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On the hobbled reform of the Stability and Growth Pact

MATTEO BURSI*

Abstract: *The aim of this paper is to study the revision of the Stability and Growth Pact recently approved at the EU level. In this perspective, first of all, we examine the economic governance framework that emerged in the aftermath of the sovereign debt crisis, listing its weaknesses and mentioning the main revision hypotheses suggested by scholars of various fields. Then, secondly, we discuss the European Commission's reform proposal, considering the November 2022 Communication and the changes presented in April 2023. Subsequently, we analyse the compromise reached by the Council of the European Union in December and, finally, we present an assessment concerning the economic and political vision underlying the final text.*

Parole chiave: Stability and Growth Pact, European Commission, public debt, investments, Germany

Sommario: 1. Introduction. – 2. The main shortcomings of the previous SGP. – 3. The European Commission's reform proposal. – 4. The agreement reached by the Council. – 5. Conclusion: the German brake and the uncertain European gait.

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* Assegnista di ricerca in Istituzioni di diritto pubblico nel Dipartimento di Economia "Marco Biagi" dell'Università degli Studi di Modena e Reggio Emilia. Indirizzo mail: matteo.bursi@unimore.it.

1. Introduction

The Stability and Growth Pact (SGP)[1] represents one of the main pillars of the Eurozone, a complex system of rules aimed at harmonising the economic policies of several sovereign States that share a common currency within a peculiar supranational institution. This set of norms has been designed throughout the past thirty years and it can be considered as a mutable framework which is defined by the evolution of the European project and by the challenges that the EU has to face. Given the absolutely innovative nature of a monetary union with no common economic and fiscal policies — moreover, characterised by Countries with heterogeneous features — it should come as no surprise that the rules governing its functioning have always been a matter of wide-ranging debate, with different theories periodically coming into conflict and highlighting proposals of radically different nature (which also change depending on the political vision assigned to the European Union).

In this regard, in the aftermath of the Great Recession (2007-2013) — when prominent policy-makers[2] considered the sovereign debt crisis as the result of overly lax budget constraints — the SGP was reshaped with the purpose of tightening the economic leeway at disposal of the Member States, in order to avoid further financial turmoil that could jeopardize the stability of the Eurozone and that could, consequently, force some States to act in favour of others[3]. In the past

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[1] Regarding the "evolution" of the Stability and Growth Pact, consider the European Commission website and, *ex plurimis*, S. PRINCEN, F. VAN ESCH, *Paradigm formation and paradigm change in the EU's Stability and Growth Pact*, in *European Political Science Review*, vol. 8, n. 3, 2015, pp. 355-375; M. MARKAKIS, *The EU fiscal rules: principle, policy and reform prospects*, in D. ADAMSKI – F. AMTENBRINK – J. DE HAAN (edited by), *The Cambridge Handbook of European Monetary, Economic and Financial Integration*, Cambridge, 2023, pp. 305-331 and F. MASINI, *European economic governance: theories, historical evaluation and reform proposals*, Londra, 2022.

[2] In this regard, for example, see the speech "A Comprehensive Strategy for the Stabilization of the Economic and Monetary Union" given by former German finance Minister, Wolfgang Schäuble, in 2011 (available on the European Commission website) and the 24 September 2011 statement of former EU Commissioner responsible for Economic and Monetary Affairs, Olli Rehn (see the IMF website).

[3] On the reform of the economic governance framework that took place during the sovereign debt crisis, see C. DEGRYSE, *The new European economic governance*, in *ETUI Working Papers*, 30 November 2012; F. DONATI, *Crisi dell'euro, governance economica e democrazia nell'Unione Europea*, in *Rivista AIC*, n. 2, 2013; B. LAFFAN, P. SCHLOSSER, *Public finances in Europe: fortifying EU economic governance in the shadow of the crisis*, in *Journal of European Integration*, vol. 38, 2016, pp. 237-249 and L. SCHUKNECHT, P.

decade, as known, the just-mentioned approach has been questioned by several actors[4] and, on 20 December 2023, after a multi-annual discussion period (and following a pandemic, the outbreak of a war on the borders of Europe and the longest suspension period of the SGP), the Council of the European Union reached an agreement regarding a review of the economic governance framework, outlining a reform proposal of the Stability and Growth Pact that would bring significant changes to the rules which have been in force so far.

The aim of this article is to analyse the deal achieved by EU financial Ministers and to assess its possible implications under a cross-sectional approach. In this sense, first of all, we will report the main flaws that are attributed to the SGP defined during the sovereign debt crisis (I), then, we will examine the technical features of the European Commission communication of 9 November 2022 (II), we will analyse the official reform proposal advanced by the Berlaymont in April 2023 (III), we will deepen the above-mentioned agreement reached by the Council (IV) and, finally, we will present some evaluations related, on one side, to the political process that brought to this deal and, on the other one, to the possible impact of this reform on the economic policies carried out by Member States in the years ahead (IV).

2. The main shortcomings of the previous SGP

Since the end of the sovereign debt crisis, a reform of the Stability and Growth Pact has been perceived as a necessity by a large number of scholars[5], in light of the detection of relevant shortcomings that could damage the economic policies

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MOUTOT, P. ROTHER, J. STARK, *The Stability and Growth Pact. Crisis and reform*, in *ECB occasional papers*, 2011.

[4] See, for example, J.P. FITOUSSI, F. SARACENO, *European economic governance: the Berlin – Washington consensus*, in *Cambridge Journal of Economics*, vol. 37, n. 3, 2013, pp. 479-496; J.E. STIGLITZ, *Rewriting the rules of the European economy*, New York, 2020 and P. DE GRAUWE, *The political economy of the Euro*, in *Annual Review of Political Science*, vol. 16, 2013, pp. 153-170.

[5] See, *ex plurimis*, R. PEREZ, *La crisi del debito pubblico*, in *Rivista trimestrale di diritto pubblico*, n. 3, 2016, pp. 669-693.; G. CLAYES, Z. DARVAS, A. LEANDRO, *A proposal to revive the European fiscal framework*, in *Bruegel Policy Contribution*, n. 7, 2016; G. AMATO, F. BASSANINI, M. MESSORI, G.L. TOSATO, *The new European fiscal framework: how to harmonise rules and discretion*, in *Astrid Papers*, n. 81, 2021 and L. D'AMICO, F. GIAVAZZI, V. GUERRIERI, G. LORENZONI, C.H. WEIMULLER, *Revisiting the European fiscal framework*, in *VoxEU.org*, 14/15 January 2022 (this article was published in two parts: I] *Rules* and II] *Debt Management*).

carried out by the Eurozone's States. In this regard, the major problematic issues attributed to the SGP were related to:
I) an excessive complexity of the framework that undermined the transparency and the effectiveness of the Pact;
II) a tendency to amplify the impact of the economic trends, with the consequent risk to adopt procyclical measures;
III) the setting of rigid objectives that did not differ among heterogeneous Countries;
IV) the substantial non-application of sanctions following a breach of the rules (with the consequent weakening of any possible deterrent dynamic);
V) a "scarce" attention given to public investments and to their capability to foster a sustainable growth.

Considering the first problem attributed to the SGP (I), it results difficult to deny the idea that the Stability and Growth Pact, as it was conceived until the deflagration of the Covid pandemic, appeared too complex, subsequently raising doubts about the interpretation of some norms. Indeed, since the signing of the Maastricht Treaty, the legal framework has become considerably heavier, by passing from few clear parameters[6] to a wide array of conditions that contemplate various exceptions[7]. At the same time, the legal acts at the basis of the Pact have multiplied, involving not only EU tools but also supranational Treaties whose hierarchical relationship with European law is uncertain[8]. In this regard, some scholars[9] have argued that this complexity damages the transparency of the system,

[6] We refer to the two "famous" criteria established with the Maastricht Treaty: debt to GDP ratio (60%) and deficit to GDP ratio (3%).

[7] In this sense, O. BLANCHARD, A. LEANDRO, J. ZETTELMEYER, *Redesigning the EU Fiscal Rules: from Rules to Standards*, in *PIIE Working Paper*, October 2020, p. 15, compare the design of the SGP to the one of Seville Cathedral: «the original structure is still recognizable, but the many additions make it hard to see the consistency of the whole».

[8] Consider, for example, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG or Fiscal Compact): an international Agreement that sets stringent conditions (that the States "were pushed", by article 3.2, to incorporate in their Constitutions) but, according to article 2.2 of its own text, «shall apply insofar as it is compatible with the Treaties on which the European Union is founded and with European Union law». On this topic, see A. KOCHAROV (edited by), *A new legal monster?: an EUI debate on the fiscal compact treaty*, in *EUI Working Papers*, n. 9, 2012 and the critical remarks expressed by former Italian scholar, and Minister, Giuseppe Guarino, in an interview with M.V. LO PRETE, *"Il Fiscal compact è nullo, il governo lo certifichi". Parla Guarino*, in *Il Foglio*, 11 December 2012.

[9] See C. COTTARELLI, *How could the Stability and Growth Pact be simplified?*, in *Economic Governance Support Unite Papers – European Parliament*, April 2018; T. WIESER,

causing, as a result, a deterioration in the legitimacy of the economic governance framework as perceived by citizens; likewise, the configuration de qua would pose inconsistencies between some norms, creating, therefore, loopholes that deviate from the actual European targets.

