Commission's proposal; – debt → averagely 5% of the debt amount exceeding 60% of GDP.	– deficit → as a rule, 0.5% of GDP; – debt → annual average: 1% of GDP at debt > 90% of GDP; 0.5% of GDP at 60% of GDP < debt < 90% of GDP.

Member state influence over adjustment size	– insignificant.	– dialogue between the member state and the European Commission → MPT *expenditure path*.
Grounds for termination	– deficit < 3% of GDP; – debt → 60% of GDP or achievement of debt reduction rate.	– deficit < 3% of GDP; – debt → secured compliance with the *net expenditure path*.

Source: Bęza-Bojanowska et al. (2024).