The second problematic element related to the SGP (II) regarded the possible procyclicality linked to some of its features. In this sense, we need to distinguish between two different declensions of this potential risk. In fact, on one side, in the past years, several scholars[10] have strongly criticized the "austerity" policies that some Countries (the most indebted) were induced to implement, by the European institutions and by certain Governments of the Eurozone, during the sovereign debt crisis. In this regard, various Authors have claimed that the interpretation of the Stability and Growth Pact given at the time, addressed towards a quick convergence to the Medium-Term Objective (MTO), fostered the rollout of procyclical measures that hit an already damaged economy, without being able, at the same time, to reduce the debt to GDP ratios. This "allegation" results, according to our stance, shareable, but, as some other scholars[11] stated, the austerity policies were the result of a political interpretation of the SGP rather than an outcome of the very nature of the Pact: in fact, with the economic crisis due to the pandemic and the activation of the escape clauses of the SGP, the Member States had the chance to carry out expansionary actions, showing that the Stability and Growth Pact in force already allowed forms of flexibility that could avoid procyclical effects. Nevertheless, on the other side, there have been "accusations" of procyclicality which were related to a specific technical feature of the current SGP: the estimation of the Output Gap. In fact, the European Commission, in the

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Fiscal rules and the role of the Commission, in *VoxEu.org*, 21 May 2018; C. DÉSIRÉE, L.P. FELD, W.H. REUTER, M. YETER, *Uniting European fiscal rules: how to strengthen the fiscal framework*, in *German Council of Economic experts working papers*, 2018; L.R. PENCH, S. DEROOSE, G. MOURRE, N. CARNOT, *EU fiscal rules: root causes of its complexity*, in *VoxEu.org*, 14 September 2018 and T. TESCHE, *Keep it complex! Prodi's curse and the EU fiscal governance regime complex*, in *New Political Economy*, vol. 28, n. 1, 2023, pp. 29-41.

[10] *Ex plurimis*, see P. KRUGMAN, *Europe's austerity madness*, in *The New York Times*, 27 September 2012; J.E. STIGLITZ, *Europe's austerity zombies*, in *Project Syndicate*, 26 September 2014 and J.E. STIGLITZ, J.P. FITOUSSI, P. BOFINGER, G. ESPING-ANDERSEN, J.K. GALBRAITH, I. GRABEL, *A Call for Policy Change in Europe*, in *Challenge*, vol. 57, n. 4, 2014, pp. 5-17.

[11] This stance, for example, is sustained by the Commissioner Valdis Dombrovskis (F. BASSO, *Dombrovskis: «Il Patto di Stabilità ha funzionato, i Trattati UE non si cambiano. Serve un aggiornamento realistico»*, in *Il Corriere della Sera*, 20 October 2021) and by L. BINI SMAGHI, *The reform of the Stability and Growth Pact: Is it really necessary?*, in *Luiss Policy Brief*, n. 9, 2022, pp. 2-3.

assessments that carries out about the fiscal policies implemented by the Member States, considers, as one of the main parameters, the Potential GDP, a value that should ponder the situation of a Country excluding the temporary effects of the economic cycle; in this regard, therefore, Brussels obtains the just mentioned Output Gap, which is the difference between actual and potential GDP. Over the past few years, some Authors[12] have claimed that the methodology used in order to undertake this evaluation has often provoked an overestimation of the contingent economic dynamics, causing the creation of detrimental procyclical spirals. In this sense, the Output Gap has been widely seen as an unreliable parameter that has frequently hampered the conduction of sound and effective fiscal policies.

The third issue (III) which was largely discussed by academia concerned the existence of some rigid objectives that did not vary among Countries with stark economic differences[13]. In this regard, the critical remarks that have been raised were mainly related to the threshold set with the Maastricht Treaty and to the existence of rules that should ensure a convergence towards these targets[14]. Some

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[12] Refer to S. HAUTMEIER, N. LEINER-KILLINGER, *Reflections on the Stability and Growth Pact's preventive Arm in Light of the Covid-19 Crisis*, in *Intereconomics*, n. 5, 2020, pp. 296-300; C. Cottarelli, *Potential growth rates and the working of SGP fiscal rules*, in *VoxEu.org*, 2 March 2015; C. KAMPS, R. DE STEFANI, N. LEINER-KILLINGER, R. RUFFER, D. SONDERMANN, *The identification of fiscal and macroeconomic imbalances – synergies under the strengthened EU governance framework*, in *ECB Occasional Paper*, n. 157, 2014 and A. TRUGER, *Reforming EU Fiscal Rules: More Leeway, Investment Orientation and Democratic Coordination*, in *Intereconomics*, vol. 55, 2020, pp. 277-281. In this regard, for example, the latter Author claims that, with a calculation less sensitive to cyclical fluctuations, during the sovereign debt crisis, «for the euro area as a whole, the output gap would have been -6.7% instead of -1.7% of GDP», consequently, it could have been logical to justify the use of exceptions to the SGP, with the possibility to have a fiscal policy much less restrictive. However, we have to report that other scholars have underplayed the "alleged" negative effects attributed to the estimation of the Output Gap conducted by the European Commission; in this sense, see V. VANDERMEULEN, W. ROEGER, K. MC MORROW, A. HRISTOV, N. CARNOT, M. BUTI, *Potential output and EU fiscal surveillance*, in *VoxEu.org*, 23 September 2019.

[13] See, *ex plurimis*, O. BLANCHARD, A. LEANDRO, J. ZETTELMEYER, *Redesigning,* cit*.,* and M. BORDIGNON, *Regole europee: la soluzione 100 per cento non basta*, in *LaVoce.info*, 4 November 2021.

[14] Take into account, for example, the 1/20th annual reduction of the debt to GDP ratio which is envisaged by the Fiscal Compact and by Council Regulation (EU) n. 1177/2011 (which amended Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure).

scholars[15] have underlined that these objectives, considering in particular certain Member States, resulted unrealistic and, moreover, appeared too much stringent in a global context which is characterized by an overall level of indebtedness which is much higher than in 1992. In this regard, in the past years, numerous proposals emerged aimed at changing these parameters[16], or at modifying (and differentiating) the time required to converge on them[17], or, finally, aimed at switching from rules to standards[18].

Another "problematic" feature of the SGP was related to the substantial absence of sanctions application for Member States that infringed the rules (IV). This issue, which is partially linked to the setting of (too) ambitious targets for certain Countries, inevitably led to a downsizing of any deterrent logic and to a possible increase of moral hazard. The decision to impose a fine on a Country which breaches the SGP is taken by the Council — following a recommendation of the European Commission[19] — and, in this sense, it has been argued that (short-term) political evaluations have often led to over-indulgence. In light of this, some scholars proposed to modify the procedure just described by introducing automatisms in the imposition of sanctions[20]; likewise, others advanced the idea to

[15] In this sense, consider the evaluations articulated by some researchers of the European Stability Mechanism (O. FRANCOVÁ, E. HITAJ, J. GOOSSEN, R. KRAEMER, A. LENARCIC, G. PALAIODIMOS, *EU fiscal rules: reform considerations*, in *ESM Discussion Paper Series*, n. 17, 2021) and the one expressed by O. BLANCHARD, A. LEANDRO, J. ZETTELMEYER, *Redesigning,* cit.

[16] In this regard, the researchers of the ESM (O. FRANCOVÁ, E. HITAJ, J. GOOSSEN, R. KRAEMER, A. LENARCIC, G. PALAIODIMOS, *EU fiscal*, cit.) suggested to elevate the debt to GDP ratio from 60% to 100%. According to the stance of these Authors, following what is foreseen by article 126.14 TFEU, this shift would not require a revision of the Treaties but "simply" an unanimous vote of the Council within a special legislative procedure (in light of the fact that this numeric parameter is specified in the Protocol on the excessive deficit procedure annexed to the Treaty).

[17] This is part of the proposal advanced by the European Fiscal Board (N. THYGESEN, R. BEETSMA, M. BORDIGNON, X. DEBRUN, M. SZCZUREK, *Annual Report 2020*, pp. 85-96). According to the standpoint of the EFB, this shift would not need any reform of the Treaties, considering, hence, the Fiscal Compact as an Agreement which is subordinated to the EU secondary legislation.

[18] Consider O. BLANCHARD, A. LEANDRO, J. ZETTELMEYER, *Redesigning*, cit. The Authors recognize that this far-reaching change would require a revision of the EU Treaties.

[19] As foreseen by article 126 TFEU.

[20] This is the case, for example, of the proposal designed by C. DÉSIRÉE, L.P. FELD, W.H. REUTER, M. YETER, *Uniting European*, cit., p. 21. It is important to underline that these Authors, unlike many other scholars, continue to advocate the appropriateness of the

generally abolish fines, rather making the disbursement of European funds conditional on compliance with the SGP[21].

The fifth and last element (V) that represents a "flaw" of the previous configuration of the SGP is linked to the public investments and to the scarce attention given to this fundamental issue in the past decade. Indeed, it is undeniable that, concomitantly with the sovereign debt crisis, with the purpose of lowering the deficit and the debt to GDP ratio, the most indebted Member States sharply reduced their public investments — more easily politically (and legally) expendable than other expenditures (such as pensions) — generating relevant side effects that aggravated the overall economic condition of the Countries de quibus[22]. In 2015, the European institutions, in order to fix this problem, created a form of Golden Rule (GR)[23] that allowed the Governments to decouple an amount of public investments from the calculation of the debt to GDP ratio and from the estimation of the deficit to GDP ratio; however, the scope of this GR resulted too much narrow and not capable of making a significant impact on the general level of public investments[24]. Today, with relevant challenges ahead (like Climate Change), the need to booster this type of expenditure is perceived as

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norms (and objectives) designed during the sovereign debt crisis, claiming that «cyclically adjusted figures and the introduction of a multitude of flexibility and escape clauses» should be considered the main flaws of the SGP. It is noteworthy that professor Feld is personal advisor to the German finance Minister, Christian Lindner (who played a pivotal role in achieving the agreement about the SGP reform).

[21] The idea *de qua* was put forward by the European Fiscal Board (N. THYGESEN, R. BEETSMA, M. BORDIGNON, X. DEBRUN, M. SZCZUREK, *Annual Report 2018*, pp. 80-81). In this regard, the EFB, recognizing the political difficulty related to the application of sanctions — and fostering the need for a common fiscal capacity at the European level — proposed to make access to EU funds, and to the resources of a potential central fiscal capacity, conditional upon compliance with the EU fiscal rules.

[22] On this topic, *ex plurimis*, consider P. MOHL, M. BUTI, *Lacklustre investment in the Eurozone: Is there a puzzle?*, in *VoxEu.org*, 2 June 2014 and the speech pronounced by Fabio Panetta, former member of the Executive Board of the European Central Bank and current President of the Bank of Italy, at the Istituto per gli Studi di Politica Internazionale (see the ECB website).

[23] This Golden Rule has been created on the basis of a Council decision and it has been defined by the European Commission. This GR finds its legal roots in a "wide" interpretation of article 5.1 of EU Regulation n. 1466/77: indeed, in this sense, the public investments are compared to «major structural reforms».

[24] In this regard, refer to Z. DARVAS, J. ANDERSON, *New life for an old framework: redesigning the European Union's expenditure and golden fiscal rules*, in *Economic Governance Support Unite Papers – European Parliament*, October 2020, pp. 29-30.

increasingly pressing and some Authors[25] have stressed the necessity to redesign the PSC in a more investments-friendly manner: in this regard, proposals to create new common European debt[26] (on the model of Next Generation EU)[27] or to broaden the GR[28], with a specific focus on a Green Golden Rule (GGR), have multiplied, with the aim of reducing the CO2 emissions and achieving the energy independence.

3. The European Commission's reform proposal

The European Commission, on 5 February 2020, published a Communication regarding a review of the economic governance framework[29]. In this document, the Berlaymont assesses the outcomes of the reforms carried out in the aftermath of the sovereign debt crisis, depicting a scenario featured by lights[30] and shadows[31]. Indeed, the Communication de qua indicates issues closely related to the ones described in the previous paragraph, advocating the necessity to evaluate a new

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[25] Consider Z. DARVAS, G. WOLFF, *A green fiscal pact: climate investment in times of budget consolidation*, in *Bruegel Policy Contribution*, n. 18, 2021 and A. TRUGER, *Reforming, cit*.

[26] Refer, for example, to L. GARICANO, *Combining environmental and fiscal sustainability: A new climate facility, an expenditure rule, and an independent fiscal agency*, in *VoxEu.org*, 14 January 2022 and to E. CORNAGO, J. SPRINGFORD, *Why the EU's recovery fund should be made permanent*, in *Centre for European Reform papers*, 11 November 2021.

[27] About Next Generation EU, see the European Commission website and F. Fabbrini, *Next Generation EU. Il futuro di Europa e Italia dopo la pandemia*, Bologna, 2022

[28] The need for the European Union to equip itself with a form of Golden Rule — addressed towards areas indicated by EU initiatives — was also emphasised by the European Fiscal Board (N. THYGESEN, R. BEETSMA, M. BORDIGNON, X. DEBRUN, M. SZCZUREK, *Annual Report 2020*, pp. 7).

[29] Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU (COM/2020/55 final).

[30] In this regard, *inter alia*, the European Commission claims that the reforms introduced in that period fostered «convergence in the economic performance of Member States, with an overall return to economic growth and declining unemployment rates in all Member States, reduced macroeconomic imbalances, and falling public deficits and debt levels, with all Member States having exited the excessive deficit procedure».

[31] This document, for example, underscores that the SGP has been not capable of sufficiently reducing the public debts of certain Member States; likewise, the Commission claims that the fiscal framework has become too complex, that the fiscal stances of certain Countries have often been pro-cyclical and that several Governments have not been able to protect public investments (showing a preference for increasing current expenditure).

revision of the EU economic governance framework. In this sense, the European Commission, by formulating nine questions, opened a public debate aimed at correcting the weaknesses of the Stability and Growth Pact. The Covid-19 pandemic, which brought to the longest suspension period of the SGP, put this discussion "on ice", generating, at the same time, a new environment marked by wider public debts and enriched by the creation of innovative instruments like SURE (Support to mitigate Unemployment Risks in an Emergency)[32] and, in particular, Next Generation EU. In October 2021, the Berlaymont relaunched its initiative[33]; in the meanwhile, as known, the deflagration of the Ukrainian conflict caused the disruption of the political and economic relations between EU and Russia, provoking, on one side, a sharp increase of energy prices[34], and, on the other one, posing the need to reinforce the defence sector for all the European Countries[35].

On 9 November 2022, the European Commission published a Communication with its blueprint for a reform of the SGP[36]. Then, on 26 April 2023, the Berlaymont presented its legislative proposals[37].

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[32] This instrument was created by the European Union in 2020, in the first phase of the Covid-19 pandemic, with the aim of providing «financial assistance up to €100 billion in the form of loans» to affected Member States that had to «address sudden increases in public expenditure for the preservation of employment». Cfr., the European Commission website.

[33] Refer to the Communication "The EU economy after COVID-19: implications for economic governance" (COM/2021/ 662 final).

[34] About the impact of the war on the energy market prices, consider, *ex plurimis*, J.F. ADOLFSEN, F. KUIK, T. SCHULER, E. LIS, *The impact of the war in Ukraine on euro area energy markets*, in *ECB Economic Bulletin*, n. 4, 2022.

[35] In this sense, refer to the 2 February 2024 speech of the High Representative of the European Union for Foreign Affairs and Security Policy, Josep Borrell (available on the Diplomatic Service of the European Union website).

[36] Communication on orientations for a reform of the EU economic governance framework (COM/2022/583 final).

[37] In April 2023, the European Commission drafted three legislative texts: I) a Regulation proposal that would have repealed the Council Regulation (EC) n. 1466/97; II) a Council Regulation proposal that would have amended the Regulation (EC) n. 1467/97; III) a Council Directive proposal that would have amended the Directive 2011/85/EU.

[37] This was explicitly affirmed during the 9 November 2022 Q&A of the European Commission (available on the European Commission website).

3.1 The 9 November Communication of the European Commission

The European Commission, with its proposal of 9 November 2022, stated its will to define a simpler and more transparent framework that would «strengthen debt sustainability and enhance sustainable and inclusive growth through investment and reforms».

First of all, Brussels clarified its intention to create different "economic tracks" for Member States that show unlike fiscal situations; in this regard, in the Communication, the European Countries were divided in three macro-groups:

1) States with a substantial public debt challenge;
2) States with a moderate public debt challenge;
3) States with a low public debt challenge.

The 1/20th rule, considered by the European Commission a condition «too demanding, pro-cyclical and frontloaded»[38], was abandoned while, instead, the parameters set with the Maastricht Treaty were maintained. Likewise, the Berlaymont institution affirmed its decision to consider, as main parameter for assessing the actions implemented by the Countries, the net primary expenditure[39], setting aside, therefore, budget targets that could fluctuate *ex post* depending on changes in the Output Gap or related to variations of the interest rates.

The system designed in the Communication would have worked as follows:

A) the Member States with substantial (1) and moderate public debt challenge (2) agree with the European Commission about the definition of a path of four years; this agreement should guarantee a credible decrease of the debt to GDP ratio, ensuring, at the same time, a deficit/GDP below

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[38] This was explicitly affirmed during the 9 November 2022 Q&A of the European Commission (available on the European Commission website).

[39] The net public expenditure does not include the interest on the debt and the cyclical unemployment expenditures; in this sense, following the words of the European Commission, it could be considered an element «which is in a government's control». The net public expenditure is also considered as main parameter in the proposal outlined by the European Fiscal Board (N. THYGESEN, R. BEETSMA, M. BORDIGNON, X. DEBRUN, M. SZCZUREK, *Annual Report 2018,* pp. 79). In fact, the EFB assumes, as operational target for the Countries with a debt to GDP ratio above 60%, a ceiling on the growth rate of primary expenditure (calculated *ex ante* on the basis of a macroeconomic assessment that should ensure a convergence towards the target written in the protocol annexed to the Treaty). In this model, a structural increase in State tax revenues would lead to an increase of the expenditure ceiling of the same value: therefore, this rule would not impose any constraints on the size of the State budget.

the 3%[40].

In this regard, in the first phase, it is up to Brussels to present a "reference fiscal adjustment path", based on its debt sustainability analysis (DSA)[41], which covers a period of fours year; then, the European Countries submit their "medium-term fiscal-structural plans", outlining priority reforms and public investment commitments. If a State proposes to the Commission a path featured by relevant reforms and public investment commitments, in line with the priority goals of the EU[42], that could strengthen the debt sustainability, the plan could be expanded by three more years (reaching seven years in total). For Countries with low public debt challenge (3), instead, «the deficit should be maintained below that reference value at unchanged policies over a 10-year period at most 3 years after the horizon of the plan[43]»;

B) the evaluation of the plan is conducted by the European Commission and it relies on the Commission's DSA. Once the assessment results positive, the Council should confirm the review carried out by the Berlaymont institution or recommend to the Member State to resubmit the plan[44];

[40] «For Member States with a substantial public debt challenge, the reference net expenditure path should ensure that by the horizon of the plan (4 years), i) the 10-year debt trajectory at unchanged policies is on a plausibly and continuously declining path and ii) the deficit is maintained below the 3% of GDP reference value at unchanged policies over the same 10-year period». For Countries with a moderate public debt challenge «the reference net expenditure path should ensure that, i) at most 3 years after the horizon of the plan, the 10-year debt trajectory is on a plausibly and continuously declining path at unchanged policies; and ii) by the horizon of the plan, the deficit is maintained below the 3% of GDP reference value over the same 10-year period». Cfr. the European Commission Communication (COM/2022/583 final), p. 12

[41] In this regard, the Commission foresaw to «use stress tests and stochastic analysis, simulating common shocks related to short and long-term interest rates, nominal GDP growth, the primary budget balance and nominal exchange rates» (*ibidem*).

[42] «Address common EU priorities, including the National Energy and Climate Plans (aligned with the targets of the EU Climate Law), the National Digital Decade Roadmaps, and the implementation of the European Pillar of Social Rights», see the European Commission website.

[43] Refer to the European Commission Communication (COM/2022/583 final), p.12.

[44] «In case there would be no agreement between the Member State and the Commission, the reference multiannual net expenditure path would be used by the Commission and the Council for the purpose of fiscal surveillance and enforcement» (*ivi*, p. 13).

C) the excessive deficit procedure (EDP) is maintained. The, so-called, deficit-based EDP remain unchanged while the debt-based EDP is reinforced; the amount of the sanctions is reduced in order to activate them more easily. In the event that a Member State with a substantial public debt challenge (1) breaches the plan agreed with the Commission, then, an excessive debt procedure is activated by default, diversely, in the case of departure from the concerted path for a Country with a moderate public debt challenge (2), the procedure is opened if this situation generates "gross errors". Besides, if the Member State does not undergo corrections aimed at readdressing the excessive deficit, the EU institutions could suspend the disbursement of the European funds and «stronger reputational sanctions» may be triggered. Regarding the Macroeconomic Imbalance Procedure (MIP), an "enhanced dialogue" between Brussels and the Member States would be pivotal and the Alert Mechanism Report (AMR) and the In-Depth Reviews (IDRs) would be rendered "more forward looking".

Furthermore, this blueprint was aimed at bringing a change in the annual monitoring carried out by the European Commission. In fact, in the model *de quo*, the Member States send to Brussels annual progress reports instead of the current Stability and Convergence plans; moreover, the European Commission sets aside its annual recommendations, focusing the attention on the compliance with the path agreed. The Berlaymont, with this draft, foresaw to maintain escape clauses that could allow the EU Countries to cope properly with exceptional circumstances and severe economic downturns; at the same time, it is relevant to underline that, in the intentions of the European Commission, once these multi-annual national plans were approved, they could not be modified unless in case of "objective circumstances" that would make the fiscal adjustment path unrealizable. In addition, this draft underscored the Commission's will to strengthen the role of national Independent Fiscal Institutions (IFIs) and to reconsider the role of the European Fiscal Board; finally, it took into account the post-programme surveillance framework, proposing, without changes to the current legislative text, to set «clearer objectives, with the intensity of the framework linked to these objectives»[45].

[45] This was affirmed during the Q&A (see the European Commission website).

3.1.1 The main issues raised by this draft

The very day after the disclosure of the Commission's Communication, three senior Berlaymont officials published an article explaining the rationale behind the proposal just described[46]. In the paper *de quo*, the Authors describe the economic governance framework of the European Union as a trilemma in which three requirements coexist, although the simultaneous protection of two of these leads to the sacrifice, at least partial, of the remaining third. The three pillars of the "SGP facility" are represented by: [I] national ownership; [II] rapid debt reduction; [III] investment and reforms for sustainable growth.

According to these scholars, during the sovereign debt crisis, the first element has been sidelined in favour of the last two, accepting (at least, theoretically) the possibility that the European institutions could interfere in national policies, with the aim of achieving a sharp debt reduction that would not jeopardise the investment and reforms needed for a sustainable growth. In this regard, the 9 November 2022 Communication should be interpreted as an attempt of the European Commission to re-balance this tendency, valorising national ownership and accepting that the pace of debt decrease may slow down. According to our stance, it is logical to claim that the SGP review designed by the European Commission was effectively addressed towards the objectives just mentioned, by exploiting extensively the room for manoeuvre at disposal in order to achieve a reform of the economic governance framework without modifying the Treaties (and the protocols annexed thereto). Indeed, even if the proposal did not envisage the creation of a Golden Rule or the establishment of new EU borrowing facilities, this blueprint, setting different goals for Countries with dissimilar characteristics, aimed, *de facto*, at shifting from rigid rules to standards, focusing the attention on debt sustainability analysis rather than on a "blind" convergence towards a predetermined number[47]. In this regard, therefore, the model outlined by the Commission, although it did not lead to an authentic Hamiltonian moment[48], realistically intended to create an economic governance

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[46] Cfr. J.W. FRIIS, R. TORRE, M. BUTI, *How to make the EU fiscal framework fit for the challenges of this decade*, in *VoxEu.org*, 10 November 2022.

[47] This view is shared by P. VAN DEN NOORD, *A targeted golden rule for public investments? A comparative analysis of possible accounting methods in the context of the review of the SGP*, in *European Parliament papers*, 2023.

[48] Speaking of "Hamiltonian moment", as known, we refer to the period after the Independence War in which the United States, on the initiative of Alexander Hamilton, mutualised the debts of the 13 Colonies. In this regard, we agree with A. GUAZZAROTTI, *La riforma delle regole fiscali in Europa: nessun "Hamiltonian moment"*, in *Rivista AIC*, n. 1, 2023, pp. 1-26. However, diversely from the Author just mentioned, we positively assess

framework more favourable for public investments, without endangering the sustainability of national budgets[49]. Furthermore, this Communication facilitated, for the most indebted Countries, the possibility to benefit from the Transmission Protection Instrument (TPI) of the European Central Bank, given the fact that, in order to result eligible for *ad hoc* securities purchases by the ECB, Members States should be compliant with the European fiscal framework[50].

However, although the intentions of the Commission were generally viewed favourably, this proposal quickly unleashed a debate among scholars regarding some of its specific features.

The first element brought to the fore was related to the reliability of the DSA [A][51]. Indeed, as noted by some Authors, these assessments — which are based on forecasts of dynamics susceptible to significant fluctuations — can vary starkly depending to the assumptions (and the methodology) adopted and, given the countless (and sometimes almost unpredictable) factors that could affect the economic cycle, can often prove to be wrong. In this sense, in light of the unavoidable need to employ estimations, certain scholars correctly underlined the necessity to have full transparency regarding the "black box" at the basis of the DSA, implying, at the same time, that the European Commission should be open to dialogue with Member States about the methodology, and the data, taken into

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the "minimalist" approach adopted by the European Commission with this proposal, believing that, in the short-term, more ambitious goals were politically unfeasible (as demonstrated by the compromise reached by the Council).

[49] It seems reasonable to state that our point of view was supported by F. BASSANINI, C. DE VINCENTI, *La proposta di riforma del Patto di Stabilità conviene soprattutto all'Italia*, in *Il Sole 24 Ore*, 9 December 2022 and by M. BORDIGNON, *Europa: ecco le nuove regole fiscali*, in *LaVoce.info*, 15 November 2022.

[50] Regarding the Transmission Protection Instrument, consider the ECB website and refer to K. ASSENMACHER, *The ECB's Transmission Protection Instrument and fiscal stability*, in *The Economist's voice*, vol. 20, n. 1, 2023, pp. 89-95; A. PEYCHEV, *Disorder and discipline: the ECB's Transmission Protection Instrument*, in *European Papers*, vol. 7, n. 2, 2022, pp. 739-748 and to M. BURSI, *A cross-sectional analysis of the Transmission Protection Instrument: between economical needs and outdated Treaties*, in *Federalismi.it*, n. 7, 2023, pp. 1-14. It is relevant to highlight that the relation between the TPI and the SGP was explicitly underscored by the European Commission's Communication (p. 16, footnote 15).

[51] About this topic, see, for example, P. HEIMBERGER, *Debt sustainability analysis as an anchor in EU fiscal rules. An assessment of the European Commission's reform orientations*, in *European Parliament papers*, 2023 and J. VAN DIJK, F. SCHUSTER, P. SIGL-GLÖCKNER, V. ZIESEMAR, *Building on the proposal by the EU-Commission for reforming the Stability and Growth Pact*, in *Institute voor Publieke Economie papers*, 2022.

account.
Likewise, some critical remarks emerged in relation to the possibility that this draft, once adopted, could bring to self-fulfilling prophecies that could endanger the finances of the most indebted Member States [B][52]. In fact, on one side, it was affirmed that a possible negative assessment following a DSA (or subsequent to the sending of a national plan) could induce the financial markets to perceive the bonds of the Country concerned as riskier (also undermining the ECB's ability to activate the TPI); on the other side, instead, some Authors affirmed that the same, dangerous, message could be sent by dividing Member States in groups according to their debt to GDP ratio.

In our view, however, these standpoints do not appear fully convincing. In fact, evaluations regarding debt sustainability are already carried out, and published, by private[53] and public entities — consider, for example, the Debt Sustainability Monitor of the European Commission[54] — and the financial markets even today act according to these assessments. Furthermore, taking into account the criteria in order to activate the TPI, it is relevant to highlight that the ECB should refer to debt sustainability analysis performed by various institutions, not only to the one elaborated by the Berlaymont[55]; therefore, potentially, Frankfurt could decide to not adhere to the assessment of the European Commission if other entities evaluate diversely the budgetary situation of a Country. On the argument of classifying States according to their debt level, we believe that this step was nothing more than a "picture" of an existing situation (of which financial markets, and a large part of public opinion, are well aware).

We instead share a critical assessment regarding the imposition of sanctions; in fact, violations of the path agreed should be treated equally, without difference

[52] This is the standpoint expressed by V. DE ROMANIS, *Cosa non va nel nuovo Patto di stabilità europeo. Spunti per una posizione italiana*, in *Il Foglio*, 10 March 2023 and by P. HEIMBERGER, *Debt sustainability*, cit.

[53] Refer, for example, to the evaluations performed by the rating agencies (as Moody's, Standard & Poor's, Fitch Group), assessments that are also used by the ECB when deciding whether or not to include Government bonds in its purchase plans.

[54] In the Debt Sustainability Monitor published by the European Commission on April 2023, there is a classification of Member States which is almost the same envisaged by the Communication *de qua*; in fact, regarding each EU Country, the report classifies the debt sustainability risk in the short/medium/long term, providing a rating that can be low, medium or high.

[55] Indeed, as written in M. BURSI (*A cross-sectional*, cit., p. 3), «the trajectory of the public debt has to be assessed as bearable on the basis of evaluations carried out by the ECB, the European Commission, the European Stability Mechanism, the International Monetary Fund and other (unspecified) institutions».

between States with moderate or substantial public debt challenge: it is reasonable to assume that, creating a dual-system for the application of fines, there could be a potential strengthening, in some voters, of anti-European sentiments given the perception that the violations of some are treated differently from the violations of others.

Another debated issue concerned the constraints that a multi-annual commitment could imply for the policies carried out by Member States [C]. In particular, regarding this topic, it has been claimed that, throughout 4 (or even 7) years, the economic scenario could dramatically change, posing, consequently, the risk that the expenditure ceilings determined *ex-ante* could become unfit, requiring unnecessary (or inadequate) fiscal efforts[56]. This observation is relevant: indeed, as noted above, in the past decade, DSA have often proved to be wrong, in light of the extreme uncertainty regarding some economic factors. Nevertheless, the solution designed by the European Commission, even if imperfect, seemed to be the most adequate to avoid a return to the rigid objectives of the current SGP. Therefore, with the goal of preventing the risks outlined above, it would be desirable for the "objective circumstances" indicated in the Communication to be understood broadly, and not that their identification could only coincide with the outbreak of a catastrophic event (like a pandemic). In this sense, we believe, the possibility of improper annual expenditure ceilings would be considerably reduced.

Finally, some scholars criticized the blueprint *de quo* by affirming that a proposal of this kind would have given too much power to the European Commission [D][57]. These critical remarks were mainly related to the fact that the reference fiscal adjustment path would have been firstly designed by the Berlaymont and to the provision according to which, in case Brussels and a Member State fail to reach an agreement, the Commission's trajectory would have been considered as the reference parameter[58]. In this regard, some of these Authors

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[56] In this regard, see V. DE ROMANIS, *Cosa non va*, cit. and C. WYPLOSZ, *Reform of the Stability and Growth Pact: the Commission's proposal could be a missed opportunity*, in *VoxEU.org*, 17 November 2022.

[57] Consider S. MICOSSI, *On the Commission's orientations for a revised economic governance for the EU*, in *VoxEU.org*, 23 February 2023; O. BLANCHARD, A. SAPIR, J. ZETTELMEYER, *The European Commission's fiscal rules proposal: a bold plan with flaws that can be fixed*, in *Bruegel.org,* 30 November 2022 and V. DE ROMANIS, *Cosa non va*, cit.

[58] In any case, the Communication foresees that, before using the Commission's trajectory, the Council should endorse the reference multiannual net expenditure path. Refer to Questions & Answers of the Commission services on the written questions received by Member States (p. 17).

proposed, for example, to strengthen the national Independent Fiscal Institutions, entrusting them with the task of outlining the first version of the reference fiscal adjustment path.

In our view, it is undeniable that, with this SGP, the Commission would have had more power than in the past scenario; however, even on this issue, we see no better solution than the one devised by the Berlaymont. Indeed, on the one hand, we do not believe that there are institutions better suited than the Commission in designing the multi-annual trajectories — taking also into account the European Fiscal Board and the IFIs, which, even more than the Berlaymont, could be considered as lacking sufficient democratic legitimacy— likewise, on the other hand, we believe that, in this framework, it would be necessary to have a "falling point" if no agreement is reached and, in this sense, the Berlaymont's one would be the most logical. An alternative solution, in the event of no consensus, could have been to entrust the Council with the responsibility of opting for the plan of a Member State or that of the Commission, but, from our point of view, this model could potentially lead to an institutional clash or to decisions based on political negotiations rather than on pondered economic assessments.

3.2 The Council's orientations and the Commission's legislative proposals

The Commission's Communication, inevitably, sparked a debate among EU Governments, signalling that, although the consensus about the need to reform the economic governance was wide, there were some differences regarding the direction to take[59]. Anyway, on 14 March 2023, the Council reached a preliminary compromise, by publishing its orientations about the proposals put forward by the Berlaymont[60].

First of all, the European Ministers shared the Commission's will to strengthen national ownership, appreciating the creation of different paths for Countries with a diverse economic situation; nevertheless, the ECOFIN stated its belief that the Maastricht parameters should be maintained (as foreseen in the Berlaymont's Communication).

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[59] For example, the German Minister of finance, Christian Lindner, expressed some concerns over the «great scope of discretion» that this proposal would have provided to the European Commission, affirming that, in his view, «a single monetary union also needs single fiscal rules». The Dutch Minister of finance, instead, saw in this draft «multiple positive elements». Refer to J. PACKROFF, *German finance minister sceptical of new EU debt rules*, in *Euractiv.com*, 10 November 2022.

[60] Refer to the Council of the European Union press release of 14 March 2023. These conclusions, on 23 March 2023, were endorsed by the European Council.

Secondly, the Council endorsed the adoption of net primary expenditure as main parameter for assessing the actions carried out by Governments. Likewise, the Ministers agreed with the hypothesis of devising a multi-annual planning that could allow Member States to request additional time in order to implement specific investments and reforms.

Thirdly, taking into account the fiscal trajectories designed by the Commission, the Council underlined that DSA «should be based on a common methodology […] that is replicable, predictable and transparent»; moreover, unlike the 9 November Communication, there should be the possibility for new Governments — independently of whether they are the result of new elections — to revise the plan in force[61].

Fourthly, the ECOFIN agreed with the hypothesis of lowering the sanctions and made it clear that IFIs «should not play a role in the design phase of national plans», showing how the proposals addressed towards a greater involvement of these entities in the definition of the paths were disconnected from "political reality".

The EU Ministers, lastly, considered the, so-called, Fiscal Compact, inviting the Commission to ensure a consistency of the TSCG with the revised Stability and Growth Pact[62].

Following the publication of these orientations, on 26 April 2023, the European Commission presented its legislative proposals. In this regard, the Berlaymont produced three texts: a proposal for replacing Regulation (EC) n. 1466/97[63], a proposal for amending Council Regulation (EC) n. 1467/97[64] and a proposal for amending Council Directive 2011/85/EU[65].

According to our stance, the "package" outlined by Brussels followed the orientations received by the Council, while preserving the structure described in

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[61] Indeed, in the Q&A (p. 20), the Commission wrote that «change of government will not be a reason per se to change the plan».

[62] «Recognises that consistency of the TSCG with the revised Stability and Growth Pact should be ensured. Calls for a reflection to ensure such consistency».

[63] Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) n. 1466/97 (26 April 2023 version).

[64] Proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (26 April 2023 version).

[65] Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (26 April 2023 version).

November 2022. In this sense, the most significant differences between these legislative proposals and the Communication were the following ones:

- The Berlaymont — with the aim of accommodating the most indebted Countries — deleted the "labels" of substantial, moderate and low public debt challenge. Indeed, the EU Commission simply maintained the division between States with a debt to GDP ratio below 60% and those that exceed this value. However, even if the above-mentioned classification of Member States, formally, disappears, «a substantial public debt challenge established according to the most recent Debt Sustainability Monitor» would continue to be considered as a «key factor leading to the opening of an EDP as a rule»[66];
- at the same time — in order to meet the concerns expressed by some northern European Ministers — for Member States with a deficit to GDP ratio above 3%, Brussels envisaged a «minimum annual adjustment of at least 0,5% of GDP as a benchmark»[67];
- for the reason just mentioned, considering the definition of the fiscal paths, the Commission added that «the public debt ratio at the end of the planning horizon» should be «below the public debt ratio in the year before the start of the technical trajectory»[68]. Likewise, national net expenditure growth should remain «below medium-term output growth, on average, as a rule over the horizon of the plan»[69]. Furthermore, Brussels foresaw that «the fiscal adjustment effort over the period of the national medium-term fiscal-structural plan» should, at least, be «proportional to the total effort over the entire adjustment period»[70];

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[66] This is stated in article 2.3 of the proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (26 April 2023 version).

[67] As written in article 3.4 of the proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (26 April 2023 version).

[68] Cfr. article 6(d) of the proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) n. 1466/97 (26 April 2023 version).

[69] Cfr. article 6(e) of the proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) n. 1466/97 (26 April 2023 version).

[70] See article 6(c) of the proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary

- taking into account the possibility for new Governments to revise the plan, the Commission followed the standpoint expressed by the Council, by extending this option to all new administrations (not only to the ones which emerge after elections). However, in any case in which Member States request a revision of the plan, «the new technical trajectory shall not allow backloading of the fiscal adjustment effort and shall not lead to a lower fiscal adjustment effort»[71].

Finally, as requested by the ECOFIN, the Berlaymont examined the consistency of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union with these legislative texts. In this regard, following article 16 TSCG, the European Commission wrote that «the proposed reformed economic governance framework can be considered as incorporating the substance of the fiscal provisions of the TSCG into the legal framework of the EU» and that the «package retains the Fiscal Compact's medium-term orientation as a tool to achieve budgetary discipline and growth promotion». Nevertheless, according to our view, it is quite difficult to detect a coherence between the economic governance review designed by the Commission — which, *inter alia*, is based on debt sustainability rather than on the achievement of equal budget targets for all Member States — and the Fiscal Compact, that, instead, set rigid objectives for debt reduction and force Eurozone Countries to reach, as lower limit, a «structural deficit of 0,5 % of the gross domestic product». Anyway, article 2.2 of the TSCG is clear in stating that the Treaty *de quo* «shall apply insofar as it is compatible with the Treaties on which the European Union is founded and with European Union law», therefore, we do not see any potential conflict between these two provisions in the light of the aforementioned superiority of EU law.

However, it is interesting to note the fact that some provisions of TSCG, which, according to its article 3.2[72], should have had «permanent character», after only a

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surveillance and repealing Council Regulation (EC) n. 1466/97 (26 April 2023 version). Moreover, as reported in the 26 April Questions & Answers (p. 2), «Member States benefitting from an extended fiscal adjustment period will have to deliver most of the adjustment during the first four years covered by the plan».

[71] Cfr. article 14.3 of the proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) n. 1466/97 (26 April 2023 version).

[72] «The rules set out […] shall take effect in the national law of the Contracting Parties at the latest one year after the entry into force of this Treaty through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes».

decade since their adoption, were already going to be left: an abandonment that results quite paradoxical, considering the explicit pressure exerted, a decade ago, on Member States with the aim of incorporating the Fiscal Compact in their national Constitutions[73].

4. The agreement reached by the Council

Since the first days after the publication of the Commission's legislative texts, a divergence of views re-emerged among Member States. Indeed, on the one hand, some Governments agreed with the model outlined by the Berlaymont, appreciating the abandonment of uniform (and automatic) rules and pushing for fast-track approval of the proposals[74]; instead, on the other one, certain Countries expressed concerns regarding the overall philosophy that seemed to sustain the draft put forward by Brussels, stressing the importance of defining specific requirements for reducing deficits and debt ratios. It is reasonable to claim that

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[73] About the different translation of this "push" in the four major Countries of the Eurozone (France, Germany, Italy and Spain), and the paradoxicality related to some features of the Fiscal Compact, see F. FABBRINI, *The Fiscal Compact, the "golden rule", and the paradox of European federalism*, in *Boston College International and comparative Law Review*, vol. 36, 2013, pp. 1-38. While, considering the Italian case, the more "flexible" target envisaged by the legislator and the potential consequences linked to the transposition of TSCG within the Italian Constitution, *ex plurimis*, consider M. LUCIANI, *L'equilibrio di bilancio e i principi fondamentali: la prospettiva del controllo di costituzionalità*, in *Relazioni del Convegno "Il principio dell'equilibrio di bilancio secondo la riforma costituzionale del 2012" – Corte Costituzionale*, 22 November 2013 and R. PEREZ, *Fiscal Compact e diritti sociali. Intervento al seminario Svimez del 15 marzo 2013*, in *Rivista giuridica del Mezzogiorno*, n. 1-2, 2013. Regarding the critical remarks expressed by some scholars in relation to the velocity that marked the constitutional reform *de qua* in light of the pressure exerted by the financial markets, refer to A. BRANCASI, *L'introduzione del principio del c.d. pareggio di bilancio: un esempio di revisione affrettata della Costituzione*, in *Forum di Quaderni Costituzionali*, 10 January 2012 and I. CIOLLI, *I Paesi dell'Eurozona e i vincoli di bilancio. Quando l'emergenza economica fa saltare gli strumenti normativi ordinari*, in *Rivista AIC*, n. 1, 2012, pp. 16-19.

[74] The French Government was among the supporters of the Commission's proposal. In fact, Bruno Le Maire, the economy and finance Minister, endorsed the legislative proposals devised by the Berlaymont, affirming that it was a really good working basis («*très bonne base de travail*»). Likewise, the French politician stated that it would have been inappropriate to re-establish uniform and automatic rules, considering the poor results of the previous Stability and Growth Pact. See the 16 June 2023 speech of Bruno Le Maire (available on the website of the permanent representation of France to the European Union).

the most prominent voice of the latter group was the one of the German finance Minister, Christian Lindner.

The leader of the *Freie Demokratische Partei* (FDP) — with an article sent to the Financial Times the very day before the presentation of the legislative proposal[75] — openly criticized the Stability and Growth Pact outlined by the European Commission, by affirming that the blueprint lacked sufficient clear requirements that would ensure the establishment of fiscal buffers for potential future crises. Furthermore, the German Minister was at odds with the bilateral approach between Member States and Brussels envisaged by the proposal, underlining his will to preserve a multilateral approach to the fiscal surveillance and to maintain «commonly agreed numerical benchmarks». Likewise, he aimed for «less discretion in the interpretation and application of the rules» in order to not transform the SGP in a «paper tiger»[76].

In the weeks following the publication of the legislative proposals, a "coalition" of States emerged around the stance just mentioned. In fact, in a joint op-ed published by various European newspapers on 15 June 2023[77], eleven EU Countries[78] defined the model devised by the Berlaymont as a «stepping-stone» rather than a conclusion, expressing their intention to re-address several issues of the blueprint. In this regard, these Governments placed the debt sustainability at the core of the debate[79], expressing (implicitly) their fear that the Commission's proposal was too much lenient and fostering the hypothesis of preserving quantitative criteria that apply to all Member States. In particular, the Nations *de quibus*, although appreciating the medium-term orientation of the model, expressed their concern that the multi-annual plans agreed with the Commission may become unfit for a changing context; at the same time, their possible extension

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[75] Cfr. C. LINDNER, *We need to strengthen EU fiscal rules, not to dilute them*, in *Financial Times*, 25 April 2023.

[76] The German finance Minister added that the reform of the SGP could not «be an end in itself», hinting consequently at the possibility to remain with the existing set of rules (*ibidem*).

[77] Refer to the Op-ed by German finance Minister Christian Lindner and other European finance ministers on the reform of Europe's fiscal rules, 15 June 2023 (available on the website of the German federal finance Ministry).

[78] This was the standpoint of Germany, Czech Republic, Austria, Bulgaria, Denmark, Croatia, Slovenia, Lithuania, Latvia, Estonia and Luxembourg.

[79] According to our view, the following sentences seem quite significant: «fiscal policy cannot ignore the changed geopolitical realities either, including climate change, the digital transition and defence policy. Although, it should be clear to all: as far as the capital markets are concerned, debt is debt. Capital markets are not interested in the motives for taking on debt, however worthy they may be» (cfr. *ibidem*).

was perceived as a way in which Governments could, for political reasons, delay or postpone necessary fiscal adjustment. Moreover, in accordance with Lindner's view, these Countries underlined their intention to hold a system based on multilateral surveillance, showing their willingness to avoid an excessive widening of the Commission's powers.

Evidently, the positions just expressed stood in stark contrast to central elements of the proposal put forward by the Berlaymont, attempting to re-introduce rules in a model that, as already mentioned, aimed at moving towards standards[80]. In this sense, unsurprisingly, the "German stance" led to a stalemate that lasted for several months[81], with the other major European Countries that were uncapable of forming a bloc that could solidly support the legislative texts tabled by Brussels[82]. Then, in December, when the suspension of the SGP was coming to an end, France and Germany reached a compromise that, even if it did not completely dismantle the Commission's proposal, certainly made it heavier, by

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[80] In this regard, O. BLANCHARD, J. ZETTELMEYER, *Fixing Germany's fixes of the European Commission's fiscal governance proposal*, in *Bruegel analysis*, 18 April 2023, taking into account a "position paper" of the German Government about the SGP reform designed by the Commission, correctly underlined the risk to create «a Frankestein's monster of overlapping rules and procedures» if the model outlined by the Berlaymont had been amended by introducing specific numerical targets (like the ones advanced by Germany).

[81] On this topic, see P. TAMMA, *Franco-German disagreement stalls EU fiscal rules reform*, in *Politico.eu,* 17 October 2023.

[82] In this sense, it is interesting to report the "particular" strategy adopted by the Italian Government. Indeed, following the words of various Ministers, Rome seemed to link the revision of the SGP to the ratification of the European Stability Mechanism (ESM) Treaty reform (which had been approved by all Countries except Italy). It is logical to claim that this *do ut des* — aimed at obtaining less stringent budget rules in exchange for the approval of the ESM reform —, if it actually existed, did not pay off and the Italian Cabinet had to accept the deal reached by Germany and France. It is noteworthy that the very day after the ECOFIN agreement, the Italian Parliament rejected the ratification of the ESM Treaty reform, pushing some commentators to describe this deliberation as a political "retaliation". About the bond between ESM and Stability and Growth Pact refer, for example, to the 27 October 2023 press briefing of Prime Minister Meloni (available on the website of the Italian Prime Minister) and to C. BASTASIN, *The Meloni government's budgetary policy and the reform of European Economic Governance*, in *Luiss Working Papers*, 2023, p. 12; while, taking into account the Parliament vote on the ESM, see G. TROVATI, *Mes, l'Italia dice no: conseguenze per l'Europa*, in *Il Sole 24 Ore*, 21 December 2023 and G. FONTE, A. AMANTE, *Italy Parliament rejects ESM reform, irking Brussels*, in *Reuters*, 21 December 2023.

mainly introducing previously unforeseen rigid numerical targets[83].
On 20 December 2023, the French-German agreement was consequently endorsed by the ECOFIN[84].

The deal reached by the Council maintains (partially) the tailored approach devised by the European Commission, preserving the multi-annual paths for the Countries with a debt to GDP ratio above 60% and abandoning the targets set with the Fiscal Compact[85]. Likewise, the Council's compromise keeps, as main parameter, the net primary expenditure, it envisages a reduction in sanctions amount[86] and foresees the possibility to extend the national plans in order to implement specific reforms and investments.

However, the December agreement brought some "safeguards" that starkly downsize the scope of the Commission's attempt to shift from rules to standards.

In this regard, first of all, the ECOFIN re-introduced, *de facto*, a distinction between States with moderate public debt challenge (debt to GDP ratio between 60% and 90%) and ones with a substantial public debt challenge (debt to GDP ratio above 90%). In fact, for the first group, the fiscal trajectories should be designed with the aim of achieving, at least, a 0,5% annual reduction of the debt to GDP ratio, while, for the second group, there should be a minimum decrease of 1%[87].

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[83] The Franco-German agreement was found during a "business dinner" that involved Bruno Le Maire and Christian Lindner. On this issue, see B. SMITH-MEYER, G. SORGI, G. LEALI, *Day of drama ends with France and Germany confident of EU spending rules deal*, in *Politico.eu*, 19 December 2023.

[84] The deal was reached by economy and finance Ministers during an informal video-conference, on 20 December 2023. Then, the following day, it was formally endorsed by Member States' EU ambassadors (consult the Council of the European Union website).

[85] The Council also endorsed the Commission's view according to which, with this reform of the Stability and Growth Pact, the substance of the Fiscal Compact is considered "absorbed" into EU law.

[86] Indeed, as written in article 12 of the proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (20 December 2023 version), «the amount of the fine shall amount to up to 0,05% of the latest estimate of the previous year's GDP for a 6-month period and be paid every 6 months until the Council assesses that the Member State concerned has taken effective action in response to the notice issued under Article 126(9) TFEU». In the previous "corrective arm", instead, «the amount of the fine shall comprise a fixed component equal to 0,2 % of GDP, and a variable component».

[87] These provisions are enshrined in article 6*bis* of the proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) n. 1466/97

Secondly, the Council of the European Union introduced a «deficit resilience safeguard» which significantly diminishes the budgetary margins for States with a debt level above the numerical target written in the protocol annexed to the Treaties. In this sense, the national plan should be elaborated in order to achieve, in the last year, a deficit level that ensures a minimum «margin in structural terms of 1,5% of GDP relative to the 3% of GDP deficit Treaty reference value»[88]. Furthermore, the EU Ministers added that «the annual improvement in the structural primary balance to achieve the required margin shall be of 0,4% of GDP», reducing this requirement to 0,25% of GDP «in case of an extension of the adjustment period»[89];

Thirdly, taking into account the "corrective arm" of the Stability and Growth Pact, the ECOFIN deliberated that the Commission should open a debt-based EDP regarding a Member State in the case in which the deviation from the multi-annual path «exceed either 0,3% of GDP annually or 0,6% of GDP cumulatively»[90]. In doing so, the Berlaymont and the Council should consider various issues, like, for example, an increase of expenditures in the defence sector (an issue, correctly, perceived as increasingly important following the outbreak of war in Ukraine) or the implementation of reforms and investments aimed at preventing/correcting macroeconomic imbalances[91]. On the other side, concerning the deficit-based EDP, the European Ministers confirmed the approach devised by the Commission in its legislative proposal, by writing that, where a deficit above the value written in the protocol annexed to the Treaties is

(20 December 2023 version). Moreover, as reported in article 2.4 of the proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (20 December 2023 version), when assessing the existence of an excessive deficit in accordance with Article 126(3) TFEU, «substantial public debt challenges [...] shall be considered a key aggravating factor».

[88] This is written in article 6*ter* of the proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) n. 1466/97 (20 December 2023 version).

[89] *Ibidem*.

[90] According to article 2 of the proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (20 December 2023 version).

[91] All the factors that should be taken into account are listed in article 2.3 of the proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (20 December 2023 version).

identified, «the corrective net expenditure path shall be consistent with a minimum annual structural adjustment of at least 0,5% of GDP as a benchmark»[92].

It is noteworthy that the deal reached by the ECOFIN foresees, concerning Countries with a deficit to GDP ratio that exceeds the 3%, a «transitory period» for 2025, 2026 and 2027. In this sense, in light of a context characterized by a stark increase of the interest rates, and with the goal of not «compromise the positive effects of the Recovery and Resilience Facility», the EU Ministers agreed to «adjust the benchmark» in order to consider properly the recent «increase in interest payments»[93]. This last provision will probably give, in the next years, more leeway to several Member States that, right now, would be under a deficit-based EDP. Nevertheless, in suspicious observers (like us), it induces the doubt that some Governments may have negotiated stricter budgetary requirements in exchange for a short-term favourable treatment that could allow the avoidance of unpopular policies before upcoming elections[94]: a (detrimental) short-sighted attitude that would represent a further corroboration of the public choice theory assertions[95].

Following the agreement reached by the ECOFIN, given the ordinary legislative procedure underpinning Regulation (EC) n. 1466/97, the European Parliament was involved in the drafting of the rules on the preventive arm. Generally, it seems reasonable to state that the deal reached by the Trilogue in February 2024 did not bring substantial changes to the model outlined by the EU

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[92] Cfr. article 3.4 of the proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (20 December 2023 version).

[93] As written in recital 24*bis* of the proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (20 December 2023 version) and in article 38*bis* of the proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) n. 1466/97 (20 December 2023 version).

[94] It is reasonable to claim that our suspicion is shared by J. ZETTELMEYER*, Assessing the ECOFIN compromise on fiscal rules reform*, in *Bruegel commentary*, 2023 and by M. MESSORI, *New EU fiscal rules in light of contract theory: improvements and unresolved problems*, in *Institute for European Policymaking – Bocconi University Policy Briefs*, 2024. The latter scholar states, *inter alia*, that «the introduction of an initial phase of flexibility» will encourage «the short-termism of national policymakers». In this sense, according to the Author, «the temporary regime will have the effect of shortening the horizon of policymakers in the Countries with significant fiscal disequilibria and, thus, of strengthening their propensity to postpone significant adjustments» (*ivi*, p. 11).

[95] Regarding the public choice theory, refer to J.M. BUCHANAN, G. TULLOCK, *The calculus of consent: logical foundations of constitutional democracy*, Ann Arbor, 1962.

Ministers, preserving all the "safeguards" just described. Nevertheless, it should be noted that the action of the European Parliament fostered an enlargement of the set of expenses excluded from the "net expenditure", adding to the "list" the «expenditure on programmes of the Union fully matched by Union fund revenue» and «national expenditure on co-financing of programmes funded by the Union»[96]: a form of Golden Rule that, although narrow, we value positively, considering how investments had been "sacrificed" by the compromise reached by the Council.

5. Conclusion: the German brake and the uncertain European gait

The compromise reached by the Council significantly reduces the ambition of the proposal put forward by the European Commission, by introducing those uniform rules that the Berlaymont intended to abandon. Can we, even with these changes, still consider this reform a step forward?

All in all, our answer is "yes": the requirements set during the sovereign debt crisis were undoubtedly more stringent and unrealistic then the ones defined with this revision of the economic governance framework; however, it is reasonable to claim that, considering the initial objectives and proclamations, "the mountain gave birth to the mouse"[97].

Indeed, with the introduction of the above-mentioned "safeguards", this Stability and Growth Pact will continue to impose on several EU Countries some challenging targets that could dictate the achievement of relevant primary surpluses to reach the new budgetary goals[98]. In this regard, hence, it is realistic to assume that in the years to come some Member States will significantly reduce their

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[96] In light of what is foreseen by article 2 of the proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) n. 1466/97 (20 February 2024 version).

[97] A similar evaluation is expressed by L. BARTOLUCCI, *Il percorso della riforma del Patto di Stabilità: il compromesso raggiunto peggiora la buona proposta della Commissione (ma è comunque un passo in avanti rispetto al "vecchio" Patto)*, in *Diritti Comparati*, 8 January 2024. We believe that also A. SCIORTINO, *La sostenibilità del debito pubblico tra vincoli europei e scelte nazionali*, in *Federalismi.it*, n. 2, 2024, pp. III-XIV, shares this view, although recognising that the significance of this reform will only be understandable once the interpretative key that the EU institutions (and the Member States) wish to provide to the new economic governance framework will be clear.

[98] In this sense, for example, take into account the estimations produced by M. BORDIGNON, *Nasce il nuovo Patto di Stabilità e Crescita*, in *LaVoce.info*, 22 December 2023, according to which the Italian State — considering an annual debt interest expense around 4/4,5% of GDP — should increase its primary surplus to 2,5/3% of GDP.

spending, with public investments that, once again, will receive the largest cuts. Moreover, in this new scenario, diversely from the past, there is a great incentive to adhere to the norms of the SGP: in fact, the eligibility for the Transmission Protection Instrument of the ECB represents a key element for the European Countries that, in the past, have struggled to find cheap funding on financial markets[99].

Generally, therefore, we believe that this new economic governance framework continues to unbalancing its focus on containing Government debts, while overlooking the need to implement significant public investments to support growth[100]. This approach results particularly inadequate in a context such as the current one, in which, on the one hand, epochal challenges lies ahead (like the climate change) and, on the other one, global competitors (like China and the United States of America) do not hesitate to widen their deficits with the aim of achieving a lead in strategic economic fields[101].

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[99] Regarding the activation of the TPI, and with a particular focus on the 2025-2027 «transitory period» of the Stability and Growth Pact, it is relevant to underline that President Lagarde affirmed that the existence of an Excessive Deficit Procedure does not represent, per se, a reason to not activate the instrument; indeed, the French central banker stated that the ECB should also assess if the Member States did fail «to take effective action in response to an EU Council recommendation under Article 126(7) TFEU». On this topic, refer to I. BUFACCHI, *Lagarde: la procedura per deficit da sola non esclude dallo scudo anti spread*, in *Il Sole 24 Ore*, 11 April 2024.

[100] This stance is shared, *ex plurimis*, by A. BOITANI, R. TAMBURINI, *Nuove regole fiscali europee: ascensore per il declino?*, in *Menabò di Etica ed Economia*, n. 209, 2024; L. GARICANO, *The EU's new fiscal rules are not fit for purpose*, in *Financial Times*, 8 January 2024 and by G. CARNAZZA, E. CARNEVALI, *Riforma del Patto di Stabilità e Crescita: un'occasione persa*, in *LaVoce.info*, 16 February 2024.

[101] Indeed, in the past decade, the debt to GDP ratio of Beijing and Washington has significantly increase — the Chinese debt to GDP ratio, in 2014, was close to 40% and, according to the official data, right now, it is around 87%; the US debt to GDP ratio, instead, in 2014, was approaching 105%, while, today, it is above 125% — and this trend is projected to continue in the next years (about these data, consider the IMF Data Mapper on the International Monetary Fund website). This greater level of indebtedness, undoubtedly, presents side-effects that in the future could require their "bill" (for ex., inflationary pressures) but, likewise, has boosted the GDP of these two Nations, facilitating their advantage in strategic sectors (like the one of the semiconductors). In this sense, the European attention in the past months has been mainly addressed towards the US: indeed, with (in particular) the "Build Back Better" plan and the "Inflation Reduction Act", Washington has mobilised far more resources than the ones that the EU put on the table with the Next Generation EU, creating a real risk of attracting several European producers to its territory. Unsurprisingly, therefore, considering also this danger, Mario Draghi has

As written in this paper, it is more than logical to state that this EU attitude to budgetary policies is primarily the result of the German Government's stance on the topic. Indeed, the Berlin finance Minister — and leader of the FDP — Christian Lindner, since the publication of the Commission's orientations, has underscored his firm conviction that a sharp reduction of the indebtedness should continue to be the main objective of the economic governance framework rules.

Besides, this approach towards the Stability and Growth Pact perfectly reflects the position adopted by the German executive following the ruling of the *Bundesverfassungsgericht* regarding the Climate and Transformation special Fund and its accounting in the Federal budget[102]. In fact, as known, the "traffic-light" coalition (*Ampelkoalition*)[103] which sustain the current Government did not agree about the possibility to suspend the debt brake (*Schuldenbremse*)[104] embedded in the *Grundgesetz* in order to absorb the sum *sub iudice* without cutting other expenditures or raising taxes. In this regard, consequently, following a quarter of year in which the German GDP fell by 0,3 %, Berlin deliberated a pro-cyclical and restrictive budget with the aim of lowering a deficit to GDP ratio which is already

recently urged the Member States to invest «an enormous amount of money» (private and public) with the aim of strengthening the European position in the global environment; something that, it seems reasonable to affirm, the former ECB President does not believe the European Union is currently preparing to do. Regarding Mario Draghi's stance, see G. FAGGIONATO, *EU must find 'enormous amount' of money to face global challenges, Draghi says*, in *Politico.eu*, 24 February 2024.

[102] Judgment of 15 November 2023 - 2 BvF 1/22. With this landmark ruling, the BVerfG declared unconstitutional the German government's decision to set up a special Climate Fund using resources mobilised (but not exploited) during the pandemic emergency (when the debt brake had been suspended). The sentence *de qua* generated a "budget hole" close to 60 billion euro. On this verdict, refer to T.V. MEICKMANN, *Das Ende der Großzügigkeit*, in *Verfassungsblog.de*, 15 November 2023 and J. SUDEKUM, *The economic distortions of the Federal Constitutional Court's debt brake decision*, in *Verfassungsblog.de*, 19 December 2023.

[103] This name derives from the colours of the three parties supporting the current Government: the red of the Social-Democrats (SPD), the yellow of the Liberals (FDP) and the green of the *Grünen*.

[104] The debt-brake has been introduced in the German Constitution in 2009, within the Federalism Reform II. According to this rule — embedded in article 115 of the *Grundgesetz* — the structural deficit of the central Government cannot exceed 0,35 % of GDP. However, as written in the article just mentioned, this requirement can be circumvented «in cases of natural catastrophes or unusual emergency situations beyond governmental control and substantially harmful to the State's financial capacity», with «a decision taken by a majority of the Members of the Bundestag».

below the Maastricht threshold (in a Country with a debt to GDP ratio close to 60%)[105].

Thus, trying to present a summary assessment, it seems reasonable to affirm that this new Stability and Growth Pact, however improving the previous rules, represents a missed opportunity to give impetus to the European project. And the feeling, unfortunately, is that without an adjustment of the "braking system" of its main economy — and of the philosophy behind it — the European Union's gait will continue to remain uncertain.

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[105] This decision has been strongly criticized by several German scholars and some of them have also advocated the necessity to re-think the debt-brake embedded in the *Grundgesetz* (see, for example, P. BOFINGER, *Germany: the 'sick man' of Europe – but 'dumb' as well?*, in *SocialEurope.eu*, 8 January 2024 and J. HOHNERLEIN, *Schuldenbremse und Klimawandel*, in *Verfassungsblog.de*, 27 November 2023). It is noteworthy that even the German Council of Economic Experts, in the weeks following the BVerfG ruling, invited the legislator to consider a reform of the *Schuldenbremse*, affirming that, in its current form, «the debt brake is more rigid than it would be necessary to maintain (debt) sustainability in Germany» (cfr. *The debt brake after the Federal Constitutional Court judgement: increase flexibility, maintain stability*, in *German Council of Economic Experts policy briefs*, n. 1, 2024). Lindner himself, though opposing the suspension of the debt brake to cope with the effects of the judgment, stated that a (narrow) reform of this norm might be necessary in the future (see *Lindner plant kleine Reforme der Schuldenbremse*, in *Frankfurter Allgemeine Zeitung*, 16 December 2023). At the same time, it is interesting to report that Lars P. Feld — personal economic policy advisor of the German finance Minister — even in recent years, spoke out in favour of the debt brake outlined in the *Grundgesetz*, expressing his conviction that shelving this mechanism would be inappropriate; refer to L.P. FELD, W.H. REUTER, *The German 'Debt Brake': success factors and challenges*, in *Freiburg discussion papers on Constitutional Economics*, 2021.